EUROPEAN PARLIAMENT

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES

POLICY DEPARTMENT

A SNAPSHOT OF THE BANANA TRADE:

WHO GETS WHAT?

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EUROPEAN PARLIAMENT

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES OF THE UNION

DIRECTORATE B

POLICY DEPARTMENT

AD-HOC BRIEFING

A SNAPSHOT OF THE BANANA TRADE: WHO GETS WHAT?

Abstract

With the "Agreement of Geneva" the dispute about the banana imports over 15 years seems to come to an end. The liberalisation caused by this agreement will have a substantial impact on the international banana market. In order to estimate the possible effects and measures to be implemented in the future it is necessary to know the current situation of the banana trade, the factors determining trade policies, the main stakeholders and nodes in the value chain for bananas as well as their impact on labour conditions and livelihoods in exporting countries.

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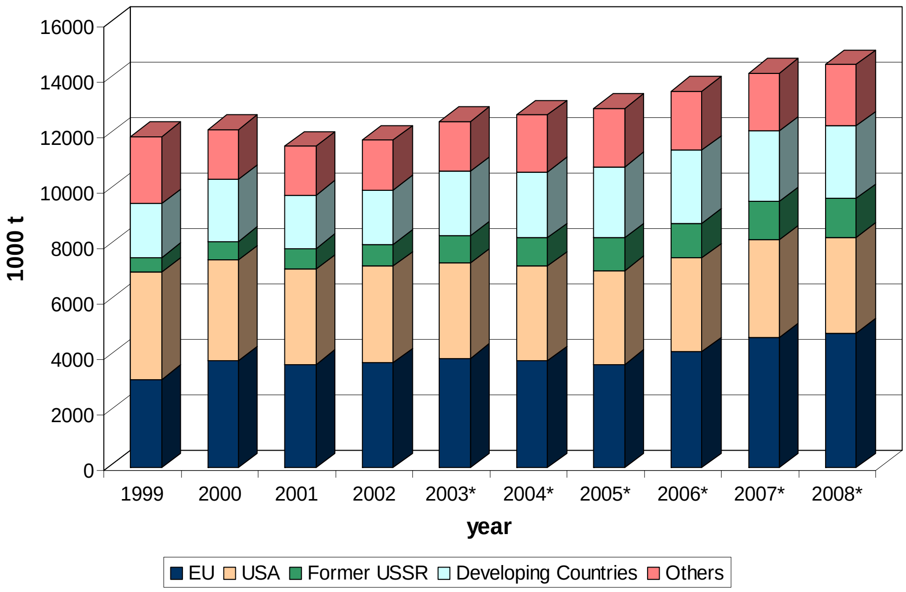
1 BANANA PRODUCTION AND TRADE

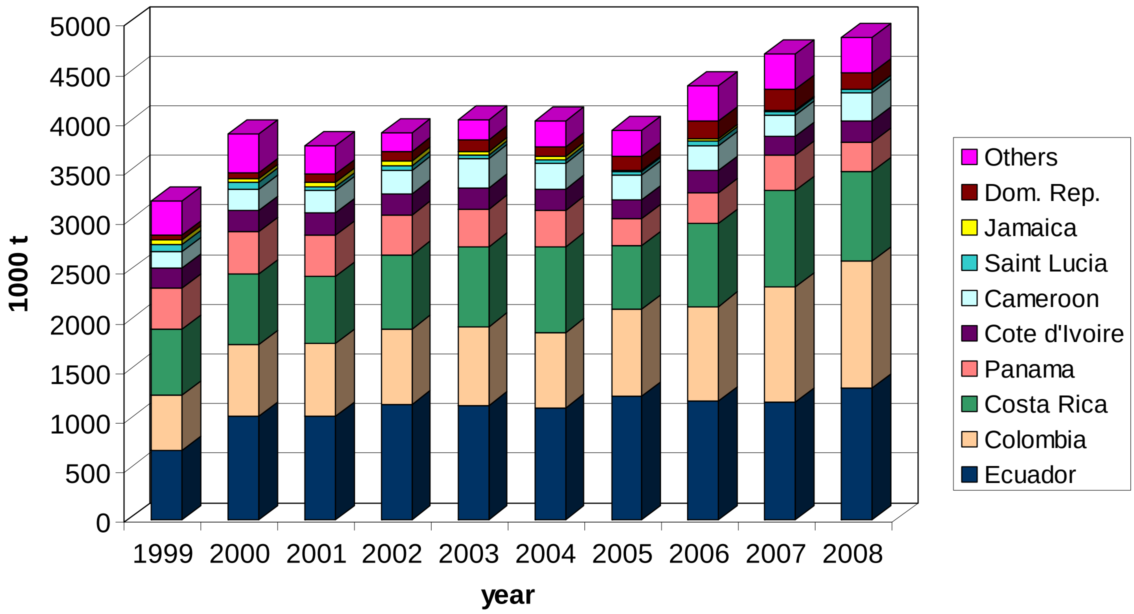
The banana sector is a dynamic industry. World production has expanded by 70 percent since the early 1990s, from around 50 million tonnes to 81.3 million tonnes in 2007. Bananas traded internationally show a similar growth, increasing from around 10 million tonnes at the beginning of the past decade to 16.8 million tonnes in 2006 (see Graph 1). Around 20 percent of world banana production is traded internationally; this share remained stable in recent years.

GRAPH 1: WORLD: BANANA IMPORTS BY COUNTRY



Looking specifically at the **main exporters to the EU market** a wide dispersion in production growth rates across countries emerges. Among the MFN countries, Ecuador and Guatemala show banana production growth rates between the early 1990s and 2007 above average rates for the world as a whole as does Belize among the ACP countries. On the contrary, Honduras and Panama among the main MFN exporters to the EU, and Suriname among the ACP ones, experienced a reduction of their production of bananas over the same period: Banana exports by Honduras and Panama contracted over the same period of time by around 30 and 40 percent, respectively (Anania, G. 2009).

GRAPH 2: EU: BANANA IMPORTS BY COUNTRY OF ORIGIN

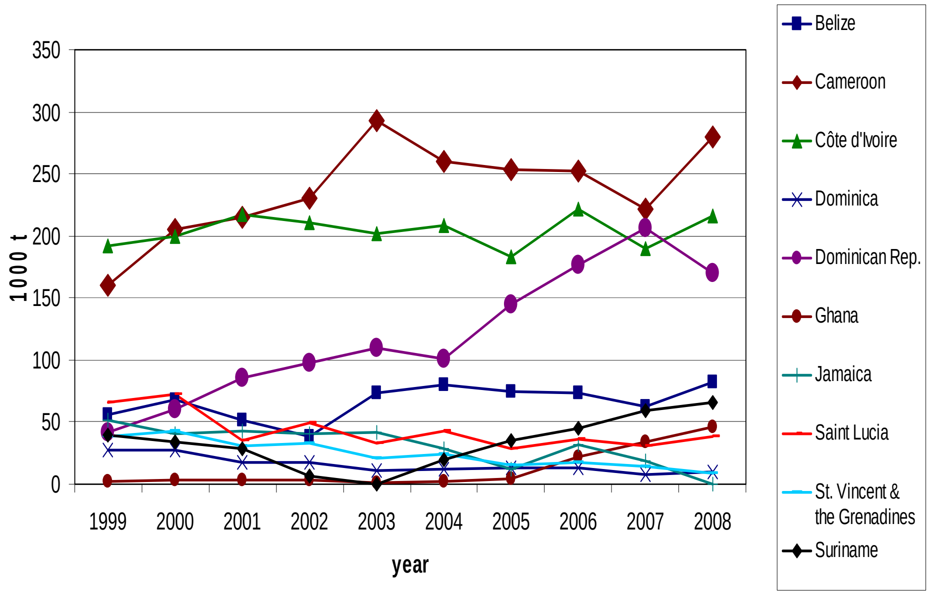


The largest net exporter in 2009 was Ecuador (4.7 million tonnes), followed by the Philippines (2.3), Costa Rica (2.2), Colombia (1.6) and Guatemala (1.1) (see Graph 2). Net banana exports are even more concentrated than banana production; in fact, in 2009 these five countries alone generated 83 percent of net world exports. Changes in net exports across countries between 1990 and 2006 show very different trends: Among MFN countries the largest expansion in net exports between the beginning of the past decade and 2006 occurred in Guatemala (+182 percent), the Philippines (+166 percent), Brazil (+147 percent) and Ecuador (+96 percent, with an impressive increase of banana exports from 2.2 million tonnes in 1990 to 4.9 in 2006).

