Banana: the European market in 2005

An exceptional vintage

The European banana import sector experienced one of the finest periods of its history in 2005. Selling prices reached heights unseen since the EU banana regime came into force. This performance resulted from moderate supplies of banana, poor quality or late competing fruits, cool weather and above all a better market structure.

The last year of the European banana market quota system was one of the best. EU import prices in 2005 reached record levels in comparison with 2004: + 31% for the Aldi green price in Germany, + 39% for the ex-quay price in France, + 43% in Spain for green Canary Island fruits (super extra category). This upward movement is interesting in several respects. Prices held at high levels throughout the year, both during the traditionally favourable periods (the first quarter) and during those that are more difficult (the second and third quarters). An extremely rare feature was that the Aldi green price even cleared the symbolic EUR 1.00 mark in May and June when the situation is often delicate for banana.

This increase in import costs resulted in a surge in retail prices almost everywhere in Europe. Even the German hard discount chains (Aldi, Lidl, etc.) were forced to raise their prices, with the annual average exceeding EUR 1.10 per kg for the first time. The new member-states did not escape the trend. The retail price of banana increased by 29% in the Czech Republic in 2005 after reaching a record level in 2004. The increase in retail prices would have been even stronger if distributors had applied their usual margin coefficient (the retail price:green price ratio). In France, a coefficient of 2.2 was applied in 2005 against 2.8 in 2004 and 3.1 in 2003. The same was observed in Germany, where the figure fell to 1.6 in 2005 against an average of 1.9 to 2.0 in recent years. The situation is more contrasted in terms of gross margin (the difference between the green price and the retail price). This shrank slightly in Germany (from EUR 0.55 to 0.52 per kg). It held firm in France at EUR 0.84 per kg) and continued to increase in Spain (EUR 0.67 in 2003, EUR 0.73 in 2004 and EUR 0.77 in 2005).

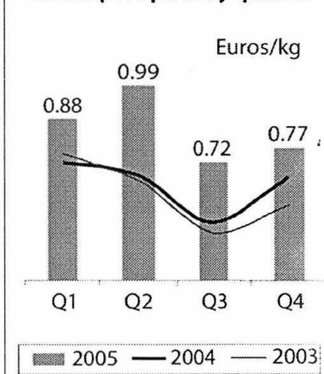
As has often been the case in recent years, the situation on the banana market in the United Kingdom has differed to that on the continent. Indeed, in spite of a firming of the green price, as observed throughout Europe, retail prices remained stable at about £ 0.77 per kg until April. They increased sharply in May and reached a new threshold at about £ 0.87 per kg in May. This unusual behaviour, partially disconnected from fluctuations in import prices, is a feature of the British banana sector where a retail price war is being waged furiously.

Varied fortunes

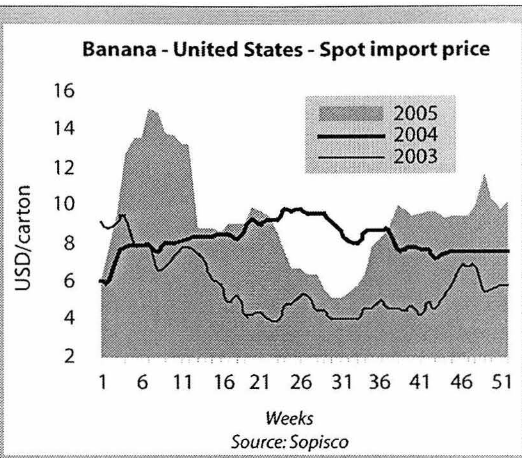
Whether in the United Kingdom or in the rest of Europe, 2005 was catastrophic for ripeners. Squeezed between importers who benefited from a high green price and distributors who wished to maintain their gross margins and not pass on the whole of the increase in the green price, ripeners reduced their margins considerably. They may profit from a return swing in trend in 2006. Indeed, deregulation and the elimination of quotas and import certificates means that market power may shift towards the downstream end of the chain, benefiting ripeners.

