

THE EXTERNAL COSTS OF BANANA PRODUCTION: A GLOBAL STUDY

Response from the commissioning agency, Fairtrade International

THE STUDY AT A GLANCE

INTRODUCTION

While it has long been accepted that the commercial production of bananas can have negative impacts on society and on the environment, 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 had three aims:

1. To identify the most material environmental and social impacts of banana production and use this information to target strategic sustainability improvements in the sector.
2. To compare the external costs of banana production systems with those of Fairtrade bananas, enabling the identification of the effective best practices of the Fairtrade system that can help the sector to materially reduce the social and environmental costs of banana production.
3. To identify opportunities to reduce the external costs of the banana sector by highlighting the best practices of the producers with superior social and environmental performances, and to use this information to target improvements to sustainable production standards and support programmes offered by sustainable production organizations, including Fairtrade.

The **social** costs covered by the study include the costs of low wages and poor social security, health and safety issues, overtime, and issues arising from child employment, forced labour and harassment.

The **environmental** costs considered include climate change, land occupation, water depletion, waste, and land, water and air pollution.

RESEARCH METHODS

The study compares the external social and environmental costs of a banana sector benchmark with the costs of Fairtrade certified banana producers in Colombia, Dominican Republic, Ecuador and Peru.

The banana sector is defined as the entire sector, encompassing certified *and* non-certified producers. Data for the banana sector was sourced from secondary literature and expert opinions, while data on Fairtrade certified producers was collected directly from 15 Fairtrade plantations and 97 Fairtrade small-scale producers (defined as a farm size of less than 10 hectares) across four countries.

Once the data and results had been verified and validated by local experts including CLAC (the Fairtrade Producer Network representing Latin American and Caribbean producers), monetization methods were applied to convert these into social and environmental costs.

The monetization methods applied in this study have different guiding principles.

The principle guiding the monetization of **social** externalities is to take an abatement cost approach to social impacts. The True Price method is based on internationally recognized benchmarks for a comprehensive set of social performance indicators that describe workers, work relations and health conditions at production sites. Deviations from the benchmark are then monetized based on the abatement cost.

The principle guiding the monetization of **environmental** externalities is that adverse impacts on the environment result in a loss of social welfare, which represents an external cost. Trucost uses the principles of Life Cycle Assessment to quantify impacts on the environment and values them based on a combination of market and non-market monetization methods that calculate the cost to society of damages to the natural environment.

These data and methodologies were used to produce the external cost account presented in the report.

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 US dollars (\$) per box of bananas, where one box is equivalent to 18.14 kilogrammes of bananas.

KEY FINDINGS

1. The social costs exceed the 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 study found that the average social costs for the sector are greater than the average environmental costs: \$4.00 compared to \$2.70.

The biggest **social costs** across all four study countries are found to be insufficient wages and social security for hired workers, and insufficient income for small-scale producers and their families. Together, they amount on average to 33% of the total external costs. Other large external social costs are harassment and occupational health and safety risks (13% and 11% respectively of total external costs on average).

The biggest **environmental costs** across all four study countries are land occupation (21%), climate change (10%) and water depletion (6%).

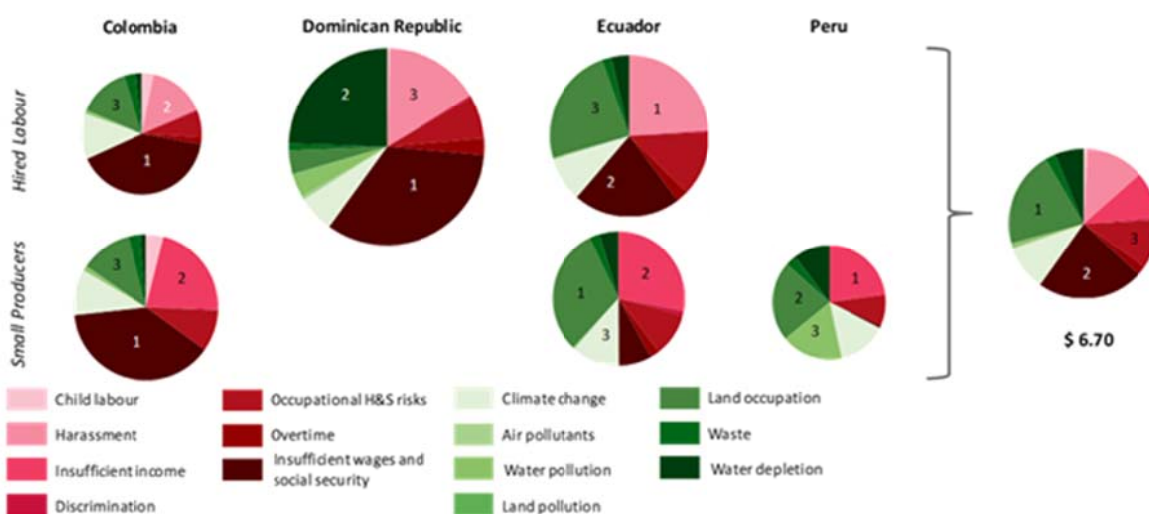


Figure 1: Sector averages of external costs and top 3 largest external costs (in \$) per box of bananas of hired labour and small-scale producers.

