A close-up photograph of a person's hands holding a bunch of green, unripe bananas. The person is wearing a white long-sleeved shirt. The background is blurred, showing an outdoor setting with greenery. A dark grey semi-transparent banner is overlaid on the middle of the image, containing the title and date. A yellow horizontal bar is located below the banner. The bottom of the page features a white background with logos for BASIC and 'MAKE FRUIT FAIR!'.

Banana value chains in the United Kingdom and the consequences of Unfair Trading Practices

October 2015

1. United Kingdom

The UK food market

The UK grocery sector is one of the most diverse and sophisticated in the world. It was worth £175 billion (220 billion euros) in 2014, rising by 2.8 % over 2013. Food and grocery expenditures account for 54 pence in every £1.00 of retail spending (excluding restaurants).¹

Grocery sales channels in the UK are split into five categories²:

- ▶ Hypermarkets (superstores) are defined as stores that have a sales area above 25,000 square feet, selling a broad range of grocery and non-food items.
- ▶ Supermarkets which have a sales area of 3,000–25,000 square feet and a broad range of items.
- ▶ Discounters whose main features are everyday low prices and limited product ranges. Stores are smaller and relatively uniform in size and layout. Stores range from 8,600 square feet to 16,000 square feet. They carry predominately private label products.
- ▶ Convenience stores that have sales areas of less than 3,000 square feet, are open for long hours, and sell products from at least eight different grocery categories.
- ▶ Cash & Carry stores which are no frills type operations where products are not usually displayed on shelves but rather on pallets or fixtures supplied by the manufacturer.
- ▶ Alternative channels are mainly made up of online purchases.

The UK's grocery retail landscape is undergoing a significant structural change, with online, convenience and discount retailing all registering robust growth. Most noteworthy is the rapid growth of the online channel (with double-digit figures, UK being the most dynamic online grocery market in the world) but which still only represents 4% of the grocery market.³

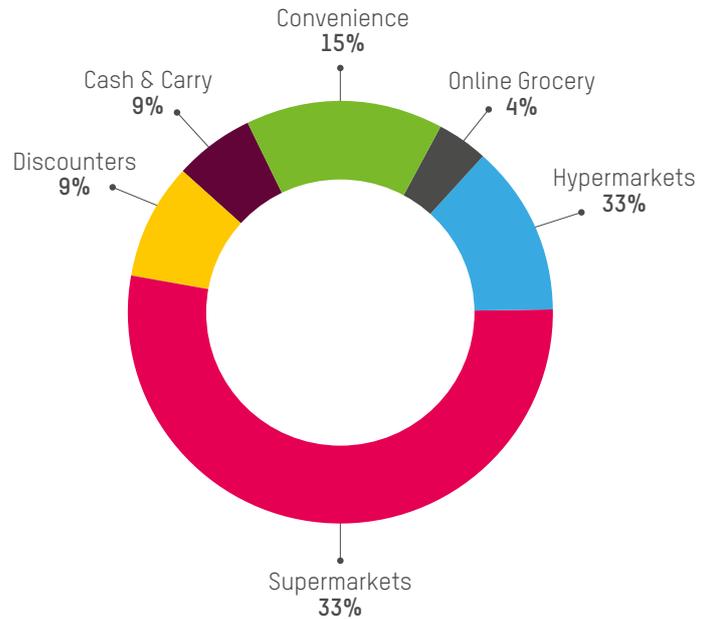
1 USDA, United Kingdom Food Retailers, December 2014

2 Ibid.

3 Kantar, United Kingdom Country Report, October 2013

The overall breakdown of food sales by retail outlet in the United Kingdom is estimated as follows:

Food Sales by Retail Outlet in the UK (by value)

