A photograph of a man in a blue shirt and a grey cap, focused on handling a large bunch of green bananas. He is outdoors, with banana plants and a white plastic bag visible in the background. The lighting is natural, suggesting a sunny day.

Banana value chains in Europe and the consequences of Unfair Trading Practices

BASIC

Final Report
October 2015

Credit: Linus Hallgren

Introduction

Bananas are a major staple as well as an important cash crop in developing countries and the most eaten fruit in Europe and Northern America. For decades, the banana economy has been one of the key examples of trade injustice and power concentration in the hands of a few multinational companies which has affected the lives of thousands of banana small farmers and workers. More recently, the growing market power of retailers and competition between large fruit companies to **remain their 'preferred suppliers'** has led banana chains to be increasingly driven by supermarkets, notably in Europe.

Since the beginning of 2010, a consortium of European civil society organisations began campaigning under the banner 'Make Fruit Fair' to raise awareness on the social and environmental issues related to banana (and pineapple) production and trade. Supporters have been encouraged to respond to appeals for urgent action, in particular on freedom of association, discrimination in the workplace, and living wages for workers on plantations.

In 2012, the Make Fruit Fair campaign began to explore the broader need for reforming the European competition law and for regulating supermarket buyer power at an EU level. On this particular issue, notably Unfair Trading Practices of retailers in the EU, a communication of the European Commission was published in 2014. A more detailed EU report is due to be released early 2016 to present what course of action the EU should take on UTPs including an assessment of the **Member States competition authorities' actions and an independent evaluation of the Supply Chain Initiative (SCI)** of the European Commission.

In this context, the Make Fruit Fair campaign has decided to commission this study with the aim to investigate:

- Banana value chains in Europe focusing on the following countries: the UK, Portugal, Malta, Italy, France, Germany, Austria, Czech Republic, Hungary, Poland, Latvia and Romania.
- Unfair Trading Practices (UTPs) between fruit buyers in Europe and banana producers in exporting countries, their consequences on farmers and workers, and the relationship with pressure on prices in European markets

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1. The banana consumer market in Europe

a) European grocery retail: a strong and growing influence of big retailers, especially discounters

The European retail sector represents 4.3% of the Gross Value Added in the EU economy and over 8% of employment in the region¹. It is one of the biggest world retail markets, generating almost 18% of global sales (food and non-food)², as much as the United States or China, the two other leading markets³.

The modern retailing sector – which covers hypermarkets, supermarkets and discount stores⁴ – plays a central role in the functioning of the European Internal Market for food products, providing farmers and food manufacturers with critical access to millions of consumers through their distribution channels, and reciprocally allowing European consumers to access all types of food and drink goods from different origins.⁵

Modern grocery retail sales account for 54% of the total food sales in the EU (regardless of distribution channel). On a value basis, hypermarkets and supermarkets are the two main channels, accounting respectively for 35% and 33% of food sales in Europe, while discounters are the third most popular outlets reaching 17% market share (see diagram below).⁶

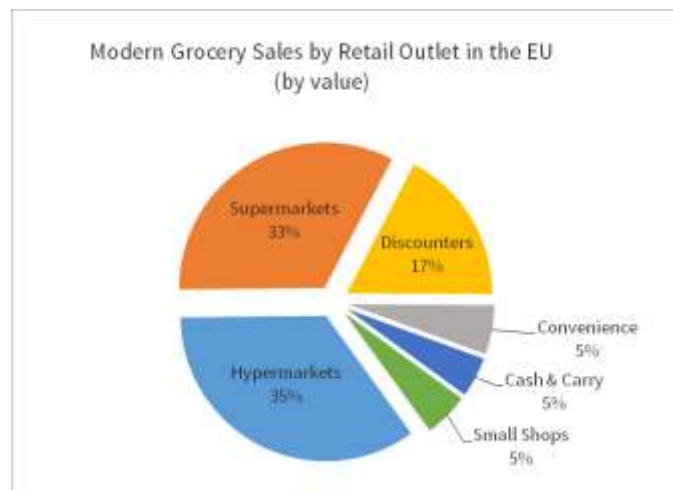


Figure 1: Modern grocery sales by retail outlet in the European Union
Source: BASIC, based on Planet Retail, European Grocery Retailing, May 2014

Modern grocery retail has become increasingly concentrated in Europe in recent decades (similarly as in most other OECD and emerging countries).⁷

¹ European Commission, The economic impact of modern retail on choice and innovation in the EU food sector, September 2014

² Ibid : in particular: sales of food products account for 42% of the total EU retail sales

³ World Federation of Direct Selling Associations (WFDSA), Global Direct Selling - 2014 Retail Sales, May 2015

⁴ Hypermarkets are defined as stores that have a sales area above 2,500 m², while supermarkets have a sales area between 400 m² and 2,500 m², both selling a broad range of items; by comparison, discounters focus on everyday low price and limited product ranges (most often private label products); their stores are of all sizes (often between 800 m² and 1,500 m²).

⁵ European Commission, The economic impact of modern retail in the EU food sector, 2014 op.cit.

⁶ Planet Retail, European Grocery Retailing, May 2014

⁷ European Commission, The economic impact of modern retail in the EU food sector, 2014 op. cit.

In 2012, the share of the five largest retailers in modern grocery sector reached 83% on average in EU member states, ranging from 68% in Hungary up to 97% in Latvia (see diagram below).⁸

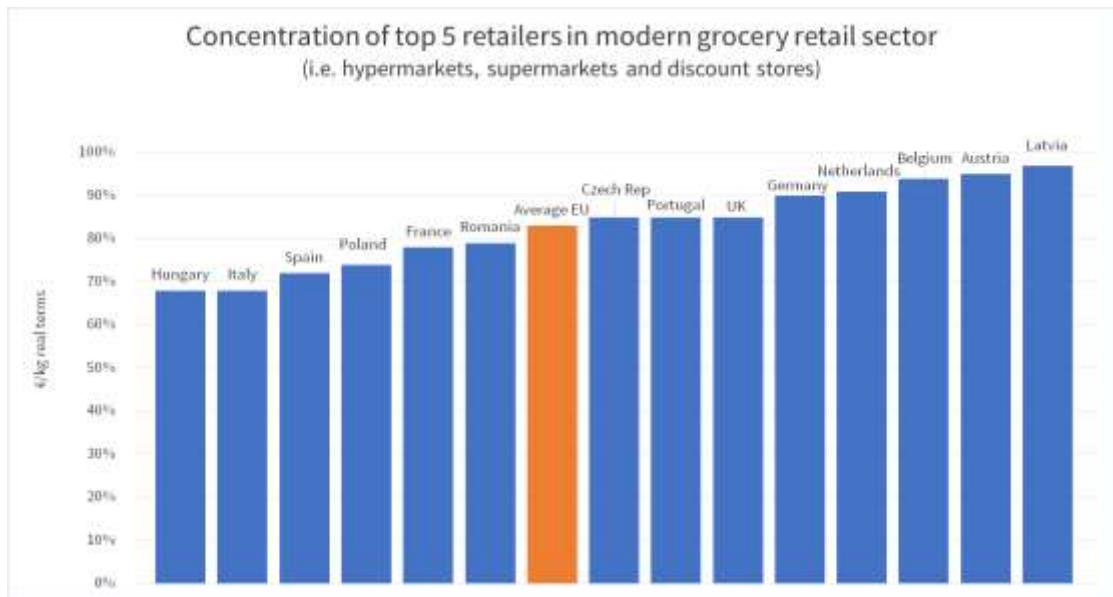


Figure 2: Concentration ratio of the top 5 retailers in the modern grocery sector

Source: BASIC, based on European Commission, *The economic impact of modern retail on choice and innovation in the EU food sector*, September 2014 (based on Planet Retail and Euromonitor data from 2012)

At the pan-European level, the ten biggest retailers represent almost 50% of modern food retail sales⁹ (see diagram below) and are among the 30 largest world retailers¹⁰. Five of them are German (Schwarz, Aldi, Edeka, Metro and Rewe), four are French (Carrefour, Leclerc, Auchan and Intermarché), and one is British (Tesco).

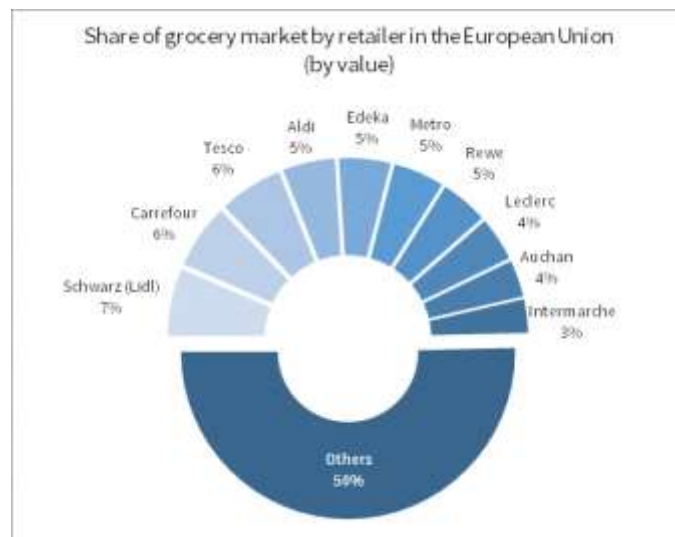


Figure 3: Share of modern grocery market by retailer in the European Union

Source: BASIC, based on Planet Retail, *European Grocery Retailing*, May 2014

⁸ The economic impact of modern retail in the EU food sector, 2014 op. cit.

Note: the concentration ratio of the 5 leading retailers in the total consumer spending on food and drink (a wider scope than modern grocery retail sales which also includes green grocers, local markets, restaurants, etc.) is significantly lower, reaching 45% on average in the European Union, and ranging from 20% in Romania up to 67% in Austria

⁹ Planet Retail, *European Grocery Retailing*, May 2014

¹⁰ Deloitte, *Global Powers of Retailing*, 2015

In 2014, the Schwarz group, better known for its discount banner Lidl, became the largest retailer in Europe, and Aldi, the other leading discounter, the 4th largest (cf. previous diagram). More globally, discounters have the strongest rate of expansion at the pan-European level (see below). Their success is strongly driven by the development of private label food products focused on (low) price. While 20 years ago their offer was limited to a small range of products, today discounters have a wide portfolio in all consumer product areas, including fresh fruits.¹¹ In reaction, the other retailers have strongly developed their private labels, creating whole ranges of products from low-priced to high quality premium, created purchasing alliances through the creation of buying groups and have started to develop their own discount banners.¹²

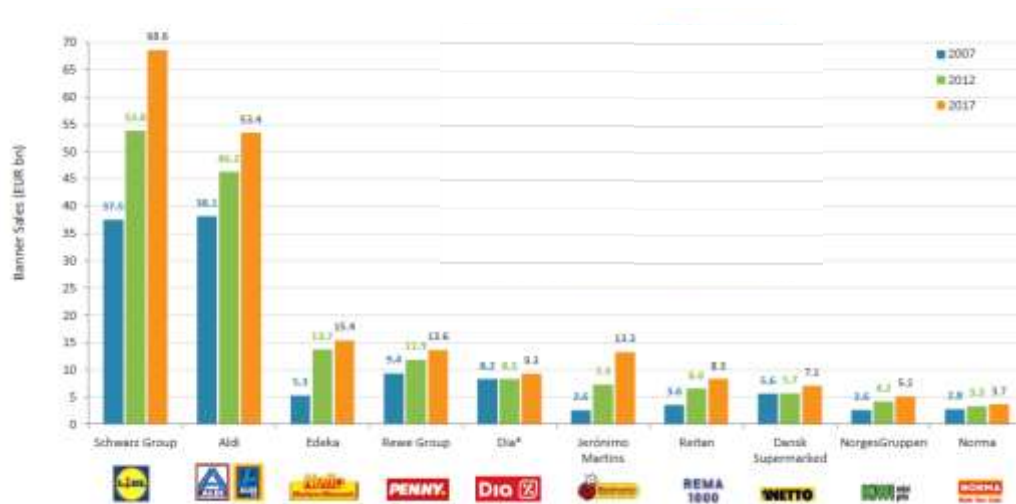


Figure 4: Top 10 Discount Store Operators in Europe by Total Sales, 2007-2017 (forecast)
Source: Planet Retail, European Grocery Retailing, May 2014

In this context, several member state competition authorities have begun to question the market power of supermarkets on their suppliers.

The UK Competition Commission has been the precursor: following its reports published in 2000 and 2008¹³, it created innovative mechanisms to try to regulate retail markets (through an Adjudicator with enforcement and fining powers) and paved the way for other investigations and regulatory initiatives, in particular in Spain¹⁴, Finland¹⁵, France¹⁶ and Italy¹⁷.

In September 2014, the German Bundeskartellamt published an inquiry demonstrating that “the large retail groups who make up 85% of the German market have a huge lead over their small and medium-sized competitors and can make use of their structural advantages in negotiations with manufacturers, even the large ones with well-known brands, who are exposed to the retailers’ bargaining power”.¹⁸

¹¹ Euromonitor International, Overview of the Fresh Fruit, Vegetable and Floral Industries: Germany, April 2014

¹² Planet Retail, European Grocery Retailing, May 2014

¹³ UK Competition Commission, “Supermarkets: A report on the supply of groceries from multiple stores in the United Kingdom”, 2000 and “The supply of groceries in the UK market investigation”, 2008

¹⁴ Comisión Nacional de Competencia, Informe sobre relaciones entre fabricantes y distribuidores en el sector alimentario, 2011

¹⁵ Finnish Competition Authority (FCA), FCA study on consumer goods trade and retailers buying power, 2012

¹⁶ Autorité de la Concurrence, Avis n° 12-A-01 du 11 janvier 2012 relatif à la situation concurrentielle dans le secteur de la distribution alimentaire à Paris.

¹⁷ Autorità Garante della Concorrenza, Indagine conoscitiva sul settore della Grande Distribuzione Organizzata, 2013

¹⁸ Bundeskartellamt, Gliederung der Sektoruntersuchung Lebensmitteleinzelhandel, September 2014

b) Bananas in Europe: one of the most consumed and cheapest fruits

Fresh Fruit and Vegetable (FFV) sector is one of the most important categories for European retailers. Beyond margins made on these products, fresh fruits and vegetables are a “shopping destination in their own right, and a key “known value item” used to attract consumers¹⁹.

European retailers have strongly developed their share of this market over the past two decades: 60% to 90% of produce is now sold through modern retail channels (hypermarkets, supermarkets and discounters), depending on the product and country²⁰ (with the notable exception of Italy and Romania where traditional markets continue to attract the majority of consumer sales²¹).

After years of development, the fresh fruits European market saw a smaller increase of consumption over the past decade (in particular in Central and Eastern countries).

The main products consumed in the EU are citrus (oranges, mandarins...) and apples. Banana come third and is the main fresh fruit imported from outside Europe (see diagram below).

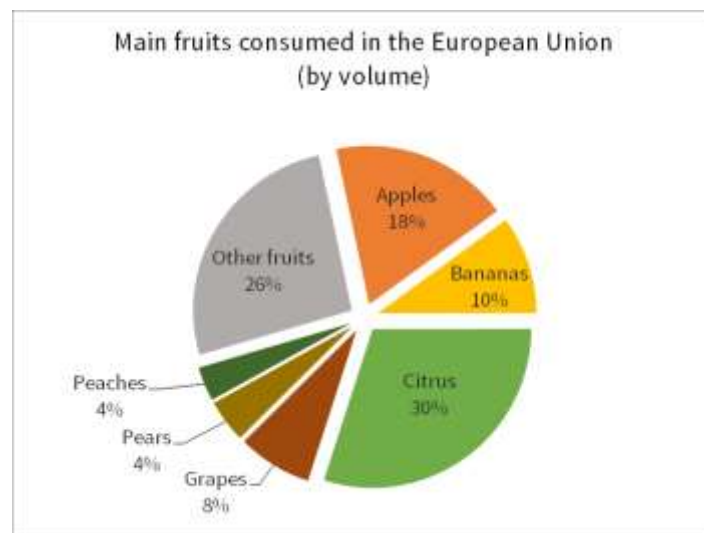


Figure 5: main fruits consumed in Europe by volume
Source: BASIC, based on data from FAO Stat (2010) and Eurostat (2011)

The main European markets for bananas are the United Kingdom and Germany, followed by France, Italy and Spain; the consumption per capita differs very significantly between countries, ranging from less than 5 kg/person/year in Poland up to more than 17 kg/person/year in the United Kingdom, and appears to be the lowest in Eastern Europe countries (see diagrams below).

¹⁹ Consumers International, The relationship between supermarkets and suppliers: What implications for consumers?, 2012

²⁰ Centre for the Promotion of Imports from developing countries (CBI), Market channels and segments for fresh fruit and vegetables, 2014

²¹ European Commission, The economic impact of modern retail in the EU food sector, 2014 op. cit.

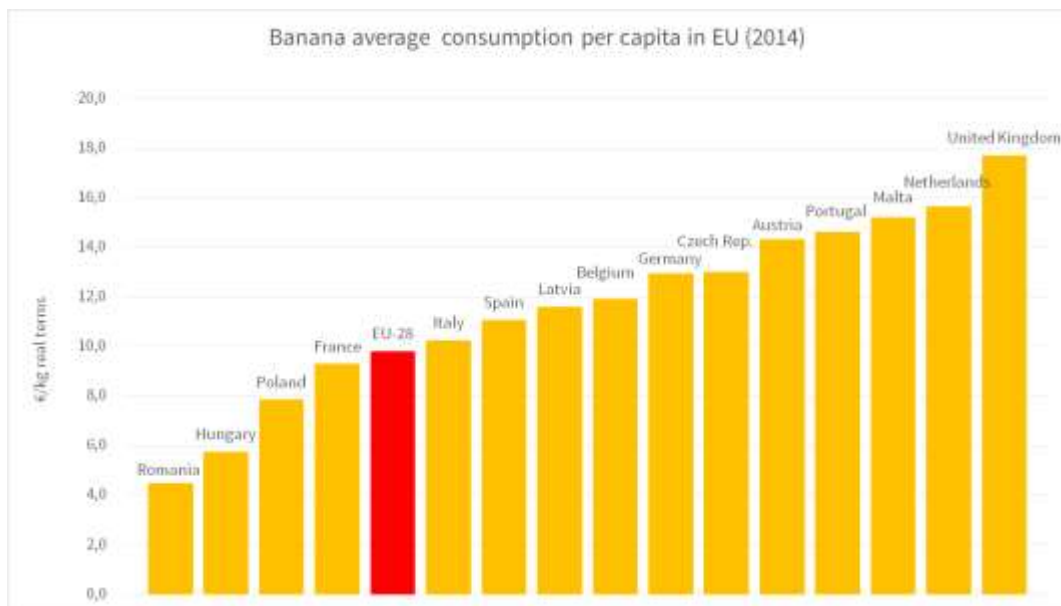
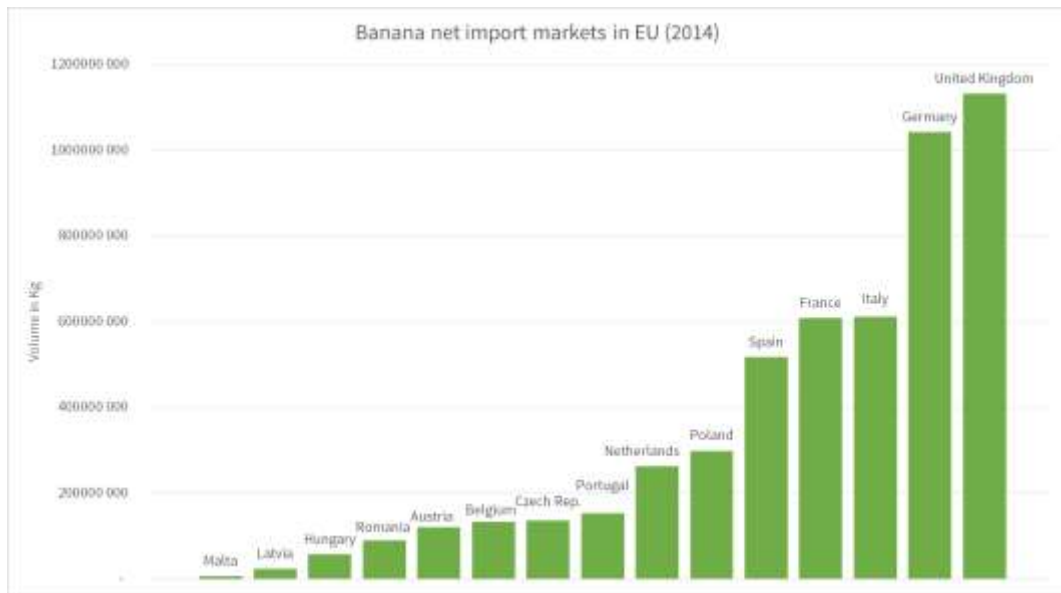


Figure 6a & 6b: Banana net import markets (by volume) and average consumption per capita in the EU
 Source: BASIC, based on data from Comtrade and CIRAD (2014)

As banana is one of the key consumer goods that set the price image of retail stores, competition between retailers is fierce on this product²², especially since the economic downturn as consumers are increasingly searching for price cuts and everyday low prices.

As a result, the average consumer price of bananas in Europe is 25% lower than that of apples, even though the latter is the most consumed local fruit in the EU whereas bananas come from the American and African continents (see diagram below).

Even if significant disparities in banana consumer prices can be observed among European countries, this global trend is also true in most member states, except in East and Central Europe where the banana consumption is still relatively new and top range.

²² European Central Bank, Rational inattention, inflation developments and perceptions after the euro cash changeover, 2006

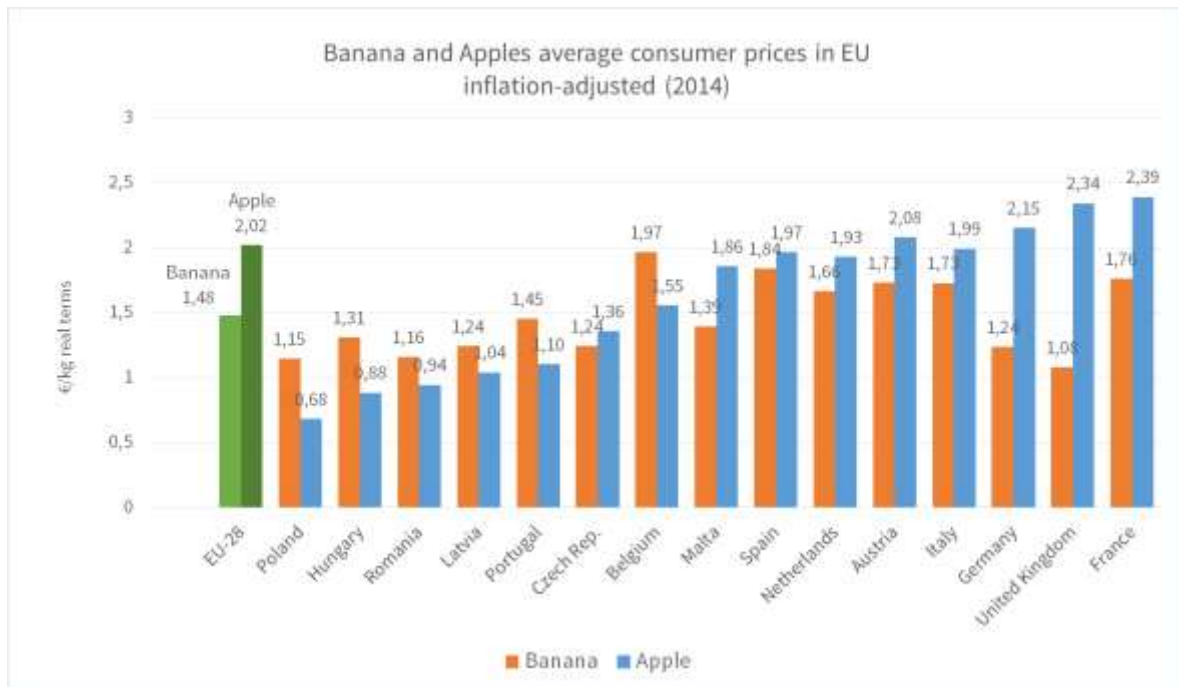


Figure 7: Banana and apple average consumer prices in the EU
Source: BASIC, based on data from Comtrade and Eurostat (2014)

As demonstrated by the previous statistics, bananas are one of the most consumed and cheapest fruits in Europe, raising questions around the structuring of the value chain which enables this situation on the market.

KEY FINDINGS

- The modern grocery retailing sector (covering hypermarkets, supermarkets and discounters) plays a central role in the European food market. It has become highly concentrated over the last decade, the 5 largest retailers reaching a 45% share of total consumer spending on food & drink in the EU.
- Fresh fruits in general and bananas in particular are very important categories of products for European retailers who use this product to set the price image of their stores and attract consumers.
- As a result of the strong competition between retailers, the average consumer price of bananas in Europe is 25% lower than that of apples, even though the latter is the most consumed local fruit in the EU whereas bananas come from the American and African continents.

2. The banana value chain in the EU

a) A few dominant actors and a shift of power from global fruit companies to retailers

World banana production for export is mainly concentrated in South-East Asia, Africa, Latin America and the Caribbean. Only 15 to 20% of world banana production is traded globally (the biggest banana producing countries such as India or Brazil export very little and keep it for domestic consumption); it relies only on one banana variety, the Cavendish, which was selected for its high yields, resistance to Panama disease, durability in long distance transport, and consistent quality appearance.²³

The majority of exported bananas come from countries in the so-called “dollar zone” (Ecuador, Colombia, Costa Rica, Guatemala...), the rest from the Philippines, the African and Caribbean countries (the ACP group). The 5 leading banana-exporting countries (Ecuador, the Philippines, Guatemala, Costa Rica and Colombia) account for almost 80% of global banana exports.

The main international flows of bananas can be sketched as follows:

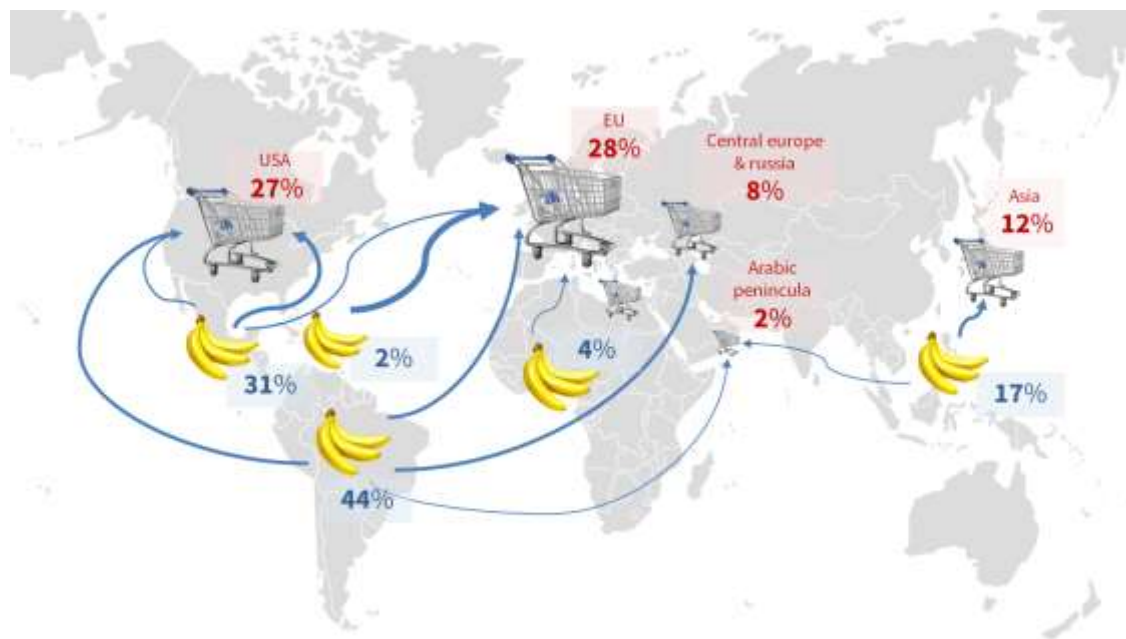


Figure 8: Share of banana world exports and imports
Source: BASIC based on Comtrade data (2013)

The European Union is the biggest world importer of bananas; it has the most diversified pattern of imports because of its colonial history, its former preferential trade agreement with ACP countries (Africa-Caribbean-Pacific) and its own production in the EU (Canary Islands, Madeira and Guadeloupe and Martinique in the Caribbean, and to a much smaller extent Cyprus and Crete).

²³ Agritrade, Banana sector Executive brief, July 2011

The general pattern of banana origins for each European country is as follows:

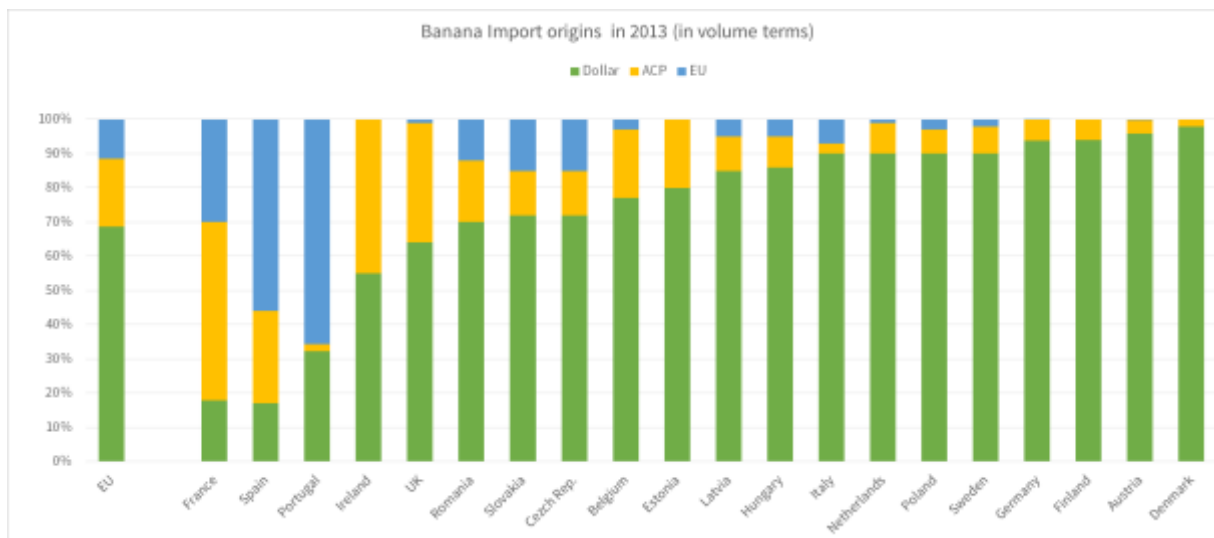


Figure 9a: Banana import origins by EU country
Source: BASIC, based on CIRAD data (2013)

Over the past two decades, the supply from the so-called **“dollar zone” to the EU has grown** significantly, from 2.4 million tonnes in 1996 to almost 4 million tonnes in 2014, while the bananas produced in European territories has stagnated around 650,000 tonnes per year and imports from ACP countries have only slightly increased from 800,000 tonnes in 1996 to little more than 1 million tonnes in 2014 (see diagram below).

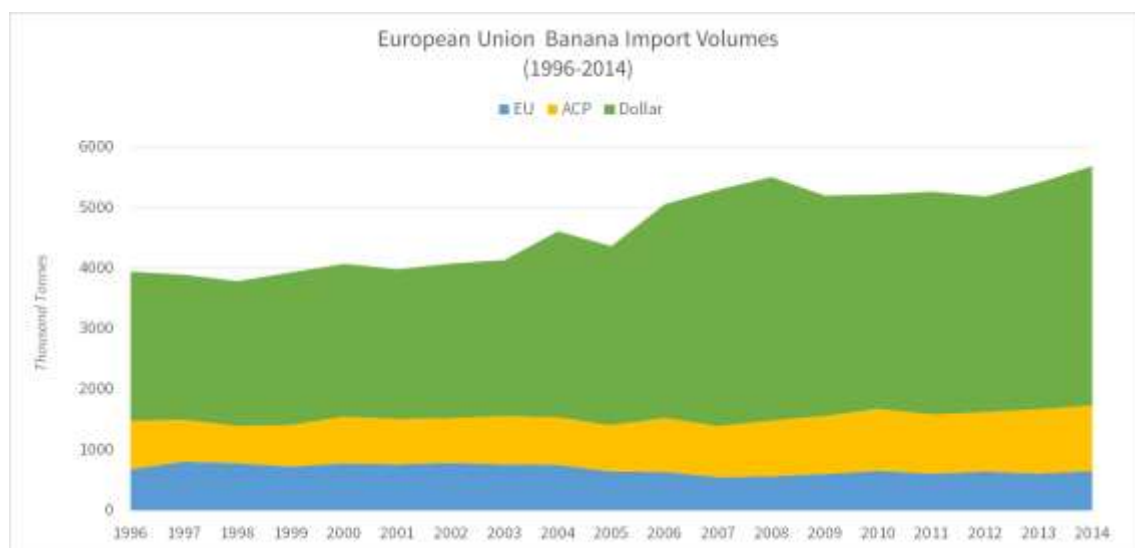


Figure 9b: Banana import origins at the pan-European level
Source: BASIC, based on CIRAD data (1996-2014)

The major points of entry of banana imports in Europe are Germany (Hamburg and Bremerhaven), Belgium (Antwerp) and the UK (Portsmouth), followed by, to a lesser extent, Italy (Salerno and Vado), France (Le Havre and Marseille), and the Netherlands (Rotterdam) as shown in the diagram below. From there, bananas are re-exported to the other European countries.

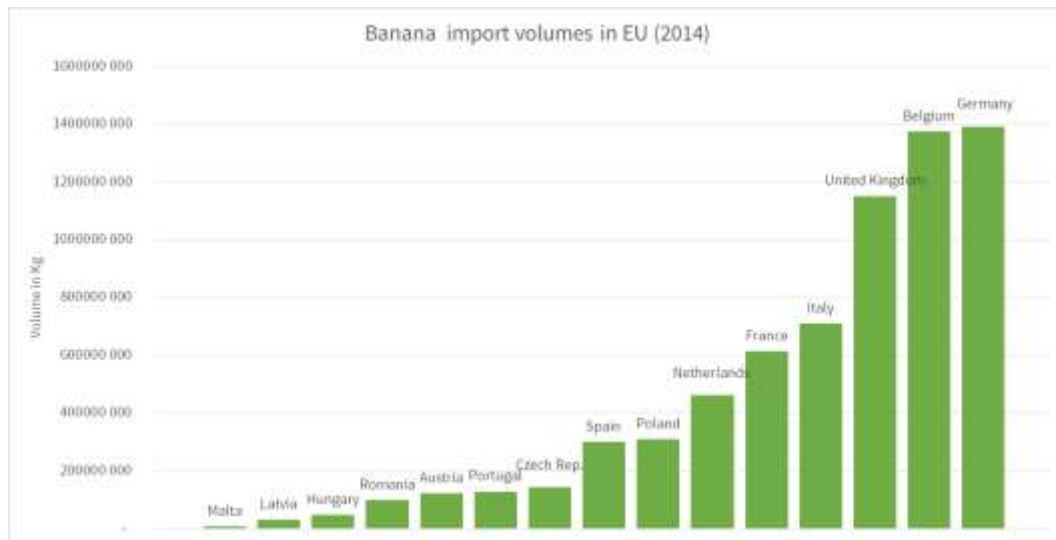


Figure 10: Banana import volumes by EU country
Source: BASIC, based on Comtrade data (2014)

In order to understand the structure of the banana chain and its evolution, it is important to first recall the different stages of banana production and distribution (see below):

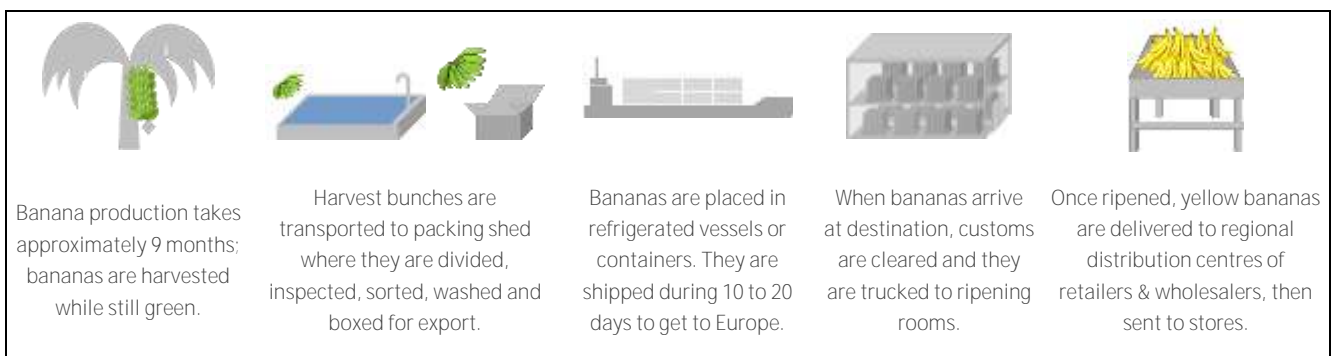


Figure 11: Banana production and distribution stages
Source: BASIC

The development of the world banana trade dates back to the end of the 19th century. Given the perishable nature of the banana, it has been historically dominated by vertically integrated companies that controlled all operations along the chain - production, packing, shipping, import and ripening - in order to keep hold of the offer and influence the downstream market. In the 1980s, only 5 companies – Dole (formerly the Standard Fruit Company), Chiquita (formerly the United Fruit Company), Del Monte, Fyffes and Noboa - traded 80% of world bananas²⁴. The resulting banana chain can be sketched as follows:

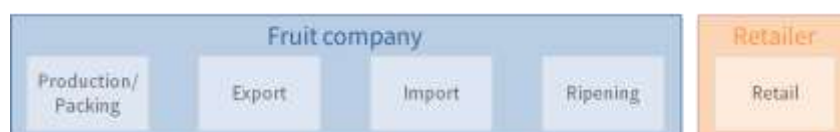


Figure 12a: Historical structure of banana value chains (until the 1980s)
Source: BASIC

²⁴ FAO, The world banana economy 1985-2002, Rome 2003; International Centre for Trade and Sustainable Development (ICTSD), Value Chains and Tropical Products in a Changing Global Trade Regime, 2008

In the early 1990s, Chiquita, Dole and Del Monte sought to take advantage of the opening of the EU market to expand their sales. Yet the European consumption did not increase as expected following the reforms adopted in 1993²⁵. These failed forecasts put these companies in a difficult situation and led them to sell part of the banana farms they owned²⁶ and to leaseback their reefer fleets, removing the main barrier to entry for business actors at both ends of the banana chain²⁷.

Today, Chiquita sources less than 40% of its bananas from its own farms, Dole mainly owns farms in Ecuador and Costa Rica (and an organic farm in Colombia), and Del Monte grows approximately 40% of its volumes in company-controlled farms (in Guatemala, Costa Rica, Cameroon...), the remainder volumes of bananas being purchased from independent growers; Fyffes didn't own any banana plantation until recently. The newly prominent banana chain pattern is as follows:



Figure 12b: Modern prominent structure of banana value chains
Source: BASIC

More recently, the availability of a competitive offer of liner shipping services²⁸, the creation of technical quality standards (namely GlobalGAP) by supermarket chains who are increasingly concentrated and the deregulation of the EU banana market in 2006²⁹ have enabled some retailers to buy bananas independently of the historical banana multinationals.

Several large supermarkets, mostly in the UK, have started to build more direct chains from consumers down to producers: since 2010, Tesco sources its entire conventional bananas directly in Costa Rica, Colombia, Ecuador, **Guatemala, Cameroon and Côte d'Ivoire**; Morrisons sourced for even longer bananas from independent growers through its wholly owned sourcing company Global Pacific Produce and owns ripening facility in the UK³⁰.

The emerging retailer-driven banana chains can be sketched as follows:

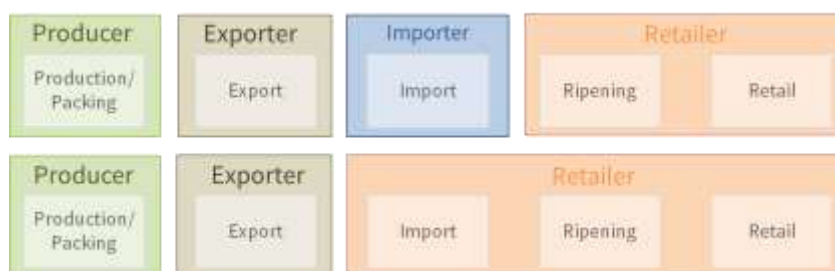


Figure 12c: Emerging retailer-driven banana value chains
Source: BASIC

²⁵ FAO, The world banana economy 1985-2002, Rome 2003

²⁶ International Centre for Trade and Sustainable Development (ICTSD), Value Chains and Tropical Products in a Changing Global Trade Regime, 2008

²⁷ Loeillet (CIRAD), Contribution to the world banana forum : The international banana market - From one world to the other, 2012

²⁸ During shipping, bananas need to be stored at low temperatures (around 14°C). Traditionally this was done in refrigerated cargo ships (or "conventional reefers"). Nowadays, the 3 largest container shipping (Maersk, MSC and CMA CG) offer significant capacity for transport in refrigerated standard sized containers at competitive prices

²⁹ As of 1 January 2006 the EU moved to a tariff-only system. Imports have been liberalised by abolishing quantitative restrictions and progressive reductions of import duties for the dollar bananas

³⁰ European Commission, DG Comp Merger Registry, Case M.7220 - Chiquita Brands International/ Fyffes, Commission decision on the merger procedure, October 2014

The increased competition between large fruit companies to remain the ‘preferred suppliers’ of supermarkets has led to the governance structures of global banana chains being turned on their heads so that they are increasingly being driven by retailers instead of by integrated fruit companies.

This has triggered a **process of ‘de-oligopolisation’** in many countries, and a renewed parallel trend of concentration among banana integrated companies (the most notable example being the attempted merger - which eventually failed - between Chiquita and Fyffes in March 2014, which resulted in Chiquita’s buy-out by 2 Brazilian groups, Cutrale and Safra, newcomers in the industry).

This context has fostered a decline in the market share of the 4 historical banana multinationals since the mid 1990’s. While Chiquita, Dole, Del Monte and Fyffes still controlled 62.4% of total banana world exports in 2002, this share declined to only 42.3% in 2013.³¹

In Europe, this tendency is even more pronounced: the combined market share of these four companies reached 39% in 2013, down from 67% in 2006 (see diagram below).

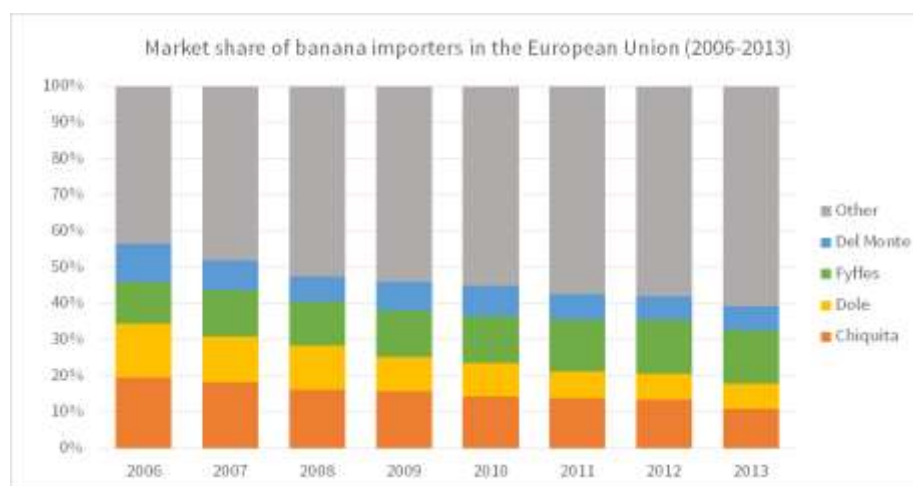


Figure 13: Market share of banana importers in the European Union

Source: BASIC, based on European Commission, Chiquita Brands International/ Fyffes merger procedure (2014)

Their main competitors are Noboa (Ecuadorian producer/exporter), Tesco (UK retailer) and Compagnie Fruitière (the main supplier of African bananas in Europe who also imports from Latin America through agreements with Dole, and is mainly active in France, the UK, Italy, Czech Republic and Nordic countries). These 3 companies are the only other actors to import more than 200,000 tonnes of bananas per year.

They are followed by 13 companies who import more than 20,000 tonnes per year and are mainly active in a few national markets³²:

- De Groot, a banana importer and ripener mostly active in Belgium and the Netherlands;
- Univeg, an importer based in Germany & Belgium who owns ripening facilities in Germany and recently invested directly in Suriname (2014);
- Winfresh, an importer, ripener and distributor of bananas located in the UK who mainly imports from the Caribbean, Ecuador and Ghana;

³¹ FAO, The changing role of multinational companies in the global banana trade, 2014

³² European Commission, DG Comp Merger Registry, Chiquita Brands International/ Fyffes merger procedure, 2014 op. cit.

- Interbana in Denmark and Sweden, Cobana, Dürbeck and AFC (the main supplier of Lidl) in Germany; Fresca Group (the main supplier of Sainsbury's and Waitrose) in the UK and T-Port in Germany who are both specialized - but not exclusively - in organic and Fairtrade bananas;
- Global Pacific Produce in the UK, the wholly owned importer and ripener of Morrisons;
- Uniban, a grower, exporter and importer of bananas from Colombia who has a strategic alliance with Fyffes (and Spreafico in Italy)

Finally, there is a group of smaller players, bringing less than 20,000 tonnes of bananas per year in Europe, such as Banacol (Colombian grower /exporter and importer in strategic alliance with Dole), Aquifruit, (active in the Netherlands, Germany and the UK), N. Smyth (based in Ireland), Banalat (based in the Baltic countries) or Agrofair (100% Fairtrade banana importer co-owned by small farmer associations).

On a country basis, the competition between importers is less pronounced; in most European member states, the majority of imports is shared among a much smaller number of actors³³:

- The banana import markets in Northern Europe countries (e.g. in Belgium, Finland, Sweden, Denmark or Ireland) tend to be more concentrated around a few importers (usually 5 to 6) who sell directly to retailers.
- By comparison, in Eastern and Southern Europe (e.g. in Italy and Poland), the market is more fragmented (between 8 and 12 leading actors) and banana importers sell mainly their bananas to wholesalers, who in turn distribute these volumes to retailers or outlets in the traditional retail channels (green groceries...).
- The situation is somewhat intermediate in the German and French banana markets, and the UK is quite distinct because of the direct sourcing initiated by several supermarkets.

Ripening usually takes place not far from the distribution centres since yellow bananas cannot travel too far. The ripening can be carried out in facilities belonging either to importers, retailers, or third party service providers. The sector is quite open as the required investments are relatively modest³⁴. Due to the wide availability and overcapacity of ripening services across Europe, importers as well as retailers can easily supply yellow bananas, either by using own facilities or by outsourcing to independent ripeners³⁵, and both tend to integrate this activity in recent years in order to achieve greater control over the value chain.

b) The pressure on consumer prices translates down to export countries

In this section we investigate the breakdown of the banana value chain in the European Union from consumer prices to CIF import prices, based on information from the UN Comtrade database, Eurostat, the French-based public research institute CIRAD and national offices of statistics such as INSEE in France, DEStatis in Germany or ONS in the UK (see diagram on the following page).