2. The 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, at \$3.65 compared to \$6.70 per box of bananas.

The bulk of this difference is accounted for by Fairtrade producers having considerably lower external social costs than the sector benchmark, since the external environmental costs of all producers were found to be similar.

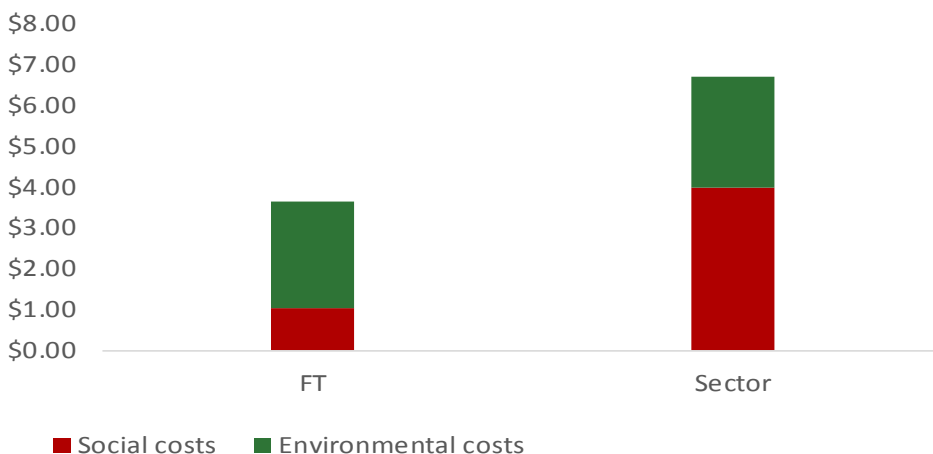


Figure 2: External costs per Fairtrade (FT) and sector average box of bananas

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 significantly lower mainly because of the higher wages and superior social security benefits given to workers, and the higher incomes of small-scale producers.

In terms of environmental costs, the relative values vary depending on type of producer set-up (small-scale or plantation) and country. The average external environmental costs are comparable for Fairtrade plantations and small-scale producers at \$2.19 and \$2.84 per box respectively. This indicates that Fairtrade compares favorably for plantations as compared to the overall sector (at \$2.76 per box), but slightly unfavorably for small-scale producers as compared to the overall sector (at \$2.44 per box). In particular, climate change adaptation costs are larger for Fairtrade producers, mainly due to higher energy and fertiliser input.

The study indicates but cannot statistically prove that external costs of Fairtrade banana production are lower, due limitations of study design and lack of primary data from the banana sector as a whole. Still, the researchers found it likely that the difference between Fairtrade and the sector external costs is actually underestimated in the study, since conservative approaches were used in the selection and interpretation of sector-wide data. This finding may be confirmed through future studies of the external costs of banana production.

3. The banana sector can learn from Fairtrade's sustainable practices.

Banana producers in the sector overall can make several improvements by adopting the best practices of the Fairtrade banana producers, particularly on reducing the social costs of production 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 those that perform well on sustainability. Specific opportunities include reducing climate change costs, minimizing land occupation impacts (for instance identifying ecosystem or landscape types on which the expansion of banana

production should be discouraged or prohibited), and using the Fairtrade Premium more strategically, including as a wage supplement as well as investing in productivity and labour efficiency.

FAIRTRADE'S RESPONSE TO THE RESEARCH FINDINGS

Increasingly businesses, governments and NGOs have recognized that a complete set of information on total impacts (economic, social and environmental) of an activity is required to inform the right measure of *sustainability*. Fairtrade currently calculates costs associated with 'sustainable' production, which includes inputs and other activities necessary to adhere to the relevant Fairtrade Standards. This calculation provides the information which supports the setting of the Fairtrade Minimum Price for a particular commodity. Historically this calculation has not included external environmental and social costs (externalities) associated with production of that commodity.

