

Project Assignment for Banana Price Review 2022

This project assignment contains the most important information about the project. For additional information on the project, please contact the project manager (contact details below).

Rationale for and justification of need for the project:

The Russia-Ukraine war and the ensuing sanctions and limitations is another blow to the global supply chain, that was already seeing challenges throughout 2021 and beginning of 2022 from increasing cost pressures to limited banana-related supplies such as packaging and the shipping limitations, due to the pandemic crisis.

Russia is the destination for exports of a large segment of Ecuador's banana production, the world's largest producer. It is so much so that Ecuador has a direct trading route between Ecuador and Saint Petersburg through which it sends 1.5-2 million boxes of bananas weekly, 80% transferred by the shipping company Maersk and 20% by Hapag-Lloyd.

Two weeks ago, the US, Canada and the EU isolated Russia's leading banks by banning them from the swift payment platform, preventing major companies from transferring money to their customers. Given this situation, Maersk has just notified that it will suspend its services to Russia and Hapag-Lloyd has warned that it will continue to go to that destination, but that there are new congestion issues in the ports of Northern Europe.

The current situation is likely to limit sales to Russia, increasing the offer for other consumer countries. Prices received by producers potentially would be below the production cost. To assess costs of production under this context, the Standards and Pricing Unit needs to identify costs increases at least on the main inputs and services of the banana production, at Ex Works and at the FOB - Ex Works differential. For this purpose, the Standards and Pricing Unit proposes: a) substituting the use of the methodology based on economic indicators to update the Fairtrade Minimum Prices for banana and b) incorporating a methodology for the cost collection of inputs and services with a weight percentage equal to or greater than 80% of the total operating cost, at Ex Works or FOB - Ex Works differential as appropriate. The scope and details of the proposal are presented in the annex.

Risk assessment:

1. Risk:

1. Risk: the response rate of individual producers in previous banana price reviews was very low.

Mitigation: Pricing Unit and Producer Networks will closely work with producers and exporters that are part of the sample.

Project Start Event:

Preparation of project assignment

Project Start Date:

31.01.2022

Project End Event:

Close of the project

Project End Date:

October 2022

Project Goal and Objectives:

Goal:

- Review the Fairtrade Minimum Prices for bananas based on the partial collection of costs of production, as described in the annex to year 2022.
- Banana prices are reviewed and announced in time for the signing of contracts.
- That the new prices are implemented from 1st January 2023.

Objectives:

- Collect cost increases of 8 key inputs and services of the banana price review (3 at Ex Works level, and 5 at the FOB-Ex Works differential).
- Compile and analyse collected cost data
- Develop the price proposal for consultation to banana stakeholders
- Develop the price proposal for decision to the Standards Committee
- Publish the new Fairtrade Minimum Prices
- Explore if it is feasible to increase the percentage of the Fairtrade Base Wage for 2023

Connection with Theory of Change (ToC):

The regular banana price reviews are linked to the ToC approach related to “Standards & Certification: Supply Chain” and the Fairtrade Goal 1 “Building benefits for smallholders and workers”, Goal 2 “Deepening impact through services and programmes” and Goal 3 “Building Fairtrade markets”.

Project scope:

- Banana quality: conventional and organic
- Price levels: Ex works and FOB-EXW differential
- Producer set-up: SPO and HL
- Geographical scope: worldwide

Note: The Fairtrade Standard for Fresh Fruit is complementary to the standard for producers (Fairtrade Standard for SPOs and Fairtrade Standards for HLs) and the standard for traders (Trader Standard). The standard applies to both producers and traders. For more information on Fairtrade Standards click this [link](#).

Out of scope:

- Incorporate the living income component in the price proposal for consultation or in the recommended price proposal to the Standards Committee (SC)
- Incorporate external costs of banana production in the price proposal for consultation or in the recommended price proposal to the SC
- Set or review the Fairtrade Premium
- Set or review Fairtrade Minimum Prices for domestic sales of banana
- Collect data on costs of production for non-Fairtrade producers.
- Compare production costs of banana between Fairtrade and non-Fairtrade banana
- Review or improve the exchange rate and consumer price index procedure
- Publish adjustments for 2022 on the existing Fairtrade Minimum Prices, which are valid from 1st January 2022 to 31st December 2022

