

## Minutes of Working Group 02 of the World Banana Forum 18<sup>th</sup>-19<sup>th</sup> November 2010, Machala, Ecuador

**Participants:** *Patricia Bresciani*, Dole Latin America, Costa Rica; *Raúl Villacrés* and *Pedro Vásquez* (Day 2 only), Asociación de Exportadores de Banano del Ecuador (AEBE); *Javier Villacís*, Dole Ecuador-Peru; *Joaquín Vasquez*, *Carolina Valarezo* and *David Romero*, UROCAL, Ecuador; *Pedro Vasquez*, Coordinadora de Pequeños y Medianos Productores de Banano del Litoral (COOPEMPBAL), Ecuador; *Marcelo Ortega*, Vice-Ministro de la Coordinación Política, Gobierno del Ecuador (Day 2 only); *Rafael Guerrero* Sub-secretaria de la Litoral, Ministerio de Agricultura y Ganadería, Ecuador; *Angel Rivero*, FENACLE, Ecuador; *Carmen Banegas*, FENACLE, Ecuador; *Elias Arias*, FENACLE, Ecuador; *Edison Espinoza*, FENACLE, Ecuador; *Juan Herrera*, SITAG, Perú; *Victor Quesada*, Aseprola, Costa Rica; *Gilbert Bermudez*, Colsiba, Costa Rica; *Magne Svartbekk*, Bama, Chile/Norway; *Steve Carter*, Tesco, UK; *Miriam Neale*, Tesco, UK; *Brice Lamarque*, Tesco, Chile/UK; *Bernardo Roehrs*, AgroAmérica, Guatemala; *Frédéric de Reynal*, UGPBAN, Martinique; *Denis Loeillet*, CIRAD-FLHOR Market Observatory, France; *Anatole Ebanda Alima*, ASSOBACAM, Cameroon; *Iain Farquhar*, Banana Link, UK; *Eduardo Bluhm*, FLO International e.V, Germany; *Helge Fischer*, Banafair e.V, Nicaragua/Germany; *Alistair Smith*, Euroban/Banana Link, France/UK; *Lianne Zoetewij*, Asociación El Guabo, Ecuador.

**Apologies:** *Adela Torres*, SINTRAINAGRO/Colsiba, Colombia; *Adelaide Boateng-Siriboe*, Permanent Representative of Ghana to FAO; *Carlos Barquero/James Jensen*, Reybanpac/Fundación Wong, Ecuador; *Mauricio Peña*, Vice-Ministro de la Coordinación de la Producción, Government of Ecuador; *Ricardo Guaganco*, Fresh Del Monte, USA; *Maria José Troya*, Tribuna, Ecuador & Consumers International; *Karl Dürbeck*, Dürbeck gmbh, Germany; *Karla Cook*, Walmart Central America, Honduras; *Karomo Browne*, WINFA, Saint Vincent & the Grenadines; *Charles de Wulf*, Consultant/UGPBAN, Belgium; *Paul Alvarez*, Fairtrade USA; *Tom Divney*, Fyffes, Costa Rica; *Stephen Coats*, US/LEAP, USA; *Alex Yeboah-Afari*, Volta River Estates Ltd, Ghana; ; *Philippe Mavel*, OCAB, Côte d'Ivoire; *Jesper Nielsen*, 3F, Denmark; *Luuk Boon*, TASTE, Netherlands.

**Chair:** Patricia Bresciani

**Minutes:** Alistair Smith, Miriam Neale, Patricia Bresciani, Javier Villacis

### Lingustic note:

Throughout these minutes in English the terms 'living wage' and 'decent wage' are used completely interchangeably, with no intended distinction in their meaning. In Spanish, two terms are used more or less interchangeably by different users: 'salario decente' and 'salario digno'; in French, we have just used 'salaire décent'.

## 1. Introduction

This was the first full meeting of the **Distribution of Value Working Group** (WG from now on), and included a wider group of participants (31) than the core group meeting in Paris in June (10). Iain Farquhar therefore gave an outline of conclusions from the core group meeting in Paris.

Firstly, defining a “living wage” is not straightforward, so the core group decided to develop a generally applicable methodology for determining living wages in any country around the world.

Victor Quesada from ASEPROLA was commissioned to do a study which would propose a methodology.

Secondly, participants at the core group meeting had noted that there will likely be an impact on banana prices of raising wages (at the beginning of the chain from producer to consumer). This needs to be understood and addressed. It was therefore also agreed to establish the proportion of fob/cif costs and/or the final retail price accounted for by the production wage bill. This information could then feed into a discussion about how any extra costs will be covered further along the chain.

Iain also noted that there were no small producer representatives at the June meeting and therefore their experience in the value chain had not yet been fully explored. Several small producer groups were however represented at this meeting, and their role in the value chain is an issue on the agenda.