There is a clear tendency of consumer price stagnation and very slight increase in real terms since 2001 (from 1.43 euros/kg in 2001 up to 1.48 euros/kg in 2014). This trend has been globally the same in all European countries except the UK where the banana consumer price has been halved because of the price war on bananas among retailers (see UK country section for more details).

³³ Ibid.

³⁴ European Commission, DG Comp Merger Registry, Chiquita Brands International/ Fyffes merger procedure, 2014 op. cit.

³⁵ Ibid.

In stark contrast, the wholesale price has decreased by almost 25 % over the same period (from 1.29 euros/kg in 2001 down to 0.97 euros/kg in 2013). An exception to this downward price trend happened in 2005, when the end of the European banana quota system triggered a brief price increase which soon reversed and returned to the longer-term tendency.

The FOT price (price of import after duty payment) globally followed the same downward trend, showing the benefit that retailers drew from the harmonization and reduction of European tariffs (as ripening remained fairly constant).

The CIF import price (at the port of entry in the EU) amounts to little more than a third of the consumer price and also featured a significant decrease of 20 % between 2001 and 2014, showing that producers didn't benefit from the EU deregulation. On the contrary, the retailers seem to have gained substantial margins at a pan-European level over the past decade (except in the UK, see the related country section for more details).

The detailed evolution of the EU banana value chain in real terms is shown in the diagram below:

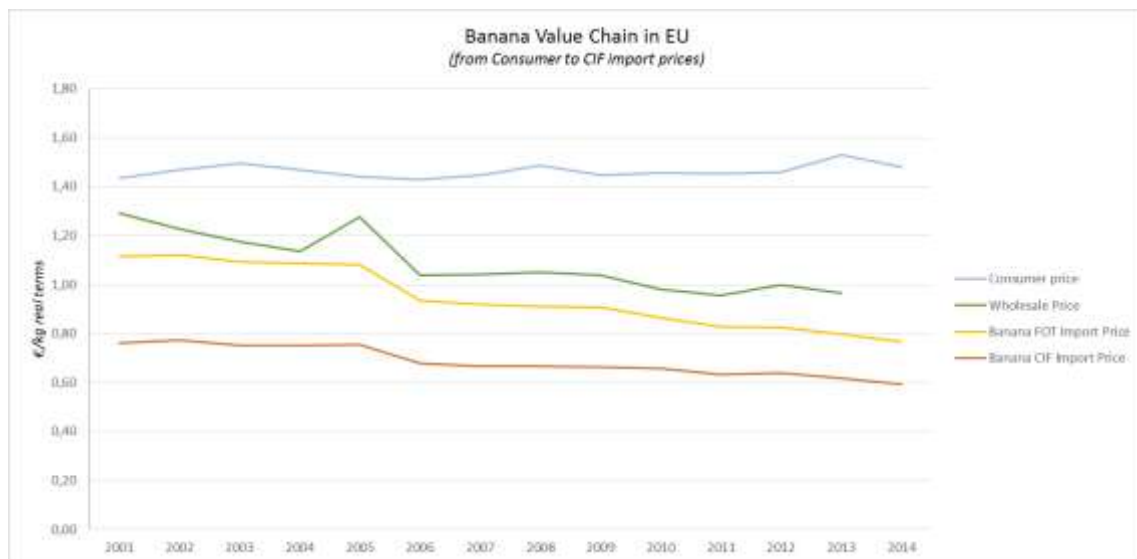


Figure 14: Banana value chain in the EU (2001 to 2014)

Source: BASIC based on data from Comtrade, Eurostat, CIRAD and national offices of statistics

There seem to be very little differences among European countries with regards to the level of the banana import price (see diagram below), especially when compared to the large differences observed between countries in terms of consumer prices (see previous chapter).



Figure 15: Banana CIF import prices by import country in the EU (2013)

Source: BASIC based on data from Comtrade

Looking at the 6 main countries exporting bananas to the EU (Ecuador, Colombia, Costa Rica, Dominican Republic, Cameroon and Cote d'Ivoire), the decline in import prices seem to apply to all of them in the same way (albeit for a slight increase of banana prices from Cameroon in recent years which didn't offset the bigger price fall since 2001).

The detailed evolution of the import price of main banana suppliers to the EU (in real terms) is shown in the diagram below:

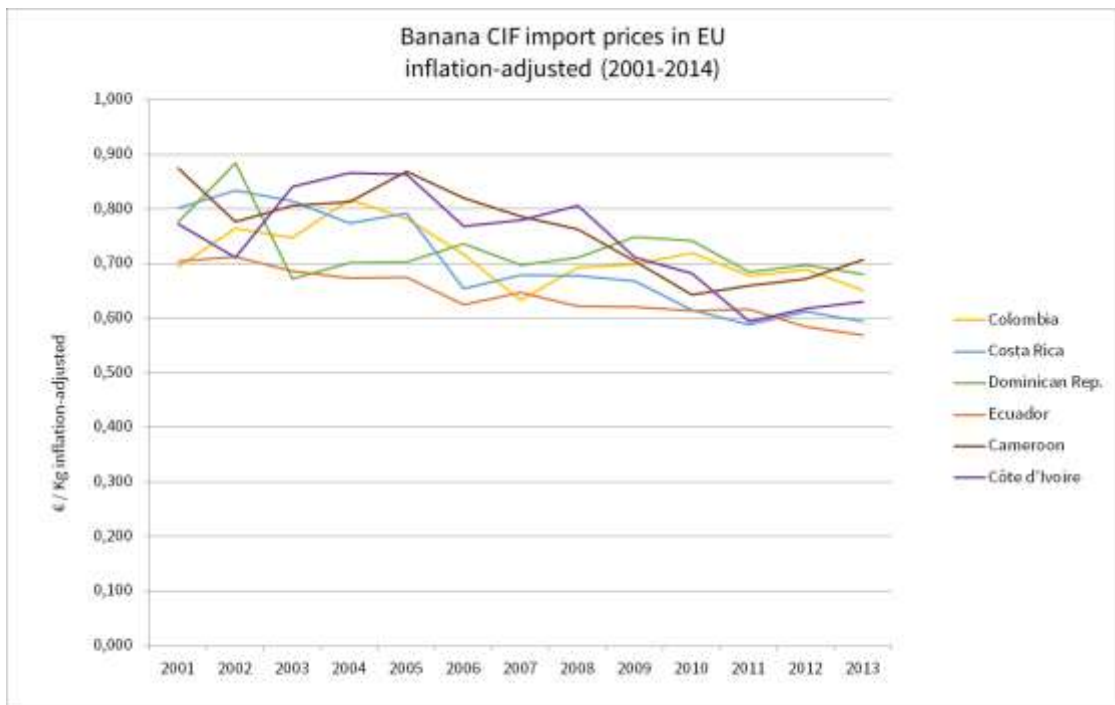


Figure 16: Evolution of CIF import prices in the EU by banana exporting country (2001-2014)

Source: BASIC based on data from Comtrade

KEY FINDINGS

- Whereas the world banana trade was historically dominated by vertically integrated companies that controlled all operations from production down to distribution, a major change has been taking place in recent years with retailers increasingly taking the leadership over banana chains.
- As a result, the market share of the 4 historical banana companies (Chiquita, Dole, Del Monte and Fyffes) has declined to 42.3% of banana imports into the EU in 2013; however, at a national level, the banana import and ripening markets are most often concentrated among 6 to 10 actors.
- Looking at the evolution of the banana value chain, there is a stark contrast between real consumer prices which have remained globally stable since 2001 in most European countries (except in the UK where it has been halved) whereas the import price of bananas has dropped by 20 % over the same period, affecting all major countries supplying bananas to the EU (Ecuador, Colombia, Costa Rica, Dominican Republic and Cameroon) while retailers increased their share of the banana value in most countries.

3. Impact in banana producing countries

a) Economic impact: low and decreasing share of value not sufficient to cover production costs

Based on the results obtained in the previous chapter, we have modelled and estimated the unit value that is left for the major banana export countries (Ecuador, Colombia, Costa Rica, Dominican Republic, Cameroon and Ivory Coast) based on the CIF import price in the EU, deducting:

- a conservative estimation of the costs of shipping, insurance and freight between the export country and the EU (based on consolidated data from Sopisco, the banana price index published by CIRAD and a literature review on banana production costs),
- and a conservative estimation of the margins of banana importers, based on the gross profits published by the largest importers operating in Europe (Chiquita, Fyffes, Dole and Del Monte).

An example of estimation for the year 2013 is provided below:

CIF import price of bananas	-	Conservative estimation of shipping & insurance costs	-	Conservative estimation of importers/exporters margins	=	Conservative estimation of the unit value of exported bananas (FOB)
0,75 US\$/kg	-	0,31 US\$/kg	-	0,08 US\$/kg	=	0,36 US\$/kg

Figure 17: Calculation Model of the unit value of exported bananas from Ecuador to Europe
Source: BASIC

The results are provided in the diagram below; they show that the decline in banana prices observed at the import level is transferred down to producing countries where the value left at origin decreased by 20 % to 50 % in real terms in all major countries supplying bananas to the EU.

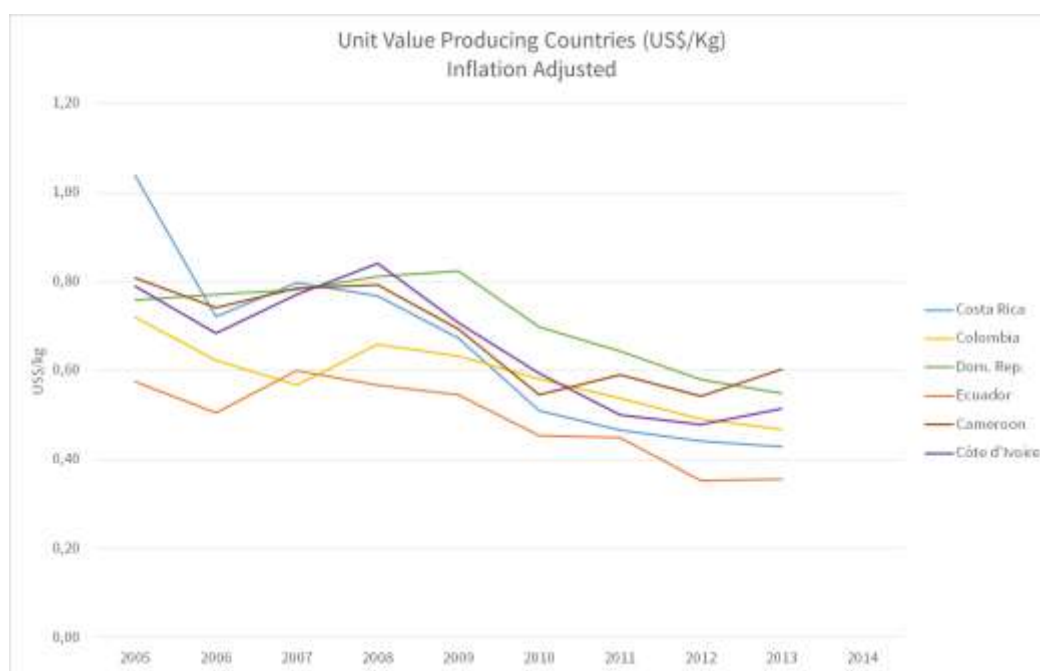


Figure 18: Evolution of the unit value of bananas from the main countries exporting to the EU (2005-2014)
Source: BASIC based on data from Comtrade, Sopisco, banana import companies and literature review

The following diagram shows the value breakdown along the banana chain between main banana suppliers and the EU, from workers' wages up to retailers' margins for a medium-size producer (in the case of small farmers, the workers' wage component would not appear as the work is undertaken by family members).

The estimations in this diagram are based on the calculations detailed in the previous chapters (value chain breakdown detailed in figure 14, import prices detailed in figure 16, modelling of costs detailed in figures 17 and 18). They are completed with estimations of workers' wages published in reports from ministries of producing countries.

On average, workers only earn between 5 % and 9 % of the total value of bananas while retailers manage to capture between 36 % and 43 %.



Figure 19: Banana value breakdown between main supplying countries and the EU
Source: BASIC based on data from Eurostat, CIRAD, Comtrade, Sopisco and literature review

To fully understand the consequences on banana farmers and workers, it is important to confront the declining price trends illustrated in the previous analysis with the strong increase of production costs and living costs in most banana producing countries in Latin America and Africa over the past decade.

Since 2012, the Montpellier-based CIRAD (International Research Centre on Agriculture for Development) conducts an experimental analysis of the evolution of costs, from production up to the import of bananas (the reference year being 2001); their estimations are based on data from the World Bank and the US Bureau of Statistics for inputs and packaging, and data from Maersk, Reefer Trends and the Bunker/Hamburg indices for shipping.³⁶

The results show that, between 2001 and 2015 (see diagram below):

- Costs of shipping have increased by 233 %
- Costs of inputs (fertilizers and agrochemicals) have increased by 195 % on average
- Costs of packaging materials have increased to a lesser extent by 150 % on average

³⁶ CIRAD, "Coûts intermédiaires de la filière banane d'importation en Europe : Répartition et évolution", Novembre 2012

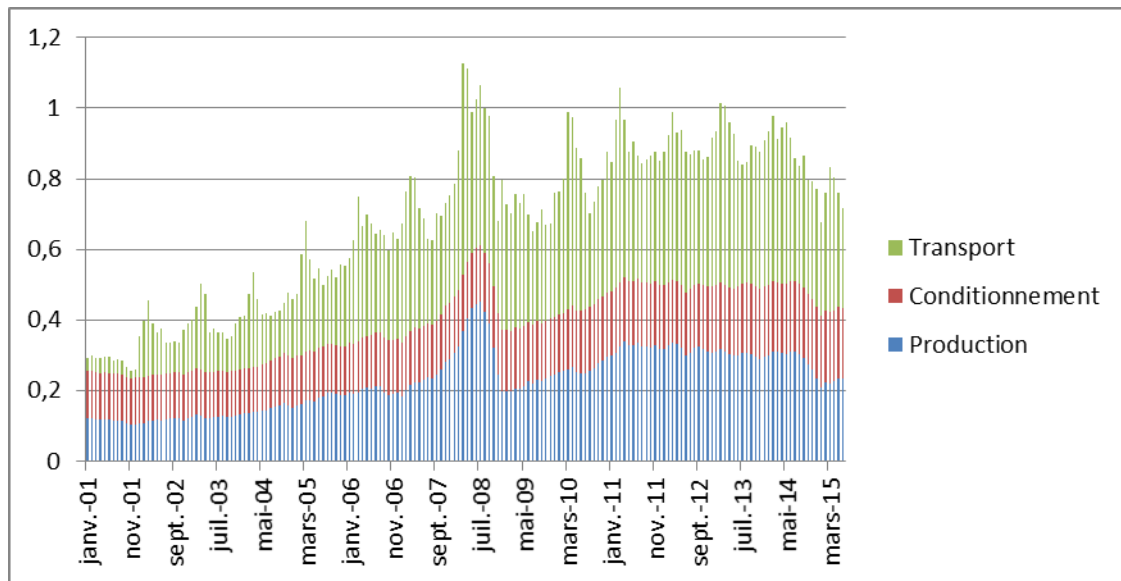


Figure 20: Banana cost index per stage (European Import Supply Chains)
Source: CIRAD (2015)

In addition, the costs of compliance with quality, sanitary and environmental standards have also significantly increased over the past decade. This is all the more relevant with regards to the European market because of the stringent standards demanded by food retailers in most countries. Such standards lead to more formal and complex methods for monitoring quality (e.g., risk assessment and risk management systems) and growing implementation, compliance and certification costs that are mainly incurred by producers³⁷.

For example, impact studies conducted in Africa to analyse the costs and benefits of GlobalGAP³⁸ in the fresh fruit sector have estimated that:

- the initial investment costs represent between 4% of annual sales for large plantations and 11% for small farmers,
- the recurrent costs represent 1% of the annual sales of plantations, whereas they can amount to almost 20% of the annual sales of small farmers.

Finally, over the same period, one of the trends that most impacted banana farmers and workers is the significant increase in living costs. This phenomenon is best evidenced by the evolution of the national consumer price indices which are calculated on the basis of the costs of food, health, education, housing, transport and communication (see diagram below): they have increased by 92 % in Colombia, 129 % in Ecuador, 218 % in Costa Rica and 278 % in Dominican Republic since 2001.³⁹

³⁷ Hatanaka et al., Third-party certification in the global agrifood system, 2005 ; Common Fund for Commodities, 2006

³⁸ IIED and NRI, Standard bearers: Horticultural exports and private standards in Africa, 2008

³⁹ Economic Commission for Latin America (ECLA) and International Monetary Fund (IMF)

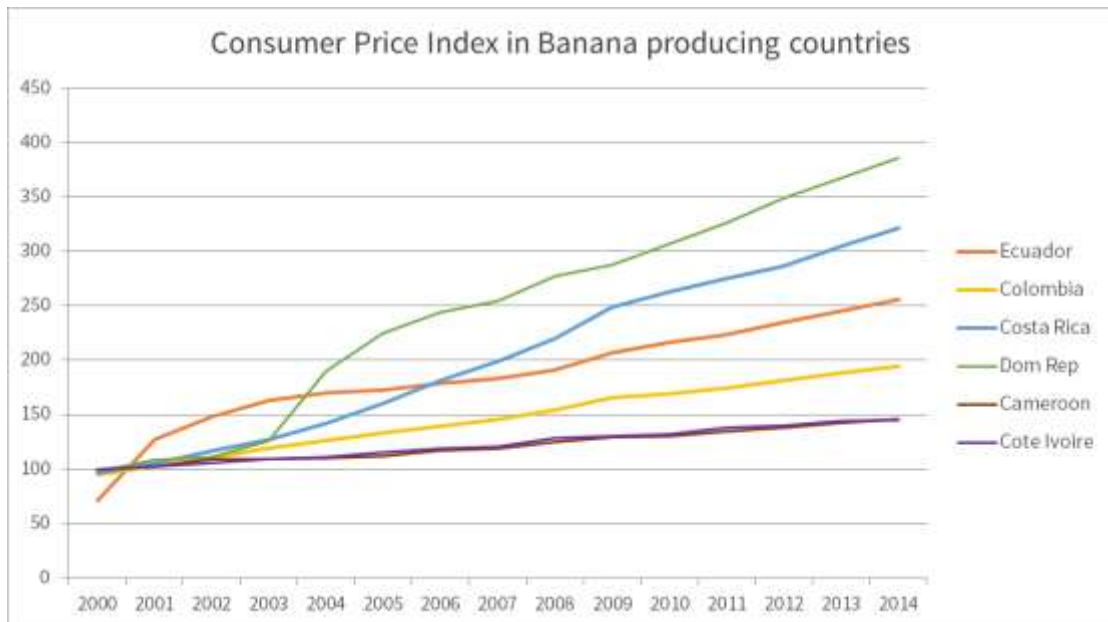


Figure 21: Consumer Price Index in banana producing countries (2000-2014)

Source: BASIC based on data from CEPAL and Index Mundi (2014)

b) Main social and environmental issues related to banana production

In environmental terms, the expansion and intensification of large banana plantations targeting export markets gave rise to a series of serious issues:

- As banana is mainly produced as a monoculture in a humid tropical climate, a significant number and amount of chemicals (fungicides, insecticides, and herbicides) are applied to protect banana against insects and disease⁴⁰, giving rise to pesticides resistance.
- Inappropriate production practices often lead to pollution of land, watercourses and aquifers⁴¹ with sanitary consequences on local communities⁴², and a reduction in biological diversity⁴³ (in particular the inadequate disposal of waste such as pesticide-impregnated plastic bags⁴⁴).
- The heavy or unsafe application of chemicals can also pose serious health hazards to the workers who are often exposed over extended periods of time⁴⁵. Even authorised pesticides may cause health problems if the recommended safety measures are not strictly followed. A key illustration is the lawsuit won in 2011⁴⁶ by Latin American banana workers against large fruit and chemical companies who used Nemagon in plantations despite its ban in 1977.

In social terms, the diagrams on next pages illustrate the main impacts in the leading Latin American and African countries exporting banana to the European Union.

⁴⁰ S. Williamson, PAN UK, cited in Ethical Consumers, In search of a fair price, May/June 2012

⁴¹ Dr Raul Harari, IFA, Trabajo, ambiente y salud en la producción bananera del Ecuador, Nov 2009

⁴² S. Williamson, PAN UK, cited in Ethical Consumers, 2012, op. cit.

⁴³ Environmental Toxicology and Chemistry, Pesticides in blood from spectacled caiman (*Caiman crocodilus*) downstream of banana plantations in Costa Rica, September 2013

⁴⁴ PAN UK, Bananas- the slippery road to sustainability. T. Lustig. Pesticides News No. 68, June 2005

⁴⁵ International Labour Organisation, Global agrifood chains: Employment and social issues in fresh fruit and vegetables, 2008

⁴⁶ Cf. the Independent's website (Independent.co.uk): 'Latin American banana labourers file pesticide exposure claims', dated Monday, 27 June 2011

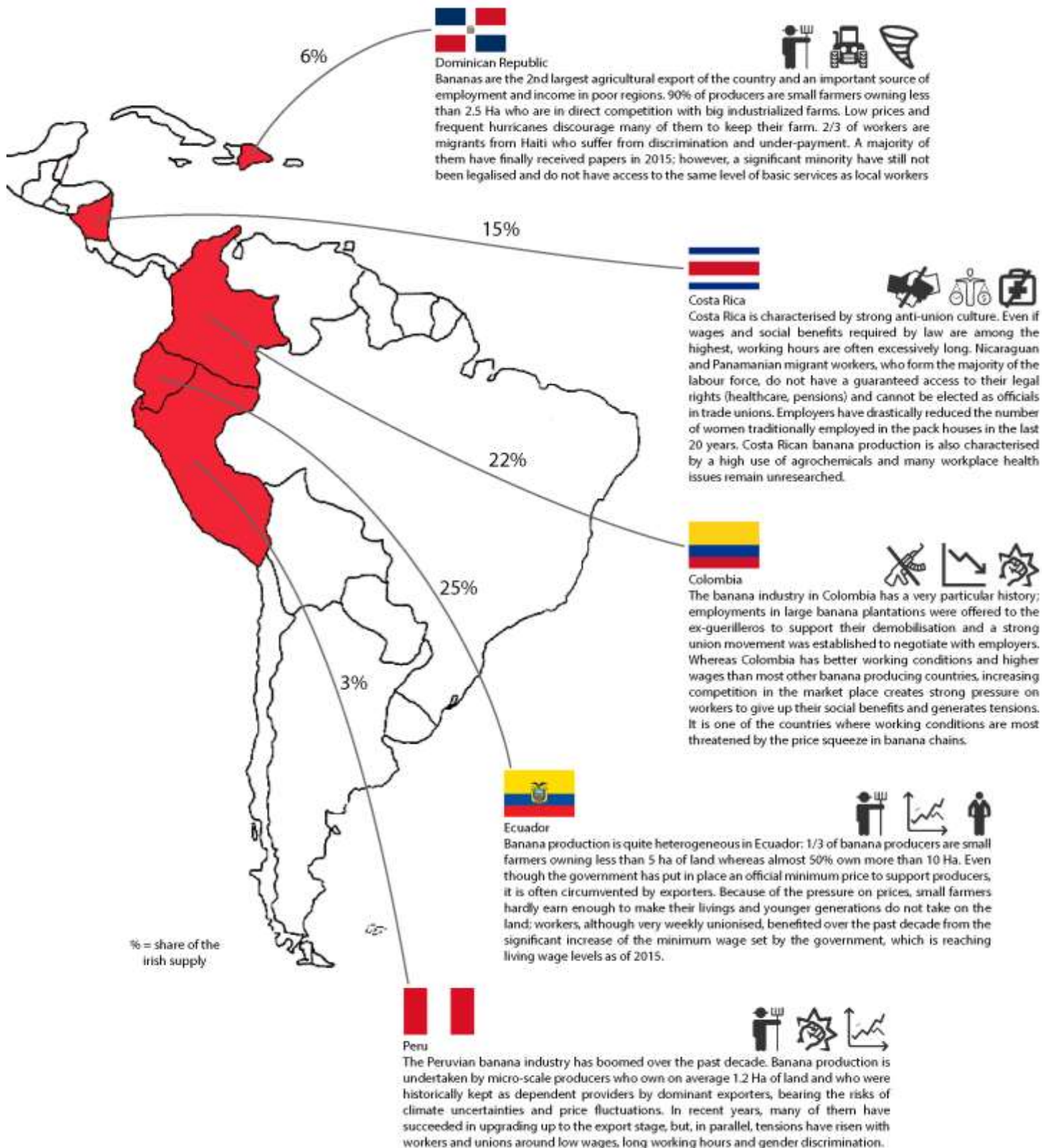


Figure 22a: Main social issues in the banana sector in Latin America
 Source: BASIC

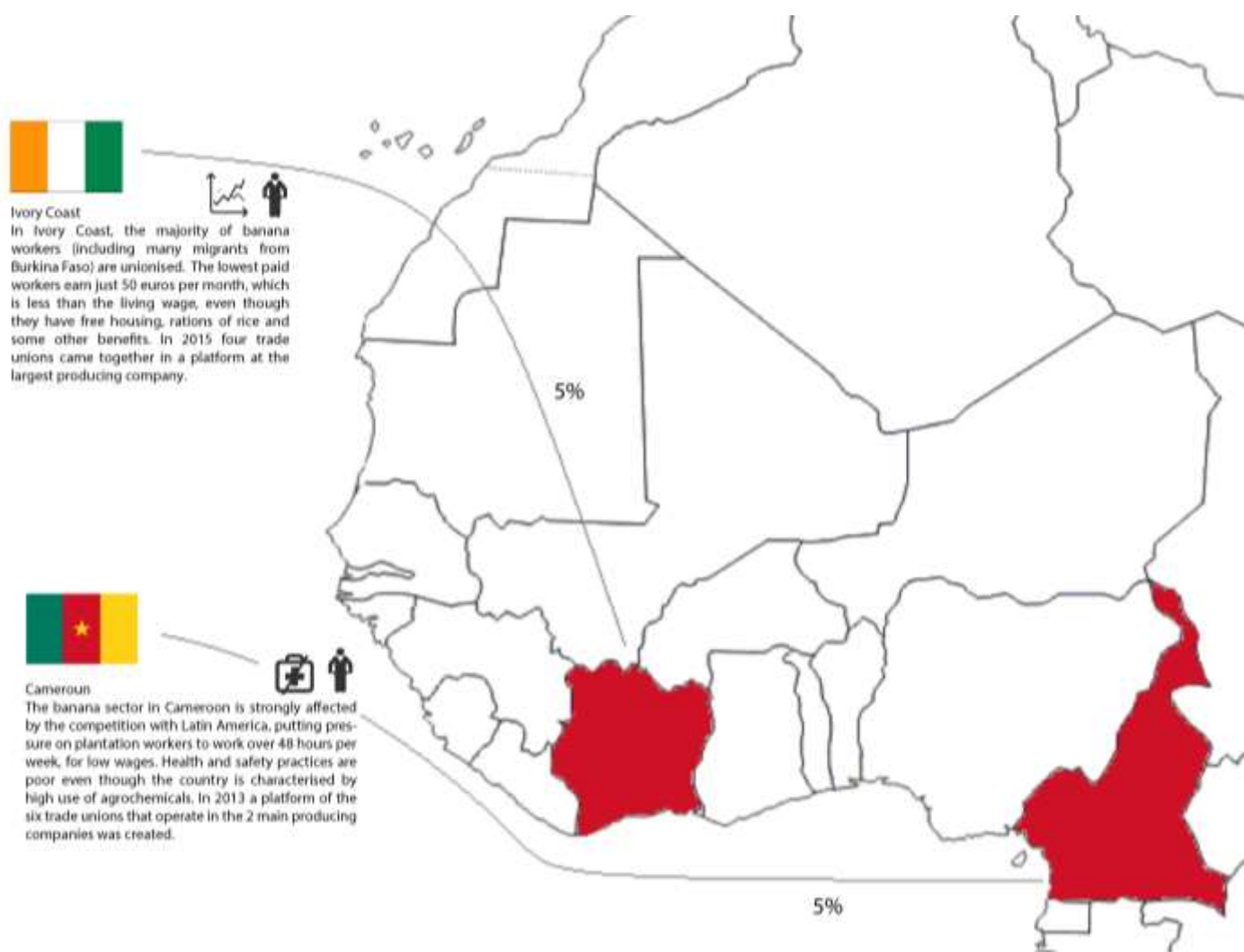


Figure 22b: Main social issues in the banana sector in Africa
 Source: BASIC

KEY FINDINGS

- Over the past decade, the prices achieved by banana producers have constantly gone down in real terms even though production costs and costs of living have increased substantially in all regions. Meanwhile, as demonstrated in the previous sections, retailers' margins have globally continued to grow and the "5 firm concentration ratios" have been increasing throughout the EU.
- These pressures from the market, originating from retailers, have set up an economic environment in which producers are bound to face strong competition and difficulties; workers and small farmers retain the smallest share of value and are likely, as the weakest link in the chain, to suffer from serious social and environmental impacts (see details in next section).

4. Unfair Trading Practices (UTPs): an aggravating factor for banana producers and workers

Unfair trading practices (UTPs) can be defined as: “*practices that grossly deviate from good commercial conduct, are contrary to good faith and fair dealing and are unilaterally imposed by one trading partner on another*”.⁴⁷

In order to better understand the issue, the European Commission published a Green Paper on UTPs in January 2013⁴⁸ and most recently, a policy document to address unfair trading practices in the business-to-business food supply chains in July 2015⁴⁹.

The main categories of UTPs identified by the Commission are as follows:

- a trading partner's retroactive misuse of unspecified, ambiguous or incomplete contract terms;
- a trading partner's excessive and unpredictable transfer of costs or risks to its counterparty;
- a trading partner's use of confidential information;
- the unfair termination or disruption of a commercial relationship.

In its latest communication⁵⁰, the EC acknowledged that “*the potential benefits of reducing UTPs could be substantial, especially for SMEs and microenterprises as these are more likely to be subject to UTPs and their effects than large companies are. It should also be noted that UTPs applied within the EU could have direct or indirect effects on producers and companies outside the EU, including in developing countries*”.

Beyond business-to business relationships, the EC added that “*where UTPs could have negative effects on product choice, availability and quality, a reduction or an elimination of these practices can be expected to be beneficial for consumers*”.

To investigate how UTPs may occur in the banana sector and their potential consequences on smaller producers and workers (the weakest links in the chain), we developed a questionnaire (see in appendix) and conducted a series of interviews with Latin American banana actors supplying the EU market.

Overall, the feedback of more than 60 actors from Ecuador, Costa Rica, Colombia, Peru and Dominican Republic were collected (small banana growers, middle and large plantation owners, banana exporters and unionised workers), including a mission which was conducted in Costa Rica in August 2015 by the UK organisation Feedback.

The main outcomes of these interviews has been anonymised and confronted with some banana actors and experts in Europe for cross-check.

The results of this research are detailed in the following pages.

⁴⁷European Commission, Tackling unfair trading practices in the business-to-business food supply chain, communication to the European Parliament and the European Economic and Social Committee, 2014

⁴⁸ Green Paper on unfair trading practices in the business-to-business food and non-food supply chain in Europe COM(2013) 37 , 31 January 2013

⁴⁹ EC Communication Tackling unfair trading practices in the business-to-business food supply chain (COM/2014/0472 final)

⁵⁰ Ibid.

a) UTPs and fear of reprisal

While a survey conducted in 2011 among food suppliers throughout Europe revealed that 96% of respondents had already been subject to at least one form of UTP⁵¹, the research conducted by the EC also found that the victims of UTPs very rarely, if ever, undertake legal action.

Indeed, according to the commission findings: *“The weaker party often fears that the commercial relationship could be terminated in the event of a complaint on its part. This ‘fear factor’ makes such complaints significantly less likely to occur: 87% of suppliers take no action beyond a discussion with their customer, 65% take no action due to fear of retaliation, and 50% doubt the effectiveness of public remedies.”*⁵²

This **“climate of fear”** was the first and foremost result of our research in the banana sector and also applies outside the EU; collecting testimonies proved to be very difficult and almost all respondents asked for full anonymity as they were afraid of negative reactions of buyers and potential market loss. They even asked for non-disclosing the countries where concrete example of UTPs were gathered.

b) UTPs and market power in the banana sector

To understand UTPs in the banana sector, it is important to start with retailers' purchase practices at the end of the chain.

Banana prices are traditionally negotiated between suppliers and customers on a short-term basis, following a weekly rhythm with strong seasonal fluctuations. The resulting commercial relationships can be quite volatile.

Prices and contracts are mostly negotiated at a national level, although some retailers have managed to gain a pan-European influence as demonstrated by the case of Aldi (see boxed text).

In this context, banana traders, even the largest ones, point out their imbalance of negotiation power with retailers, as illustrated by the following statement which was reported in the European Commission's decision on the Chiquita-Fyffes merger: *“Retailers enjoy significant buyer power. They arrange procurement and tender processes to extract the most competitive conditions, they multi-source, easily and frequently switch volumes between banana suppliers, they are ready to sponsor alternative suppliers' growth and/or to start direct sourcing in the tropics.”*

⁵¹ Survey on Unfair Commercial Practices in Europe, March 2011, organised by Dedicated on behalf of CIAA (European association of the food / drink industry) and AIM (European Brands Association)

⁵² Green Paper on unfair trading practices in the business-to-business food and non-food supply chain in Europe, 2013 op. cit.

The ALDI Price⁵³

The European Commission launched an investigation in 2005 on a concerted practice between several banana importers who coordinated their quotation prices* against Aldi in Central and Northern Europe.

In the related legal decision published in 2008, the Commission found that since 2002 the prices paid by German retailers and distributors of bananas have been increasingly linked to the “Aldi price” which began to be used as an indicator for banana pricing formulae in transactions not only in Germany, but also in most major banana markets in Europe.

In particular, the Commission’s stated that the buying price of Aldi, one of the largest purchasers of bananas in Europe, had become “*the obvious focal point for what the market clearing price** will be in any given week*”.

This case shows the existence of banana price connections between major retailers at a pan-European level which create pressure on banana suppliers.

* A quotation price is a formal statement of promise made by a supplier to a buyer in response to a request

** The market clearing price is the mutually agreed price actually reached between buyers and sellers

In contrast, contractual arrangements in the UK have been different from those in the rest of Europe for many years: retailers negotiate contracts of annual duration (sometimes up to 3 years) with fixed prices or a fixed price formula.

In recent years, this system has been gradually adopted by most retailers in Germany and the Netherlands (including Aldi who used to be well-known for its published weekly price until July 2011, and who now negotiates yearly contracts with a limited group of banana importers).

The shift towards longer term banana contracts appears to be a progressive yet fundamental trend throughout Europe (annual contracts are being introduced in France and Italy, but not yet in Eastern Europe countries which are still playing the role of buffer markets).⁵⁴

Such contracts provide more visibility and predictability to banana suppliers. However, they can also create asymmetrical risk sharing, especially for small importers and ripeners because the formulae in the contract limits price increase whereas volume commitments are binding.

According to respondents, problems often occur when the market is high and prices suddenly step up: the importer or ripener does not get paid the full price increase (as per the contract) and, if he cannot collect the required volumes, he has to purchase the necessary complement on the banana spot markets in order to avoid default, increasing significantly its costs and bearing a higher burden of risk. In some cases, importers can end up selling at loss to keep the contract.

In this context of commercial pressure from retailers, interviews conducted in Latin America reported that importers can make use of one-sided clauses (also called ‘leonine clauses’) which stipulate that “*the buyer can withdraw from the contract at any point in time if his margin is insufficient or ruinous*”, leaving producers with unsold and perishable banana volumes.

Such clauses are apparently not new and quite widespread in most Latin American banana export countries. They are a key tool used by buyers to transfer back the risks on exporters and producers, especially the smaller ones.

⁵³ European Commission Decision relating to a proceeding under Article 81 of the EC Treaty Case COMP/39188 – Bananas, 2008

⁵⁴ Interview with banana experts from CIRAD conducted in September 2015

The other major source of UTPs appears to be related to the **commercial ‘low-price season’ of bananas**, during which the majority of interviewees reported that buyers more often “play on volumes” through different mechanisms in order to maintain their margins.

This low-price season is a result of the structural problem of offer and demand which has affected the sector since the banana export business began in the 19th century. It occurs between May and August/September, when the demand and wholesale/import prices of bananas in Europe are lower because of the arrival on the market of many local fruits.

This situation has greatest impacts on Latin American origins because the banana production tends to be higher at this time of the year, creating oversupply and more pressure on prices.

A typical example is provided below for Ecuador (the first supplier of bananas to the EU): as shown in the diagram, the seasonal variations on the wholesale market translates down to the import stage (CIF price) and are further reflected on the local banana market, creating a low-price season for banana producers between May and August each year.

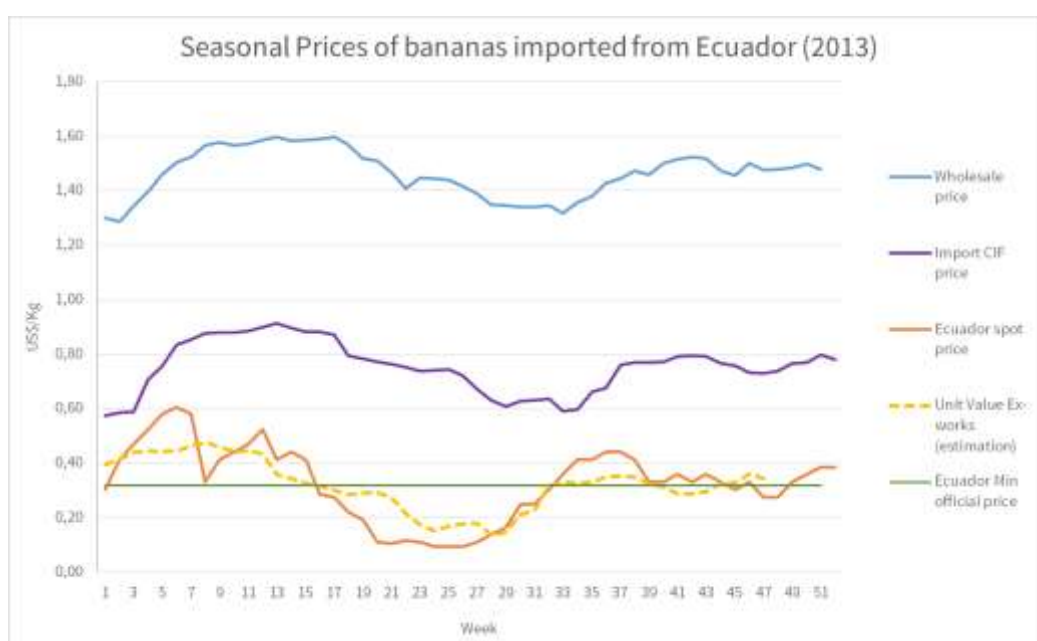


Figure 23: Seasonal Prices of bananas imported from Ecuador (2013)
Source: BASIC based on data from CIRAS, Sopisco and data collected in Ecuador

According to the testimonials collected in Latin America, a greater occurrence of questionable **buyers’ practices** happen during **this ‘low-price season’** in all countries under investigation⁵⁵. Interviewees reported that purchased volumes typically vary by 20% to 30% from original orders during this season, mainly because of the following:

- Firstly, respondents pointed out that last minute cancellation of orders increase and mainly take place between May and August (depending on the countries), thereby affecting negatively banana producers and exporters even if prices remain stable in contracts (in particular in Ecuador and Costa Rica where the minimum price of banana set by the government is respected by international buyers). Even if this is recurrent year after year, the

⁵⁵ Other cases of alleged UTPs have been reported, for example buyers imposing consignments during this period: they commit to the same volumes of bananas as in winter (when production is lower) and pre-empt additional volumes which they only purchase when they find a market, producers being bound to sell the remaining volumes often at low price on local markets.

only producers who manage to adapt to it without losing money are the largest ones who can find lucrative secondary markets and impose a one-week period of advance notice in their contracts. In comparison, small banana growers are most strongly affected by such practices according to interviewees.

- Secondly, respondents highlighted that quality claims and rejects are also higher between May and August. If quality standards are not a UTP tool per se, the fact that quality claims are recurrent in most banana countries during this season raises questions. In such cases, the producers and exporters located far from Europe, especially the smaller ones, have little or no way of appeal or arbitration according to interviewees. They have to accept lower prices or do not get paid at all if volumes are rejected; in this latter case, bananas are not always destroyed (they are burnt only when health or sanitary issues are at stake, otherwise they are sold on less profitable markets in cases of bad cosmetic appearance).

At first sight, the practices described above can be seen as normal adaptation between offer and demand. However, a clear asymmetrical risk sharing situation arises when retailers and buyers in Europe are able to protect their margins through leonine clauses in contracts, whereas producers at the other end of the chain (especially the smaller ones) are bound to find a secondary buyer for their unsold bananas and do not enjoy the same level of protection in contracts.

Another significant case of UTP reported by several interviewees specifically affects small banana growers who are in a very vulnerable position at the beginning of the chain, bound to accept the conditions of buyers in order to make ends meet and sustain the living of their family.

According to respondents, small producers are often used as buffer volumes by large plantations, especially in Ecuador and Dominican Republic. They are also regularly charged extra costs by exporters and plantations **for alleged “services”** (e.g. the provision of banana boxes, or delivery by truck **to the harbour...**) which can amount to 40% of the price stipulated in the contracts.

For example, in the case of Ecuador, even if the contract complies with the legal minimum price fixed by the government (6.55 US\$ per box in 2015), the small banana producers can get as little as 3.50 US\$ per box once buyers' costs are deducted⁵⁶.

As reported by some interviewees, these dynamics can in turn affect input providers (especially the smaller ones) who happen to suffer delayed payments from small and medium producers and face strong competition by banana traders who happen to provide inputs at low price as part of their contracts.

c) Consequences for banana farmers and workers

According to the information collected in Latin America, the first and foremost impact of UTPs is to accelerate the disappearance of small banana producers in Latin American countries as they cannot afford to remain in business because of very low profitability. Lacking the sufficient resources to invest on their farms, their productivity falls dramatically, land decapitalisation is taking place and migration is enhanced. This generates growing social tensions for the ones who remain in banana regions, as there are very few alternative local job opportunities.

⁵⁶ This is further corroborated by the FAO data which show that the average price actually received by producers in Ecuador from 2001 to 2009 varied between 2.2 US\$ per box and 3.5 US\$ per box

According to interviewees, the smaller the banana producer, the strongest the occurrence and negative impacts of UTPs, as larger and more productive plantations have greater capacity to sustain the potential consequences of unforeseen cancellation of orders or quality claims, and have a more balanced bargaining position. On the opposite, smaller producers have little or no alternative to sell their bananas, especially during the low-price season.

Several respondents pointed out Ecuador as being the country most affected by UTPs because of the large number of small producers in its banana sector, followed by Dominican Republic, Colombia and Peru. According to them, even though organic banana producers are in a somewhat better situation because of higher prices on this market segment, they are not protected from UTPs and their consequences.⁵⁷

Combined with other factors – in particular the price pressure from end buyers – interviewees pointed out that UTPs also contribute to increasing pressure on workers to give up their working conditions, in the name of stronger competition between producers to supply European retailers. This can be ultimately correlated with four main trends of increasing precariousness which have been documented in the banana sector over the past decade, especially in Latin America:

- Firstly, regular work paid on hourly rates is being replaced in several places by piece-work **through the implementation of ‘Total quality Management’** (as a result, workers have to work whatever time it takes to earn the minimum wage rather than the specified 8 hour period)⁵⁸.
- Secondly, some producers increasingly hire workers for limited (and repeated) periods of three months, thereby reducing the number of permanent workers⁵⁹.
- A third way is to increase the use of sub-contractors and temporary agencies⁶⁰.
- As permanent contracts become less common and short-term employment increases, migrant workforce are often used in several countries to achieve a cheaper and potentially more compliant labour force (often lacking the necessary official papers). The case of Nicaraguan migrants in Costa Rican plantations, Haitians in Dominican Republic and Central American migrant workers in Belize are all clear illustrations of this situation⁶¹.

As stated by a Latin American union leader in 2013: *“We recognise that the industry is facing a serious crisis, but it is not for the workers to pay the price of a crisis that only the companies and the government can resolve. We don’t have any profit-sharing arrangements, so should not be expected to bear the brunt when exchange rates and international markets affect the industry.”*⁶²

This situation is not specific to bananas, as described in a report published in 2014 on imbalances of power in agricultural chains: the combination of power concentration with the liberalisation of world food markets have created the conditions in which the accumulation of buyer power results in unlimited price pressure on suppliers in the name of consumer interest, while increasing the risks of UTPs at the expense of the least powerful actors in the chain.⁶³

⁵⁷ Some interviewees indicated that UTPs can also affect medium-scale producers and accelerate existing trends such as the conversion of banana farms of between 20 and 50 Ha to oil palm production in order to restore profitability - because it requires only 1 worker per 10 hectare as opposed to nearly 1 worker per hectare in banana production.

⁵⁸ P.K. Robinson, Precarious and temporary work: the real cost of the high yielding, top quality, low-priced banana, January 2011

⁵⁹ Ibid.

⁶⁰ Ibid.

⁶¹ P.K. Robinson, 2011, op.cit.; Ministry of Labour of Dominican Republic, “Inmigrantes Haitianos y Mercado Laboral”, 2010

⁶² El Colombiano, Medellin, 05/06/2013

⁶³ FTAO, Traidcraft, PFCE and Fairtrade Deutschland, Who(s) got the power: tackling imbalances in agricultural chains, 2014

d) Consequences for consumers

The critical issue in the banana sector pointed out by interviewees is the low level of consumer prices in Europe – mainly influenced by retailers – which is aggravated by reported cases of UTPs. Almost all respondents to our survey said that this situation is not sustainable in the medium to long term.

While banana suppliers are the first to suffer the consequences of this situation, negative consequences for consumers are likely to arise too, sooner or later.

The current situation of the banana sector in Europe fits closely with the analysis conducted by Consumers International⁶⁴ and several researchers⁶⁵ **on the subject of “consumer best interest”**: if the share of value is captured to an excessive extent by retailers while other actors in the chain go under-paid, and if buying prices are forced down to unsustainable levels, there are risks to the survival of suppliers, especially the most vulnerable ones; then, over time, buying prices and therefore retail prices, range and quality for consumers are likely to be substantially impacted.

It has been also confirmed by the UK Competition Commission report published in 2008 which **stated that** *“the transfer of excessive risks or unexpected costs by grocery retailers to their suppliers is likely to lessen suppliers’ incentives to invest in new capacity, products and production processes. We concluded that, if unchecked, these practices would ultimately have a detrimental effect on consumers”*.⁶⁶

In the case of bananas, the long term trend is clearly the disappearance of small banana growers on the world market; in a ‘business as usual scenario’, the pressure on prices is likely to **increase further ‘flexibilisation’** which is likely to affect more and more workers (as small farmers exit the market). The result may well be highly concentrated banana chains, from retailers down to producers, which will most probably lack resilience and increase further the social and environmental impacts in producing countries.

