



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

October 2015



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Bureau for Appraisal of Social Impacts for Citizen Information



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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 small banana 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 have been 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 European Union (EU) level. On this particular issue, notably Unfair Trading Practices (UTPs) of retailers in the EU, a communication of the European Commission (EC) 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.
- ▶ UTPs between fruit buyers in Europe and banana producers in exporting countries, their consequences on farmers and workers, and the relationship with the pressure on prices in European markets

FRUTERÍA LAS DELICIAS



Executive Summary

Food sales in modern retailing (hypermarkets, supermarkets and discounters) are increasingly concentrated. In 2014, the ten biggest retailers in Europe accounted for almost 50% of modern retail food sales. Competition authorities in several member states have begun to question the impact that the market power of supermarkets has on their suppliers, led by the UK, which has created a Groceries Code Adjudicator to regulate the relationship between supermarkets and their suppliers within the United Kingdom.

Up to 90% of fresh fruits and vegetables are sold through modern retailers in Europe. Bananas are a key consumer good for setting the price image of retailers and attracting consumers, creating fierce price competition between retailers. As a result, the average consumer price of bananas in Europe, the main fresh fruit imported from outside Europe, is 25% lower than that of apples, the most consumed local fruit.

Supermarkets gaining market power

The European Union is the biggest world importer of bananas with the majority being sourced from Latin America. The import industry was traditionally dominated by vertically integrated companies that controlled all operations along the chain - production, shipping, importing and ripening. In the 1980s, five companies alone (Chiquita, Del Monte, Dole, Noboa and Fyffes) traded 80% of the world's bananas. However, a major divesting by these companies of directly owned plantations and ships has reduced the main barrier to entry for businesses at both ends of the banana chain. A process which now sees Chiquita, Dole, Del Monte and Fyffes controlling only 39% of the banana trade in Europe. Instead, it is now the retailers who increasingly control value banana chains, with integrated fruit companies competing to be their 'preferred suppliers'. In ~~Germany and~~ the UK, retailers are beginning to source directly.

Declining wholesale prices

Consumer prices have stagnated or increased very slightly since 2001, except in the UK, where a banana price war between retailers has halved consumer prices. In stark contrast, wholesale prices have decreased by almost 25%, whilst retailers have increased their share of the banana value in most countries (except the UK) to between 36% and 43%.

This decline in import prices has been transferred to all major countries supplying the EU, where the value left at origin has fallen by 20% to 50% in real terms. This at a time of significant increases in both production and living costs. Inputs, such as fertilisers and pesticides, have risen by up to 130%, while the high costs of compliance with quality, sanitary and environmental standards for bananas entering the European market are incurred mainly by producers. For banana workers and farmers themselves, food, health, education and other living costs have rocketed in the period since 2001, in the Dominican Republic, for example, by 278%.

Social and environmental impacts in producing countries

These increased production and living costs generate and amplify significant social and environmental impacts in most banana producing countries, including the denial of basic human rights, gender discrimination (including low levels of women's employment), a failure to earn living wages and long working hours. Additionally, workers are often poorly protected against the effects of the heavy application of toxic agrochemicals, thereby suffering serious negative health impacts. The intensification of large scale banana export production, often without ecological production practices, is causing the pollution of land, water courses and aquifers, harming local communities and reducing biodiversity.

Unfair Trading Practices

UTPs have been defined by the EC as those "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". For this report, over 60 banana industry stakeholders have been interviewed to better understand how UTPs arise in the sector.

Climate of fear

It should, first and foremost, be noted that collecting evidence of UTPs in the banana industry is subject to a climate of fear, with many interviewees afraid of negative reactions from buyers and potential market loss should they be identified. Not only did respondents ask to remain anonymous, but also asked for non-disclosure of the country in which they were based.

Imbalance of negotiating power

Prices and contracts are mostly negotiated on a short-term basis at national level, but even the biggest traders point out the imbalance of their negotiating power with retailers. This was exemplified by the case of Aldi, whose buyer price was found, by the EC, to set a focal point for the market price, not only in Germany but all across Europe.

A trend for longer-term contracts is also increasing the commercial pressure from retailers - importers make use of 'one sided' or 'leonine' clauses which allow the buyer to withdraw from a contract if "his margin is insufficient" leaving producers with unsold perishable bananas. The risk is passed from buyer to exporters and producers, especially smaller ones.

This can be aggravated during the commercial low season for bananas when demand reduces during the European summer as local fruits are available, while simultaneously, production in Latin America tends to be higher at this time of the year, creating

oversupply and more pressure on prices, leaving producers with unwanted fruit to sell at lower prices on the local market.

Small producers more vulnerable

Small producers are the most vulnerable to, and the most negatively impacted by, UTPs. They are often used to provide buffer volumes by larger plantations, but have limited scope for selling their bananas elsewhere when orders are cancelled at short notice. Low profitability means many small producers are simply leaving the industry, creating social problems in regions with few other legitimate sources of employment.

UTPs are also key determinants in the lowering of working conditions. As producers compete to supply European retailers, there is an increase in piece rates, short-term contracts, and the use of sub-contracting, making work more precarious, with a reliance on vulnerable migrant workers.

Consequences for consumers

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

If retailers continue to capture an increasingly excessive share of banana values, and buying prices are forced down to unsustainable levels, suppliers will struggle to survive. Smaller producers will be more vulnerable to extinction as a consequence.

And ultimately, the result may well be highly concentrated banana chains, from retailers down to producers, which will lack resilience and generate further negative social and environmental impacts in producing countries.

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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 opposite).⁶

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

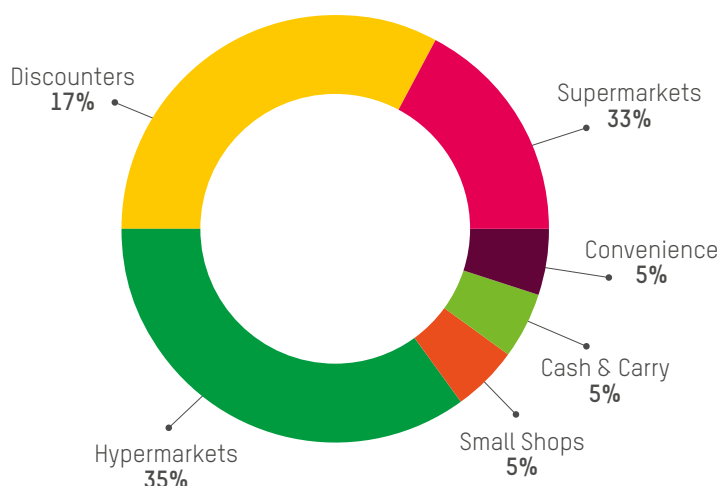
3 World Federation of Direct Selling Associations (WFDSA), Global Direct Selling - 2014 Retail Sales, May 2015

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

Food Sales by Retail Outlet in the UK (by value)

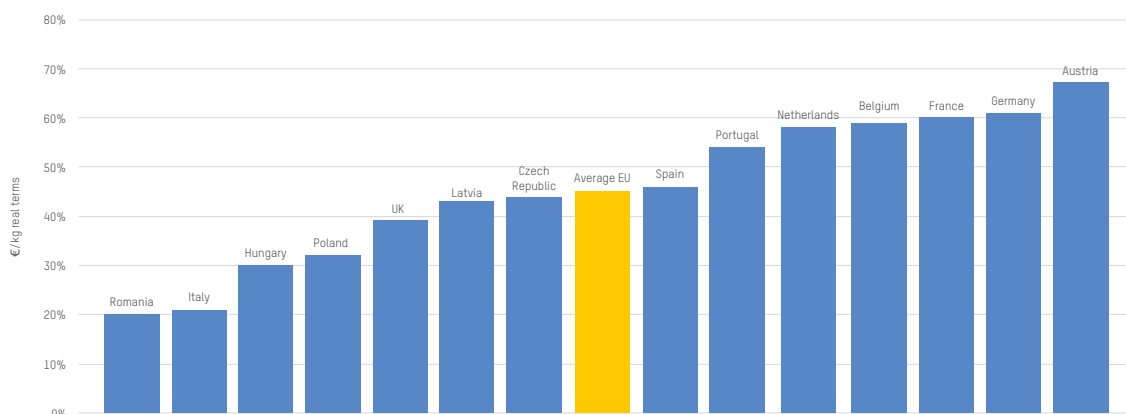


Source: BASIC, based on Planet Retail, *European Grocery Retailing*, May 2014

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

In 2012, the share of the five largest retailers in the 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