## **2 Presentation and discussion of study on living wage methodology**

This study (*see the WBF website for the Spanish original and English translation*) was co-sponsored by Dole, Tesco, Bama, Colsiba and Banana Link. The group thanked Patricia Bresciani and Alistair Smith for developing the terms of reference for the study. Victor Quesada then presented an overview of the report which he completed on 31<sup>st</sup> October, including some slides with information not included in the translated document sent to participants. *This additional information, generated partly during a telephone conference on 9<sup>th</sup> November involving the study author and the five co-sponsoring organisations, together with extra material gathered as a result of discussion at the meeting, is included in an Annex to these minutes.*

### The aim

The aim was to find a common methodology for determining a living wage that could be applied universally by all stakeholders in the value chain and in any country. The main challenges are:

- Different wage structures in different countries
- No single source of reliable data on actual wages
- Different measures of living costs in different countries

Therefore, the study set out to find indicators that are comparable, measurable and robust, and to use general agro-industrial data as a proxy for banana-specific data.

**We decided to use existing national indicators, rather than creating our own, as this could make reaching agreement amongst all stakeholders very difficult.**

### Living Wage Indicators

All eight countries in the study have an indicator of living costs known as the “Average Food Basket” and many, but not all, countries have an indicator known as the “Average Family Basket” (food plus other basic goods and services). These are usually based on consumer price indices and updated regularly by governments or state-funded institutes.

**The national legal minimum wage, which in many countries is agreed through a tripartite process, must be the base from which we start to determine a living wage.**

Other approaches to determining a living wage have been explored by multi-stakeholder initiatives (such as SAI, FLO, ETI) and broadly fall into two types:

- i. Undertaking a study of workers' needs in a given community to ascertain a living wage
- ii. Benchmarking wages against the best remuneration in the given industry (assuming that this is based on collective bargaining)

Both of these approaches are location-specific and are therefore not easily translated into universally applicable or comparable methodologies.

**The report therefore proposed that the process of working towards living wage in each country should aim to “close the gap” between national legal minimum wages or actual plantation and packhouse wages on the one hand, and the cost of the average food basket - and the average family basket – on the other. Such a “wage ladder” approach should enable the industry to work towards wages that are equivalent in terms of standards of living for equivalent work.**

#### Considerations for assessing wages in agriculture

The study noted an important difference that the working group should take into account between the agro-industrial sector and the industrial or services sectors. In agriculture there is no predictability, but rather cyclical production dependent on crop growth:

1. Variation through the year (workers do not have a monthly wage, but a daily wage, and this makes calculation of a living wage difficult.
2. Differences in contract terms: permanent, temporary, casual, which affect the total income (e.g. due to benefits received).

To date there have been no studies of employment opportunities and secondary income-generation for banana industry workers outside the agricultural industry itself.

#### Comparing legal minimum wages with basic needs

The study compiled minimum wage data and compared this with food basket data. The most extreme disparity between the legal minimum wage and indicators of living costs was Nicaragua, where the wage is only 20% of the average food basket. Peru was also very low, with the minimum wage at around just 25% of the average family basket. Costa Rica and Panama have managed to close the gap between the minimum wage and the food basket in recent years.

**Victor proposed that the WG could consider the following objectives as part of its broad aim of promoting living wages as a key means to overcome poverty:**

- 1. Encourage transparency by companies of actual wages paid**
- 2. Close the gap, as a first step, between actual wages and the national average food basket (taking account of benefits, social security etc)**

#### The role of Government

The study also outlined the (actual and potential) role of governments in promoting living wages:

- National Statistics Offices: availability of objective information

- Trade agreements: include social commitments
- Political process: important to enable tripartite dialogue on wages
- Related employment policies: employment rights, flexibility
- Enforcement of national minimum wages

Several national institutes reference living wage in their laws. Some countries are improving enforcement of the minimum wage (Costa Rica). In Panama, the law includes definition of a living wage.

## **2.1 Plenary discussion**

Several participants made key points to be considered by the WG:

### Reliability of data

The value of the food and family baskets will change regularly, and will also be subject to debate between government, industry and trade unions. The contents of the average baskets are often debated, and therefore at times the robustness of the basket may be called into question. However, there was general agreement that it is important to use national statistics as a starting point.

### Wage 'spiral'

We need to be aware of the impact of wage increases on domestic prices.

### Minimum wage vs. wage plus benefits

The group needs to consider how many hours are counted for the minimum wage, and which benefits are to be included.

### Trade union involvement

Trade unions can work with companies to achieve a win-win and it need not put companies out of business to pay a living wage.

### Political will for this process

Political commitment is needed from several sides. We should aim to build consensus and to establish a timetable to work to.

### Pricing

Bear in mind that some companies undercut others without paying a living wage. Need to discuss what a box of bananas should cost as this is a pre-condition for decent wages.

### The role of buyers: the example of the Coalition of Immokalee Workers (tomato industry in Florida, USA)

The coalition identified that there were a relatively small number of large buyers that took 25% of the profits. They focused their efforts on the buyers and not just the farmers and secured an increase from 1.5c/lb to 2c/lb for the product to include a living wage.

## 2.2 Small working group discussions

### Conclusions from group 1

#### **i. Minimal value chain impact**

The value of labour in the CIF price is approx 10%, whilst as a proportion of the consumer price plantation labour costs represent typically around 4%. This means wages could be improved with a small impact on consumer price.

#### **ii. Remuneration, not just wages**

Employers have to be flexible and so do workers. However, whether people have permanent or temporary contracts affects their livelihood. The group suggested that the WG should refer to “remuneration” rather than “wages”, in order to include the other non-cash benefits which permanent workers receive in addition to their wage..

### Conclusions from group 2

This group proposed the following course of action:

#### **i. Define concept of a living wage**

To ensure everyone has a common understanding of the concept.

