Foundation for agriculture and rural areas around the world

FARM Briefings

The International Banana Trade: between evolution and revolution

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SUMMARY

Analysis of the international banana trade (14 million metric tonnes) highlights the extent of the European Union's influence on major global trade balances. The EU is the world's biggest importer and consumer of bananas. Total EU imports amount to 3.8 million tonnes (2004) and total consumption to 4.6 million tonnes. Of total EU consumption, some 17% or 785,000 tonnes, originates from the ACP (Africa-Caribbean-Pacific) group of countries, including 260,000 tonnes from Cameroon and 210,000 tonnes from Côte d'Ivoire.

In 1993, the EU set up the CMOB (Common Market Organisation of Banana), which exerts a powerful influence on the commercial positions of all types of trade operators and on the income of many producers, regardless of whether they are from the EU itself, the ACP countries or from Latin America. This is because the CMOB has partly limited the impact of economic fluctuations in the international banana trade on the European market and achieved remuneration levels, notably those of the producers, higher than the global average.

In African and Caribbean ACP countries, over 700,000 people earn their livelihoods directly or indirectly from banana production. In Cameroon, bananas account for 12-15% of non-oil exports. The European market is vital for the economies of these countries both in terms of price levels and of the predictability of markets which guarantee the economic and social viability of production. The interests of ACP countries are similar to those of EU producer regions.

Since 1993, the CMOB has been based on a quota system for imports (the external component), and on income support for EU producers (the internal component), and has been able to maintain a precarious balance between origins having different levels of competitiveness and ensuring smooth operation of the EU single banana market. However, opposition to this system, whether external or internal, has meant that the CMOB has been condemned on numerous occasions by the WTO. As a result, it has been reformed and weakened several times. On 1 January 2006, the CMOB should move towards a tariff-only system for non-ACP third countries and a zero-duty quota for ACP countries, thereby virtually completing the total deregulation of the EU market.

Yet the ACP countries, which continue to be protected until the end of 2007, will not be spared by the 2006 reform. Even with the technical and financial assistance deployed by the EU, the lack of regulation of agricultural markets increases the threat of market instability. The main victims of this instability will be the weakest and least well-informed producers.

However, the WTO's most recent decisions of August and October 2005 open up new perspectives. The solutions range from the renewal of a quota system more or less copied from the present system to the deployment of a 100% tariff-based system. In all cases, failing rapid agreement between the EU and the Latin American plaintiffs, who are themselves relatively divided on this issue, the banana issue could be included in the upcoming global negotiations in Hong Kong.■

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1 - Banana production and international trade: the basics

Dessert bananas: a trade issue that weighs EUR 4 thousand million and 14 million tonnes

The world dessert banana trade is estimated to concern 14 million tonnes of fruit and export sales of more than EUR 4 thousand million. Exports have been multiplied by 3.5 in the past 40 years. Banana leads the trio of the most commonly eaten fruits (the others being apples and citrus) in both Europe and the United States. Annual market growth was 7% from 1985 to 1995 but has slowed in recent years.

The dessert bananas eaten as fruits that are the subject of this article form 56% of world banana production (100 million tonnes). The remaining 44% is made up of plantain (18%) and cooking bananas (26%) that are mainly for on-farm consumption.

Latin American countries are the main suppliers of the world dessert banana market (80% of world exports). Community production accounts for 6% and Africa 3%.

The international banana trade (14 million tonnes) is based on a single varietal group, Cavendish, that accounts for 97% of the international market. Cavendish bananas form 45% of world production, beside other dessert or cooking bananas. Players in the sector have invested heavily and their organisation is centred on Cavendish alone.

The efforts made in research and development have been focused on production methods, packing, transport, ripening and marketing of Cavendish bananas. The single varietal base and standardisation enable international operators to direct their shipments to various import markets instantaneously.

The high degree of internationalisation is another feature of the banana sector. The ratio of banana exports to world production is some 15% and is even over 32% when the Cavendish group alone is taken into account. In comparison, the degree of internationalisation of wheat is some 22%, that of cereals as a whole is 13% and the figure for rice is only 5% *(Table 1)*.

Three main producer groups: the European Union, the ACP countries and the Latin American countries

This internationalisation is accompanied by very marked specialisation in producer countries.

Table 1 — World banana production and trade

Metric tonnes	Production			Exports			
	Other bananas	Cavendish	Total	Cavendish	Plantain	Total	% of production
North and South America	10 743 130	10 729 470	21 472 600	6 774 982	207 196	6 982 178	33%
Central America	1 207 000	5 860 162	7 067 162	3 903 124	109 202	4 012 326	57%
West Indies	1 658 272	1 310 097	2 968 369	549 667	17 801	567 468	19%
West and Central Africa	9 239 853	1 970 757	11 210 610	559 451	463	559 914	5%
East Africa	16 018 367	2 023 593	18 041 960	15 089	13	15 102	0%
North Africa Middle East	4 095	1 471 568	1 475 663	189 259	0	189 259	13%
Asia	16 201 145	20 728 071	36 929 216	1 826 981	9	1 826 990	5%
Oceania	774 680	269 705	1 044 385	1282	0	1282	0%
Europe	11	440 191	440 202	393 878	73868	467 746	106%
World total	**55 846 553**	**44 803 614**	**100 650 167**	**14 213 713**	**408 552**	**14 622 265**	**15%**

Source: T. Lescot, FruiTrop, 2004. / Note 1: the plantain export figures include re-exports, explaining the figure in excess of 100%. Note 2: community production marketed in the EU is counted as exports in this table.

Although banana is grown in a very large number of countries (nearly 150), fewer than a dozen make a substantial contribution to the international market. Of the 10 world level exporters (FAO, 2005), seven are in Latin America, two are in Africa and one in Asia. They total 95% of world supplies, that is to say more than 12 million tonnes. This panorama should be completed by the some 750,000 tonnes grown in the extremely remote regions of the European Union (the Caribbean, the Canary Islands and Madeira). The annual exports of the world's leading producer country, Ecuador, are the equivalent of consumption in the European Union (4.5 million tonnes) *(Table 2)*.

The European Union, the United States, Japan and Russia are the four markets that import 78% of world dessert banana supplies (not counting on-farm consumption). They are followed by Canada and China that each account for 400,000 tonnes. The European continent takes nearly half of the world volumes, North America imports about a third and the Near and Far East handle nearly 15%. The southern cone of Latin America accounts for a small part of the region's production potential *(Table 3, page 5)*.

World trade flows result from the geographic positions and political history of the importing countries (Odeadom, 2005). The United States (3.9 million tonnes) is supplied solely by countries in Central and South America. Most of Japan's imports (1 million tonnes) are from the Philippines (the historical supplier) and Ecuador. The rest is from Asia (Taiwan and China) and America (Colombia, Peru, Mexico). The Russian Federation belongs to the select group of countries that import more than a million tonnes. Like the United States, its supplies come solely from Latin American producer countries *(Table 4, page 5)*.

The structure of supplies shipped to the EU, the world's largest import market with 4.6 million tonnes, is more complex. The variety of origins has been inherited from the supply procedures set up by each member of the Union before 1993 (when the common market organisation of banana (CMOB) came into force). In 2004, bananas were shipped to EU-25 from three types of origin: community (16%), ACP (17%) and Latin American or 'dollar' (67%). This market is examined in detail below.

Table 2 — Dessert banana — World exports of producer countries

Thousands of tonnes	1998-2003 average	1998	1999	2000	2001	2002	2003	2004*
World, including:	**12 045**	**11 671**	**11 682**	**11 800**	**11 189**	**12 472**	**13 455**	**13 712**
– Ecuador	3 905	3 848	3 935	3 852	3 526	3 975	4 293	4 444
– Costa Rica	1 944	2 101	2 113	1 883	1 739	1 772	2 057	2 004
– Colombia	1 481	1 408	1 696	1 563	1 343	1 458	1 420	1 468
– Philippines	1 658	1 150	1 320	1 599	1 601	1 955	2 320	2 383
– Guatemala	835	794	623	801	874	980	936	984
– Honduras	369	502	109	285	432	441	444	544
– Panama	465	463	593	538	321	416	458	493
– Cameroon (a)	227	132	165	238	254	259	314	262
– Côte d'Ivoire	220	193	219	217	224	226	243	229
– Brazil	131	69	81	72	105	241	221	150

Sources: FAO, trade sources, customs and misc. ** provisional figures* *(a) exports to EU-25 alone in 2004*

Table 3 — Dessert banana — World imports

Thousands of tonnes	1998-2003 average	1998	1999	2000	2001	2002	2003	2004*
World, including:	**11 731**	**11 117**	**11 951**	**12 248**	**11 505**	**11 481**	**12 086**	**12 466**
– United States (a)	3 977	3 913	4 291	4 031	3 841	3 907	3 879	3 881
– EU-12, 15 and then EU-25 (b)	3 229	3 042	3 198	3 285	3 203	3 281	3 367	3 863
– Japan	974	865	983	1 079	991	936	987	1026
– Ex-USSR	716	608	518	673	741	792	965	973
– Canada	413	416	419	398	405	417	424	442
– China	458	539	432	594	414	348	421	381
– Poland (c)	276	277	348	285	262	232	252	nc
– Argentina	287	243	294	340	330	230	286	nc
– Republic of Korea	181	143	155	184	195	187	220	nc
– Saudi Arabia	161	168	130	188	181	177	123	nc

*Note: banana export volumes exceed import volumes as a result of losses that are usually 3% to 8% and transit that was not recorded in particular in the mid 1990s. / *: provisional data / n.a.: not available.*
Source: FAO Bananas commodity. / Note: International banana markets in 2004. / (a) USDA / (b) Eurostat (not counting supplies to the community zone and re-exports). / (c) volume included in EU-25 from 2004.