Concentration of top 5 retailers in total edible grocery market



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)

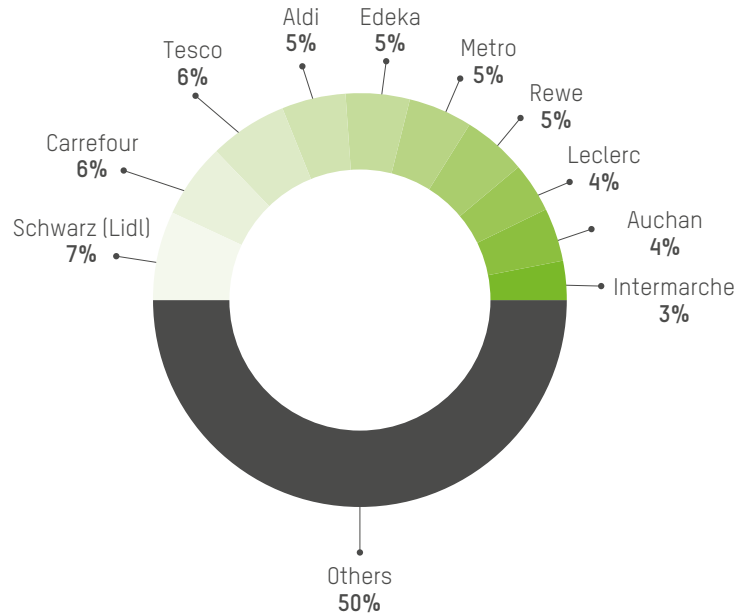
7 European Commission, *The economic impact of modern retail in the EU food sector*, 2014 op. cit.

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 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

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).

Share of grocery market by retailer in the European Union (by value)



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

In 2014, the Schwarz group, better known for its discounter brand 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 brands.¹²

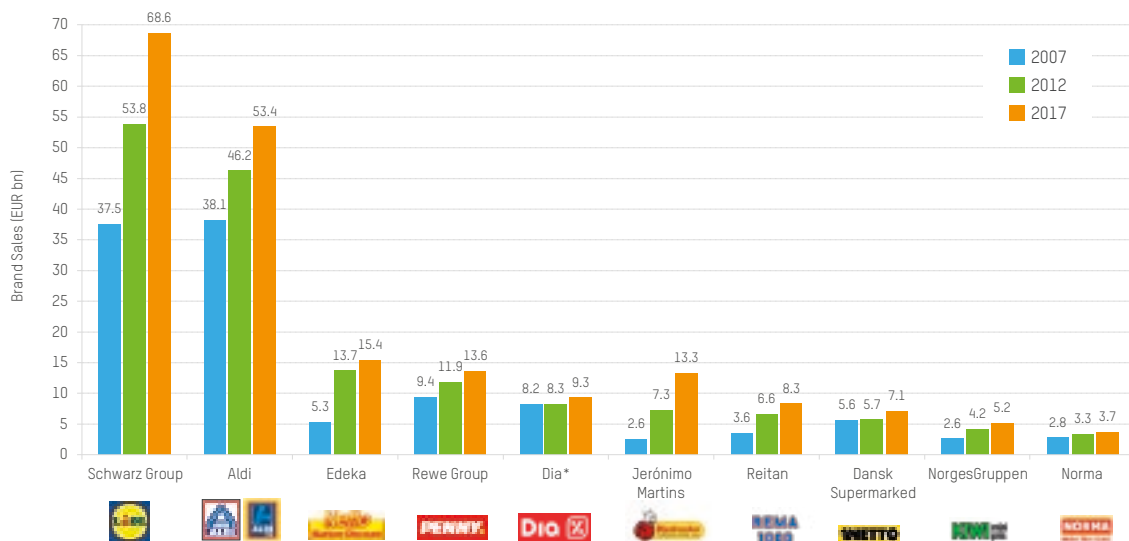
9 Planet Retail, European Grocery Retailing, May 2014

10 Deloitte, Global Powers of Retailing, 2015

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

12 Planet Retail, European Grocery Retailing, May 2014

Europe: Top 10 Discount Store Operators by Total Sales 2007–2017 (EUR bn)



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 over 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 (German Competition Authority) 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

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

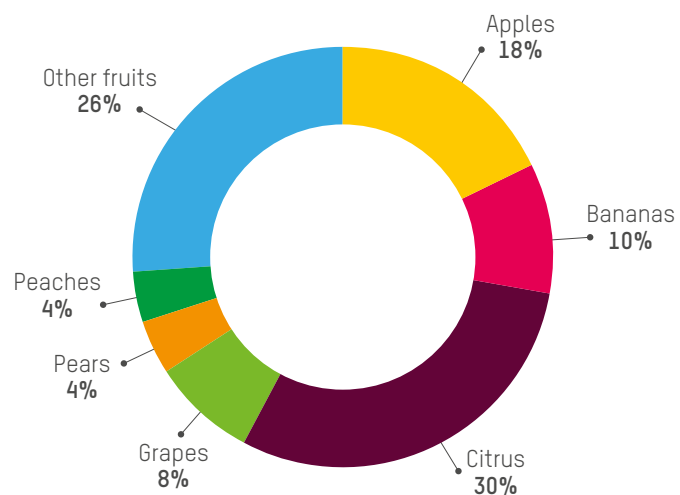
b) Bananas in Europe: one of the most consumed and cheapest fruits

The 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 European fresh fruits market saw a smaller increase in consumption over the past decade (in particular in Central and Eastern countries). The main products consumed in the EU are citrus (oranges, mandarins etc.) and apples. **Bananas come third and are the main fresh fruit imported from outside Europe** (see diagram below).

Main fruits consumed in the European Union (by volume)



Source: BASIC, based on data from FAO Stat (2010) and Eurostat (2011)

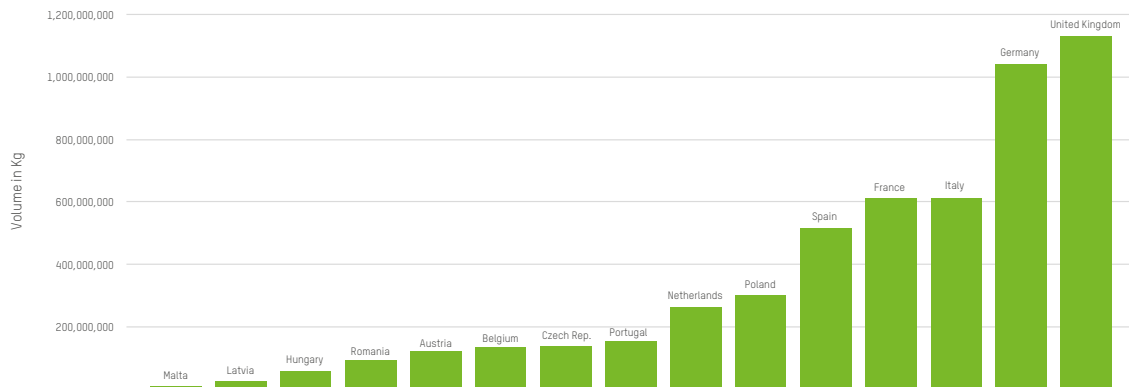
19 Consumers International, The relationship between supermarkets and suppliers: What implications for consumers?, 2012

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.