#### **ii. Pilot projects in a few countries**

Invite all actors in the chain to get involved in these pilot projects and from this learn more about the value chain.

#### **iii. Establish transparency and reliability in data**

For both national statistics and actual wage data.

#### **iv. Clarify role of each stakeholder**

In particular, determine a policy on retail pricing and communicate to all supermarkets, including discounters.

#### **v. Role of government**

Recognise the role of government in determining and enforcing living wages.

### Conclusions from group 3

#### **➤ Definition of the living wage**

The WBF needs a solid and reliable point of reference. This should be the basic family basket (food plus other goods/services), but this does not exist in every country. This WG could calculate the difference between actual wages and the family basket and present this to the WBF in 2011. Once we have established this, we can invite governments from each producer country to review this. We could look to supermarkets with social compliance programmes to pressure governments to review and consider this.

#### **➤ Participation**

Many companies have expressed commitment but are not present at this meeting, so they need to be brought into the process.

### Overall conclusions from small groups in plenary

**The WG participants agreed on the following activities to progress collectively:**

- a) Gathering data on average family baskets in each country – needs to be validated as reliable data**
- b) Pilot projects – step-by-step approach in a few countries with stakeholders to begin to apply the concepts agreed by the WG.**

COLSIBA stated that they believe one of the elements of a project should be to explore the relationship with collective bargaining. For the trade unions, this is the only guarantee of permanent progress towards a living wage.

### **3. Towards a work-plan for WG02**

Alistair noted that all of us would probably want to see some tangible results by late 2011/early 2012, so suggested starting a process towards living wages immediately and concentrate our efforts over the next few months in order for us to have some first results documented by November 2011. These could then be “socialised” in the second full WBF meeting.

There are enough actors who are making efforts for this to be realistic, he added. He also proposed that, in parallel to work on living wages in two or more countries, we could study the complex variables of costs and prices along the chain by looking closely at the case of Ecuador, taking a few chains from field to supermarket shelf. This will not give us a globally generalisable picture on costs structures along the chain, but will give us very useful information specific to the world's major exporting country.

#### **3.1 Discussion on linking living wage work and value chain analysis**

Gilbert stated that on both the living wage work and the detailed value chain analysis, it is good to start with specific cases, rather than remaining at the theoretical level of literature studies.

Carolina supported the idea of undertaking a living wage initiative in Ecuador, because in this country there is government support for moving towards a “salario decente”, with enough large companies, small producers and plantation workers (through Fenacle) all ready to get involved in implementing such an ambitious target.

Iain commented that we should try to determine the impact on markets like Europe and USA of raising wages (this could be quite a difficult task). Also, if we are just going to pursue detailed living wage work in two countries, then should one not be in Africa, because there may be many differences that can provide enlightening results?

Eduardo informed the WG that, in 2011, FLO will be undertaking an in-depth review of the issue of wages. Although FLO itself is neither a producer nor a marketer, the international organisation can support the process and test the chosen methodology in practice in their chains.

Miriam said that Tesco thought it a good approach to start with bridging the gaps between actual wages and the government-defined household baskets. As market players, they work with the values that the market establishes, but would then need to assess their strategy to ensure that they can pay their suppliers enough to ensure a living wage whilst remaining competitive.

Magne also expressed support for the process, but added that it is far from automatic that a higher price to suppliers (producers) will necessarily lead them to pay a decent wage. He agreed that Ecuador should be a 'pilot' country, taking advantage of the recently approved law in favour of a living wage. This should mean that the proposal can be supported by the Government.

Gilbert reiterated his concern that we should take into account the role of collective bargaining in making sustained progress towards living wages. He also strongly supported the proposal that Ecuador be one of the pilot countries, provided there is agreement from the Ecuadorian parties around the table.

Lianne pointed out that a good cross-section of Ecuadorian stakeholders were around the table and felt that people would agree if it was felt that there was methodological support to ensure that a good job is done.

Angel said FENACLE was prepared to be involved, although he noted that it was a pity that one of the key players, Reybanpac/Grupo Wong, had not been able to make this meeting. He noted that companies like Dole should strive for their suppliers to comply with the law. It was agreed by the group that Reybanpac should be consulted early on about their participation in a living wage initiative.

Magne sought to clarify his earlier point: it is very difficult to have negotiations between suppliers and buyers in order to connect the price to wage levels; these are two different negotiations. **Wages are the result of a local negotiation as laid out in international labour conventions. The selling price (farmgate, FOB, CIF, green wholesale or consumer) is the result of (private) negotiations between suppliers and retailers (or intermediaries).**

Anatole expressed ASSOBAACAM's support for the Ecuador proposal of Ecuador, but noted his concern that the market is in a negative pricing phase for producers and this makes it a more challenging context in which to be raising wages.

One of the Ecuadorian small producers from COOPEMPBAL shared this concern: "How can you pay a decent wage when you're paid \$1.40 per box?!". He went on to point out that the government wants everybody to respect the minimum price (but has had trouble enforcing it in some cases): assuming that it would support this initiative, then "we can organise workers and producers to manage the supply and demand."

Brice wondered if we involve a country where the gap between actual wages and the basic food or household baskets is very large, what will be the market effect of closing such a big gap on other exporting countries?