Table 4 — Dessert banana — Origin of United States imports

Metric tonnes	2000	2001	2002	2003	2004	2004/2003 variation (%)
TOTAL	**4 030 618**	**3 840 624**	**3 906 920**	**3 879 151**	**3 881 468**	**0%**
Guatemala	688 448	832 106	925 216	934 136	1 024 074	10%
Ecuador	975 960	946 584	1 021 830	972 475	919 484	-5%
Costa Rica	1 361 405	1 082 088	901 485	976 078	868 125	-11%
Honduras	275 603	381 540	449 171	432 145	509 861	18%
Colombia	602 836	473 784	506 441	469 306	464 592	-1%
Nicaragua	1 906	28 198	29 702	41 620	41 502	0%
Mexico	85 123	63 809	42 339	35 197	33 586	-5%
Peru	302	5 656	23 196	13 756	12 384	-10%
Dominican Republic	6 437	7 355	3 573	2 136	5 201	144%
Venezuela	3 852	3 283	3 684	1 930	2 008	4%
Panama	28 707	16 187	259	215	612	185%
Philippines	21	7	3	64	39	-39%
Jamaica	0	5	0	94	0	-100%
Windward Islands	0	0	18	0	0	-
Thaïland	0	4	5	0	0	-
Egypt	0	19	0	0	0	-
Brazil	0	0	0	0	0	-
Canada	0	0	0	0	0	-
Hong Kong	0	0	0	0	0	-
Kyrgyz Republic	19	0	0	0	0	-

Source: US Trade Statistics.

The European Union — the world's leading import market

Net supplies for EU-25 in 2004 totalled 4,602,424 tonnes, consisting of 750,910 tonnes from community production zones, 785,182 tonnes from ACP countries and 3,077,361 tonnes from other third countries. The EU is the leading banana consumption zone, ahead of the United States (3.9 million tonnes). One of the consequences of the 2004 enlargement (10 new members) is the increase in imports from third countries other than ACP states (67%) and in particular from Ecuador.

Some markets remain attached to a supply structure that has changed little since the CMOB came into force. Spain thus made intense marketing efforts and succeeded in persuading Spanish consumers to continue to prefer to purchase bananas from the Canary Islands. In France, bananas from the West Indies (Guadeloupe and Martinique) and from Africa (Cameroon and Côte d'Ivoire) share most of demand. The countries that have long been open to competition, and especially the countries in northern Europe, continue to use 'dollar' banana import sectors. The United Kingdom is one of the richest countries in terms of origins importing fruits from the West Indies, Africa, the EU (especially the French West Indies) and dollar origins.

It should be noted that the EU market has succeeded in achieving a spectacular increase in annual consumption. This increased from 9 kg per capita in the early 1990s to 12.5 kg in 2001. Consumption in France during this period remained stable at approximately 8.5 kg per person per year. Average consumption in EU-25 is some 10.1 kg per person per year.

Industrial concentration of operators

The strong varietal and geographic specialisation is accompanied by the concentra-

Table 5 — Review of European Union banana supplies

Metric tonnes	EU	ACP	Third Countries ($)	Sub-total	Exports	Net supplies
1988	719 270	514 061	1 644 100	2 877 431	17 265	**2 860 166**
1989	698 925	544 441	1 716 175	2 959 541	13 415	**2 946 126**
1990	710 635	621 875	2 024 248	3 356 758	36 219	**3 320 539**
1991	695 402	596 416	2 286 019	3 577 837	53 468	**3 524 369**
1992	711 191	680 191	2 365 883	3 757 265	39 689	**3 717 576**
1993	646 242	748 120	2 219 721	3 614 083	36 138	**3 577 945**
1994	584 622	726 927	2 102 303	3 413 852	58 044	**3 355 808**
1995	658 206	763 966	2 405 180	3 827 352	43 082	**3 784 270**
1996	684 605	800 074	2 471 263	3 955 942	30 598	**3 925 344**
1997	810 537	693 054	2 464 412	3 968 003	16 571	**3 951 432**
1998	786 232	615 596	2 426 419	3 828 247	26 448	**3 801 799**
1999	729 303	675 993	2 522 455	3 927 751	27 359	**3 900 392**
2000	782 176	756 808	2 528 170	4 067 154	35 327	**4 031 827**
2001	767 268	728 776	2 474 665	3 970 709	34 284	**3 936 425**
2002	790 622	726 452	2 554 508	4 071 582	8 011	**4 063 571**
2003	754 216	786 798	2 578 827	4 119 841	6 020	**4 113 821**
2004	**750 910**	**785 182**	**3 077 361**	**4 613 453**	**11 029**	**4 602 424**
	(1)				**(2)**	

(1) Source : 1988 to 1993: Eurostat + EU data for Madeira and Greece. From 1994: compensatory aid data.
(2) From 2004, exports outside EU-25.
Notes: (a) Before 1994, dessert banana + plantain; from 1994, dessert banana only.
(b) Before 1995, EU-12; from 1995, EU-15 and then EU-25 from 2004.

tion of market power in the hands of a few large national or transnational corporations—Chiquita, Dole, Del Monte, Fyffes and Noboa. However, the number of companies of international scale has increased and containerisation (small shipping units) has enabled small companies to operate on the international market.

Transnational operators are present throughout the chain, in production, sea transport, imports, ripening and distribution to European purchase centres. However, the degree of involvement in producer countries varies considerably. FAO reported that in 2001 the three leading operators (Chiquita, Dole and Del Monte) accounted for 50% of production in Costa Rica, 40% in Colombia and as much as 80 to 100% in Guatemala, Honduras and Panama. Several national players in Ecuador, the leading exporting country, have reached world status, and especially Noboa.

Table 6 — European Union 2004 — Dessert banana imports — in tonnes

	Origin	Total EU-15	Total NMS	Total EU-25
Within-community trade	**Total EU-15 including:**	**1 538 694**	**128 160**	**1 666 854**
	Belgium	633 171	47 647	680 818
	Germany	312 326	55 575	367 901
	France	207 447	9 132	216 579
	Netherlands	154 524	6 990	161 514
	Italy	85 170	4 790	89 960
	Sweden	43 032	239	43 271
	Portugal	30 038	0	30 038
	Spain	15 567	625	16 192
	Denmark	15 726	0	15 726
	UK	15 250	114	15 364
	Ireland	10 319	0	10 319
	Finland	9 769	0	9 769
	Austria	5 980	1 877	7 857
	Greece	240	1 140	1 380
	Luxembourg	136	0	136
	Within-EU no detail	0	32	32
	Total NMS	**15 668**	**47 308**	**62 976**
	Poland	8 494	9 504	17 998
	Czech Republic	1 340	16 199	17 539
	Lithuania	0	15 198	15 198
	Slovenia	4 902	825	5 727
	Latvia	0	2 958	2 958
	Slovakia	37	2 307	2 344
	Hungary	420	318	738
	Estonia	470	0	470
	Cyprus	6	0	6
	Malta	0	0	0
Imports for third countries	**Total Extra-EU including:**	**3 403 393**	**459 150**	**3 862 543**
	Ecuador	797 045	195 457	992 502
	Costa Rica	745 756	94 257	840 013
	Colombia	667 678	95 235	762 913
	Panama	319 372	48 392	367 764
	Cameroon	259 946	2 107	262 053
	Côte d'Ivoire	202 478	8 372	210 850
	Dominican Rep.	101 337	0	101 337
	Belize	80 292	0	80 292
	Brazil	49 576	3 114	52 690
	St Lucia	42 872	0	42 872
	Jamaica	28 660	0	28 660
	St Vincent	23 962	0	23 962
	Venezuela	22 604	0	22 604
	Suriname	14 889	4 373	19 262
	Honduras	17 798	609	18 407
	Dominica	12 167	0	12 167
	Peru	9 243	566	9 809
	Mexico	973	5 917	6 890
	Guatemala	2 153	0	2 153
	Bahamas	1 629	0	1 629
	Ghana	1 601	20	1 621

NMS: New Member States
Source: Eurostat / Cirad

Table 7 — Concentration of national production of bananas for export by the transnationals in 2001

Country	% of production held by the three main transnational banana corporations
Costa Rica	50
Guatemala	80-100
Honduras	80
Panama	73
Nicaragua	0
Ecuador	1
Colombia	40
Source: FAO, 2004	

It has become more strategic over the years for the transnational corporations to control the downstream end of the sector, especially as world supplies display continuous excess. These firms have developed import capacity (port infrastructure) and large networks of ripening facilities. In contrast, there are only rare examples (the Intermarché group in France) of the integration of the upstream part of the sector by large retail chains. European regulations even exclude them from the import certificate distribution system *(Table 7)*.

Three types of organisation coexist in the producer country banana sector (Fabre, 1997). However, monopolistic structures are becoming increasingly rare. It is a form of organisation in which the state controls the production sector. It will remain the case for another few months in Suriname, where a privatisation process has been undertaken.

In an oligopolistic structure, a few large production units form most or even all the production and export capacity of countries. This type of organisation is found in Cameroon, Côte d'Ivoire and Belize.