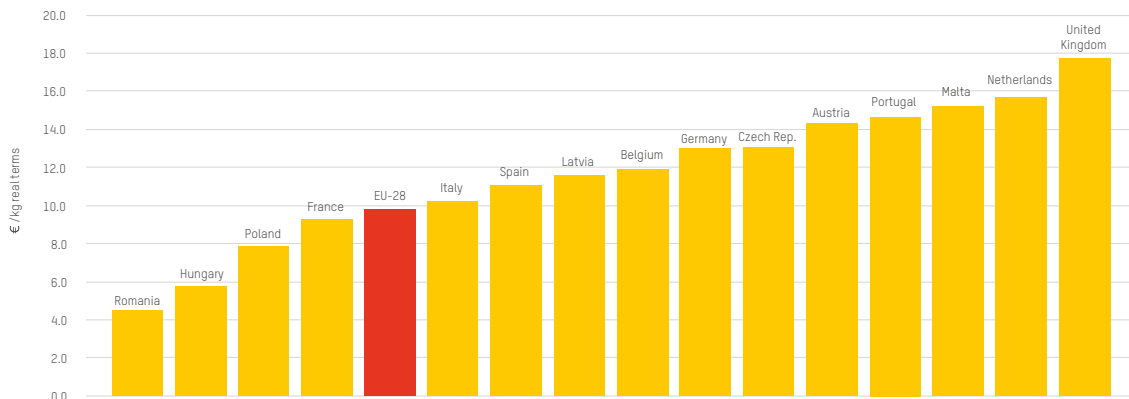
The main European markets for bananas are the United Kingdom and Germany, followed by France, Italy and Spain. The consumption per capita differs very significantly between countries, ranging from less than 5 kg/person/year in Poland up to more than 17 kg/person/year in the United Kingdom, and appears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

Banana net import markets in EU (2014)



Source: BASIC, based on data from Comtrade and CIRAD (2014)

Banana average consumption per capita in EU (2014)

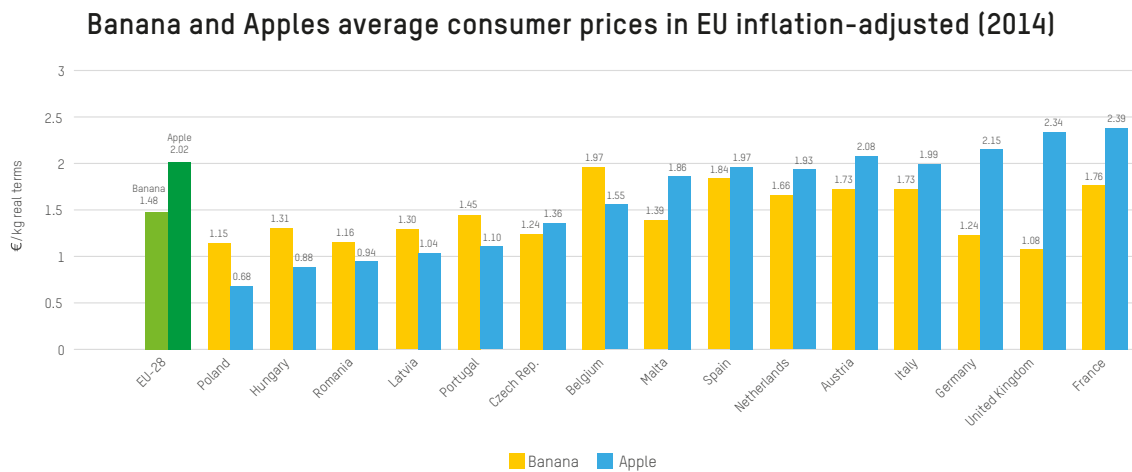


Source: BASIC, based on data from Comtrade and CIRAD (2014)

As bananas are 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 Eastern and Central Europe where banana consumption is still relatively new and top range.



Source: BASIC, based on data from Comtrade and Eurostat (2014)

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

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.

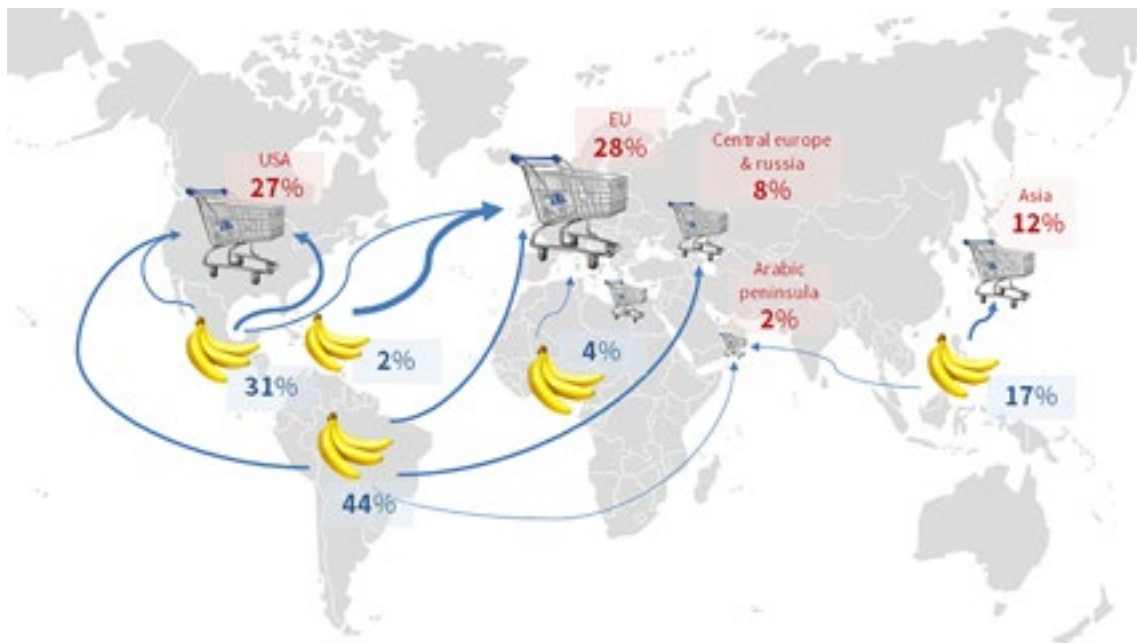
2. The banana value chain in the EU

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 and appearance.²³

The majority of exported bananas come from countries in the so-called 'dollar zone' (Ecuador, Colombia, Costa Rica, Guatemala etc.), the rest from the Philippines and the African and Caribbean countries (part of the Africa-Caribbean-Pacific (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:

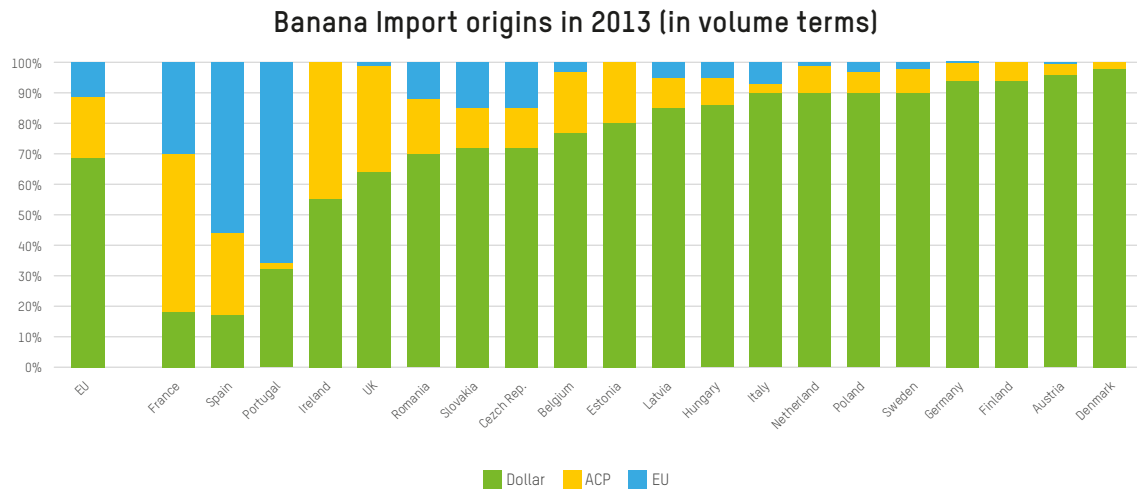


Source: BASIC based on Comtrade data (2013)