Patricia, from the Chair, summarised two decisions we needed to make:

- *Where will the initiatives take place, in one or more countries, and how?*
- *If there are several initiatives, how do we manage the difference between legal minimum wages, actual wages and the basic baskets in different countries?*

Raul proposed that the pilot should not only be in Ecuador, but also in Colombia and Costa Rica, as the two other biggest Latin American exporters. In Ecuador, it would be important not just to seek Reybanpac's participation, but also that of representatives of all the producers, who are the ones who are the natural interlocutors with their workers.

Gilbert responded re Costa Rica that although the country/industry presented itself as a champion of the freedom of association, they were not supportive of the trade unions. If there is to be an initiative in Costa Rica, it would need to be clearly defined as to who was representing workers.

Magne noted that it was obviously not possible to define the results of any pilot initiative in advance, but agreed that working with CORBANA (the main industry body) would complicate the process and require a lot of energy. Bama and Tesco have initiated a process of working with CORBANA, but have not found it easy to make progress.

After the recess, Miriam reported that the Tesco team felt that the proposals are concrete and feasible. They are open to the opportunity to participate, and suggested that given the good industrial relations in Colombia the country should be considered for a pilot initiative following consultations in the coming weeks. She stressed that we should focus on measurable aspects in these initiatives in order to actually be able to determine living wages in any given context. This will make advances and learning much easier to share.

Angel supported the proposal to do work in Colombia, especially as they have long experience of collective bargaining at national level between a single trade union and all the banana companies (grouped in Augura). Gilbert added that he would support the choice of just Ecuador and Colombia so as to avoid dispersing our efforts too much and to be able to come up with some tangible results in a reasonably short space of time.

Bernardo expressed the concern that rushing into quick decisions risked only giving us partial results. The important issue was to conserve the common political will. He believed that the added value of this WG would come from not just focusing on wage issues, but also on how the money paid by the consumer reaches the small producer.

David supported this proposal and added that there was an evident need to maintain minimum prices as there were “a million or so boxes too many” being produced in Ecuador meaning that at some times prices do not cover the costs of production for smaller producers.

Pedro took up the points raised by Bernardo and David and suggested that “while it is true that the central issue is a decent wage, this leads us to look at other parts of the system. If we only focus on living wage, it can be very fair to the hired worker but others may lose out. We should therefore take a (w)holistic approach, and see the value distribution issues as one of costs on the one hand and the distribution of resources on the other. This will allow us to reach political agreements and develop strategies in each country in order to put into practice the concept of a “decent livelihood/living” with the participation of all players - governments and other stakeholders.”



Lianne added that it was helpful to see the core issue at stake as not just being about a single relationship (employer-employee), but also as being about chains of value. In this case, we have the potential advantage of being able to move from practice to theory in this domain.

Eduardo noted that having a common methodology for reaching/calculating a living wage is a vital ingredient in the potential initiatives, but so is leadership and having somebody – or a small group – that can ensure communications and comparability between the initiatives. This will also require some fresh financial resources.

Alistair concluded the discussion by saying that there were at least four key questions we had posed collectively that needed to be taken into account by those designing initiatives:

- How to calculate a living wage in a specific market
- How to tackle the issue of fair prices for producers (small-scale ones in particular)
- How to maintain competitiveness when raising wages (unless it is synchronised globally)
- How to analyse the impact along the chain of a rise in a given producing country

## **3.2 Decision on living wage initiatives in Latin America & West Africa**

**It was agreed to launch three Living Wage initiatives in Latin America and Africa in early 2011. The idea is that there will be provisional results to report to the next full WBF meeting at the end of 2011 or early 2012.**

### **3.2.1 Proposed aim of living wage initiatives**

**To have more clarity in the World Banana Forum on how wages are set across the industry, to generate practical examples of calculating a living wage**

### **3.2.2 Proposed objectives**

- 1. Understand wage structures in different companies and countries**
  - Factors include: **Gender, Contract type, Job role, Time of year**
- 2. Establish the “wage ladder”<sup>1</sup> in different countries in consultation with the key stakeholders** (employers, trade unions, government)
  - **National minimum wages**
  - **Collectively bargained wages in banana and other agriculture sectors**
  - **Average food basket**
  - **Average family basket** (where available)

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<sup>1</sup> “Wage ladder” refers to the key indicators that can be used in that country as an objective reference point and basis for discussion with stakeholders in determining what is a living wage

- **Alternative indicator of Non-food living costs** (where no national statistics for Average family basket)

### **3. Understand mechanisms for and effectiveness of collective bargaining in different companies and countries**

- Factors include: **Company-specific or industry-wide, Frequency of CBA review, Method of determining fair piece rate by job type**

### **4. Understand impact of retail price on wage setting**

#### **3.2.3 Potential participation in living wage initiatives**

*Please do not distribute these lists as some potential participants have not been approached at the time of writing the minutes.*

##### **A Colombia**

Tesco made an initial commitment to seek to involve one of its major suppliers.

Industry association	Augura
Producers	Tbc
Trade unions	Colsiba/SINTRAINAGRO
Retailers	Tesco; Bama
Government body	Tbc

##### **B Ecuador**

It is likely that the Government will convene the first meeting in early 2011.

