

ORGANIC BANANA CULTIVATION AND FAIR TRADE IN PERU



Trade and Poverty in Latin America

Case study December 2009

Overview

This is an analysis of the impact of organic and fair trade certification on banana producers and organisations in a relatively disadvantaged area of Peru. The study explores how relatively small-scale farmers – organised into associations – can benefit from niche markets. Higher input costs are more than offset by significantly higher prices obtained by accessing high-value export markets. The role of associations in supporting individual farmers is highlighted. Agricultural labour conditions on banana plantations are not explored in this analysis.

Organic banana exports from Peru grew significantly between 2000 and 2007, in terms of both net value (from \$264,000 to \$31 million) and volume (from 856 tonnes to 64,586 tonnes). Given Peru's total export figures, this suggests that almost all bananas exported are organic (see Figure 1). The main export destinations are the EU (Holland, Belgium and Germany), the US and Japan.

In Peru, production and export of organic bananas is a recent activity. For more than 30 years, organic bananas have been produced in the Chira Valley, in the northern part of the country. In the Tumbes, Piura and Lambayeque regions, 3,414 hectares have been certified, 80% of which are concentrated in Piura.

The tropical climate of the Sullana province (where Piura is situated) makes it well suited to banana production. Black Sigatoka (a plague that affects this cultivation elsewhere) is absent, permitting production using organic techniques. Although bananas have been produced in this area for a long time, the conversion to organic processes only began in the late 1990s. It is also a comparatively less developed region: the Sullana province is ranked 46th out of 95 Peruvian provinces in terms of development levels.

In the region are distinct organisations of small producers with on average fewer than 3 hectares of land, (indirectly) linked to export activity through the organic banana production chain. Exportation,

strictly speaking, is the responsibility of institutions related to foreign companies.

This study analyses the main factors of success, as well as the problems, that organic banana producer associations have experienced in the Chira Valley. To that end, the researchers visited these associations and undertook randomised surveys with producers and unstructured interviews with different agents.

Conversion to organic bananas

There is heterogeneity among associations with regard to the average number of hectares per farmer, possession of Fair Trade (FT) certification and the main offices of farmers' associations. Of the group of 10 associations selected, six are FT certified. In these, the rate of higher education is higher than the average; FT-certified associations also have better access to basic services. This could be explained by the fact that non-FT associations are mainly located further from district capitals.

The majority of producers and their leaders underscore the importance of a state programme and export companies in the conversion to organic bananas. State networks have facilitated access to inputs such as organic fertiliser through credit and training in its use for the first farmers who made the conversion.

The main costs for banana producers relate to inputs and labour. The main inputs are manure and other permitted organic fertilisers (island guano, sulfomag

References

UN Comtrade (2009) United Nations Commodity Trade Statistics Database. <http://comtrade.un.org/db/>

About this summary

This case study summary was prepared by Jodie Keane with Alberto Lemma and Jane Kennan and is based on longer studies originally undertaken by Alan Fairlie Reinoso at Consorcio de Investigación Económica y Social (CIES) in Peru. The full study is available in Spanish on the COPLA website: <http://www.cop-la.net>.

About COPLA

Comercio y Pobreza en Latino América (COPLA, or Trade and Poverty in Latin America) is a two-and-a-half year project that explores the linkages between trade, poverty and social exclusion in Latin America.

Find out more on: <http://www.cop-la.net>

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Table 1: Banana exports from Peru, 2002-2008

Year	Trade value (\$000)	Quantity (kg)
2002	6,182	19,079,140
2003	7,284	19,390,380
2004	10,598	27,307,282
2005	17,662	42,859,943
2006	27,047	57,149,864
2007	31,439	65,518,288
2008	45,738	78,179,805

Source: UN Comtrade (2009).

and potassium sulfate). Therefore, the increased price of organic manure and fertiliser is the main concern of the producers surveyed: these inputs represent 43% of total costs for banana producers in a year. The associations try to keep down the cost of fertiliser by purchasing in bulk. It is estimated that the total net income that an organic banana producer receives per hectare is S/.8,489 annually (around \$2,960). The costs of production of organic bananas are much higher than those of conventional bananas, but these have been offset by the high prices paid by export markets.

Producer-export relations

The focus of recently created associations is still to gain access to the FT premium and, therefore, to the necessary resources to respond to their producers' productivity problems. Farmers respond to rising costs of organic manure through company services or through a network of farmers and exporters (who also supply fertilisers). Therefore, there is great heterogeneity in the positions of farmers and their associations with regard to their own resources and negotiating capacity with exporters. This situation affects the subsequent phase of marketing, in which networks between farmers, their associations and companies define their position in the export chain.

There is a positive cost-income relationship for the organic banana producer who participates in FT as compared to standard bananas. Individual producer efficiency is

one factor in this relationship, but there are also exogenous factors, such as the price of guano, which is fixed by the state, the price of imported fertiliser, which increases costs, and the falling exchange rate, which reduces income. Entry into the FT regime constitutes an important advancement for producers, although a substantial percentage of potential profits is currently appropriated by intermediaries.

Chains of coordination vary according to the role of producer associations and their participation in networks. This diversity is manifested both in the management of purchases and administration of inputs and certification, as well as in the limits and alternatives proposed for marketing. Legal and institutional factors exist, which can be restrictive. In this initial phase, for less developed associations, it is very difficult to gain access to either organic or FT certification. For the associations that are more advanced there is a problem with direct export, owing to the contracts that bind them to traders for a fixed period of time and may be renewed automatically.

Regarding intermediaries, each case is different and depends on whether only the association has certification, and therefore negotiating power, or whether associations have decentralised producers. Much depends on the level of development and advancement of producers in the value chain. Ideally, local producers, under the control of associations, would gradually provide goods and services currently provided by intermediaries. Only in this way will it be possible to negotiate with different intermediaries, in an attempt to maximise the FT premium.

The research findings suggest that farmers with better export opportunities belong to the oldest and most developed associations with access to FT certification. Their conversion strategies have entailed mobilising support from the state; their response to rising costs now depends on the resources of the association. Farmers in younger associations can no longer rely on this support for their conversion to either FT or organic production.