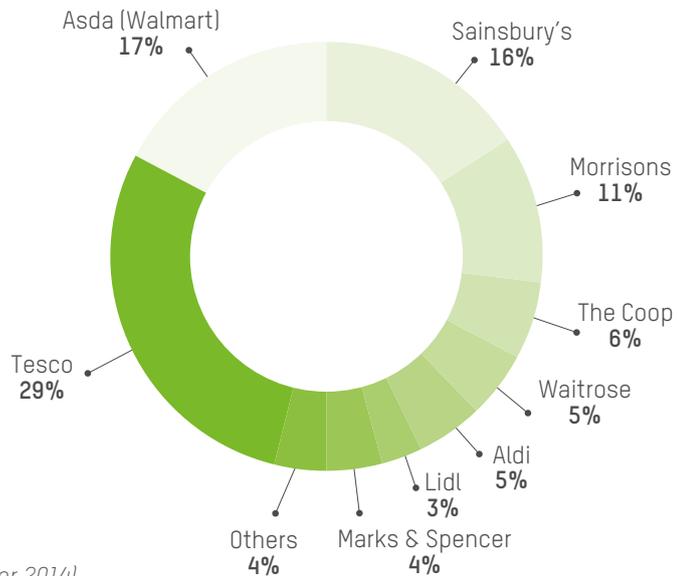


Source: BASIC, based on Kantar data

Five supermarket chains dominate UK food retailing, accounting for 79.5 % of the market. The concentration of the market is roughly the same as the average level in Europe (see graph below).

Tesco is the market leader, with 28.8 % market share, followed by Asda/Wal-Mart with 17.2 %, Sainsbury's has 16.1 %, Morrison's with 11 % and the Cooperative with 6.4 %. Other UK supermarket chains include Waitrose, Aldi, Lidl and Marks & Spencer.⁴

Share of food market by retailer in the UK (by value)



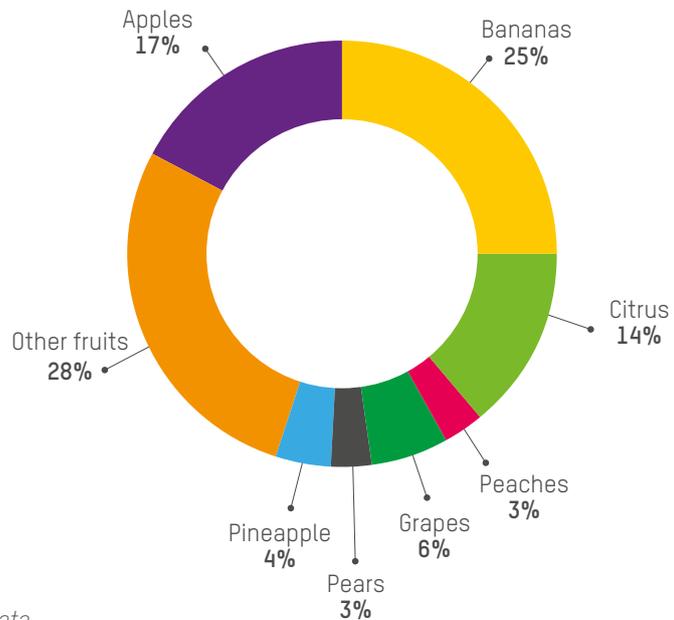
Source: BASIC, based on Kantar data (October 2014)

⁴ USDA United Kingdom Food Retailers, December 2014

In this context, the fresh fruit market in the UK is one of the biggest within the European Union (EU). The consumption per household is in a slight decline (like in several other member states), but the Government's '5 A DAY' scheme and the more general consumer desire to be healthy are important market trends.

The main fruit consumed in the UK are bananas (25 %), well above apples (17 %), and citrus fruits (14 %), which is a unique case in Europe (the UK banana consumption per capita is the highest in the EU).

Main fruits consumed in the UK (by volume)



Source: BASIC, based on Eurostat and FAO data

The UK banana value chain

The UK market for bananas is one of the two biggest in Europe, with Germany being the other. Its total size is estimated at more than 1.1 million tonnes (or 60 million large case equivalent) in 2013. ⁵

Based on strong demand from consumers for increased food safety (following public health scares such as the mad cow disease, pesticides concerns, etc.), leading retailers have developed generic quality and safety standards for their suppliers, in particular EurepGAP (now called GlobalGAP). Complying with these standards have enabled banana suppliers (producers and/or exporters) to demonstrate the level of quality and reliability they can deliver⁶. As of 2013, no producer can supply the UK fresh produce market without GlobalGAP certification.

