Intergovernmental Group on Bananas and Tropical Fruits

THE CHANGING ROLE OF MULTINATIONAL COMPANIES IN THE GLOBAL BANANA TRADE

The Changing Role of Multinational Companies in the Global Banana Trade

Market and Policy Analyses of Raw Materials,
Horticulture and Tropical (RAMHOT) Products Team

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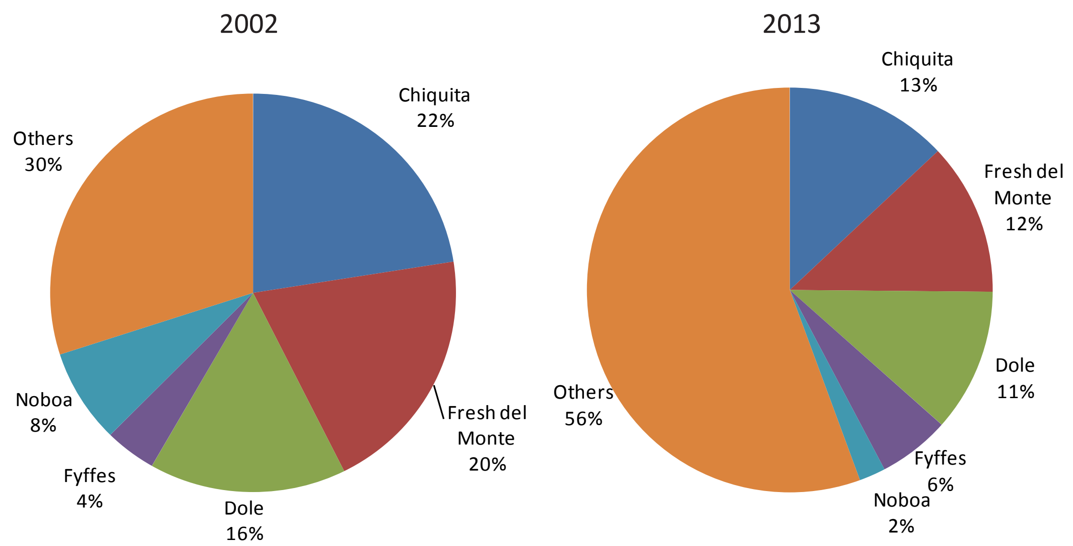
On 10 March 2014, Chiquita, the largest banana trading company in the world, and Fyffes, one of the main suppliers to the European market, announced a merger, making the new company ChiquitaFyffes, an undisputed leader in the banana market. Together the two companies control 18.7% of global banana exports, substantially more than its closest competitors, del Monte (12.2%) and Dole (11.4%). Chiquita supplies mostly the US (61% of the company's banana sales), while Fyffes, based in Ireland, supplies primarily Europe (81% of banana operations). As a result of the merger, 47% of the operations will take place in the US, 46% in Europe, with the remaining 7% accruing to other markets[1].

Multinational trading companies, and in particular the three largest banana traders (Chiquita, Dole and del Monte), have historically played a major role in the international banana trade, exerting substantial market power in particular on the purchasing side. These vertically integrated multinational firms engage in production, purchase, transport, and marketing of bananas. They own fleet and ripening facilities, and have their own distribution networks in the importing countries, creating important economies of scale. The scope of their operations and their influence over the banana trade have, however, changed over time. The combined market share of the top three companies was at its highest in the 1980's, when they controlled almost two thirds (65.3%) of global banana exports[2], and the share has gradually declined since. In 2013, the market share of the top three companies was slightly over one third (36.6%) and the share of the top five companies was 44.4%, down from 70% in 2002. As a consequence, other companies now account for over half of all exports.

Market shares of selected companies in global banana exports, by volume



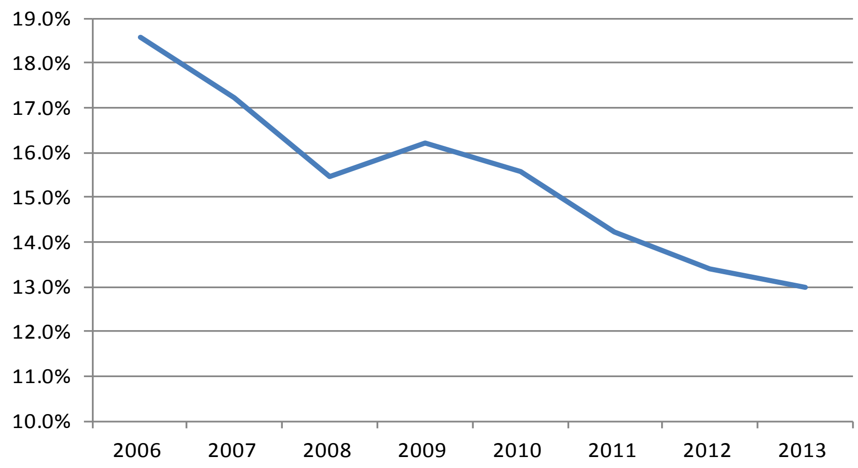
Source: 2002 data: "The World Banana Economy", FAO, 2003. 2013 data: Own calculations based on companies' annual reports and presentations. For Noboa, AEBE data were used (http://www.aebe.com.ec)