Government bodies	Ministerios de Relaciones Laborales y de la Coordinación de la Producción and other government ministries (coordinated by Coordinación Política)
Industry associations	AEBE (national exporters' association); Camara Nacional de Bananeros (national growers' body) plus grower organisations at provincial level (see below);
Producers/producers' organisations	<i>tbc</i> : Dole-Ubesa and other producer companies; APROBANEC (Los Ríos), APROBAN (Guayas), Camara de Bananeros del Oro; COOPEMPBAL (small growers' coordinating body);
Trade unions	FENACLE (plantation workers' federation);
Other civil society organisations	Tribuna/Consumers International? SIPAE? CAFOLIS?
Retailers	Bama; Tesco

## C West Africa

It was proposed by ASSOBAACAM that the national producers' associations would approach their governments to seek their backing at a second stage of the process, once work is under way.

Industry association	Tbc - ASSOBAACAM (Cameroon growers' association) Tbc - OCAB (Ivory Coast national growers' body)
Producers	Tbc - Compagnie Fruitière
Trade unions	FAWU Cameroon and IUF members in Ivory Coast and Ghana
Retailers	Tbc
Government body	Cameroon and Ivory Coast governments Permanent Representative of Ghana to FAO

### 3.3 Follow-up to study

**It was agreed by WG members that Victor would provide an Annex to the study, giving additional information that had been requested during the prior tele-conference with the co-sponsors of the study, plus additional information generated during the meeting. *This Annex accompanies these minutes, and includes additional slides presented on the first day that are not in the study sent to participants.***

One of the important clarifications made by Victor during the meeting was that the much broader “family basket” in the case of Ecuador included 290 products and services, including cigarettes, which mean that it had been subject to questioning when the government proposed using this “basket” - calculated monthly by the state statistical service INEC – as the target in its own living wage initiative. This specific case, however, should not be used, emphasised Victor, to undermine the value and credibility of government basket statistics generated in all Latin American banana exporting nations.

He proposed to consult with FLO, Banafair, ETL, Rainforest Alliance and SAI, amongst others, as to what elements they consider should be in-/ex-cluded.

Miriam and others underlined the need to commission data for developing the common methodology (given the difference in methods of calculating baskets between Central America and South America, for instance). She also stressed that we have a lot of knowledge amongst the WG members, so should not have recourse to expensive external studies if we can gather information easily ourselves.

Patricia agreed, but pointed out that this has to be set aside the fact that we all have busy agendas and that external help is sometimes very valuable and permits to advance faster if external work is well designed, monitored and used.

Pedro thought the pilot initiatives would struggle to find a common methodology if there were no prior analysis of the whole chain, in particular of profit margins along the chain.

Miriam informed the WG that the Ethical Trading Initiative in the UK has developed the concept of a “wages ladder” as an approach to working towards living wages in international supply chains<sup>2</sup>. She suggested it would be good to have governments' feedback on the wages ladder concept.

## 4. COST STRUCTURES FROM FARM TO MARKET

Two presentations were made (one on Thursday afternoon and the other Friday morning).

The first was by Frédéric de Raynal, UGPBAN, Martinique, on the detailed costs of production on his farm (c. 90 hectares), including labour costs for production activity, and other costs up to arrival in the markets of metropolitan France. Participants were generally surprised by the extremely detailed information, notably by the very high level of labour productivity (0.5 workers per hectare), by the high wage levels, by the high farm-gate price, but also by the fact that he was part of an island-wide collective bargaining agreement with unions representing his workforce (and others in the industry).

The second by Carolina Valarezo from UROCAL on the organisation's chain from the 120 or so small-scale organic farmer members' fields to the several hundred world shops in Germany where most of their organic fair trade (certified by Naturland and FLO) bananas are sold by Banafair. UROCAL farmers have an average of 6 hectares each in agroforestry systems (bananas intercropped with cocoa trees, citrus, sometimes with livestock and other crops or harvested plants).

As they pointed out, the extra costs of maintaining such relatively biodiverse systems are not recognised by the market in any way at present, although they are partly offset by the social and environmental premium (over and above the FLO premium) that they receive from the German world shop market.

Their labour costs represent 46% of their costs of production up to farm-gate level, much higher than in larger conventional farms. 40% of hired workers have permanent contracts, the rest are hired on a daily basis. The organisation has a focus on gender equity (20% of producers are women) and child development as part of its (w)holistic vision of a “sustainable banana system”, that also includes making small farmers' work (men and women's) generally visible in selling prices, promoting political participation and even redefining the relationship between producers and hired workers.

All involved in these fascinating presentations were warmly thanked by the WG for their transparency. *Presentations will be made available at the discretion of their authors.*

Lianne added that AsoGuabo members have similar costs for organic production and that they too do not include all costs on their calculations. The real value of a box at present would be around 7 USD, if the small farmer's family were to be fairly remunerated of their own labour. The concept of “fair profits” has not yet been incorporated properly into sustainable costs of production calculations, said UROCAL producers.