23 Agritrade, Banana sector Executive brief, July 2011

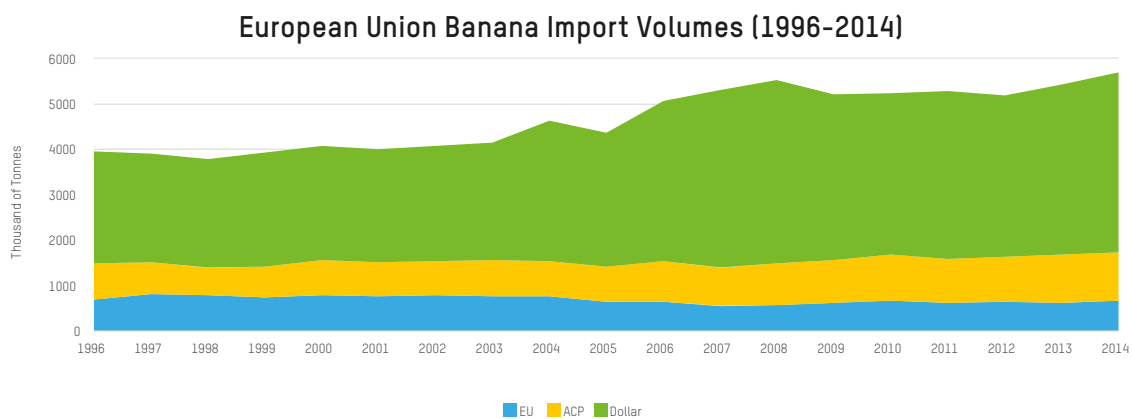
The European Union is the biggest world importer of bananas; it has the most diversified pattern of imports because of its colonial history, its former preferential trade agreement with **ACP** countries (Guadeloupe and Martinique in the Caribbean) and its own production in the **EU** (Canary Islands,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

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



Source: BASIC, based on CIRAD data (2013)

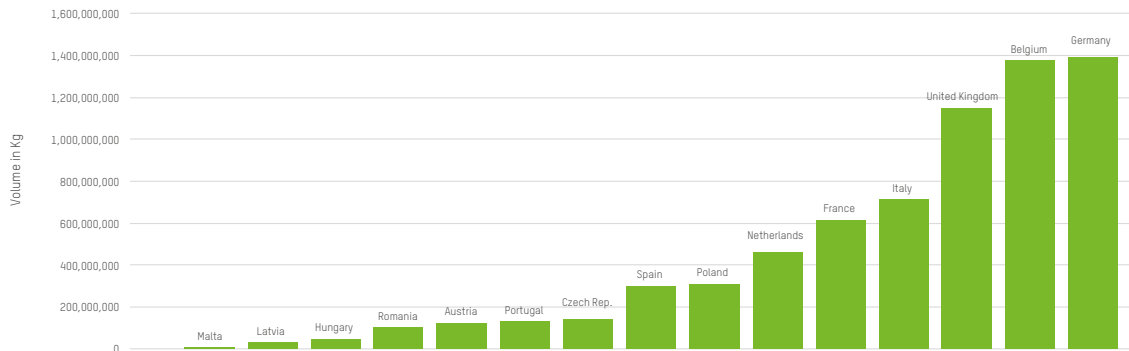
Over the past two decades, **the supply from the so-called ‘dollar zone’ to the EU has grown significantly**, from 2.4 million tonnes in 1996 to almost 4 million tonnes in 2014, while the bananas produced in European territories have stagnated at around 650,000 tonnes per year. Imports from ACP countries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



Source: BASIC, based on CIRAD data (1996-2014)






The major points of entry for 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.

Banana import volumes in EU (2014)



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):

				
Banana production takes approximately 9 months; bananas are harvested while still green.	Harvest bunches are transported to packing sheds where they are divided, inspected, sorted, washed and boxed for export.	Bananas are placed in refrigerated vessels or containers. They are shipped for 10 to 20 days to get to Europe.	When bananas arrive at destination, customs are cleared and they are trucked to ripening rooms.	Once ripened, yellow bananas are delivered to regional distribution centres of retailers & wholesalers, then sent to stores.

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, importing 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:

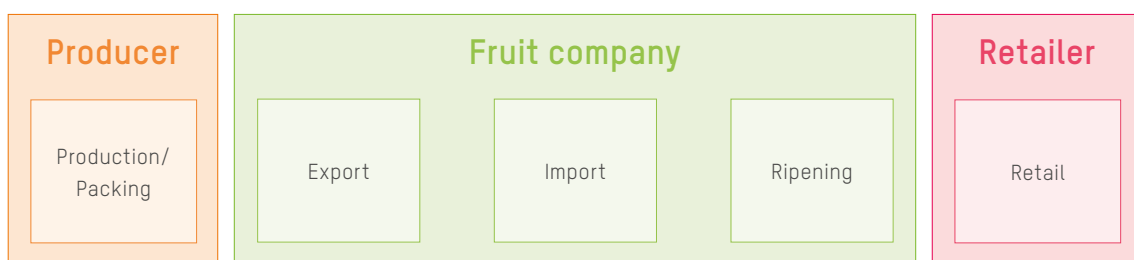


Historical structure of banana value chains (until the 1980s)

Source: BASIC

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 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 etc.), the remainder volumes of bananas being purchased from independent growers. Fyffes didn't own any banana plantations until recently. The newly prominent banana chain pattern is as follows:



Modern prominent structure of banana value chains

Source: BASIC

24 FAO (Food and Agriculture Organisation of the United Nations), 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

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

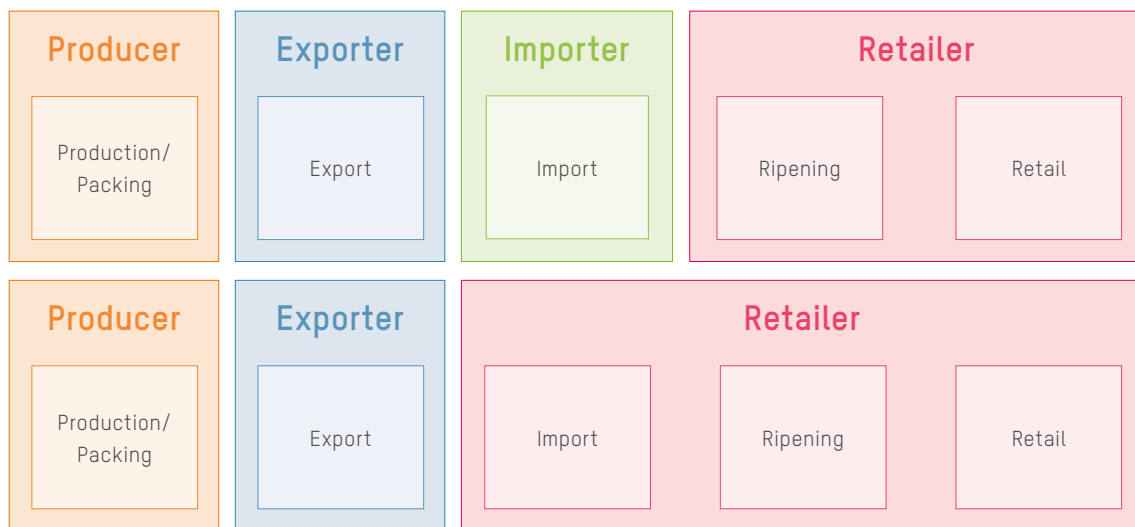
26 International Centre for Trade and Sustainable Development (ICTSD), Value Chains and Tropical Products in a Changing Global Trade Regime, 2008

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

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 has been sourcing all its bananas directly in Costa Rica, Colombia, Ecuador, Guatemala, Cameroon and Côte d'Ivoire; Morrisons has been sourcing bananas from independent growers for even longer through its wholly-owned sourcing company Global Pacific Produce and owns a ripening facility in the UK³⁰.

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



Emerging retailer-driven banana value chains
Source: BASIC

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, which are newcomers in the industry).