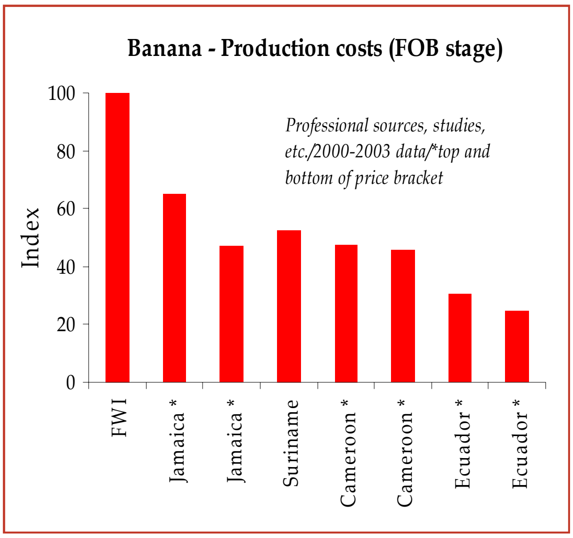
The third form of organisation is a fragmented structure formed by hundreds or possibly thousands of small producers. There are two types:

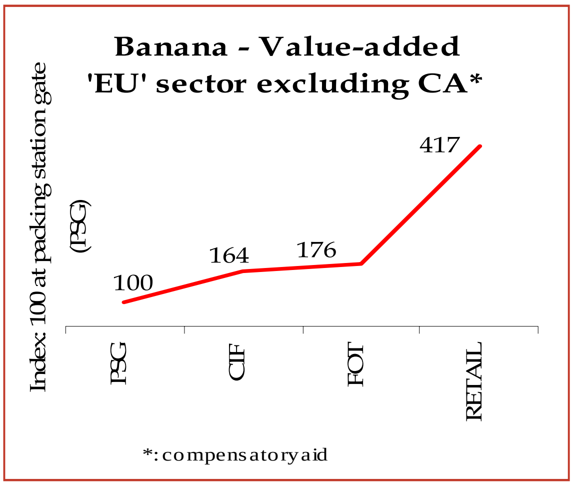
- producers work with a single partner for all packing and export operations, etc. (in the Windward Islands and Jamaica);
- or large and small producers operate in a competitive environment. This is the most common situation and is seen in Ecuador, Costa Rica and Colombia.

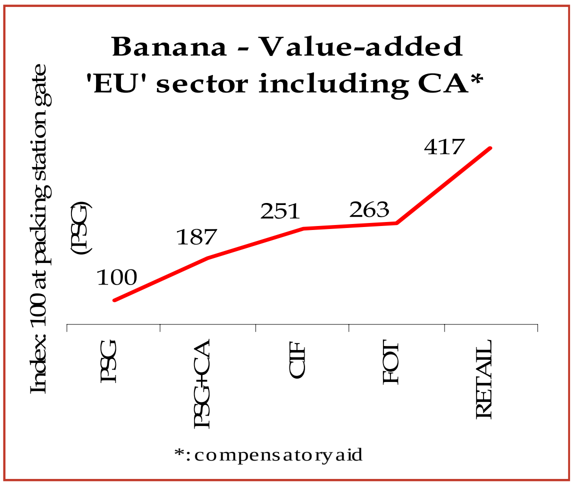
Export structures differ according to the type of organisation of production. The number of operators involved in export operations varies from a single unit (Suriname) to tens of firms (Ecuador) although in many cases only a few companies handle most of the export flow.

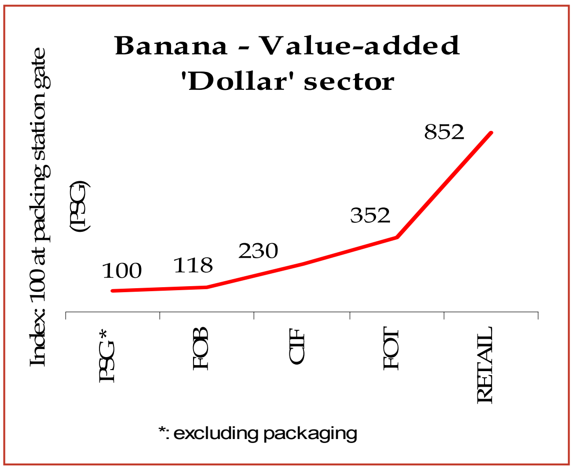
Market regulation enables better distribution of value-added to producers

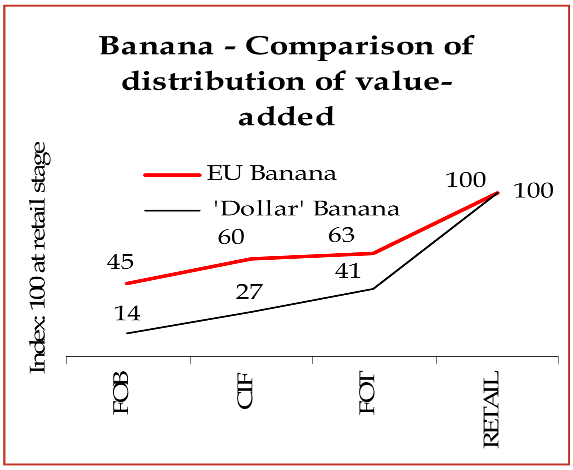
The degree of competitiveness of the different origins is fundamental for understanding the functioning and issues of the banana market. However, measuring competitiveness is delicate because of the degree of heterogeneity of production systems, origins, organisations and operators. Drawing up a classification of origins by degree of competitiveness means over-simplifying this very strong diversity. Furthermore, the subject is so important that every pressure group highlights one figure or study or another to strengthen its position. Finally, the current discussions of the reform of the CMOB make the subject a strategic one for all types of origin as the conditions of access to the European market are very strongly linked with their comparative degree of competitiveness. For example, conditions of access differ considerably for the three types of origin—community, ACP and Latin American. Similarly, differences may be very marked within an origin group. Indeed, competitiveness











levels vary considerably between African and West Indian ACP countries and between Ecuador and Costa Rica among the dollar origins.

Overall, production costs differ from 1 to 5 between Ecuador and the French overseas departments (Martinique and Guadeloupe) and from 1 to 2 between the ACP producer countries and the overseas departments *(see graph, page 8)*.

The reasons for these very considerable differences result not only from labour costs (with a factor of 1 to 10 between Ecuador and Martinique) but also from production conditions. How can one compare the highland banana plantations of a few hectares in Guadeloupe with plantations covering hundreds or even thousands of hectares in Central America and Africa? How can one compare family farms in St Lucia, Dominica or Ecuador and the large industrial plantations in Ecuador and Costa Rica? Finally, how can one compare production structures in fragile island environments (French overseas departments and West Indian ACP countries) and pioneer production zones in Brazil?

The distribution of value-added varies according to the origin. For Ecuador, with an index of 100 for fruits leaving the packing station, excluding boxes, the fruits are at 850 on retailers' shelves in Europe. The difference covers the intermediate costs involved in putting the fruit on the market: packing, logistics (sea freight in particular), ripening and, finally, distribution. However, analyses seem to show that the net margin for each operator is proportionally greater in the downstream part of the chain than at production stage *(see graphs above)*.

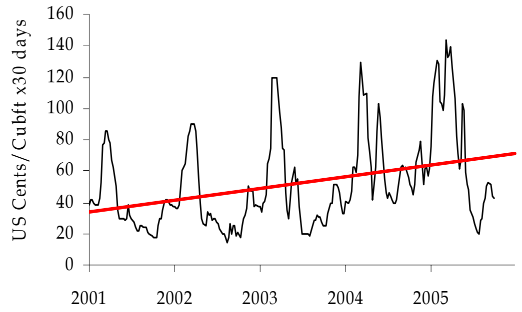
The difference between the price of fruits leaving the packing station, box included, and the retail price is 1 to 4 for European production chains. If it is considered (the usual case) that the retail price of bananas in Europe is identical whatever the origin, this contrast in the differences is explained by better payment upstream for the European origins. In fact, this greater share of value-added covers the much higher production costs (labour, soil and climate factors, island environments, etc.).

This better payment would not be viable in a totally competitive market system. This is why European aid (compensatory aid for loss of income) was set up to make community bananas as attractive as dollar bananas. Thanks to this, European producers can claim that their cost prices at the import stage (free on truck, FOT) are similar to those of their African and Latin American competitors.

Sea freight: a strategic issue

The share of sea freight in banana production prices amounts to about 30% of the price at import stage in Europe. Any change in this aspect—whether in capacity or unit price—has an immediate impact on the world sector. World refrigerated transport (reefer) capacity has decreased in recent years. In 10 years, this has fallen from more than 400 million cbft to less than 350 million cbft.

Freight prices
Large reefers (450 000 cubft)



Source: Reefer Trends Updated to September

World demand for reefer transport increased strongly during the same period to some 55 million tonnes per year. This situation has resulted in an increase in freight costs. The recent increase in bunkerage (as a result of higher oil prices) means that this price rise is even more marked. Prices for the 2003 season were the highest for seven years. Sector professionals expect reefer transport requirements to increase by 25% by 2010. The imbalance will not be corrected for several years as only a very limited number of ships are being built *(see graph above)*. ■

2 – The role played by banana in economies

Of vital importance for ACP states...

There are not many impact studies on banana production. They were conducted by international donors that verify the good use of the funds awarded and by governments or private interest groups that wish to defend the point of view of their sector in current debates on the liberalisation of the European market.

In a written communication to the WTO arbitrators in May 2005 (ACP, 2005), all the ACP countries concerned stressed that 'The banana industry is **vital** for the ACP banana-producing countries, irrespective of their size, location and level of production. Bananas are a major share of their agricultural exports. The regular weekly exports to the EU have led to regular sea freight services, which in turn have favoured imports of the goods necessary to their development and the daily life of their inhabitants. This sector of activity has contributed to the creation of hundreds of thousands of direct and indirect jobs, in small as well as in medium farms. In these countries, where the level of development is still low, the banana sector plays a major role in the fight against poverty, through services in the field[s] of health, education and housing'.