5 European Commission, DG Comp Merger Registry, Chiquita Brands International/ Fyffes merger procedure, 2014 op. cit.

6 Common Fund for Commodities, Current Trends and the New Development Role of Commodities, November 2006

A distinctive feature of the UK market is the importance of Fairtrade bananas which account for 27% of the market (in volume terms).⁷

While major fruit brands such as Chiquita and Dole had previously served as purveyors of quality - because vertically integrated chains were the only way to ensure consistency and reliability of banana supply for urban consumers - the more liberal trading environment enabled supermarkets to question the leadership of historical banana companies and to trade bananas independently of the multinationals, often for the first time.⁸

This led to a profound change of the governance of UK banana chains, fruit companies increasingly competing to become the 'preferred suppliers' of large supermarket chains who have become the leading actors.

As a result, the UK banana market is characterised by a large number of competitors, and strong retailers' with strong buying power and who organize direct sourcing. In the UK, large banana companies are becoming service providers.⁹

Tesco has become the second largest importer of bananas after Fyffes (whereas it only purchased fruit from Chiquita, Fyffes and Del Monte until 2010). Similarly, Morrisons who used to purchase 100% of its need from Fyffes now sources 90% directly from banana producers (through its subsidiary Global Pacific) and co-owns a ripening facility. More recently, Asda also sources some of its bananas directly through wholly owned sourcing company IPL. However, not all UK retailers are investing in direct sourcing due to the perceived risks.¹⁰

More globally, the UK banana import market is highly competitive with at least 10 companies actively involved: all large fruit multinationals (Chiquita, Dole, Fyffes, Del Monte), retailers who source directly (Tesco, Morrisons/Global Pacific and Asda/IPL) and other national competitors (Fresca, Winfresh, SH Pratt etc.)

7 European Commission, DG Comp Merger Registry, Chiquita Brands International/ Fyffes merger procedure, 2014 op. cit.

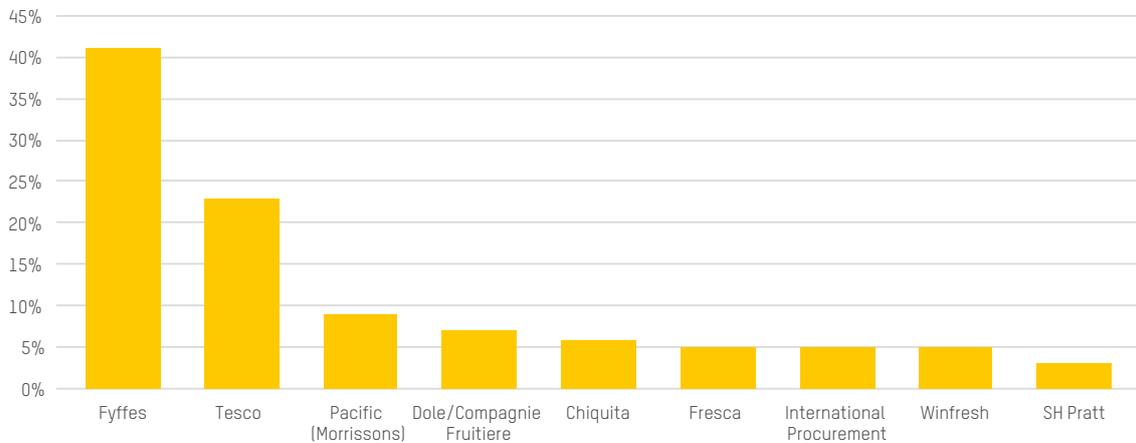
8 Denis Loeillet, CIRAD, Contribution to the world banana forum : The international banana market - From one world to the other, February 2012