As stated recently by a consumer advocacy group:

*“Much of the debate is about whether we may see longer term impacts that work against consumers’ interests. For example, in relation to restricted choice or increased control over pricing by a smaller number of players. Yet the very nature of these long-term impacts means they are difficult to forecast and measure, while the benefits of cheap products are immediate and clear.”*⁶⁷

⁶⁴ Consumer International, The relationship between supermarkets and suppliers: What are the implications for consumers?, September 2012

⁶⁵ In particular, Bob Hope, Roman Inderst (Goethe Institute), Prof Roger Clarke (ex-Cardiff Business School), Ariel Ezrachi (Oxford), Stephen Topping (Europe Economics) and Maurice Stucke (University of Tennessee)

⁶⁶ UK Competition Commission, “Supermarkets: A report on the supply of groceries from multiple stores in the United Kingdom”, 2000 and “The supply of groceries in the UK market investigation”, 2008

⁶⁷ CHOICE, Supermarket Special When is a sale not a sale? May 2012, reported in Consumer International, The relationship between supermarkets and suppliers: What are the implications for consumers?, September 2012

KEY FINDINGS

- Unfair Trading practices in the banana sector are rooted in the imbalance of power negotiation between retailers and their suppliers, and get amplified at the beginning of the chain in producing countries; they mainly take the form of one-sided (**also called 'leonine'**) clauses in contracts with producers and/or exporters, unforeseen cancellation of orders, banana consignments and increased number of quality claims during the low-price banana season (i.e. summer in Europe).
- Overall, small banana growers (namely in Ecuador, Dominican Republic, Peru and Colombia) are the most impacted by Unfair Trading Practices which worsen their vulnerable position in the chain and makes their living conditions unsustainable. In several regions, small and middle-size banana plantations are also affected and banana workers are under increasing pressure to give up their working conditions in the name of fiercer competition
- At the lower end of the chain, banana workers are under strong pressure to give up their working and living conditions in the name of competition and productivity. As the pressure on price and UTPs increase, so as precarious employment, piece-work payment and flows of migrant workers.

Consumer country sections

a) Austria

The Austrian food market

Austria is a small market with slightly more than 8 million people, but has one of the world's highest living standards and the Austrian economy tends to perform better than the EU average. Despite the broader economic situation in Europe, Austrian consumer expenditures have grown steadily in recent years: food and non-alcoholic beverages grew 5.3 % from 2008 to 2011, accounting for about 13 % of total consumer expenditures.⁶⁸

Foods and beverages from Austria, Germany, and some other EU countries dominate the shelves of the country's retail outlets, mainly thanks to the EU single market. Supermarkets are by far the favoured distribution channel for food products while the retail value share of discounters reaches 27 % and continues to rise and hypermarkets are a rather small channel (see diagram below).⁶⁹ Competition from German retail groups has contributed to the decline of local independent retailers and changed the Austrian retail landscape. Some small regional or local suppliers with individual services (e.g. party catering and delivery) and niche products are still able to survive. Sales of traditional food retailers in 2011 only accounted for 11.6 % of total food retail sales and continue to decline.⁷⁰



Figure 24: Food sales by retail outlet in Austria

Source: BASIC, based on data from Euromonitor (reported by USDA in 2013)

In this context, the 3 biggest food retail companies, REWE, Spar and Hofer, support 75 % of the domestic food retail market, which makes Austria one of the most concentrated retail markets in Europe. REWE Austria covers mainly the eastern part of Austria and Spar the western parts. The food retail market shares of REWE Austria and Spar respectively reach 30 % and 28 %.

⁶⁸ USDA, Retail Foods Austria, 2013

⁶⁹ Ibid.

⁷⁰ Ibid.

Apart from Spar, leading food retailers in Austria are large and influential German retailer groups. The two main discounters, Hofer (a subsidiary of Aldi) and Lidl, are expanding across the country (there were 1,256 discount stores in 2011 in Austria, Hofer leading the way with 440 outlets).⁷¹ The intense competition between supermarkets/hypermarkets and discounters has led non-discounting retailers to strengthen their low-priced product lines, especially private labels, while discounters, on the other hand, have improved their offering of fresh products and introduced organic and sustainable product lines.⁷²



Figure 25: Food sales by retailer in Austria

Source: BASIC, based on data from Euromonitor (reported by USDA in 2013)

In this context, the Austrian fresh fruit market is quite active. Fruit imports account for almost 10% of total food imports in the country and banana is the second most eaten fruit in Austria (as shown in the diagram below), the consumption per capita reaching 10 kg per inhabitant and per year, slightly above the European average consumption.⁷³

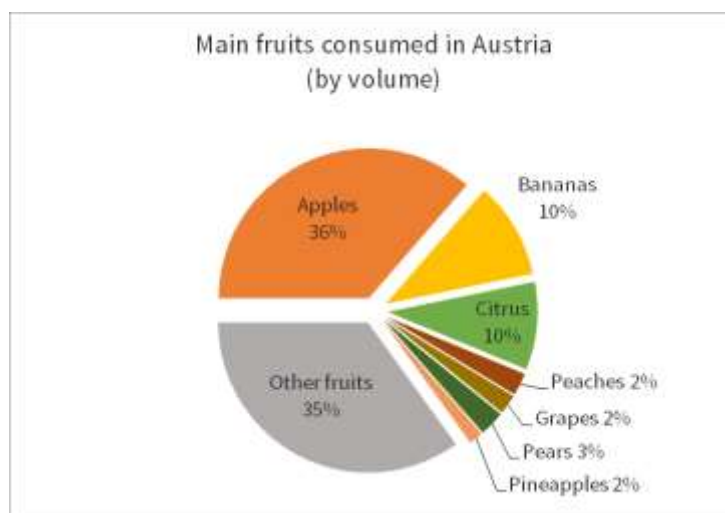


Figure 26: Main fruits consumed in Austria (2011)

Source: BASIC, based on Eurostat and FAO data

⁷¹ USDA, Retail Foods Austria, 2013 op. cit.

⁷² Ibid.

⁷³ BASIC, based on Comtrade and CIRAD data

The Austrian banana value chain

While competition is very high in the Austrian retail sector, the consumer banana price is relatively high compared to the EU average (almost as high as in France). The total size of the banana market is estimated at 122 000 tonnes, roughly the same size as in Czech Republic.⁷⁴

Based on public statistics available (published by Eurostat, Comtrade and CIRAD), the related banana value chain dynamics are the following (see graph below):

- The average banana price to consumers has been slightly decreasing over the past decade (once adjusted for inflation): from 1.95 Euros/kg in 2003 down to 1.73 euros/kg in 2014 (i.e. 11 % drop)
- The average wholesale price has followed the same trend, albeit in 2005 because of the end of the banana quota system in Europe which triggered a brief price increase. Over the past decade, the gap between consumer and wholesale banana price has significantly increased in favour of retailers (from 34% in 2003 to 44% in 2014).
- The average import price of bananas in Austria has globally followed the same trend as the wholesale price: it amounted to 0.79 euros/kg in 2014 (less than **half of retailers' price**).

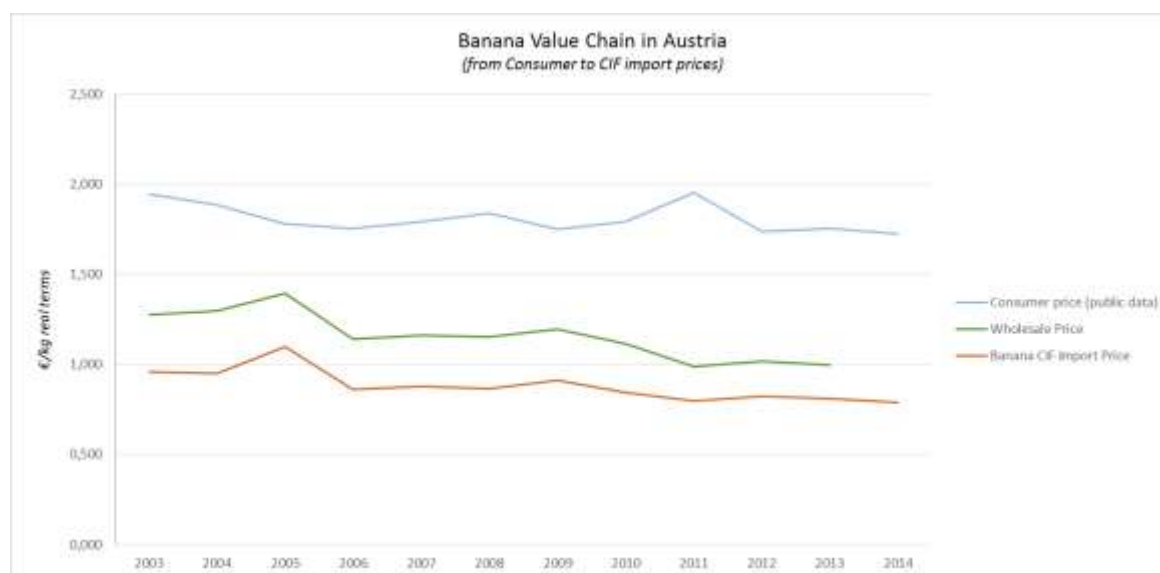


Figure 27: Banana value chain in Austria (2003-2014)
Source: BASIC, based on Eurostat, Comtrade and CIRAD data

According to the same statistic sources (see graph below), the main banana producing countries supplying the Austrian market are Ecuador - the biggest world banana exporter - Colombia and Costa Rica. Panama is a declining supplier and Dominican Republic, a rising origin (supplying organic bananas). This sourcing profile is very much aligned with the situation of the European Union more globally.

⁷⁴ BASIC, based on Eurostat, Comtrade and CIRAD data

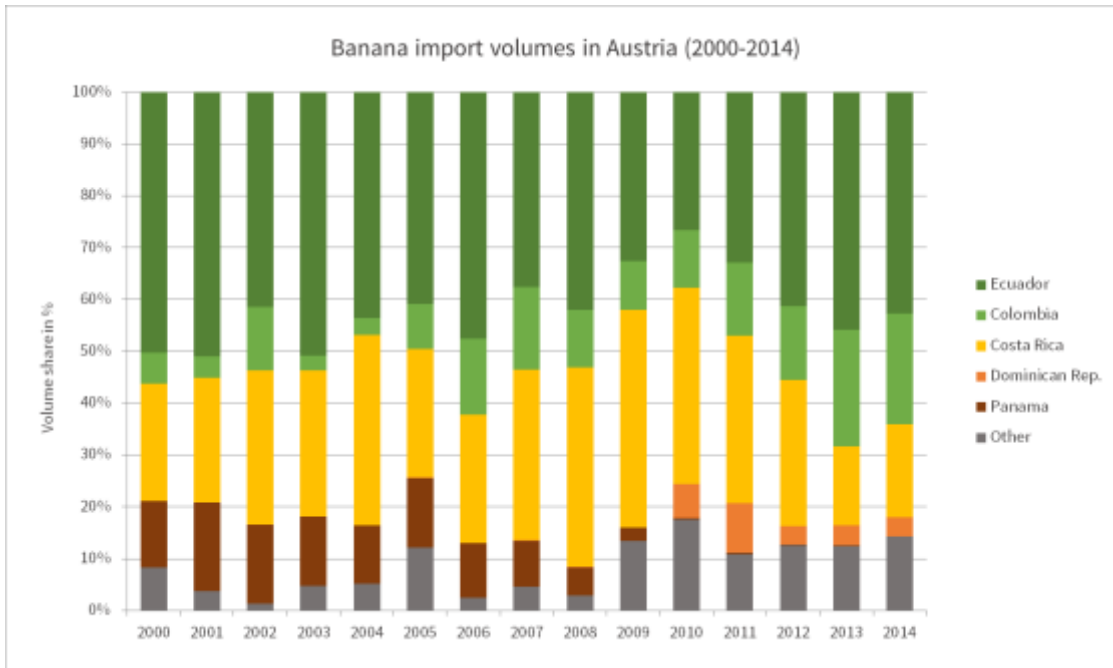


Figure 28: Banana import volumes per origin in Austria (2000-2014)
 Source: BASIC, based on Eurostat and Comtrade data

In terms of import prices, the statistics show that the 3 major banana supplying countries - Ecuador, Colombia and Costa Rica - have all dropped significantly, between 18 % for Ecuador and 35 % for Colombia (see graphs below).

This situation is in stark contrast with the rise of production and living costs in these producing countries (see producer country sections for further details).

The changes in import volumes from these banana producer countries do not seem to be directly correlated with price differentials among them.

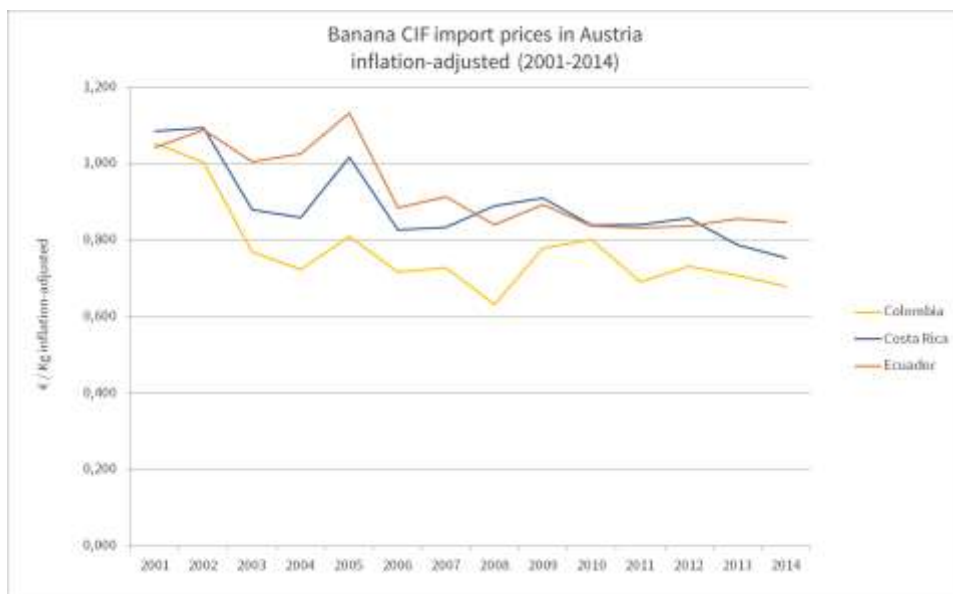


Figure 29: Banana import prices per origin in Austria (2001-2014)
 Source: BASIC, based on Eurostat and Comtrade data

The resulting banana value breakdown along the chain - **from retailers' share** (which includes VAT) **down to workers' wages** - can be estimated as follows (calculations have been made for of a medium-size banana plantation in Ecuador - **in the case of small farmers, the workers' share would be a lot lower as the work is mainly undertaken within the family**).



Figure 30: Banana value breakdown between Ecuador and Austria (2014)
 Source: BASIC, based on data from Eurostat, Comtrade, Sopisco, CIRAD, INCAE and Ecuadorian Ministry of Agriculture

KEY FINDINGS

- Austria is one of the most concentrated retail markets in Europe, dominated by large German retail groups, in particular Rewe, Aldi and Lidl.
- Banana is the 2nd most eaten fruit in Austria, with consumer prices as high as in France. Over the past decade, the gap between consumer and wholesale banana price has significantly increased in favour of retailers (from 34% in 2003 to 44% in 2014). The banana import price accounts for less than 50% of the consumer price and has been significantly decreasing over the past decade (by 18% in the case of Ecuador and up to a 35 % drop in the case of Colombia).
- These trends are in contrast with the fast growing production and living costs in banana supplying countries, in particular Ecuador, Colombia and Costa Rica, the 3 main origins of bananas sold in Austria - see producer country sections of this report for more details.

b) Czech Republic

The Czech food market

The Czech Republic is the third most populous country in Eastern and Central Europe with 10.5 million people, behind Poland and Romania, just ahead of Hungary. The Czech market for food and beverages accounts for more than 10 billion euros.⁷⁵

The process of internationalization of the food sector in Czech Republic has been strong and fast since the economic opening of the country in the mid-1990s.

Whereas hypermarkets only represented 3% of food sales in 1997, they now amount to 44% of sales (the first hypermarkets were opened in 1997 by French Carrefour and German Globus; 15 years later there are more than 280 hypermarkets in the country). The density of hypermarkets (1 per 35000 inhabitants) is the third highest in Europe after France and UK⁷⁶.

Second in the list of most frequented shopping places, discount stores sales amount to 21% of food sales in the country (see diagram below).



Figure 31: Food sales by retail outlet in Czech Republic (2012)

Source: BASIC, based on GfK Shopping Monitor CEE

As a result, western retailers dominate in the Czech modern grocery market, as the leading players are almost exclusively foreign companies (mostly German and British), as indicated in the diagram below:

⁷⁵ Central European Business Review, Retail market structure development in Central Europe, December 2012

⁷⁶ Ibid.



Figure 32: Food sales by retailer in Czech Republic (2013)
 Source: BASIC, based on GfK Shopping Monitor CEE

In this context, the Czech fresh fruit market is one of the biggest in Central and Eastern Europe, bananas being the second most eaten fruit in the country (as shown in the diagram below). The banana consumption per capita can be estimated at 13 kg per person and per year, as high as in Germany⁷⁷.

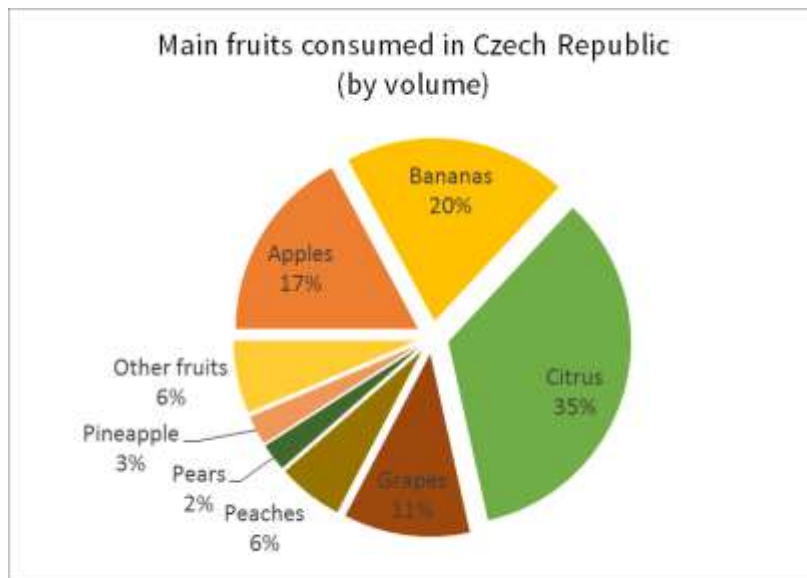


Figure 33: Main fruits consumed in Czech Republic (2011)
 Source: BASIC, based on Eurostat and FAO data

⁷⁷ BASIC, based on Comtrade and CIRAD data

The Czech banana value chain

Competition is very high in the Czech retail sector, resulting in intense price war, including in the fresh fruit sector. Sale and/or price reduction is the most important factor for 41% of Czech households and “everyday-low-prices” is increasingly influencing the market. Since 2009 the value of price reductions amounts to more than 40% of total sales in the Czech Republic.⁷⁸

While brands and private labels are getting increasing importance in the country, they are not influential in the banana market.⁷⁹

The total size of the banana market is estimated at 111 000 tonnes (or 6 million banana large case equivalent). 80% of banana supply is imported by only 5 companies: the main supplier is the French-based Compagnie Fruitiere with a market share of almost 45%, followed by Chiquita (around 15%), Bonita (10%) and Fyffes (over 5%). In addition, Tesco is direct sourcing its bananas for Czech Republic. Ripening facilities are independently contracted by fruit importers or retailers (see graph below).⁸⁰

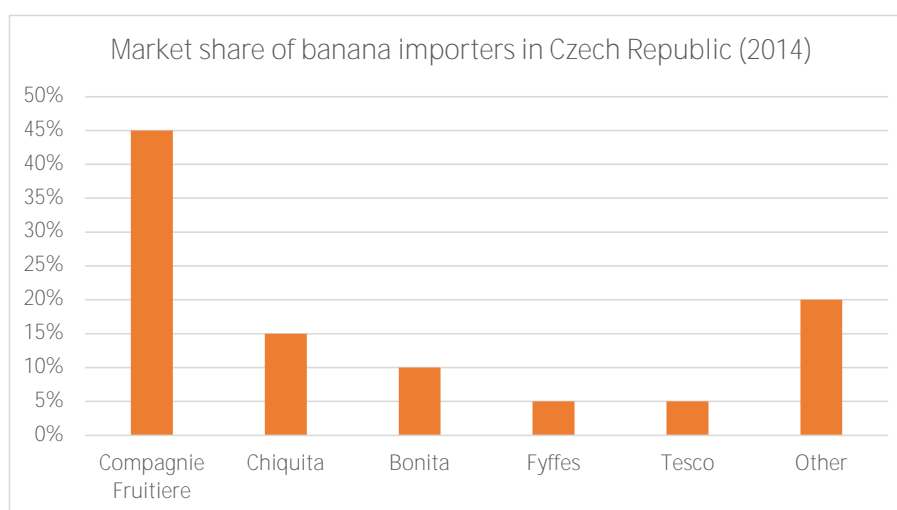


Figure 34: Market shares of main banana importers in Czech Republic
Source: BASIC, based on European Commission (2014)

Based on public statistics available (published by Eurostat, Comtrade and CIRAD), the related banana value chain dynamics are the following (see graph below):

- The average banana price to consumers is as low as in Germany (one of the lowest in Europe) – around 1.2 euros/kg in 2014 – and has been slightly decreasing over the past decade (once adjusted for inflation)
- The average wholesale price has followed the same trend, albeit in 2005 when the end of the banana quota system in Europe triggered a brief price increase which soon reversed and returned to the longer-term trend. In recent years, the gap between consumer and wholesale price has been slightly increasing in favour of retailers.
- The average import price of bananas in Czech Republic has globally followed the same trend as the wholesale price; it amounted to 0.67 euros/kg in 2014 (**almost half of retailers' price**).

⁷⁸ GfK Shopping Monitor, 2012

⁷⁹ European Commission, Merger procedure - Case No COMP/M.7220 – Chiquita Brands International/Fyffes, October 2014

⁸⁰ Ibid.

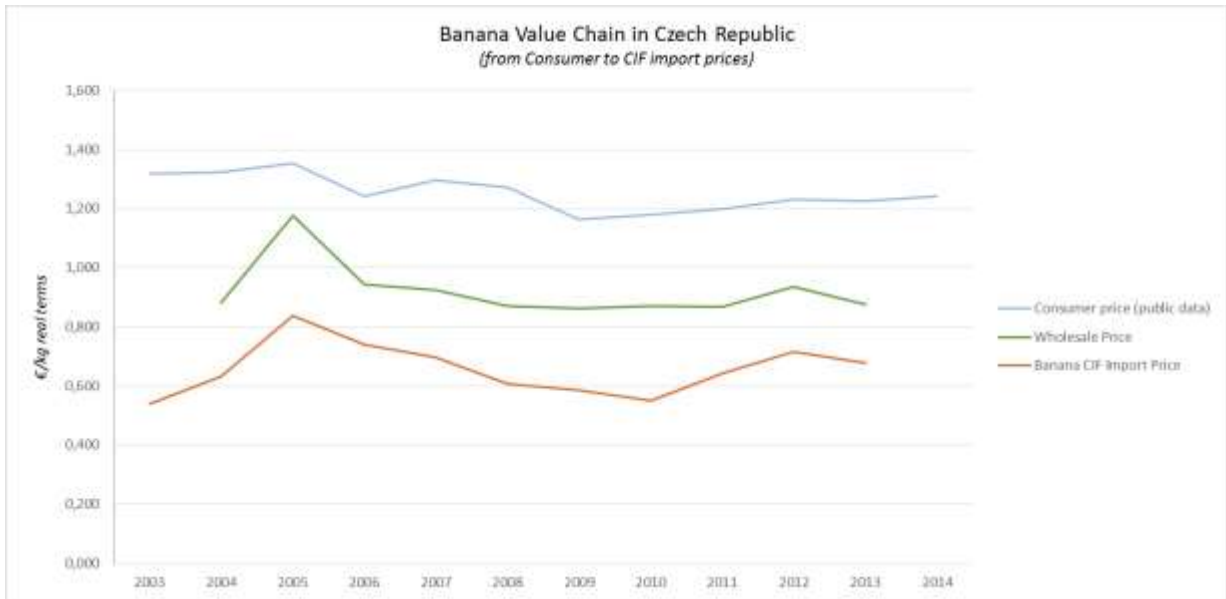


Figure 35: Banana value chain in Czech Republic (2003-2014)
 Source: BASIC, based on Eurostat, Comtrade and CIRAD data

According to the same statistic sources (see graph below), the main banana producing country supplying the Czech market is Ecuador - the biggest world banana exporter - followed by Colombia and Costa Rica, whereas Panama is a declining supplier. This sourcing profile is very much aligned with the situation of the European Union more globally.

However, a distinctive feature is the growing importance of Cameroon which has become the 4th biggest provider of bananas to the Czech Republic, most probably because of the significant import share of the “Compagnie Fruitiere” which owns large banana plantations in that country.

It is worth noting that 30% of bananas imported in Czech Republic in 2014 are indicated as originating from France, Belgium and Netherlands which are mainly transit hubs of bananas in Europe (apart from France which may also supply fruit from Guadeloupe and Martinique).

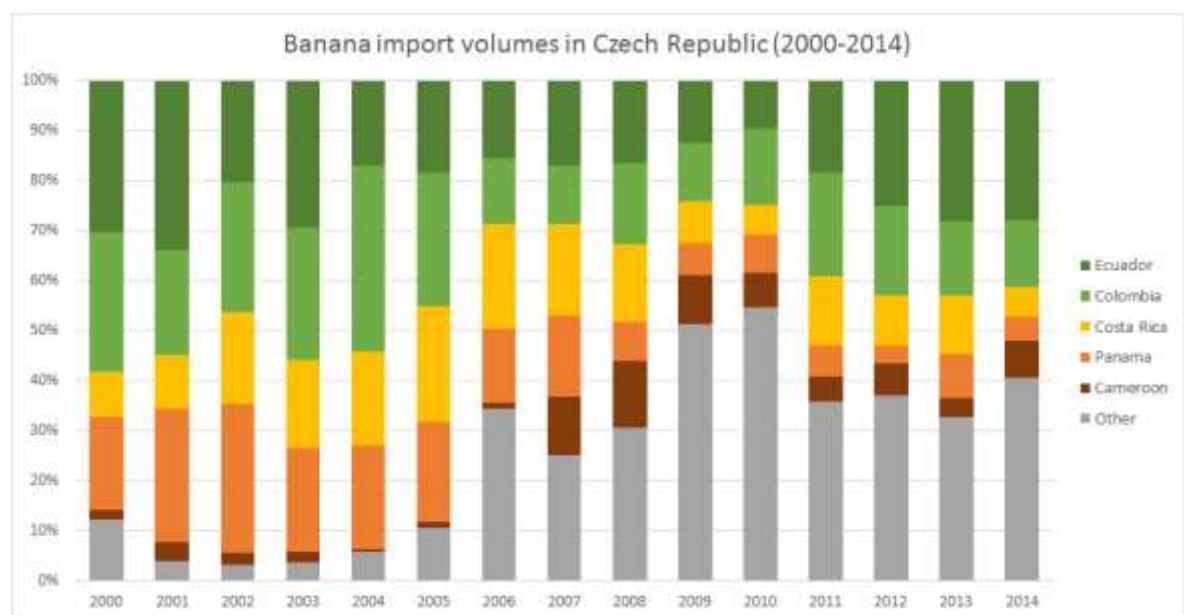


Figure 36: Banana import volumes per origin in Czech Republic (2000-2014)
 Source: BASIC, based on Eurostat and Comtrade data

In terms of import prices, the statistics show that the 3 major banana supplying countries - Ecuador, Colombia and Costa Rica - have followed very similar trends over the past decade and reach the same price level in 2014 as in 2004, once corrected for inflation (see graphs below).

This situation is in stark contrast with the rise of production and living costs in these producing countries (see producer country sections for further details).

The changes in import volumes from these banana producer countries do not seem to be directly correlated with price differentials among them.

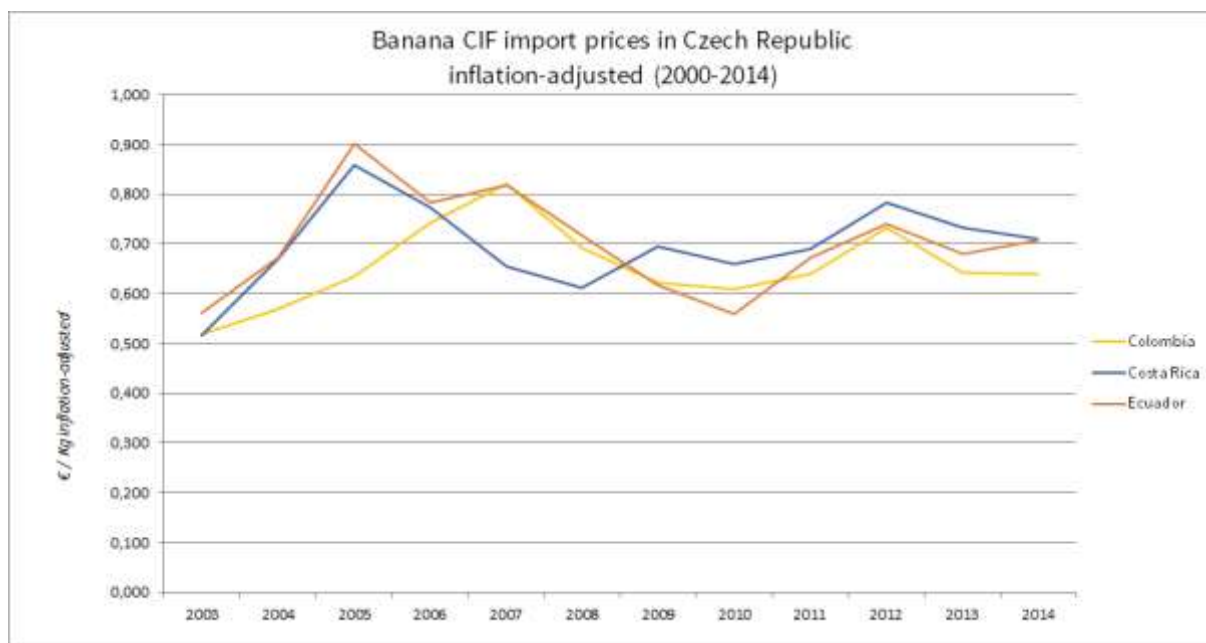


Figure 37: Banana import prices per origin in Czech Republic (2000-2014)

Source: BASIC, based on Eurostat and Comtrade data

The resulting banana value breakdown along the chain - from retailers' share (which includes 17% of VAT) down to workers' wages - can be estimated as follows (calculations have been made for of a medium-size banana plantation in Ecuador - in the case of small farmers, the workers' share would be a lot lower as the work is mainly undertaken within the family).

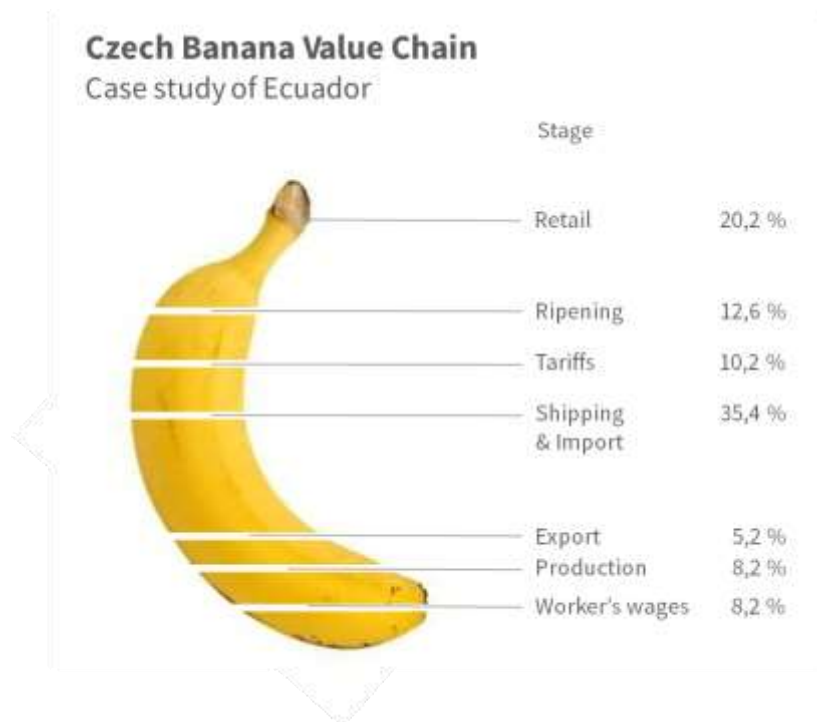


Figure 38: Banana value breakdown between Ecuador and Czech Republic (2014)
 Source: BASIC, based on data from Eurostat, Comtrade, Sopisco, CIRAD, INCAE
 and Ecuadorian Ministry of Agriculture

KEY FINDINGS

- Czech Republic is a very competitive and price-sensitive food market dominated by few international retail actors.
- Banana is the 2nd most eaten fruit in Czech Republic, with consumer prices as low as in Germany. Imports are concentrated in the hands of 5 companies which supply the retail market. The related import prices amount to little more than 50% of the consumer price and have been globally stagnating over the past decade.
- These trends are in contrast with the fast growing production and living costs in banana supplying countries, in particular Ecuador, Colombia and Costa Rica, the 3 main origins of bananas sold in Czech Republic - see producer country sections of this report for more details.

c) France

The French food market

The overall retail food sales in France reach amount to more than 230 billion euros, making it one of the biggest food markets in the European Union. The French retail distribution network is diverse and sophisticated: it is generally comprised of six types of establishments: hypermarkets, supermarkets, hard discounters, convenience, gourmet centres in department stores, and traditional outlets. Sales within the first five categories represented 75 % of the country's retail food market, and traditional outlets, which include neighbourhood and specialized food stores, represented 25 % of food sales.⁸¹

Starting in 2008, a steep decline in mass food retailers' sales has been observed, which can be explained by a combination of factors: the economic crisis, the hypermarket model crisis, the rise of hard discount, e-commerce and drive-through retail, and the maturation of the retail food sector. In reaction, recent trends in the French retail market are the development "drive-thru" services, the expansion of private labels offer, and the growing investments in smaller format stores.⁸²

The overall breakdown of food sales by retail outlet in France can be estimated as follows:



Figure 39: Food sales by retail outlet in France (2012)
Source: BASIC, based on GfK Shopping Monitor CEE

The food retail market in France is dominated by a small number of large firms: Carrefour (Carrefour, Shopi), Auchan (Auchan, Simply Market, Atac), Leclerc (Leclerc, Coop), Groupe Casino (Casino, Franprix, Leader Price, Monoprix), Groupe les Mousquetaires (Intermarché, Netto) and Système U. They are followed by the two German leading discounters Lidl and Aldi. Other banners include Match and Cora.⁸³

⁸¹ USDA, Retail Foods France, 2012

⁸² DGCCRF, Panorama de la grande distribution alimentaire en France, February 2014

⁸³ Ibid.

The respective share of food market sales of the main retailers in France is estimated as follows:

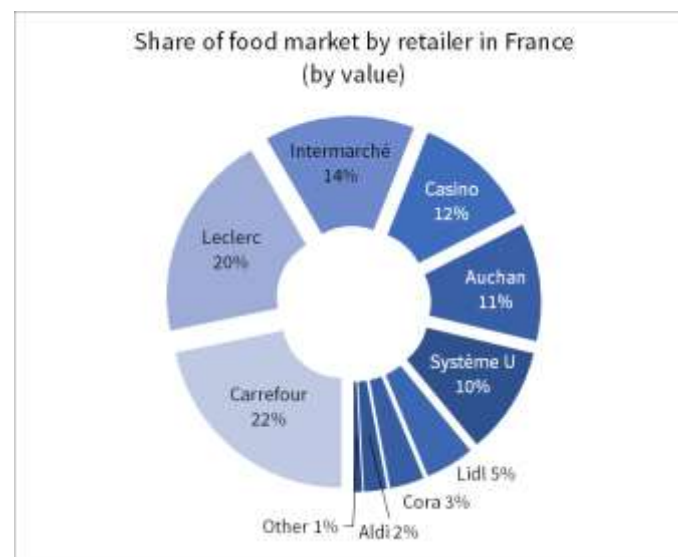


Figure 40: Food sales by retailer in France (2012)
Source: BASIC, based on Xerfi reported by DGCCRF

The top 5 retailers account for 79% of food sales in the French modern grocery market. A smaller number of buying groups owned by the leading retailers within parent companies act as intermediaries between producers and retailers (e.g. Galec for Leclerc), ITM for Intermarché, Interdits for Carrefour). A total of five firms are responsible for 90% of purchases in large retail outlets and tend to bolster further the oligopolistic nature of the French market, creating a situation of significant market power vis-à-vis suppliers.⁸⁴

Carrefour has been losing ground in recent years, while the Leclerc model is strengthening its position and expanding, due to its policy of lower prices. The growing popularity of hard discount stores, introduced by Lidl and Aldi, is the source of additional competitive pressure, and has led the other retailers to continually lower their prices, which they have done by devoting additional shelf space to private label products and the introduction of their own discount banner.⁸⁵

In this context, the French fresh fruit market is one of the biggest in Europe, bananas being the third most eaten fruit in the country (as shown in the diagram below), notably because of the wide availability of local fruits produced in the country.

The banana consumption per capita can be estimated at 9 kg per person and per year, significantly below the EU average (10 kg/person/year).⁸⁶

⁸⁴ DGCCRF, Panorama de la grande distribution alimentaire en France, February 2014

⁸⁵ Ibid.

⁸⁶ BASIC, based on Comtrade and CIRAD data

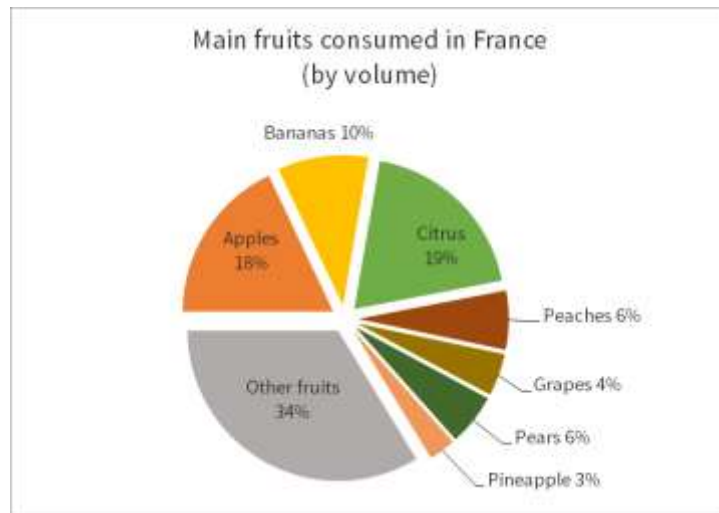


Figure 41: Main fruits consumed in France (2011)
Source: BASIC, based on Eurostat and FAO data

The French banana value chain

The French banana market is the third biggest in Europe with Italy, its total size being estimated at more than 600 000 tonnes (or 33 million banana large case equivalent).

The French banana import market is totally distinct from the rest of Europe (apart from Spain to a certain extent): it has a significant domestic production in French Overseas Departments situated in the Caribbean (Martinique and Guadeloupe) and has close historical ties with export countries in **West and Central Africa, in particular Cameroon and Cote d'Ivoire**, which both produce significant volumes of bananas.

Together, domestic and African production account for roughly 2/3 of banana imported in France each year (around 30% for Guadeloupe and Martinique, and 35% for **Cameroon and Cote d'Ivoire**)⁸⁷. Banana wholesale and consumer prices tend to be the same regardless of origin.

This provides France with a certain stability of supply (albeit when climatic disasters hit the Caribbean as in 2007-08), but generates vulnerability in times of overproduction at the global level (because of the strong competition on price with Latin American origins).⁸⁸

Annual contracts for bananas have been introduced in recent years by retailers (mainly for promotion sales) and are a growing trend in the sector.

In terms of actors, the French banana import market is mainly dominated by 5-6 integrated companies which compete to supply the retail market:

- The main supplier is the Union of French Caribbean Banana Producers UGPBAN which places on the market 90% of the banana produced in Guadeloupe (by the cooperative LPG) and Martinique (by the cooperative Banamart). To better integrate the value chain and negotiate with retailers, the UGPBAN acquired the French company Fruidor from Pomona in 2008, the largest network of ripening facilities in France which provides roughly 25% of the domestic market (yet, all volumes of UGPBAN are not channelled through Fruidor: other ripeners are also contracted by UGPBAN and conversely Fruidor also ripens bananas from other origins).⁸⁹

⁸⁷ BASIC, based on Comtrade and CIRAD data

⁸⁸ FruiTrop, Avril 2010

⁸⁹ DGCCRF, Bulletin Officiel C2008-67 / **Lettre du ministre de l'économie, de l'industrie et de l'emploi du 4 septembre 2008, au conseil de la société Baninvest, relative à une concentration dans le secteur de l'alimentation**

- The second main supplier is the French-based Compagnie Fruitiere which operates large banana plantations in Africa through 3 companies in Cameroon (SPHP, SPNP and SBM), one in Cote d'Ivoire (SCB), and more recently in Ghana through the investment in a Fairtrade and organic plantation. It can be estimated that two African banana workers in three are employed by the Compagnie Fruitiere⁹⁰. The company has integrated the shipping of its banana from African plantations through its subsidiary 'Africa Express Line' which operates a fleet of 8 ships equipped for the refrigerated transport of fruit and vegetables. It also owns ripening facilities (in particular in Marseille and Rungis near Paris) which can process all the production of its plantations (i.e. accounting for almost 25% of ripening in the country). Most recently, the Compagnie Fruitiere acquired the French and UK divisions of Dole, which enabled the company to reach a 20-25 % share of the banana wholesale market in France.⁹¹
- Their main competitors in France are international integrated companies: Chiquita which mainly operates in most Latin American countries, and Del Monte which operates not only in Latin America (Costa Rica, Guatemala...) but also in Cameroon where it employs roughly 1/3 of the country's banana workers through its partnership agreement with the public company 'Cameroon Development Corporation' (CDC), the main competitor of Compagnie Fruitiere.⁹²
- Another important player on the market is AZ France (a subsidiary of the Italian GF Group) which mainly imports and ripens bananas from its plantations in Costa Rica, Colombia and Southern Cameroon. It also import bananas from organic small farmers in Dominican Republic. It operates from ports in the Mediterranean Sea in Portugal, Spain and Italy.⁹³
- Finally, some smaller French players such as Pronatura and Brochenin are dedicated to the organic and Fairtrade markets (which account for roughly 10% of the market), in competition with the above mentioned companies.

Based on the previous information, the overall market shares of main banana importers in France can be estimated as follows:

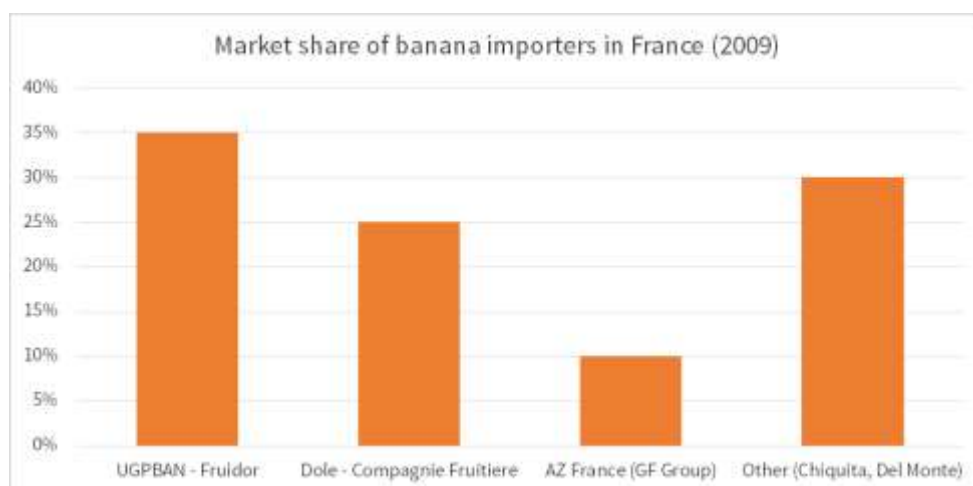


Figure 42: Market shares of main banana importers in France
Source: BASIC, based on DGCCRF (2009)

⁹⁰ COGEA, *Évaluation de l'Organisation Commune de Marché (OCM) dans le secteur de la banane*, 2005 and Banana Link, Decent Work for African plantation workers, 2011

⁹¹ DGCCRF, Bulletin Officiel C2008-103 / *Lettre du ministre de l'économie, de l'industrie et de l'emploi du 28 octobre 2008*, aux conseils de la société Compagnie Fruitière de Paris SAS., relative à une concentration dans le secteur des fruits et légumes

⁹² DGCCRF, Bulletin Officiel C2008-67, 4 septembre 2008 op. cit. and DGCCRF, Bulletin Officiel C2008-103, 28 octobre 2008 op. cit.

⁹³ <http://www.azfrance.fr/> and <http://www.fratelliorsero.it/> accessed in September 2015

Based on public statistics available (published by Eurostat, Comtrade and CIRAD), the related banana value chain dynamics are the following (see graph below):

- The average banana price to consumers is among the highest in Europe, around 1.6-1.7 euros/kg in 2014, and has been globally stagnating over the past decade (once adjusted for inflation), albeit in 2005 when the end of the banana quota system in Europe triggered a brief price increase which soon reversed and returned to the longer-term trend.
- The average wholesale price has globally followed the same trend as the consumer price.
- The average import price of bananas in France has also remained fairly stable since 2000 in real terms (except in 2005 as explained above); it amounted to 0.63 euros/kg in 2014 (less than 40 % of retailers' price).