The main ACP exporters increased their banana exports by an order of magnitude similar to those observed for the main MFN exporters; the Dominican Republic, a marginal exporter in 1990 and 1991, exported 187 thousand tones of bananas in 2006, while Belize, Cameroon and the Ivory Coast exports in 2006 all exceeded 2.5 times their volume at the beginning of the 1990s. Over the time horizon considered, total ACP banana exports expanded, but there was also a marked reallocation of exports within the group of countries. **ACP countries other than Belize, Cameroon, Ivory Coast, Dominican Republic and Suriname saw their banana exports drop between the beginning of the past decade and 2006 by more than 80 percent** (from 411,000 to 65,000 tonnes), **the largest reductions occurred in Dominica, Jamaica, Somalia, St. Lucia and St. Vincent** (Graph 3).

Market concentration is even higher for imports than for exports; in 2006 the two main net importing countries, the EU-25 and the US, alone accounted for little less than 60 percent of world net imports of bananas; their net imports were equal to 4.1 million tonnes and 3.8 million tonnes, respectively; other important net importers in 2006 were, in order, Japan (1 million tonnes), Russia (882,000 tonnes), Canada (458,000 tonnes) and China (including Hong Kong) (405,000 tonnes).

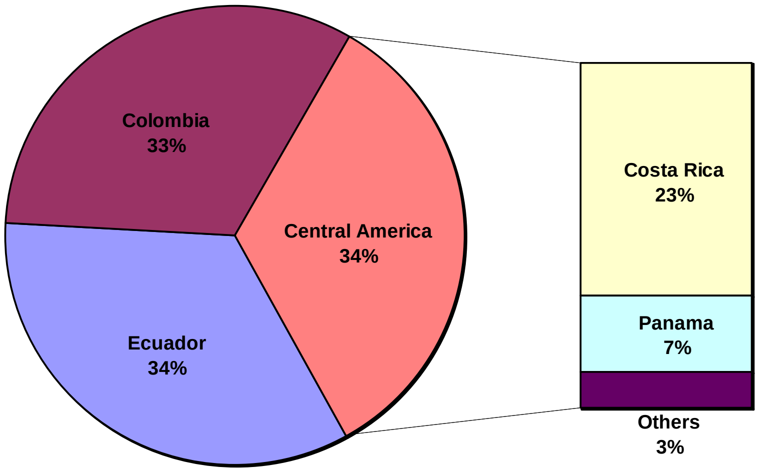
GRAPH 3: EU: IMPORT FROM ACP



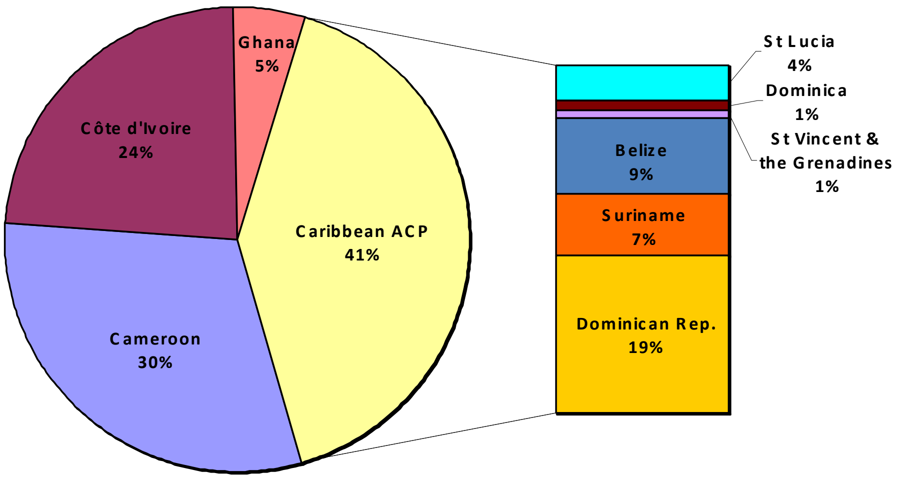
2 INTERNATIONAL TRADE POLICY AND BANANAS

Banana trade flows show a clear pattern of regionalisation; this is induced, at least in part, by past and current EU import regimes. Virtually all ACP exports are directed towards the EU, while Latin American MFN countries export bananas to Europe, Russia, and North and South America. For example, in 2005, Ecuador shipped 40 percent of its exports to the EU, 24 percent to Russia, 22 percent to the US and seven percent to other Latin American countries. Between 1999 and 2005 EU imports of bananas from both MFN and ACP countries remained relatively stable (Anania, G. 2009)

GRAPH 4: EU IMPORTS FROM LATIN AMERICA – STATUS QUO

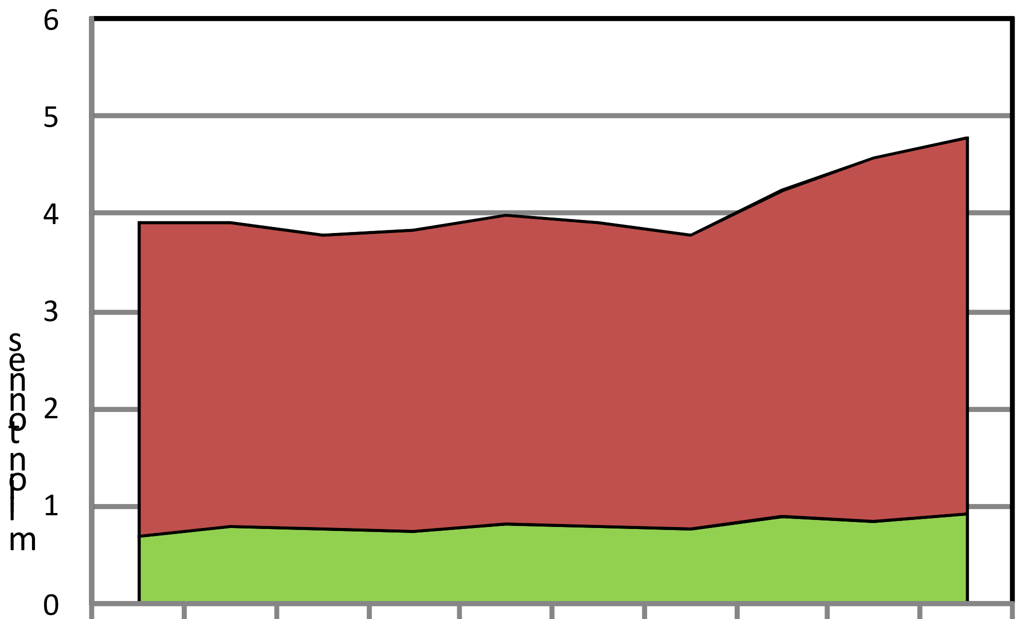


GRAPH 5: EU: IMPORTS FROM ACP - STATUS QUO



After the removal in January 2006 of the 3,113,000 tonnes tariff rate and quotas (TRQ) the EU imposed on its MFN imports and the introduction of the "tariff only" import regime, imports from MFN countries started to steadily increase, moving from 3 million tonnes in 2005 to 3,4 in 2006, 3,7 in 2007 and 3,9 in 2008; the new import regime unilaterally introduced by the EU in 2006 was to provide more market access to MFN banana exports than its predecessor.