9 European Commission, DG Comp Merger Registry, Chiquita Brands International/ Fyffes merger procedure, 2014 op. cit.

10 Ibid.

The following diagram summarizes the respective market share of the main banana importers in the UK:

Market share of banana importers in the UK (2014)



Source: BASIC, based on European Commission (2014)

In terms of ripening, Chiquita and Fyffes together have between 40 % and 50% of the ripening capacity in the country. The main other players are: Compagnie Fruitiere/Dole, Del Monte, Pratt, Morrisons, Winfresh and Mack.¹¹

In terms of consumer prices, the UK banana market is totally different from the other European markets and is deeply marked by the price war initiated in 2002 by the retailers.

In 2002, Asda, probably under pressure from its new owner Walmart, decided to implement a strategy of "international price flexing"¹² in the whole UK market on bananas (as well as a few other key consumer products), reducing its prices to undermine the profitability of its competitors.

Until mid-2002, loose bananas in the UK had been priced at £1.08 per kilo for around six years. In August that year, Asda cut their retail price to £0.94, thanks to huge volume discounts negotiated on the back of a 100% exclusive deal with Del Monte at a reportedly low price¹³.

Tesco, Sainsbury's and Safeway felt compelled to follow. Morrison's took the next step, cutting the price to £0.85, and again all the major retailers followed. In 2003 the price fell further to £0.79/kg¹⁴.

11 European Commission, DG Comp Merger Registry, Chiquita Brands International/ Fyffes merger procedure, 2014 op. cit.

12 Cf. Groceries Market Investigation, Competition Commission, April 2008: "Price flexing" within a national market is a recognised technique, which is condemned as being an "unfair practice" (However, international price flexing is not regulated by any international authority).

13 Grocer Magazine's Weekly "Grocer 33", May 2002

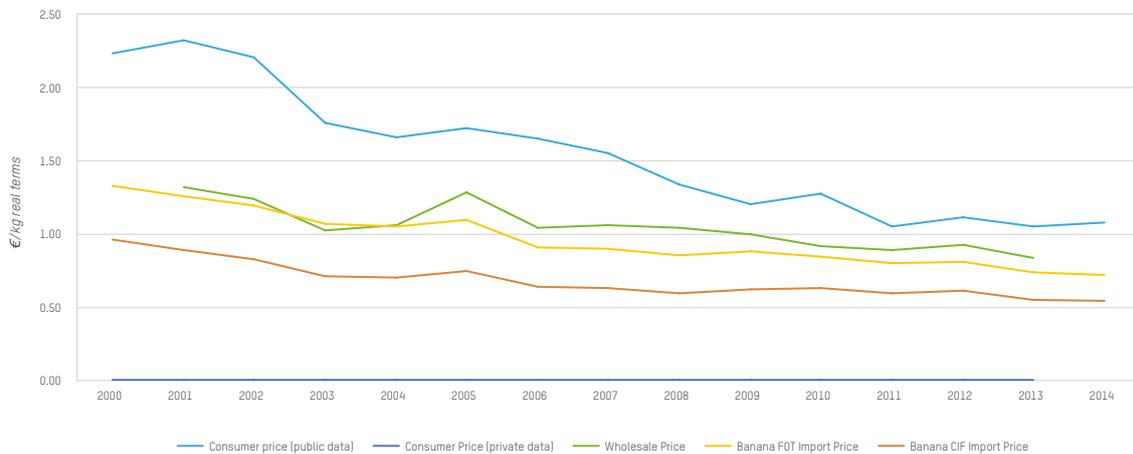
14 Banana Link, Collateral Damage: How price wars between UK supermarkets helped to destroy livelihoods in the banana and pineapple supply chains, November 2006

This was the beginning of a price war between retailers to retain and attract consumers into their outlets. As a result, average banana consumer prices fell sharply by more than 50% in real terms between 2000 and 2014

More globally, the public statistics (published by ONS, Eurostat, Comtrade and CIRAD), show that the banana value chain in the UK has destroyed value at all stages since 2000 (see graph below):

- ▶ There is a sharp falling tendency of the banana consumer price in real terms.
- ▶ The wholesale price has also fallen since 2000, although less intensely (dropping by 37 %)
- ▶ The resulting CIF (Cost Insurance and Freight) import price of bananas in the UK has dropped by a stunning 43 % since 2000, under strong pressure because of the fall of consumer prices.