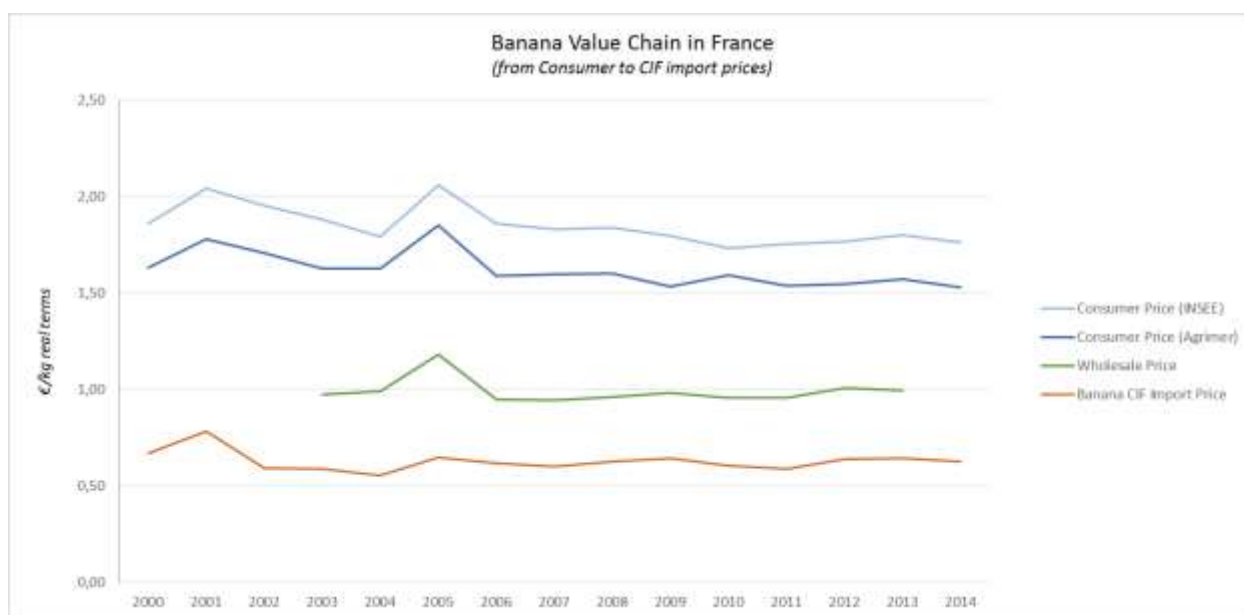


Figure 43: Banana value chain in France (2000-2014)
Source: BASIC, based on Eurostat, Comtrade and CIRAD data

As described earlier and illustrated in the graph below, the main banana supply is from domestic origin produced in the Caribbean (roughly 30% of imports), followed by Cameroon and Cote d'Ivoire (with a combined share of 35 %). The main Latin American origins (Ecuador, Colombia and Costa Rica) appear to be buffer volumes. This sourcing profile is very different from the rest of the European Union.

Two recent emerging trends are the development of imports from Dominican Republic (which is the main supply of the French organic banana market) and Suriname (included in 'other' origins) which is located close to French Guyana.

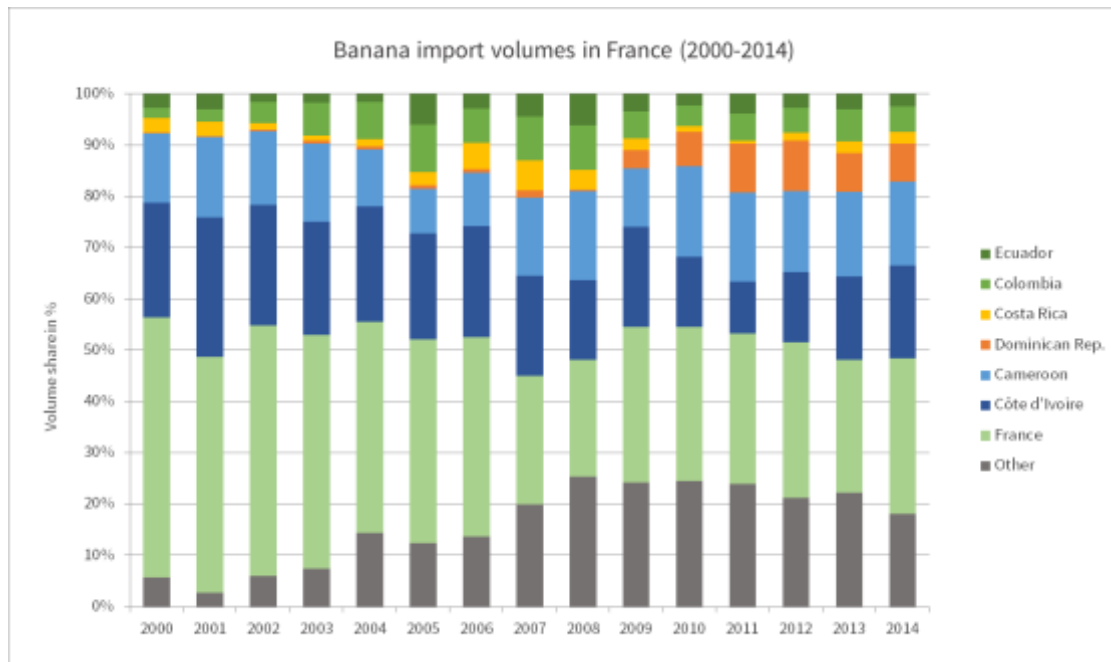


Figure 44: Banana import volumes per origin in France (2000-2014)
 Source: BASIC, based on Eurostat and Comtrade data

In terms of import prices, the statistics show that the 2 major banana supplying countries outside France, **Cameroon** and **Côte d'Ivoire**, have followed very similar trends and globally reach the same price level in 2014 as in 2000, once corrected for inflation (see graphs below). This situation is in stark contrast with the rise of production and living costs in these producing countries (see producer country sections for further details).

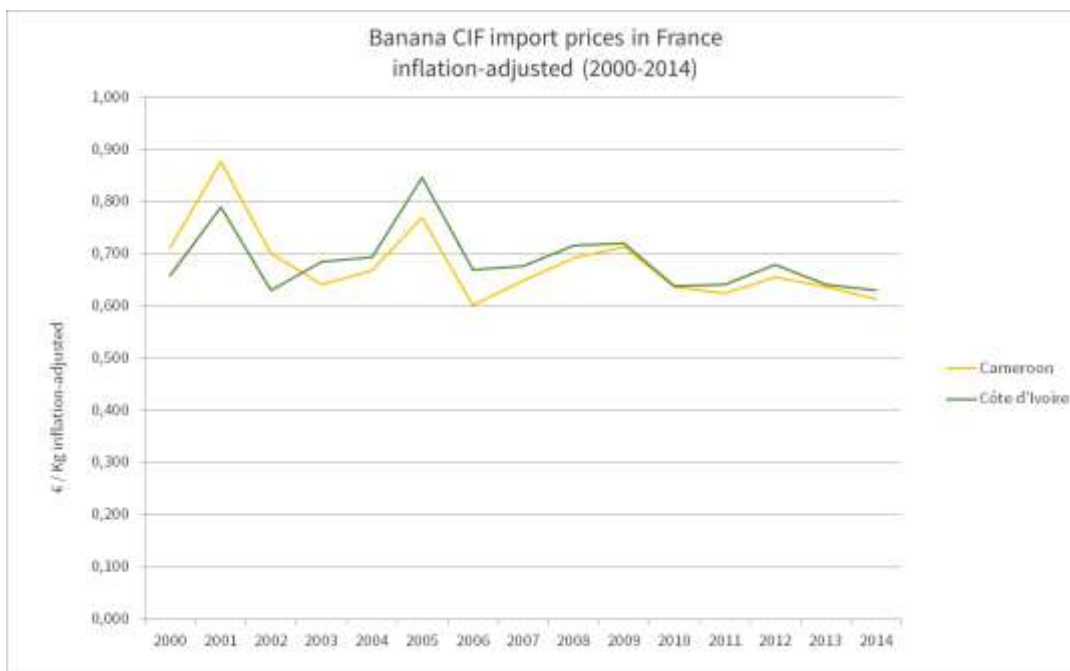


Figure 45: Banana import prices per origin in France (2000-2014)
 Source: BASIC, based on Eurostat and Comtrade data

The resulting banana value breakdown along the chain - **from retailers' share** (which includes VAT) **down to workers' wages** - can be estimated as follows (calculations have been made for of a banana plantation in Cameroon).



Figure 46: Banana value breakdown between Cameroon and France (2014)

Source: BASIC, based on data from Eurostat, Comtrade, Sopisco, CIRAD

KEY FINDINGS

- The overall retail food sales in France amount to 230 billion euros, making it one of the biggest food markets in the EU. The food retail market in France is dominated by a small number of large firms: Carrefour, Auchan, Leclerc, Casino, Intermarché, and Système U. Its concentration ratio is equivalent to the EU's average, but strong buying groups further enhance the retailers' bargaining position.
- The French banana market is the 3rd biggest in Europe and is totally distinct from the rest of EU countries because of strong domestic production (30% of the market) and close ties with Cameroon and Cote d'Ivoire (another 35%). It is dominated by 5-6 integrated actors: 3 French companies (UGPBAN in Guadeloupe/Martinique, Compagnie Fruitiere in Cameroon/Ivory Coast and AZ France) and 2 multinationals (Chiquita and Del Monte).
- The average import price of bananas in France has remained fairly stable since 2000 (so as the **retailers' price**). However, due to the high level of consumer price in the country, the retailers account for the lion's share of banana value while workers hardly capture 5% of the end value of the product - see producer country sections of this report for more details.

d) Germany

The German food market

Germany is the biggest market for food and beverages in the European Union. According to Euromonitor International, grocery retailing reached sales of 240 billion Euros in 2015.⁹⁴

Over the past ten years, Germany is one of the very few European countries where households have continuously increased their household expenditure spent on food, a tendency which accelerated since the economic crisis in 2008.⁹⁵

In comparison with other major European retail food markets, Germans are very price-sensitive consumers who also expect high quality products. As a result, the key characteristics of the German market are: consolidation, market saturation, strong competition and low prices⁹⁶.

In this context, discounters have been a prominent feature of the German retail market for the past 30 years: their market share has grown from 12% in the 1980s to 33% and above since the early 2000s, one of the highest proportion in world's food retailing. There is on average one discounter for every 5,231 people in the country, within a 10-15 minute drive of every German home⁹⁷.

Their success was strongly driven by the development of private label food products focused on (low) price. Because of the competition with discounters, traditional retail chains have strongly developed their private labels, creating whole ranges of products from low-priced to high quality premium products (in 2011, the market share of private label products was above 40%).⁹⁸

After years of growth, the discounter's share is somehow stagnating, in particular because of their limited ability to open new stores.⁹⁹

The overall breakdown of food sales by retail outlet in Germany can be estimated as follows:



Figure 47: Food sales by retail outlet in Germany (2014)
Source: BASIC, based on Euromonitor data (reported by USDA in 2014)

⁹⁴ USDA, Retail Foods in Germany, 2015

⁹⁵ Eurostat data (2004-12) analysed in 'The economic impact of modern retail on choice and innovation in the EU food sector', European Commission, September 2014

⁹⁶ USDA Foreign Agricultural Services, The German Food Retail Market, 2012

⁹⁷ Euromonitor International, Fresh Food in Germany, 2012

⁹⁸ USDA Foreign Agricultural Services, 2012, op. cit.

⁹⁹ Planet Retail, European Grocery Retailing, May 2014

As a result, the German retail market is dominated by 5 major retailers: Edeka, Rewe, Lidl, Aldi and Metro. Most of them are positioned on the 3 distribution formats: supermarkets, hypermarkets and discounter stores (Aldi being a specific case focused on discounter outlet only).

The concentration of the market is more pronounced than on average in Europe; to illustrate, in 2012, the sales of the top 5 German retailers amounted to¹⁰⁰:

- 61% of the consumer spending on food and drink (compared to 45% on average in the EU)
- 88% of the edible grocery sales of all modern retail groups (compared to 83% in the EU) – see diagram below



Figure 48: Food sales by retailer in Germany (2013)

Source: BASIC, based on data from Euromonitor (reported by USDA in 2013)

In this context, Germany consumes more fruit than any other country within the European Union, but the consumption per household is in a slight decline (like in several other European countries): it reached 81.5 kg per household per year in 2010, which is slightly below other EU countries.

The main fruits consumed in Germany (including imports and domestically grown) are apples (22%), bananas (13%) and oranges (9%), followed by mandarins (5%) and grapes (4%).

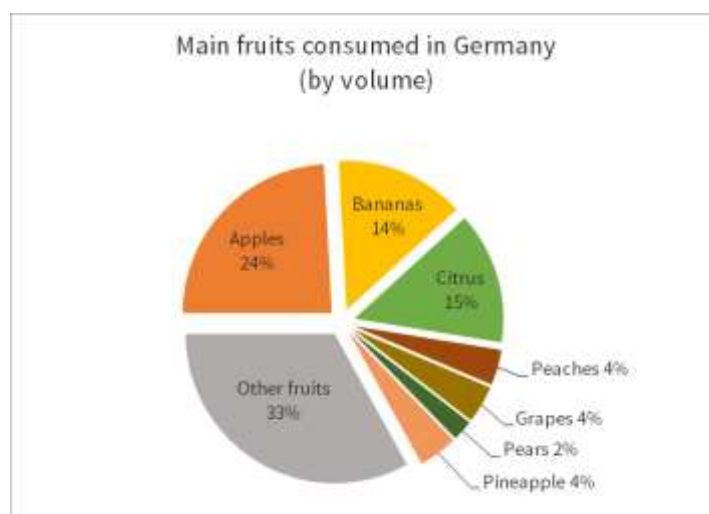


Figure 49: Main fruits consumed in Germany (2011)

Source: BASIC, based on Eurostat and FAO data

¹⁰⁰ European Commission, The economic impact of modern retail on choice and innovation in the EU food sector, September 2014

In terms of supply, Germany is the 6th largest European fruit producer and the biggest European importer of fresh fruits and vegetables with annual volumes reaching 5.5 million tons of fresh produce. Apple is the only fruit consumed in big volumes that is produced in majority in the country, while banana is the main fruit imported from abroad.¹⁰¹

The German banana value chain

The German market for bananas is one of the two biggest in Europe with the UK: its total size is estimated at more than 1 million tonnes (or 55 million large case equivalent) in 2013.¹⁰²

German retailers place a great emphasis on the product's cosmetic appearance rather than its overall taste, and the country of origin of the fruit (Ecuador, Colombia...) is one of the most important factors influencing consumption¹⁰³.

Most of all, stringent safety requirements are the main characteristic of the German fresh fruit market in general, and the banana market in particular. Retail chains being the biggest distribution channel for fresh fruits, all importers and distributors dealing with them impose the same safety and certification requirements on their suppliers, making them mandatory for the whole sector.

German retail chains are extremely concerned regarding the safety of the fresh fruits they sell, banana in particular. In addition to the HACCP¹⁰⁴ preventive approach imposed by European legislation, most German retailers require products to have much lower MRLs (Maximum Residue Limits) of pesticides than the EU legislation, sometimes as low as 30% of the EU norms¹⁰⁵.

GlobalGAP certification, which has been developed and is managed by leading European retailers, is also a critical issue in the German fruit market¹⁰⁶; producers who are not GlobalGAP certified have no chance to enter the market in a significant way, apart from small independent shops and green market traders (similar situation as in the UK and most northern European countries)¹⁰⁷.

The banana weekly spot market is very limited (less than 5% of volumes) and German retailers purchase most of their bananas via annual tenders which are very competitive.

They tend to multi-source and switch between suppliers, the main ones being Chiquita, Fyffes (in particular through its subsidiary Weichter), Dole, Del Monte, Noboa, as well as national players such as Dürbeck, Cobana, T-Port, Univeg and AFC (who became the main supplier to Lidl in 2012). Other smaller foreign actors include Compagnie Fruitière and De Groot.

There is very few direct sourcing of bananas by German retailers (as opposed to the UK).¹⁰⁸

¹⁰¹ Euromonitor International, Fresh Food in Germany, 2012, op. cit.

¹⁰² European Commission, DG Comp Merger Registry, Chiquita Brands International/ Fyffes merger procedure, 2014 op. cit.

¹⁰³ USAID - ACED Project, End market study for fresh and dried fruits in Germany, 2012

¹⁰⁴ Hazard analysis and critical control points is the food safety management system imposed by US and European legislation on all participants of the fresh fruit chain

¹⁰⁵ USAID - ACED Project, 2012, op. cit.: "If the MRL's are lower than the EU permitted level but higher than the chain's own standards, retail chains often impose a penalty that the supplier has to pay and can exclude them from their list of suppliers for that product for up to several months."

¹⁰⁶ GlobalGAP is a voluntary standard primarily designed to reassure consumers about how food is produced on the farm and to minimize environmental impacts, develop responsible approaches for workers health and safety (cf. USAID, 2012, op. cit.)

¹⁰⁷ USAID - ACED Project, 2012, op. cit.

¹⁰⁸ European Commission, DG Comp Merger Registry, Chiquita Brands International/ Fyffes merger procedure, 2014 op. cit.

The following diagram summarizes the respective market share of the main banana importers in Germany:

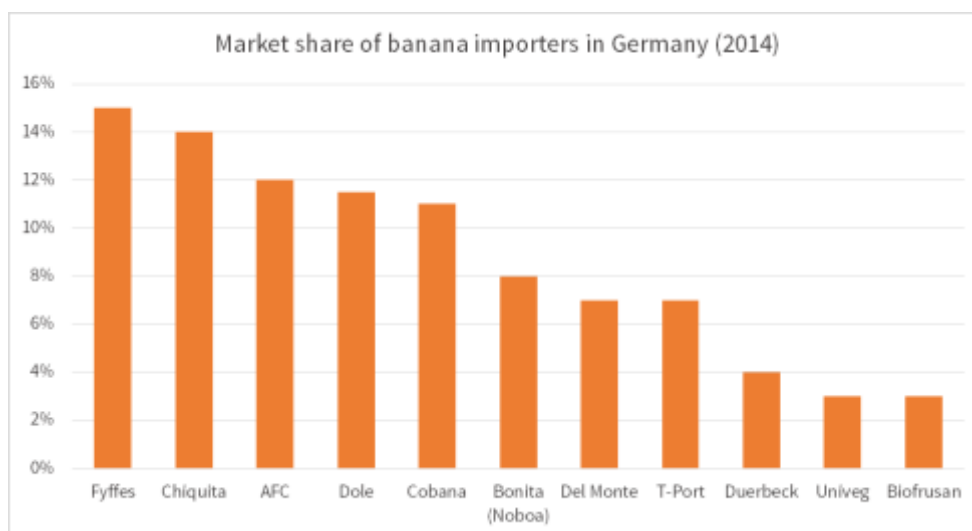


Figure 50: Market shares of main banana importers in Germany
Source: BASIC, based on European Commission (2014)

In terms of ripening, Germany is characterised by overcapacity (around 20 %) and cross-border ripening, especially with the Netherlands and Poland. German retailers usually indicate which ripener must be used, Edeka being a specific case as it has its own ripening facilities. The main ripening facilities in Germany (in descending order) are owned by: Univeg, Cobana, Del Monte, Edeka, van Flick, Fyffes, Dole and AFC.¹⁰⁹

Based on public statistics available (published by DEStatis, Eurostat, Comtrade and CIRAD), the related banana value chain dynamics are the following (see graph below):

- There is a clear falling tendency of the banana consumer price in real terms from 1.73 euros/kg in 2001 to 1.24 euros/kg in 2014 (i.e. a drop of 28 % over the period). The only exception happened in 2005, creating a short-term “spike”, because of the end of the banana quota system in Europe which triggered a brief price increase which soon reversed and returned to the longer-term trend. The resulting consumer banana price in 2014 is among the lowest in the European Union.
- **The discounters’ banana price is even lower than the average consumer price**, amounting to little more than the average wholesale price, both getting closer to the average consumer price in recent years.
- The resulting CIF import price of bananas in Germany has dropped by 26.5 % since 2001 in line with the consumer price; it is being under strong pressure because of the low level of consumer prices, especially in discounter stores.

¹⁰⁹ European Commission, DG Comp Merger Registry, Chiquita Brands International/ Fyffes merger procedure, 2014 op. cit.

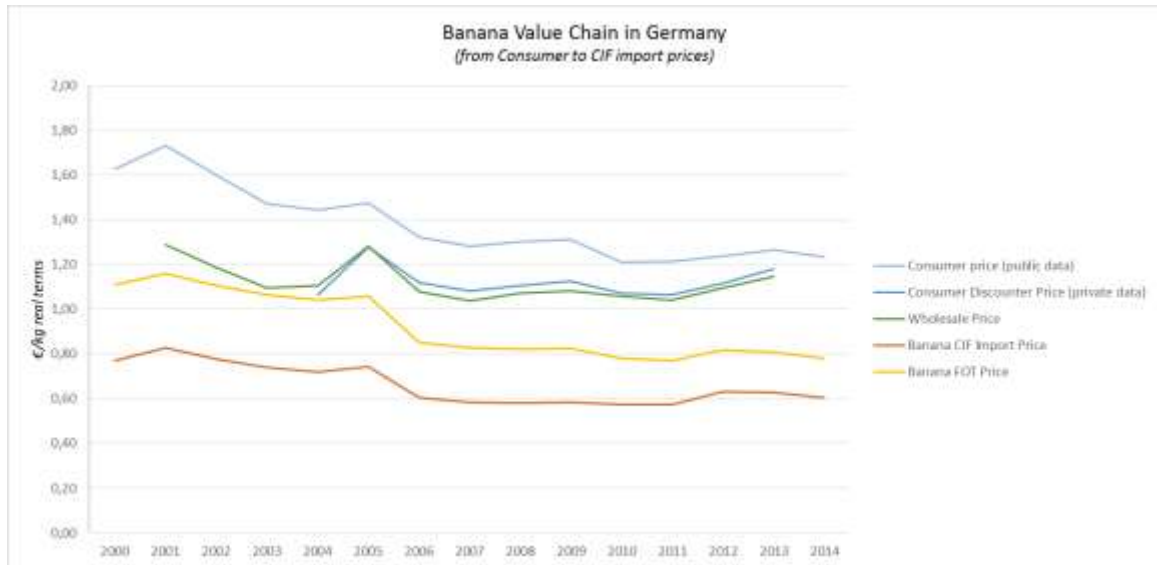


Figure 51: Banana value chain in Germany (2000-2014)
 Source: BASIC, based on DEStatis, Eurostat, Comtrade and CIRAD data

According to the same statistic sources (see graph below), the main banana producing country supplying the German market are Ecuador - the biggest world banana exporter - Colombia and Costa Rica which jointly account for more than 80 % of imports in the country. Panama is a declining supplier and Dominican Republic, an emerging one (supplying organic bananas). This sourcing profile is very much aligned with the situation of the European Union more globally.

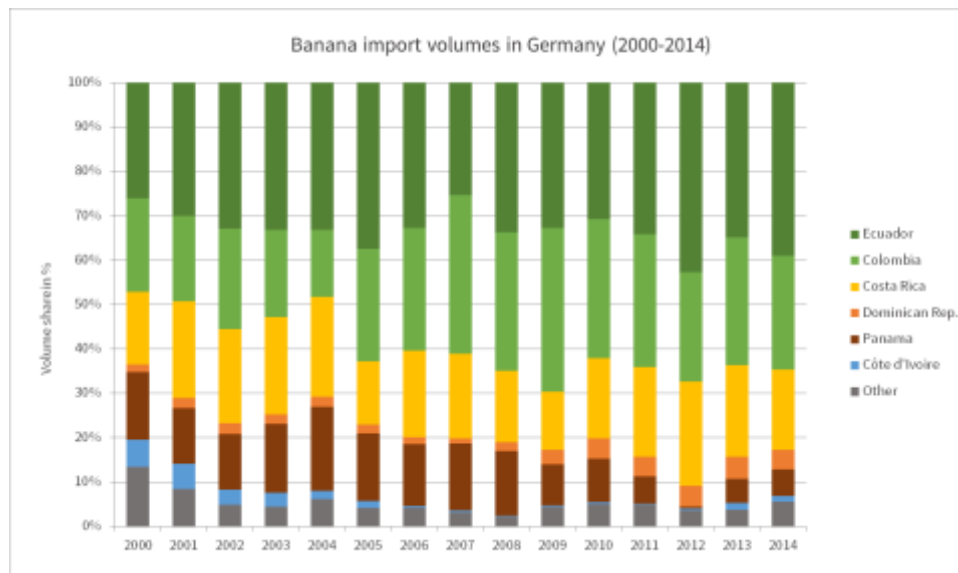


Figure 52: Banana import volumes per origin in Germany (2000-2014)
 Source: BASIC, based on Eurostat and Comtrade data

In terms of import prices, the statistics show that the 4 major banana supplying countries - Ecuador, Colombia, Costa Rica and Dominican Republic - have all dropped significantly since 2000 and recovered partially since 2013, except for Ecuador which appears to be the most affected by the price trends on the German banana market.

Between 2000 and 2014, the drop (in real terms) amounts to 10 % for Costa Rica, 15 % for Colombia and almost 40 % for Ecuador (see graphs below). The situation is similar for Dominican Republic, albeit for the higher level of prices on the organic banana market.

This situation is in stark contrast with the rise of production and living costs in these producing countries (see producer country sections for further details).

The volume of imports from Ecuador have doubled between 2000 and 2014, which is likely to be correlated with the cheapest prices that can be obtained from this country.



Figure 53: Banana import prices per origin in Germany (2000-2014)

Source: BASIC, based on Eurostat and Comtrade data

The resulting banana value breakdown along the chain - from retailers' share (which includes VAT) down to workers' wages - can be estimated as follows (calculations have been made for of a medium-size banana plantation in Ecuador and Colombia - in the case of small farmers, the workers' share would be a lot lower as the work is mainly undertaken within the family).

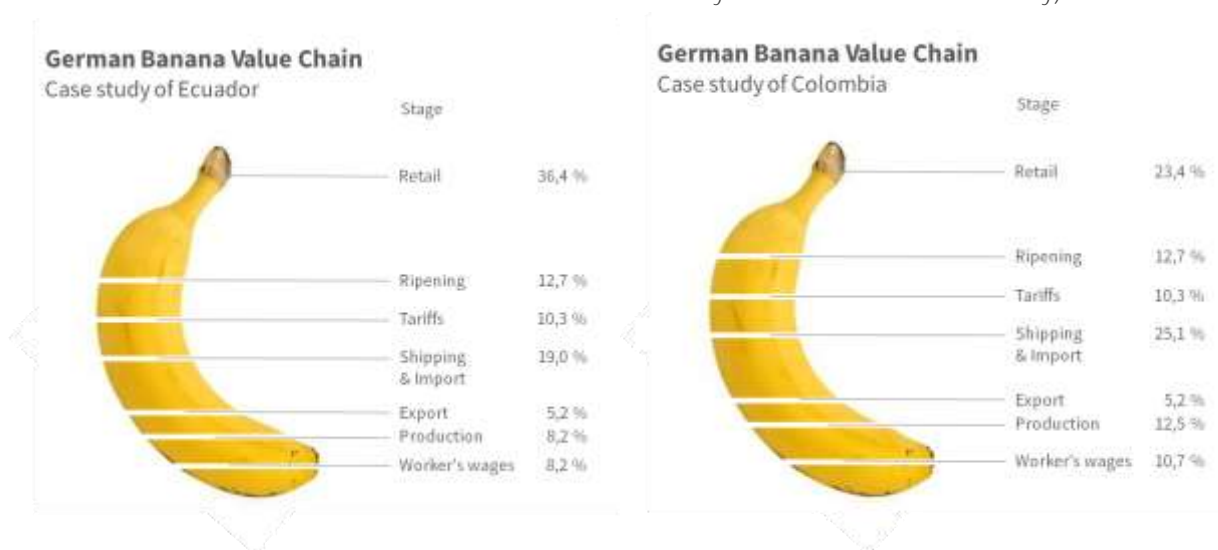


Figure 54: Banana value breakdown between Ecuador, Colombia and Germany (2014)

Source: BASIC, based on data from Eurostat, Comtrade, Sopisco, CIRAD, INCAE, Augura and Ecuadorian Ministry of Agriculture

KEY FINDINGS

- Germany is by far the biggest market for food and beverages in the European Union. The modern retail market is more concentrated than on average in Europe and it is one of the most influenced by discounters. The buying power of retailers in Germany is more pronounced than in most other EU countries.

- The German market for bananas is one of the two largest in Europe with the UK; banana is the 2nd most eaten fruit in the country and consumer prices are among the lowest in the EU. The import market is very competitive, volumes being distributed among a dozen companies who also own ripening facilities.

- The related import prices amount to little more than 50% of the consumer price and have been significantly declining over the past decade, affecting Ecuador – the main supplier of bananas to Germany – more than other origins.

- These trends are in contrast with the fast growing production and living costs in banana supplying countries, in particular Ecuador - see producer country sections of this report for more details.

e) Hungary

The Hungarian food market

With a population of 9.9 million, Hungary is a small but open market which is highly engaged in international trade. Hungarian annual imports reach 5 billion euros in agrifood products, and exports over 8 billion euros.¹¹⁰

Hungarian consumers are increasingly looking for high-quality and convenience-oriented food products, a result of the country's increasing urban/suburban population and corresponding busier lifestyles. This fuels the demand for fast food, frozen food, and ready-made meals. However, greater health awareness has also sparked interest in fresh products and organic products. Hungary's aging population is expected to increase this trend in future years.¹¹¹

As in most other countries in Central and Eastern Europe, the expansion of modern grocery retail in Hungary has been very strong over the past two decades: while the share of hypermarkets was only 2% in 1997, it became the most frequented shopping place in 2012, accounting for 31% of sales in the country. Overall, modern format stores (hypermarkets, supermarkets and discounters) now represent almost 75% of food sales in the country (see below).¹¹²

In addition, Hungary is expected to be the 4th fastest growing discounter market in all of Europe (for example, the number of discount retail outlets has grown 13% in the sole year 2009).¹¹³

The breakdown of food sales by retail outlet in Hungary can be estimated as follows:



Figure 55: Food sales by retail outlet in Hungary (2012)
Source: BASIC, based on GfK Shopping Monitor CEE

¹¹⁰ Agrifood Canada, The Hungarian consumer: behavior, attitudes and perceptions towards food products, January 2013

¹¹¹ Ibid.

¹¹² Central European Business Review, Retail market structure development in Central Europe, December 2012

¹¹³ Agrifood Canada, Discounters in Central Europe, March 2011

Western retailers dominate in the Hungarian modern grocery market, as the leading players are almost exclusively foreign companies. The top 5 retailers accounting for more than 66 % of the country's retail market are Tesco, CBA (discount banner), Coop, Spar and Metro. Brand loyalty is very low among Hungarian consumers, causing much competition between these companies¹¹⁴ They are followed by 4 other discounter banners: Lidl, Penny (subsidiary of Rewe), Aldi and Profi (subsidiary of Delhaize).

The diagram below illustrates the share of food market in Hungary by retailer:



Figure 56: Food sales by retailer in Hungary (2012)
Source: BASIC, based on GfK Shopping Monitor CEE

Regarding the fresh fruit market, Hungarian consumption is still quite traditional, apples being the main consumed fruit, followed by bananas and citrus fruits (as shown in the diagram below). The banana consumption per capita can be estimated at 6 kg per person and per year, one of the lowest in Europe.¹¹⁵

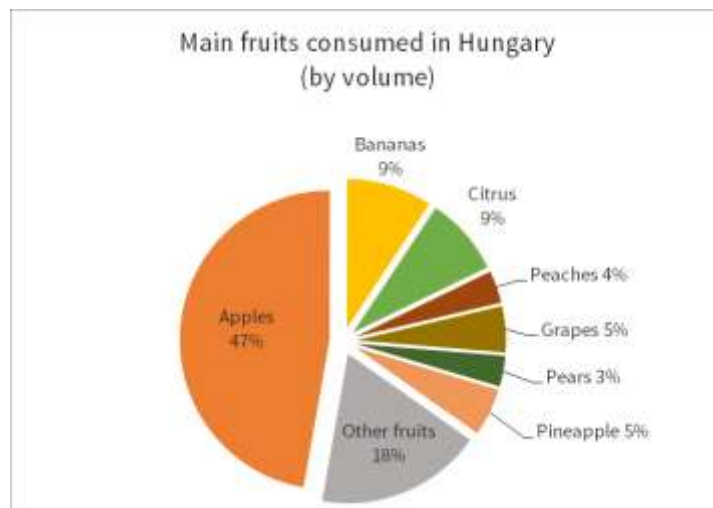


Figure 57: Main fruits consumed in Hungary (2011)
Source: BASIC, based on Eurostat and FAO data

¹¹⁴ Agrifood Canada, Discounters in Central Europe, March 2011

¹¹⁵ BASIC, based on Comtrade and CIRAD data

The Hungarian banana value chain

Competition is very high in the Hungarian retail sector, resulting in intense price war, including in the fresh fruit sector. The pressure on low prices influences the marketing strategy of both retailers and suppliers, especially since the economic downturn. In Hungary price sensitivity is so important that for 54% of households, price has **become the first factor in consumers' choice** of where to grocery shop.¹¹⁶

The total size of the banana market is estimated at 50 000 tonnes per year.

No public information has been found on the importers of bananas in Hungary.

Based on public statistics available (published by Eurostat, Comtrade and CIRAD), the related banana value chain dynamics are the following (see graph below):

- The average banana price to consumers in Hungary is as low as in Germany (one of the lowest in Europe), around 1.3 euros/kg in 2014, and has been globally stagnating over the past decade (once adjusted for inflation)
- In comparison, the average wholesale price recorded by the European Commission has dropped significantly in recent years, and the gap between consumer and wholesale price has been strongly increasing in favour of retailers.
- In this context, the average import price of bananas in Hungary has globally dropped by 22% since 2005 (reaching the same level as in 2003-2004); it amounted to 0.76 euros/kg in 2014 (almost half of retailers' price).

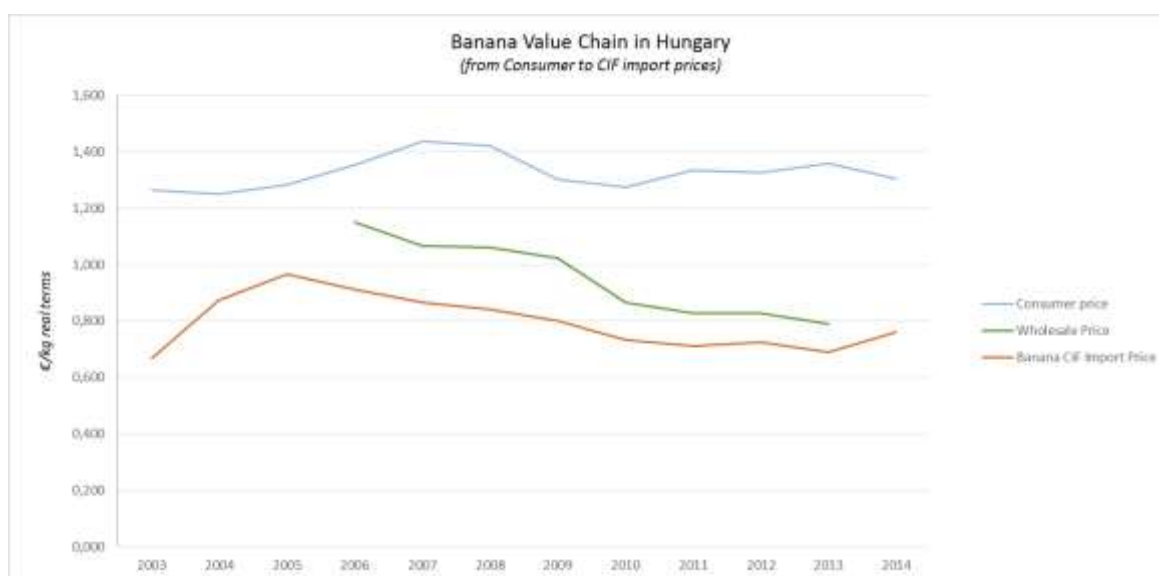


Figure 58: Banana value chain in Hungary (2003-2014)
Source: BASIC, based on Eurostat, Comtrade and CIRAD data

The public statistic sources provide almost no information on the origin of bananas outside Europe. It appears that all main retailers source products from neighbouring countries (in particular Germany) and often group purchases for Hungary and other Eastern European markets. As a result, the only available data on banana imports dates back to the period between 2000 and 2003.

¹¹⁶ GfK Shopping Monitor, 2012

According to these data, the main banana producing country supplying Hungary seem to be Ecuador - the biggest world banana exporter - Colombia and Costa Rica, followed by Panama (which is a declining supplier in all Europe). This sourcing profile is very much aligned with the situation of the EU more globally.

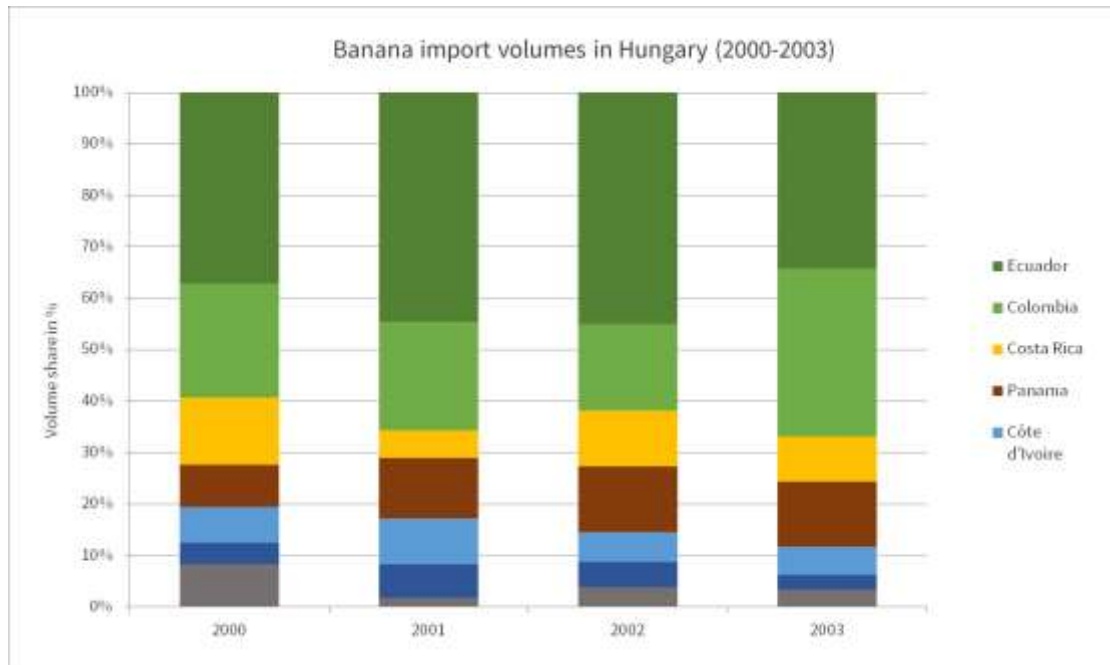


Figure 59: Banana import volumes per origin in Hungary (2000-2003)
Source: BASIC, based on Eurostat and Comtrade data

In terms of import prices, the only statistics available are related to the main European countries from which bananas are re-exported to Hungary (see below). They show that the CIF import prices of bananas in Hungary have followed the same overall trend for Germany, Belgium and France.

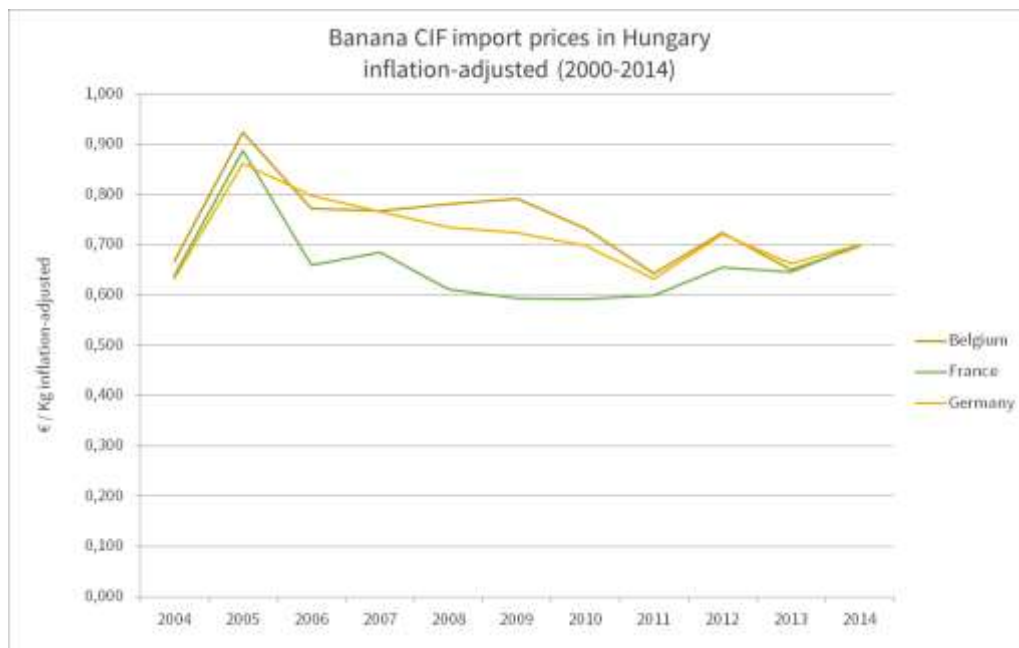


Figure 60: Banana import prices per origin in Hungary (2004-2014)
Source: BASIC, based on Eurostat and Comtrade data

The resulting banana value breakdown along the chain - from retailers' share (which includes VAT) down to workers' wages – has been modelled on the basis of available data (calculations have been made for of a medium-size banana plantation in Ecuador - in the case of small farmers, the workers' share would be a lot lower as the work is mainly undertaken within the family).



Figure 61: Banana value breakdown between Ecuador and Hungary (2014)
Source: BASIC, based on data from Eurostat, Comtrade, Sopisco, CIRAD, INCAE, and Ecuadorian Ministry of Agriculture

KEY FINDINGS

- Hungary is a small but open market which is highly engaged in international trade. As in most other countries in Central and Eastern Europe, the expansion of modern grocery retail has been very strong over the past two decades (hypermarkets being the most frequented shopping place) and is dominated by western retailers (in particular German companies).
- Banana is the 2nd most eaten fruit in Hungary, with consumer prices as low as in Germany. The related import prices amount to little more than 50% of the consumer price and have significantly dropped since 2005.
- These trends are in contrast with the fast growing production and living costs in banana supplying countries - see producer country sections of this report for more details.

f) Italy

The Italian food market

Unlike other European countries, the Italian food retail and distribution sector continues to resist consolidation. Small, traditional grocery stores (so-called Mom and Pop stores) continue to represent the largest segment of the food retail sector, followed by open-air markets.¹¹⁷

Italian planning laws favour smaller stores (no permission is needed for outlets with a sales area of less than 250 square meters in towns of more than 10,000 people) and local communities tend to dislike the development of large stores (in particular in city centres). Italian consumers are quite discerning, and very concerned with the quality and freshness of the food ingredients they buy. The linkage between brand and quality may partly explain their reluctance to embrace private label products and the importance of well-known brands on the market (for example Barilla).¹¹⁸

Nonetheless, consolidation is slowly gaining momentum, as a few Italian and foreign operators are starting to expand their network of modern stores, and social changes contribute to attract consumers in these new shopping formats (in particular smaller family sizes, longer working hours, more working women, an increasing number of single households and the ageing population).¹¹⁹

The Italian division between the industrial north and the more agricultural south is reflected in the distribution of retail outlets, with the majority of the supermarkets located in the north (53%), followed by the south (27%) and then by the central region of Italy (20%). While small neighbourhood shops and specialty stores are still the norm, Italian consumers are discovering the convenience of large supermarket and hypermarket outlets. The discount store format remains quite marginal, but with the economic downturn has improved somewhat.¹²⁰

The resulting breakdown of food sales by retail outlet in the country can be estimated as follows.

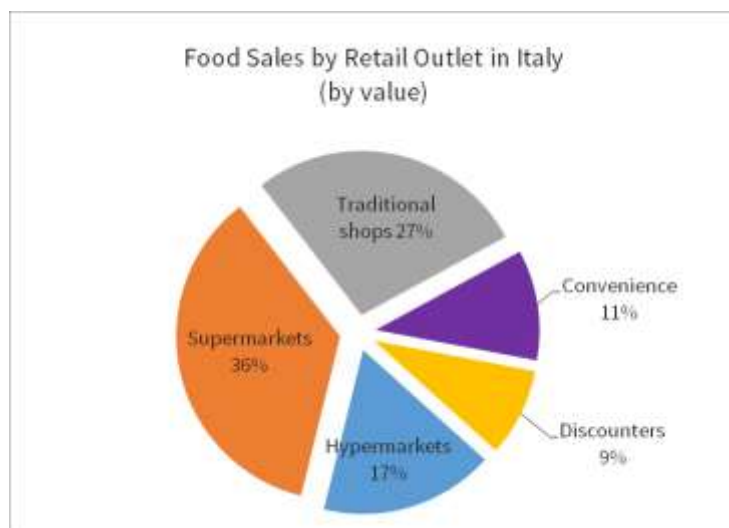


Figure 62: Food sales by modern retail outlet in Italy (2012)
Source: BASIC, based on Italia ministero dello Sviluppo Economico

¹¹⁷ USDA, Italian Food Retail and Distribution Sector Report, May 2014

¹¹⁸ Ibid.

¹¹⁹ Ibid.

¹²⁰ Ibid.

Currently, there are six major players in the Italian food retail and distribution sector: Co-op Italia, Conad, Interdis, Carrefour, Auchan and SPAR who occupy a dominant position in the market (accounting for 75% of modern retail sales) despite the continued presence of traditional outlets.¹²¹ Four of the leading players - Co-op Italia, Interdis, SPAR and Conad - are consortiums of smaller operators and owe their success to their detailed knowledge of local consumers' preferences. Other major mass grocery retailers in terms of sales revenue include Esselunga and Gruppo Pam.¹²² The principal foreign investors are the major French retailers Auchan, Carrefour and Leclerc (Interdis), as well as the German retailers Rewe and Lidl. Through establishing joint ventures with local operators, Leclerc, Carrefour and Auchan have been able to build up a nationwide presence.¹²³

The resulting breakdown of food market by retailer in Italy can be estimated as follows:

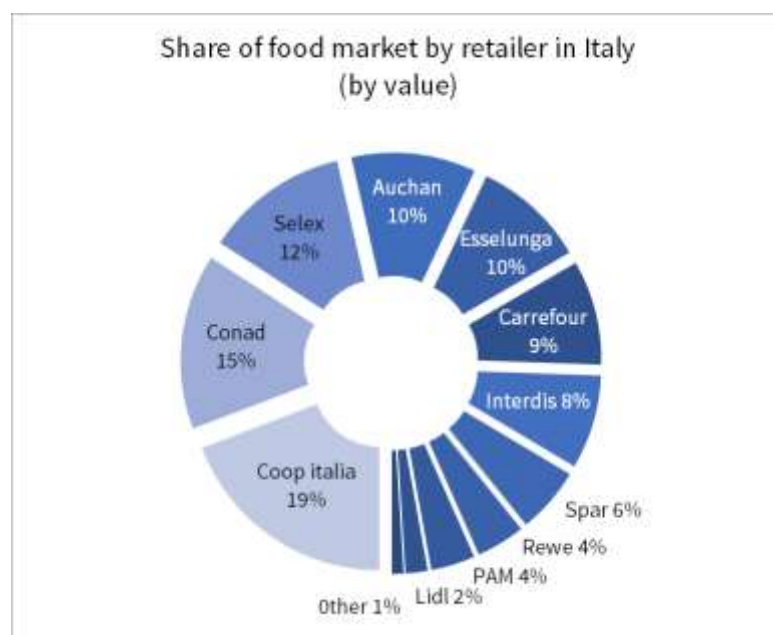


Figure 63: Food sales by retailer in Italy (2012)

Source: BASIC, based on Italia ministero dello Sviluppo Economico

One particular characteristic of the Italian retail sector is the large number of buying groups which emerged since the mid-1990s with the aim of sourcing products more cheaply through greater purchasing power. Virtually all major Italian grocery retailers are members of a buying group, with the major ones being Intermedia (whose members include Rinascente, Gruppo Pam and Conad), Mecades (Interdis, Sisa and SPAR), Co-op Italia (Co-op and Sigma), Esd Italia (Esselunga, Selex and Agorà) and Carrefour Italia (with Carrefour, Finiper and Il Gigante). These buying groups represent a market entry barrier for foreign retailers which have entered the market mainly via joint ventures with local operators.¹²⁴

In this context, the Italian fresh fruit market is one of the biggest in Europe. Because of the wide availability of local fruits produced in the country, banana is only the fifth most eaten fruit in the country (as shown in the diagram below).

