

The European banana market

2004 review: better than expected!

While awaiting the publication of import figures by European customs authorities, *Fruitrop* has drawn up a preliminary balance for 2004. Performance was better than in 2002 and 2003 in spite of the pessimistic forecasts made by most analysts and operators. The context turned out to be more favourable both in the world banana market and with regard to competing produce. Above all, the changes in the common market organisation of banana resulting from the enlargement of the EU seem to have helped achieve the matching of supply and demand and better structuring of sales.

2004 promised to be well up in the hit parade of catastrophic years. Even the most optimistic operators agree that the awarding of a new quota in May to supply the ten new EU members was an extra evil that would hit a sector that was already weak in the light of the volume announced (over 550 000 tonnes). It is true that the balance is not exceptional with an annual average price of some 0.56 euro per kg, but it is finally better than forecast. In any case, it is better than the results for 2002 and 2003 and comes in second position in the last six seasons (see graph). Performance in 2004 is just as acceptable in the markets in the north of the EU (but with the UK scoring badly). The Spanish market performed well, with a price level similar to that of the two preceding years.

A fairly balanced market after a disastrous first quarter

Nevertheless, the results for the first quarter of 2004 seemed to indicate that the dire forecasts were coming true. With fruits at 0.60 euro per kg, market performance was at its worst since the setting up of the CMOB.

This poor start to the year was all the more worrying as the start of the crisis in January-February seemed to be caused more by sluggish demand than by supplies that were finally only a little larger than average. Fortunately, the market recovered noticeably and performance was average in the second and third quarters and even finished the year with an exceptionally high price of 0.60 euro per kg, a level not seen since 1997. What caused the reversal in trend?

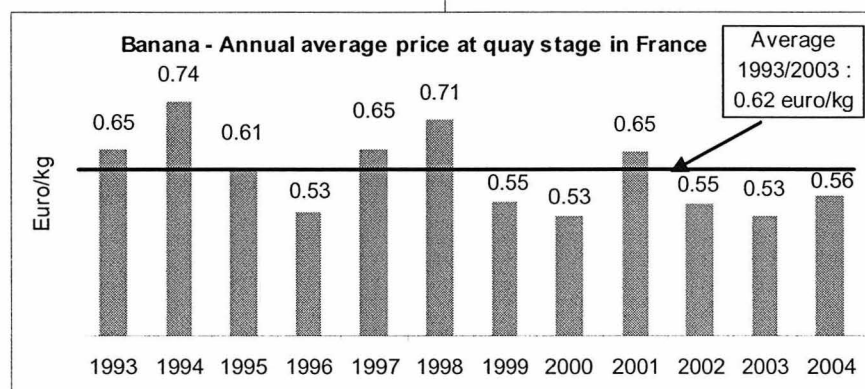
Less marked competition with other fruits and an easier world banana market

Firstly, the market context was undoubtedly buoyant. Supplies of competing fruits were smaller than usual in the second quarter (apple stocks were low because of the small harvest and supplies of strawberries were less plentiful than in preceding years after weather problems in Spain). Likewise, the summer fruits season was better than in 2002 and 2003 in spite of a difficult period in August and had a less negative effect on the performance of the banana market in the third quarter.

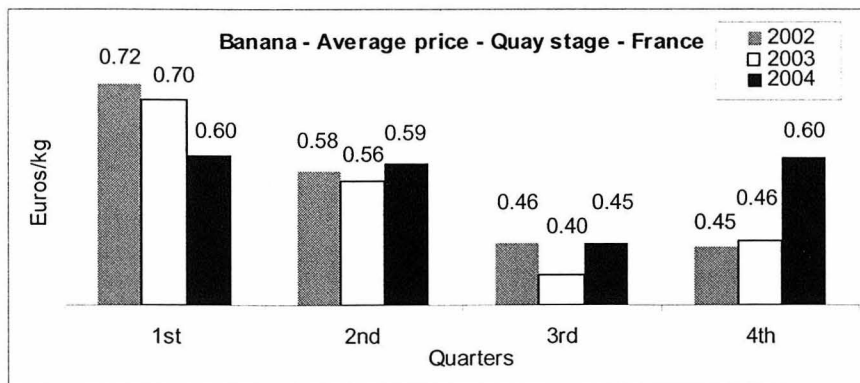
Furthermore, the world banana market was less difficult than in 2003 even though the quantities available were just as large. The marked increase in exports from Ecuador more than compensated a fresh decrease in shipments from Colombia (at their lowest for the last five seasons) and from Costa Rica (after 2003, which seemed to have marked the end of the downward spiral with this origin losing more than 25 million boxes from 1999 to 2002). However, logistics seem to have played a regulating role. The marked increase in transport prices sent cost prices rocketing and encouraged operators to pay more attention than ever to market balance.