In a study published in September 2004 (Horus, 2004), producers in Cameroon and Côte d'Ivoire provide details on the impact of the banana sector on their economies. Banana exports from Cameroon formed 12.5% and 16.1% of the tonnage exported, excluding oil, and 4.7% and 6.1% by value in 2002 and the first half of 2003. At the end of the 1990s, a total of 9,400 workers were employed by the sector, with over 55% holding permanent jobs; it was estimated that 36,000 jobs were created indirectly by the sector. If it is considered that one worker supports five persons, more than 200,000 people are supported by banana in Cameroon. The figures are similar in Côte d'Ivoire, and the closely related pineapple industry that also employs several thousand workers, should be added. Thus more than 550 000 people in Africa (Cameroon and Côte d'Ivoire) live directly or indirectly from banana or pineapple.

Dependence in relative value seems to be even stronger for the ACP states in the Caribbean (NERA, 2003) and especially in the Windward Islands where banana exports form as much as 40% of total exports of goods from St Vincent. The sector employs as much as 11% of the working population in St Lucia.

The decrease in banana exports from the Caribbean ACP countries to the EU (Jamaica and the Windward Islands) has had a very strong impact on their economies *(see Table 8)*. As an example (AGRITRADE, 2004), comparison of average banana exports during the four years preceding the application of the first European banana import regime (1989-1992) and the average for 1999-2002 reveals a loss of EUR 55 million for the Windwards (50% of the 1989-1992 figure) and of EUR 4.2 million for

Table 8 — Indicators of dependence on banana exports

	Banana exports as a % of total exports of goods 1999-2002	Banana exports as a % of total exports of goods and services 1999-2002	Banana exports as a % of GDP 1999-2002	Banana workers as a % of the working population 2001
Belize	14.7	7.4	3.2	2.3
Jamaica	1.9	0.7	0.3	0.1
Suriname	3.4	2.9	2.1	0.8
Windwards	29.6	6.2	3.2	8.0
Dominica	23.0	8.3	4.4	9.9
Grenada	0.8	0.1	0.1	0.6
St Lucia	39.5	6.3	3.6	10.8
St Vincent	39.3	10.1	5.0	8.4

Source: NERA

Jamaica (15% of the 1989-1992 figure). This has had a significant effect on employment as the number of banana growers fell from 24 000 in 1993 to slightly more than 7,000 in 2001. Production decreased from 242,000 to 85,000 tonnes during the same period. The marked shrinking of the number of growers combined with the fall in volumes, increased production costs and high transport costs endangered the viability of the sector. Increased competition on the world market and uncertainty with regard to preferential access to the EU contributed to keeping prices low, obliging numerous growers to abandon banana.

... community growers...

A Green Paper (Vitalien, 2004) reviewed the importance of the sector for the French overseas departments (Guadeloupe and Martinique). The study shows that banana is the only production activity with a vital economic function in these island economies and that there is no possible substitute. In Guadeloupe, banana is the leading 'export' product in both volume and value. It represents 25% of the wealth generated in the primary sector. Banana is grown on 10% of the agricultural land. It feeds two port installations. The area under banana in Guadeloupe decreased strongly from 7,000 ha in 1989 to some 4,800 ha in 2003. In Martinique, bananas are grown on 30% of the agricultural land. The fruit forms 42% by value of total goods shipped and 33% by volume (2002). The sector provides jobs for 86% of the agricultural working population.

The West Indian banana sector features considerable remoteness from its main market and a difficult climate with hurricane risks and irregular rainfall. Indeed, weather problems are recurrent: 1994 (drought and hurricane Debby), 1995 (hurricanes ILM), 1996 (Hortense tropical storm), 1998 (drought and hurricane Georges), 2001 (drought), etc. The sector also has to face an unfavourable trend in labour costs with the alignment of the minimum wage with that in metropolitan France since 1 January 1996. Labour costs are reported to have increased by more than 15% from 2002 to 2005.

... and the Latin American origins

The export banana sector has a preponderant position in many other countries in Latin America and the Caribbean. Banana is the second most important export product in Ecuador after oil and the third largest in Costa Rica after electronic circuits and textiles. FAO estimated in 2004, that banana production and trade in Ecuador provided direct jobs for 380,000 people. It is estimated that more than 100,000 people are employed directly or indirectly by the sector in Costa Rica.

Many of the leading exporting countries have strong dependence on banana. The sector uses much comparatively unskilled labour all the year round. Furthermore, banana is one of the cash crops that generate sales on a weekly basis throughout the year. Weekly exports also attract and stabilise the shipping lines that can be used for the development of other export sectors (for example, pineapple, mango, etc. from Côte d'Ivoire and Costa Rica). ■

3 – Common organisation of the European banana markets

Before the single market, national policies favoured community production and imports from ACP countries

The single European market was established in 1993. Until then, the only common rule was that of subjecting imports from third countries (except for those from ACP states) to a 20% customs tariff. Some European nations had organised their banana markets in the light of their own production capacity (Spain, France, Portugal and Greece) and their historical relations with partners in the South (France and Italy with Africa, the United Kingdom with the West Indies, etc.).

At that time France shared its market between its own production in Guadeloupe and Martinique), covering two-thirds of demand, and three ACP countries (Cameroon, Côte d'Ivoire and Madagascar) for the remaining third. Should one of the sources of supply be unable to ship fruits, the banana economic interest group (GIEB) purchased bananas on the world market.

Spain banned all foreign bananas from its territory. Production in the Canary Islands was sufficient to cover consumption. The United Kingdom, Portugal and Italy used a combination of systems, awarding privileged access to their own production or to ACP production and completing supplies by purchases on the international market.

Other countries with no links with production zones, such as Germany, the Netherlands, Belgium and Denmark, purchased Latin American bananas and charged customs dues. The transnational corporations set up their logistic facilities and trading positions in these countries. Among them, Germany is a special case. Considering that supplies at low prices for consumers was strategic, in the 1960s it negotiated and obtained a waiver to the community rule and was able to import an annual quantity of bananas on a tax-free basis. The quantity was increased automatically to follow the growth of consumption.

Banana supplies were switched from national management to common management by the 12 member-states on 1 January 1993.

Common market organisation of banana: a constantly changing measure

1—1993-1998: CMOB versions I and II

● **The basic principles in 1993**

Common market organisation of banana (CMOB) came into force on 1 July 1993, six months after the setting up of the single banana market. The system was intended to maintain the balances between the types of origin, not to upset national distribution channels and to respect the EU's international undertakings with regard to GATT members and the ACP countries. It was also to ensure a fair retail price for European consumers. Finally, the markets were to be decompartmentalised.

The basic principles of this banana regime are:

- free access to the European market for community bananas;
- a tax-free quota for 12 banana exporting ACP countries;
- a tariff quota for bananas from the Latin American zone.

(see figure page 14).

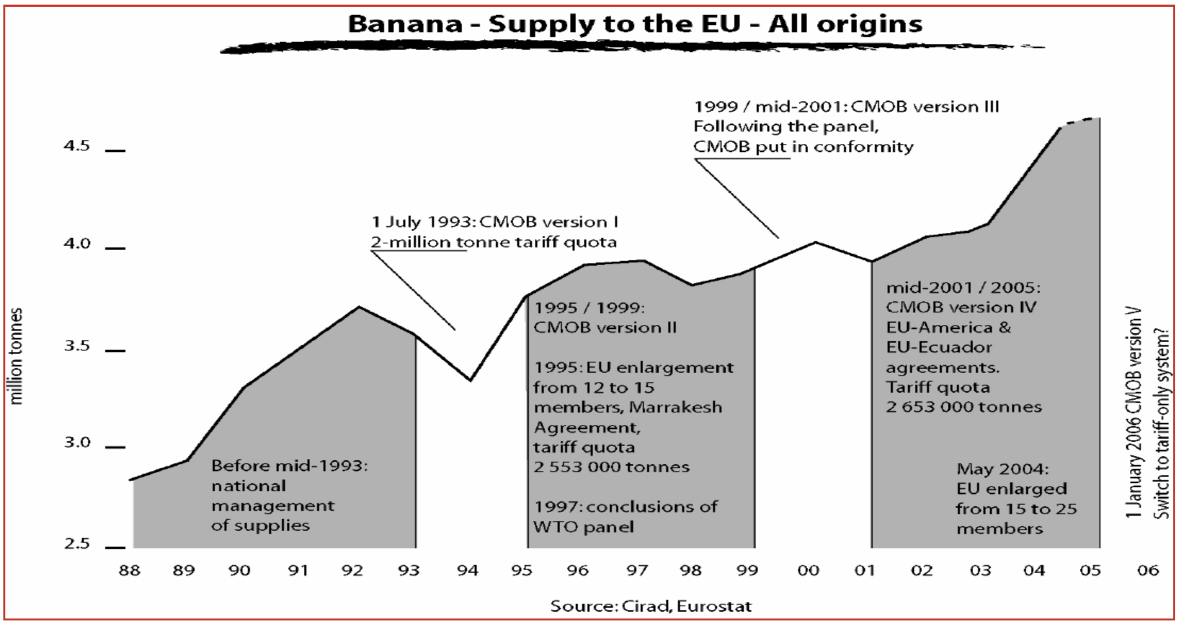
The now famous regulation 404/93 forms the basis of this CMO. The document and its implementing regulations was changed many times over the years—in 1995, 1999, 2001 and 2002 *(see Annex, page 26)*.

The CMOB is based on two main features—import quotas and support for European producers' incomes. These are the external and internal parts of the regime.

The external part of the CMOB, representing relations with third countries, is based on two measures. These are the quotas by type of origin (ACP or non-ACP) and the system for the awarding of the quotas by the distribution of import certificates.