¹²¹ USDA, Italian Food Retail and Distribution Sector Report, May 2014

¹²² Ibid.

¹²³ Ibid.

¹²⁴ Ibid.

The banana consumption per capita can be estimated at 10 kg per person and per year, which corresponds to the average level in the EU.¹²⁵

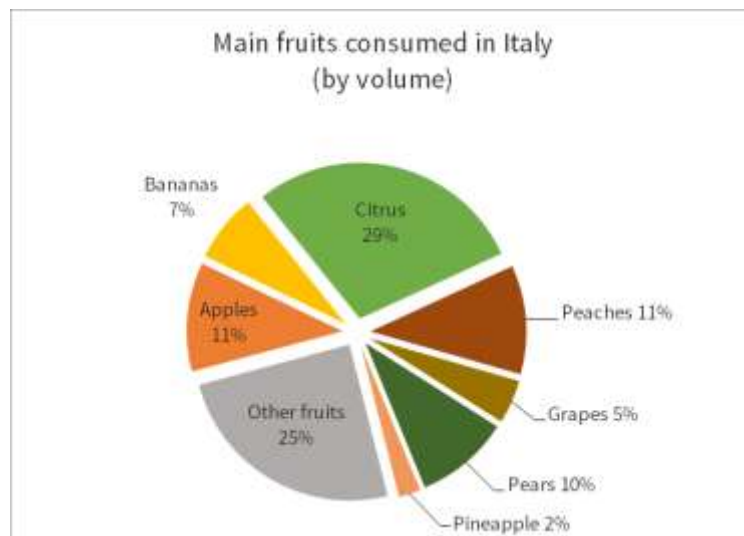


Figure 64: Main fruits consumed in Italy (2011)
Source: BASIC, based on Eurostat and FAO data

The Italian banana value chain

The Italian banana market is the third biggest in Europe with France, its total size being estimated at more than 600 000 tonnes (or 33 million banana large case equivalent). Several direct containerised and reefer vessel shipping lines from Central and South America serve various Italian ports, which in total unload around 11% of total banana imports in the EU.¹²⁶

Two thirds of the banana supply is imported by only 5 companies: the main supplier is Chiquita (around 25%), Dole (around 15%), Del Monte (12%), Bonita (10%) and Fyffes (over 5%).¹²⁷ Other significant competitors include Spreafico (supplied by Uniban, a Colombian grower), GF Group (Orsero), Compagnie Fruitière (importing mainly African bananas) and smaller operators such as Alimentari Ortofrutticoli.¹²⁸

The respective market share of the main banana importers in Italy are illustrated in the following diagram:

¹²⁵ BASIC, based on Comtrade and CIRAD data

¹²⁶ European Commission, Merger procedure - Case No COMP/M.7220 – Chiquita Brands International/Fyffes, October 2014

¹²⁷ Ibid.

¹²⁸ Ibid.

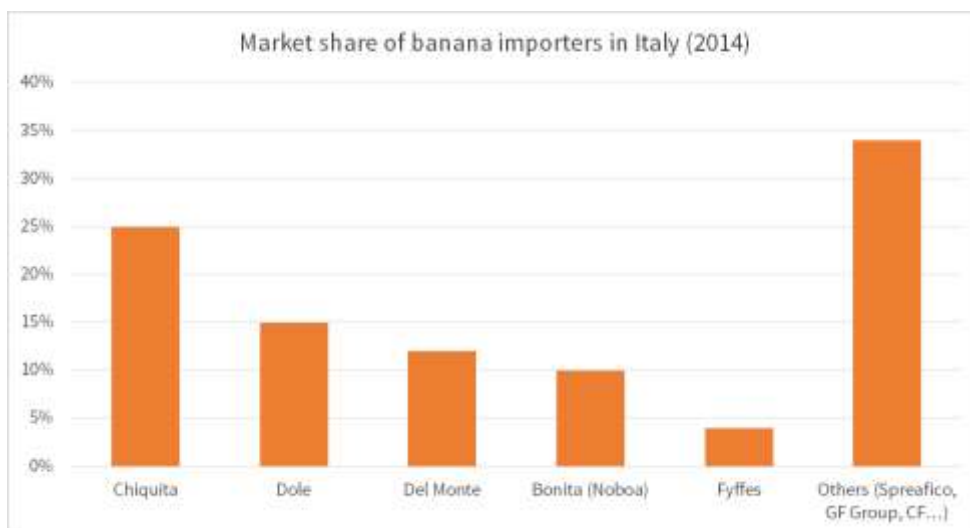


Figure 65: Market shares of main banana importers in Italy
Source: BASIC, based on European Commission (2014)

Based on public statistics available (published by Eurostat, Comtrade and CIRAD), the related banana value chain dynamics are the following (see graph below):

- The average banana price to consumers is as high as in France (one of the highest in Europe) – around 1.73 euros/kg in 2014 – and has been globally stagnating over the past decade (once adjusted for inflation)
- In comparison, the average wholesale price has followed a downward trend over the same period, with a drop of 19% between 2001 and 2013, albeit in 2005 when the end of the banana quota system in Europe triggered a brief price increase which soon reversed and returned to the longer-term trend. As a result, the gap between consumer and wholesale price has been increasing in favour of retailers in recent years.
- The average import price of bananas in Italy has globally followed the same trend as the wholesale price, falling by 22% between 2000 and 2014; its level is quite low, amounting to only 0.58 euros/kg in 2014 and one third of retailers’ price.

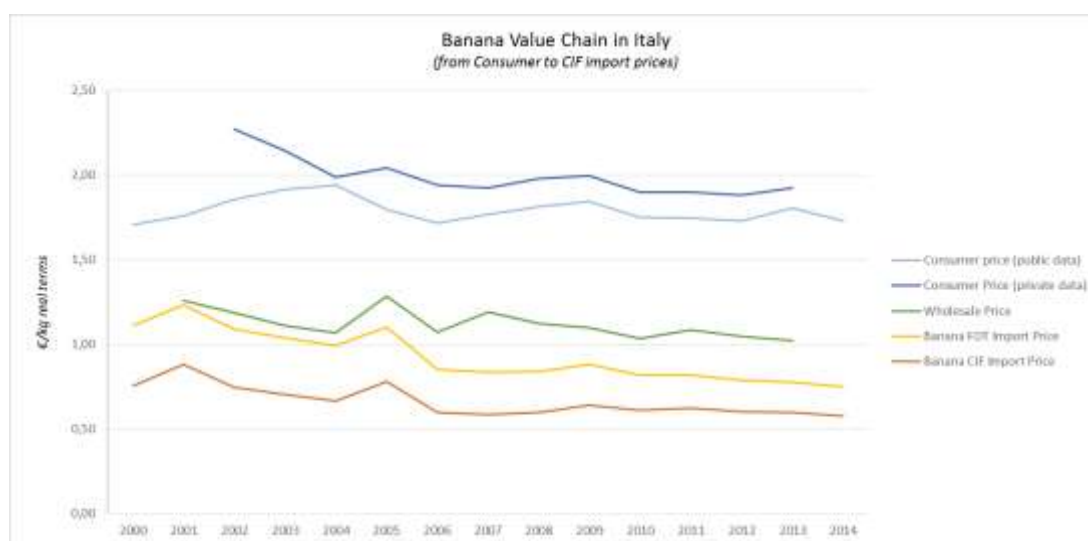


Figure 66: Banana value chain in Italy (2000-2014)
Source: BASIC, based on Eurostat, Comtrade and CIRAD data

According to the same statistic sources (see graph below), the main banana producing country supplying the Italian market is Ecuador - the biggest world banana exporter - followed by Colombia and Costa Rica, whereas Panama is a declining supplier. This sourcing profile is very much aligned with the situation of the European Union more globally. One particular characteristic is the somewhat significant proportion of banana imports from neighbouring France (5% of volumes).

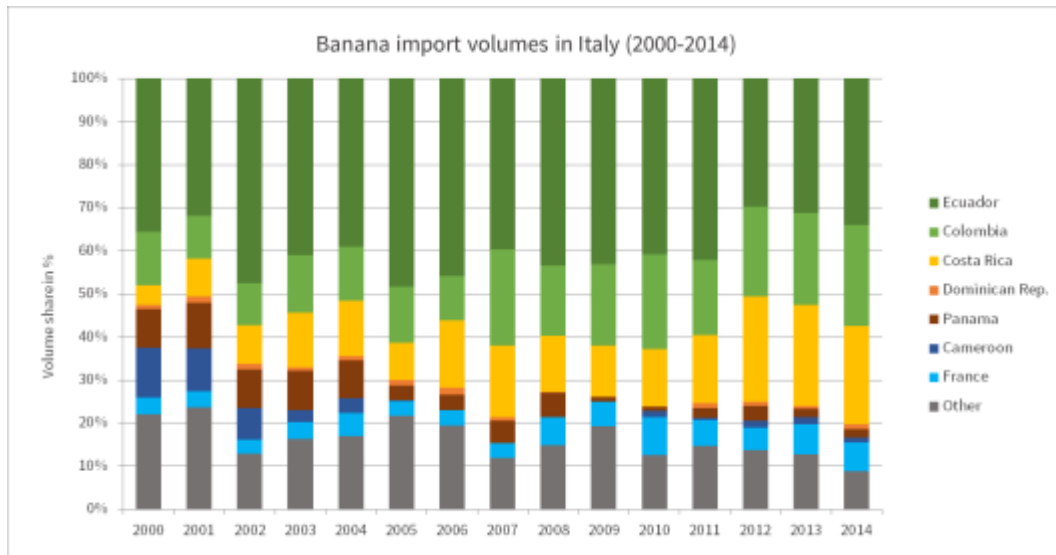


Figure 67: Banana import volumes per origin in Italy (2000-2014)
Source: BASIC, based on Eurostat and Comtrade data

In terms of import prices, the statistics show that the 3 major banana supplying countries - Ecuador, Colombia and Costa Rica - have followed similar downward trends over the past decade, dropping by 11 % in Ecuador up to 43 % in Colombia which appears to be the most affected origin. This situation is in stark contrast with the rise of production and living costs in these producing countries (see producer country sections for further details). The overall rise of Colombian banana imports is likely to be correlated with the significant drop in import prices from this country over the past 15 years.

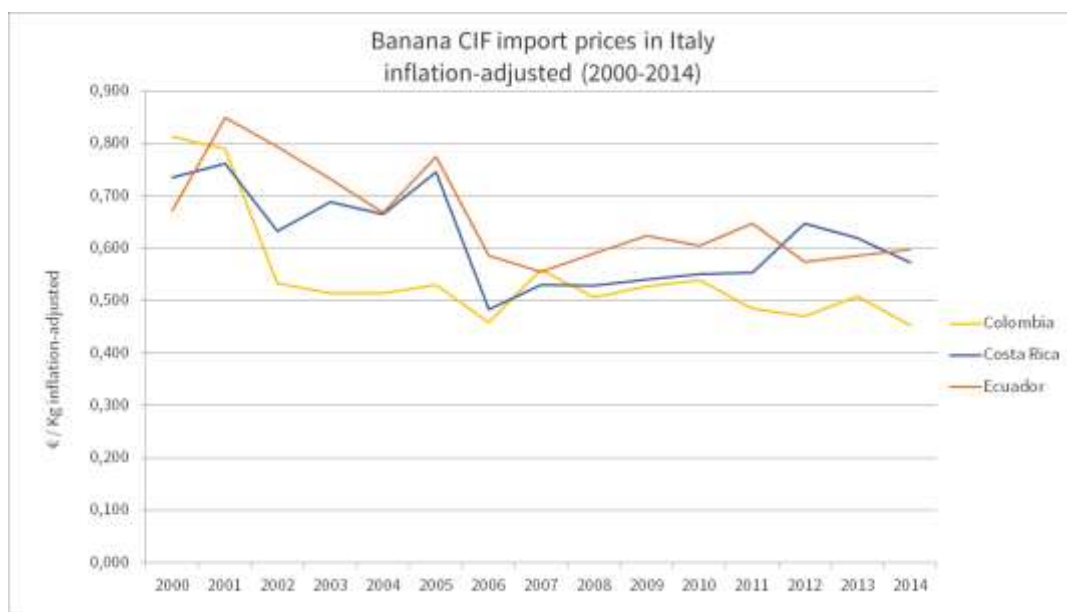


Figure 68: Banana import prices per origin in Italy (2000-2014)
Source: BASIC, based on Eurostat and Comtrade data

The resulting banana value breakdown along the chain - from retailers' share (which includes VAT) down to workers' wages - can be estimated as follows (calculations have been made for of a medium-size banana plantation in Ecuador and Colombia - in the case of small farmers, the workers' share would be a lot lower as the work is mainly undertaken within the family).

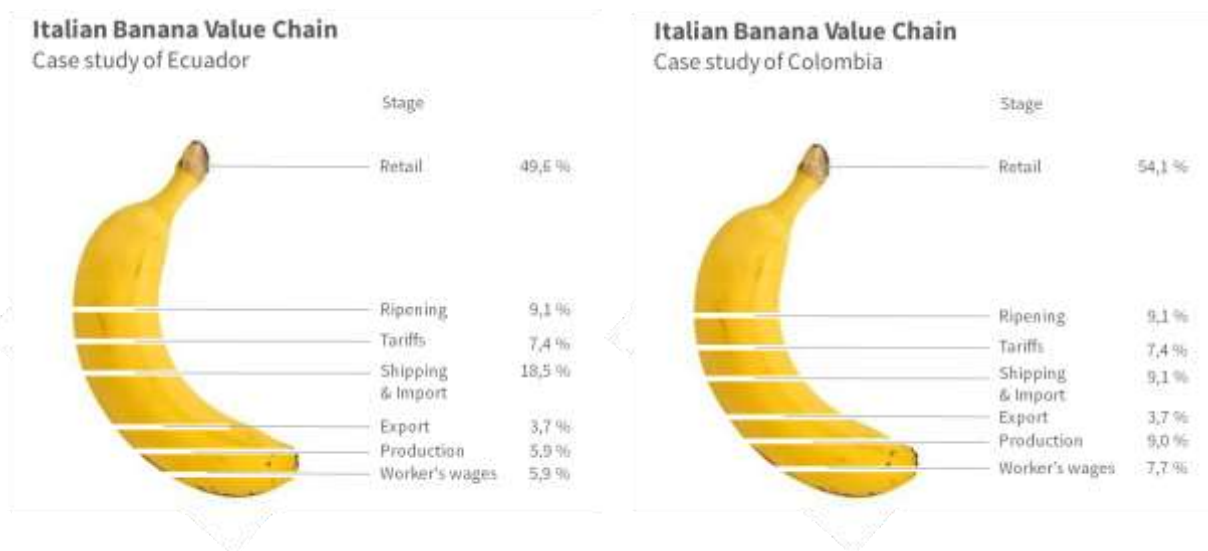


Figure 69: Banana value breakdown between Ecuador, Colombia and Italy (2014)
 Source: BASIC, based on data from Eurostat, Comtrade, Sopisco, CIRAD, INCAE, Augura and Ecuadorian Ministry of Agriculture

KEY FINDINGS

- Small, traditional grocery stores (so-called Mom and Pop stores) continue to represent the largest segment of the food retail sector, followed by open-air markets. Nonetheless, consolidation is slowly gaining momentum, as a few Italian and foreign operators are starting to expand their network of modern stores. Currently, 6 major players account for 75% of modern retail sales and occupy a dominant position in the Italian food retail sector: Co-op Italia, Conad, Interdis, Carrefour, Auchan and Spar.
- The Italian fresh fruit market is one of the biggest in Europe. Banana is only the fifth most eaten fruit in the country (because of the wide availability of local fruits) but the banana market is the 3rd largest in the EU. The average banana price to consumers is as high as in France (one of the highest in Europe) and has remained globally stable over the past 15 years. However, the gap with import price has widened in favour of retailers as the CIF price has dropped by 22% since 2000. The most affected country appears to be Colombia, the 2nd largest provider of bananas to Italy after Ecuador.
- These trends are in contrast with the fast growing production and living costs in banana supplying countries, in particular Ecuador, Colombia and Costa Rica, the 3 main origins of bananas sold in Italy - see producer country sections of this report for more details.

g) Latvia

The Latvian food market

Consumer spending in Latvia is the fastest growing of the Baltic States: it has more than doubled since 2005, roughly 50 % of these retail sales being generated by food products (one of the highest rate in Europe).¹²⁹

Over the past two decades, the Baltic States (Latvia, Lithuania and Estonia) have seen a remarkable development of their retail grocery sector. Starting from a very Soviet system in which, for example, supermarkets were unknown, all three countries are now served by a mix of modern formats – hypermarkets, supermarkets, and discount stores – as well as traditional open markets. The sector is very dynamic with new entry and important cross border activity.¹³⁰

Statistics from the Central Statistical Bureau of Latvia (see graph below) show that the most popular food distribution channels in Latvia in 2013 are convenience stores (forming 41.2 % of total grocery retailers' sales), supermarkets (23.7 %), and hypermarkets (14.9 %). Discounters have slightly lost their popularity in Latvia and the total turnover of this type's grocery retailers showed a declining trend from 2006 to 2011.¹³¹

While the overall sales of traditional grocery retailers are decreasing every year, chained food/beverage/tobacco specialists remain the strongest players in this segment, usually belonging to large local food manufacturers and offering their branded products.¹³²



Figure 70: Food sales by retail outlet in Latvia (2013)
Source: BASIC, based on Central Statistical Bureau of Latvia

The top 5 grocery retailers account for more than 95% of the modern food retail market (which encompasses hypermarkets, supermarkets and discount stores) in Latvia:¹³³

¹²⁹ Bord Bia, Latvia Market Overview 2012

¹³⁰ Baltic International Centre for Economic Policy Studies (BICEPS). Competition in Baltic Grocery Markets, November 2006

¹³¹ Popluga D., Pilvere I., and Nipers A., Main development trends of grocery retail industry: case studies of Latvia, Lithuania and Estonia, April 2014

¹³² Ibid.

¹³³ Ibid.

- The leader of the Latvian retail market is the Lithuanian company UAB Maxima Groupe who expanded a large network of supermarkets and convenience stores ('Maxima X') throughout the country;
- The other two key players Rimi and Palink SIA (Iki stores) have deployed large networks of supermarkets and hypermarkets to attract consumers in large shopping centres;
- Domestic retailers - Elvi, Neda and Mego - are restricted to neighbourhood stores and smaller supermarkets.

The overall market shares by retailers can be estimated as follows:

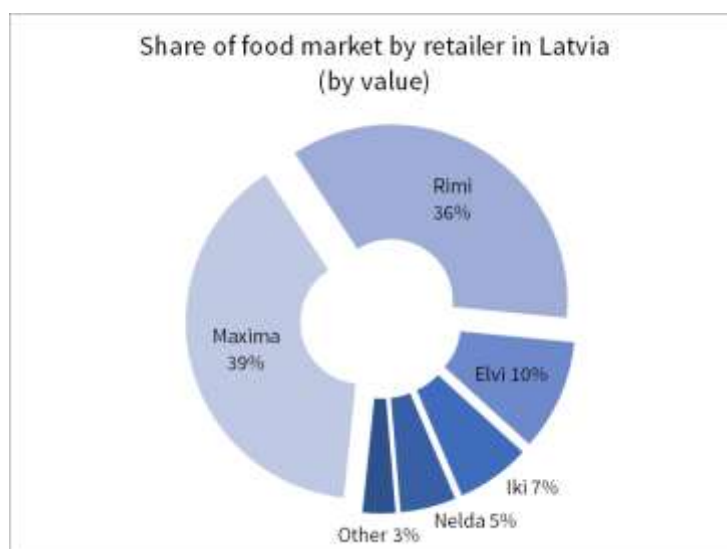


Figure 71: Food sales by retailer in Latvia (2008)

Source: BASIC, based on Bord Bia data

In order to survive in this context of strong concentration of supermarkets and hypermarkets in Latvia, the small independent players have begun to form trade co-operatives such as Baltstor SIA with the Vesko brand, Latvijas Tirgotāju Kooperācija AIBE SIA with Aibe, Iepirkumu Grupa SIA with top!, and Latvijas Tirgotāju Savienība SIA with LaTS.

The rapid emergence of a small number of leading retailers has led to concerns in Latvia, about excessive market power vis-à-vis suppliers and smaller retailers. This has led to a proposal to change the competition law with respect to retailers in a way that would give the Latvian Competition Council much bigger powers to intervene in the sector. In particular the proposed legislation would introduce the concept of 'significant market power' and would outlaw practices that 'abuse' such market power.¹³⁴

In this context, the Latvian consumption of fresh fruits is quite modest, banana being the second most eaten fruit in the country after citrus fruits (as shown in the diagram below).

The banana consumption per capita can be estimated at 11.6 kg per person and per year, which is above the average level in the EU.¹³⁵

The retail price is becoming the major factor in determining the choice of food by consumers (emphasised by 88% of respondents in a survey conducted in 2011).¹³⁶

¹³⁴ Baltic International Centre for Economic Policy Studies (BICEPS), Competition in Baltic Grocery Markets, November 2006.

¹³⁵ BASIC, based on Comtrade and CIRAD data

¹³⁶ Popluga D., Pilvere I., Nipers A. and Krievina A., Loyalty of consumers to food in Latvia, April 2014

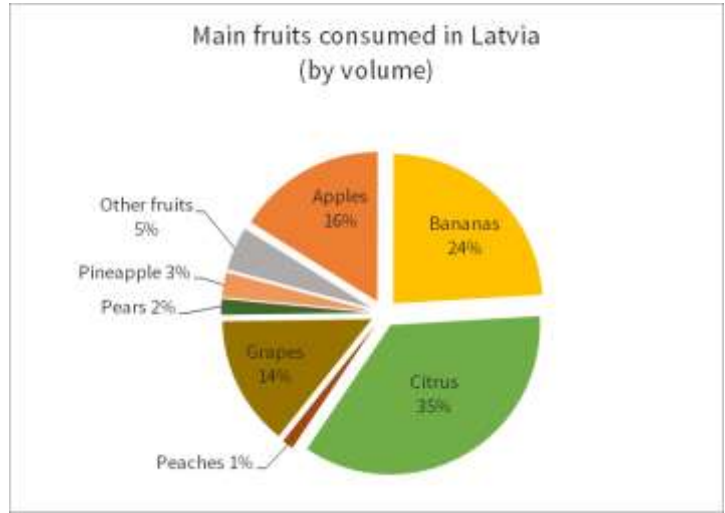


Figure 72: Main fruits consumed in Latvia (2011)
Source: BASIC, based on Eurostat and FAO data

The Latvian banana value chain

The Latvian banana market is estimated at roughly 15,000 tonnes (or 0.8 million banana large case equivalent). Large international banana companies are less present in the Baltic countries than in the rest of Europe (Chiquita and Fyffes account for less than 40% of banana supply in Latvia) and there are several big competitors in Latvia such as Banalat and Litbana (also active in Lithuania).¹³⁷

Those local actors mainly purchase bananas from large importing companies on the spot market in ports in Northern Europe; bananas are then either transported by trucks (taking 2-3 days from Germany) or by feeder to Klaipeda in Lithuania. Cross-border trade flows with Eastern Europe are also relatively important, in particular with Poland. More recently, Banalat started to source bananas directly from growers in Ecuador (since 2008-2010).¹³⁸

The respective market share of the main banana importers in Latvia are illustrated below:

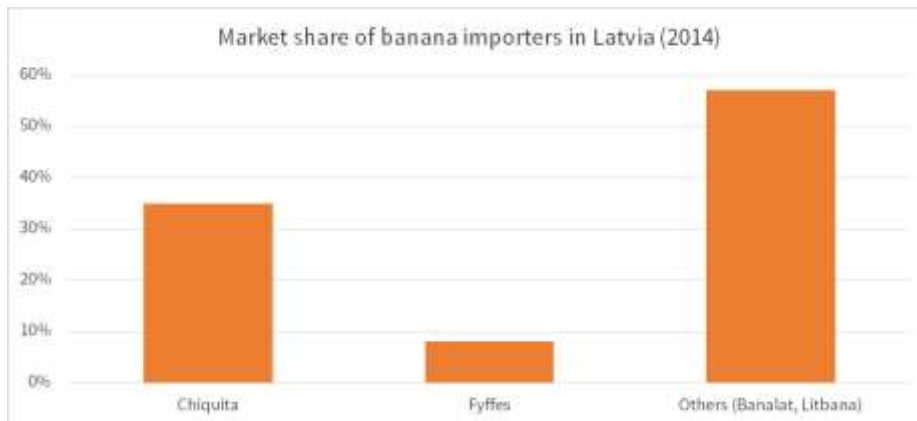


Figure 73: Market shares of main banana importers in Latvia
Source: BASIC, based on European Commission (2014)

¹³⁷ European Commission, Merger procedure - Case No COMP/M.7220 – Chiquita Brands International/Fyffes, October 2014

¹³⁸ Ibid.

Based on public statistics available (published by Eurostat, Comtrade and CIRAD), the related banana value chain dynamics are the following (see graph below):

- The average banana price to consumers is as low as in Germany (one of the lowest in Europe) – around 1.30 euros/kg in 2014 – and has been globally stagnating since 2006 (once adjusted for inflation), albeit for a short-term price increase in 2007 and 2008.
- In comparison, the average wholesale price has followed a downward trend since 2006, with a drop of 26% between 2006 and 2013.
- The average import price of bananas in Latvia has globally followed the same trend as the wholesale price, falling by 23% between 2005 and 2014; its level amounts to roughly half of the retailers' price.

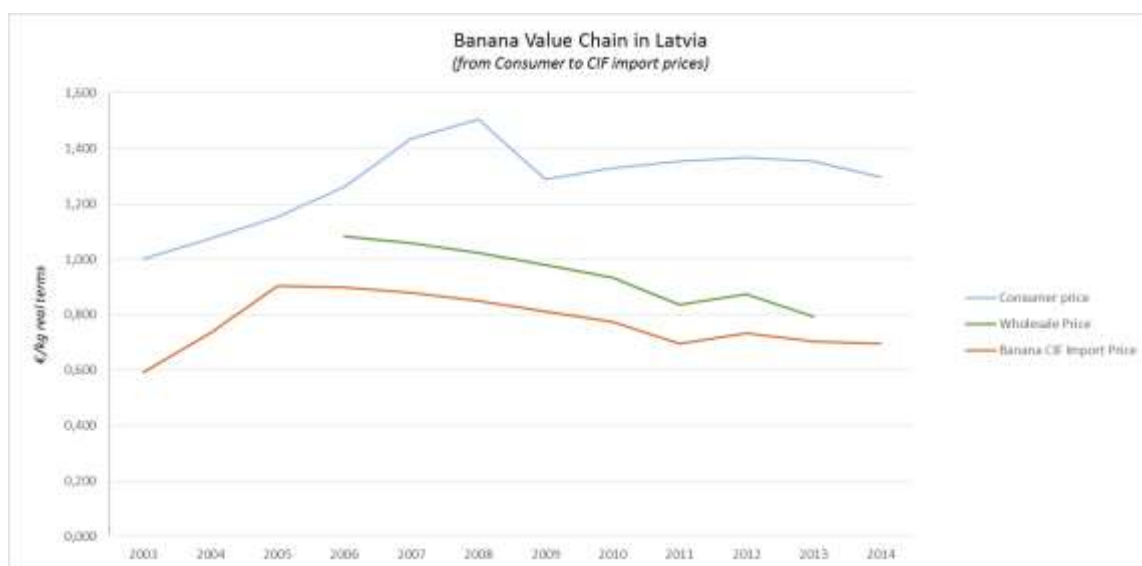


Figure 74: Banana value chain in Latvia (2003-2014)
Source: BASIC, based on Eurostat, Comtrade and CIRAD data

As in the case of Hungary, the public statistic sources provide almost no information on the origin of bananas outside Europe. The reason appears to be that all main retailers supply products from the main port of banana imports in Europe (in particular Germany) and often group purchases for the three Baltic States.

In terms of import prices, the only statistics available are related to the main European countries from which bananas are re-imported to Latvia (see below). They show that the CIF import prices of bananas in Latvia have followed the same overall trend for Germany, Netherlands and Belgium.

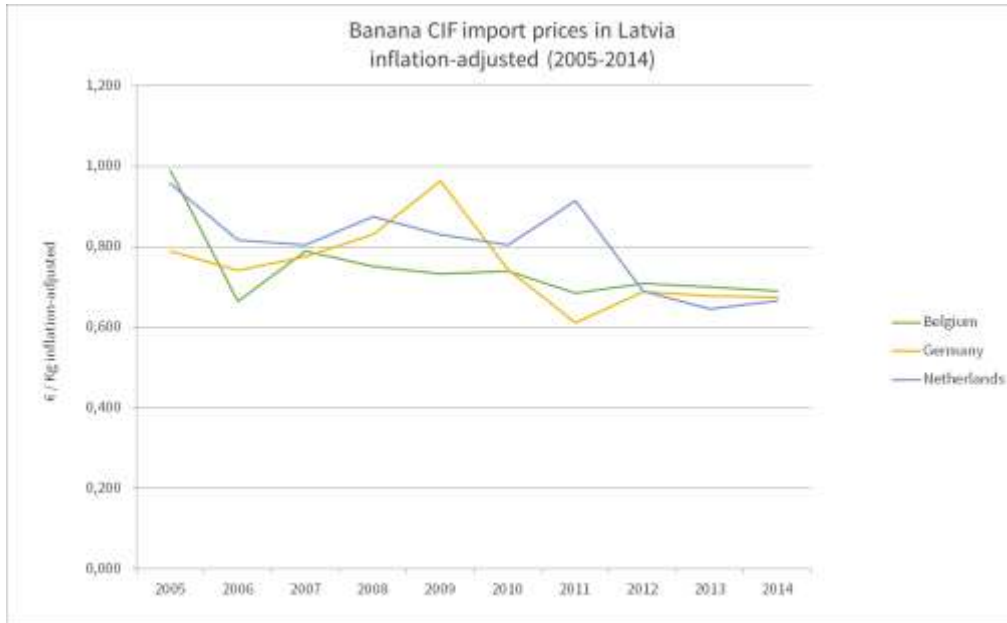


Figure 75: Banana import prices per origin in Latvia (2000-2014)
 Source: BASIC, based on Eurostat and Comtrade data

The resulting banana value breakdown along the chain - from retailers' share (which includes VAT) down to workers' wages - can be estimated as follows (calculations have been made for of a medium-size banana plantation in Ecuador - in the case of small farmers, the workers' share would be a lot lower as the work is mainly undertaken within the family).



Figure 76: Banana value breakdown between Ecuador and Latvia (2014)
 Source: BASIC, based on data from Eurostat, Comtrade, Sopisco, CIRAD, INCAE, and Ecuadorian Ministry of Agriculture

KEY FINDINGS

- Over the past two decades, the Baltic States (Latvia, Lithuania and Estonia) have seen a remarkable development of their retail grocery sector. While convenience stores are dominating the food market, the top 5 retailers in the country (mostly Latvian and Lithuanian companies) account for 2/3 of the modern food market sales in Latvia.
- Banana is the second most eaten fruit in the country with an average consumption per capita slightly above the EU average. The banana price to consumers is as low as in Germany (one of the lowest in Europe) and has remained globally stable since 2006. In contrast, the import price in Latvia has dropped by 23% since 2005 and its level amounts to roughly half of the retailers' price.
- These trends are in contrast with the fast growing production and living costs in banana supplying countries - see producer country sections of this report for more details.

h) Malta

The food market in Malta

The Republic of Malta is a small, densely populated island nation (approximately 400,000 people) situated in the Mediterranean Sea which produces only 20 % of its food needs.¹³⁹

The Maltese retail distribution sector consists mainly of small local shops and street vendors (fruits and vegetables). However the arrival of large European retailers on the island is slowly changing the Maltese food market landscape.¹⁴⁰

Supermarkets in Malta first appeared back in the 1980's. Malta's entry into the EU in 2004 has opened the local market to foreign competition and the growing presence of European retailers on the island has impacted the small local retailers.¹⁴¹

Since adopting the Euro some of the biggest European retailers have established franchises on the island. After many years with local supermarkets as lonely players in the retail business, several stores have opened with direct links to major European retailers who have started collaborating with local Maltese partners (such as Carrefour and Auchan through their Italian subsidiaries because of the strong relation between Malta and Italy), and more recently discount outlets retailers, in particular Lidl.¹⁴²

An indicative listing of the main Maltese supermarkets and hypermarkets is provided below

Type	Retailer Name	Location
Supermarket	Scotts Supermarket	Attard, Naxxar, Burmarrad, Sliema, St Julian's, Santa Lucia and Żabbar
Supermarket	Park Towers	St Julian's and Santa Venera
Supermarket	Arkadia Foodstore	Gozo and St Julian's
Supermarket	Chain Supermarket	Fgura and Żabbar
Supermarket	Carters Supermarket	Paola
Supermarket	Chef's Choice Ltd.	Żabbar
Supermarket	Gala Centre Drive	In Supermarket Ltd.
Supermarket	Greens Supermarket	Ibrag www.greens.com.mt
Supermarket	GS Superstore	Naxxar
Supermarket	PAVI	Qormi
Supermarket	Smart Supermarket	Birkirkara
Supermarket	Ta' Natu'	Mosta
Supermarket	Tower Supermarket Complex	Sliema
Discount	Lidl	Luqa, San Ġwann, Safi, Santa Venera, Qormi, Għaxaq, Gozo.
Discount	Lasco Discount Store	Żejtun
Discount	Shoppers Discount Supermarket	Mellieħa
Discount	Shopwise Discount Store	Qormi
Discount	Trolees Discount Store	Qawra
Online	Maltasupermarket.com	Online Supermarket

Table 1: Indicative list of modern grocery outlets in Malta

Source: BASIC, based on www.yellow.com.mt/headings/Supermarkets-and-Discount-Stores/malta (accessed in September 2015)

¹³⁹ USDA, Malta Food Retail and Distribution Sector Report, April 2010

¹⁴⁰ Ibid.

¹⁴¹ Ibid.

¹⁴² Ibid.

In this context, the Maltese fresh fruit market is very modest, banana being the second most eaten fruit in the country after citrus fruits (as shown in the diagram below).

The banana consumption per capita can be estimated at 14 kg per person and per year, well above the average level in the EU.¹⁴³

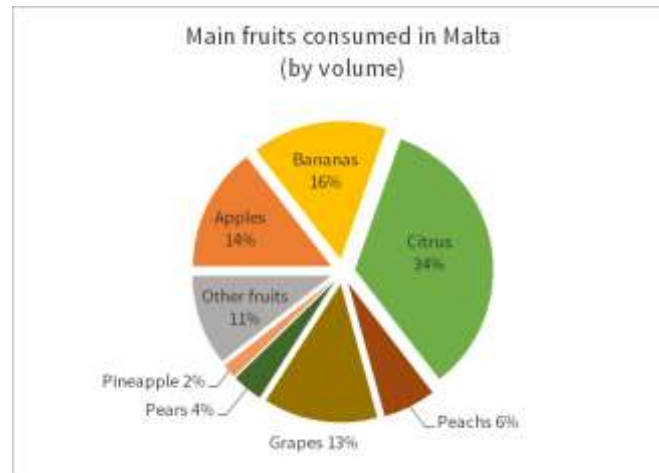


Figure 77: Main fruits consumed in Malta (2011)
Source: BASIC, based on Eurostat and FAO data

The banana value chain in Malta

The Maltese banana market is very modest, its total size being estimated at less than 7,000 tonnes. No public information has been found on the importers of bananas in Malta.

Based on public statistics available (published by Eurostat, Comtrade and CIRAD), the related banana value chain dynamics are the following (see graph below):

- The average banana price to consumers is quite low – around 1.4 euros/kg in 2014 – and has been slightly increasing since 2003 (once adjusted for inflation)
- The average wholesale price and import price of bananas in Malta seem to follow a similar trend between 2003 and 2011. However, since 2011, the gap with consumer prices has increased significantly in favour of retailers, possibly as a consequence of their growing bargaining power.

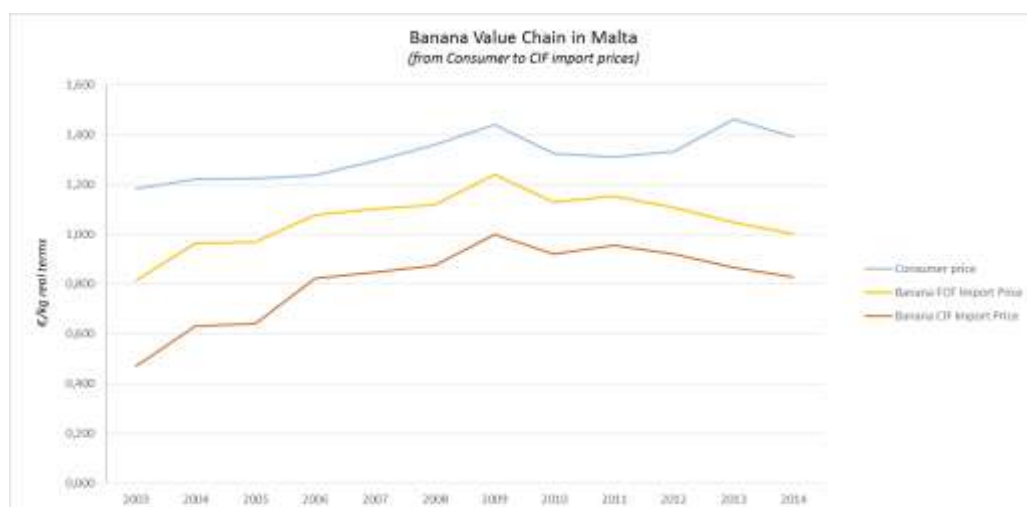


Figure 78: Banana value chain in Malta (2003-2014)
Source: BASIC, based on Eurostat, Comtrade and CIRAD data

¹⁴³ BASIC, based on Comtrade and CIRAD data

As in the case of Hungary and Latvia, the public statistic sources provide very little information on the origin of bananas outside Europe. It appears that all main retailers supply products from neighbouring countries (in particular Italy). As a result, the only available data on banana imports dates back to the period between 2000 and 2005 (plus more recent information obtained for 2014). According to these data, the main banana producing country supplying Malta seem to be Ecuador - the biggest world banana exporter - followed by Costa Rica, which is very much aligned with the situation of the EU more globally.

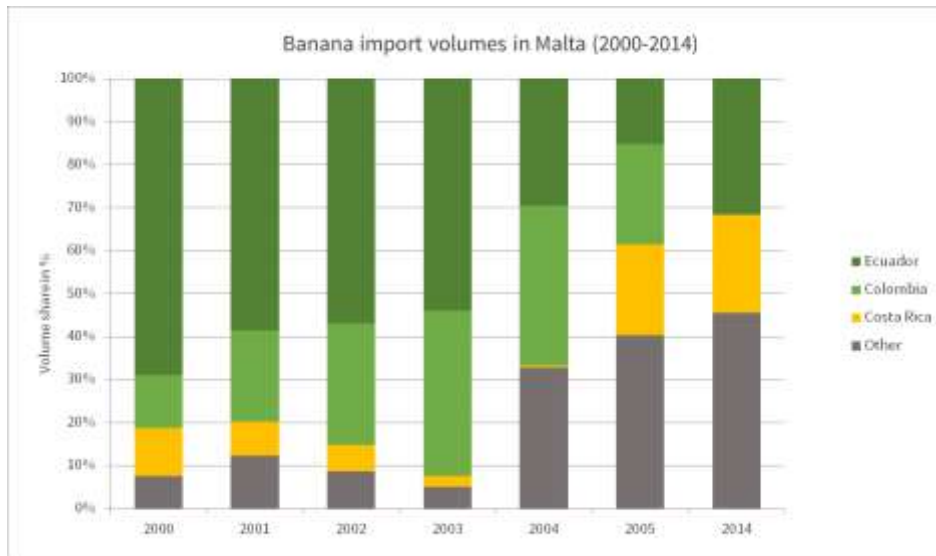


Figure 79: Banana import volumes per origin in Malta (2000-2014)

Source: BASIC, based on Eurostat and Comtrade data

As for the data on banana volumes, statistics on import prices of bananas are very limited: they are patchy and only available for Ecuador and Costa Rica for the same period.

The resulting banana value breakdown along the chain - **from retailers' share** (which includes VAT) **down to workers' wages** - can be estimated as follows (calculations have been made for of a medium-size banana plantation in Ecuador).



Figure 80: Banana value breakdown between Ecuador and Malta (2014)

Source: BASIC, based on data from Eurostat, Comtrade, Sopisco, CIRAD, INCAE, and Ecuadorian Ministry of Agriculture

KEY FINDINGS

- The Maltese retail distribution sector consists mainly of small local shops and street vendors (fruits and vegetables). However the arrival of large European retailers on the island is changing the Maltese food market landscape. After many years with local supermarkets as lonely players in the retail business, several stores have opened with direct links to major Italian and European retailers (such as Auchan, Carrefour and Lidl)
- The Maltese banana market is very modest, banana being the second most eaten fruit in the country (consumption per capita is above the average in the EU). While the banana price to consumers is quite low and stagnating, the gap with import prices has increased significantly in the past few years in favour of retailers, possibly as a consequence of their growing bargaining power. Retailers earn the largest share of banana total value while workers get only 7% as per our estimations.

i) Poland

The Polish food market

Poland is home to over 38 million inhabitants, making it the largest population in Central and Eastern Europe; its food retail market is the largest in this region.¹⁴⁴

The economic transformation of the 1990s into a free market has resulted in a very strong development of modern retailers: whereas consumers used to go shopping every day in the early 1990s (80% of consumers buying fast moving goods in small local shops), nowadays in Poland, discount stores have more than 1/3 of the market share (one of the highest rates in Europe with Germany) and hypermarkets are just behind in second place (see diagram below)¹⁴⁵. While small traditional convenience stores remain important in the Polish food retail, hypermarkets, supermarkets and discount stores are gaining share and Poland has now the largest discounter market in all of Central and Eastern Europe.¹⁴⁶

In reaction, the Polish Parliament introduced in 2007 stringent regulations limiting the freedom of retail trade in order to move some consumers from the huge shopping malls and hypermarkets to the smaller local stores. However, the growth of the modern retail sector continued in recent years (for example, there were 420 more supermarkets in 2010 as compared with 2009, and 67 more hypermarkets in 2010 compared to 2009, equivalent to a 13.5 % annual increase).¹⁴⁷



Figure 81: Food sales by retail outlet in Poland (2012)

Source: BASIC, based on GfK Shopping Monitor CEE

Surprisingly, the biggest player in Poland is the Portuguese company Jeronimo Martins Group which only operates in this country outside Portugal. This group acquired the Polish company Biedronka in 1997 and it is the only international chain keeping the local brand and using the 'local passport strategy' (i.e. building an image of domestic firm as opposed to foreign brands).¹⁴⁸

¹⁴⁴ Agrifood Canada, Modern grocery retail trends in Central and Eastern Europe, November 2012

¹⁴⁵ Central European Business Review, Retail market structure development in Central Europe, December 2012

¹⁴⁶ Agrifood Canada, Modern grocery retail trends in Central and Eastern Europe, 2012 op. cit.

¹⁴⁷ USDA, Retail Foods Report for Poland, December 2012

¹⁴⁸ Central European Business Review, Retail market structure development in Central Europe, 2012 op. cit.

The Polish retail market remains quite fragmented: Biedronka is the leading retailer in the country with over 30 % market share, more than 1 800 stores and 98% spontaneous recognition.

The main competitors of Biedronka are large western retailers who developed networks of hypermarkets, supermarkets and discount stores in the country: Lidl and Edeka (Germany), Carrefour, Auchan, Intermarché and Leclerc (France) and Tesco.

Their respective market share can be estimated as follows:

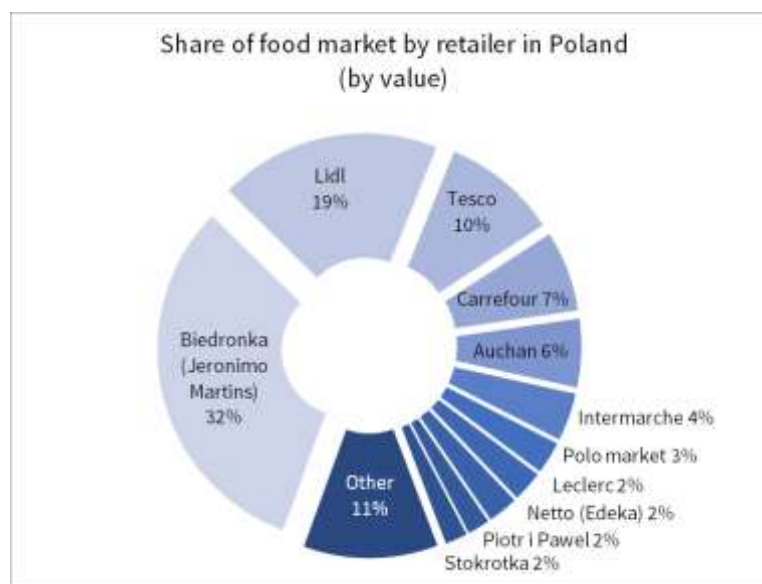


Figure 82: Food sales by retailer in Poland (2014)

Source: BASIC, based on Dlh Handlu and <http://inquirymarketresearch.com> (accessed in Sept. 2015)

In this context, the Polish fresh fruit market is the biggest in Central and Eastern Europe and accounts for 2.5% of food retail sales in the country; banana is the third most eaten fruit in the country (as shown in the diagram below). The consumption per capita can be estimated at 6 kg per person and per year, one of the lowest among European countries, but enjoys rapid growth.¹⁴⁹

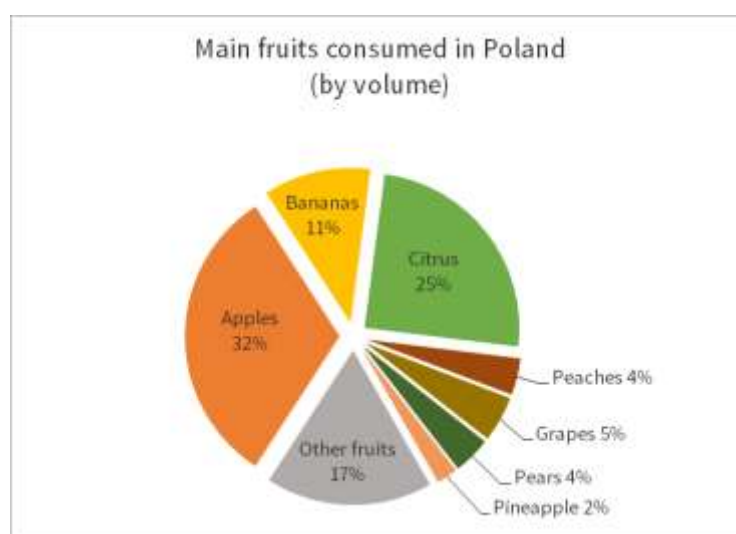


Figure 83: Main fruits consumed in Poland (2011)

Source: BASIC, based on Eurostat and FAO data

¹⁴⁹ BASIC, based on Comtrade and CIRAD data

The Polish banana value chain

Price sensitivity is so important in the Polish food market that for 64 % of households, price has **become the first factor in a consumer's choice of where to grocery shop**¹⁵⁰. In the banana market, the only recognised brand in Poland is Chiquita.