<p>Project timelines and information on opportunities to contribute:</p> <ul style="list-style-type: none"> • Feb-Mar 2022: Project Assignment • 6th Jun - 24th Jun: Partial cost collection • 27th Jun - 8th Jul: Analysis and preparation of price proposal for consultation • 11th Jul - 5th Aug: Consultation • 8th Aug - 13th Sep: Analysis, preparation of price proposal to the SC, wording of paper and PPT to the SC, delivery to the SC • 28th - 30th September: SC decision • 7th October: Price announcement • 1st January 2023: Start validity of announced Fairtrade Minimum Prices <p>More information will be provided closer to the consultation period on our website. If you are identified as key stakeholders, you will receive an invitation to participate.</p>	<p>Decision making process: The results of the study will be presented to the Standards Committee (SC) and FT system.</p>
<p>Project Owner (Unit): Ricardo Guimaraes Head of Pricing</p>	<p>Project Manager (contact point for the project): Jose Paredes Project Manager Pricing</p>
<p>Project technical team: Jose Madriz (CLAC) Jose Marulanda (CLAC) Red Banano and Mesas técnicas (CLAC)</p> <p>Project team: Silvia Campos Marike de Peña Alice Doumengine Anna Pierides Jennifer Roth Edward Akapire</p>	<p>Project Environment (stakeholder groups not part of the project team): CLAC Fairtrade Africa NFOs Exporters Importers</p>

Annex

Proposal: Methodology for banana price revision, from 2022 onwards.

Background:

Since 2008, the Standards and Pricing Unit has conducted banana price reviews by interspersing two methodologies: a) the full price research, which includes the data collection of cost of production and b) the use of economic indicators (the exchange rate and the consumer price index). Due to the banana price review 2021 involved the collection of costs, the price review should be based on the use of economic indicators.

The current Russia-Ukraine war and the ensuing sanctions and limitations bring additional challenges to the global supply chain, which was already dealing with increasing cost pressures to limited banana-related supplies such as packaging and the shipping limitations, due to the pandemic crisis. As consequence, there are strong and continuous increases in the prices of certain inputs and services such as cardboard boxes, pallets, plastics, internal transportation, fertilizers, etc. By using the variation of economic indicators (exchange rate and consumer price index) Pricing Unit would not be able to observe the cost increases of inputs and services. The banana pricing team and banana stakeholders have always questioned the use of these two economic indicators for updating Fairtrade Minimum Prices, because they do not represent banana agricultural sector. The profit margins of banana producers and traders are very price sensitive and are measured in cents, the use of both economic indicators does not allow identifying which inputs and services are increasing in price, nor by how much. Such clarity is needed to prepare robust arguments that justify the price proposal.

The impact of variations of these two economic indicators has not always been considered in the cost definition. For example, in 2019, the variations obtained for the FOB-ExWorks differential were not considered, but those obtained for Ex Works prices were. Consequently, the price proposal for the FOB-Ex Works differential did not vary, while for the Ex Works prices did.

This situation leads us to consider the introduction of a methodology to replace the use of economic indicators in the price revision. In this paper we present a proposal to do so.

Proposal: Complete and partial collection of cost of production for banana

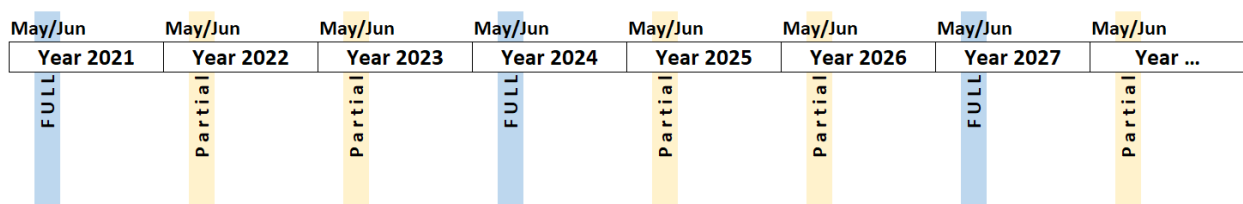
General Objective:

- To annually review banana Fairtrade Minimum Prices, in the following way: a) every three years based on full cost collection (Full Price Review) and b) based on the partial cost collection, for the rest of years, so as to definitely replace the use of the economic indicator methodology.