GRAPH 6: EU – 25 BANANA IMPORTS BY MFN AND ACP COUNTRIES



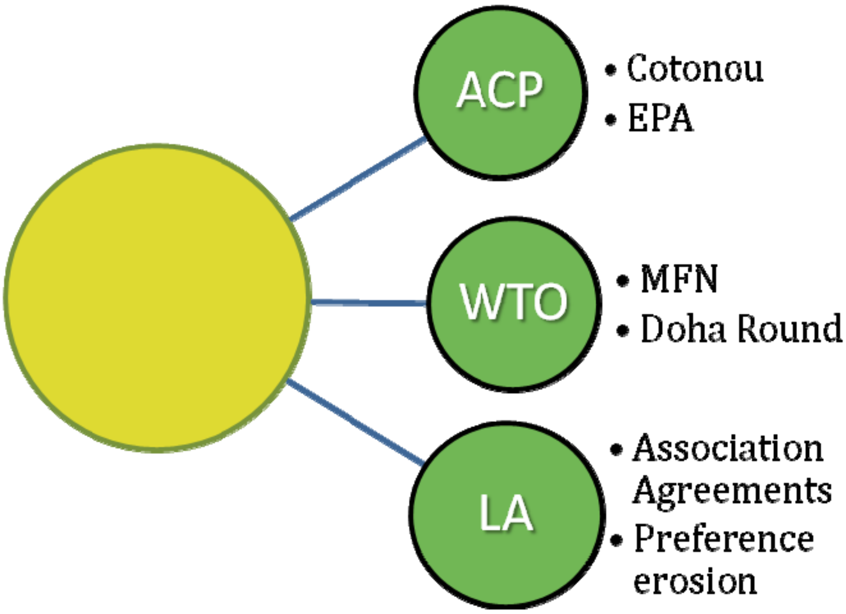
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total MFN	3,237	3,147	3,05	3,11	3,186	3,124	3,022	3,356	3,749	3,883
Total ACP	0,69	0,773	0,75	0,741	0,805	0,785	0,765	0,893	0,845	0,921

Source: FAO, 2010

At the same time, ACP exports expanded as well, from 765,000 tonnes in 2005 to 900,000 tonnes in 2006 and 850,000 tonnes in 2007; they reached 920,000 tonnes in 2008, the first year with the EPAs in place. Until 1 January 2006 ACP exports outside the 775,000 tonne duty-free quota were subject to a preferential tariff of 360 €/tonne, while since the introduction of the "tariff only" regime the tariff imposed on out-of-quota ACP exports became the much lower MFN tariff, i.e. 176 €/ tonne (Anania, G. 2009).

Among MFN exporters the **expansion of EU imports since 1 January 2006 seems to have mostly benefited Colombia, Costa Rica and Ecuador**, in that order. Among ACP countries, benefits from the reduction of the tariff imposed on their out-of-quota exports seem to have been more evenly distributed, with the **Dominican Republic showing a somewhat stronger capacity to take advantage of the new market access** conditions. The fact that in 2006 and 2007 around 15 percent of ACP banana exports to the EU were subject to the MFN tariff implies that certain ACP countries have developed a significant capacity to produce and market bananas competitively with MFN countries. This highlights the significant potential for expansion of ACP exports under the quota- and duty-free import regime in place since 1 January 2008 as a result of the EPAs.

GRAPH 7: LAST DEVELOPMENTS IN TRADE POLICY

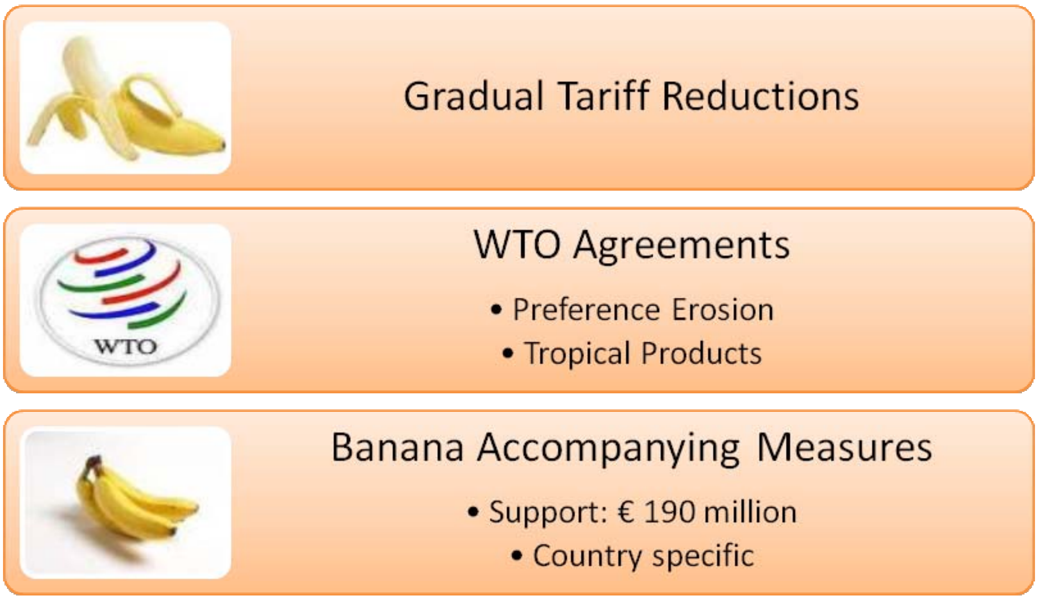


2.1 The Cotonou Agreement and Economic Partnership Agreements

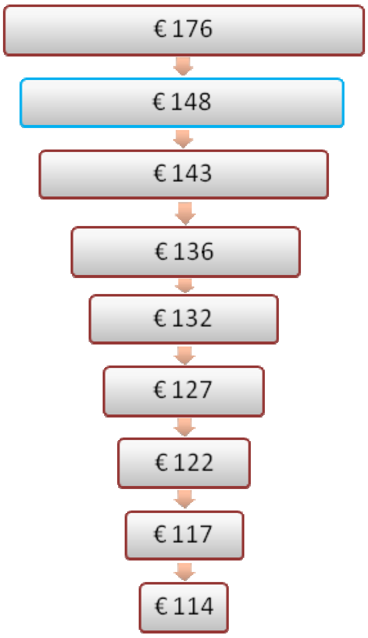
Economic Partnership Agreements (EPAs) - as the heart of the Cotonou Agreement - are intended to be regional agreements; however until today the Caribbean region (CARIFORUM) is the only region that has concluded a comprehensive regional EPA in October 2008. The CARIFORUM EPA included that by 1 January 2010 full duty-free, quota-free access had been granted, with the only remaining restrictions in the sugar sector. In addition, Cameroon, Ghana and the Ivory Coast have signed interim 'goods only' bilateral EPAs. **Their decisions to sign those agreements can be explained by the fear of a reintroduction of tariffs on bananas** when the waiver for Cotonou Agreement's preferences in the WTO expired on 31 December 2007. It is well known that the banana exporters in those three countries have pushed the African governments to sign those deals since they were worried to lose competitiveness. With the WTO agreement on trade in bananas signed on 31 May 2010 **it is foreseeable that the preferential access to the European market of Ghana, the Ivory Coast and Cameroon that has been maintained because of the EPAs does not have the same significance**.

2.2 WTO Geneva agreement on banana trade

The WTO agreement on trade in bananas has ended a long-running dispute. The US and Latin America both had complaints at the WTO over the EU preferential market access for ACP countries under the Common Market Organisation (COM) and considered them as discriminatory with WTO rules. The agreement reached consists of three main components:



1. **Tariff reductions under an agreed schedule for (MFN) banana exporters**: The EU will cut its tariffs from **176$ per tonne to 114$ by 2017** at the earliest. The first cut will be made to 148$ per tonne and will be applied "retroactively from the date when all parties initialed the agreement. The tariff will then fall again at the start of each year for seven years, in annual instalments (€143, €136, €132, €127, €122, €117, €114), starting on 1 January, 2011." In addition, the agreement states that "the EU will freeze its cuts for up to two years if WTO members do not conclude talks on agriculture in the Doha Round by the end of 2013."