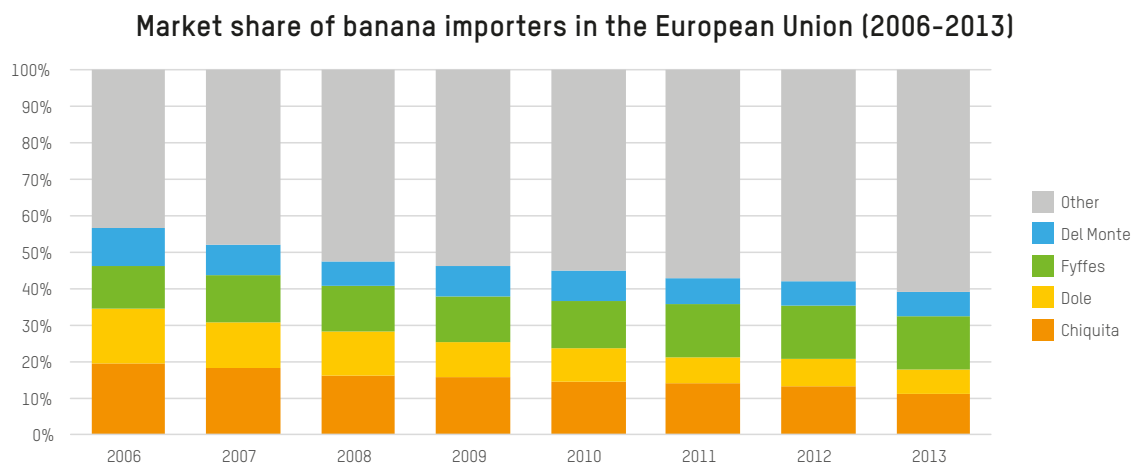
28 During shipping, bananas need to be stored at low temperatures (around 14°C). Traditionally this was done in refrigerated cargo ships (or 'conventional reefers'). Nowadays, the 3 largest container shipping companies (Maersk, MSC and CMA CG) offer significant capacity for transport in refrigerated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

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).



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 which 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 which owns ripening facilities in Germany and recently invested directly in Suriname (2014);
- ▶ **Winfresh**, an importer, ripener and distributor of bananas located in the UK which 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, Dûrbeck and AFC** (the main supplier of Lidl) in Germany; **Fresca Group** (the main supplier for Sainsbury's and Waitrose) in the UK and T-Port in Germany who both specialise - 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 which 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 to Europe, such as **Banacol** (Colombian grower - exporter and importer in a strategic alliance with Dole), **Aquifruit**, (active in the Netherlands, Germany and the UK), **N. Smyth** (based in Ireland), **Banalat** (based in the Baltic countries) and **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 are shared among a much smaller number of actors³³:

- ▶ The banana import markets in Northern European 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 mainly sell 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 their own facilities or by outsourcing to independent ripeners³⁵, and both have **tended to integrate this activity in recent years** in order to achieve greater control over the value chain.

³³ Ibid.

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

³⁵ Ibid.

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 (Cost Insurance and Freight) import prices, based on information from the UN Comtrade database, Eurostat, CIRAD (International Research Centre on Agriculture for Development, a French-based public research institute) and national offices of statistics such as INSEE in France, DEStatis in Germany or ONS in the UK (see diagram on the following page).

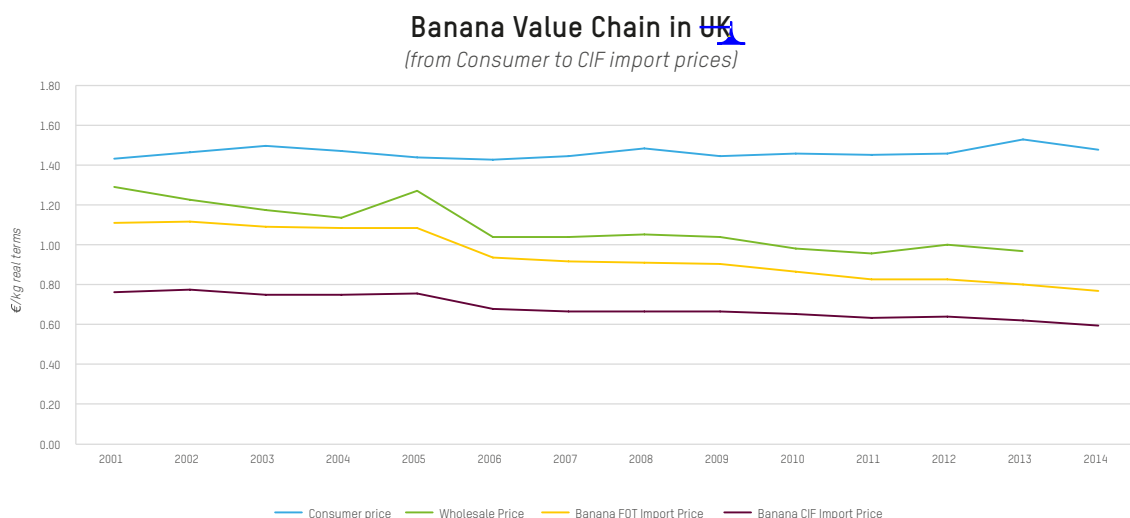
There is a clear tendency of **consumer price stagnation and a very slight increase in real terms** since 2001 (from 1.43 euros/kg in 2001 up to 1.48 euros/kg in 2014). This trend has been globally the same in all European countries except the UK where the banana consumer price has been halved because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

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 harmonisation and reduction of European tariffs (as ripening remained fairly constant).

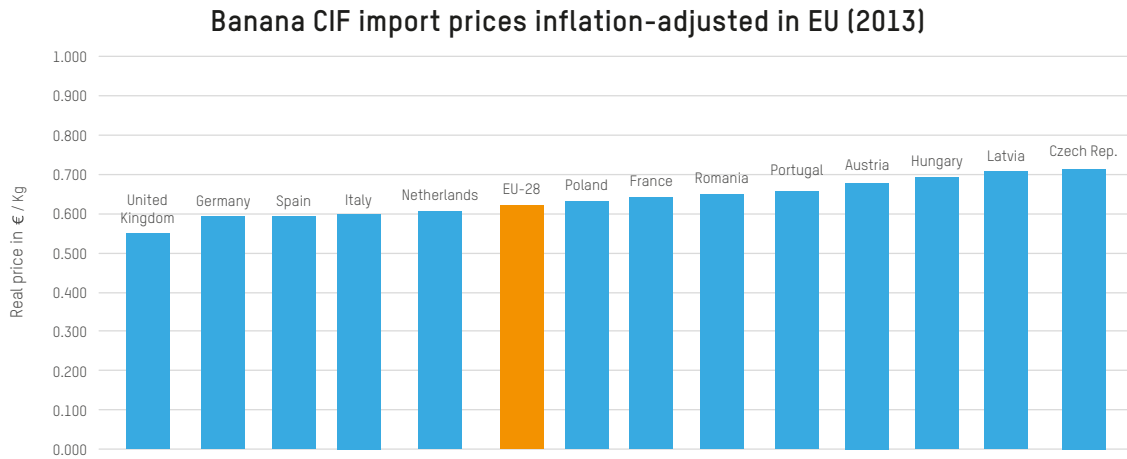
The CIF import price (at the port of entry in the EU) amounts to little more than a third of the consumer price and also featured a significant decrease of 20 % between 2001 and 2014, showing that producers didn't benefit from the EU deregulation. On the contrary, the **retailers seem to have gained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