The study provides a rigorous and innovative methodology to evaluate and provide evidence – based for the first time on primary data – about the monetary values of negative externalities. The ambition of this study was to provide a valuable contribution to the discussion on social and environmental issues in the banana sector, and allow Fairtrade and its partners to: 1) understand the materiality of social and environmental costs of the banana sector overall and Fairtrade bananas specifically; 2) compare social and environmental costs of overall sector and Fairtrade bananas; 3) engage with clients, NGOs and consumers on the social and environmental footprint of Fairtrade bananas; and 4) inform Fairtrade strategies to improve Fairtrade interventions and the support to producers in key production areas, in order to reduce the social and environmental externalities.

Fairtrade aims to contribute to a more sustainable banana sector, through the mechanisms of standards of sustainable production, the Fairtrade Minimum Price, capacity-building programmes, and business partnerships. Although these activities aim to reduce the external costs of banana production, this study shows that Fairtrade external costs are not yet zero. It highlights the importance of Fairtrade's ongoing work to improve productivity and achieve living wages. The study also indicates that there is an opportunity for us to increase the effectiveness of our activities, both in terms of the best use of scarce resources, and the optimal balance between economic, social and environmental impact.

REFLECTIONS AND NEXT STEPS

We welcome the findings of this study as contributing to a better understanding of external costs in the banana sector. The results of this study can help shape the roadmap towards a sustainable banana sector by 2030 – the target date of the global Sustainable Development Goals (SDGs). Such a roadmap could start by defining a vision of a sustainable banana sector and translating this into an action plan, including goals to address the material external costs of insufficient income (SDG 1 and 8), climate change (SDG 13), and land occupation (SDG 15).

We value the finding that Fairtrade bananas incur 45% fewer social and environmental external costs on average than the sector overall, specifically 58% and 29% lower external costs for plantations and small-scale farms respectively.

We also acknowledge that there is more to be done. There are several areas of work that could support banana producers in reducing external costs, such as water management, climate change, occupational health and safety, and gender. There is also an urgent need to tackle root causes of the external costs, which include downward pressure on price (which means lower incomes and fewer resources to invest in things like better irrigation systems and productivity inputs), laxity of national labour regulations and control, and the informality of the banana workforce in many places.

Fairtrade is focusing on both short-term and longer-term solutions to these challenges.

Improving wages

The study findings support our strategic goal of reaching a living wage for workers at Fairtrade certified banana plantations. We have actively engaged and partnered with other certification schemes through the [Global Living Wage Coalition](#) to establish country- and region-specific living wage benchmarks, and we are working on a number of mechanisms at different points of the supply chain to close the gap between current wages and a living wage.

Fairtrade Standards: The [Fairtrade Standard for Hired Labour](#) already requires plantations to ensure that real wages are increased annually until they align with the established living wage benchmarks. The [Fairtrade Standard for Fresh Fruit for hired labour organizations](#), which is applicable to banana plantations, includes a modest base wage requirement that took effect January 2019. A similar base wage requirement was made in the Fairtrade Standard for Flowers and Plants in 2017, with positive results to date. To provide further direction for banana plantations in particular, we are conducting a review of the Fairtrade Standard for Hired Labour, with emphasis on bananas, beginning in early 2019. The review involves consultation with relevant stakeholder groups and is exploring setting an origin-specific Fairtrade base wage level to ensure that Fairtrade banana plantations in each origin make a meaningful contribution to a living wage.

Fairtrade Premium: Workers at Fairtrade certified banana plantations can choose to receive up to 20% of Premium revenue as cash to help meet their daily needs. In some circumstances, such as when the majority of workers are migrants, that limit is set at 50%. The latter is particularly relevant in the Dominican Republic. As part of our living wage strategy for bananas we will explore whether we can make a higher ceiling for cash disbursement of Premium more generally applicable.

Other mechanisms: These include reviewing the Fairtrade Minimum Price, and working with commercial partners on targeted programmes to impact wages.

Increasing productivity

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 percent 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 producers in the involved countries, which include the four in this study.

Strengthening 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 establishing workers' networks.

Advocacy

A key component of our living wage strategy is advocating for policies that support sustainable production, including wages that support a decent standard of living for workers. This study provides quantitative 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 Committee, which includes international agricultural and advocacy organizations, helps to inform our strategy and strengthens linkages in support of a fairer banana sector.

Overall, the study shows a pathway towards a sustainable banana sector. Pushing for fairer prices, better wages and stronger labour rights are key to reducing many of the social and environmental external costs identified in the study. We believe the industry is ready to move in this direction and we are committed to making tangible progress for Fairtrade banana producers as an immediate priority. We look forward to working with partners at all levels to make a real impact for banana farmers and workers and their communities.