2. **The dealing with 'tropical products' and products subject to 'preference erosion' in WTO negotiations:** EU, Latin American and ACP countries have agreed to tariffs which they will apply to each of those products. In this respect, tariff cuts for Preference Erosion (PE) products will be deferred, instead, it has been concluded that the EU, the ACP and countries pushing for faster opening of trade in Tropical Products will present plans for these cuts to the WTO. "Only once WTO members conclude the Doha Round will they implement the cuts".

3. **The Banana Accompanying measures (BAM) programme:** to help ACP countries to adjust, the Commission, in addition to the existing support, **proposed to mobilise €190 million to support the ACP banana exporting countries**. It is stated that this programme "would be country-specific, build on past support, and help tackle the deal's broader consequences". The programme now has to be approved by the European Council and the European Parliament.

2.3 EU - Central American Association Agreement

The EU and six Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama) reached **a free trade agreement on 16 May 2010 to liberalise, amongst others, the trade in bananas**. This includes that import duties on bananas will be reduced to 75 Euros over 10 years. Given the fact that Costa Rica, Guatemala and Panama are already increasing their banana export market share, **it is likely that the reduction to 75 Euros/tonne will significantly increase their banana exports to the EU**.

2.4 Bilateral free trade agreements with Peru and Colombia

Bilateral Trade agreements have been reached between the EU and Colombia and Peru in May 2010. The main drive of the two countries to conclude the deals has been the substantial new market access given to them with regard to bananas and sugar and will bring about significant tariff savings. The same tariff that has been concluded with Central American countries will apply for Peru and Colombia, a reduction to 75 Euros/tonne by 2020. **Colombia had the highest growth rate for banana imports to the EU in 2007 (see CBI 2009), this is likely to increase further with the new reduced tariff**.

3 POSSIBLE EFFECTS

The International Center for Trade and Sustainable Development (ICSTD) forecasted that one-third of the benefits resulting from the preferences granted by the EU within the EPA context will be eroded (see Anania 2009). In addition, with the new developments in the banana trade, the strengthening of MFN Exporters and the emergence of new competitors, ICTSD projects that **ACP banana exports could decrease by up to 14 % whereby Caribbean exporters are likely to be worst affected. EU imports from Latin American suppliers, on the other hand, are expected to increase by 17%** (Anania, G. 2009). This forecast and the most possible devastating effects on the Caribbean banana industry (see table 1), as estimated by NERA, stand in stark contrast to the **acknowledgement of the importance of bananas to the economic development of a number of CARIFORUM countries**. On the other hand, if no WTO banana agreement had been signed ACP exports of bananas had been expected to increase by 84 percent in 2016 (from 970,000 tonnes to 1,800,000 tonnes) at the expense of MFN exports, which had dropped by 5 percent overall, but with a 24-percent decline in the EU market (see Anania 2009).

As aforementioned, the most devastating effects are expected for the Caribbean Islands. Even though a detailed assessment of possible social and economic impacts is not yet available, the following section evaluates existing information and prospects on possible effects for the Windward Island and Suriname.

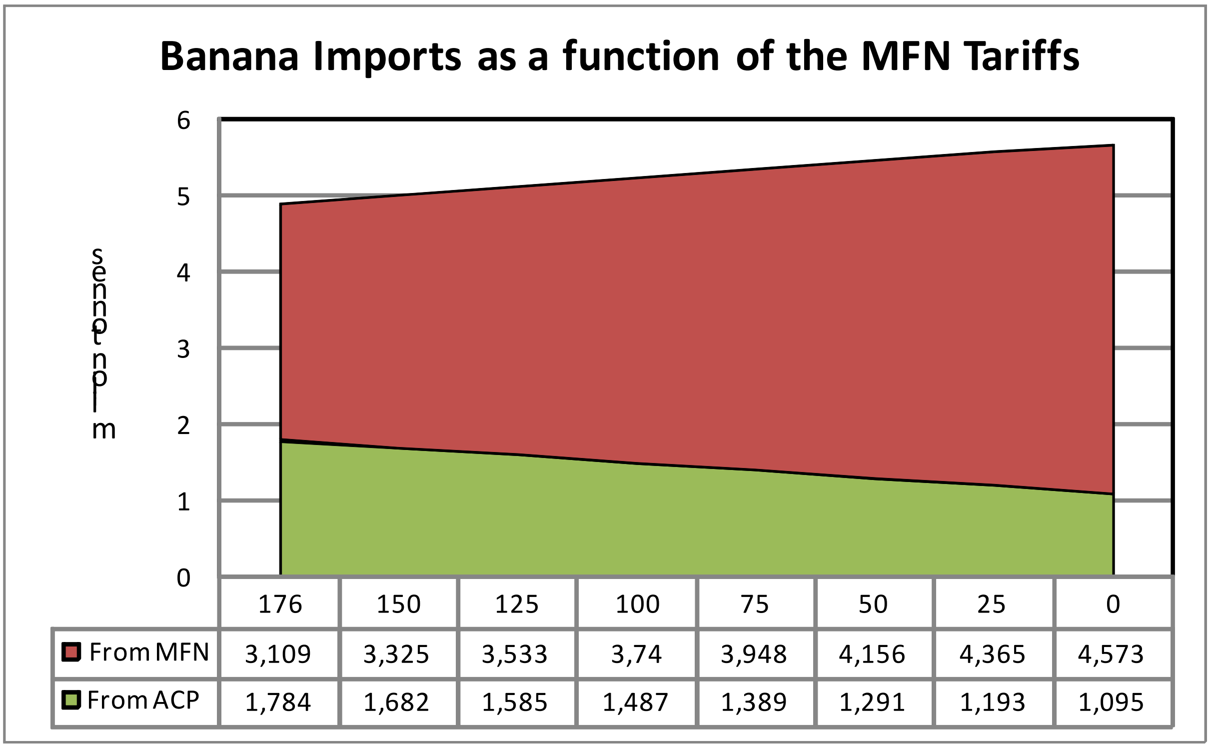
TABLE 1: NERA - PROJECTIONS

Lower Bound Supply Projections for Different Tariff Scenarios Based on Adjustment to Literature Consensus

Tariff level (€)	fob price(€)	Price reduction	Change in supply caused by change in trade regime (assumed supply elasticities in brackets) Dominica (1.0)	Grenada (1.3)	St Lucia (1.0)	St Vincent (0.7)	Jamaica (1.3)	Belize (1.0)
259	520	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
250	511	-1.7%	-1.7%	-2.3%	-1.7%	-1.2%	-2.3%	-1.7%
225	486	-6.5%	-6.5%	-8.5%	-6.5%	-4.6%	-8.5%	-6.5%
200	461	-11.3%	-11.3%	-14.8%	-11.3%	-7.9%	-14.8%	-11.3%
175	436	-16.2%	-16.2%	-21.0%	-16.2%	-11.3%	-21.0%	-16.2%
150	411	-21.0%	-21.0%	-27.3%	-21.0%	-14.7%	-27.3%	-21.0%
125	386	-25.8%	-25.8%	-33.5%	-25.8%	-18.0%	-33.5%	-25.8%
100	361	-30.6%	-30.6%	-39.8%	-30.6%	-21.4%	-39.8%	-30.6%
75	336	-35.4%	-35.4%	-46.0%	-35.4%	-24.8%	-46.0%	-35.4%
0	261	-49.8%	-49.8%	-64.8%	-49.8%	-34.9%	-64.8%	-49.8%

NERA projections.