The total size of the banana market is estimated at 240 000 tonnes (or 13 million banana large case equivalent). The Polish market is the destination for spot sales of excess volumes from the Western European markets and is quite competitive in terms of import and ripening: the main supplier is Chiquita with a market share slightly above 20%, followed by Fyffes with slightly more than 10%. Other important competitors include Citronex, Targban and Quiza, while Dole and Del Monte are present through distributors (see graph below).¹⁵¹

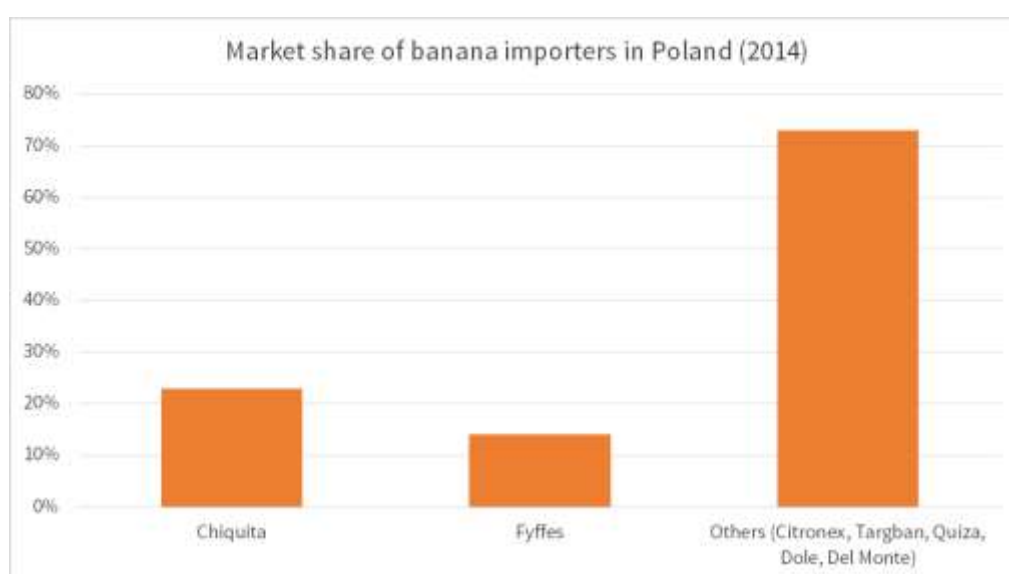


Figure 84: Market shares of main banana importers in Poland
Source: BASIC, based on European Commission (2014)

Based on public statistics available (published by Eurostat, Comtrade and CIRAD), the related banana value chain dynamics are the following (see graph below):

- The average banana price to consumers is even lower than in Germany (one of the lowest in Europe) – around 1.15 euros/kg in 2014 – and has remained globally stable since 2003 (once adjusted for inflation)
- In comparison, the average wholesale price has followed a downward trend, dropping by 25 % between 2007 and 2013 and widening the gap with the consumer price in favour of retailers.
- The average import price of bananas in Poland has globally followed a similar trend, but only dropped by 8 % since 2007, but increased by 36 % since 2003, most likely because Poland is one of the main destinations for spot sales of excess volumes from the Western European markets. The import price of bananas amounted to 0.68 euros/kg in 2014 (almost 60 % of retailers' price, one of the highest rates in Europe).

¹⁵⁰ GfK Shopping Monitor, 2012

¹⁵¹ European Commission, Merger procedure - Case No COMP/M.7220 – Chiquita Brands International/Fyffes, October 2014

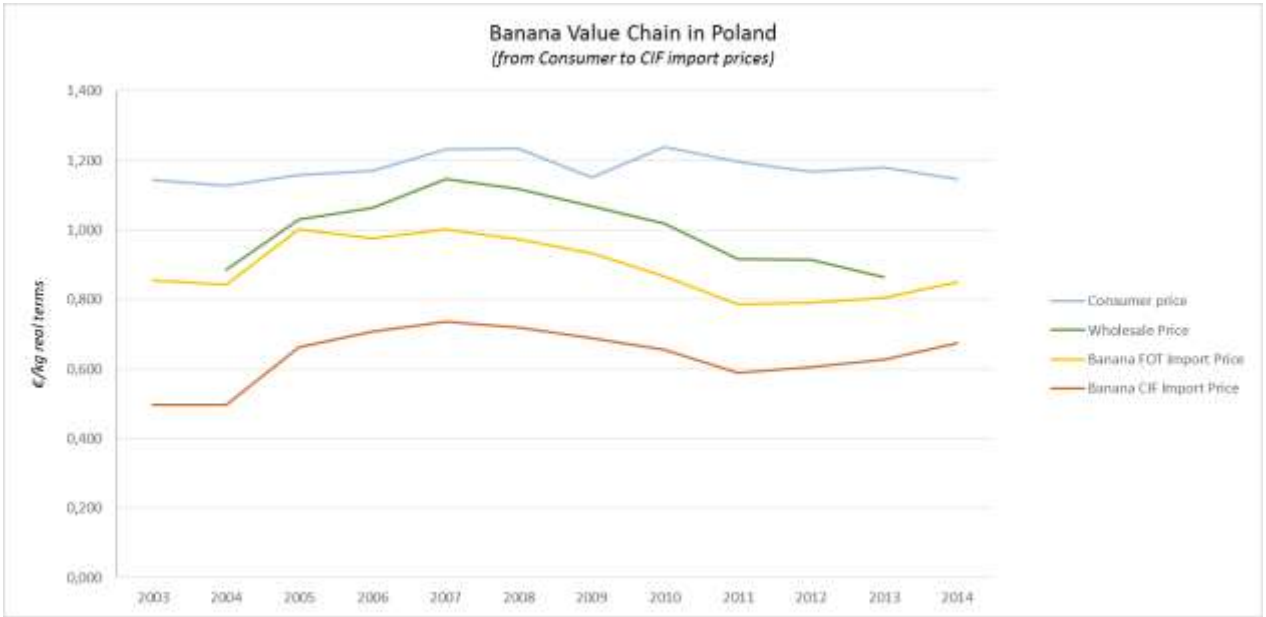


Figure 85: Banana value chain in Poland (2003-2014)
Source: BASIC, based on Eurostat, Comtrade and CIRAD data

According to the same statistic sources (see graph below), the main banana producing country supplying the Polish market is by far Ecuador, the biggest world banana exporter (accounting for more than 50 % of imports). It is followed by Colombia and Costa Rica, whereas Panama is a declining supplier. This sourcing profile is very much aligned with the situation of the European Union more globally.

More recently, Cameroon and Ivory Coast have emerged as new origins on the Polish market, most probably via imports through the “Compagnie Fruitiere” which owns large banana plantations in these countries.

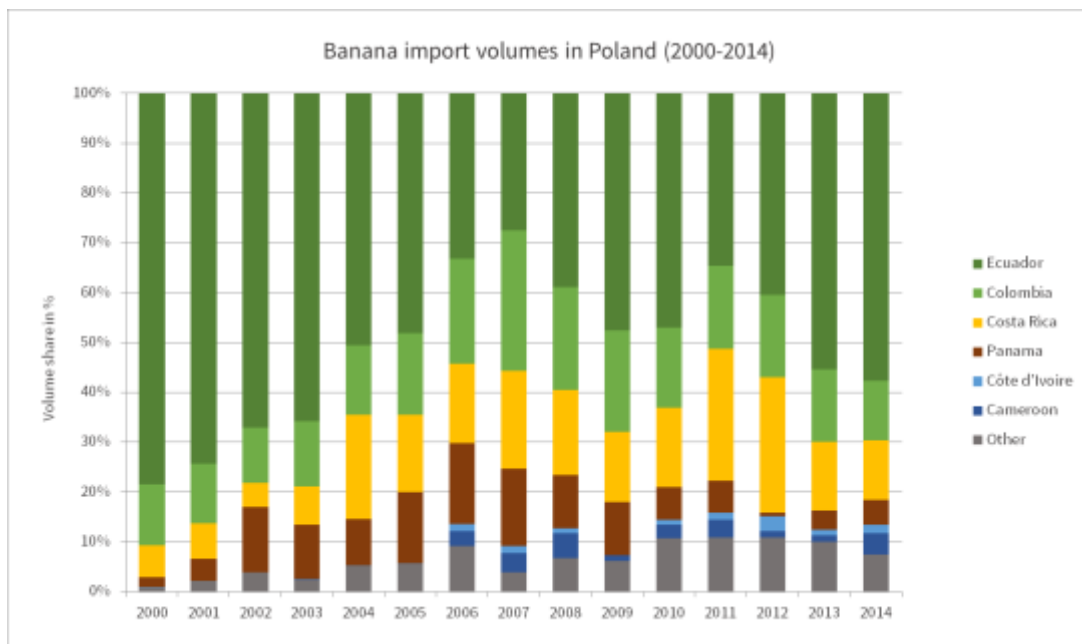


Figure 86: Banana import volumes per origin in Poland (2000-2014)
Source: BASIC, based on Eurostat and Comtrade data

In terms of import prices, the statistics show that the 3 major banana supplying countries - Ecuador, Colombia and Costa Rica - have followed very similar trends since 2000, increasing by 25% to 50% over the period probably because Poland is the destination for spot sales of excess volumes from Western markets (see graphs below).

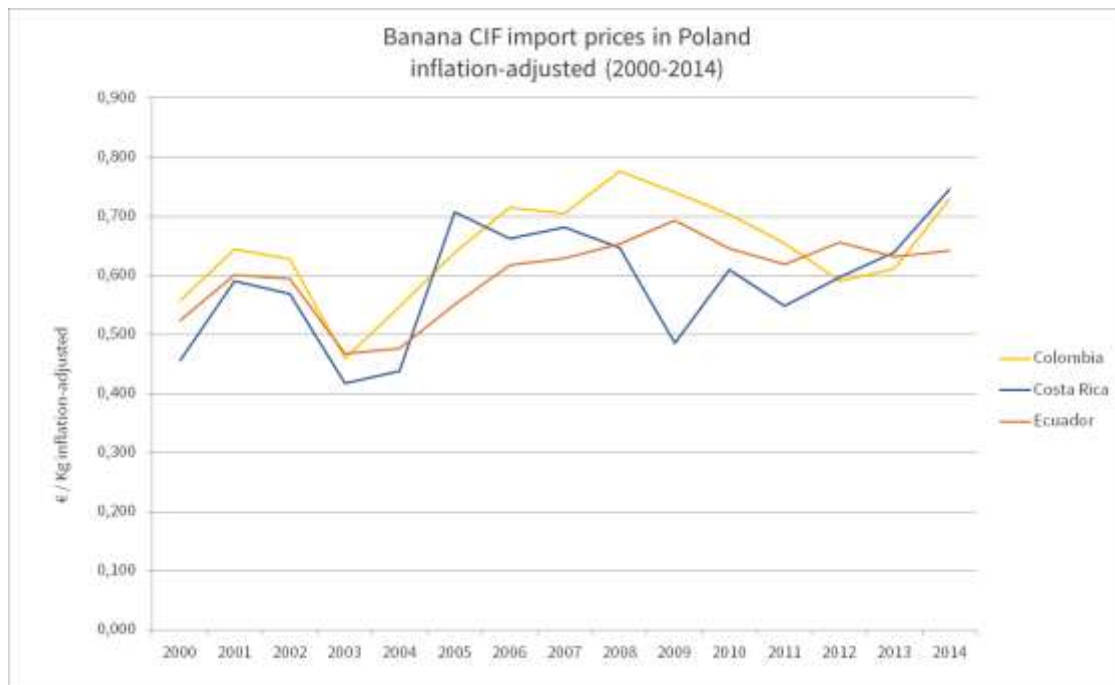


Figure 87: Banana import prices per origin in Poland (2000-2014)
Source: BASIC, based on Eurostat and Comtrade data

The resulting banana value breakdown along the chain - from retailers' share (which includes VAT) down to workers' wages - can be estimated as follows (calculations have been made for of a medium-size banana plantation in Ecuador - in the case of small farmers, the workers' share would be a lot lower as the work is mainly undertaken within the family).

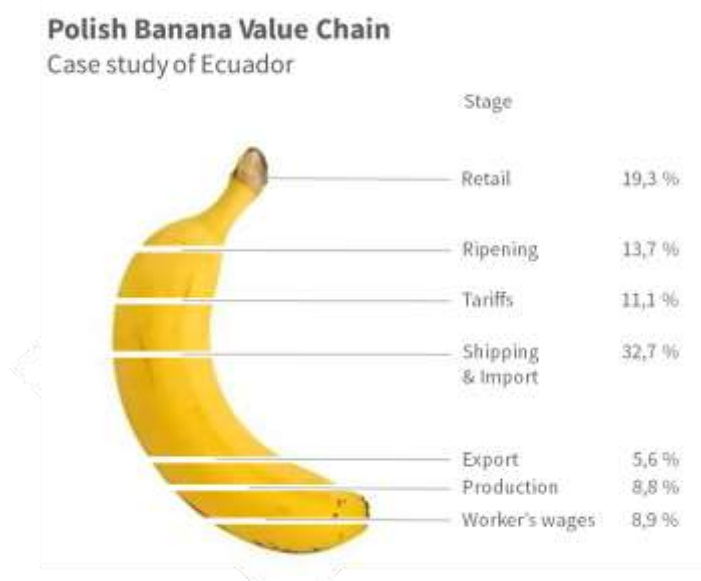


Figure 88: Banana value breakdown between Ecuador and Poland (2014)
Source: BASIC, based on data from Eurostat, Comtrade, Sopisco, CIRAD, INCAE and Ecuadorian Ministry of Agriculture

KEY FINDINGS

- Poland has the highest proportion of discount stores and hypermarkets among retail markets in Europe (roughly 1/3 each) and has the largest discounter market in all of Central and Eastern Europe. The Polish market remains one of the most fragmented in Europe with the 10 largest retailers accounting for less than 45% of modern food retail sales, and is dominated by Western companies: Biedronka, a subsidiary of the Portuguese company Jeronimo Martins, is the leading retailer in the country with over 30 % market share, followed by German, French and UK retailers.

- Banana is the 3rd most eaten fruit in Poland, with consumer prices lower than in Germany (itself one of the lowest in Europe). The Polish market is the destination for spot sales of excess volumes from the Western European markets and imports are distributed among 8 to 10 companies which supply the retail market. The related import prices have increased since 2003 (one of the only cases in Europe) most likely because Poland is one of the main destinations for spot sales of excess volumes from the Western European markets; the import price of banana amounts to almost 60% of the consumer price. The main supplying countries are Ecuador, Colombia and Costa Rica.

j) Portugal

The Portuguese food market

Portugal's economy was strongly impacted by the global financial downturn and continues to struggle to recover, leading to diverging trends.

On the one hand, Portugal's 10.6 million consumers are increasingly having busier lifestyles and demanding more fast food, convenience products and ready-made meals to meet their needs.¹⁵²

On the other, food retail distribution has significantly changed since the Portuguese economic crisis: budget cuts have led consumers to seek grocery outlets and discount stores near their home in order to avoid spending time and money going to a hypermarket and to keep from spending on unnecessary items. This has negatively impacted the consumer food service in particular, with consumers beginning to cook at home and prepare meals for the weekday. In parallel, there is a continued emphasis of consumers on healthy diets and on the quality of their food.¹⁵³

Modern grocery retailers dominate the food market with 84 % of total value share; however, traditional grocery stores remain in the lead in the number of outlets.

Seeing the increased popularity in small retail stores, main grocery retailers reviewed their plans to expand in hypermarkets. Instead, they invested in smaller retail stores which allowed them to expand to town centres. As a result, supermarkets increased their value sales by 4 % since 2010 - outperforming hypermarkets and discount stores - while hypermarkets performed poorly with only a 1 % increase since 2010.¹⁵⁴

Discount stores are seen as a place to pick up a few items but not for weekly shopping trips, but this may change as discount stores begin to add fresh produce.¹⁵⁵

Overall food sales by retail outlet in Portugal can be estimated as follows:



Figure 89: Food sales by retail outlet in Portugal (2014)
Source: BASIC, based on Euromonitor data provided by USDA in 2015

¹⁵² Agrifood Canada, Portugal report: past, present and future trends, February 2012

¹⁵³ USDA, Portuguese Food and Grocery Retail Sector, July 2015

¹⁵⁴ Ibid.

¹⁵⁵ Ibid.

In terms of companies, the Portuguese food retail sector is dominated by 3 companies that account for almost 50% of the modern grocery market, as indicated in the diagram below (one of them, Intermarché, being a French retail group):



Figure 90: Food sales by retailer in Portugal (2014)
Source: BASIC, based on Planet Retail data

As described earlier, the demand for healthier, more natural and high quality products at an affordable prices, especially fresh fruits, is on the rise in Portugal.

In this context, banana is the third most eaten fruit in the country (as shown in the diagram below) and its consumption per capita can be estimated at 13 kg per person and per year, as high as in Germany¹⁵⁶.

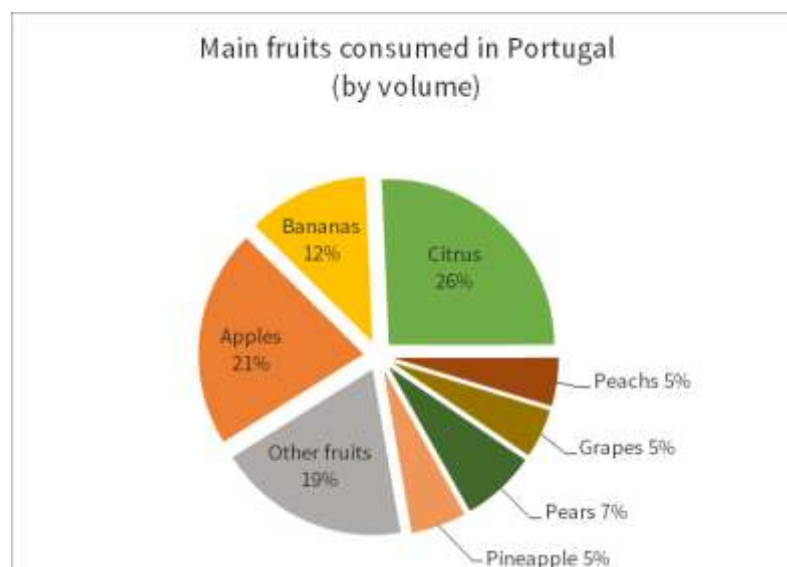


Figure 91: Main fruits consumed in Portugal (2011)
Source: BASIC, based on Eurostat and FAO data

¹⁵⁶ BASIC, based on Comtrade and CIRAD data

The Portuguese banana value chain

The total size of the banana market is estimated at 150,000 tonnes.

No public information has been found on the importers of bananas in Portugal.

Based on public statistics available (published by Eurostat, Comtrade and CIRAD), the related banana value chain dynamics are the following (see graph below):

- The average banana price to consumers is in line with the EU average – around 1.45 euros/kg in 2014 – and has been slightly decreasing over the past decade, falling by 9 % since 2003 once adjusted for inflation.
- In comparison, the average wholesale price has slightly increased over the same period, especially since the end of the banana quota system in Europe in 2005.
- Finally, the average import price of bananas in Portugal has globally remained stable since 2003; its level amounted to 0.6 euros/kg in 2014 (little more than 40 % of the retailers' price).

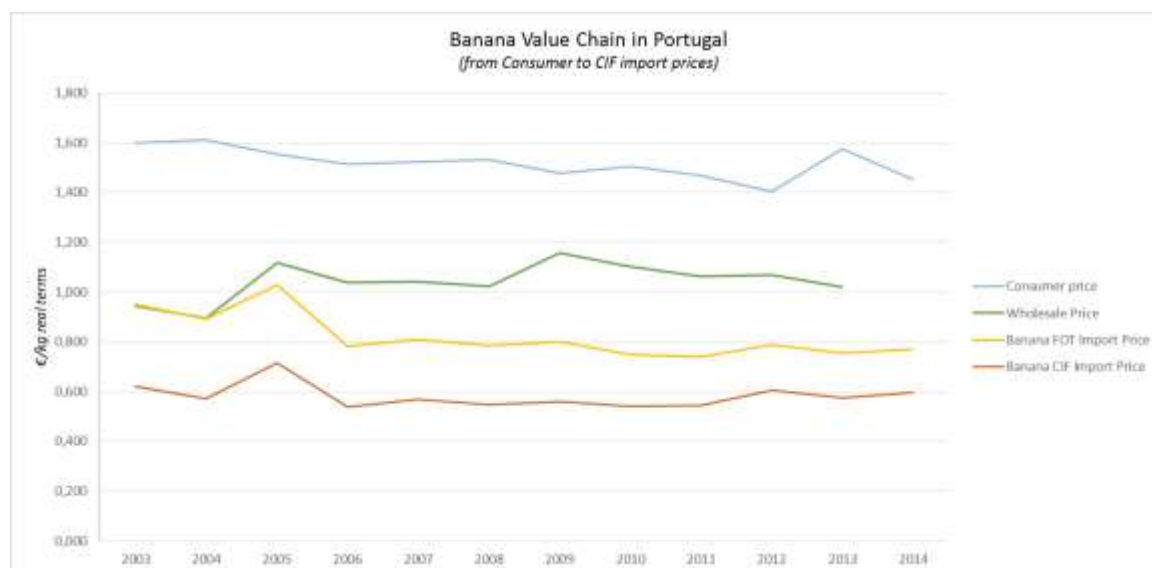


Figure 92: Banana value chain in Portugal (2003-2014)

Source: BASIC, based on Eurostat, Comtrade and CIRAD data

According to the same statistic sources (see graph below), the main banana producing country supplying the Portuguese market are Colombia and Costa Rica, followed by Ecuador.

A distinctive feature of Portugal in Europe is that Spain (Canary Islands) and Portugal (Madeira) come 4th and 5th in banana imports because of historical economic ties (see diagram below).

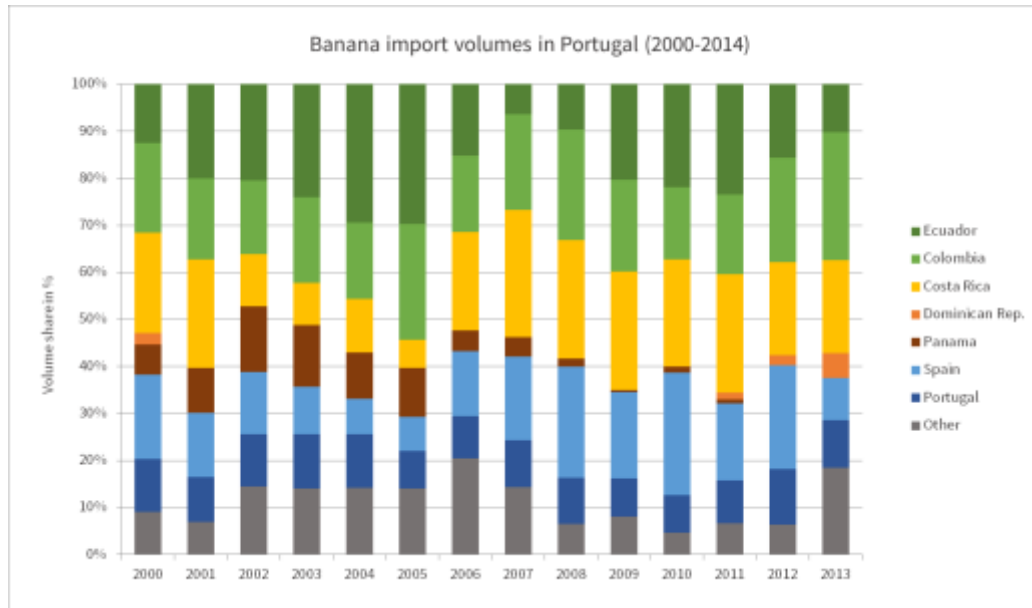


Figure 93: Banana import volumes per origin in Portugal (2000-2014)
 Source: BASIC, based on Eurostat and Comtrade data

In terms of import prices, the statistics show that the 2 major banana supplying countries - Colombia and Costa Rica - have witnessed a significant drop of almost 25 % since 2000 while Ecuador has recently recovered the same price level as 15 years ago (see graph below). This situation contrasts with the rise of production and living costs in these producing countries (see producer country sections for further details). The changes in import volumes from these banana producer countries do not seem to be directly correlated with price differentials among them.

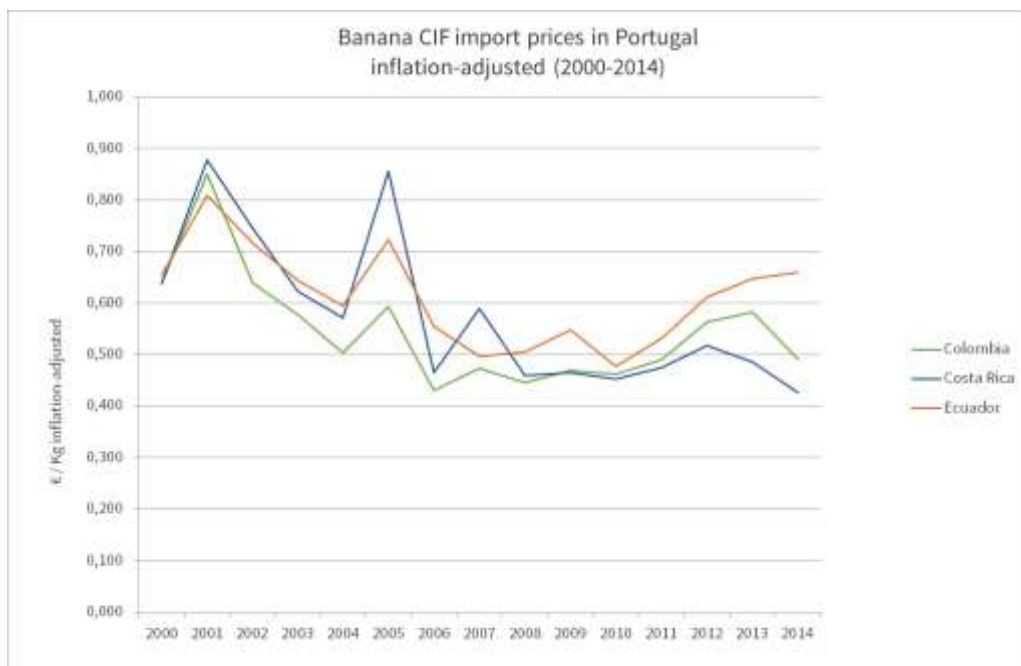


Figure 94: Banana import prices per origin in Portugal (2000-2014)
 Source: BASIC, based on Eurostat and Comtrade data

The resulting banana value breakdown along the chain - **from retailers' share** (which includes VAT) **down to workers' wages** - can be estimated as follows (calculations have been made for of a medium-size banana plantation in Colombia - **in the case of small farmers, the workers' share** would be a lot lower as the work is mainly undertaken within the family).

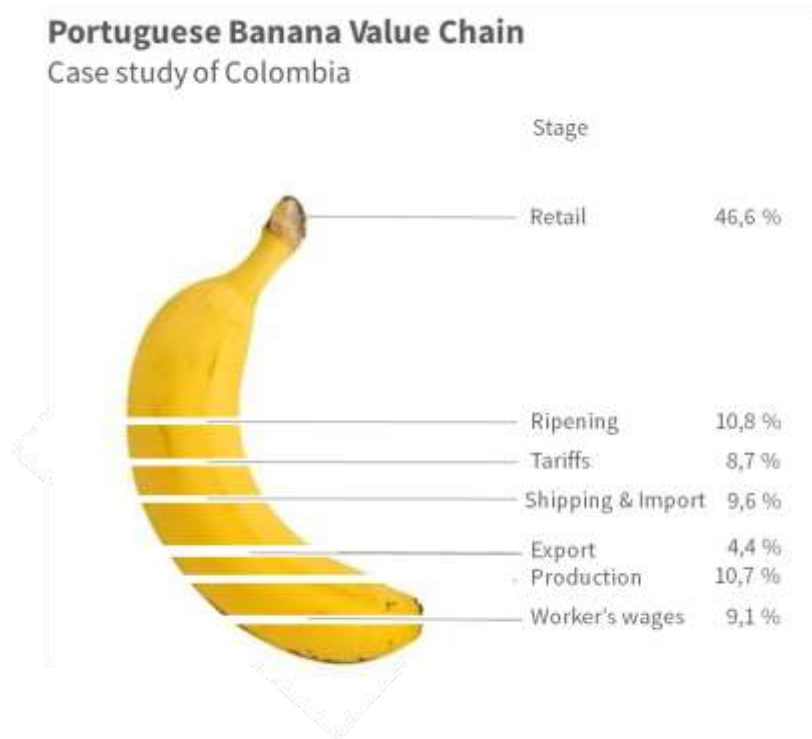


Figure 95: Banana value breakdown between Colombia and Portugal (2014)
Source: BASIC, based on data from Eurostat, Comtrade, Sopisco, CIRAD and Augura

KEY FINDINGS

- Modern grocery retailers dominate the Portuguese food market with 84 % of total value share; since the economic crisis has strongly affected Portugal, consumers are moving away from hypermarket formats in search for budget cuts and reduction in unnecessary spending. The food retail market is dominated by 3 large companies that account for almost 50 % of sales.
- Banana is the third most eaten fruit in the country and its consumption per capita is as high as in Germany. The related consumer price has dropped by 9 % in real terms since 2003 and the import price for the two main banana supplying countries of Portugal – Colombia and Costa Rica – has dropped by 25 % since 2000.
- These trends are in contrast with the fast growing production and living costs in these banana supplying countries- see producer country sections of this report for more details.

k) Romania

The Romanian food market

Romania is the seventh largest nation among the EU countries, with 19 million inhabitants (of which only 55% lives in urban areas).¹⁵⁷

After years of very strong growth (the Romanian retail sector grew by 23 % in 2006 and 18 % in 2007), the retail sales contracted sharply in 2009 (by 7.5 % in food product sales) and again in 2010 (by 5.5%). A slow recovery has been initiated since then.¹⁵⁸

Traditional markets remains the largest channel for food products in Romania, especially in rural areas where residents do not have access to modern retail. The retail sector has developed in big cities and revived its expansion in recent years, focusing on consolidating existing chains.

Hypermarkets are the largest segment outside of the traditional Romanian grocery market, followed by supermarkets. Discounters are the most active segment but are forecast to remain relatively small even if currently expanding at a very fast rate. The cash & carry segment has a constant and linear evolution. The development of modern trade forms has brought, besides the change of Romanian consumer behaviour, the private brands of retail stores.¹⁵⁹

Overall food sales by retail outlet in Romania can be estimated as follows:

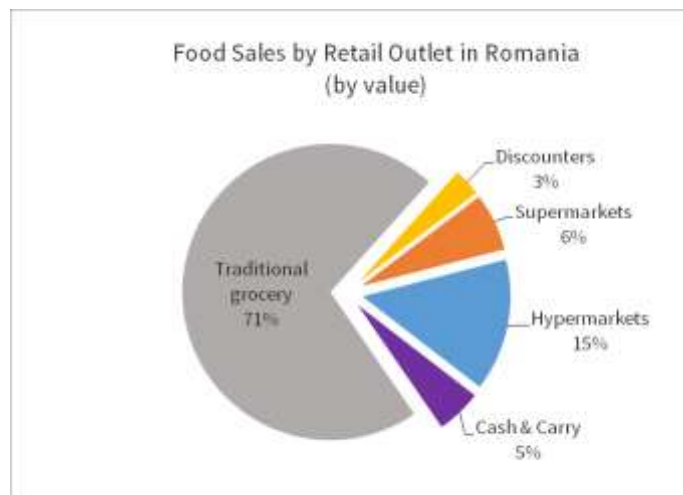


Figure 96: Food sales by retail outlet in Romania (2014)

Source: BASIC, based on FAS, Piata and Ziarul Financiar publications reported by USDA in 2012

The low starting point has allowed international retail firms ample opportunities in Romania. Deeper market penetration in the major cities has resulted in two main strategies¹⁶⁰:

- On the one hand, several international retailers are replacing supermarkets with hypermarkets in Bucharest and the big cities to attract urban consumers with a bigger range of high-end goods at reasonable prices.
- On the other, hard discount firms are moving to smaller cities to compete for rural customers with cash & carry, traditional markets and kiosk owners business.

¹⁵⁷ USDA, Romanian Food Retail Sector, April 2012

¹⁵⁸ Ibid.

¹⁵⁹ Ibid.

¹⁶⁰ Ibid.

The resulting Romanian modern grocery market appears to be controlled by 5 major international retailers (see diagram below), the leader being Lidl with 26 % market share, followed by Carrefour, Rewe, Metro and Delhaize.



Figure 97: Food sales by retailer in Romania (2014)
 Source: BASIC, based on Magazinul Progresiv reported by USDA in 2012

The Schwarz group (better known by its discount banner name Lidl), has developed one of the most extensive networks in Romania. The first Kaufland hypermarket was opened in 2005 in Bucharest and Schwarz has developed one of the most extensive networks of hypermarkets in Romania. In addition, it bought from the Tengelmann group in 2010 the network of discount food stores PLUS, which enabled Schwarz to create the largest chain in Romania.¹⁶¹

Carrefour opened its first hypermarket store in 2001 in Romania and later entered the supermarket segment in 2007 (by taking over the Artima chain); it now operates 26 hypermarkets and 50 supermarkets and opened its first local proximity stores a few years ago.¹⁶²

The company Rewe opened its first Billa supermarket in 1999 and reached a large network of outlets in all major countries. Regarding discount stores, Rewe opened its first Penny outlet in 2005. Cora Romania, part of Louis Delhaize group, opened its first hypermarket in 2003 and increased recently its expansion strategy (for example, Cora obtained in 2011 a US\$ 280 million loan from the European Bank for Reconstruction and Development to finance new stores in the country). Delhaize also owns the Mega image supermarket network and acquired the banner 'La Fourmi' in 2011.¹⁶³

Finally, Metro is strongly active in Romania through its hypermarket division Real, and its extensive network of Cash and Carry stores.¹⁶⁴

In this context, the fruit and vegetable market is an important food sector in Romania which is still dominated by traditional markets all throughout the country, even in big cities. Banana is a relatively top-range product and only accounts for 4 % of the fruit consumed in the country (as shown in the diagram below). Its consumption per capita can be estimated at less than 3 kg per person and per year, by far the lowest level of all EU countries¹⁶⁵.

¹⁶¹ USDA, Romanian Food Retail Sector, April 2012

¹⁶² Ibid.

¹⁶³ Ibid.

¹⁶⁴ Ibid.

¹⁶⁵ BASIC, based on Comtrade and CIRAD data

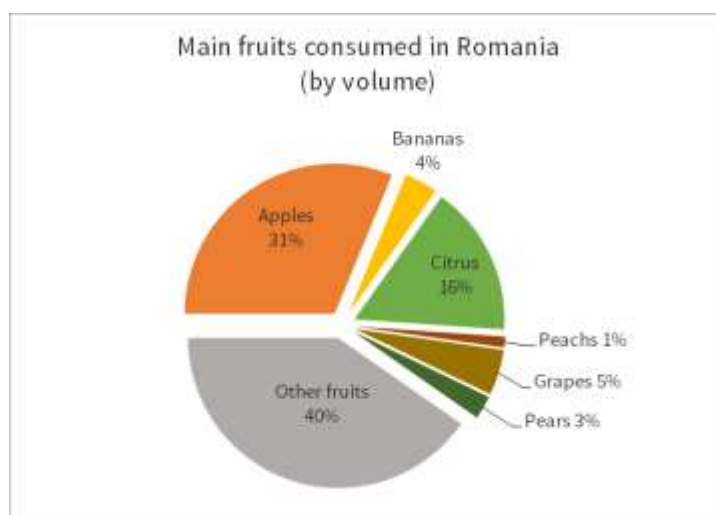


Figure 98: Main fruits consumed in Romania (2011)
Source: BASIC, based on Eurostat and FAO data

The Romanian banana value chain

The total size of the banana market is quite modest compared to the population size and can be estimated at 100,000 tonnes. As for Poland, the Romanian banana market is the destination for spot sales of excess volumes from the Western European markets.

No public information has been found on the importers of bananas in Romania.

Based on public statistics available (published by Eurostat, Comtrade and CIRAD), the related banana value chain dynamics are the following (see graph below):

- The average banana price to consumers is one of the lowest in Europe (but one of the highest if adjusting for Power Parity Purchase) – around 1.15 euros/kg in 2014 – and has been declining over the past decade, falling by 25 % since 2003 once adjusted for inflation.
- The average wholesale price has globally followed the same trend.
- In comparison, the average import price of bananas in Romania has globally remained stable since 2003; its level amounted to 0.7 euros/kg in 2014 (accounting for 60 % of the retailers' price).

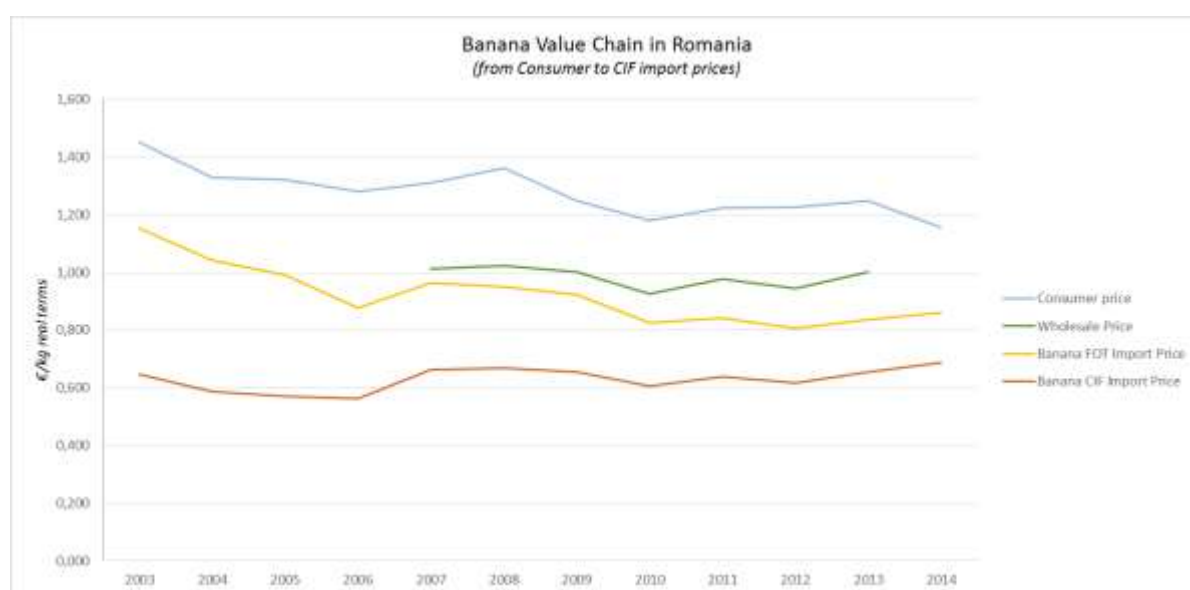


Figure 99: Banana value chain in Romania (2003-2014)
Source: BASIC, based on Eurostat, Comtrade and CIRAD data

According to the same statistic sources (see graph below), the vast majority of bananas imported in Romania appears to be coming from Ecuador (although no public data is available since 2009).

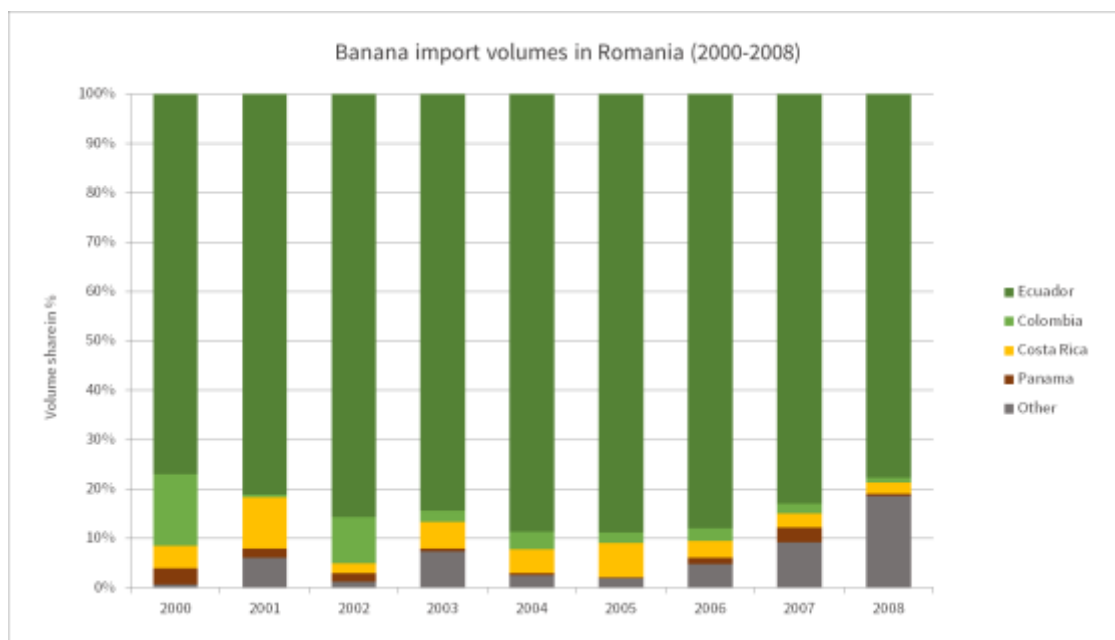


Figure 100: Banana import volumes per origin in Romania (2000-2008)
Source: BASIC, based on Eurostat and Comtrade data

In terms of import prices, the statistics show that Ecuador has witnessed a significant drop of almost 25 % between 2000 and 2008 (see graph below), but more recent public data are not available.

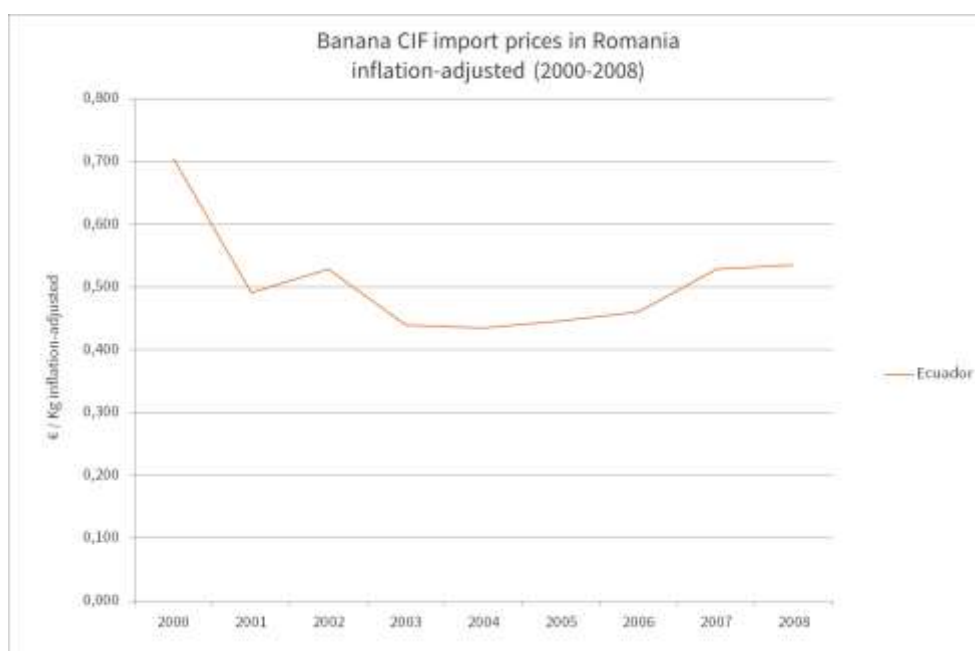


Figure 101: Banana import prices per origin in Romania (2000-2008)
Source: BASIC, based on Eurostat and Comtrade data

Based on the average import price in Romania in 2014, the banana value breakdown along the chain - from retailers' share (which includes VAT) down to workers' wages - can be estimated as follows (calculations have been made for of a medium-size banana plantation in Ecuador - in the case of small farmers, the workers' share would be a lot lower as the work is mainly undertaken within the family).



Figure 102: Banana value breakdown between Ecuador and Romania (2014)
Source: BASIC, based on data from Eurostat, Comtrade, Sopisco, CIRAD and Augura

KEY FINDINGS

- Traditional markets remains the largest channel for food products in Romania, especially in rural areas where residents do not have access to modern retail. Hypermarkets are the largest segment outside of the traditional Romanian grocery market, followed by supermarkets. Discounters are the most active segment but are forecast to remain relatively small even if currently expanding at a very fast rate. The resulting Romanian modern grocery market appears to be controlled by 5 major international retailers: Lidl, Carrefour, Rewe, Metro and Delhaize.

- Banana is a relatively top-range product and only accounts for 4 % of the fruit consumed in the country (the consumption per capita is the lowest in Europe). As for Poland, the Romanian banana market is the destination for spot sales of excess volumes from Western Europe. The average banana price to consumers is one of the lowest in Europe (but one of the highest if adjusting for Power Parity Purchase) and has fallen by 25 % over the past decade. In comparison, the average import price of bananas has globally remained stable since 2003.

I) United Kingdom

The UK food market

The UK grocery sector is one of the most diverse and sophisticated in the world. It was worth £175 billion (220 billion euros) in 2014, rising by 2.8 % over 2013. Food and grocery expenditures account for 54 pence in every £1.00 of retail spending (excluding restaurants).¹⁶⁶

Grocery sales channels in the UK are split into five categories¹⁶⁷:

- Hypermarkets (superstores) are defined as stores that have a sales area above 25,000 square feet, selling a broad range of grocery and non-food items.
- Supermarkets which have a sales area of 3,000-25,000 square feet and a broad range of items.
- Discounters which main features are everyday low price and limited product ranges. Stores are smaller and relatively uniform in size and layout. Stores range from 8,600 square feet to 16,000 square feet. They carry predominately private label products.
- Convenience stores that have sales areas of less than 3,000 square feet, are open for long hours, and sell products from at least eight different grocery categories.
- Cash & Carry stores which are no frills type operations where products are not usually displayed on shelves but rather on pallets or fixtures supplied by the manufacturer.
- Alternative channels are mainly made up of online purchases.

