

## Fairtrade Bananas – Looking Behind the Price Tag

### Bananas are big business

Around 760,000 tonnes of bananas are shipped to the UK each year, making it our most popular fruit, having overtaken apples in 1998.<sup>i</sup> Around 140m bananas are eaten each week - more than 7bn each year.<sup>ii</sup>

Sales of bananas in 2000 reached a record £750m, approximately 28% of all fruit sales in the UK by value.<sup>iii</sup> Sales have risen by some 150% over the past 17 years<sup>iv</sup> and are purchased by 95% of households.

For supermarkets, bananas are the highest value grocery item that they sell and are a significant contributor to supermarket profits – only petrol and lottery tickets generate higher sales and the profit on these is tiny.

### Competition is Fierce

Bananas are used as a key promotional item by the large supermarkets (multiples) in the battle to attract consumers into their stores. There is fierce competition to offer the cheapest bananas; so when one multiple cuts prices, the others will normally follow.

The costs of low retail prices are passed down the supply chain - the multiples pressure their suppliers to cut wholesale prices, and the suppliers do the same to banana growers. The result is that many of the loose bananas on sale have been bought from the growers at a price that often does not cover the costs of production. Cheap fruit is available from low-cost 'dollar banana' producers such as Ecuador because production is easier and cheaper on huge plantations located on level plains. But higher-cost producers such as those in the Windward Islands, whose small-scale farms are spread out across the hilly countryside, are either forced out of the market or have to sell at below the cost of production. It is these marginalised farmers that Fairtrade aims to assist by setting a minimum guaranteed price for bananas sold with the FAIRTRADE Mark.

This cut-throat competition actually benefits no-one – farmers, shippers, ripeners and retailers all make less money and overall the sales of bananas has remained fairly static for the last few years (after nearly two decades of growth up to 1998). So at the same time as the supermarket's "headline" offer is of cheap bananas, they are also segmenting the market to attract those consumers who are prepared to pay more for premium products. In most supermarkets, you can now find organic, fun-size, home-ripening, eat-and-keep, and green bananas etc alongside the loose fruit, and Fairtrade bananas are marketed in this premium category.

### Bagged Bananas

So that retailers can ensure they charge the correct price to consumers for premium products they have to sell them in bags. The bags also help customers to identify the product and can keep the fruit fresher for longer and reduce the tendency for the bananas to be bruised in transit. Therefore the bagged fruit usually goes into the consumer's fruit bowl in a much better condition than loose fruit. Though not popular with everyone because of the extra packaging and the need to buy a preset quantity of bananas (usually around 1kg), where fruit can be bagged on the farm (as is the case with most Fairtrade bananas) this provides additional income to the producers. When the bagged fruit arrives at the UK ripening centre it is checked for quality, weighed and price-labelled before being distributed to supermarkets. The handling costs for bagged fruit are around three times those for loose bananas.

### Comparing Banana Prices

The higher price of all premium bananas (including Fairtrade) reflects firstly the higher production, shipping and packaging costs incurred by producers, shippers and ripeners. Uniquely for Fairtrade bananas, producers receive a guaranteed minimum price based on the cost of production (which varies across different countries) plus a premium of US\$1.75 per 40 lb box (around 6p per kilo). The price paid by consumers also includes the retailer's margin which is typically around 30% of the retail price (for all products). This means that retailers will make slightly more gross profit on each kilo of premium bananas than they do on cheaper conventional bananas but they may also incur higher costs. For example, the sales by volume of premium bananas are much lower than for conventional fruit so the space allocated to them will generate less profit. The proportion of fruit that is unsold before it becomes over-ripe may also be higher than for conventional bananas.

It is very important that consumers compare products and prices on a "like-for-like" basis. Fairtrade bananas are usually priced at around the same level as other bagged bananas, e.g. organic. This will be higher than the "headline" price for loose fruit, but whereas the price for loose fruit is highly volatile, the price of premium products tends to be more stable. So when conventional bananas are being offered at very cheap prices, premium products such as Fairtrade bananas will appear to be much more expensive. At the end of 2002, the headline price for bananas was around £1.10 per kilo, with Fairtrade bananas generally being sold for around £1.50 per kilo. In the six months to June 2003, the headline price fell to just over 80p per kilo while the price of Fairtrade bananas (traded on the basis of a minimum guaranteed price to producers) has remained fairly constant.

### **The Price of Fairtrade Bananas**

The Fairtrade Foundation does not control prices in the supply chain other than those paid to the growers – who are clearly the intended beneficiaries of Fairtrade (as the FAIRTRADE Mark says, it "*guarantees a better deal for Third World producers*"). It's also important to remember that Fairtrade producers are not asking for our charity – they want the chance to earn a decent living based on a fair return for their work. For Fairtrade to be sustainable, it must be viable for the commercial intermediaries who help deliver the product to consumers, and it must also provide good quality and value for consumers. This is especially important for banana farmers who need a regular market for their weekly harvest – buying their bananas as an occasional act of charity is no use to them.

Over the last three years, virtually all national supermarket chains have started to stock Fairtrade bananas in response to consumer demand. In 2002 British consumers bought 11,500 tonnes of Fairtrade bananas with Sainsbury's alone selling the equivalent of one million (single) bananas each week. This is helping provide a better income for thousands of farming families in the Caribbean, Latin America and Africa.

Consumers are perfectly entitled to question the price of Fairtrade products and the Fairtrade Foundation is always pleased to explain how Fairtrade certification ensures that producers receive a fair deal from the trade in products carrying the FAIRTRADE Mark. However, a more challenging question to supermarkets and the multinational banana companies is why conventional bananas are currently being sold at such unfeasibly low prices that damage the livelihoods of farmers and workers in the South.

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<sup>i</sup> 'Unpeeling the Banana Trade', Fairtrade Foundation August 2000 and UK National Food Survey 2000

<sup>ii</sup> The Banana Group, 2002, <http://www.thebananagroup.uk.net/htmldocs/factsframe.html>

<sup>iii</sup> 'Unpeeling the Banana Trade', Fairtrade Foundation August 2000

<sup>iv</sup> The Banana Group, 2002, <http://www.thebananagroup.uk.net/htmldocs/factsframe.html> and Kathy Hammond, Fresh Produce Journal, "From battleground to banana domination", April 2002