GRAPH 9: EU-27: PREFERENCE EROSION (SEE ANANIA, 2009)



3.1 Possible effects on the Windward Islands:

Banana production on small Caribbean farms has a comparative disadvantage since it is several times more expensive than production on large Latin American banana plantations. As small economies, they face difficulties in integrating into the liberalised world agricultural trading system the WTO and EPA negotiations aim to establish, and in receiving equitable benefits from it. Their relatively small land base is exacerbated by steep topography that further limits the utility of available land. Competing land-use demands such as for housing, industry and tourism in flat and gently sloping areas is a further constraint to agriculture. The average farm size in the Windward Islands is quite small, with a majority of holdings less than 1 hectare in size. Most of these holdings are not suitable for irrigation or large scale production. Yields are less than half those in the MFN production areas. (NERA, 2004).The geographical location of the Windward Islands makes them vulnerable to hurricanes and tropical storms between the months of June and October, to drought in the early months of the year and to a continuous threat from volcanoes and earthquakes. Therefore, Caribbean banana farmers have never been in a position to compete with Latin American banana exports. **In a regime of open, unregulated competition with Latin American banana producers, the Windward Islands would simply have no chance of maintaining an adequate market share**.

In the global banana trade, the Windward Islands are relatively small players (1% of world banana trade). Banana production on the other hand, is a major source of income and employment for the islands and **banana production and export the most important activity in the agricultural sector**. Labour costs account for almost 70% of total production costs, and thus bananas are a major income generator for their populations. According to McLoughlin Torgerson, **more than half of the population depends on bananas for their livelihood**. In the same study it is referred to the fact that "since 1992 total annual banana exports from the Windward Islands have dropped precipitously from 274,539 tons to 61,267 in 2006" and that nowadays "Windward Islands total is less than the amount St. Vincent alone exported in 1992" (see Mc Loughlin Torgerson, 2009). According to estimations of the Windward Islands Farmers Association (WINFA), the number of banana growers has fallen from 24,000 on the 1990s to only around 5000 in 2005. Fair trade does seem to provide a survival strategy for the Windward Islands, for St. Vincent it is estimated that fair trade bananas account for 80% of the export market (see Mc Loughlin Torgerson). This has also been confirmed by a fact finding mission of the ACP-EU Parliamentary Assembly, which finds that: Of the remaining banana growers in the Windward Islands approximately 3,400 are members of the 48 Fairtrade groups across the Islands. **With more than 85% of all bananas grown in the Windward Islands now Fairtrade certified, it is only access to Fairtrade markets that is enabling the Windward Islands industry to survive** (ACP-EU JOINT PARLIAMENTARY ASSEMBLY, 2009).

ECONOMIC IMPACT

This suggests that the total decline in banana sector employment in the Windward Islands over the period 1993-2001 could have been as high as 67,000, or 18% of the total population of working age. It is also important to consider the linkages between the banana industry, and employment in other sectors, such as transport and marketing services. An ILO report on the banana industry states that "no other economic activity in the Eastern Caribbean has similar multiplier-effects on employment levels", and that "roughly a third of the entire labour force was dependent on this economic sector.

For the WWI, failure to compete in the EC market will condemn the present producers in the Windward Islands to subsistence farming and may encourage banana farmers to enter the drug trade.

In Saint Vincent, banana production employs upwards of 60% of the work force and accounts for 50% of merchandise exports. Minister of Agriculture Montgomery Daniel informed the delegation that between the mid-1990s and the present the number of banana growers in his country had dropped from over 8,000 to approximately 1,500 (ACP-EU JOINT PARLIAMENTARY ASSEMBLY (2009).

TABLE 2: NUMBER OF REGISTERED BANANA FARMERS IN THE WINDWARD ISLANDS

(Thousands)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Dominica	5.8	6.8	6.2	5.5	4.8	2.9	2.9	2.4	1.3	1.0	1.0
Grenada	0.9	0.9	0.5	0.2	-	0.1	0.1	0.1	0.1		
St. Lucia	9.7	8.0	7.4	6.7	4.8	4.5	5.2	4.8	3.8	2.0	2.0
St. Vincent	7.8	7.4	6.1	5.7	6.7	4.2	4.4	3.8	2.2	2.5	2.3
Total	24.1	23.0	20.2	18	16.3	11.7	12.6	11.1	7.3		

Source: NERA (1993-2001), European Commission (2002-2003)

3.2 Suriname

Since trade plays a crucial role in determining Suriname's development prospects. The high degree of trade openness and a narrow export base render the economy vulnerable to external shocks. Any significant change in the demand for, or supply of, Suriname's tradable products has an immediate effect on GDP (Commission's Country Strategy Paper for Suriname): In 2007 bananas represented 7.5% of the total value of Surinamese exports to the European Union (compared to 13.3% in 2001, but 3.5% in 2004, the year banana production started again).

Several studies show that the conditions in Suriname for banana production are ideal: no climatic catastrophes, hurricanes, earthquakes, volcanoes; the country is flat, there is enough water and sun, there is relatively cheap labour and Suriname has so far been spared from black Sigatoka disease.

TABLE 3: INDICATORS OF DEPENDENCE ON BANANA EXPORTS

	Banana exports as % of total merchandise exports 1999-2002	Banana exports as % of total merchandise exports and exports of services 1999-2002	Banana exports as % of GDP 1999-2002	Banana workers as % of population of working age 2001
Belize	14.7	7.4	3.2	2.3
Jamaica	1.9	0.7	0.3	0.1
Suriname	3.4	2.9	2.1	0.8
Windward Islands	29.6	6.2	3.2	8.0
Dominica	23.0	8.3	4.4	9.9
Grenada	0.8	0.1	0.1	0.6
St. Lucia	39.5	6.3	3.6	10.8
St. Vincent	39.3	10.1	5.0	8.4

Sources: FAOSTAT, World Bank, employment figures (EC reports and interviews)

4 HOW PROFITS ARE DISTRIBUTED ALONG THE BANANA VALUE CHAIN

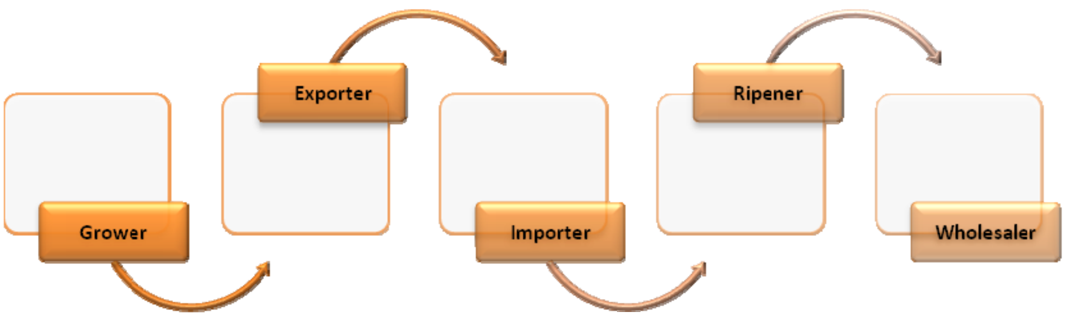
Value chain analysis generally restricts itself to a single marketing channel and follows the chain to the point of final consumption, whether this is in the country of origin for the product or not. Value chain analysis can make an important contribution to pro-poor economic development for seven key reasons (see Mitchel, J., Keane, J.; Coles, Ch., 2009):

1. Value chains are particularly well suited to understanding how poor people can engage, or engage more beneficially, with domestic, regional or international trade.
2. Value chain analysis has economic viability and sustainability at its core because of its focus on markets and commercial viability (as well as development concerns).
3. Value chains are a strong qualitative diagnostic tool, capable, if employed with skill, of identifying critical issues and blockages for specific target groups and then generating robust and effective policies and development strategies.
4. Value chain analysis identifies the core rents and barriers to entry that determine who in the chain benefits from production for diverse final markets.
5. Value chain analysis is inherently scalable.
6. Value chain analysis is relatively evidence based and action oriented.
7. Value chains provide a clear way forward as a policy and restructuring tool.