2005 was thus an exceptional year for the majority of operators. The reasons are varied and are both within and outside the sector. First of all, the changes in the European banana regime following the enlargement of May 2004 made a considerable contribution. Indeed, the reconcentration of market power in the hands of a limited number of European operators enhanced a strong structuring of the market and therefore its control. The latter was strengthened by the European Commission, which made close calculation of the enlargement quotas for the 10 new member-states. After being structurally oversupplied, the market became ordered on 1 May 2004 and the effects of the quota system were fully felt. Examination of the movement of import prices in Germany shows that the situation has improved steadily since enlargement. The difference

Banana - Germany
Aldi import price by quarter



Source: Cirad



Banana — United States — Imports

Tonnes	2001-2003 Average	2004	2005	Delta (%)
Total, incl.	**3 875 565**	**3 872 826**	**3 824 401**	**- 1**
Guatemala	897 153	1 020 765	1 029 280	+ 1
Ecuador	980 296	918 926	904 306	- 2
Costa Rica	986 550	865 298	822 731	- 5
Colombia	483 177	464 592	513 748	+ 11
Honduras	420 952	507 914	453 011	- 11
Nicaragua	33 173	41 502	38 067	- 8
Mexico	47 115	33 586	33 796	+ 1
Peru	14 203	12 384	22 345	+ 80
Dom. Rep.	4 355	5 201	4 428	- 15
Panama	5 554	612	2 019	+ 230
Venezuela	2 965	2 008	670	- 67

Source: USDA

The US market

The US market shrank once again in 2005 (-1%). Guatemala is still the leading origin, followed very closely by Ecuador. The latter reduced its exports to the USA by 2% in contrast with its shipments to the EU market (+7%). Costa Rican supplies also decreased (-5%), as in Europe. Colombia performed very well (+11%), as it did in Europe (+15%). Spot import prices behaved well in 2005, with excellent periods at the beginning and end of the year and a traditional dull period during the summer. Given the very strong contractualisation on the US market, the spot price concerns about 30% of the volumes marketed. It is nonetheless a good indicator of the balance between supply and demand.

between the 2005 monthly price and 2002-2003 average monthly prices increased strongly and reached + 50%.

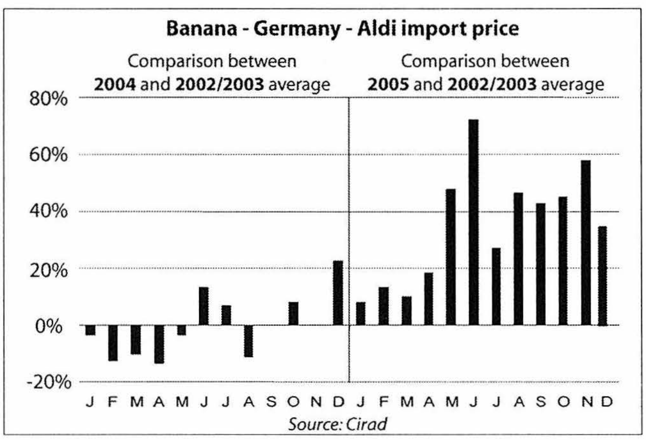
Moderate supply

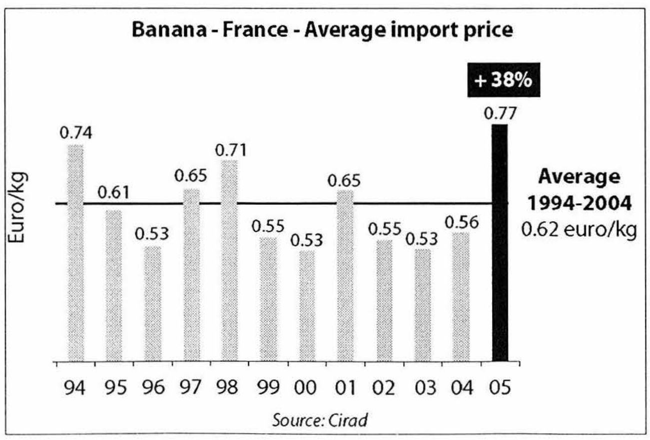
Climatic factors contributed to the improvement of the situation. Indeed, a series of hurricanes in the Caribbean and Central America and severe drought in South America reduced supplies considerably. According to provisional data from Eurostat, European imports shrank by 4% from 2004 to 2005. Costa Rica lost its position of second market supplier (- 26%) while Ecuador and Colombia made very significant progress (+ 7 and + 15% respectively). It should be noted that the progress made by Ecuador in Europe was accompanied by a 1% fall in its total exports during the same period. It therefore seems that with its high import prices, the EU attracted the main supplier countries at the expense of the United States in 2005 (see box). But it was necessary to have production potential to profit from the opportunity offered by the EU market. Neither the ACP producers as a whole nor the community producers fully benefited from the situation. Practically the only exception was the Dominican Republic whose exports leaped by 43% from 2004 to 2005. Excepting Surinam, where banana production is being re-launched and therefore growing strongly, all the ACP origins experienced a decrease (-2%). The situation was identical for community production, with a decrease of more than 100 000 tonnes in comparison with 2004. All the production zones were concerned and especially the largest of them, the Canary Islands.