The UK's grocery retail landscape is undergoing a significant structural change, with online, convenience and discount retailing all registering robust growth. Most noteworthy is the rapid growth of the online channel (with double-digit figures, UK being the most dynamic online grocery market in the world) but which still only represents 4% of the grocery market.¹⁶⁸

The overall breakdown of food sales by retail outlet in the United Kingdom is estimated as follows:



Figure 103: Food sales by retail outlet in the UK (2013)
Source: BASIC, based on Kantar data

¹⁶⁶ USDA, United Kingdom Food Retailers, December 2014

¹⁶⁷ Ibid.

¹⁶⁸ Kantar, United Kingdom Country Report, October 2013

Five supermarket chains dominate UK food retailing, accounting for 79.5 % of the market. The concentration of the market is roughly the same as the average level in Europe (see graph below). Tesco is the market leader, with 28.8 % market share, followed by Asda/Wal-Mart with 17.2 %, Sainsbury's has 16.1 %, Morrison's with 11 % and the Cooperative with 6.4 %. Other UK supermarket chains include Waitrose, Aldi, Lidl and Marks & Spencer.¹⁶⁹



Figure 104: Food sales by retailer in the UK
Source: BASIC, based on Kantar data (October 2014)

In this context, the fresh fruit market in the UK is one of the biggest within the European Union. The consumption per household is in a slight decline (like in several other member states), but the Government's '5 A DAY' scheme and the more general consumer desire to be healthy are important market trends.

The main fruit consumed in the UK is banana (25 %), well above apples (17 %), and citrus (14 %), which is a unique case in Europe (the UK banana consumption per capita is the highest in the EU)

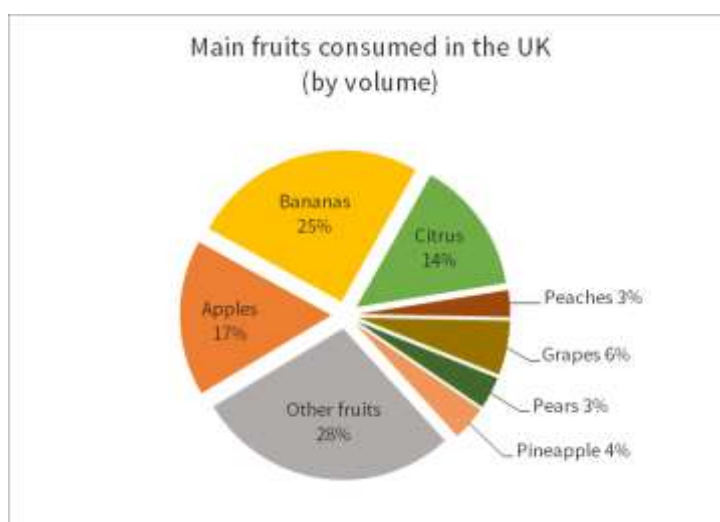


Figure 105: Main fruits consumed in the UK (2011)
Source: BASIC, based on Eurostat and FAO data

¹⁶⁹ USDA United Kingdom Food Retailers, December 2014

The UK banana value chain

The UK market for bananas is one of the two biggest in Europe with Germany: its total size is estimated at more than 1.1 million tonnes (or 60 million large case equivalent) in 2013.¹⁷⁰

Based on strong demand from consumers for increased food safety (following public health scares such as the mad cow disease, pesticides concerns, etc.), leading retailers have developed generic quality and safety standards for their suppliers, in particular EurepGAP (now called GlobalGAP). Complying with these standards have enabled banana suppliers (producers and/or exporters) to demonstrate the level of quality and reliability they can deliver¹⁷¹. By 2013, no producer can supply the UK fresh produce market without GlobalGAP certification.

A distinctive feature of the UK market is the importance of Fairtrade bananas which account for 27% of the market (in volume terms).¹⁷²

While major fruit brands such as Chiquita and Dole had previously served as purveyors of quality - because vertically integrated chains were the only way to ensure consistency and reliability of banana supply for urban consumers - the more liberal trading environment enabled supermarkets to question the leadership of historical banana companies and to trade bananas independently of the multinationals, often for the first time.¹⁷³

This led to a profound change of the governance of UK banana chains, fruit companies increasingly competing to become the “**preferred suppliers**” of **large supermarket chains** who have become the leading actors.

As a result, the UK banana market is characterized by a large number of competitors, and strong retailers' buying power who organize direct sourcing. In the UK, large banana companies are becoming service providers.¹⁷⁴

Tesco has become the second largest importer of bananas after Fyffes (whereas it only purchased fruit from Chiquita, Fyffes and Del Monte until 2010). Similarly, Morrisons who used to purchase 100% of its need from Fyffes now sources 90% directly from banana producers (through its subsidiary Global Pacific) and co-owns a ripening facility. More recently, Asda also sources some of its bananas directly through wholly owned sourcing company IPL. However, not all UK retailers are investing in direct sourcing due to the perceived risks.¹⁷⁵

More globally, the UK banana import market is highly competitive with at least 10 companies actively involved: all large fruit multinationals (Chiquita, Dole, Fyffes, Del Monte), retailers who source directly (Tesco, Morrisons/Global Pacific and Asda/IPL) and other national competitors (Fresca, Winfresh, SH Pratt...)

The following diagram summarizes the respective market share of the main banana importers in the UK:

¹⁷⁰ European Commission, DG Comp Merger Registry, Chiquita Brands International/ Fyffes merger procedure, 2014 op. cit.

¹⁷¹ Common Fund for Commodities, Current Trends and the New Development Role of Commodities, November 2006

¹⁷² European Commission, DG Comp Merger Registry, Chiquita Brands International/ Fyffes merger procedure, 2014 op. cit.

¹⁷³ Denis Loeillet, CIRAD, Contribution to the world banana forum : The international banana market - From one world to the other, February 2012

¹⁷⁴ European Commission, DG Comp Merger Registry, Chiquita Brands International/ Fyffes merger procedure, 2014 op. cit.

¹⁷⁵ Ibid.

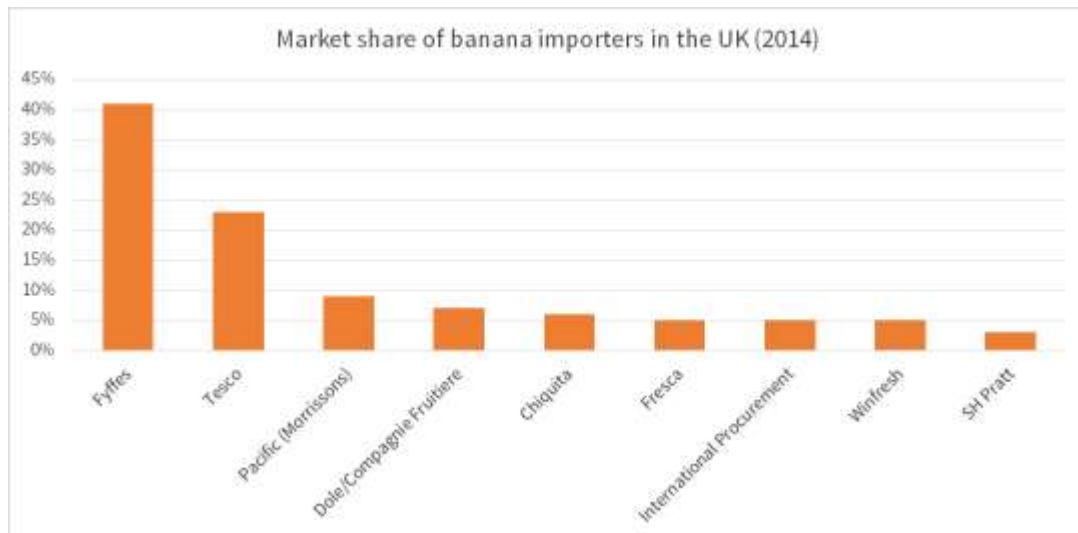


Figure 106: Market shares of main banana importers in the UK
Source: BASIC, based on European Commission (2014)

In terms of ripening, Chiquita and Fyffes together have between 40 % and 50% of the ripening capacity in the country. The main other players are: Compagnie Fruitiere/Dole, Del Monte, Pratt, Morrisons, Winfresh and Mack.¹⁷⁶

In terms of consumer prices, the UK banana market is totally different from the other European markets and is deeply marked by the price war initiated in 2002 by the retailers.

In 2002, Asda, probably under pressure from its new owner Walmart, decided to implement a strategy of “international price flexing¹⁷⁷” in the whole UK market on bananas (as well as a few other key consumer products), reducing its prices to undermine the profitability of its competitors. Until mid-2002, loose bananas in the UK had been priced at £1.08 per kilo for around six years. In August that year, Asda cut their retail price to £0.94, thanks to huge volume discounts negotiated on the back of a 100% exclusive deal with Del Monte at a reportedly low price¹⁷⁸.

Tesco, Sainsbury's and Safeway felt compelled to follow. Morrison's took the next step, cutting the price to £0.85, and again all the major retailers followed. In 2003 the price fell further to £0.79/kg¹⁷⁹. This was the beginning of a price war between retailers to retain and attract consumers into their outlets. As a result, average banana consumer prices fell sharply by more than 50 % in real terms between 2000 and 2014

More globally, the public statistics (published by ONS, Eurostat, Comtrade and CIRAD), show that the banana value chain in the UK has destroyed value at all stages since 2000 (see graph below):

- There is a sharp falling tendency of the banana consumer price in real terms.
- The wholesale price as also fallen since 2000, although less intensely (dropping by 37 %)
- The resulting CIF import price of bananas in the UK has dropped by a stunning 43 % since 2000, under strong pressure because of the fall of consumer prices.

¹⁷⁶ European Commission, DG Comp Merger Registry, Chiquita Brands International/ Fyffes merger procedure, 2014 op. cit.

¹⁷⁷ Cf. Groceries Market Investigation, Competition Commission, April 2008: “Price flexing” within a national market is a recognised technique, which is condemned as being an “unfair practice” (However, international price flexing is not regulated by any international authority).

¹⁷⁸ Grocer Magazine's Weekly “Grocer 33”, May 2002

¹⁷⁹ Banana Link, Collateral Damage: How price wars between UK supermarkets helped to destroy livelihoods in the banana and pineapple supply chains, November 2006

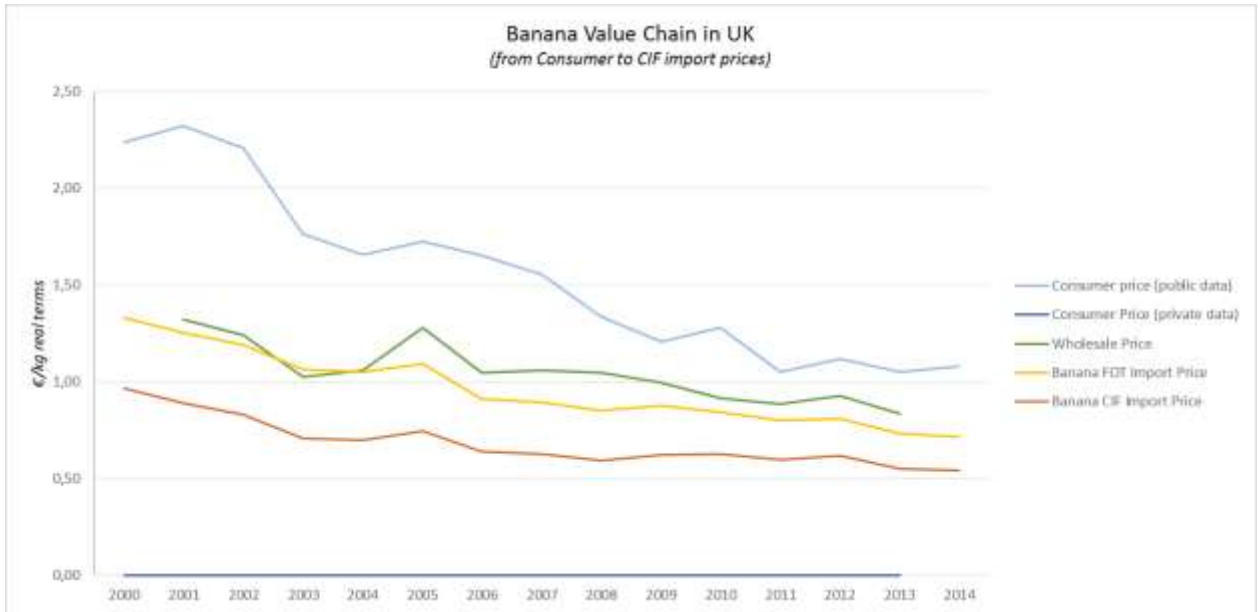


Figure 107: Banana value chain in the UK (2000-2014)
 Source: BASIC, based on ONS, Eurostat, Comtrade and CIRAD data

According to the same statistic sources (see graph below), the main banana producing country supplying the British market are Colombia, Dominican Republic and Costa Rica, followed by Ecuador; they jointly account for 70 % of imports in the country.

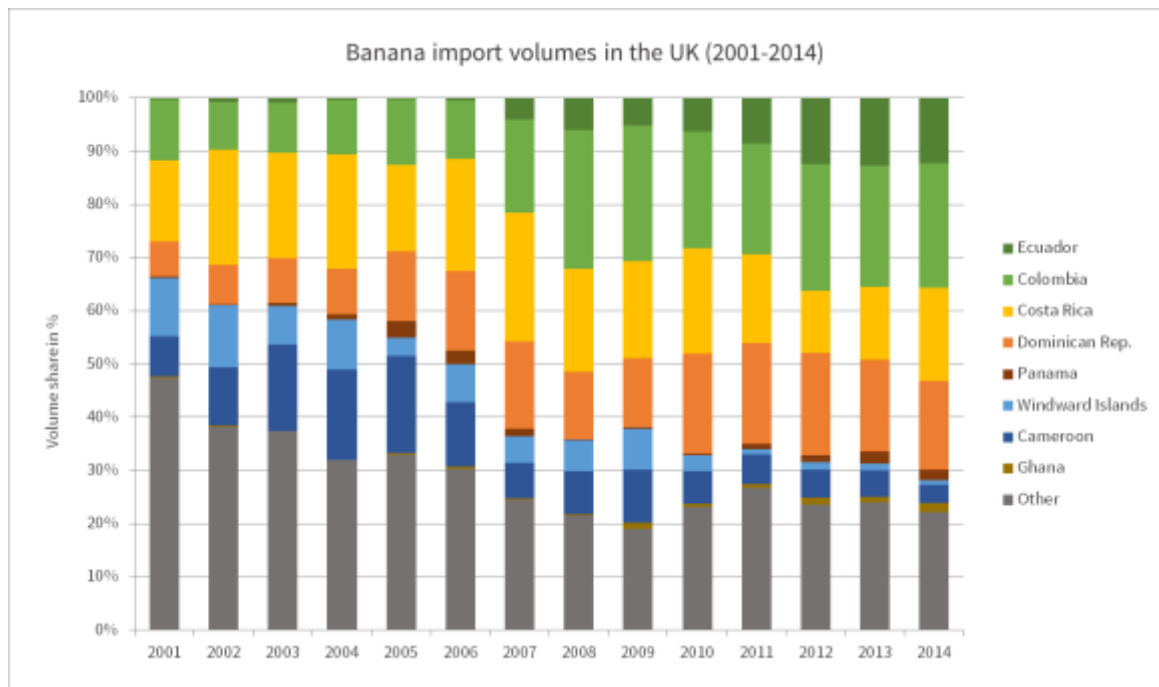


Figure 108: Banana import volumes per origin in the UK (2000-2014)
 Source: BASIC, based on Eurostat and Comtrade data

In terms of import prices, the statistics show that the 4 major banana supplying countries – Colombia, Dominican Republic, Costa Rica and Ecuador - have all dropped significantly since 2000 from 13 % in the case of Dominican Republic (which is somewhat protected by the higher prices on the organic market) up to 47 % in the case of Ecuador.

This situation is in stark contrast with the rise of production and living costs in these producing countries. It should be noted that the fact that 1/3 of banana imports are directly sourced by retailers in the UK may reduce the margins along the chain and partially compensate the low level of import prices in the country (see producer country sections for further details).

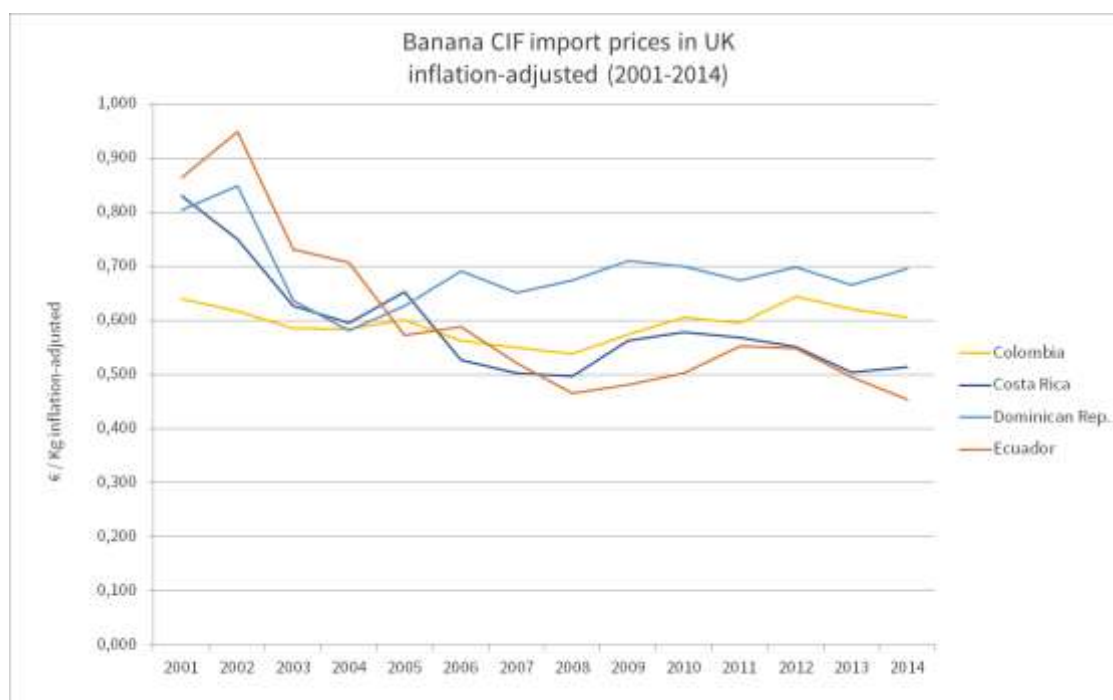


Figure 109: Banana import prices per origin in the UK (2000-2014)

Source: BASIC, based on Eurostat and Comtrade data

The resulting banana value breakdown along the chain - from retailers' share (which includes VAT) down to workers' wages - can be estimated as follows (calculations have been made for of a medium-size banana plantation in Ecuador and Colombia - in the case of small farmers, the workers' share would be a lot lower as the work is mainly undertaken within the family).

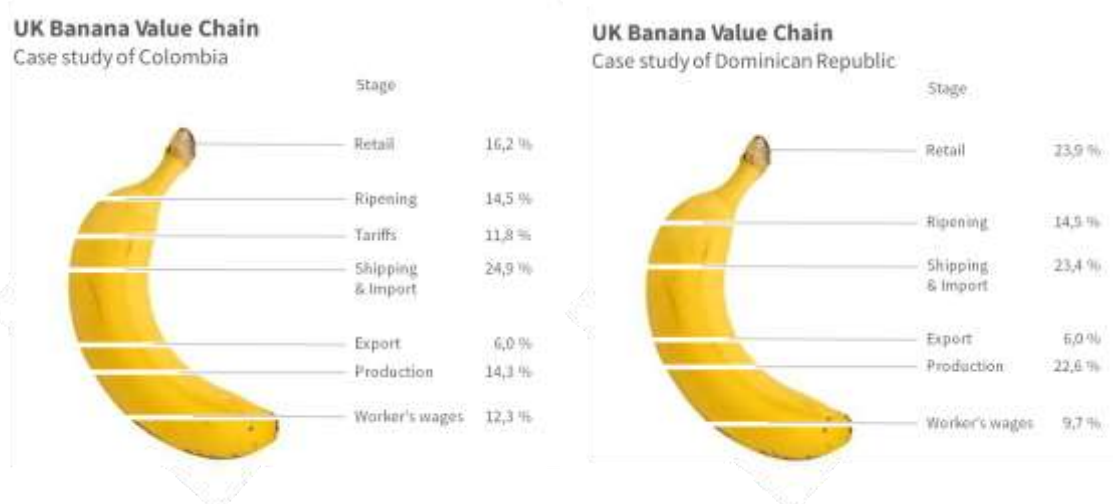


Figure 110: Banana value breakdown between Colombia, Dominican Republic and the UK (2014)

Source: BASIC, based on data from Eurostat, Comtrade, Sopisco, CIRAD, INCAE, Augura and Dominican Republic's Ministry of Labour

KEY FINDINGS

- The UK's grocery retail market, one of the biggest in Europe, is undergoing a significant structural change as online, convenience and discount retailing all register robust growth. Five supermarket chains dominate UK food retailing, accounting for 79.5 % of the market: **Tesco, Sainsbury's, Asda, Morrisons and Coop.**

- The UK fresh fruit market is one of the biggest within the EU, banana being the most consumed fruit in the country (the related consumption per capita is the highest in Europe). Retailers have gained the control of the UK banana market, imposing their quality & safety standards, and sourcing directly banana from Latin American and African producers (thereby bypassing historical fruit companies). The resulting banana import market is highly competitive with at least 10 companies actively involved (Chiquita, Dole, Fyffes, Del Monte, Tesco, Morrisons, Fresca, Winfresh, Pratt...)

- In terms of consumer prices, the UK banana market is totally different from the other European markets and is deeply marked by the price war initiated in 2002 by the retailers: average banana consumer prices fell by more than 50 % in real terms between 2000 and 2014 and CIF import prices have dropped by 43 % since 2000. As a result, the banana value chain in the UK has destroyed value at all stages since 2000. This has strongly affected the main countries supplying the UK market, in particular Ecuador (which has lost 47 % of value since 2000), Colombia and Costa Rica. However, the important market share of Fairtrade bananas and direct sourcing by retailers accompanied by company commitments - **such as Tesco's** - are countervailing mechanisms which partially offset this trend.

- These trends are in stark contrast with the fast growing production and living costs in banana supplying countries, in particular Ecuador - see producer country sections of this report for more details.

Producer country sections

a) Ecuador

General overview of the Ecuadorian Banana sector

Ecuador is by far the world's largest exporter of bananas. It exports almost three times more bananas than the second exporter, Colombia.

The share of bananas originating from Ecuador has expanded from 18 % in the 1970s to 30 % in the 1990s to around 35 % in 2012. The main destination of Ecuadorian bananas is Europe which has bought on average 40 % to 45 % of its bananas over the past decade¹⁸⁰.

Banana exports represent 60 % of the agricultural GDP of the country.

Production is relatively small scale compared to other Latin American countries. The latest census carried out by the Agriculture Ministry of Ecuador showed that 90 % of banana producers are small and medium size farms of less than 50 hectares¹⁸¹.

The production is mainly carried out by national companies, while transnational companies control less than 1% of production. It is estimated that banana production and trade in Ecuador gives direct employment to an estimated 190 000 people.

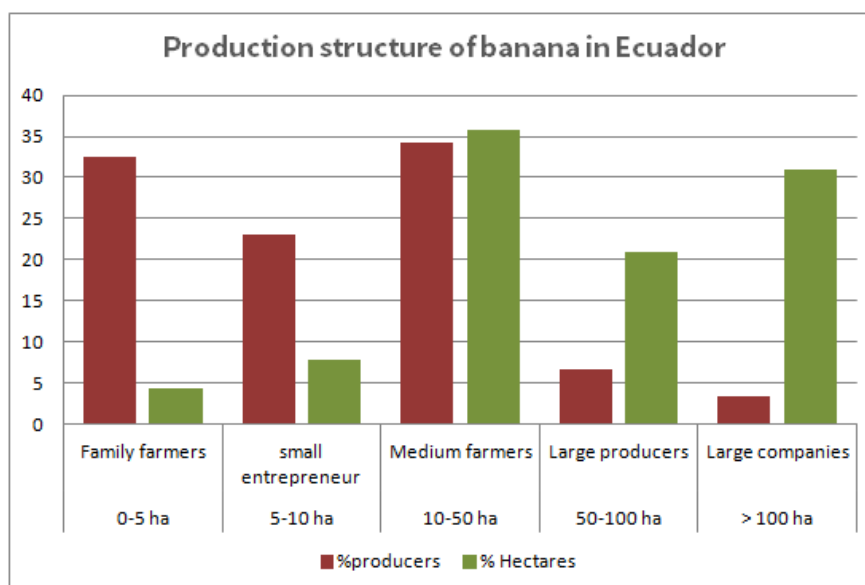


Figure 111: Production structure of Ecuador's banana industry (2009)

Source: BASIC based on MAGAP/SIPAGRO

The companies that export bananas from Ecuador are either owned by national or international interests. The 10 biggest exporting companies accounts for 55% of the country's total banana exports¹⁸². An additional network of intermediaries trades a significant share of Ecuadorian

¹⁸⁰ Given the importance of Europe in banana trade (30% of world imports), this bilateral trade relationship appears is a major driver of the world banana market.

¹⁸¹ Ecuador to Europe value chain study for the World banana forum (2015)

¹⁸² Ecuador to Europe value chain study for the World banana forum, op. cit.

bananas from producers to exporters (even though only farmers' associations have commercial rights since January 2011)¹⁸³.

The difficult social context of the Ecuadorian banana sector

The first social issue of the Ecuadorian banana sector relates to the employment of rural youth. On this subject, it is important to note that the smaller producers employ twice as many people per hectare than the big industrialised plantations (see below).

Although there is no existing reliable data on the evolution of the number of jobs in the Ecuadorian banana sector, it is clear from the above analysis that the current trend has a strong potential to affect negatively job opportunities in banana producing regions, especially for young people.

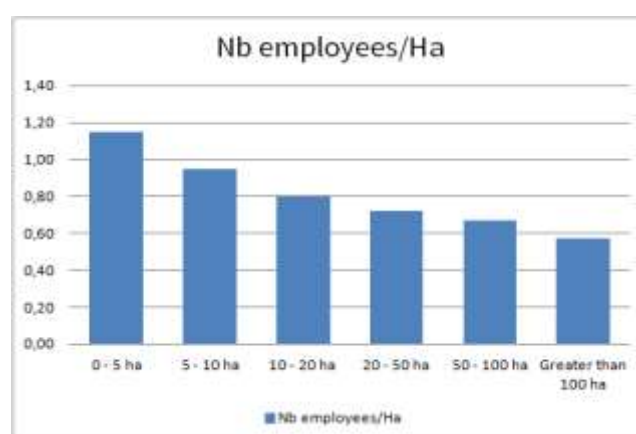


Figure 112: Labour intensive ratio of banana production in Ecuador (2009)
Source: BASIC based on MAGAP/SIPAGRO cited in FAO value chain study (2015)

In terms of the workers' situation, Ecuador presents a mixed picture: it is the country where the unionisation rate is among the lowest of all banana exporting countries (less than 1%¹⁸⁴) because of the near-collapse of the industry in the late 1970s, the history of bad industrial relations and the corruption of some trade union leaders¹⁸⁵. However, it is also the country where the minimum wage has increased the most over the past decade (see below), reaching living wage levels as of 2015.

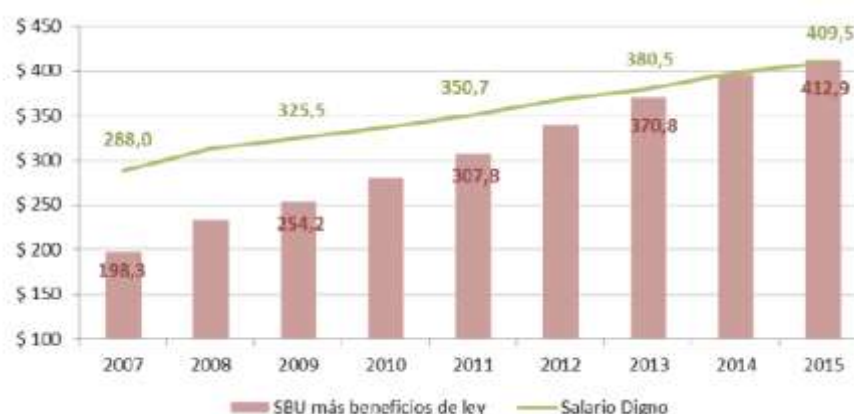


Figure 113: Evolution of the minimum wage in Ecuador 2007-2015
Source: Ministry of Labour (July 2015)

¹⁸³ Ecuador to Europe value chain study for the World banana forum, op. cit.

¹⁸⁴ Sally Smith, Institute of Development Studies, University of Sussex, 'Fairtrade Bananas: a global assessment of impact, 2010

¹⁸⁵ INCAE, Análisis de la estructura salarial en la industria bananer en Ecuador, February 2012

The situation for workers has been recently analysed more in-depth by a team from INCAE Business School. In early 2012, the team conducted - for the World Banana Forum's permanent Working Group on the Distribution of Value along the Chain - a comprehensive survey of the wages and livelihoods of 199 families throughout Ecuador¹⁸⁶.

They studied two distinct groups of producers:

- In the small and medium size farms (smaller than 50 hectares), wages were between US\$78 per week for a part-time worker in a packing station and US\$96 per week for a permanent fieldworker
- In more industrialised plantations (greater than 50 hectares), wages ranged from US\$83 per week for a permanent worker in a packing station to US\$94 per week for a permanent fieldworker

Then, they analysed the global income of the workers' families, showing that:

- Two factors critically influence the ability of families to achieve a 'living wage'¹⁸⁷ for the household: the level of formality of the employment and the capacity to earn additional incomes/have multiple jobs in the family.
- The workers in small and medium-size farms have a greater capacity to achieve multiple jobs in the family than in bigger plantations.
- Overall, only 25% of banana workers in Ecuador earn a living wage for their household in 2012.

Health and environment issues in the Ecuadorian banana sector

Reports of ill health among banana producers and workers in Ecuador stem largely from the misuse of pesticides and fungicides on banana plantations. The problem is more acute in Central America than in Ecuador largely because banana diseases, such as Black Sigatoka (black leaf spot), are more of a problem and require more spraying.

However, Ecuador is not exempt from the problems of chemical application: the disease known as **Taura Syndrome which adversely affected Ecuador's shrimp industry in the 1990s related to the use of aerielly sprayed fungicides to control Black Sigatoka, especially the chemicals known as Tilt and Calixin**¹⁸⁸.

There are also significant health risks on farmers, workers and the surrounding communities.

A study conducted by IFA in 2010 demonstrated through the use of fluorescent tracer that living areas were also significantly sprayed. As a result, large areas were found to be impregnated with agrochemicals: water, farmlands and roads, even the inside of the houses¹⁸⁹.

Few farms have occupational health and safety (OHS) policy in place at work: less than 50 of the 6,000 Ecuadorian producers had deposited their OHS policy with the Ministry of Labour Relations in 2009, even though it is a legal obligation¹⁹⁰.

¹⁸⁶ INCAE, 2012, op. cit.

¹⁸⁷ **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 (Canasta básica familiar - CBF) divided by the average number of wage-earners in a household. It remains indicative, and non-binding.**

¹⁸⁸ Dr Raul Harari, IFA, Trabajo, ambiente y salud en la producción bananera del Ecuador, Nov 2009

¹⁸⁹ Ibid.

¹⁹⁰ Ibid.

Moreover, the depletion of ground-water reserves, owing to the diversion or transformation of ravines or rivers into drainage canals and the discharges of contaminated waste water are of particular concern, together with the generation of high volumes of artificial and solid waste (particularly insecticide-coated plastic).

Economic issues

Ecuador is characterized by the fact that an official minimum support price has been set by the government to guarantee a safety net to banana producers in the country.

It 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.

However, the farm gate price achieved in reality by producers is significantly different from the official support price as already documented by several studies¹⁹¹. The real price per kilo can vary greatly depending on the time of year (from as little as US\$ 0.05 up to US\$ 0.60) during the year¹⁹².

According to the latest data available from the FAO, the average price actually received by producers in Ecuador from 2001 to 2009 varied between US\$ 0.12 and 0.16 per kilo¹⁹³ (compared to the Ecuadorian minimum price of US \$ 0.32 per kilo – US \$ 6.00 per box of 41.5 lbs), the rest of the value being captured by intermediaries.

Even though the official price is what is shown on invoices, various sources reported that producers are often required to return a part of the payment to the importer in return for receiving a quota for **the following week's shipment**. Exporters are also accused of various other “unfair” practices which reflect their position of power in the value chain, such as overcharging for cartons and several other services (fumigation, etc.).¹⁹⁴

Several investigations have been conducted in recent years, documenting the illegal practices on the ground that enable to circumvent the official minimum price system (see articles in appendix): absence of signed contracts, absence of payment in the Interbank Payment System, illegal planting of banana plantations (not registered in MAGAP), creation of fictitious/shell companies, proliferation of intermediaries, exporters and brands (which are quickly set up and closed down).¹⁹⁵

The interviews conducted by Oxfam in Ecuador with producers, exporters as well as government's officials confirmed these facts. All actors agreed that this is a genuine observation of the situation in the country. They confirmed that **60% - 70% of the banana producers' sales are done under yearly contracts guaranteeing the minimum price (and also a maximum price) paid by intermediaries or exporters, and that the other 30% - 40% is sold at the spot market with higher prices during the high season ('temporada alta') and potentially extremely low prices of under 3 US\$/box during the low season ('temporada baja')**.¹⁹⁶

In this context, the Ecuadorian government has decided to strengthen its controls on the ground and to tighten the legal penalties in case of breach of the legal system.

¹⁹¹ INCAE, Análisis de la estructura salarial en la industria bananera en Ecuador, February 2012

¹⁹² Sally Smith, Institute of Development Studies (IDS), 'Fairtrade Bananas: a global assessment of impact, April 2010

¹⁹³ FAO, Ecuador to Europe value chain study, 2013, op. cit.

¹⁹⁴ Oxfam Deutschland, Analysis of German banana value chains and impacts on small farmers & workers, 2014

¹⁹⁵ Ibid.

¹⁹⁶ Ibid.

More globally, the Ecuadorian government recognizes the difficulty to sustain and offset the fierce price competition in the global banana market through the establishment of an official minimum price.

To analyse further this situation, we have modelled and estimated the value that is left for Ecuadorian banana producers based on the CIF import price in the EU (based on Comtrade and Eurostat data), deducting a conservative estimation of:

- the shipping costs, insurance and freight (including Panama Canal fees)
- and the margins published by the major importers operating between Ecuador and Europe: Chiquita, Fyffes, Dole and Del Monte.

The results for the main destinations of Ecuadorian bananas are provided in the diagram below:

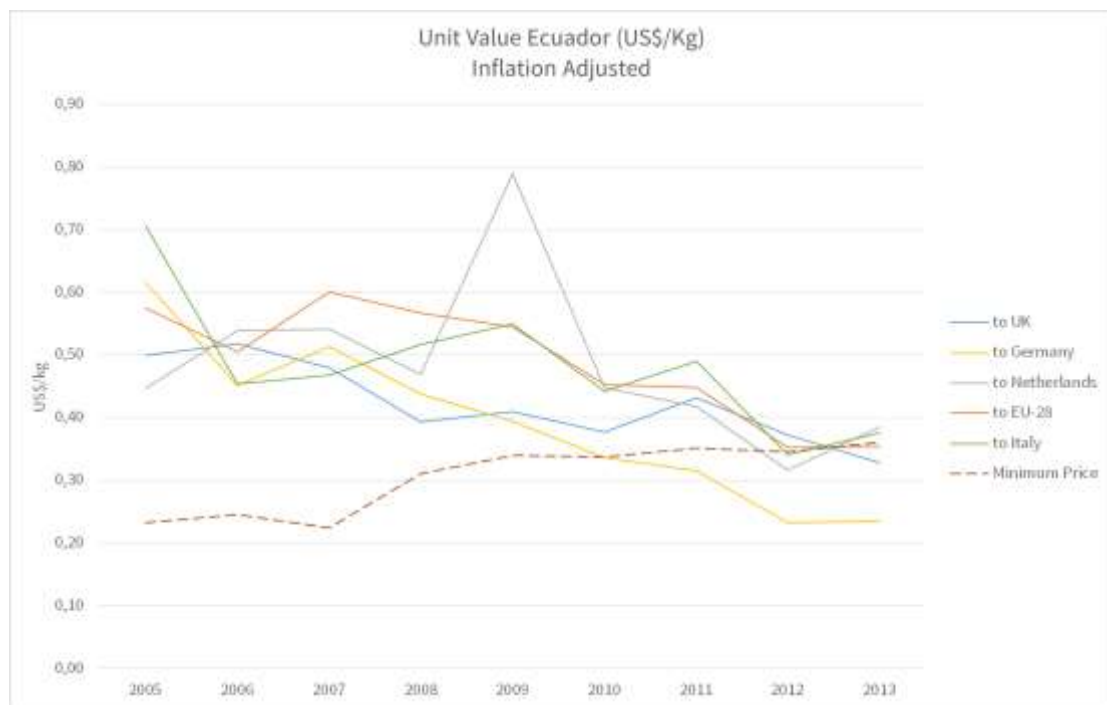


Figure 114: Evolution of the unit value of Ecuadorian bananas exported to the EU (2005-2013)
 Source: BASIC based on data from Comtrade, Sopisco, banana import companies and literature review

The above estimations indicate that the German banana market is potentially driving strong pressure in Ecuador with respect to the official support price since 2010.

This doesn't mean that the illegal practices are directly caused by the German buyers, but that German banana price trends potentially encourage further illegal practices in Ecuador through their pressure on prices. Reversely, the existing mechanisms put in place to bypass the Ecuadorian legislation on banana support price potentially enable and encourage the low price trend on bananas in Germany.

In comparison, the price trends in the EU average and the other major European destinations of Ecuadorian bananas – UK, Italy and Netherlands – are quite different from the situation in Germany: in all these cases, it seems that the actors of the value chain exert less pressure and leave apparently enough money in Ecuador to cover the official minimum price set by the government.

Costs of sustainable production

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. This estimate gave the following results for 2010¹⁹⁷:

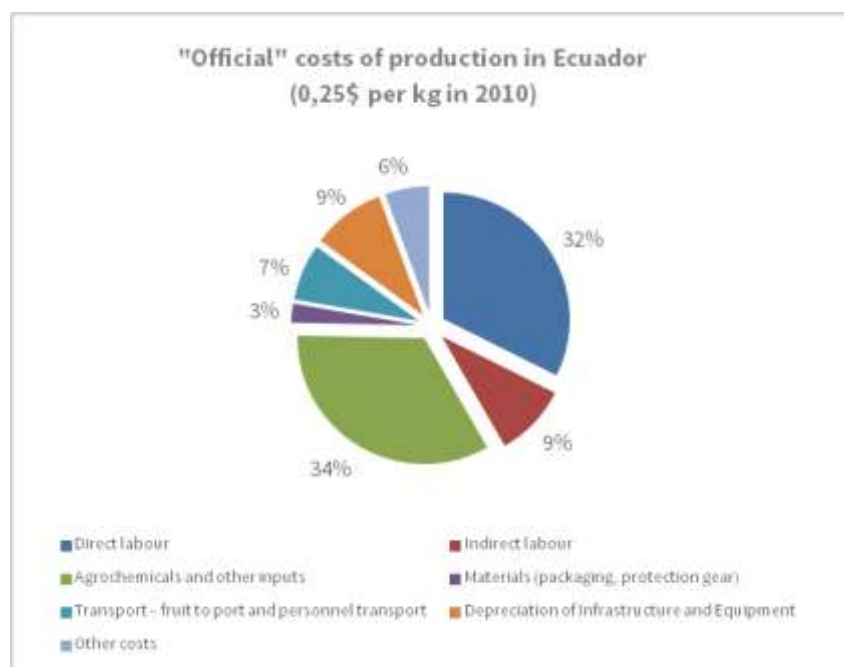


Figure 115: Production costs of a typical industrialised plantation in Ecuador (2010)
Source: FAO value chain study (2014)

However, this set-up does not correspond to the wide majority of producers as detailed earlier (90% of producers having less than 50 hectares).

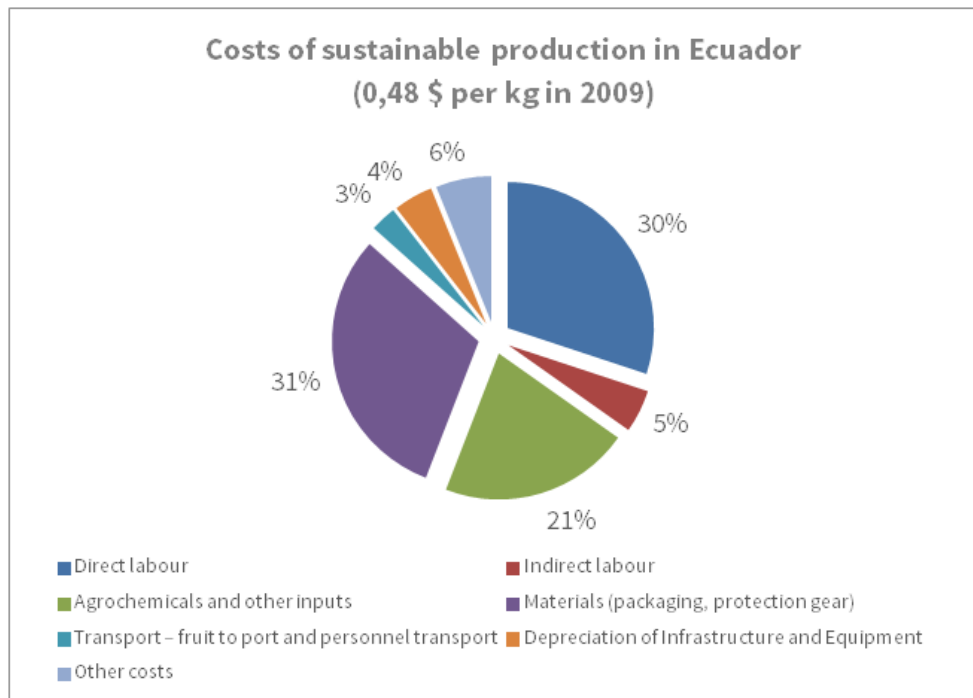
A different estimate is provided by Fairtrade International (FTI) through its regular survey of the Costs Of Sustainable Production (COSP) among certified producers in the country (predominantly small banana growers).

It takes into account the “labour, inputs/services and capital/investments costs of establishment, field operations, harvest and post-harvest, processing, packaging, central structure as well as transport to harbour, costs at harbour and other costs”.¹⁹⁸

The FTI’s estimations for Ecuador (see below) show the significant gap for small banana growers which cannot remain in business in the current economic context, even with the support price defined by the government (see below).

¹⁹⁷ Ecuador to Europe value chain study for the World banana forum (2015)

¹⁹⁸ Fairtrade International, Standard Operating Procedure for the Development of Fairtrade Minimum Prices and Premiums, January 2013



*Figure 116: Costs of sustainable production of certified producer organizations (2009)
Source: BASIC based on Fairtrade International information*

In order to ensure long term sustainability, the buyers of Ecuadorian bananas should take into account for their price setting these estimations, but also the additional hidden costs which are currently ignored by the market: job losses in rural areas, workers and producers earning less than the living wage/income, tax evasion, and the damage related to emissions of greenhouse gases (which contribute to climate change), use of chemicals, water pollution and abstraction, air pollution, soil degradation, waste not recycled, loss of biodiversity...

b) Colombia

General overview of the Colombian Banana sector

Bananas in Colombia are the third most important agricultural export after coffee and cut flowers. Over 90 % of the Cavendish bananas produced are exported.

Banana exports from Colombia have grown very substantially since the Gros Michel variety was substituted by Cavendish in the early 1970s¹⁹⁹.

Banana occupies approximately 45 000 hectares, which is equivalent to 7 % of the total area planted to fruit crops (16% of which is for the domestic market). Production is concentrated in Uraba and Magdalena both of which are areas where conflicts has left many dead and where the current 'tense peace' between guerrilla, paramilitary and government forces remains very fragile indeed²⁰⁰.

While production in Uraba has increased dynamically, Magdalena has tended to shrink in recent decades. This difference is related to the level of business development areas: Uraba is characterised by larger production units while Magdalena is dominated by smaller producers. As a result, Uraba contains almost 70 % of the area planted to bananas and the bulk of plantains for export²⁰¹.

It is estimated that banana production and trade in Colombia gives direct employment to an estimated 80 000 people: Uraba generates 17,000 direct jobs and 54,000 indirect whereas Magdalena generates 7,000 direct jobs and 12,000 indirect.

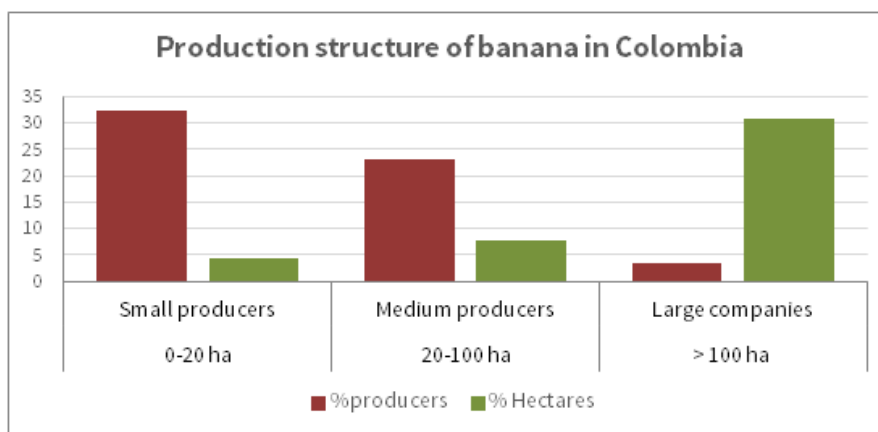


Figure 117: Productive structure of banana in Colombia (2009)
Source: BASIC based on MADR cited in FAO value chain study (2012)

¹⁹⁹ FAO, The world banana economy 1985-2002, Rome 2003

²⁰⁰ FAO, Value chain study in Colombia, 2012

²⁰¹ Ibid.