[1] Chiquita and Fyffes Investor Presentation, March 10, 2014
[2] "The World Banana Economy", FAO, 2003

The decline in the market share took place gradually during the 1990's and has continued since 2000. In 2002 Chiquita, Dole, del Monte and Fyffes controlled 62.4% of total banana exports, but the share declined to 42.3% in 2013. Noboa, the principal owner of Ecuador's Bonita Bananas brand, used to hold the dominant position as an exporter of bananas from Ecuador, however in recent years its participation declined. The company no longer ships bananas through Exportadora Bananera Noboa (EBN) due to legal problems facing the firm, and currently operates through a subsidiary, Truisfruit. In 2013 Truisfruit accounted for 7.8% of all banana shipments from Ecuador.

Chiquita suffered the largest relative decline in its market share over the period, from 22% in 2002 to 13% in 2013, while Fyffes increased its participation in the market from 4.1% to 5.7%.

Chiquita's share in global banana exports, by volume



Source: Own calculations based on banana sales volumes in Chiquita's annual reports.

Over the past decade, the nature of the engagement of multinationals in the banana market has changed considerably. In the past, multinational companies owned a large number of plantations in Central and South America and other banana-producing regions. Since the 1980's they have divested a large share of their own production, replacing it with greater purchases from independent producers. For example, Chiquita has decreased the number of its plantations in Central America. Fyffesused to own plantations in Jamaica, Belize and the Windward Islands, but withdrew from production and switched to purchasing its bananas through contracts with producers[3].

The disengagement from production was partly caused by legal and economic problems at the plantation level, but also reflects the change in market power along the banana value chain. Major supermarket chains in the US and EU have become important players in the global banana trade as they dominate the retail market in the main banana consuming countries and are also increasingly purchasing from

[3] "The World Banana Economy", FAO, 2003

smaller wholesalers or directly from growers. The shift of market power away from the major banana brands towards retailers was facilitated by the establishment of direct container liner services from South America to Europe and Russia, which are partially replacing specialized reefers as the preferred mode of transporting bananas. Moreover, there is also a notable trend towards less concentration among the exporting firms in the major banana producing countries. For example, in Ecuador, in 2004 the market was dominated by three top companies – Noboa, Dole y Reybanpac, but since then their market shares declined rapidly, and in 2013 their combined participation in Ecuador's total exports was only 23%[4]. Moreover, between 2011 and 2012 the number of registered exporters jumped from 181 to 333[5]. Greater fuel efficiency of specialized container transport and improvement in port infrastructure meant lower entry barriers for new buyers. As a consequence, instead of being dominated by a small number of large, vertically integrated firms, banana markets are becoming more fragmented as new players are entering the market[6].

Faced with fierce competition in downstream operations, multinationals are responding by paying greater attention to expanding marketing and distribution networks and focusing investments on logistics rather than production. Achieving operational savings and improving the efficiency of distribution and sales is therefore a key priority, and economies of scale can be derived from consolidating operations.

According to Chiquita and Fyffes, the main advantage of the merger was to achieve operational efficiencies and cost savings in procurement and logistics. Although ChiquitaFyffes has become the largest banana trading company, it is unlikely that the merger will give the new company sufficient market power to exert pressure over the banana market and influence either producer prices or import/wholesale prices, given the importance of other market actors, in particular in Europe and Russia. ChiquitaFyffes' dominance will probably be felt more in the US market, where Chiquita's sales are concentrated. However, in the European market the competition among importers is more intense, as Dole and Del Monte are the large players followed by Fyffes and a number of smaller companies. It remains to be seen whether the shifts in the company's operations will imply any changes to the structure of banana trade, depending in particular on the sourcing strategy of the company and the reaction of other companies involved in banana trade.

4 AEBE data: http://www.aebe.com.ec

5 "Análisis semanal de economía y política de Ecuador: Banano", Grupo Spurrier, Año XLIII # 15 / Abril 16, 2013

6 Richard Bright, document prepared for the Second conference of the World Banana Forum in Guayaquil, Ecuador, 28-29 February 2012

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