● **Management by type of origin**

The European Commission set an individual import quota for 12 ACP suppliers considered as traditional exporters to the EU. These country quotas totalled 857,700 tonnes. ACP import certificates were then issued on presentation of a certificate of origin. In addition to



the quota for 'traditional' ACP countries, the ACP countries as a whole (both the 12 traditional suppliers and the others) could market their fruits within the limit of the third country tariff quota. ACP shipments entering Europe were not subjected to customs dues.

An import certificate was required for bananas from non-ACP third countries and they were limited to a 2 million tonnes tariff quota, very quickly increased to 2.1 and then 2.2 million tonnes (1994). The quota was then applied to all third countries without any notion of origin. Non-ACP countries paid customs duties of ECU 100 per tonne. Quantities over and above the quota were subjected to an additional tax of between ECU 750 and 850 per tonne according to the type of origin (ACP or other third countries). This measure provided effective control of European supplies.

Community production had unlimited access to its own market. It also benefited from support measures, especially for producers' incomes to the limit of an annual volume of 854,000 tonnes.

●1995: the first reform following enlargement of the EU and the Marrakesh agreement

The balance between suppliers changed in 1995 following the enlargement of the EU from 12 to 15 members and the Marrakesh agreement (completing the Uruguay Round multilateral negotiations). Enlargement first led to the creation of an autonomous quota of 353,000 tonnes managed in the same way as the consolidated quota of 2,200,000 tonnes. A volume of 90,000 tonnes was reserved in the tariff quotas for the three traditional ACP suppliers (30,000 tonnes for Cameroon, Côte d'Ivoire and Belize), for the Dominican Republic that had become an ACP country (55,000 tonnes) and the other ACP countries (5,000 tonnes).

This was the first disappointment for the ACP states and, conversely, the first victory for a few signatories of the agreement—Costa Rica, Colombia, Venezuela and Nicaragua—whose market shares were protected by the allocation of a fixed proportion of the tariff quota. They also gained the right to manage their own quotas by issuing export certificates and 'renting' unused quantities to other dollar banana suppliers. Finally, customs dues were reduced by a quarter from ECU 100 per tonne to EUR 75 per tonne. In return for this improvement of market access conditions, the signatory origins undertook not to attack the European banana regime.

This first reform that came into force on 1 April 1995 was not favourable for the ACP countries and especially those that had strong ambitions—Cameroon and Côte d'Ivoire. Indeed, they had failed to obtain the globalisation of the ACP quota that would have enabled them to use the quantities of ACP bananas not used by the West Indies, Somalia, Cape Verde and Madagascar.

This second version of the CMOB lasted for a little longer than the first, remaining in application from 1 April 1995 to the end of 1998.

•The twinning of imports and import certificates

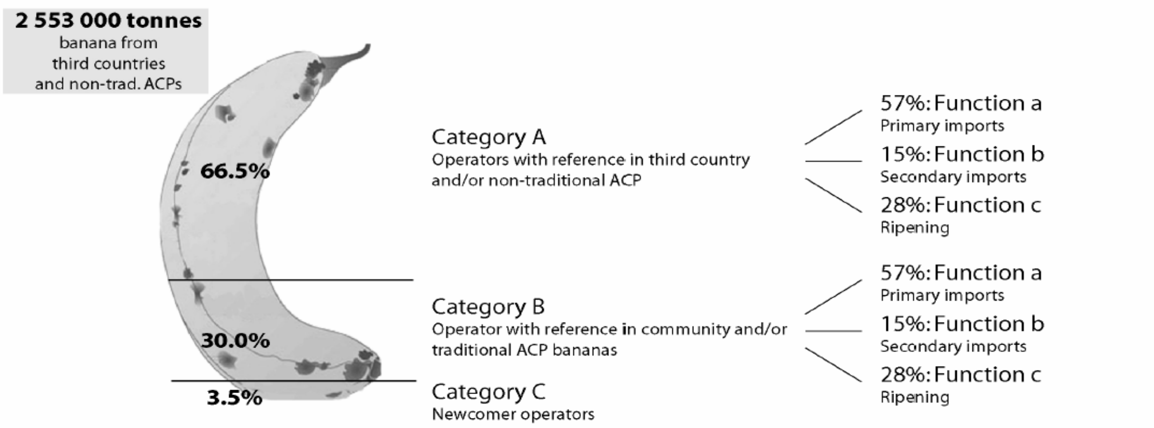
The system of awarding quotas by means of the distribution of import certificates is one of the keys of the European system. In 1993, the aim of the founders of the CMOB was to conserve and enhance the interest of European trade operators in community and ACP origins. Indeed, prices were tending to become uniform throughout Europe and as the fruits have no distinctive features it was in the interest of operators to obtain supplies from the sectors in which production costs were lowest. Furthermore, national regulations had obliged many importers to work with origins such as Martinique, Guadeloupe, the Canary Islands or the ACP countries (in Africa and the Caribbean).

In order to give a chance to both the most fragile sectors and operators, the EU set up an origin twinning system. It was based on the issuing of certificates for the importing of bananas from third countries. The principle was that part of the third country tariff quota was awarded to the trade operators that had imported community or ACP bananas on the basis of historical references. This method of organising part of European banana imports (30% of the 2,553,000 tonnes quota for 1995, that is to say 765,900 tonnes) made it possible to twin the trading destiny of a group of origins that were little or not competitive and a group of very competitive and hence much sought-after origins. This measure was to ensure the flow of community, ACP and dollar production under economic conditions that were acceptable to everybody. In real terms, the issuing of import certificates was based on a definition of the trade operator able to import bananas *(see figure below)*. The effect of the stabilisation of the origins that had historically supplied the European market was accompanied by a regulating effect on European trade structures. Whatever their past record, they thus had the same advantages in the setting up of the single market.

Transfers of import certificates between different types of operator were authorised to give the system scope for evolution. Operators could thus reconstitute their import flows with dollar bananas. Different methods were used: the purchase of or holdings in import companies or ripening companies in previously protected member states or direct investment in community or ACP zones. Mergers and purchases of companies and holdings were very numerous during the early years of the CMOB.

The other solution consisted of participat-

Distribution of tariff quota by operator category and function from mid-1993 to 1998



ing in the import certificate transfer market. A paper banana market thus developed. Certificates were 'rented out' to operators for importing Latin American bananas. Although it was controversial, the measure enabled the gradual evolution of economic structures. The effects observed were clearly those programmed rather than collateral. European policy was successful in this respect.

2—The 1999 reform: the end of twinning and the globalisation of the ACP quota

Attacked by the United States, which supported its corporations installed in Europe, and by the Latin American countries that had not signed the Marrakesh agreement, the CMOB was the subject of various complaints, including a complaint to the WTO (end of 1996). The European Commission was then convinced that international pressure would lead to reform of the system. It therefore examined the question and even proposed various changes in spring 1995. Ecuador considered that the Marrakesh compromise was contrary to its interests and joined WTO in early 1996 with the intention of making a complaint (requesting the establishment of a panel). At the beginning of 1997, the five countries (United States, Ecuador, Guatemala, Honduras and Mexico) won a battle against the EU and the ACP countries. The WTO found the European regime to be incompatible overall with the rules of international trade, especially in the aspects related to the quantities removed from the third country quota and allocated to ACP suppliers, the system for the awarding of import certificates, etc. The EU was therefore requested to render its import regime in conformity with the rules. However, whole parts of the CMOB were not criticised, such as the internal support for community producers, the principle of a quota applied to third countries, the amount of the tariff quota, the tariff preference awarded to the ACP countries and the distribution of the traditional ACP quota.

The verdict was confirmed at the end of September 1997. Version III of the regime came into force on 1 January 1999. Two third country quotas (consolidated and autonomous) were established for a total of 2,553,000 tonnes. Managed in the same way, they were distributed in priority between the origins with a substantial interest in banana trade with the EU, that is to say Ecuador, Costa Rica, Colombia and Panama. The four latter countries received nearly 91% of the quotas. Customs dues remained unchanged at EUR 0 per t for ACP countries and EUR 75 for the other third countries. The tariffs for non quota imports were reduced but remained prohibitive.

Furthermore, the ACP quota was globalised at last in accordance with the wishes of the African ACP producers. They were able to export their fruits to the EU by virtue of the quantities not used in particular by Somalia and the Caribbean ACP countries.

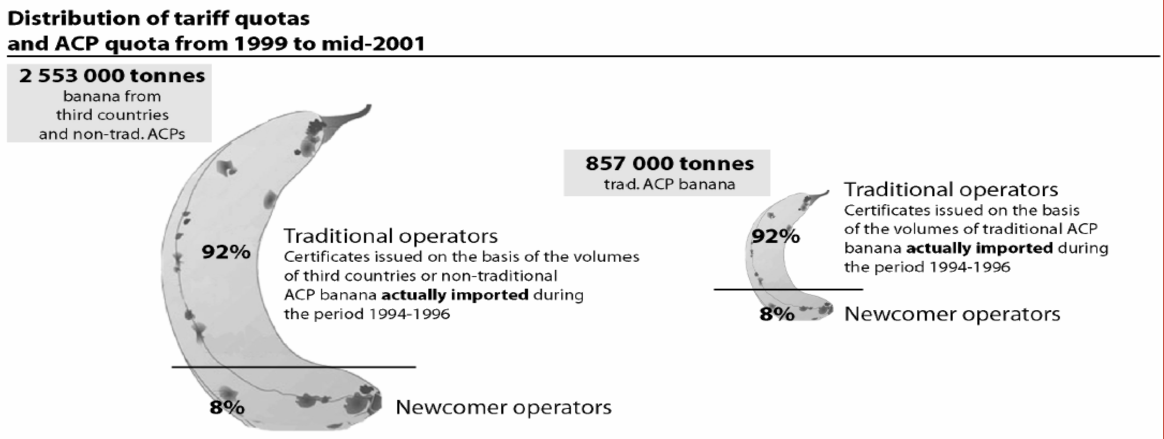
But the most sweeping reforms were those concerning the way in which third country import certificates were distributed. The system of twinning origins by establishing operator categories and functions was abandoned. Importers were now reclassified in two main categories: traditional and newcomer operators. Import certificates were issued on the basis of effective import movements (payment of customs dues) during the period 1994-1996 whatever the origin of the bananas (ACP or not). The holders of transferred certificates were thus excluded from the definition of operators *(see figure on page 17)*.