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<sup>2</sup> Ref: Turkish garment industry study for ETI

There was then a discussion about the unfair competition represented by so-called “hard discount” supermarket chains like Aldi and Lidl in Germany. Banafair does not want to enter into these retail price wars where e.g. bananas from Africa are sold for half or third the price of the BanaFair bananas from UROCAL, however, as it simply “devalues” their organic fair trade brand. BanaFair has its steady market with the World Shops specialized in fair trade and with guaranteed prices for producers above the FLO level. At times BanaFair, with the permanent need to increase the market share for the small producers, has found additional market with regional conventional supermarket chains of limited size and competitive prices. But the last experience of this kind ended in March 2010 when a leading German discounter company bought this business and finished contracts with external suppliers. In any case, regardless if BanaFair supplied conventional retailers or not, the overall downward tendency imposed by discounters et.al. in banana price levels always reduces noticeably BanaFair’s chance to increase the market share for its fair trade bananas from UROCAL at the same level as presently fixed. If the UROCAL banana were sold to conventional retailer, in effect the higher and stable World Shop prices must make up the difference on the balance sheet.

**Denis, with help from Frédéric, offered to prepare a standardized production cost model (or “matrix”) for use by the WG for future work on cost structures (though it will not be as detailed as the one presented by Frédéric for his own farm).**

## **5. GOVERNMENT OF ECUADOR**

**Summary of an oral contribution to the WG by Marcelo Ortega, Ministerio de Coordinación de la Política (Policy Coordination Ministry), Government of Ecuador**

In a wide-ranging contribution, Mr Marcelo Ortega, presented the Ecuador government’s approach to achieving sustainability in the banana industry. He stressed that this is not an “*anti-business*” government and that the international fruit companies and distributors in the consumer countries have a critical role to play in achieving a fair distribution of value as well as in helping raise standards industry-wide.

The government's priority was to create a framework for dialogue to discuss this issues. He also referred explicitly to the proposal for a “living wage” (*Salario Digno*) that had been voted through the Parliament (in second reading the previous night) as part of a major policy package known as the *Código de la Producción* (“Production Code”).

He made the following key points:

- i. Government is committed to ensuring **respect for workers’ rights and a fair distribution of wealth** in the country. In banana sector, the Gov is legislating to ensure only registered producers can operate and to ensure that the minimum reference price is paid to all producers by exporters (with effective sanctions against those who violate this minimum price). In short, the Government is seeking to “*eliminate immunity concerning labour and fiscal violations*” in the sector.
- ii. Encouraging the formation of “**industrial**” **trade unions** (that include workers across an industry rather than just one company or one workplace) is a strategy advocated by FENACLE and now supported by Government [as per the Colombian model, where national collective bargaining takes place between national growers' association and workers representing 90% of the industry.]

The President is currently drafting legislation to give a balanced legal framework to this form of social dialogue, recognising both the costs and benefits for key industries (agroindustry, mining, tourism etc) of stability and good industrial relations.

iii. **Labour sub-contracting** in most sectors was effectively outlawed in 2008, but some measures to right the injustices of past practices are still in the pipeline (e.g. backdating an employee's acquired pension rights to when s/he started working in a given plantation, rather than from the date the employee was first hired on the company's own books).

Insecure/casual daily labour (mainly now hired by small producers) can undermine permanently employed workers' rights, so the Government now require producers to pay higher rates to their casual workers.

iv. The new "Production Code" provides for **anti-dumping measures** if product prices fall below cost of production; this is an instrument to tackle unfair competition (internally and externally). It also seeks to **control prices in key food and export commodities** such as rice and cocoa. The whole policy package of the *Codigo de la Producción*, when taken with other policy initiatives such as the *Codigo Agrario*", is designed to increase **national food security** (or "sovereignty"), as stated in the 2008 Constitution.

v. A Government decree was issued earlier in November 2010 to ensure that employers pay a "**living wage**", calculated on the basis of a basket of basic commodities required by a 4-person family. Critics claim that employers will pay this extra out of the profit-sharing bonus that workers should receive by law each year (but which many companies do not pay). MO estimated that some 15% of workers currently do not earn enough to buy basic food basket.

vi. Proactive financial and political **support for small- and medium-scale producers** is also a priority for this government. This was recognised at the meeting organised by COOPEMPBAL (Small- and Medium-scale Banana producers' Coordinating Body) the previous evening, where collaboration with the Agriculture Ministry over the last year has led to tangible cooperation.

FENACLE recognised the recent efforts by the Government to improve labour legislation and foment social dialogue in industries where, historically, there has been little or no cooperation between organised labour and companies. The organisation recognises the importance of balancing rights and duties of workers when they choose to organise in independent trade unions.

Dole emphasised the importance of governments' role in facilitating multi-stakeholder dialogue to find common methodologies for progress towards a living wage.

Following broad discussion on the range of issues raised by Mr Ortega, he proposed the following for the WBF on behalf of the Government of Ecuador:

- o **Calculate/compare the purchasing power of wages in different exporting countries (Latin America and Africa at least)**

- o **Build political will in different countries to close the gap between current wages and living wage indicators**

**o Encourage countries to reinforce their national (tripartite) processes to determine adequate legal minimum wages.**

Miriam thanked Marcelo for his very clear and interesting presentation, and added that it was very motivating to hear Ecuador demonstrating what a responsible government can do when both trade unions and industry are involved in policymaking.

It was generally agreed that Ecuador is a good example to exemplify the constructive role governments can play in the WBF process.