Other factors outside the banana sector account for the favourable import situation. These include lack of enthusiasm by consumers for citrus fruits because of poor quality, the late red fruit and stone fruit crops and weather cooler than usual for part of the year.

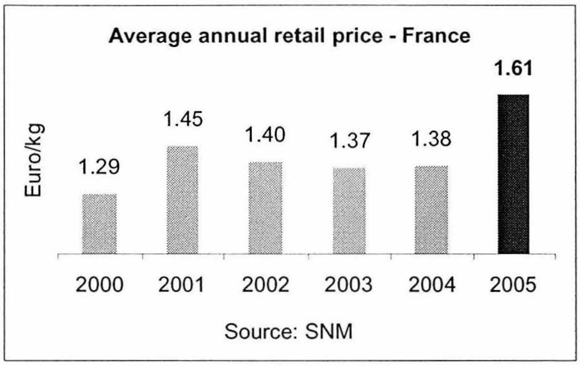
In contrast with expectations, 2006 has started in a similar manner to 2005. The much-feared change in regulations in Europe has not yet had adverse effects on prices. Pressure from Latin American bananas has increased through the number and diversity of operators with supplies available but volumes are still in phase with demand overall. Neither has there been strong pressure from the other origins, whose performance in terms of volume is poorer than in 2005. How long will the honeymoon last? Well, the answer is as long as the volumes available in Latin American countries remain moderate, as long as operators in Europe remain cool-headed and, finally, until the quantity of the season's fruits increases considerably. The equation is a complex one and the balance is delicate ■

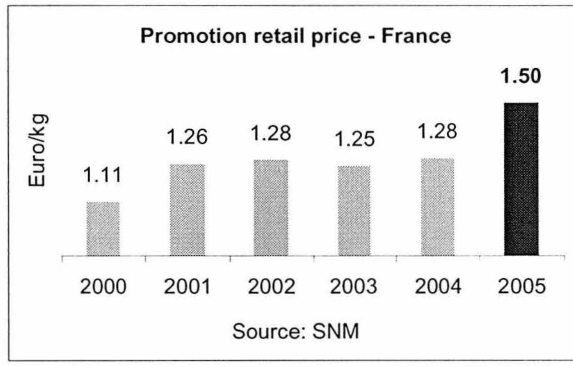
Eric Imbert and Denis Loeillet, CIRAD
odm@cirad.fr