The trade operators in the two large banana producers of the European Union, (France and Spain) thus lost 21 and 41% respectively of their rights to import bananas from third countries (including ACP countries) when the regime changed.

However, this was not enough for the adversaries of the CMOB. The United States and Ecuador caused the EU to be condemned once again and even obtained the right to apply retaliatory measures for the sum of some USD 400 million. Discussions resumed between the opposing parties and a compromise was signed in April 2001.

3—2001: the Europe-America agreement and its repercussions

What will go down in history as the Europe-America agreement did not change the trend taken by the CMOB in 1999. It only intensified and accelerated the process that would lead to



its final dismantling. Indeed, the agreement planned a reform of the regime in two stages, on 1 July 2001 and then on 1 January 2002, and set the date of 1 January 2006.

This reform further reduces access to the third country quotas for certain operators—those who it was wished to support in 1993. The awarding of certificates is still performed on the basis of the real imports of bananas from ACPs and other third countries, but this time excluding B operators who had imported fruits during the period (1994-1996). This results immediately in the concentration of certificates in just a few hands—the transnationals, who were able to work with the dollar sectors before the CMOB. Some of them are thus taking the profits resulting from the very aggressive trade strategy that they had set up just before 1993, consisting of marketing very large quantities of bananas in Europe in order to create historical references *(see figure on page 18)*.

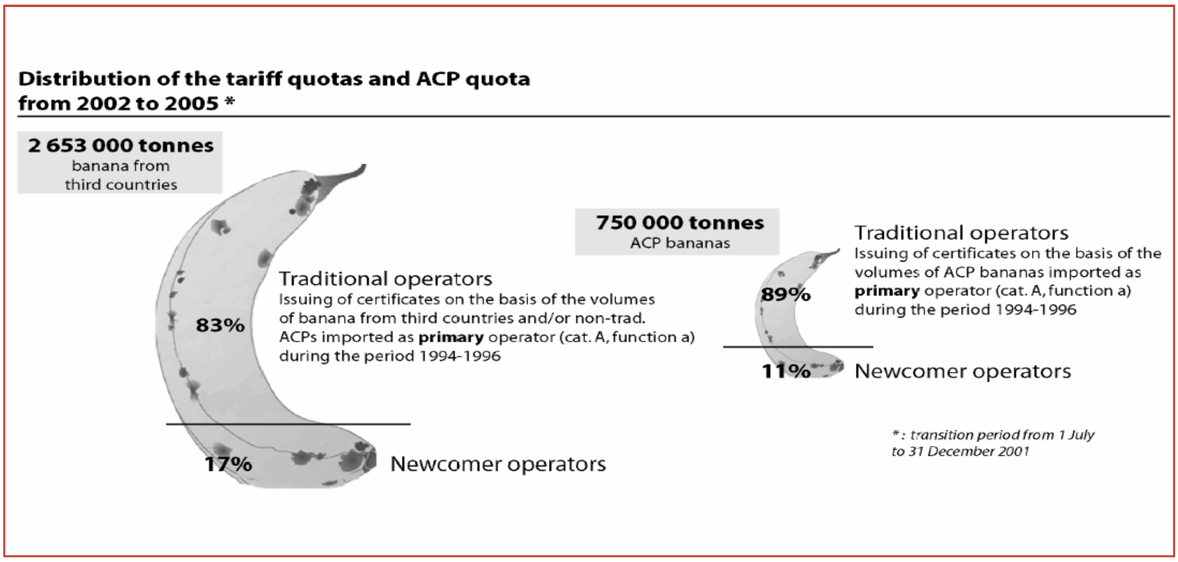
The opposite effect is observed for certain community operators who had benefited from the new rules set up by the CMOB to develop import channels with third countries.

The reform has had very strong repercussions for ACP origins as their quota is open to all ACPs and reduced by 100,000 tonnes to 750,000 tonnes. The Dominican Republic (101,000 tonnes in 2004) now exports fruits as part of this quota. The reduced size of the latter means that they have to export within the framework of the third country quotas where they compete directly with dollar bananas. The second effect of the reform also concerns access to ACP certificates. The ACP quota is managed according to the same rules as the third country quota. Imports from 1994 to 1996 thus govern import rights in 2002, 2003, 2004, etc. However, the market share of the various ACP origins changed between the two periods (nearly ten years). Exports from African ACPs to the EU increased *(see graph on page 18),* while those of Caribbean ACP states decreased. European operators specialising in Caribbean ACP sources thus possess an extremely large volume of import rights, considerably exceeding the production capacities of these zones. The knock-on effect means that the African ACP sectors are short of import certificates. All this leads to a market for the transfer of certificates between operators.

Beyond achieving the conformity of its regime, Europe shows that it wishes to have done with the thorny banana dossier. For this, it set a deadline for the final part of the dismantling of the CMOB with the switch to a tariff-only system by 1 January 2006.

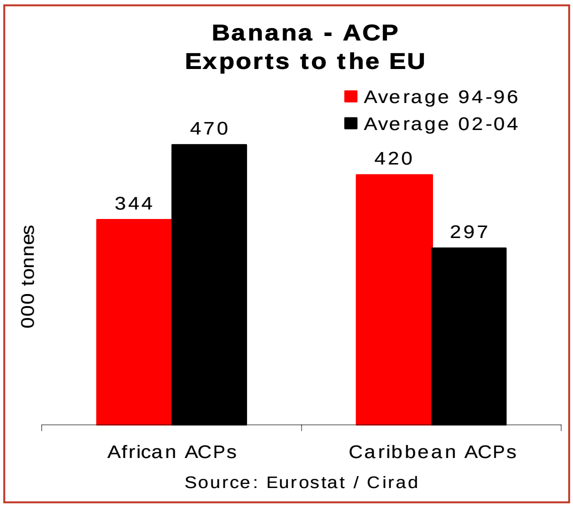
4—1 January 2006: from one regime to another

New Year's Day 2006 is an important date for the future of the CMOB. It was decided in the agreement of April 2001 and confirmed at the WTO meeting in Doha in November 2001



that what should be the final reform of the CMOB should come into force on 1 January 2006. Indeed, the European Union undertook to replace its quota system by a tariff-only system. The market would no longer be managed by the control of the volumes of bananas from third countries marketed but by the charging of a customs tariff on the importing of fruits to Europe. The thinking behind it is simple. The higher the tariff levied the smaller the volumes marketed.

The Doha agreement governs the negotiations. First, it set the way of determining the customs tariff that would replace the quota systems. The price gap method was chosen. The effect of the CMOB can be evaluated by the difference between the external price (the price on the international market) and the internal price (the price within the EU). The gap



therefore represents the customs tariff to be applied from 1 January 2006 and promises to have equivalent effects on access to the European market by the various origins. In addition, the agreement includes special measures for ACP suppliers. Indeed, the preferences awarded to the ACP countries in the Cotonou Agreement are exempted from the Most-Favoured Nation rule in the form of a waiver prolonged until 31 December 2007 by this agreement. The waiver involves an undertaking by the EU to switch to a tariff-only system on 1 January 2006.

In this context, the European Commission was instructed by the EU states to inform the WTO on 1 February 2005 of its decision to apply a customs tariff of EUR 230 per tonne from 1 January 2006. In April 2005, nine Latin American banana exporting countries (Brazil, Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Nicaragua, Panama and Venezuela) contested the EU's decision and requested WTO arbitration. On 1 August 2005, the three arbitrators rejected the European proposal and also required the EU to propose another tariff level and provide details about the way in which the ACP suppliers would be treated. On 12 September 2005, the European Commission proposed a tariff of EUR 187 per tonne combined with quota management of the quantities imported from ACP origins (775,000 tonnes tax-free). Confident in its new proposal, determined to wrap up the dossier and fearing efforts by the plaintiffs to slow the process in order to discuss the question in Hong Kong in December, the

European Commission contacted the WTO arbitrators. On 27 October 2005, the EU met with refusal for the second time running. WTO considered that the new measures were not such as to maintain at least total access to the European market by the Most-Favoured Nations.

However, this decision is not an end in itself. It just marks the end of a very long procedure that started in spring 2001 with the EU-US and EU-Ecuador agreements. A system will be set up in any case on 1 January 2006. Some want a tariff system with dues as low as possible and others would like the continuation of the present system (the status quo) with some changes. This is the case of the ACP countries—especially in Africa—which would like to leave the present certificate distribution system. Indeed, their trade operators have to buy import rights from European firms. They would like a system for the management of their own quota, even if there is a switch to a tariff-only system, thus avoiding the present discrepancies between the export potential of origins and the issuing of import certificates to their traditional operator. However, the big question for ACP suppliers is the future, in the very short term, of the ACP waiver that will disappear automatically if the parties fail to agree by the end of December 2005.