## **6. QUESTIONS OF (RE-)DISTRIBUTION**

**Presentation of paper written and pre-circulated by Iain Farquhar, at the request of the core group in the Paris meeting, followed by discussion.**

Some of the key points made in the very rich discussion were (deliberately not attributed to individuals):

- Russia is a very price-sensitive market
- US West Coast market provides a “fair return”, whereas the East is more price-sensitive
- If sellers can get higher prices in either Europe or North America (and they have the shipping options), then they will re-direct fruit (especially out of Ecuador where there is a large 'spot' market)
- Is it conceivable to just get extra benefits to workers on boxes for one market?
- Do we all share a fundamental difficulty of not being able to enforce our recommendations on anybody else? Or at least not on more powerful actors
- If, for example, Tesco raises retail price and money gets back to workers, there is a problem if Asda/Walmart cuts margins even further, “forcing” T to match in a highly competitive market
- In practice, it can be very difficult to ensure transfer back to workers (although it was done in an arrangement involving one Norwegian retailer (not Bama) and a trade union in Costa Rica (ten years ago))
- We are all “hostage” to national legislation (good or bad laws)
- Governments should adopt “realistic” legal minimum wage (LMW) levels instead of unrealistically low ones; this is, ultimately, the way towards living wages for all
- As we will have pilot initiatives plus a common international methodology, then this could allow us to go to the WBF as a whole and exert the collective pressure of retailers and fruit companies on governments to adjust upwards their LMW specifically for banana industry...
- ... although how will other actors react? - up to them - different strategies apply? Above all, this about protecting workers from poverty
- We did not include the small farmer perspective very adequately in our discussions in Paris. WINFA were not able to be there, but we could have avoided our mistake
- We can put up retail prices and keep higher wage levels as an aspiration that is monitored in each chain
- We should not begin our work by talking about price; we should focus on living wage and how the business is organised in an industry that where virtually informal sector actors try to

compete with highly organised companies; the question is what do we want with all differences we have?

- Our mandate is not necessarily how to create more value, but how to distribute value. This is a complicated industry with a big diversity of producers and exporters that requires us to concentrate on this mandate
- In Poland, for example, purchasing power of consumers is much lower than in Western Europe (although it varies considerably between rural and urban areas); one study shows that Polish consumers would pay 10% more if they were guaranteed ethical standards in product supply chains, but they need to trust labels more, especially if there is a price premium involved, in which case they need to know that the extra reaches whom it is meant to benefit
- Civil society organisations can play an important role in raising consumer awareness in this sense; members of EUROBAN have been involved in this work for many years in some cases
- Governments play a role in subsidising bananas too: France/EU puts up about \$4 per box to keep French West Indies industry going
- Subsidies are not wrong per se, but depends on what they set out to achieve and who receives themselves
- Supermarkets need to open up much more proactively to small farmers whose product is simply threatened with disappearing from the market altogether
- There is a possible problem of job cuts/unemployment creation and increasing agro-chemical use linked to rising wages; current integrated pest management programmes may be affected (as hand-/spot-spraying is more labour-intensive/expensive); this is an example of an issue that needs to be cross-referenced with other WGs
- Our work on small farmer supply chain examples is to show they do not have to be uncompetitive, and that we can have living wages at plantation level and those producers are still in the market.
- Certification can add value by ensuring implementation of a living wage. Although in Ecuador less than 1% of total banana production is Fairtrade certified, in Peru and Dominican Republic it is around 50%. For FLO, it is clear that a common methodology would be very useful.
- The rumours that the tariff reduction into the EU (from January 2010) would bring better prices to producers have turned out to be false, because the tariff is paid, on the whole by the traders, not the producers
- “Recycling” of the huge tariff income received by the EC and member states with ports into social and environmental projects – a sustainable development investment fund – is an idea from civil society that needs to be put back on the table now that the “tariff wars” are over (links to current EU Association Agreements negotiated with Central America, Colombia, Peru etc)

## **7. Fruit market trends in Europe**

**Summary of key points from the presentation by Denis Loeillet from CIRAD's Fruit Market Observatory analysing fruit prices and consumption in Europe, with additional comments**

Downward trend in prices



In France, the green apple is the only fruit that can compete on price per kilo with the banana. There is a difference of between 0.5 and 1.5 Euros-kilo between the banana and other fruits. This is similar in most European countries.

Consumption of bananas in the EU-27 as a whole is 10.2kg-year, but as little as 6.2 kg-year in the new member states; this is where there is potential for consumption growth.

In the UK, there was 250% growth of banana consumption in the UK over 25 years (from 1980 to 2005, backed by a generic publicity campaign by importers).

The European market has gone from a position of paying significantly more than the spot (“world”) market price in the past, to a position in 2010 where the European buyers were paying less than in the United States. This contributes to the economic problems the industry is facing right now. Poland was given as an example.

#### Impact on retail price of increasing wages

Basic example of a South America to Europe value chain:

- Labour cost is €0.86/box
- CIF €12/box
- Retailer €25/box

**The labour cost is 3% of the retail price and 7% of the CIF. If we add 30% to the wage, then the labour cost becomes 5% of the retail price and 10% of the CIF. The impact on retail price would be €0.019/kilo for a wage increase of more than \$1000 to the current annual salary.**

The example demonstrates that it should be possible to find ways in the supply chain to achieve this kind of wage increase.