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



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

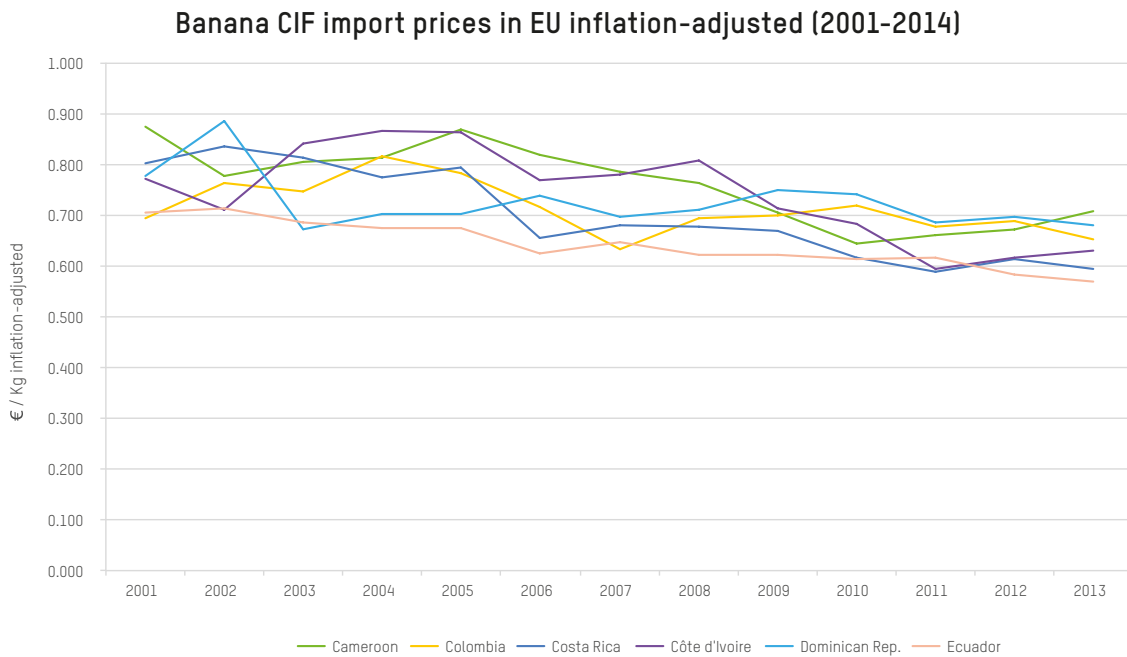
There seems to be very **little differences among European countries with regards to the level of the banana import price** (see diagram below), especially when compared to the large differences observed between countries in terms of consumer prices (see previous chapter).



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 in 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:



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 exporting 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).

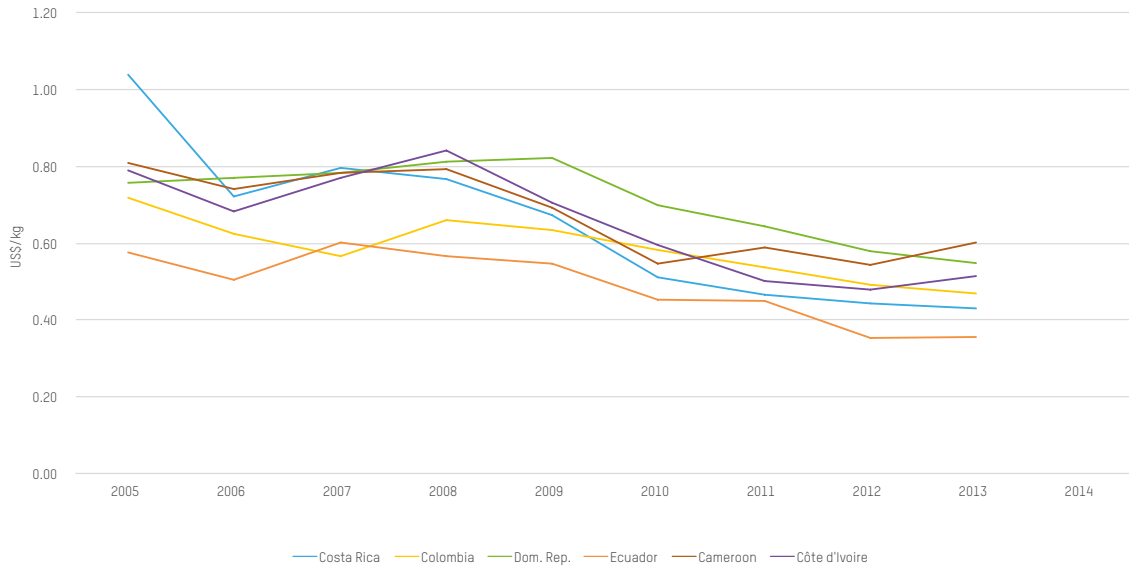
An example of estimation for the year 2013 is provided below:



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

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

Unit Value Producing Countries (US\$/Kg) Inflation Adjusted



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 in 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 %.



Stage	Ecuador	Colombia	Costa Rica	Dominican Republic	Cameroon
Retail	42.4%	36.8%	40.7%	43.4%	41.6%
Ripening	10.6%	10.6%	10.6%	10.6%	10.6%
Tariffs	8.6%	8.6%	8.6%		
Shipping & Import	20.4%	20.2%	18.3%	18.1%	17.1%
Export	4.3%	4.3%	4.3%	4.3%	4.3%
Production	6.8%	10.5%	10.5%	16.5%	21.2%
Worker's wages	6.9%	9.0%	7.0%	7.1%	5.2%

Banana value breakdown between main supplying countries and the EU

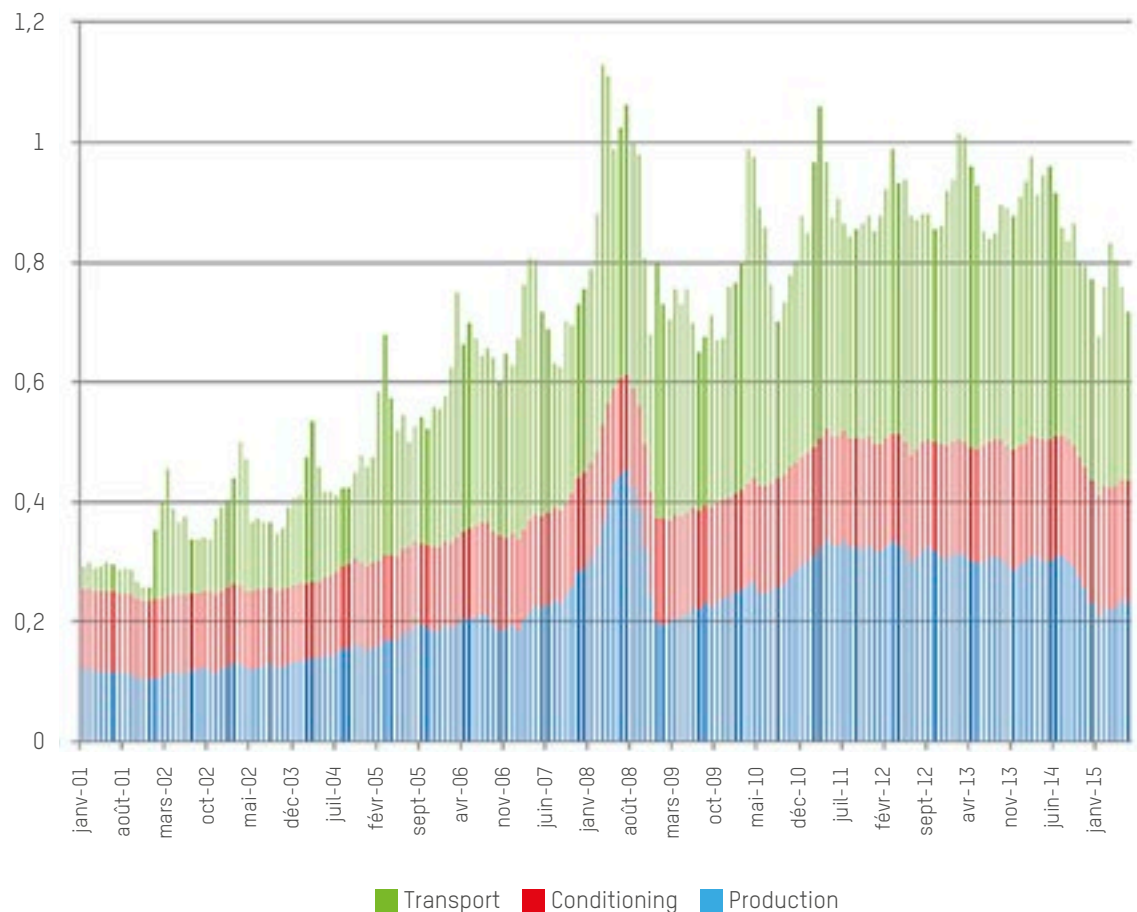
Source: BASIC based on data from Eurostat, CIRAD, Comtrade, Sopisco and literature review