The solutions for getting out of these impasses (ACP waiver, trade retaliation, etc.) can be classified in two main categories—seeking a compromise with the Latin American producers or forcing a passage (tariff-only on 1 January 2006 combined with a customs tariff of EUR 187 per tonne or less). If the latter solution is chosen, the EU is practically certain that a panel procedure will be started against it and that the currently suspended American and Ecuadorian trade sanctions will be authorised once again. There remains the solution of an agreement with all the parties involved, unless the dossier remains unresolved and debate on it is included in the discussions in Hong Kong. Discussion of the banana dossier would then be mixed with broader negotiations concerning agriculture or the opening of the services market.

The debates within EU-25 should be added to those between the EU and the rest of the world. The consumer states in the east and the north would like the conflict to be settled as quickly as possible by opening up the European market to international trade so that their citizens can benefit from ever lower prices. Others, and especially the producer countries, think that balance between the regulation of flows and fair price levels should be found at the import and retail stages. The debate is open…

Support for community producers' incomes

The internal part consists of two measures:

- aid for ceasing banana production when the agronomic or economic conditions are no longer favourable for this activity;
- income support for producers.

The first measure has had very limited impact. The second is the true backbone of the system and consists of compensatory aid for loss of income. The aim of the mechanism is to guarantee incomes and accompany the productivity efforts made by European growers. A volume of 867,500 tonnes is concerned by this aid. European production is located in the Canary Islands (Spain), in Martinique and Guadeloupe (France), in Madeira (Portugal), in Greece and in Cyprus *(see Table 10 on page 20)*.

The system is aimed at compensating the loss of sales earnings that might affect the incomes of community producers after the coming into force of the CMOB in 1993. Compensatory aid is awarded to European producers for the quantities of bananas marketed within the EU. It is calculated on the basis of:

- firstly, a flat-rate reference income determined by the average price of the bananas produced and marketed within the EU before the CMOB was set up and calculated for the packing station gate stage *(see Table 9 on page 20)*;

- secondly, the average production income determined each year on the basis of the average price of the bananas produced and marketed within the EU during the year in question and calculated for the packing station gate stage.

This system works wonderfully when the

incomes in the different production regions are equivalent. This is no longer the case when a production zone sells fruits below the average European price. Indeed, the system benefits producers who sell their fruits best on the market. Each is awarded the same compensation and the most efficient growers are overcompensated (with aid being greater than their losses). In contrast, the producers with lesser economic performances are penalised as their losses are not fully covered by aid. To lessen some of these perverse effects, complementary aid is awarded under certain conditions to the production zones whose selling prices are lowest. Since 1993, this category has almost always included producers in Madeira (Portugal), Martinique and Guadeloupe (France). Conversely, Greek and Spanish producers draw the European price (average production income) upwards *(see figure, page 21)*.

Producers are aware that the aid system has served its purpose overall. Aid has amounted to an average of over EUR 215 million annually since 1993. In 2004, the total (compensatory aid + complementary aid) formed nearly 60% of net income in the least competitive zones, that is to say over EUR 360 per tonne for a selling price of EUR 250 per tonne. It is recognised that income support measures for producers have had a positive impact on maintaining European banana production. Not counting the 2004 enlargement, the shares of the European banana market have remained the same overall, totalling about 18% in 2003.

It is nonetheless true that European producers are aware that the rules must change. Common market organisation of banana is reaching a crossroads and the reform of the internal segment will follow that of the external segment. The Commission gave a strong signal in 2003 when it took measures for better management and control of expenditure on compensatory aid. Finally, the precarious balance of the international banana market might one day change the principle of a Spanish market protected from the international situation.

On the occasion of the debate concerning the reform of the external segment of the CMOB, producers—via their governments—drafted a memorandum proposing the following:

Table 9 — Compensatory aid—Balance for 1993-2004

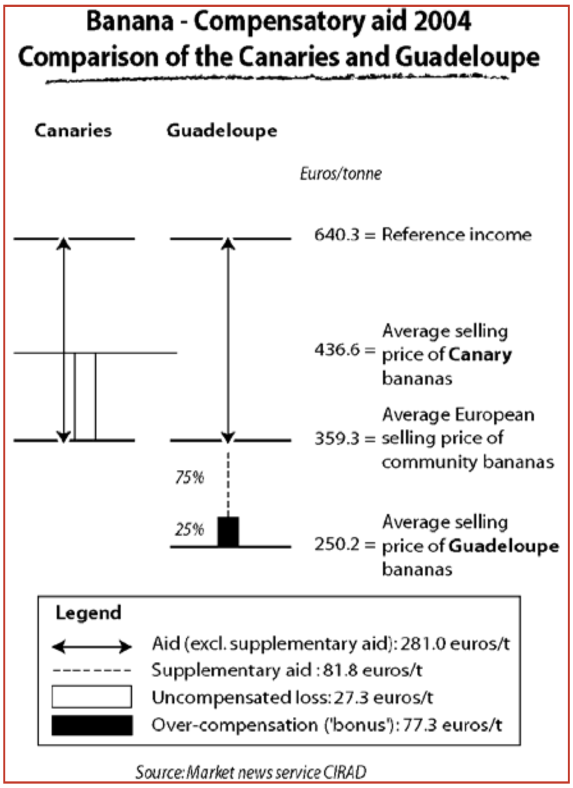
EUR per tonne	EU production value at packing station gate	Compensatory aid (excl. compl. aid)	Reference value at packing station gate
6 months of 1993	246.0	245.0	491.0
1994	319.3	171.7	491.0
1995	321.3	271.6	592.9
1996	302.4	290.5	592.9
1997	344.8	248.1	592.9
1998	378.3	244.2	622.5
1999	343.4	296.9	640.3
2000	257.4	382.9	640.3
2001	356.7	283.6	640.3
2002	337.0	303.3	640.3
2003	345.7	294.6	640.3
2004	**359.3**	**281.0**	**640.3**

Source: European Commission / Cirad

Table 10— 1994/2004 : Community banana sales

Tonnes	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Volume (guide)
Canaries	321 555	369 387	345 943	403 999	437 414	362 188	397 578	420 919	407 343	400 911	418 407	420 000
Martinique	151 965	188 073	249 733	277 013	240 499	258 501	271 269	233 716	263 880	243 706	246 199	219 000
Guadeloupe	82 165	63 207	60 919	97 734	74 294	83 508	87 592	89 042	95 063	85 517	59 071	150 000
Madeira	25 866	34 401	24 203	27 890	30 436	21 770	22 461	20 682	21 903	21 382	21 161	50 000
Greece	3 071	3 138	3 807	3 901	3 589	3 336	3 276	2 909	2 433	2 670	2 869	15 000
Cyprus*	-	-	-	-	-	-	-	-	-	-	3 203	13 500
Total	**584 622**	**658 206**	**684 605**	**810 537**	**786 232**	**729 303**	**782 176**	**767 268**	**790 622**	**754 186**	**750 910**	**867 500**

** Cyprus: May to December 2004*
Source: European Commission / Cirad



Source: Market news service CIRAD

- fixing the amount of aid at that allocated in 2000 (EUR 302 million) and distributing it among the producer countries;

- indexing the 2000 figure on the movement of the average annual CIF price in each region;

- finally, permitting state aid.

The agreement also includes the setting up of a contract for progress between the state concerned, the European Commission and producers.

The European support programme for ACP countries: the framework of special assistance

Traditional ACP banana suppliers will face a number of difficulties when the European single market is completed (CTA – Agritrade, 2004). In view of this, the EU adopted a special assistance system in 1994 to help them in restructuring operations. Some EUR 78 million have been paid out in special assistance.

Special assistance was replaced in 1999 by the special framework for assistance for traditional ACP suppliers of bananas for a 10-year period. Funding levels are raised in this special framework, and extended to promote diversification and support competitiveness. In 2002, approximately 64% of the funds used was devoted to diversification in comparison with 12% in 1999, reflecting the rules governing the use of funds for banana producers with the highest production costs, such as the Windward Islands. These countries were awarded EUR 107 million between 1999 and 2003 within this framework (even if distinctly less funds were actually used).

STABEX, the fund established within the framework of the Lomé Convention, was also a significant source of aid until 2000.

Consideration is currently in progress concerning the future of EU assistance for the banana sector in the ACP countries as the special framework for assistance will finish in 2009. ■

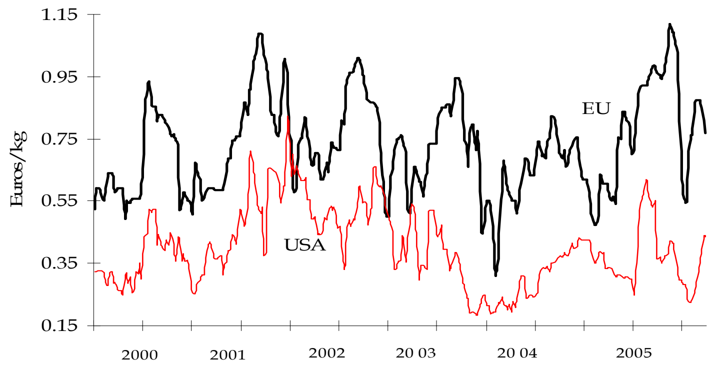
4 – Support measures and their effects on prices

Regulation measures vary according to the import markets. They vary from the United States, where no customs dues are levied, to Libya where a single state company imports fruits according to demand. Australia imposes drastic phytosanitary measures to protect its production sector against diseases. Japan has no quantitative restrictions on banana imports but applies a seasonal customs tariff. Finally, different import regimes combine quotas, customs dues, domestic taxes and technical obstacles.

European regulations are a textbook case. The attractiveness of this market resides above all in the fact that it is one of the most profitable in the world. Each origin therefore wishes to make as large a contribution as possible to its supplies. A simple comparison of the prices at the import stage in the United States and in Europe makes it possible to measure the attraction of the community market. It has been less profitable than the United States market on only very rare occasions and for very short periods.