How profits are distributed along the banana value chain depends to a large extent on the value chain within which the actors operate and who controls it. According to FAO there are various types of banana value chains, whereas most of the traded bananas are traded through value chains type b or c (see FAO 2008).

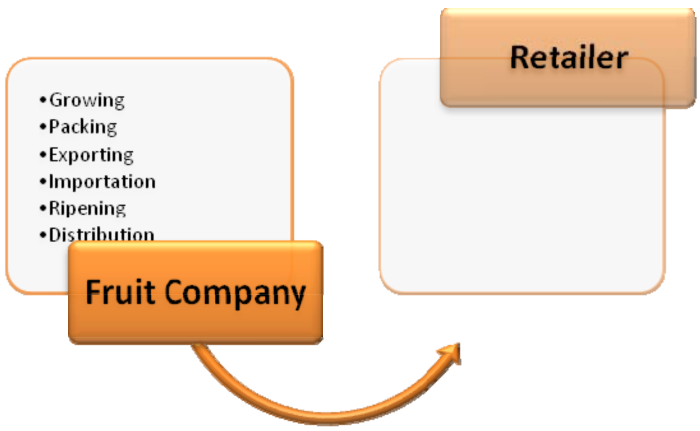
GRAPH 10: BANANA VALUE CHAIN (SEE FAO 2008)

a) Traditional chain

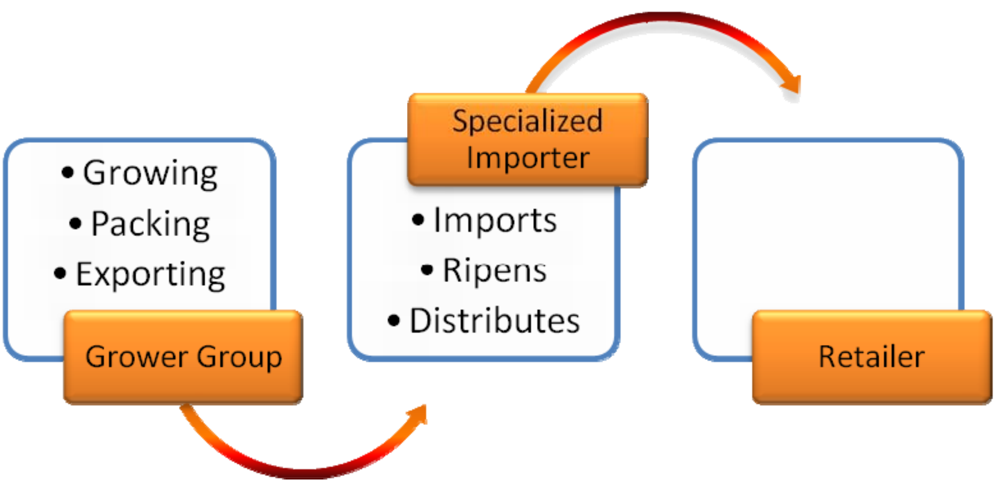


b) Integrated conventional chain

c) Highly integrated conventional chain



d) Integrated fair-trade or organic chain

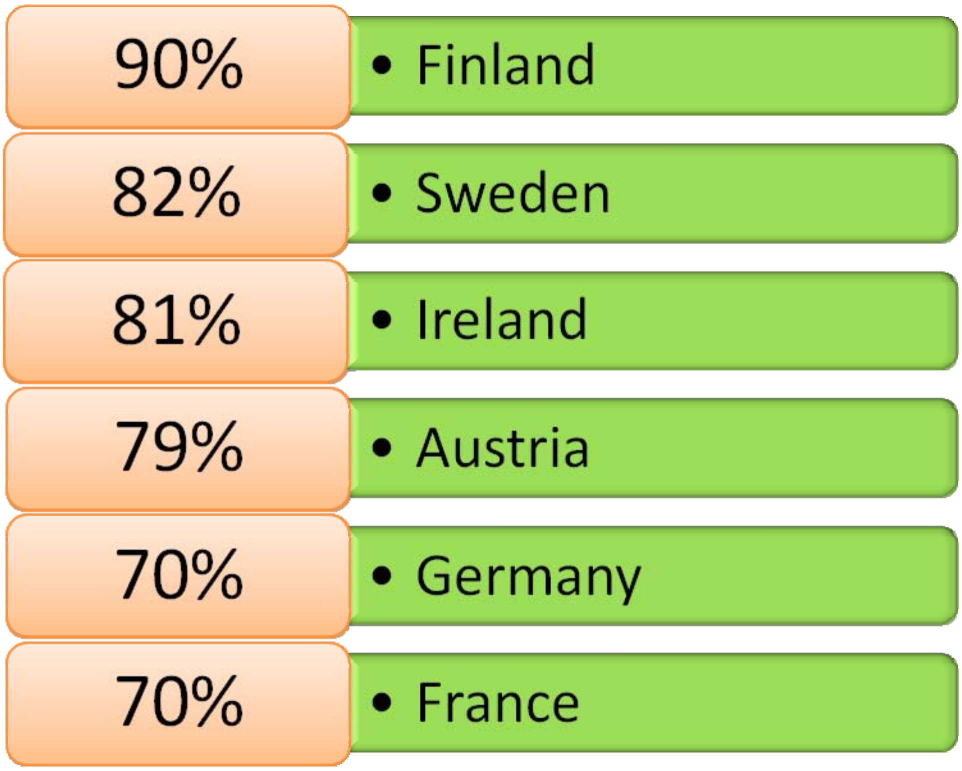


What emerges from the value chain study is that the global market for convential bananas is highly concentrated, both regarding corporate power and geographical demand. Industrialised countries account for over 80% of worldwide banana imports, whereas the EU and the US together account for 60% of those imports (see FAO 2008). In addition, banana trade is a classic oligopoly. The "big five" transnational companies (Dole, Chiquitta, Del Monte, Fyffes, Noboa) are extremely powerful, both in their country of origin and in the exporting countries and had a global market share of over 80% in 2007 (see UNCTAD 2009). Thus, most competition investigations by EU member states concerning bananas targeted the market power of and possible distortions caused by these big companies.

The power relationships in the banana industry, however, seem to have shifted from a "producer-driven" value chain to a "buyer-driven" value chain in the sense that retailers are increasingly dominating the market and the price structure. In Germany, for example, the five big retailers (Edeka, Rewe, Lidl, Metro and Aldi) have a market share of over 70% (see Oxfam 2008).

EXAMPLES OF EU MEMBER STATES WHERE THE TOP 5 RETAILERS MADE UP MORE THAN 70% OF THE GROCERY MARKET IN 2005

GRAPH 12 RETAIL CONCENTRATION IN EUROPE



Source: Global Retail Concentration, Planet Retail, 2006 in: Briefing for MPs, 2007

As markets for credit, inputs and shipping become more competitive, the vertical integration which formerly characterised the industry is likely to diminish further. Growers and their associations will increasingly need to be market aware and managed their marketing.

