



Brown spots on the green gold

From banana war to supermarket war

Colombia, Photo J. Stephen Conn

While bananas are curved, the banana business is crooked.

Cutthroat competition, social exploitation and a lack of ecological cultivation are standing issues. But how are these brown spots on the 'green gold' doing today?



The banana war

The end of the war

On 8 November 2012, World Trade Organisation staff had something to celebrate. On that day the European Union and ten Latin-American countries signed a document bringing a legal end to the so-called banana war, the longest dispute in the history of the multilateral trade system. "It was a very important historical moment", says Pascal Lamy, the WTO's director-general.

Before that agreement, the world was divided between dollar bananas, ACP bananas and European bananas. The reason for this was the European banana regime, which protected small scale banana cultivation from former French and British colonies in Africa, the Caribbean and the Pacific by giving unlimited access to the European market and exempting them from import duties. Bananas from Latin-America, which

mainly originated on large plantations owned by American giants such as Chiquita, Dole and Del Monte, were confronted with an import duty of \$175 per ton when exporting to Europe. The third group, even though their impact was negligible, were bananas cultivated in the French overseas departments and the Canary Islands, which were not subjected to import duties because they were 'internal' European bananas.

The Latin-American banana producers claimed the European banana regime was against WTO free trade rules and filed several complaints. After years of discussions Europe yielded. In 2009 the Geneva Agreement on Trade in Bananas (GATB), under which the agreement of 8 November falls, was concluded. The European import duties will gradually be reduced from \$175 to \$114 per ton in 2017.

Remarkable figures

The banana is a fruit that has some thousand varieties. The best know is the sweet dessert banana, which stands for an annual world production of 71 million tons. Second comes the cooking banana, which contains more starch; that is why it has to be cooked or baked first. With an annual production of 47 million tons the cooking banana is a staple food for four hundred million people worldwide.

Only 14% of annual banana production is exported; this mainly concerns sweet dessert bananas of the Cavendish variety. The three main producers (India, China and Brazil) consume their bananas themselves. Ecuador is by far the biggest exporter. 70% of export is in the hands of five companies (Chiquita, Dole, Del Monte, Fyffes, Noboa).



Cooking bananas and dessert bananas Photo sxc.hu

One man's breath, is another man's death

The central question is whether, like Pascal Lamy, everyone has reason to celebrate. Exporting countries like Ecuador do. Ecuador's exports to Europe are already on the rise. But for certain ACP countries the end of the preference regime is a hard nut to crack. The 900,000 tons of bananas which they mainly grow on small plantations at a usually higher cost are now treated on an equal footing with the four million tons of the major Latin-American players.

As a compensation for reducing customs duties, Europe decided to grant €190 million of investment support to the ACP countries, to help them improve their competitiveness. This amount is approved only until the end of 2013 and must be renegotiated afterwards. Until now, the impact of this (r)evolution seems to vary. Jamaica has stopped exporting; exports from the Windward Islands dropped 61%. But the Dominican Republic and Belize saw exports grow respectively by 50 and 70%. Some countries will badly need the European support measures for many more years to survive. Other countries, like Uganda, try to survive by focusing on fair trade or organic certified production or on derived products like banana flour and banana juice.

More economic woes

Banana producers exporting to the American market have a more comfortable position. Increased production costs and inflation are accounted for, so the price has doubled compared to the prices of 2004. This does not apply to the European market. The import price stayed at the same level, about €12.9 per carton. For producers this means a loss of revenue in real terms. Countries with a dollar economy can still partially make up for this loss because of an favourable exchange rate. For West-African countries though, this is an additional disadvantage when competing for markets.

The French research institute CIRAD calculated the production cost of a bunch of bananas in Ecuador and in Africa, taking into account the exchange rates and European customs duties. Right now, both are almost at the same level. But since Ecuador's custom duties will further drop

by 2020, Africa is facing a problem. This shows how difficult it is to remain competitive in a liberalised market, where the scale of plantations does determine the cost but not the sales price.

Moreover, the future holds more uncertainties. For instance, in 2009 Europe concluded trade agreements with Peru and Colombia and later also with a few Central-American countries to further promote mutual trade. These include, among other things, a further drop of customs duties for bananas to €75 per ton. Europe also increasingly works with countries like India and Brazil. Especially Delhi is preparing for exporting bananas and will acerbate competition on the world market.



Colombia, Photo J. Stephen Conn

The impact of fair trade

What is the position of fair and sustainable trade in this story? Both have witnessed a steep rise over the last decade. In 2009, together they represented 20% of exported bananas. The largest share (15%) was sustainable bananas under the Rainforest Alliance label. The fact Chiquita decided to have its whole production controlled by the Rainforest Alliance is of course the main reason for these spectacular numbers. In addition, 3% was organic certified and 2% was Fairtrade (FLO) certified.