The attractiveness of the European market was one of the effects sought by the EU—wishing to extract this market from the difficulties experienced by the international market. The European market could thus propose a price level matching the competitiveness of all the origins supplying it. The very competitive Latin American origins could hope for returns well above their production costs while the ACP countries could obtain a price close to their production costs.

Banana - Import prices
Comparison between USA and EU



Source: Sopisco

Finally, thanks to this disconnection of the European market from the world market, community producers could keep to a minimum the use of a support system for European producers (compensatory aid for loss of income); this measure made it possible to make up the difference between the selling price of European bananas and production costs *(see graph below)*.

In spite of the substantial weight of the distribution sector in price negotiation, the factor most affecting prices in the European Union remains the amounts of bananas supplied to the market. And this is very closely controlled by European regulations. Indeed, the EU supply regime (CMOB) set up in 1993 is based on the principle of applying quotas to third country origins (ACP or not).

Thus, the Commission received unanimous praise at the 2004 enlargement for its caution in deciding an additional quota (460 000 tonnes) aimed at meeting demand in the new member states (NMS). Whereas everybody had predicted a calamitous performance in 2004, import prices firmed from enlargement onwards. The effects of the CMOB were soon felt. Prices in the new member states were traditionally well below those in the EU but approached those observed in the EU, running slightly lower than the latter.

The seasonal pattern plays an important role in the movement of import prices in Europe. Some of the community markets are extremely seasonal (Imbert, 2003). This is the case in France, Germany and the United Kingdom, where a steady rise in price is observed in the first quarter. This is followed by a fall in the second quarter and then smaller upward and downward movements in the second half of the year. Paradoxically, prices are highest when the largest volumes of bananas are available. The cyclical nature of these markets would seem to be related to the availability of competing fruits such as strawberry and pip or stone fruits grown in the community. Overall, it is seen that the price of banana at the import stage is always higher in the first half of the year than in the second half, with a very stable difference of some 30% between the two periods in the last four years. A certain cyclical feature in prices is also seen in Spain but the movements are fairly different to those described for the preceding countries. Prices fall steadily in the first quarter and sometimes the first two quarters and then rise again during the second part of the year. In this case, the patterns seem to be directly related to the volumes of Canary Island bananas available; these are always more plentiful in the first half of the year. ■

5 – What are the prospects for banana producers?

Overall, the common market organisation of banana has played its role. In spite of its complexity, the system intended to supply the European banana market has worked. The flows by main types of origin have stabilised and trade channels have been restructured without serious upset. The European market has been decompartmentalised. Trade between European countries has rocketed, concerning 1.5 million tonnes in 2004 in EU-15 where total consumption is estimated to have been 4.2 million tonnes.

Aid has been awarded to support European producers' incomes. Their market shares have stabilised. Finally, European consumers have not on average suffered a real increase in banana prices. Examination of the details shows that prices have risen markedly for consumers in the northern European countries and fallen in others.

Conversely, under pressure from opponents of the European regulations, access for ACP countries and especially Caribbean countries has worsened, with a decrease in volumes shipped and inexport income. Furthermore, the ten new member states, which do not have their own production, are preaching for the liberalisation of trade, thus hoping to return to the low retail prices of before their entry to the European Union. It is difficult to establish a European synthesis.

Should it be considered in this context that the CMOB has been only a long pause in the trade deregulation movement? It can be hoped that the episode has enabled the most vulnerable sectors to prepare for the future. The coming changes (the switch to a tariff-only system) will be radical for all origins and for all trade operators. ACP producers are still protected until the end of 2007 but will not be spared by the 2006 reform. Even with the technical and financial aid set up by the EU that they should have benefited from for years and that are slow to be set up, it is difficult to imagine them winning the competitiveness battle. The differences are too great in the face of the Latin American producers.

Is it possible to forecast the repercussions of the future functioning of the market? According to academic models (total liberalisation, absence of oligopolies), the liberalisation of the leading world consumption market should lead to a movement of world prices towards a stable probability law, thus enabling better forecasting. In contrast, the experience of all importers working in the fruit and vegetables sector shows that the absence of regulation of agricultural markets increases the risk of instability on these markets caused by anticipation, speculation or irrational or follow-my-leader behaviour (Loeillet, 2005). The main victims of this instability will be the most fragile and the least well-informed players.

By pushing for the deregulation of the European market from 1 January 2006, the world banana sector is playing a game that some children enjoy during long car trips—that of holding their breath when the road goes through a tunnel. But they do not know how long the tunnel is when it begins. This one may well seem endless for a fair number of origins and operators. ■

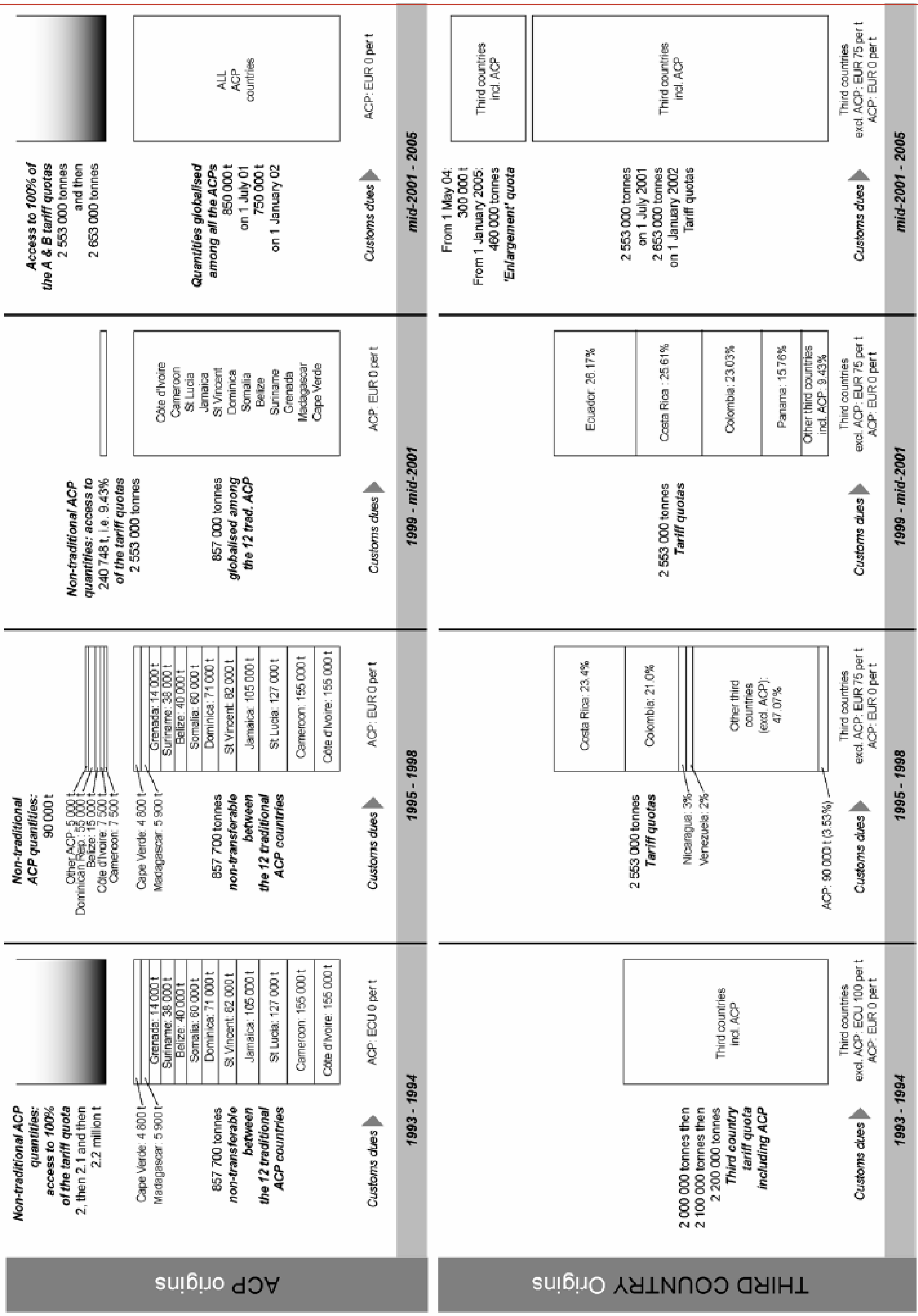
Denis Loeillet, CIRAD for **FARM**

At the Conference:

'Hong Kong –15 Farmers Take the Floor'

Paris, 30 November and 1 December 2005

6 – Annex. 1993-2005 - EU banana regime: the position of ACP and third country origins with regard to the regulations



Source: Cirad / FruiTrop

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Bernard Bachelier ***Project Manager***	**+33 (0)1 43 23 61 98**	**bernard.bachelier@fondation-farm.org**
Danielle Barret ***Senior Consultant***	**+33 (0)1 43 23 68 14**	**danielle.barret@fondation-farm.org**
Léo Braakenburg ***Senior Consultant***	**+33 (0)1 57 72 04 42**	**leo.braakenburg@fondation-farm.org**
Denis Herbel ***Senior Consultant***	**+33 (0)1 57 72 05 28**	**denis.herbel@fondation-farm.org**
Philippe Mangé ***Senior Consultant***	**+33 (0)1 43 23 74 33**	**philippe.mange@fondation-farm.org**

FARM
Foundation for Agriculture and Rural Areas around the World
c/o Crédit Agricole S.A. — 91/93 boulevard Pasteur — 75015 Paris
Phone +33 (0)1 57 72 07 19 — Fax : +33 (0)1 43 23 44 55
Production and Sub-editor for FARM : Corinne Chaussebourg