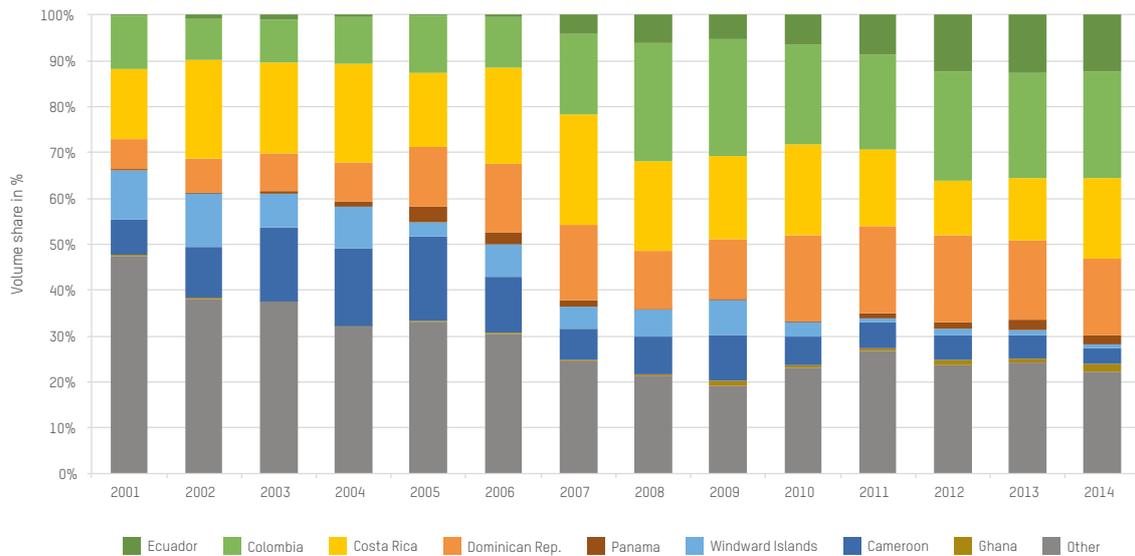
Banana Value Chain in UK
(from Consumer to CIF import prices)



Source: BASIC, based on ONS, Eurostat, Comtrade and CIRAD data

According to the same statistical sources (see graph below), the main banana producing countries supplying the British market are Colombia, Dominican Republic and Costa Rica, followed by Ecuador. They jointly account for 70 % of imports in to the country.

Banana import volumes in the UK (2001-2014)