Full cost collection:

- The Full cost collection is the one described in the "Full Price Research procedure, SOP for development of FMPs and FPs, page 14). Such methodology was already used in the 2009, 2011, 2014, 2014, 2016, 2018 and 2021 banana price reviews.
- PRICE REVIEW (with Full cost collection). The banana price review for the years (2021), 2024, 2027, etc. (every three years) will be based on the full cost collection, as shown in diagram 1.

Diagram 1. Timeline of banana price reviews and full and partial collection of costs of production



- In the full cost collection, the population of certified banana producers and exporters will be invited to complete and send us the cost sheet. Due to the low individual response rates observed in past banana price reviews, the Pricing Unit and the Producer Networks will coordinate workshops with producers and exporters for collecting and validating collective feedback on production costs by country. This seeks to facilitate the active participation of producers in the data collection process.

Partial cost collection:

- PRICE REVIEW (with partial cost collection): The banana price review for the years 2022 and 2023; 2025 and 2026; 2028 and 2029; etc. (two consecutive years, after a full collection) will be based on the partial cost collection, as shown in diagram 1.
- The **Partial cost collection** consists of collecting incremental costs of input and service, regarding the la price review, that represent more than 80% of the total cost (Ex Works or FOB-Ex Works differential, as applicable) from a defined sample of producers and exporters.
- **INPUTS AND SERVICES WITH 80% OF WEIGHT PERCENTAGE:** The technical team has identified eight inputs and services that represent 80% of the weight percentage of the total Ex Works cost and FOB-Ex Works differential, as applicable. These are:

At Ex Works level:

- Labor cost increase, measured from the last price review.
- Fertilizer price increase, measured from the last price review.
- Fuel price increase, as measured from the last price review

At the FOB-Ex Works differential level:

- *Price increase of the standard carton box, measured from the last price review.*
 - *Price increase of pallets, measured from the last price review.*
 - *Price increase of Banavac, as measured from the last price review*
 - *Cost increase of inland freight, differentiated by primary and secondary port of departure, measured since last price review*
 - *Cost increase of customs, differentiated by primary and secondary port of departure, measured since last price revision*
- **SAMPLE SIZE:** For assuring the representatives of the sample, the technical team has considered the following variables:
 - a) *number of certified producers and exporters per country*
 - b) *Relevance in Fairtrade sales volumes of small-scale producers (SPOs)*
 - c) *Relevance in Fairtrade sales volumes of plantations (HLOs)*
 - d) *Relevance in Fairtrade sales volumes of exporters (HLOs)*
 - e) *Representativeness of Fairtrade organic banana volume (OPPs+HLOs)*
 - f) *Volume representativeness of conventional Fairtrade bananas (OPPs+HLOs)*

For deciding on the maximum number of producers and exporters of each producer set-up that will be part of the sample, the technical team considers the following criteria:

- a) *In countries with zero operators, Zero operators*
- b) *In countries with operators greater than or equal to 1, but less than 2, One operator*
- c) *In countries with operators greater than or equal to 2, but less than 12, Two operators*
- d) *In countries with operators greater than 12, Three operators*

The criteria equal applies to small producer organizations, plantations, and exporters.

Size of Sample

Country	SPOs	HLS	Exporters	Sample
Cameroon	0	1	0	1
Colombia	2	3	2	7
DomRep	3	3	3	9
Ecuador	3	3	3	9
Ghana	0	2	0	2
Ivory Coast	0	2	2	4
Mexico	0	2	0	2
Nicaragua	0	2	0	2
Panama	1	0	0	1
Peru	3	2	3	8
TOTAL	12	20	13	45

The size of the sample is 45 operators: 12 out of 91 SPOs; 20 out of 145 HLS; 13 out of 66 exporters

- **PRICE PROPOSAL FOR CONSULTATION:** The price proposal for consultation will be developed as follows: with the data from the last partial cost collection and the support of the banana technical tables, coordinated by CLAC, the Ex Works production costs and the FOB-Ex Works differential for each country will be calculated. Then, together with the Project team, the price proposal will be developed and sent out for consultation. The following timeline will be followed:

Timeline:

- **May/June:** Partial collection of costs will be carried out and validated with the support of the Technical Tables. The price proposal for consultation will be developed with the support of the banana price team.
- **July/August:** Public consultation will be carried out, inviting all interested parties to participate. Price recommendation is developed for the Criteria Committee, with the support of the banana pricing team.
- **September:** Criteria Committee makes decision.