The outlook on the Belgian market was even better: In 2011 no less than 53% of bananas sold were labelled (half of these by the Rainforest Alliance, a third by Max Havelaar). This gives fair trade a market share of 7% (an increase by 42.8% compared to 2010). In the United Kingdom and the Netherlands this number is even higher. The breakthrough of the fair trade banana in supermarkets is definitely good news. In addition, the fact that half of the Max Havelaar production is also labelled organic is remarkable.

The impact of this evolution for banana producers has been investigated on behalf of the Fair Trade Foundation: "Fair trade obviously has a positive effect, but it varies strongly between countries and between producers. The impact is especially significant for small producers. This translates not so much in higher but especially in more stable revenues and improved production and sales. Plantation workers do not get so much out of such a deal. Even though the wages at plantations with certified production are somewhat higher, the fair trade premium seldom leads to long-term investments. Often it is needed to complement basic incomes instead." The study also points out other advantages of working under fair trade criteria, such as better representation of the most vulnerable groups and more sustainable cultivation.



Max Havelaar photo - Eric De Mildt

The Windward Islands

The export story of the Windward Islands, a group of islands in the Caribbean, started in the 1960s. Also because of the banana war, in the 1990s producers decided to fully focus on exports to the fair trade circuit. This step brought hope to the Islands. In times of crisis or following poor harvests, WINFA, the Windward Islands Farmers' Association, could always provide its members with the necessary financial support thanks to fair trade premiums and guaranteed markets. But the future does not look as bright now. The competitive advantage compared with the dollar bananas will gradually disappear. Moreover, the region has been hit more than once by hurricanes over the last few years. Also the black Sigatoka disease, a feared fungus, emerged in the fields. The production in 2010 was still 25,000 tons, while it was almost cut in half in 2012. The number of registered fair trade producers dropped from 8,000 ten years ago to 1,000 today.

Renwick Rose, former coordinator of WINFA, looks at it wearily: "Market mechanisms alone will never be able to guarantee the livelihoods of the workers and farmers in the industry. Due to a combination of factors even the fair trade price is not enough anymore for our members to survive. There is really a need for urgent and coordinated action or everything may be lost."

Renwick Rose is positive about the World Banana Forum (see Part 2), but fears a further downward spiral owing to the British supermarket war (see Part 3).

The World Banana Forum

Broad support



The World Banana Forum (WBF) was established in 2009, at the FAO headquarters. The mission statement explicitly aims to 'work together for sustainable banana production and trade'. Advocates for a fair and sustainable value chain saw their yearlong efforts bear fruit. One of them is

Alistair Smith, founder of the British NGO Banana Link: "The particular thing about this forum is that we have succeeded in bringing all actors to the table, not just trade unions, cooperatives, producers and consumer organisations, but also exporters, shipping companies, governments, scientists, certifiers and large multinationals."

Participants have worked in three working groups on social, economic and environmental aspects. In March 2012, more than 200 representatives made up a temporary balance of the action points. A first priority appeared to be a best practices library to pool the expertise of scientists, large international companies and small producers. The environmental group discussed CO₂ emissions, among other things. By more judicious use of fertilizers, by choosing marine transport and by better use of cartons emissions should be reduced. Alistair Smith: "It is encouraging to see that the forum does not shun topics that were taboo until recently. So, for instance, monoculture in banana

plantations has been brought up. Are we able to control diseases with less harmful products than the usual pesticides? And are there – in the interest of the whole sector – alternatives to monoculture?"

1 euro cent for a living wage

The economic working group, which is officially called 'Distribution of added value', brought up interesting information as well. For instance, they compiled several studies in Latin-American countries on the wages of banana workers and compared the value of a set of necessary basic goods. The studies showed that the set of necessary basic goods could never be bought with the wages paid. Alistair Smith: "Naming a problem is a first step. Next, we have to find ways to bridge the gap. This would make an immense difference for hundreds of thousands of workers." The aim is to have similar studies in eight banana exporting countries providing more data and insights.

One of the conclusions of a CIRAD study, which was also conducted at the request of the WBF, was very telling. Right now, the share of a small producer or a plantation worker represents on average 3.5% of the retail price. If this could be raised to 5%, this would mean a price increase of 1 to 2 euro cent per bunch of bananas for the western consumer. While that is a negligible step for the consumer, it would be a huge step for many producers. Suddenly, they would have a minimum wage and get a chance to leave poverty behind them. That would add up to be a real distribution of the added value, to use the WBF terminology.



The supermarket war

British madness

Ten years ago, the British supermarket chain Asda, which is owned by America's Walmart, drastically reduced its banana prices. Other market players such as Tesco, Sainsbury's and Morrisons eagerly responded to this 'declaration of war'. Since then, prices have remained low across the Channel. For instance, banana prices in the four major British supermarkets were around \$1 per kilo in 2012. As a comparison, the prices in German and American supermarkets were about 25 to 30% higher, and in France even 40 to 50% higher.

Alistair Smith calls this madness: "Who of the 60 million British consumers, who buys a bunch of bananas every week, knows how much he/she has paid for it? Nobody cares. And these crazy low prices do not boost sales. The British do not eat more bananas."