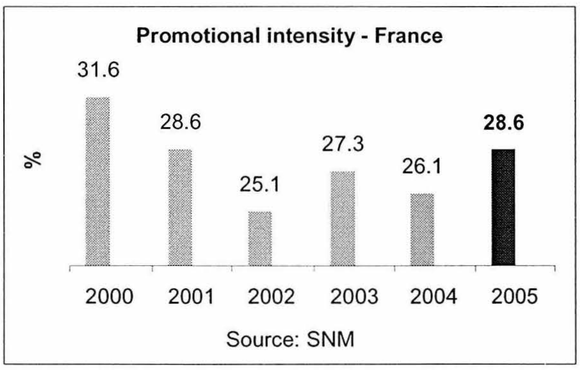


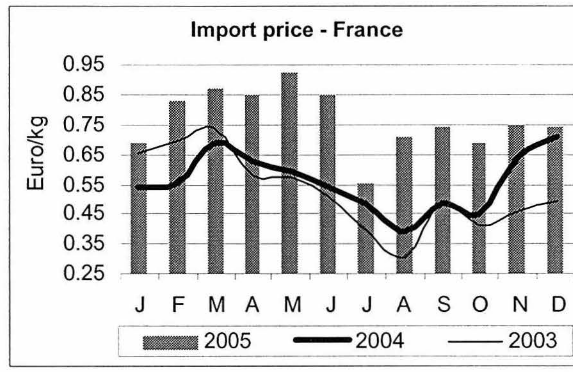


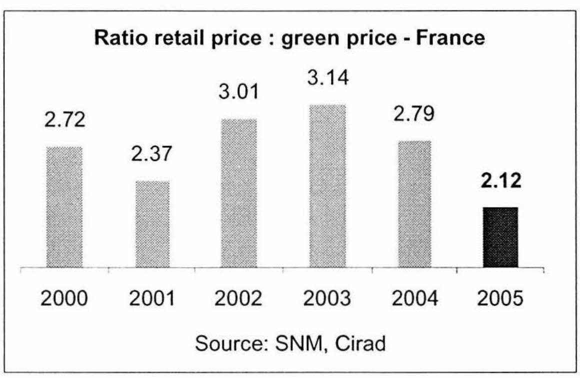
French banana market — Indicators

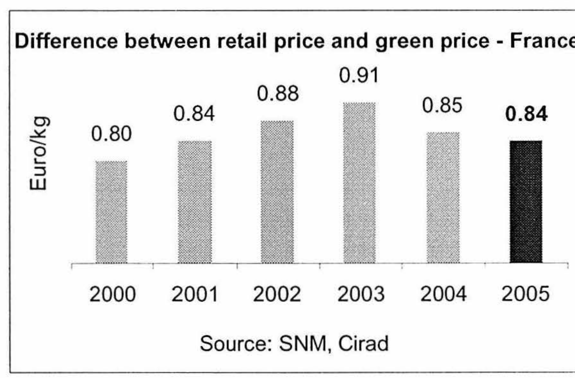




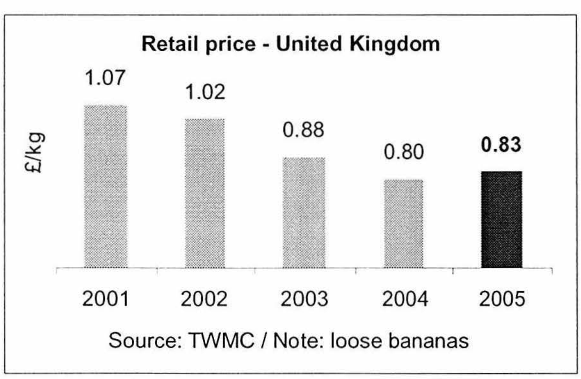


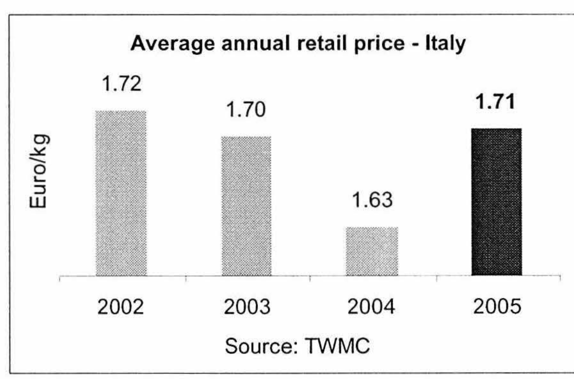


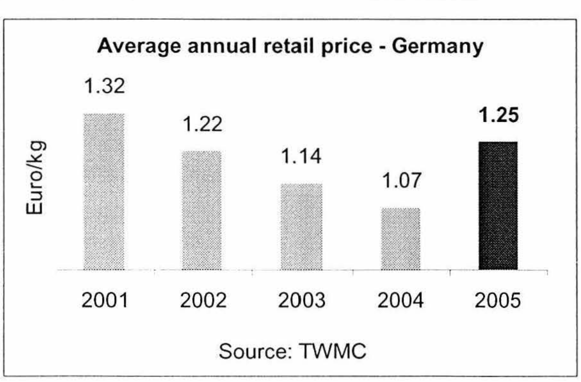


