

PRICE ISSUES AND CHALLENGES AMONG BANANA GROWERS: BASIS FOR A POLICY MEMO

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ABSTRACT

Looking through the lens on some important basic economic concepts like the relationship between supply, price and demand, and as well as the principal-agent principle in governance, this case analysis on the pricing issues in banana export products and the challenges encountered by growers and farmers in the municipality is conducted utilizing case study specifically document analysis. Six growers were interviewed on their experiences and perspectives on price changes and challenges while municipal agricultural engineer and the municipal information officer were also interviewed. A document analysis was also done by using the minutes of committee hearing on price issues and challenges. Analysis of the market condition was also analyzed through SWOT approach and it was found out that market concentration, poor bargaining power, information asymmetry, and externalities were existing. While existing government initiatives were highlighted like call of diversification of local industry, legislation of the price challenges, partnership with universities for research and development, subsidies for calamities, establishment of BioControl laboratory, and community reach-out program. This study led to policy memo to the legislative and executive body of the municipality.

Keywords: Pricing, Banana Export, Growers, Policy Memo.

INTRODUCTION

The Context of the Industry

World banana production grows at 1.5 percent annually starting year 2020 to reach 132.6 million metric tons (MMT) in 2029, assuming normal weather conditions and no further spread of banana plant diseases. Asia remains as the leading global banana-producing region with a volume share of 51.8 percent (UNFAO).

Philippines ranks as the largest exporter in the region, accounting for approximately 90 percent of total export volumes from Asia making banana its top agricultural export product (Arcalas, 2020). In 2018, the country produced some 9.36 million metric tons of bananas on 447,889 ha, with Cavendish cultivars accounting for about 52% of total banana production (Authority, 2020). Likewise, Philippines dominates the banana trade in Asia and accounts for 98% of the banana exports from all Asian suppliers. The country exported 2.6 million tonnes of bananas in 2012 which was 98 per cent of the Asian banana trade and makes it the world's second largest exporter after Ecuador with 12% share of the global export volume. Two thirds of the Philippines export volumes shipped to Japan, China and South Korea (Prowse, 2013).

Specifically, Davao Region remained as the top banana producer with 846.23 thousand metric tons or 35.3 percent share to the total production this quarter. This was followed by Northern Mindanao and SOCCSKSARGEN with respective shares of 21.0 percent and 14.5 percent (Authority, 2020).

Locally, Santo Tomas, Davao del Norte is considered to be the best place to understand Cavendish Banana Value Chain because it provides a better picture the industry as a whole from the perspective of the small scale growers. Sto.Tomas has the largest planted area for banana in the Philippines among municipalities. It also has the best diversity in terms of growership and contractual arrangements among all the provinces that produce banana. 85 percent of the Cavendish banana growers in this municipality classified either as individual growers or agrarian reform cooperative members According to Digal, 2015.

Situational Analysis and Diagnosis of Key Issues and Concerns

The banana market is highly segmented. Domestic price movements are often different from international price movements. Overall, import prices in large markets like the European Union and the United States have been stable at around USD 0.90-1 per kilogram in recent years. Retail prices showed more varied movements. For example, retail prices in the United States remained largely stable, while retail prices in France witnessed a pronounced upward movement between 2010 and 2016. Banana prices in the international market are also influenced by fuel prices, particularly the so called 'bunker oil' which is affecting the cost of banana transports (Liang, 2019). In local markets, banana prices may also vary considerably depending on the level of the exchange rate of the local currency *vis-à-vis* the United States dollar (UN Food and Agriculture Organization).

In the municipality of Sto.Tomas, Davao del Norte, there is a fluctuating market price on Cavendish banana. Growers who are not registered and are not in contract think the price is manipulated by the big time exporter (Filipinos) in the country and they are usually the ones affected greatly by price challenges (increase and decrease in market price). During the price downfall, these growers are the protests who are coming from those who are not in contract and are not registered. They are then asking the government to do intervention on the price changes. Out of 2000 growers in the town, around 97 were just registered and are under contract.

There are also many concerns that are relative to the price challenges as contributing factors to growers. Many growers opted not to register their farm and many are not subjecting to contract with exporting companies so that they can change buyers of their products depending on who bid the higher price. This encourages fly-by-night traders encouraging pole-vaulting which is dominant in the community especially when there is higher market price of bananas. The existence of unregistered plantations which encouraged farmers not to register or subject to contract is also another one to look into. Moreover, farmers and growers are not equipped with entrepreneurial competence that they only think of an advantage without considering how price moves in the market. They never understood that the unstable price was due to varying factors like supply and demand, world price, and dollar exchange rate. Also, the Banana Export market is dominated and controlled by the large multinational companies selling Philippine bananas under their own brand names. It is also noteworthy that competitiveness of other countries in Asia is now dominant in terms of banana production. There is also lack of advanced resources in banana farming for growers not under contract that they tend to secure necessary resources for good production especially on problem on diseases. Meanwhile, weak structural organization for producers or farmers can be observed. There are also security issues where armed groups (rebels and terrorists) for a revolutionary tax which affected farmers. Small scale growers with no contract suffers from failure by not meeting the standard quality product set by the global market (Voora, et al., 2020). The traders who can afford to buys production of bananas settled first to those growers who are in

contract before they buy other production however, these traders have limit on the volume to be exported and this is where consol gets in and take advantage of the situation of buying production from unregistered farmers at a very low price because big time traders do not buy their production for quality control and other reasons. This is how the price gets low because of non-adherence to required protocols in banana production (Paggi & Spreen, 2003).