#### **Social security payments**

The level of “social security” costs (contributions to healthcare system and other social welfare provisions) that employers pay on top of the salary vary considerably from country to country. Some groups (employers or workers) may challenge the payment of social security and would rather have direct payments to cover those costs themselves (regardless of what the national legislation may say).

However, the group discussed the principle of respecting the law and upholding the principle of social security. For the purposes of comparing actual wages with living wage definitions, the group agreed to draw the distinction between the net salary and the gross salary, and to focus on the net salary.

## **8. Learnings from field visits**

Thirteen participants in the Working Group joined a three-day series of field visits to the following producers in Los Rios and El Oro provinces between 15<sup>th</sup> and 17<sup>th</sup> November:

- i. **Reybanpac/Fundación Wong:** Hacienda Norma Gisela and the Rio Palenque Forest Reserve

- ii. **Dole Ubesa/Fundación Dale:** Hacienda Megabanana (500 ha) and supplier Hacienda Mano de Dios (70 ha)
- iii. **Union Regional de Organizaciones Campesinas del Litoral (UROCAL)/ Asociación Nuevo Mundo:** Three small farms producing organic bananas (for fair trade markets in Germany and Canada) and cocoa (for artisanal chocolate in the organisation's own mini-chocolate factory)

Key learnings for participants included:

#### Role of government

The companies said that the effort of the government to improve health services is part of a long term strategy that will support the companies too.

It is good to see the Ecuador government developing policies to support this industry and Ecuador is becoming a leader in this sector.

The government is developing a national standard for social and environmental conditions, starting with the banana industry and then extending to shrimps and flowers.

AEBE is working with government ministries (Labour Relations and Environment) to establish a national socio-environmental standard that for Ecuadorian agro-industrial products, starting with bananas, prawns and cut flowers.

#### Union relations

There were cordial and friendly relationships with the union on one farm, whereas in other farms there is less comfort in the relationship between the unions and companies. The work by Fenacle and the employers is building trust so that they can work together for a win-win situation.

#### Technical innovations and productivity

We saw people working with tools that optimise productivity and with working practices that reduce the physical effort e.g. two people transporting harvested bananas on a “Condor”-shaped metal bar (although the experiment was not in general use across the company).

It was acknowledged that the farms visited were some of the best in the industry, and some very good technical innovations. One such thing was the “Italian ladder”, an innovation by the workers at Hacienda Italia, which was clearly a good indicator of worker involvement.

#### Improvement

In the past, working and living conditions for banana workers were a lot worse, but now we see it has improved and there is a dignified environment.

It is clear from the visit that Ecuador wants to differentiate itself as a producer country, particularly through sustainability efforts and agro-forestry systems.

One of the challenges will be to ensure that these efforts are recognized, although it’s clear that this will not be recognised by the international markets.

#### Small vs large production

An observation that the large scale agriculture can be hard for the human spirit in comparison to the small farms which seem more part of a community.

Another observation that the small farms may not be maximizing yields due to less technical knowledge e.g. leaving one small fruit uncut, which promotes higher yield.

However, small producers have developed impressive environmental standards in recent years. UROCAL small producers can protect threats to our communities, such as environmental impacts. We are not only concerned with the economics of production, but also how it affects our environment.

#### Ongoing concerns

There is an observation that young workers (over 15 years) are sometimes hired because they are quicker workers, however this undermines their education and is not sustainable.

There has been an 80% reduction in water volume in 50 years in the rivers in Ecuador.

## **9. Concluding session**

The Chair thanked UROCAL and all Ecuadorian parties who had hosted the visits and the meetings.

Alistair Smith summarized some key points from the week:

- Valuable learning: there was much learning from the 3 day visits (as above) and progress in understanding value chain
- Action-oriented participation: activities for this Working Group to pursue are outlined in the next steps (below) and other potential participants will be invited to join in the planning of these.
- Joined up: as the activities progress we can cross-reference with other WBF Working Groups e.g. the Sustainable Production Working Group.
- Media relations: given sensitivities we would need a common position to report to the media, but this would be difficult to establish. In addition, this group needs to operate in alignment with the whole Steering Group, and should therefore maybe not engage directly with the media on its own initiative.

## **10. Next steps for the Working Group**

### **Governance and Participation**

**1. Update other WBF participants on this group's discussions and invite further participation**

**2. Define participation in core group, in the projects, and in full WG**

N.B. The Core Working Group needs to be representative of all stakeholders

**3. Feedback to Rome meeting regarding:**

- a. Proposal for coordination support for Working Groups
- b. Media policy

**4. Regular meetings of the Core Working Group by teleconference**

**5. Invitations to participate to:**

- a. PMA
- b. GSCP

**6. Regular communications with the whole Working Group - 3 monthly**

**Activities**

**7. Core group to develop pilot plans for Ecuador, Colombia and West Africa**

- a. Use model of production costs from Denis and Frederic and use this as a template to create a matrix
- b. Develop plans in conjunction with all relevant expertise (incl trade unions, CIRAD, FLO)
- c. Consult and involve the Association of Producers in Cameroon

**8. Complete the wages study - Global survey of average baskets to build up complete wages ladder for all key producer countries**

**9. Develop strategy to address minimum wages in different countries**

**Administration**

**10. Circulate presentations**

**11. Circulate scans of the press articles**

**12. Circulate participant list**

**13. Schedule meetings for the core group and full Working Group for next year**