To fully understand the consequences for 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 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 pesticides) have increased by 195 % on average
- ▶ Costs of packaging materials have increased to a lesser extent by 150 % on average



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

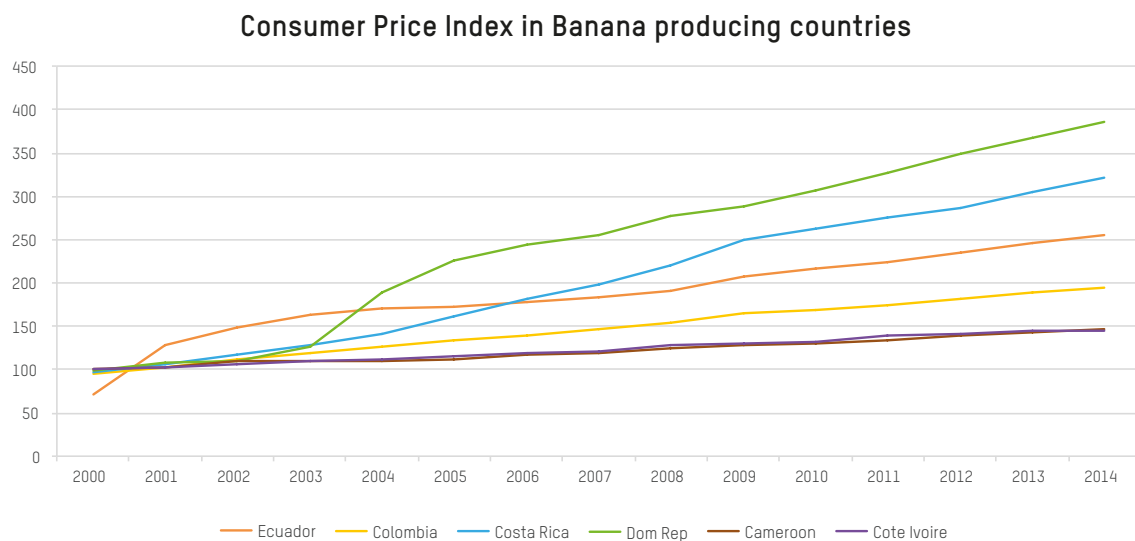
³⁶ CIRAD, "Coûts intermédiaires de la filière banane d'importation en Europe : Répartition et évolution", Novembre 2012

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 (such as 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 the Dominican Republic since 2001.³⁹



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

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)

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 bananas are 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 pesticide 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 the next pages illustrate the main impacts in the leading Latin American and African countries exporting bananas to the European Union. Key:

	Development of industrialized banana plantation (and related competition with small farmers)		End of militarization (ex-guerrillas to become workers in banana plantations)		Frequent climate disasters (hurricanes...) affecting banana production
	Social tension between workers and employers		Earnings below living income/ living wages		Health issues related to (high) use of chemicals
	Anti-union culture		Negative impacts of price volatility on small farmers, especially during the low season		High proportion of banana production made by small producers
	Legalization issues with regards to migrant workers		Negative impacts of pressure on export prices, especially for workers		

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

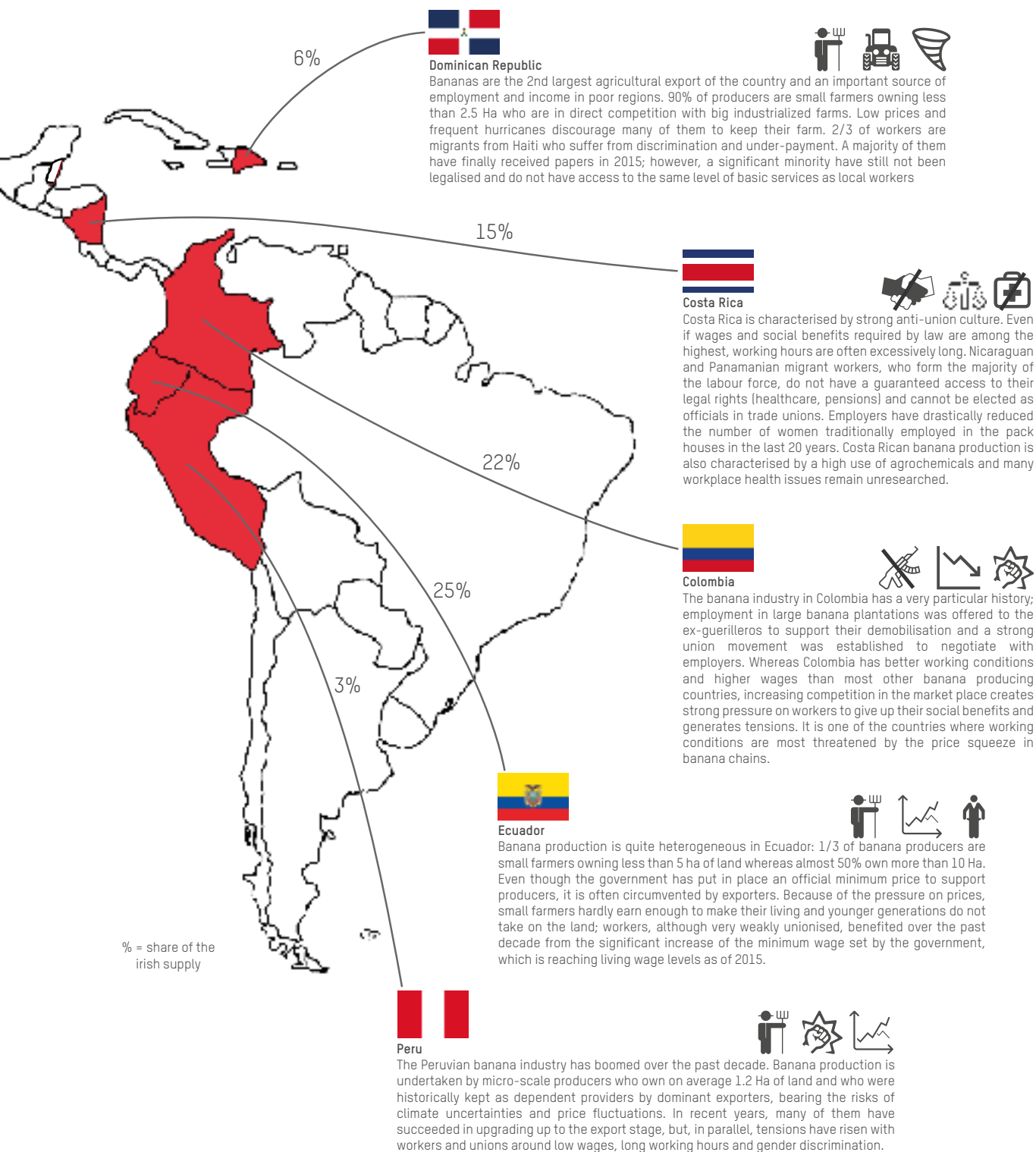
42 S. Williamson, PAN UK, cited in Ethical Consumers, 2012, op. cit.

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



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



Ivory Coast

In Ivory Coast, the majority of banana workers (including many migrants from Burkina Faso) are unionised. The lowest paid workers earn just 50 euros per month, which is less than the living wage, even though they have free housing, rations of rice and some other benefits. In 2015 four trade unions came together in a platform at the largest producing company.



Cameroun

The banana sector in Cameroun is strongly affected by the competition with Latin America, putting pressure on plantation workers to work over 48 hours per week, for low wages. Health and safety practices are poor even though the country is characterised by high use of agrochemicals. In 2013 a platform of the six trade unions that operate in the 2 main producing companies was created.



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

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 EC published a Green Paper on UTPs in January 2013⁴⁸ and most recently, a policy document to address UTPs 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 for smaller producers and workers (the weakest links in the chain), we developed a questionnaire and conducted a series of interviews with Latin American banana actors supplying the EU market.