The social and environmental context of the Colombian banana sector

The banana industry in Colombia has a very particular history. As the main regions of banana production are (ex-) conflict zones, the development of the industry during the demobilisation period in the early 1990's offered significant employment opportunities to the ex-guerrilleros and their families. Their strong social identity during the civil war was the building-block for very strong trade union. Today the Sintrainagro trade union includes some 19 000 workers, representing the overwhelming majority of the permanent banana workers in the country.²⁰²

The robust experience of unionisation in Uraba and cross-sectoral employee-employer negotiations have led to mature industrial relation expressed in a series of 2-3 Collective Bargaining Agreements that have translated into better working conditions and wages than in the rest of the country (see below)²⁰³. The wages and conditions in the Colombian 300 farms are also better than almost all other banana exporting countries in the region²⁰⁴:

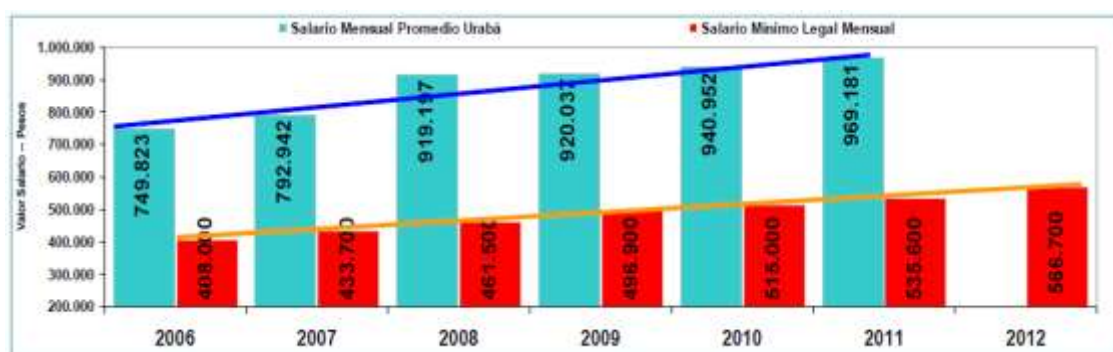


Figure 118: Comparison between the monthly minimum wage and average wage in Colombia
Source: Augura (2013)

The level of wages in the Colombian banana sector is therefore quite close to the living wage, enabling many families to achieve a sustainable livelihood.

However, given the downward trend and growing pressure on price, there is a growing tension on Colombian workers to give up the better conditions they have obtained over the years in the name of fiercer competition between producers and producer countries to supply the retailers.

The environmental and health impact in Colombia is somewhat better than the situation in Ecuador thanks to greater involvement of the banana industry and more resources dedicated by the government. However, the intensive use of fertilizers, plastics and chemicals, as well as the dense network of drainage and irrigation systems, are generating several negative impacts: salinisation, acidification, soil sealing and soil erosion, eutrophication, accumulation of waste and pesticides in air, soil and water, loss of biodiversity, etc²⁰⁵.

²⁰² Fairtrade Foundation, Britain's bruising banana wars, 2014

²⁰³ Augura, situación del sector bananero, 2013

²⁰⁴ Augura, situación del sector bananero, 2013, op. cit.

²⁰⁵ Cenibanano - Augura, Los desechos generados por la industria bananera Colombiana, 2008

In addition, a specific trend can be observed in Colombia in relation to the price pressure, the growing costs of production and the difficult access to credit: as the small and medium size producers can barely afford to remain in the banana business because of its very low profitability, overall decapitalisation is taking place²⁰⁶. Growing conversion to oil palm cultivation can be observed in historical banana producing regions (in particular Uraba) because it requires only 1 worker per 10 hectare (as opposed to nearly 1 worker per hectare in banana). Medium-scale farms of between 20 and 50 Ha are the ones that tend currently to be converting to oil palm production in order to restore profitability to their farm²⁰⁷.

In turn, this is generating growing social tensions, as there are very few alternative local job opportunities. The only 'alternatives' at present for workers in the region are oil palm, and to a lesser extent cattle & rice production, tourism or migration (mainly to the US).

“They have increased the planting of oil palm, a crop which is not labour-intensive. While an estate of 200 hectares of banana generates 300 jobs, an oil palm plantation only employs 25 people; this is not the alternative we need” (Guillermo Rivera Zapata, chairman of Sintrainagro)

Economic issues

Together with other factors (competition with lower cost banana exporting countries, devaluation of the peso against the dollar, turmoil in some Mediterranean consumer countries), the downward trend of European banana prices contributes to increasing pressure on Colombian workers to give up the better conditions they have obtained over the years in the name of fiercer competition between producers and producer countries to supply the retailers.

This leads to regular social tensions as shown in June 2013 when the Colombian national agricultural workers' union Sintrainagro threatened to go on strike in response to the employers' proposal to reduce wage rates and cut social benefits (see details in Appendix). As the president of Sintrainagro explained it then:

“We recognise that the industry is facing a serious crisis, but it is not for the workers to pay the price of a crisis that only the companies and the government can resolve. We don't have any profit-sharing arrangements, so should not be expected to bear the brunt when exchange rates and international markets affect the industry.”

To analyse further this situation, we have modelled and estimated the value that is left for Ecuadorian banana producers based on the CIF import price in the EU (based on Comtrade and Eurostat data), deducting a conservative estimation of:

- the shipping costs, insurance and freight
- and the margins published by the major importers operating between Colombia and Europe: Chiquita, Fyffes, Dole and Del Monte.

²⁰⁶ El Colombiano, 'Cierre de fincas por crisis bananera en Urabá', January 2013

²⁰⁷ Ibid

The results for the main destinations of Colombian bananas are provided in the diagram below:

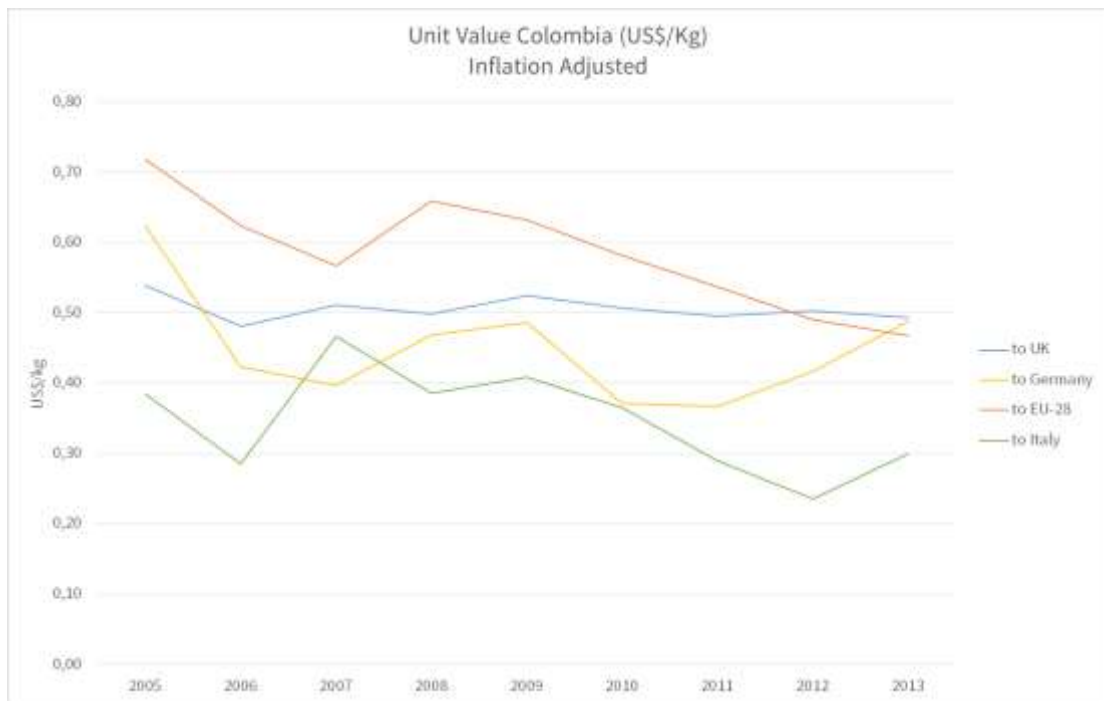


Figure 119: Evolution of the unit value of Colombian bananas exported to the EU (2005-2013)

Source: BASIC based on data from Comtrade, Sopisco, banana import companies and literature review

The above estimations indicate that the Italian banana market is potentially driving strong pressure in Colombia in comparison with the EU average and other major destination markets. While the global trend in Europe is clearly declining, dropping by 34 % between 2005 and 2013, the UK market seems to remain fairly stable in terms of prices and the German prices appear to be recovering since 2010, following a sharp decline between 2005 and 2010.

Costs of sustainable production

Recent data available on production costs provided by Augura give the following breakdown for a typical plantation of Uraba²⁰⁸:

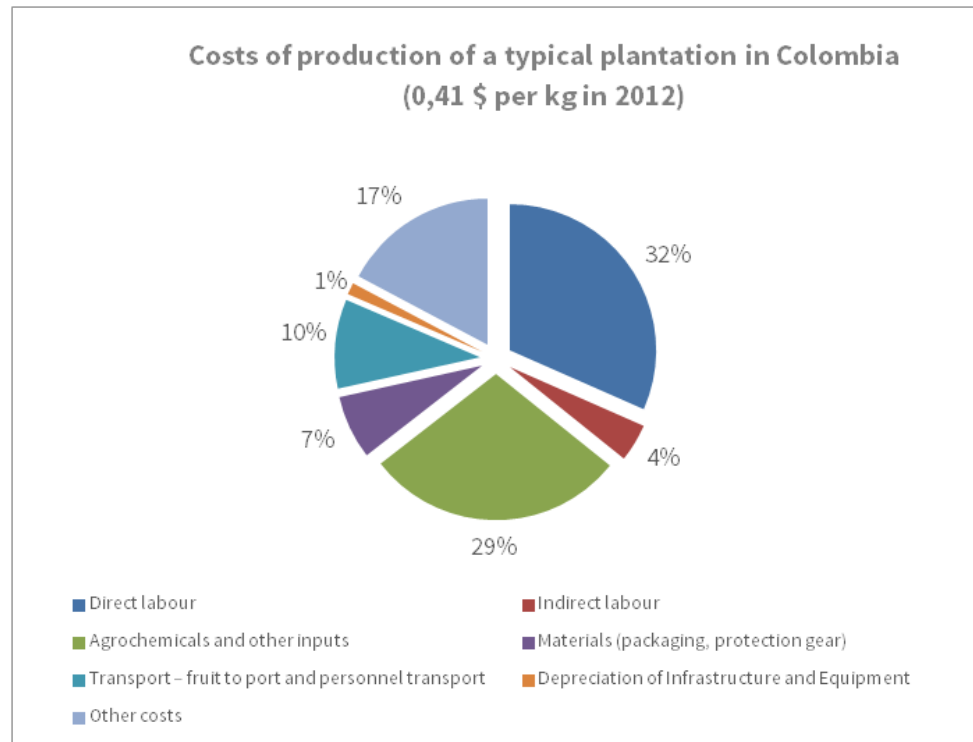


Figure 120: Production costs of a typical plantation of Uraba (2012)
Source: FAO value chain study (2012)

A different estimate is provided by Fairtrade International (FTI) through its regular survey of the Costs Of Sustainable Production (COSP) among certified producers in the country (a mix of middle-size plantation and small growers).

It takes into account the “labour, inputs/services and capital/investments costs of establishment, field operations, harvest and post-harvest, processing, packaging, central structure as well as transport to harbour, costs at harbour and other costs”.²⁰⁹

The FTI’s estimations for Colombia (see below) show the existing gap for small banana growers and middle-size banana plantations to remain in business in the current economic context:

²⁰⁸ FAO, Value chain study in Colombia, 2012, op. cit.

²⁰⁹ Fairtrade International, Standard Operating Procedure for the Development of Fairtrade Minimum Prices and Premiums, January 2013

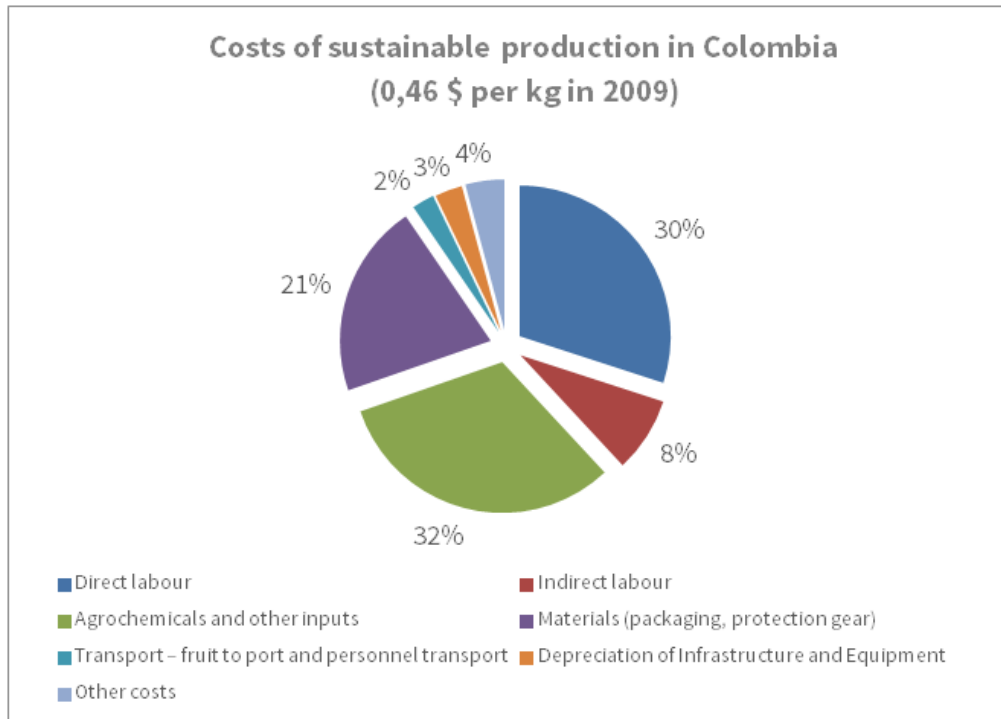


Figure 121: Costs of sustainable production of FT certified producer organizations (2009)
Source: BASIC based on Fairtrade International information

In order to ensure long term sustainability, the buyers of Colombian bananas should take into account for their price setting these estimations, but also the additional hidden costs which are currently ignored by the market: job losses in rural areas, workers and producers earning less than the living wage/income, tax evasion, and the damage related to emissions of greenhouse gases (which contribute to climate change), use of chemicals, water pollution and abstraction, air pollution, soil degradation, waste not recycled, loss of biodiversity...

c) Costa Rica

General overview of the Costa Rican Banana sector

Costa Rica is the third largest exporter of bananas after Ecuador and the Philippines. Banana exports have increased at relatively stable rate growing from 85 million boxes being exported in 2002 to 110 million boxes in 2014. Europe is still the primary export destination for bananas from Costa Rica with 48.9% of exports arriving in European ports in 2014. The second largest market is the US at 40.5%.²¹⁰

In Costa Rica, bananas grow on an area of about 43,000 hectares, representing almost 1% of the total area of the country (roughly 51,000 km²). Revenues from the banana sector represent on average 7% of total revenues Costa Rican exports.²¹¹

Banana crops are located especially on the northern Caribbean coast of Costa Rica, employing over 70% of the working population in the region (either directly or indirectly in trade, transport, pesticides, equipment and packaging activities). The largest banana companies active in Costa Rica are Chiquita, Dole and Del Monte who jointly own 67% of plantations in the country. Costa Rican plantation owners are organized through their national union CORBANA which represent their interests.

The social and environmental context of the Costa Rican banana sector

The banana industry employs 40,000 people directly with an additional 100,000 people employed indirectly in associated sectors such as equipment manufacturing and agricultural input suppliers.²¹²

The country has one of the highest banana yields of all producer countries, but it is also a relatively high-cost producer, with wage costs being amongst the highest in Latin America. The minimum wage (set by law in agriculture) currently stands at 9,509 settlers (almost 16 euros) per day for a working day of eight hours.²¹³

To offset this lack of competitiveness, many farms operate on a piece rate work system that is applied across the whole production process, from the field to the pack house, paying workers on a price rate basis. As a result, banana workers often perform tasks for more than eight hours a day to provide the services required by their employer and because the rate is often so low that it is very difficult to earn a living wage in an eight hour shift.²¹⁴

²¹⁰ CORBANA, 2015 Available online: https://www.corbana.co.cr/categories/categoria_1344368863 (accessed in September 2015)

²¹¹ CORBANA, Implementación de Buenas Prácticas Agrícolas para Reducir el Escurrimiento de Plaguicidas en el Cultivo del Banano de la Región Caribe Costarricense, 2011

²¹² CORBANA, 2015 Available online: https://www.corbana.co.cr/categories/categoria_1348246255 (accessed in September 2015)

²¹³ Costa Rican Government, Decreto Ejecutivo No. 38728-MTSS, 10 November 2014

²¹⁴ P.K. Robinson, Precarious and temporary work: the real cost of the high yielding, top quality, low-priced banana, January 2011

The lack of employment stability is also often reported by Costa Rican unions as well as the disproportionate use of temporary contracts and subcontracting which can notably prevent workers from joining a union. These practices are often used to increase the labour flexibility and meet the changing requirements of buyers whilst keeping costs to a minimum.²¹⁵

By law, workers can form unions, but in practice unionized people are often pressured by management (because of the long history and culture of anti-union in the Costa Rican banana industry) and union influence is declining.

In addition, a high number of Nicaraguan and Panamean migrants (potentially the majority of banana workers in the country) are reported working in Costa Rica banana plantations, being frequently employed by a subcontracted recruiter with often no contract, which prevents them from accessing social security and health and safety measures.²¹⁶

The main reasons given for this situation by Costa Rican plantation owners are²¹⁷:

- the continual fall in **buyers'** prices who demand for every-low prices, especially in Europe; **and the shift of responsibility on workers by producers who argue that 'the wages are determined by the need to keep the export price of bananas below a given benchmark in order to stay in business against competitors'**,
- The tightly managed and demanding time schedule imposed by buyers to implement the so-called '**just- in-time banana**'.

In sanitary and environmental terms, the constant pressure to produce a high yield and a perfect banana of a uniform size and colour without blemishes has resulted in production practices that can strongly impact the health of workers because of the significant use of chemicals.

Reports of ill health among banana producers and workers stem largely from the misuse of pesticides and fungicides on banana plantations. The problem is more acute in Central America largely because banana diseases, such as Black Sigatoka (black leaf spot), are more of a problem and require more spraying.²¹⁸

Interviews in banana farms in Costa Rica suggest that workers consider the use of pesticides as an accepted part of the production process, and something they just have to get used to, thereby shifting the main responsibility for safety on them if they do not fully protect or stay in the field where they can be endangered. The situation appears to be somewhat different in pack houses, where health and safety requirements are often more strictly adhered to (one explanation being the fact that supervisors have more of a presence compared to the field).²¹⁹

Economic issues

Together with other factors, the downward trend of European banana prices contributes to increasing pressure on Costa Rican workers to give up the better conditions they have obtained over the years in the name of fiercer competition between producers and producer countries to supply the retailers.

²¹⁵ P.K. Robinson, Precarious and temporary work: the real cost of the high yielding, top quality, low-priced banana, 2011 op. cit.

²¹⁶ Ibid.

²¹⁷ Ibid.

²¹⁸ Dr Raul Harari, IFA, Trabajo, ambiente y salud en la producción bananera del Ecuador, Nov 2009

²¹⁹ Ibid.

To analyse further this situation, we have modelled and estimated the value that is left for Ecuadorian banana producers based on the CIF import price in the EU (based on Comtrade and Eurostat data), deducting a conservative estimation of:

- the shipping costs, insurance and freight
- and the margins published by the major importers operating between Costa Rica and Europe: Chiquita, Fyffes, Dole and Del Monte.

The results for the main destinations of Costa Rican bananas are provided in the diagram below:

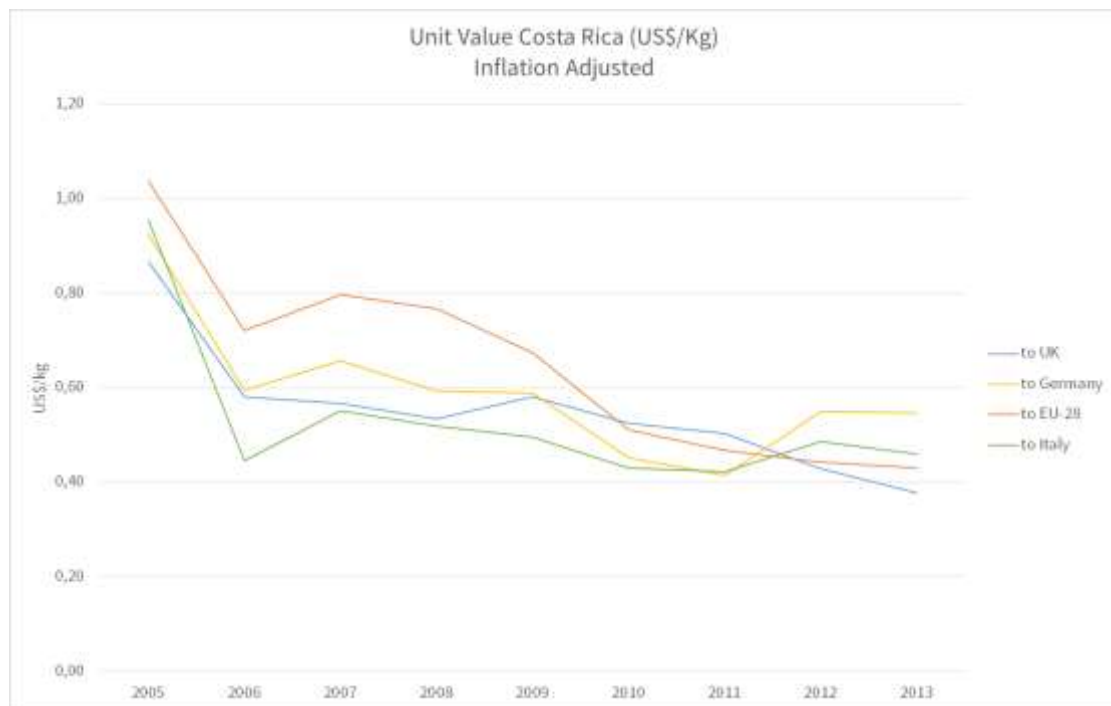


Figure 122: Evolution of the unit value of Costa Rican bananas exported to the EU (2005-2013)

Source: BASIC based on data from Comtrade, Sopisco, banana import companies and literature review

The above estimations show the convergence of price trends in European banana markets which dropped sharply between 2005 and 2013 once adjusted for domestic inflation. This is likely to explain the strong pressure on Costa Rican workers.

In the past two years, the prices seem to have somewhat recovered in Germany and to a lesser extent in Italy, while continuing to decline in the UK.

In order to ensure long term sustainability, the buyers of Costa Rican bananas should take into account for their price setting these estimations, but also the additional hidden costs which are currently ignored by the market: job losses in rural areas, workers and producers earning less than the living wage/income, tax evasion, and the damage related to emissions of greenhouse gases (which contribute to climate change), use of chemicals, water pollution and abstraction, air pollution, soil degradation, waste not recycled, loss of biodiversity...

d) Dominican Republic

General overview of the Dominican Banana sector

In contrast to Ecuador, Costa Rica and Colombia, banana production for export has not been historically prominent in the Dominican Republic and **the fruit companies' presence remained limited**. The country has become the largest exporter of the Caribbean after gaining the status of an ACP State in 1990. It has benefited from the related duty free export of bananas into the EU. Exports to this market grew rapidly and by 1993, more than 80 % of its total banana production was exported to Europe²²⁰. In 2011, over 50% of Dominican Republic exports went to the UK and over 30% to Belgium, the rest to other EU countries and to the US²²¹.

Dominican Republic remains the number one exporter of organic bananas in the world: over 60% of the banana production for export is organic certified²²², accounting for 40% of world exports in 2009²²³. Almost three quarters of banana producers in Dominican Republic are organic: 100% in the Southern region and over 50% in the Northern region²²⁴.

This has been possible because of the relatively dry (low fungal disease pressure) regions (Noroeste/Cibao and Azua) in which bananas are grown and the integrated pest management techniques that have been used to control Black Sigatoka. The transition to organic was eased by the fact that most farmers were already using few external inputs and supported by technical and financial assistance provided by the largest companies (Savid S.A. and Horizontes Orgánicos)²²⁵.

The Dominican Republic production is predominantly small-scale, with a significant contribution from (non-wage-earning) family labour. Approximately 90% of producers are small farmers (holding between 1.2 and 2.5 Ha - mostly as a result of the national agricultural reform policy), **accounting for approximately 50% of the country's banana production**²²⁶. Production costs are higher than those in the "dollar banana" area²²⁷.

The medium and large plantations are owned directly by the exporting companies which also buy from the small producers depending on market demand. They are mainly nationally-owned except for some Spanish companies and one large Dutch/US venture.

The social and environmental context of the Dominican banana sector

Banana is the second largest agricultural export product of the Dominican Republic and an important source of employment, wages and income in poor regions of the country where poverty rate exceeds 50%²²⁸.

²²⁰ FAO, 2003, op. cit.

²²¹ Banana Link, Banana Trade News Bulletin 50, June 2012

²²² Banana Link, June 2012, op. cit.

²²³ Sally Smith, Institute of Development Studies (IDS), 2010 op.cit.

²²⁴ Instituto Interamericano de Cooperacion para la Agricultura (IICA), Estudio de la cadena alimentaria de banano en la Republica Dominicana, 2007

²²⁵ Ibid.

²²⁶ Banana Link, Banana Trade News Bulletin, June 2012, op. cit.

²²⁷ FAO, 2003, op. cit.

²²⁸ Millenium Development Objectives Achievement Fund, Dominican Republic fact sheet, April 2013
<http://www.mdgfund.org/sites/default/files/Dominican%20Republic%20Joint%20Programme%20Fact%20Sheet.pdf>

In 2011, the Dominican banana industry estimated that 30,000 people were directly employed by the sector and generated 20,000 indirect employments²²⁹.

The situation of banana small farmers remains very difficult in the Dominican Republic. The country's geographical location in the Caribbean makes it particularly vulnerable to hurricanes. Production was severely disrupted by hurricanes that struck the island in 1998, 2003, 2004 and 2007 as well as by floods in 2007.

A study conducted by the FAO in 2008 showed that, although the conversion to organic enables small farmers to achieve somewhat better prices (on average 20% higher than conventional banana), this price premium is not sufficient to cover the higher costs of organic banana production (related to field work, certification, control systems, etc.) and that the added value of organic banana is mainly captured by importers and wholesalers²³⁰.

The insufficient price they obtain discourages many of them from maintaining the farm. As a result, they are losing yield and profitability and are increasingly stepping out of the banana trade²³¹.

Regarding the labour force, the only major recent study conducted in 2010 by the Dominican Ministry of Labour concluded that 66 % of all banana workers were Haitian, varying from 54% in the South to 77% in the Northwest (other studies, including from the industry, show that this figure may well be higher, up to 90% in the border area). It also showed that 86 % of field workers and 69 % of pack house workers were Haitian, whilst 61% of supervisors (field and pack house) were Dominican²³².

Employer-worker labour relations are characteristically informal, based on verbal contracts. National statistics from 2010 state that 66% of producers did not register any of their workers with the Labour Ministry. Data from 2010 shows that there are substantial wage differences between Dominican and Haitian employees for all except harvesting and bagging jobs (see below)²³³.

Job	Dominican wage	Haitian wage
Field/pack house supervisor	375.20	235.90
Pack house worker	311.20	243.70
Main field workers tasks	227.80	229.30
Other field worker tasks	272.00	198.00
Average	294.00	228.30

Table 2: Daily wage comparison for national and migrant workers

Source: Ministry of Labour of Dominican Republic, "Inmigrantes Haitianos y Mercado Laboral", 2010

The case of Haitian migrant workers is very specific to the Dominican Republic. Since the 1920s much of the agricultural labour force has been Haitian migrants. These workers are typically undocumented and illegal, and face an array of economic, social and political disadvantages²³⁴. Discrimination is deeply rooted in a long history of tension between the two countries.

²²⁹ Ibid.

²³⁰ FAO, Certification in the value chain for fresh fruits: the example of the banana industry, 2008

²³¹ Anonymised interviews with Dominican Producers

²³² Ministry of Labour of Dominican Republic, "Inmigrantes Haitianos y Mercado Laboral", 2010

²³³ Ibid.

²³⁴ Harari, Manual de seguridad, salud y ambiente en la producción bananera, 2005

Despite international campaigns highlighting the conditions of Haitian workers (including forced recruitment and under payment), they are still discriminated against in both law and practice, in particular by the legal requirement stating that at least 80% of any firm's workforce must be Dominican.

This situation is further exacerbated by the price pressure on the banana producers of the country as they provide a cheap labour option to lower down the costs.

Only very recently 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 union²³⁵.

In 2012, for the first time, banana workers were issued so-called «NM1 » visas, giving them full permission to work and access to the social security system. The problem for many workers, though, is that the process for getting a passport is complicated, costly and time-consuming²³⁶.

In terms of environmental conditions, there seems to be less agrochemical associated health risks on small farms in conventional production as they have less financial capital to invest in regular chemical application or aerial spraying. However, health and safety risks can be higher in the small producer sector.

Economic issues

In this context, and together with other factors, the downward trend of European banana prices contributes to increasing pressure on small producers and workers in the Dominican Republic.

To analyse further this situation, we have modelled and estimated the value that is left for Dominican banana producers based on the CIF import price in the EU (based on Comtrade and Eurostat data), deducting a conservative estimation of:

- the shipping costs, insurance and freight
- and the margins published by the major importers operating between Dominican Republic and Europe: Chiquita, Fyffes, Dole and Del Monte.

The results for the main destinations of Dominican bananas are provided in the diagram below:

²³⁵ Banana Link, Banana Trade News Bulletin, June 2012, op. cit.

²³⁶ Cf. Banana Link, Banana Trade News Bulletin 50, June 2012: 'Many Haitian migrant workers do not even have a birth certificate, a basic requirement for getting a passport'.

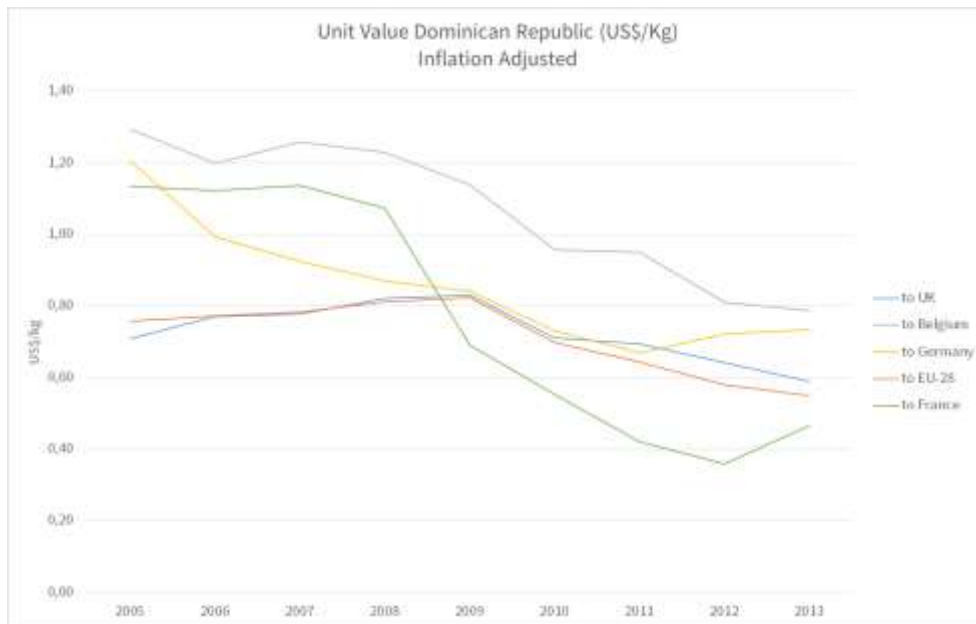


Figure 123: Evolution of the unit value of Dominican bananas exported to the EU (2005-2013)
 Source: BASIC based on data from Comtrade, Sopisco, banana import companies and literature review

The above estimations indicate that the French banana market, after being quite remunerative until 2008, is potentially driving strong pressure in Dominican Republic in comparison with the EU average (although the two seem to converge since 2012).

Looking at other major destination of Dominican bananas, the declining trend in prices appear to be taking place in all the main European markets since 2005 (from 14 % drop in the UK up to 55 % drop in France).

Costs of sustainable production

In this context, the average costs of sustainable production of Dominican Republic bananas estimated by Fairtrade International is the following:

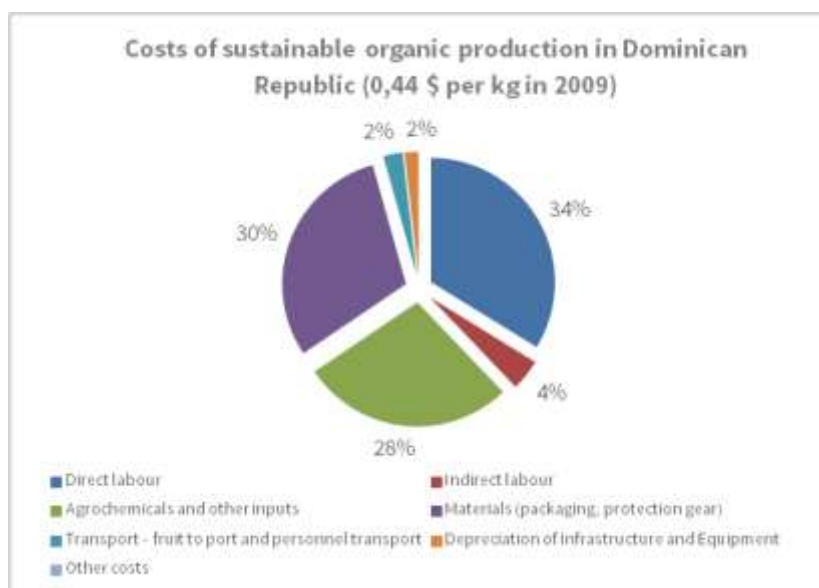


Figure 124: Costs of sustainable production of FT and organic certified producer organizations (2009)
 Source: BASIC based on Fairtrade International information

At first sight, this estimation shows that the unit value of exports to all European markets are still above the costs of sustainable production of conventional bananas.

However, in order to ensure long term sustainability, the buyers of Dominican bananas have to take into account for their price setting the additional hidden costs which are currently ignored by the market: job losses in rural areas, workers and producers earning less than the living wage/income, tax evasion, and the damage related to emissions of greenhouse gases (which contribute to climate change), air pollution, soil degradation, waste not recycled, loss of biodiversity...

Appendix A: Methodological note

Scope and objectives

The objective of the study is to bring together different strands of evidence (both qualitative and quantitative) on:

- Banana value chains in Europe focusing on the following countries: the UK, Portugal, Malta, Italy, France, Germany, Austria, Czech Republic, Hungary, Poland, Latvia and Romania.
- Potential Unfair Trading Practices (UTPs) between fruit buyers in Europe and banana producers in exporting countries, their consequences on farmers and workers, and the relationship with market dynamics in European markets

Theoretical approach

To analyse interconnections between the banana value chains in Europe, potential cases of UTPs and impacts in banana producing countries, we have combined two disciplines/bodies of research: Global Value Chain analysis and impact assessment.

In comparison with other approaches, the theory of global value chains takes a radically new view on international trade²³⁷:

- Its focus is on the whole range of activities from production to consumption and the linkages binding them (from production to advertising, marketing, retailing, and the final disposal of the product), whereas traditional economic trade theory only focuses on supply and demand.
- It investigates the interactions between the configuration of global chains (input-output, nodes, territories, governance and institutions....) and their economic determinants (supply and demand, value and cost breakdown, price dynamics, income distribution...)
- It investigates the institutional context of power relations in which trade is embedded, the characteristics of economic governance and share of value, with key agents setting the rules of the game, while economic trade theory assumes that 'buyers and sellers in different markets meet each other as independent agents'.

Global Value Chains are modelled through 4 main dimensions²³⁸:

- their input-output structure,
- their geographical coverage,
- their governance structure, the barriers to entry and co-ordination systems along the chain,
- the institutional framework surrounding the chain, i.e. the conditions under which key or 'lead' agents influence other agents through their control of market access and information.

In addition, an extensive review of impact assessment studies (using social, environmental and health approaches) was conducted in order to investigate the long-term consequences in banana export countries. A particular attention has been given to analyse and differentiate outputs from outcomes/effects and impacts (and to test underlying assumptions).

²³⁷ Gibbon, Bair and Ponte (2008) "Governing Global Value Chains: An Introduction," *Economy and Society*, Vol. 37, pp. 315-338

²³⁸ Gary Gereffi, John Humphrey, and Timothy Sturgeon. "The Governance of Global Value Chains." *Review of International Political Economy* 12, no. 1 (February 2005): 78-104

Methodology

To conduct the research, we investigated the following points:

GEOGRAPHICAL SCOPE	AREA OF RESEARCH	SOURCES OF INFORMATION
EU level and the 12 member states included in the scope of the study	Food retail market trends and distribution channels	European Commission, Planet Retail, Euromonitor, Kantar, member state authorities, CBI, USDA, AgriFood, ECB, interviews with experts
	Banana value chain: volumes and origins; consumer prices, wholesale prices, CIF and FOT import prices (see diagram below)	Eurostat, European Commission, Comtrade, CIRAD (ODEADOM), offices of national statistics (INSEE, Agrimer, UK Office of National Statistics, DEStatis...)
	Banana chain structures and their evolution	European Commission, FAO, UNCTAD, World Banana Forum, COGEA, CIRAD, Global Value Chain studies (Duke Univ.), interviews with experts in Europe
MAIN COUNTRIES SUPPLYING BANANAS TO EUROPE	Shipping & import costs, export costs, unit value of bananas in the country, workers' wages, costs of production	Comtrade, Sopisco, annual reports of international banana traders, European Commission, ministries of agriculture, finance and labour in producing countries, IICA, CIRAD, World Banana Forum
	Social and environmental impacts (labour rights, working conditions, income, health & security, pollutions, etc.), especially on small farmers and workers	FAO, IDS, PAN UK, BTC, Banana Link, ILO, Cardiff University, University of Sussex, World Banana Forum, ministries of labour and agriculture in producing countries, anonymised interviews in producing countries
	Unfair Trading Practices in the narrow sense (i.e. cancellation of orders at short notice, quality claims, delay of payments, etc.)	Anonymised interviews in producing countries
	Costs of sustainable production	Fairtrade International

In order to investigate the existence of Unfair Trading Practices and related impacts in banana export countries, a questionnaire was developed (see in appendix C) and conducted a series of interviews with Latin American banana actors supplying the EU market.

Overall, the feedback of more than 60 actors from Ecuador, Costa Rica, Colombia, Peru and Dominican Republic were collected (small banana growers, middle and large plantation owners, banana exporters and unionised workers), including a mission which was conducted in Costa Rica in August 2015 by the UK organisation Feedback.

The main outcomes of these interviews has been anonymised and confronted with banana experts in Europe for cross-check.

Limitations

The world banana market has always been heavily globalised, therefore buyers quite easily shift from one origin to another, and from one supplier to another, while keeping consistent quality bananas. In addition, exporters in banana producing countries distribute their sales and risks as much as possible between clients and consumer countries in order to maximize their gains and/or reduce their losses.

In this context, the links between pricing trends in consumer markets and the working and living conditions of banana farmers and workers are most often indirect. The correlation between the two has been investigated through the analysis of long-term trends in global value chains.

In order to analyse banana global value chains, the main limitation addressed in this study is the reliability of price and cost data. In order to reduce uncertainties as much as possible:

- prices have been tracked from retail up to the import stage,
- costs have been estimated from the production stage down to the import stage.

The reliability and transparency of data has been considered too low beyond these boundaries, preventing from analysing prices and costs all along the chain.

This is why the concept of unit value has been chosen to investigate the transmission of price pressure in exporting countries, in particular because of the lack of reliability of export statistics (see the section below for further details).

Incoterms²³⁹: prices and costs along the chain

Prices and costs along the banana chains have been respectively tracked and estimated for the following incoterms stages:

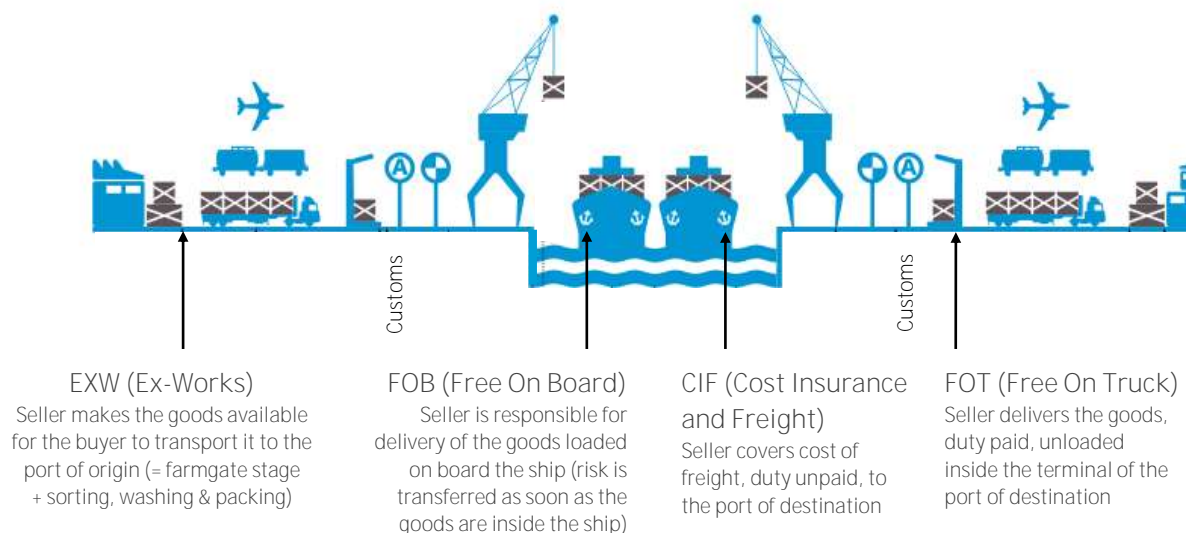


Figure 125: Incoterm Stages

Source: BASIC

²³⁹ pre-defined commercial terms published by the International Chamber of Commerce (ICC) that are widely used in International commercial transactions and procurement processes

Unit Value of exported bananas

In order to address the lack of transparency on prices and costs along the chain, the concept of ‘unit value of bananas exported’ was used in this study to investigate the transmission of price pressure down the chain on farmers and workers.

The first reason for this approach is the greater reliability of data on flows of specific products in the databases of UN Comtrade, especially for European countries data.

Moreover, the flows of bananas transiting by third countries before entering consumer countries cannot be identified in the data of exporting countries, because the latter can only record the first port of destination of bananas, whereas Eurostat identifies re-exports among European countries.

The last reason is the existence of transfer pricing in banana trade, whereby bananas are exported at a FOB price that is much lower than is actually realised, through an offshore subsidiary in a third country before sending it to Europe in order to escape payment of taxes in the export country.

In order to offset these limitations, we have estimated the unit value of bananas exported, based on the import prices of bananas in Europe, using the following formulae:

$$\text{Estimated Unit Value of exported bananas (FOB level)} = \frac{\text{CIF Value of imported bananas (Comtrade...)}}{\text{Volume of imported bananas (Comtrade...)}} - \text{Estimated Unit costs between FOB and CIF (shipping, insurance, margins...)}$$

The unit value of bananas exported represents the money left in banana export countries once all costs of insurance, freight and average margins of traders have been deduced from the CIF import price of bananas. Insurance and freights were estimated on the basis of:

- the experimental work conducted by CIRAD (and cross-checked with experts),
- data from Sopisco and industry experts,
- gross margins declared in the annual reports of the main international banana importers (Chiquita-Fyffes, Dole and Del Monte).

Import prices

Banana Import Prices for each country have been calculated dividing the import value by the import volumes both recorded by the UN Comtrade database (used by the World Trade Organisation).

The FAO database has not been used for calculating banana import prices because it doesn't take into account re-exports among European countries (unlike the Eurostat and UN Comtrade databases).

Retail and wholesale prices

Retail prices of bananas have been sourced from Eurostat and offices of national statistics (INSEE, Agrimer, UK Office of National Statistics, DEStatis...). When detailed prices were missing for given years, they have been estimated using the index of fruit consumer price in the same country.

This index is one of the key components of the Consumer Price Index and the Retail Price Index, both calculated weekly by offices of statistics and consolidated by Eurostat (prices are recorded weekly for a typical selection of products - referred to as the 'basket of goods' which includes loose bananas - using a large sample of shops and other outlets. Each week, price collectors record several hundreds of prices for each good of the basket).

Wholesale prices of bananas in member states have been sourced from CIRAD (International Research Centre on Agriculture for Development) which compiles each year in the ODEADOM report the banana wholesale data monitored by the European Commission.

Nominal prices and real prices

Real prices have been calculated by adjusting for inflation the nominal prices at the different stages of the chain (export, import and retail). Inflation rates are based on the Consumer Price Index (CPI) in each country; they have been sourced from:

- Eurostat for all member states and the EU
- ECLA/CEPAL (Economic Commission for Latin America) and national authorities for banana exporting countries

Volume units

Volumes of bananas are expressed and measured either in tonnes, kilogrammes or standardized boxes of 40 lbs/18.14 kg (the unit for transactions between fruit companies and their retail customers).

Note: Other sizes of banana boxes are in use in producing countries (e.g. 41.5 lbs and 43 lbs in Ecuador). These were converted in standardized 40 lbs boxes for calculation purposes.

Appendix B: List of acronyms

CIRAD	International Research Centre on Agriculture for Development
CIF	Cost Insurance and Freight (incoterms)
EC	European Commission
EU	European Union
FAO	Food and Agriculture Organisation
FOB	Free on Board (incoterms)
FOT	Free on Truck (incoterms)
ILO	International Labour Organization
ISO	International Standard Organisation
IUF	International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations
UNCTAD	United Nations Conference for Trade and Development
UNDP	United Nations Development Program
UNEP	United Nations Environment Program
UNIDO	United Nations Industrial Development Organization
USDA	United States Department of Agriculture

Appendix C: Questionnaire used for the survey

1. Have you experienced and / or suffered by unfair trade practices from buyers in Europe (importers and supermarkets), for example: order cancellation or last minute changes, quality claims, retrospective deduction, delayed payments, loyalty payment, payments lower than official minimum price, threats of contract termination, compliance with rules/certifications generating high costs ...?
2. Can you detail specific examples of such practices:
What form did it take and what was the course of event?
What is their frequency? Who is affected? Which are the results/consequences...?
3. What are the impacts / effects of these types of unfair commercial practices on banana producers and workers, in particular on their income, their human and labour rights, their collective organisations (cooperative, trade union)?
Were their impacts / effects on the ecological environment?
Can you detail specific examples of such impacts...?
4. Do unfair trading practises lead to additional impacts and cause additional costs besides lost income to your business; for example food waste or overproduction?
Can you detail specific examples of such impacts...?
5. Which systems or best practices would enable to mitigate / counter these unfair trading practices from European buyers?
What do you think of complaint systems or legal actions?
What guarantees are necessary to ensure that complaint systems/legal actions are accessible and implemented in practise (e.g. guarantee of anonymity...)?

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