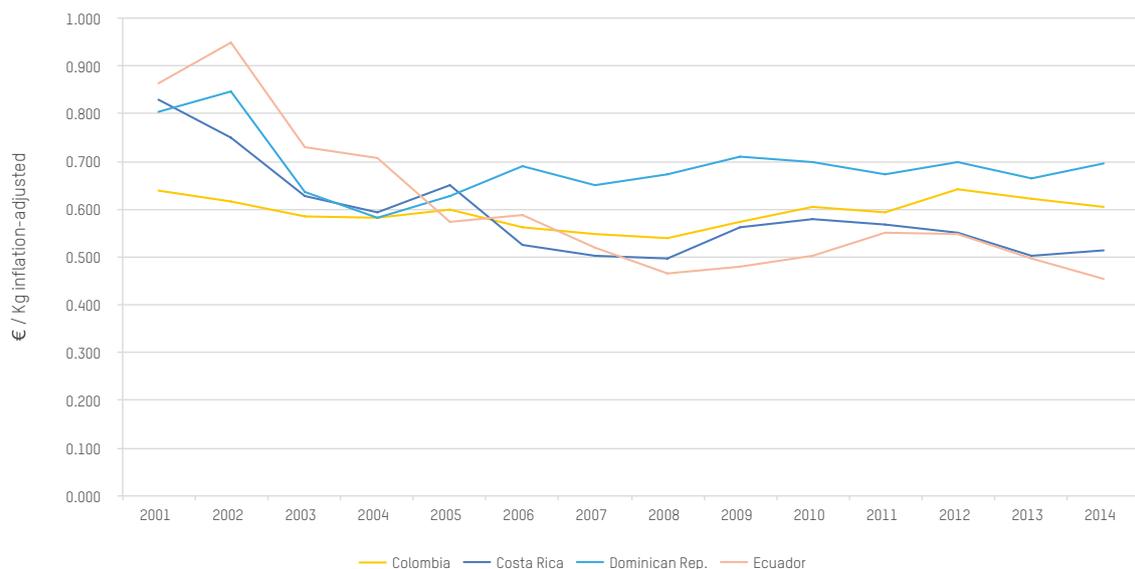


Source: BASIC, based on Eurostat and Comtrade data

In terms of import prices, the statistics show that the 4 major banana supplying countries – Colombia, Dominican Republic, Costa Rica and Ecuador – have all dropped significantly since 2000 from 13 % in the case of Dominican Republic (which is somewhat protected by the higher prices on the organic market) up to 47 % in the case of Ecuador.

This situation is in stark contrast with the rise of production and living costs in these producing countries. It should be noted that the fact that 1/3 of banana imports are directly sourced by retailers in the UK may reduce the margins along the chain and partially compensate the low level of import prices in the country.

Banana CIF import prices in EU inflation-adjusted (2001-2014)



Source: BASIC, based on Eurostat and Comtrade data

The resulting banana value breakdown along the chain - from retailers' share (which includes VAT) down to workers' wages - can be estimated as follows (calculations have been made for of a medium-size banana plantation in Ecuador and Colombia - in the case of small farmers, the workers' share would be a lot lower as the work is mainly undertaken within the family).

UK Banana Value Chain
Case study of Colombia



UK Banana Value Chain
Case study of Dominican Republic



Source: BASIC, based on data from Eurostat, Comtrade, Sopisco, CIRAD, INCAE, Augura and Dominican Republic's Ministry of Labour

KEY FINDINGS

- ▶ The UK's grocery retail market, one of the biggest in Europe, is undergoing a significant structural change as online, convenience and discount retailing all register robust growth. Five supermarket chains dominate UK food retailing, accounting for 79.5 % of the market: Tesco, Sainsbury's, Asda, Morrisons and Coop.
- ▶ The UK fresh fruit market is one of the biggest within the EU, bananas being the most consumed fruit in the country (consumption per capita is the highest in Europe). Retailers have gained control of the UK banana market, imposing their quality & safety standards, and sourcing bananas directly from Latin American and African producers (thereby bypassing historical fruit companies). The resulting banana import market is highly competitive with at least 10 companies active, including Chiquita, Dole, Fyffes, Del Monte, Tesco, Morrisons, Fresca, Winfresh, and SH Pratt.
- ▶ In terms of consumer prices, the UK banana market is totally different from the other European markets and is deeply marked by the price war initiated in 2002 by the retailers. Average banana consumer prices fell by more than 50 % in real terms between 2000 and 2014 and CIF import prices have dropped by 43 % since 2000. As a result, the banana value chain in the UK has destroyed value at all stages since 2000. This has strongly affected the main countries supplying the UK market, in particular Ecuador (which has lost 47 % of value since 2000), Colombia and Costa Rica. However, the important market share of Fairtrade bananas and direct sourcing by retailers, accompanied by company commitments - such as Tesco's - are countervailing mechanisms which partially offset this trend.
- ▶ These trends are in stark contrast with the fast rising production and living costs in banana supplying countries, in particular Ecuador.

Acknowledgement

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www.makefruitfair.org

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