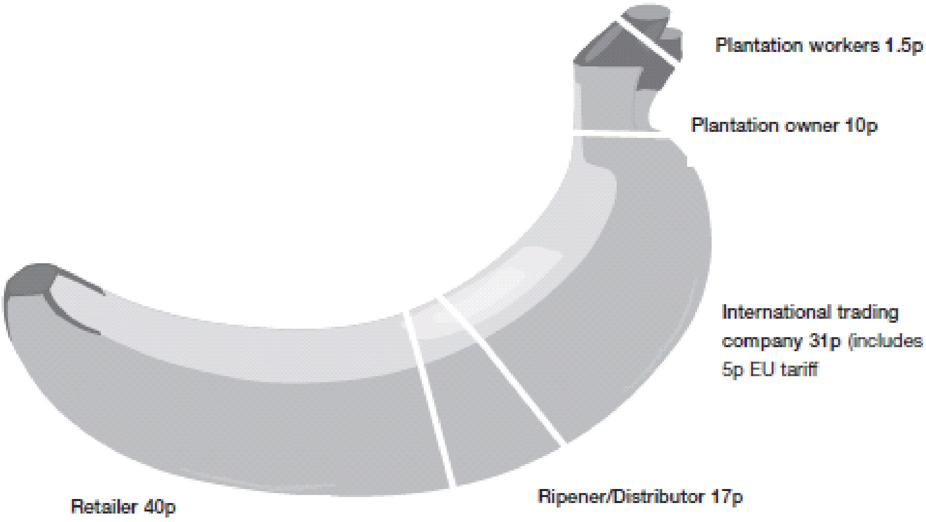
According to a study of the British Competition Commission a market share of **8% of food retailers is sufficient to create "demand power" that significantly affects the competitiveness of suppliers and distorts the competition among suppliers and retailers.** In the end, in the global banana trade, it is the retailers who dictate terms and prices to their suppliers and who decide from which country and from which supplier bananas are coming in the shelves of the supermarkets. In this respect, suppliers are facing a serious pricing pressure. Since bananas are a "Known Value item" - price awareness among consumers is high. If the leading retailer in a given country (for example ALDI in Germany or Asda Walmart in the UK) is decreasing its price for bananas, other retailers are obliged to follow. According to a recent Agritrade brief, “Between 2002 and the end of 2007, UK retail prices of bananas fell by 41%. While prices recovered in 2008, buoyed by the general commodities boom, between November 2008 and November 2009 banana prices fell by 36%, according to the retail journal The Grocer, despite an average price decline of only 9.9% for the fruit and vegetable sector as a whole” (see Agritrade 2010b). Given these realities and the vast inequalities in market power in the banana value chain, additional research into the functioning of the banana supply chain is needed. One of the **main questions should be whether the pricing pressure is impacting on banana producing countries and especially the workers in banana plantations.** With regard to the recent developments in the banana trade and the preference erosion for ACP countries **it should be investigated if workers and ACP producers will face additional constraints through the liberalisation and pricing policies of retailers**. A 2003 study found that the price war reduces supermarket’s supply bases, and displaces less competitive suppliers. In the space of two years Asda and Tesco have significantly reduced their banana suppliers (Asda from three to one and Tesco from five to two) (see Uk Food Group 2003).

> Asda Wal-Mart signed a deal with Del Monte in 2002 which made it Asda’s exclusive supplier, in return for what one industry insider described at the time as a "ridiculously low price". At that time, the man from Del Monte was the only supplier able to say "yes" to such a price. Why? Because three years earlier Del Monte had slashed the pay of its piece rate workers overnight by an estimated 40%. Hundreds of workers were fired and rehired the next day with worse pay and conditions, and with an increase in the number of piece rate, temporary and subcontracted jobs
>
> Source: Action Aid 2007

Many studies of non-governmental organisations argue that with such low prices, it becomes impossible to pay a legal minimum price for growers and reasonable salaries for workers (see UK food Group 2003, SOMO 2006, Oxfam 2008). Oxfam uses the example of Ecuador, where the law stipulates for a minimum price for suppliers to be paid to producers. It is, however, often bemoaned that this regulation is not complied with (see Oxfam 2008). A study of the Centre for Research on Multinational Corporations states that **banana plantation workers in Latin America can earn as little as one per cent of the final price of a banana**. Their estimations indicate that in Nicaragua, for example, workers earn as little as one dollar a day on banana plantations and between 3 and 5 Dollars in Ecuador (see SOMO 2006). In Ghana, according to own research, plantation workers earn less than 2 Dollars a day.

GRAPH 11: WHO GETS WHAT ALONG THE BANANA VALUE CHAIN?

DISTRIBUTION OF EARNINGS OF A 1£ RETAIL VALUE OF ECUADORIAN BANANAS



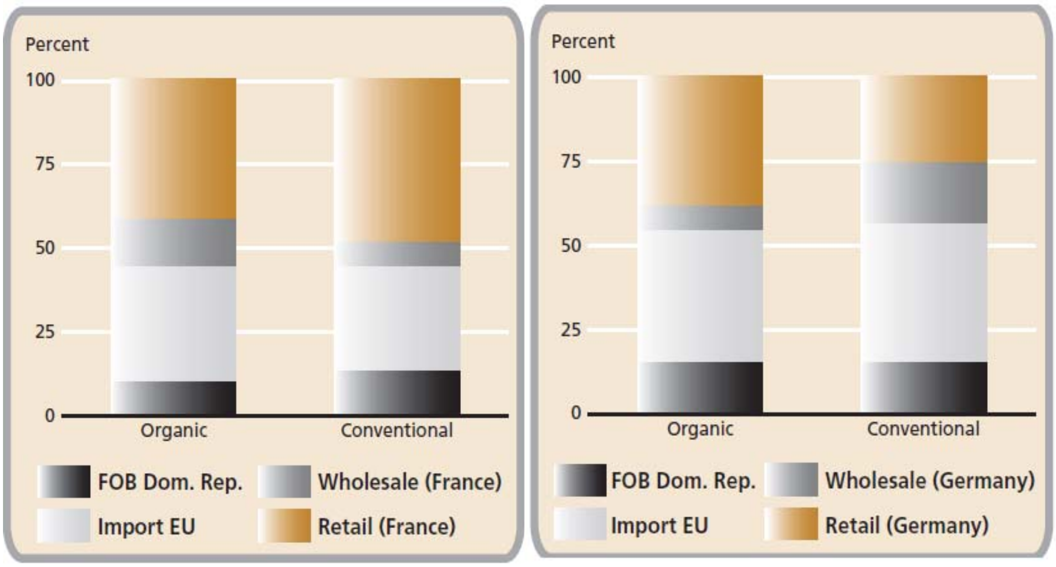
Source: Uk Food Group 2003

PRICING: DISTRIBUTION AND DIFFERENCES

A recent FAO study investigated the price distribution along the banana value chain from the Dominican Republic to France and Germany in 2000. Their key findings indicate that

- the largest price difference is between the FOB and importer stages, but the difference is comparable for organic and conventional bananas.
- Analysing the evolution of prices along the supply chain, **it was found that retailers capture the largest share of the retail price**, this share ranged between 40 and 48 percent. This situation **highlights the strong bargaining power of large-scale retailers**.
- The value chain for organic bananas is less dominated by retailers than that of conventional bananas. However, this situation does not benefit the exporting countries, as the value is captured by importers/wholesalers. The share of the retail price that goes to the exporter is larger for conventional than for organic bananas (13 percent against 10 percent).
- Germany and France, for organics: in both countries, retailers capture some 40 percent of the retail price.

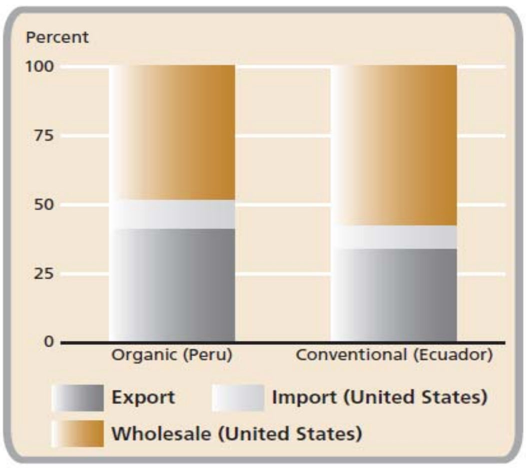
GRAPH 13: DISTRIBUTION OF PRICES ALONG THE SUPPLY CHAIN FROM DOM. REP. TO FRANCE AND GERMANY



Source FAO 2008

– Generally speaking, import prices are much higher in the EU than in the United States (over 130 percent), especially in the case of conventional bananas from Ecuador. Part of the difference may be explained by the tariff of €176 per tonne. (see Graph 14).