Positive effects of EU enlargement

Finally, the great majority of operators consider that enlargement had definitely positive results. The change in trend in the second quarter seems to show that they are right. The very functioning of the market appears to have changed and improved. Prices in the second half of the year were always 30 to 45% lower than those of the first half of the year from 1999 to 2003 but dropped by less than 15% in 2004.



On the one hand, the Commission undeniably displayed caution when it set the additional quota at 460 000 tonnes per year, that is to say markedly less than the real imports in recent years. On the other, the consumption calendar in the EU seems to have changed. The entry of countries such as Poland and, to a lesser degree, Hungary, traditionally large consumers of bananas during the Christmas period, seems to have



given the community market better balance in December. Fruits were purchased that were difficult to sell in EU-15 because of the change in the range of produce, with the emphasis on exotic fruits.

Finally, another major positive effect is that the market seems to be better structured as supplies have been concentrated since May 2004 in the hands of fewer operators. The holders of licences for the new additional quota are mainly multinationals. Indeed, these companies had taken position in most of the new, most populous member-countries before enlargement through a policy of buying up the main existing importers. They also performed massive buying in 2004 of the licences held by the small operators still present. Increased transport costs, benefiting the same multinationals as they have their own vessels (as owners or under contract), formed a further factor contributing to enhance restructuring.

Very varied retail price trends from one market to another

Wait long enough and it will happen. It seems that the French supermarkets, frequently criticised for immoderate price labelling since the 'New Economic Regulations' were set up displayed more measure in 2004. Retail prices were practically stable in comparison with those of 2003 although quay prices rose noticeably. How should this decrease in the retail price:green price ratio, that increased steadily and significantly in 2002 and 2003, be analysed? Is it purely the result of the situation? In any case, the decrease is not directly related to the agreements to lower retail prices concluded between the Ministry of

Finance and the main distributors and applied since September 2004, as banana was not on the list of products concerned. Nevertheless, close analysis of the weekly movement of the ratio reveals a strong break at the end of October and a level always lower than the three-year average until the end of the year. On the other hand, analysis of the degree of presence in shops, another indicator published by the SNM (Service des Nouvelles des Marchés) within the framework of its weekly survey of hypermarkets and supermarkets, shows that the decrease in the market share of West Indian bananas was confirmed and amplified in 2004. This origin accounts for about a third of the quantities sold by the sample of retailers surveyed, that is to say a fall of nearly 10% in comparison with 2003 (after a 6% decrease from 2001 to 2003).

In contrast with the situation in France, the increase in retail prices in Spain was confirmed. Even though quay prices have been fairly stable during the past three years, retail prices have risen steadily (+ 0.28 euro from 2000 to 2004 and even + 0.15 euro from 2002 to 2004 while quay prices were practically unchanged). Might the French retailers well-established in Spain be

seeking to recover all or part of the profits lost on the French market?

The UK is still light years away from this upward trend. The price war between retail groups has continued, and the battle between Chiquita and Del Monte for the control of certain customers contributed to aggravate the situation. Retail prices thus displayed a further 0.08 euro decrease, with the cumulated fall being 0.27 euro over the past four years. This situation obviously affects all the operators upstream of retailers. In 2004, the UK maintained its position as the worst EU market in terms of quay prices.

German retail chains and especially Aldi and Lidl, considered in the past as those most inclined to reduce the prices of traffic builder items, seem to have calmed down. The market reacted in an economically very rational manner to the 0.03 euro increase in quay prices: retail prices increased by 0.03 euro!

2005 is starting well. Supplies of dollar bananas are somewhat down (productivity is currently low in Ecuador and there have been production losses in Costa Rica), and freight prices still calling for caution mean that the first quarter can be considered with relative optimism. The very probable lifting in March of the ban on the mentioning of prices in promotion leaflets will give the downstream end of the sector better chances of activity. But caution is required nonetheless. As was seen in 2004 and as Jean Dutour wrote, 'the only thing about the future that we can be sure of is that it is never the same as forecasts.' ■

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