To survive the race to the bottom of the last few years, the policy of British supermarkets has focused on controlling the value chain as much as possible. Supermarkets now bypass multinationals and buy directly from cheap, local companies in Latin-America. That is why the market share of the five big banana exporters (Chiquita, Dole, Del Monte, Fyffes and Noboa) dropped from 85% in the 1990s to 70% today. Other victims can be found at the beginning of the value chain. Many players in the production countries can hardly live from their work. For Alistair Smith the biggest danger is this trend moving to other European countries: "Do we want only the biggest and most merciless companies that exploit their workers most to survive?"

Fair trade

Another remarkable fact is that fair trade bananas in British supermarkets also sell at \$1 per kilo. Yet, fair trade was a success story in the United Kingdom. In 2008, one out of four bananas was labelled. This was mainly by merit of the Sainsbury's and Waitrose supermarkets that had completely shifted to fair trade. The demand for fair bananas increased enormously and plantations in Colombia and the Dominican Republic benefited. But by successfully entering the regular market, the fair trade banana was also confronted with that market's merciless rules. It had to go along in the game of low retail prices, which put enormous pressure on producers to lower the costs. Big players within the fair trade segment succeeded better at doing this, whereas smaller producers such as the farmers on the Windward Islands again lost export opportunities.

"Luckily, in Belgium, there is less of such downward pressure", says Pierre Laviolette, Producer Relations Officer with Max Havelaar Belgium. "That is especially so because we are in the niche of organic fair trade bananas here. With non-organic bananas the risk is bigger. Also in some supermarkets in Switzerland and the Netherlands the margin on fair trade bananas has become very small. It shows the ever increasing power of supermarket chains in the banana story. A major reason for this evolution is that refrigerated container transport over the oceans does not depend on the major banana companies anymore. So, supermarkets can directly purchase from banana cooperatives or plantations and set the prices themselves."



Photo sxc.hu

Colombian nightmare

Colombia is the number four banana exporter. 75% of the harvest is shipped to Europe, with 35% labelled fair trade. Until recently, workers were pleased to work in the banana sector. The average wages in plantations and packaging companies were high in comparison to other export countries. Also the working conditions and the freedom of association did well thanks to the good relation between Augura, the association of banana producers, and Sintrainagro, the farmers' trade union.

Global price wars in the banana industry, and the British price wars in particular, have changed things though. In a liberalised market those with the higher costs, higher wages and investments in fair trade and organic production are hurt first. 2012 was a catastrophic year for the Colombian banana business. The downward pressure on the prices came along with poor climate conditions and poor harvests. Some producers stopped producing, while other stopped paying the social insurance funds. There was a real threat of violence in the banana region.

The Association of Colombian Fair Trade Producers sent out a cry of distress in the form of an open letter. In short: "Under present conditions it is not possible anymore to work under fair or ethical criteria. We will not be able to deliver fair trade labelled bananas in 2013 unless the minimum price is reconsidered." They proposed a \$0.65 increase per carton.

Alistair Smith: "I believe it is only fair that British supermarkets accept this price hike. As major retailers of fair trade bananas they should see this as an opportunity and give a clear signal to the consumer that a fair price may or should never be as low as it has been over the past years."

On this matter Pierre Laviolette says, "The evolution of costs in banana production has quickly changed over the last few years. That makes it hard to calculate a correct minimum price for fair bananas. A price that may be a real added value in Panama, may not or hardly be offering the same in Colombia. But it is impossible to set a different minimum price for each region, country, type of production and situation. We continuously look for a balance and regularly assess how things stand. In 2009, 2010 and 2011 the minimum price for fair trade bananas was reviewed. It was not in 2012 though, but for 2013 a review is definitely needed for Colombia."

Hope?

Obviously, the liberalisation of the banana market, in the form of banana wars and supermarket wars, especially put pressure on smaller banana producers and the former ACP countries. Even the resilience of the fair trade segment seemed weak, regardless of successes of the last ten years. Will the World Banana Forum succeed to turn a few of these trends? The future of millions of workers is in their hands.

Yet, Alistair Smith sees more reasons for hope: "The first contracts and figures for 2013 indicate the beginning of a shift. The banana prices in British supermarkets are now closer to the German prices. Also the purchasing policy would shift to the disadvantage of countries with the lowest wages and the poorest working conditions. Is this a coincidence or have the repeated public campaigns of consumers' organisations, NGOs and smaller retailers achieved results after all?"

Sword of Damocles?

The dessert banana we eat is the Cavendish. This variety is sterile and therefore it has a hard time resisting diseases, especially when it is cultivated on large monoculture acreage. So, the question can rightly be raised whether the Cavendish is genetically strong enough to resist new diseases. In the Philippines, for instance, the Panama disease has brought complete plantations to a standstill. If this disease were to reach Africa or Latin-America, the consequences would be catastrophic.



Colombia, Photo J. Stephen Conn



Mexico, Photo Jaako



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