47 European 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.

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

The main outcomes of these interviews have been anonymised and shared with some banana actors and experts in Europe to cross-check.

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

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 from buyers and potential market loss. They even asked for non-disclosure of 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).

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.

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 EC'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."*

The ALDI Price⁵³

The EC 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 normally negotiate annual contracts (but can be 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 which used to be well-known for its published weekly price until July 2011, and which 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 European countries which are still playing the role of buffer markets).⁵⁴

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

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 ('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 exporting countries. They are a key tool used by buyers to **transfer back the risks on to exporters and producers**, especially the smaller ones.

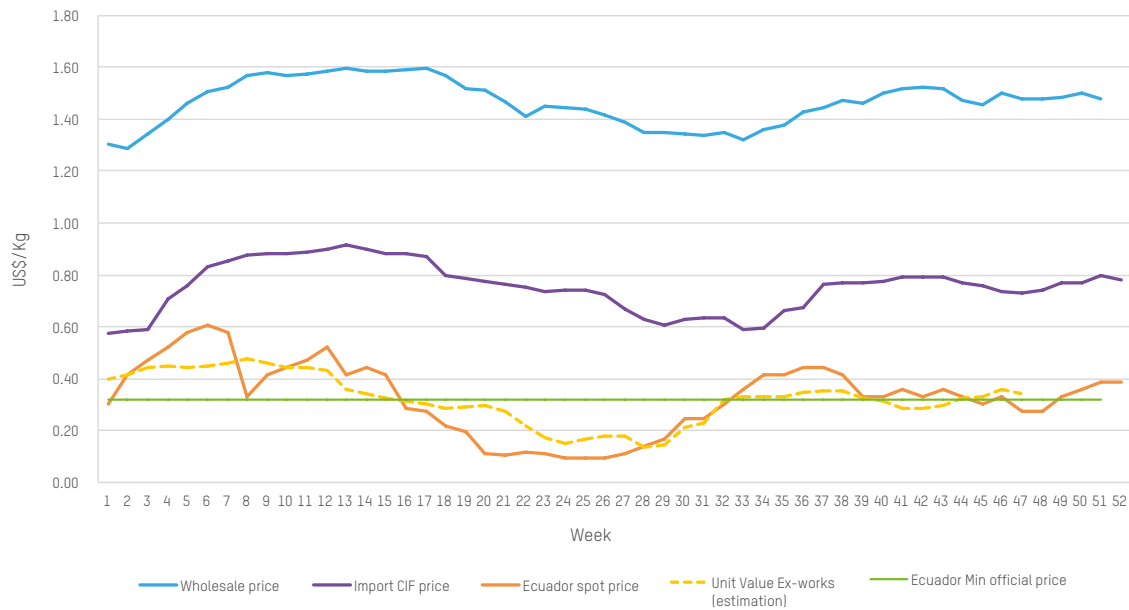
The other major source of UTPs appears to be **related to the commercial 'low-price season' of bananas, during which the majority of interviewees reported that buyers more often 'play on volumes' through different mechanisms** in order to maintain their margins.

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** banana production as it 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 permeates 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.

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 takes place between May and August** (depending on the countries), thereby negatively affecting banana producers and exporters even if prices remain stable in contracts (in particular in Ecuador and Costa Rica where the minimum price of bananas set by the government is respected by international buyers). Even if this is recurrent year after year, the 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 the fact 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 producing 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

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 obliged to sell the remaining volumes often at low price on local markets.

burnt only when health or sanitary issues are at stake, or otherwise they are sold on less profitable markets in cases of bad cosmetic appearance of the bananas).

At first sight, the practices described above can be seen as a 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 obliged to find a secondary buyer for their unsold bananas and do not enjoy the same level of protection in contracts.

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

According to respondents, **small producers are often used as buffer volumes** by large plantations, especially in Ecuador and the Dominican Republic. **They are also regularly charged extra costs by exporters and plantations for alleged 'services'** such as the provision of banana boxes, or delivery by truck to the harbour etc.) 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 from 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 in 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 the unforeseen cancellation of orders or quality claims, and have a more balanced bargaining position. On the other hand, 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 the 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 or 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.
- ▶ Thirdly there is an **increase in the use of sub-contractors and temporary agencies**⁶⁰.
- ▶ As permanent contracts become less common and short-term employment increases, **migrant workforces 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 the Dominican Republic and Central American migrant workers in Belize are all clear illustrations of this situation⁶¹.

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 palm oil 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

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 together with the liberalisation of world food markets has 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

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. Over time, buying prices and therefore retail prices, range and quality for consumers are also likely to be substantially impacted.

It has also been confirmed by the UK Competition Commission report published in 2008 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

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

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

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

KEY FINDINGS

- ▶ UTPs 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 ('leonine') clauses in contracts with producers and/or exporters, unforeseen cancellation of orders, banana consignments and as an increased number of quality claims during the low-price banana season (i.e. summer in Europe).
- ▶ Overall, small banana growers (particularly in Ecuador, Dominican Republic, Peru and Colombia) are the most impacted by UTPs 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 working conditions for banana workers are increasingly eroded in the name of fiercer competition
- ▶ As the pressure on price and UTPs increase, so does precarious employment, piece-work payment and flows of migrant workers.

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

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 trade :

- ▶ 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 dimensions :

- ▶ 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).

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

GEOGRAPHICAL SCOPE	AREA OF RESEARCH	SOURCES OF INFORMATION
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:

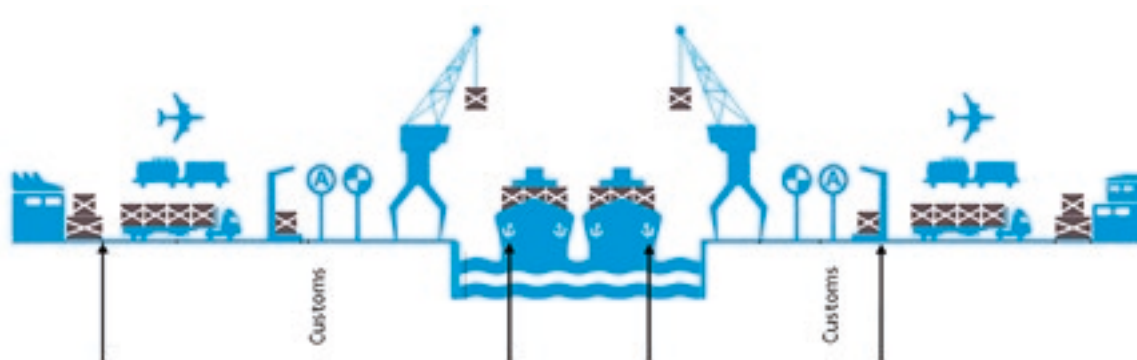
- ▶ prices have been tracked from retail up to the import stage,
- ▶ costs have been estimated from the production stage down to the import stage.

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).

Incoterms: prices and costs along the chain

Prices and costs along the banana chains have been respectively tracked and estimated for the following incoterms stages:



EXW (Ex-Works)

Seller makes the goods available for the buyer to transport it to the port of origin (= farmgate stage

+ sorting, washing & packing]

FOB (Free On Board)

Seller is responsible for delivery of the goods loaded on board the ship (risk is transferred as soon as the goods are inside the ship)

CIF (Cost Insurance and Freight)

Seller covers cost of freight, duty unpaid, to the port of destination

FOT (Free On Truck)

Seller delivers the goods, duty paid, unloaded inside the terminal of the port of destination

Incoterm Stages

Source: BASIC

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:

$$\begin{array}{l} \text{Estimated Unit Value} \\ \text{Of exported bananas} \\ \text{(FOB level)} \end{array} = \frac{\text{CIF Value of imported} \\ \text{bananas (Comtrade...)}}{\text{Volume of imported} \\ \text{bananas (Comtrade...)}} - \text{Estimated Unit Costs} \\ \text{between FOB and CIF} \\ \text{(Shipping, insurance,} \\ \text{margins...)}$$

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 deducted 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.

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www.makefruitfair.org

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