

THE EXTERNAL COSTS OF BANANA PRODUCTION: A GLOBAL STUDY

2019



FAIRTRADE INTERNATIONAL

INTRODUCTION

While it has long been accepted that the commercial production of bananas has negative impacts on the environment and on society, these 'external costs' have never been methodically evaluated or captured in prices. Increasingly, however, businesses are being required to internalize such external costs by stakeholders in search of more sustainable and transparent production processes.

To help the banana sector make this transition to sustainability, Fairtrade International commissioned True Price and Trucost to prepare a first-ever study on the external social and environmental costs of banana producers in the key origins of Colombia, Dominican Republic, Ecuador and Peru. The study aimed to identify the most material costs for the whole sector compared to those of Fairtrade producers, and highlight the best practices of the producers with superior social and environmental performances.



KEY FINDINGS



Social costs exceed environmental costs of banana sector production

The study calculated the average total external costs of banana production by the sector to be \$6.70 per box. Of this total average cost, the average social costs for the sector are found to be greater than the average environmental costs: \$4.00 compared to \$2.70.

The biggest **social costs** across all four study countries are insufficient wages and social security for hired workers, and insufficient income for small producers and their families. Together, they amount on average to 33% of the total external costs. The biggest **environmental costs** across all four study countries are land occupation (21%), climate change (10%) and water depletion (6%).



The banana sector can learn from Fairtrade's sustainable practices

Banana sector producers can make several improvements to their own performances by adopting the best practices of the Fairtrade producers, particularly on reducing the social costs arising from insufficient income for producers, insufficient wages and social security for hired workers, worker harassment, and health and safety risks. The banana sector *including* some Fairtrade producers can learn from highly sustainable producers. Opportunities include reducing climate change costs, minimizing land occupation impacts, and using the Fairtrade Premium more strategically, including as a wage supplement as well as investing in productivity and labour efficiency.



External costs of Fairtrade producers are lower than the sector average

The study found that the average external costs of banana production are **45% lower for Fairtrade producers** than for sector average producers: \$3.65 compared to \$6.70 per box. This difference is mainly because Fairtrade producers have considerably lower external social costs than the sector benchmark, since the external environmental costs of all producers were found to be similar on average.

The study also looked at small-scale producers and plantations separately. Among plantations, Fairtrade producers have external costs which are 58% lower than the sector average (\$3.09 vs \$7.33 per box). For Fairtrade small-scale producers, external costs are 29% lower than the sector benchmark (\$3.99 vs \$5.63 per box).

The social costs of Fairtrade banana production are one-quarter of the sector benchmark (\$1.05 vs \$4.00 per box), mostly because of the higher wages and superior social security benefits given to workers, and the higher incomes of small-scale producers. This underlines the importance of Fairtrade's Standards and pricing, as well as productivity improvement efforts.



RESEARCH METHODS

The study sourced data for the banana sector – encompassing Fairtrade certified and non-certified producers - from secondary literature and expert opinions. Data on Fairtrade certified producers was collected directly from 15 Fairtrade plantations and 97 Fairtrade small-scale producers.

Once the data and results were verified and validated by local experts including CLAC (Latin American and Caribbean Network of Fair Trade Small Producers and Workers), internationally recognized monetization methods were applied to convert these into social and environmental costs.

The results for the banana sector represent an estimation of the external costs of the average box of bananas, calculated by dividing the total external costs of the sector in a country by the total production. To compare the results, the total external costs for the sector and Fairtrade producers are expressed in dollars (\$ per box of bananas, where one box is equivalent to 18.14 kilograms of bananas).

While the study design and lack of sector-wide primary data resulted in some limitations for the study, the researchers still found it likely that the difference between Fairtrade and the sector external costs is actually underestimated, since conservative approaches were used in the selection and interpretation of sector-wide data.

KEY LEARNINGS AND RECOMMENDATIONS



Reduce social costs by working toward a living wage in the sector

The Fairtrade Standards and Fairtrade Minimum Price and Premium mandate better working conditions and a base wage for banana plantation workers. To achieve a living wage, Fairtrade is taking action through several mechanisms. The Fairtrade Standard for Hired Labour will be reviewed in 2019 to explore setting origin-specific base wage levels for banana workers. We will explore whether we can make a higher ceiling for cash disbursement of Premium more generally applicable (currently 20%, or 50% in some circumstances). Other mechanisms include a review of the Fairtrade Minimum Price, and working with commercial partners on targeted programmes to impact wages.



Improve productivity to reduce environmental as well as social costs

The study highlights that improving productivity can reduce external environmental costs as well as social costs of insufficient income and wages. Fairtrade launched the Productivity Improvement Programme in 2015 in the banana sector in Latin America to increase small-scale producers' yields with environmentally friendly techniques. The programme helped these producers to increase yields by 29% in the first two years, while reducing their use of agrochemicals and water for production. As a result, farmers' fixed costs decreased and net income increased. With investment from across the Fairtrade global system, CLAC is opening up the programme up to more small-scale producers in Latin America.



Strengthen worker empowerment

Aligning with our broader agenda on workers' rights, we are supporting longer-term empowerment for Fairtrade banana plantation workers in the Dominican Republic and Ghana, aiming to improve workers' negotiation capacity to influence change. This includes working with unions (Ghana) and providing trainings on labour rights and gender rights, and strengthening workers' labour networks.



Collaborate and advocate for sector-wide action

This study provides data that Fairtrade and other advocates can use to influence adoption of policies that reduce external social and environmental costs. These include higher minimum wages, stronger social security contributions, and land protection policies (accompanied by productivity improvements that allow producers to grow more on less land). Fairtrade's Workers' Rights Advisory Council, which includes international agriculture and advocacy organizations, informs our strategy and strengthens linkages in support of a fairer banana sector.

FAIRTRADE RESPONSE

Fairtrade welcomes the findings of this study as contributing to a better understanding of external costs in the banana sector, and suggesting areas for improvement, both for the sector and for Fairtrade producers. The root causes of issues like insufficient income and inefficient water use are interrelated and will require sector-wide efforts to address. Downward price pressure (driven by retailers who often use bananas as a loss leader), low national minimum wages, weak labour protections, the informality of the banana workforce, and climate change all contribute to higher external costs. Fairtrade is committed to working with partners at all levels to achieve a more sustainable banana sector.

For more information The report and Fairtrade's full response are available on the [Fairtrade International Impact and Research pages](#).