THE EXTERNAL COSTS OF BANANA PRODUCTION: A GLOBAL STUDY

INTRODUCTION

While it has long been understood that the commercial production of bananas can have negative impacts on the environment and society, these “external costs” have never been methodically evaluated or captured. Increasingly, businesses are being forced to internalize such external costs as stakeholders push for more sustainable and transparent production processes.

To help the banana sector make the transition to sustainable production methods, Fairtrade International commissioned True Price and Trucost to prepare the world’s first in-depth study on the externalized social and environmental costs of banana production.

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 plantations and 97 smallholder producers. Once the data and results were verified and validated by local experts, monetization methods were applied to convert these into social and environmental costs.

An ‘abatement cost approach’ was the guiding principle for monetizing the **social** externalities. The True Price method is based on 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, calculating the cost to society of damages to the environment.

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 $ per box of bananas, where one box is equivalent to 18.14 kg of bananas.

The limitations of the research design and the lack of robust primary data for sector average producers means this study cannot definitively prove that the external costs of Fairtrade banana production are lower. However, conservative research approaches were used and it is likely that the difference between Fairtrade and the sector average external costs is underestimated. This finding may be confirmed through future studies of the external costs of banana production

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/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 external costs of Fairtrade producers are lower than the sector average

The study found that the average external costs of banana production are $3.65/box for Fairtrade producers and $6.70/box for sector average producers – a 45% difference. This gap is mainly due to Fairtrade producers having considerably lower external social costs, since the external environmental costs of all producers are found to be similar. The social costs of Fairtrade banana production are significantly lower mainly due to the higher wages and superior social security benefits given to workers, and the higher incomes of small producers, underlining the importance of Fairtrade's ongoing Wage Improvement Program and Productivity Improvement Project.

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. Fairtrade banana producers can reduce their overall external costs by reducing climate change costs, by minimizing land occupation impacts, and by optimizing insights into the use and benefits of the Fairtrade Premium.

FAIRTRADE RESPONSE

The study results highlight the significant potential of the banana sector to transition to a more sustainable model of production by reducing its external social and environmental costs. The results allow for the identification of commonalities and differences between producers that do and do not follow sustainable production standards exemplified by Fairtrade, and they give a better understanding of the key drivers of a such an approach which can inform strategic decisions for the whole sector. Significantly, subgroups of producers in each country are shown to have superior environmental and social performance compared to their peers, and so they may serve as role models for best practice. Understanding the practices and processes that underpin this superior performance can help to enhance the standard setting and capacity building initiatives of Fairtrade and its partners.

LEARNINGS AND CONSIDERATIONS

Living wage	Land productivity	Advocacy strategy	Other interventions
Fairtrade understands the need to encourage the industry to increase the incomes of workers and small producers. The study results support the strategic decision of Fairtrade to prioritize its work on achieving progress on living wages and living incomes for workers and small producers in its 2016-2020 strategy.	The study highlights how improving land use can reduce external environmental costs. To increase smallholder producers' yields via eco-friendly methods, Fairtrade launched the Productivity Improvement Program in Latin America. The program has already increased yields by up to 29%, while reducing their use of agrochemicals and water.	Fairtrade is building its advocacy strategy, focusing on ways to influence and engage governments, industry and business to move towards adequate production and trading conditions. This will enable workers and small producers to earn sufficient wages and income, and to be more resistant towards climate change impacts.	Fairtrade also focuses on other areas of work moving forward, such as climate change, water management, health and safety and gender. The objective of the next strategic round at Fairtrade should be to increase interventions in those areas, especially through programs which will need the active engagement of commercial partners.

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