Analysis of Market Conditions and Failures of the Industry

Out from literature reviews and interview from several small scale growers, the following strengths, weaknesses, opportunities, and challenges from Cavendish Banana Industry in the municipality of Sto.Tomas shown in below Table 1 & Table 2.

Table 1 ANALYSIS OF MARKET CONDITIONS	
STRENGTHS <ol style="list-style-type: none"> 1. Short-term Returns (Weekly Income) 2. Owners can farm themselves without hiring laborers during farming. 	WEAKNESSES <ol style="list-style-type: none"> 1. Prone to Diseases 2. Prone to Perishing 3. Cost of Processing 4. High Sustainability Cost for Farming and Labor
OPPORTUNITIES <ol style="list-style-type: none"> 1. High Demand 2. Many investors and lenders for the costs (foreign investors) 3. Engage in contractual or direct market supply. 4. Government intervention in boosting banana market industry. 	CHALLENGES <ol style="list-style-type: none"> 1. High Standard Criteria 2. Global Market Control 3. Asymmetric Information 4. Existence of Competing Countries in Production 5. Calamities NGOs and Environmental Advocates

Table 2 ANALYSIS OF MARKET CONDITIONS	
Market Concentration Small scale growers do not have any other products than Cavendish bananas.	Poor Bargaining Power Sellers do not set the price on the produced Cavendish bananas.
Information Asymmetry Small scale growers are dependent on the middlemen (console) regarding the price.	Externalities <ul style="list-style-type: none"> • Negative - Natural Environment Disturbance • Habitat Conversion • Soil Erosion • Solid Waste • Pollution • Positive – Provide short-term Jobs for Jobless

Current Government Initiatives Adopted

Call of diversification of local industry

This call was from PCCI (Philippine Chamber of Commerce and Industry) to keep up with an increasingly global demand market. This call was due to the fact that Philippines is one of the top exporters of Cavendish bananas in the world but is now losing in the banana

export war amid continued stiff competition in the global market. Among the challenges of the industry include the damaging Panama disease or fusarium wilt affecting banana farms and plantations in Mindanao (The Philippine Star, 2020).

1. **Executive body calls for the legislation of the price challenges:** The local government unit calls the attention of big exporters in the community to discuss with the legislative body through committee hearing to address the protest of price challenges in the market.
2. **Partnership with universities for research and development:** The government tap the potentials of universities in the Philippines to address the problem on diseases of bananas. Also, private companies dealing with banana farming in the locality established researches in controlling the diseases.
3. **Executive body calls for the legislation of the price challenges:** The local government unit calls the attention of big exporters in the community to discuss with the legislative body through committee hearing.
4. **Subsidies for calamities:** The government allots a certain amount for subsidy to areas affected by calamity and diseases are not included. However, the subsidies are not enough to recover and sometimes these subsidies were not used to address the problem.
5. **Establishment of local biocontrol laboratory:** The local government unit maximizes the functionality of Department of Agriculture in the town level to establish activities and laboratory to address issues on banana farming.
6. **Executive body calls for the legislation of the price challenges:** The local government unit calls the attention of big exporters in the community to discuss with the legislative body through committee hearing. However, this is one of the hardest and most struggling initiative to be done since price is governed and controlled in the international arena and with other relative factors.
7. **Community reach out program:** The local government unit in its Department of Agriculture conducts a barangay-to-barangay level of educating the growers based on technical aspects. However, the reaching out activities in orienting the growers with the surrounding information is not intensive and not enough to clear up their queries.

POLICY OPTIONS & RECOMMENDATIONS

1. Policy intervention on monitoring of existing farms and plantations in terms of registration with legit documents for operation.
2. Policy intervention requiring every farm to adhere with the standard protocols in quality assurance especially in farming and processing of the product.
3. Strengthening the existing policies on a stray animals and strategically planned irrigation system among farms to control the spread of diseases (*Fusarium*).
4. An Information-Driven Program Policy for Small-Scale Growers in understanding the banana market industry beyond their own local needs.
5. Intensive research on pole-vaulting policy to be penalized more than a breach of contract.
6. Creation of an agency who will provide just and fair access to both small scale and big time growers and shall be an agency who will act as negotiator to the international market.
7. Creation of an agency or council that focuses on banana industry development ensuring the quality of products to compete with other countries.
8. A Strong Policy Advocacy on deconcentrating from banana growing to rice farming and even for domestic consumption of bananas.
9. A Policy on Paper Industry Revival for the Philippines is recommended to supply locally raw materials the production of banana boxes for packaging.
10. Policy recommendation on the allocation of budget in enhancing the research and development in the production to address issues on negative externalities.

11. Policy intervention on subsidizing the small-scale growers with the necessary operating materials at a very low interest rate helping the trader-exporter subsidies to small-scale growers.

CONCLUSION

In conclusion, this case analysis examined the pricing issues in banana export products and the challenges faced by growers and farmers in a specific municipality. The study employed basic economic concepts such as supply, price, and demand, as well as the principal-agent principle in governance. Through interviews with six growers, the municipal agricultural engineer, and the municipal information officer, valuable insights were gained regarding price changes and challenges. Additionally, a document analysis of committee hearing minutes provided further understanding of the issue. Using a SWOT approach, the market conditions were analyzed, revealing the existence of market concentration, poor bargaining power, information asymmetry, and externalities.

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