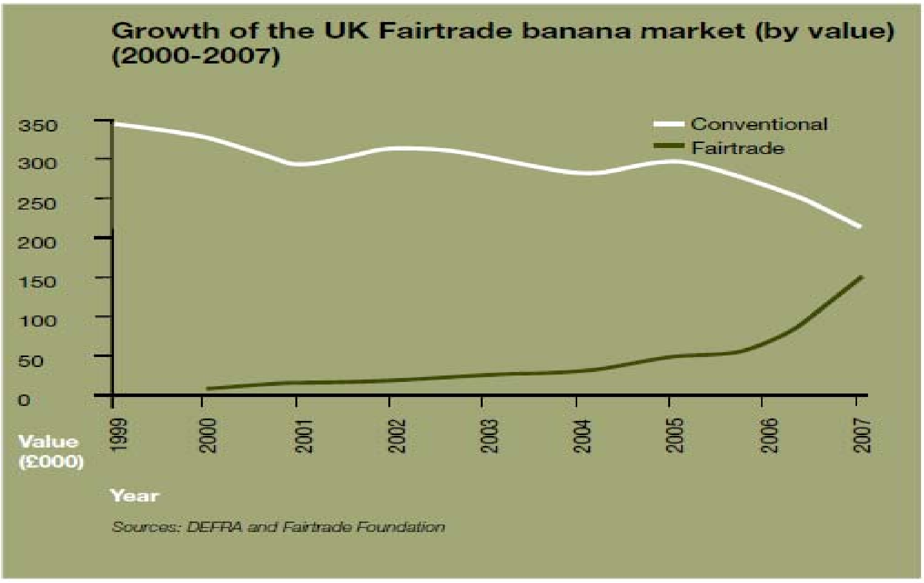
GRAPH 14: DISTRIBUTION OF PRICES ALONG THE SUPPLY CHAIN FROM PERU AND ECUADOR TO THE UNITED STATES.



FAIR TRADE: A POSSIBLE WAY OUT FOR CARIBBEAN AND OTHER ACP PRODUCERS?

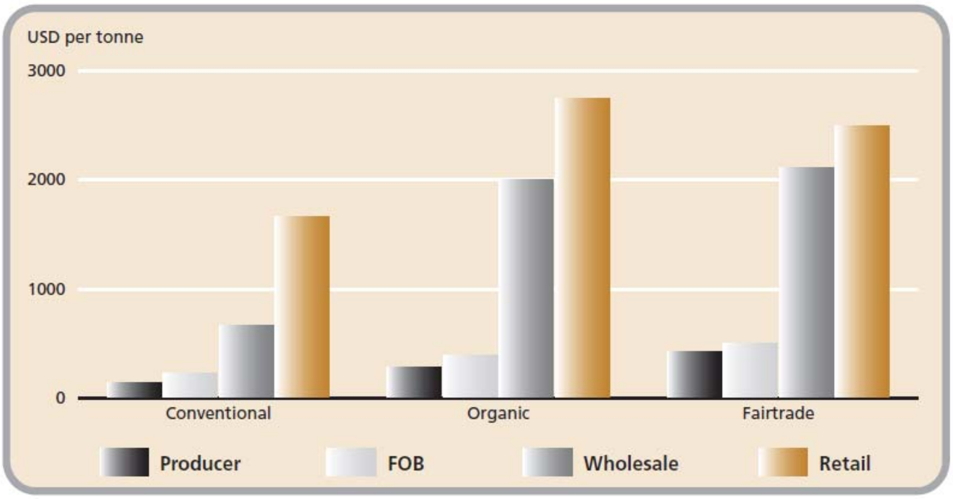
It is often assumed that the fair trade market could be a possible market to offset the losses from preference erosion, especially for producers from the Caribbean. In a way this would be a repetition of history. The elimination of preferential access and the introduction of tariffs instead of licenses and quotas at the end of the 1990s significantly impacted on Caribbean's market position on the UK market, its most important market. The consequences were a rapid decline in banana exports and the widespread abandonment of banana cultivation. According to a recent study, those farmers who remained are mostly fair trade farmers and used fair trade as a survival strategy. In addition, fair trade banana sales from St. Vincent, make up about 80% of total banana exports, and there appear to be indications that fair trade production will continue to increase in the future (see McLoughlin Torgerson 2009).

GRAPH 15: UK: FAIR TRADE BANANA MARKET



Source: Fairtrade 2009.

GRAPH 16: PRICES FOR ORGANIC, FAIR TRADE AND CONVENTIONAL BANANAS ALONG THE VALUE CHAIN TO EUROPE IN 2004



Source FAO 2009

CHALLENGES FOR FAIR TRADE

Regarding the question of 'who gets what?' in the fair trade market, empirical data with respect to the percentage of the premium that trickles down to exporting countries is patchy. What has been found in recent studies is that **the fair trade market has the highest share of the retail price that goes to the growers** (see Graph 16). On the other hand, a 2003 study found that most of the UK supermarkets are "pursuing an expanded retail margin for these products. For bananas, it found a much higher slice of the £0.78-0.90/kg Fairtrade premium was going to supermarkets (£0.35-0.65) than to farmers (£0.24)"

(UK Food Group 2003). Due to the growth of the fair trade market and the fact that more and more retailers and discounters are selling fair trade products, retail power in the fair trade banana chain seems to have an increasing impact. In addition, there is a trend for supermarkets to create their own fair trade labels which will probably replicate conventional trading relationships. **The price pressure seems to have reached the fair trade supply chain as well**. According to Smith, a "race to the bottom" to find the cheapest sources of supply was increasingly likely as the UK Fairtrade banana market expanded. The implications of this for small producers in Fairtrade are clear; one supermarket buyer was even quoted in an industry journal as saying, "We are rewriting the [FLO] standards to give more business to plantations" (Smith 2008). This has a significant impact on the ability of fair trade to support long term processes of development and the strengthening of producers and workers rights in global value chains.

5 SOME CONCLUSIONS AND RECOMMENDATIONS

1. The major change in markets is the increasing power of supermarket chains as wholesale markets shrink. The system in which the big international banana traders dominated the market, in a paternal relation to local growers, is beginning to change.
2. **The analysis of the changes in the regime leads to the conclusion that there is little prospect of the Caribbean to compensate for a substantial loss of preference if competitiveness is increased**. Their lack of comparative advantage against other banana exporters is simply too great; several factors contribute to this:
   - Differences in terrain, soil quality and climate
   - Production is dominated by smallholdings
   - Labour costs (being generally middle income countries, the Caribbean income levels are a multiple of those of Ecuador, the lowest cost Latin American producer)
   - For some Caribbean countries, transport costs are higher, as generally associated with small island economies
3. **Development Options for Caribbean Countries**: The main options for dealing with a gradual tariff reduction in the Caribbean are:
   - Improving the competitiveness of the banana industry
   - Substituting banana production
   - Improving fair trade
   - Diversification
4. The Fairtrade market niche may offer the Windward Islands' banana industry some reprieve in the short and medium term, but will presumably not solve in the long term the structural problem of small banana-based economies in a completely liberalized global economy.
5. **Issues to be considered by future Aid Strategies**
   - Do more competitive banana industries (Suriname, Belize) need additional aid?
   - Do countries where dependence on banana exports is relatively low (Jamaica) need additional aid?
   - Which is the best strategy for supporting the Windward Islands?
   - Should a Social and Environmental Impact Assessments (SIA) be conducted for more detailed evidence on the impacts of preference erosion?
   - How can social and ecological standards be considered more duly in trade agreements?

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