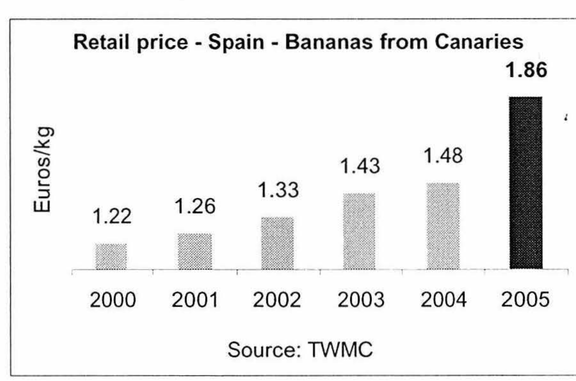


Retail prices in Europe

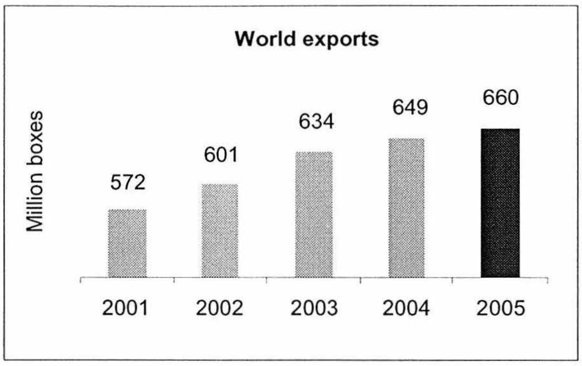


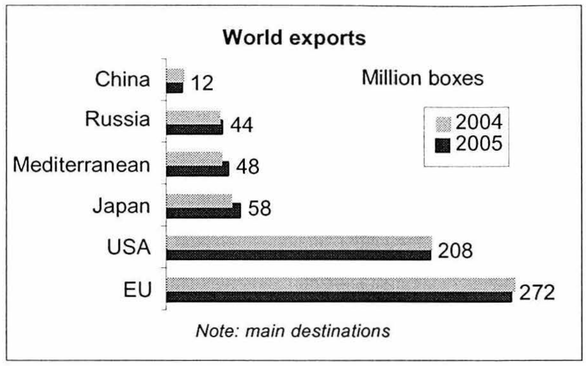


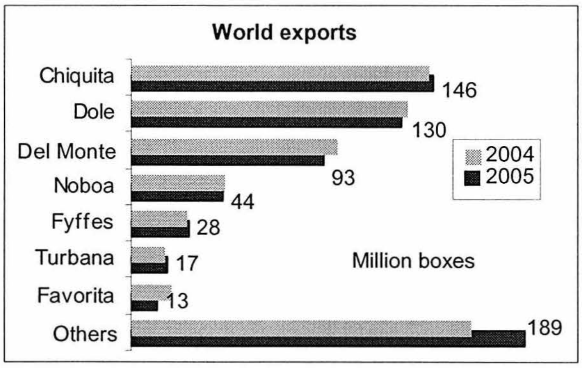


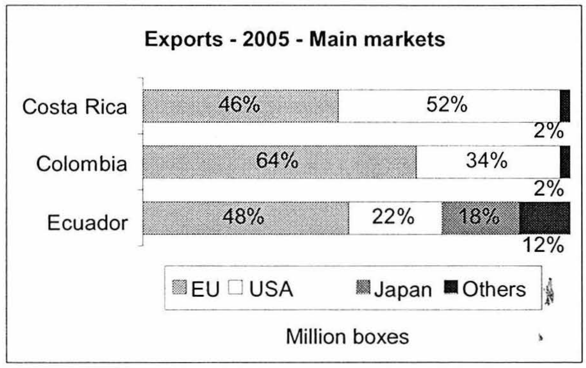


World banana market — Indicators

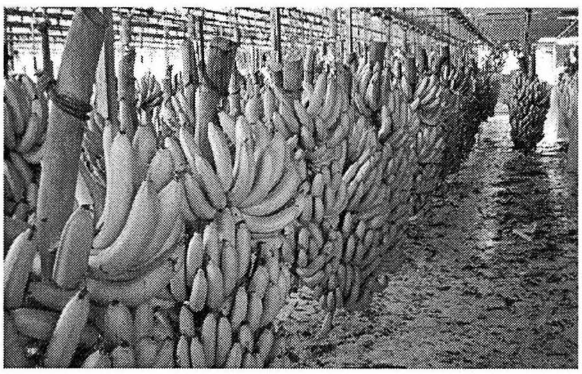


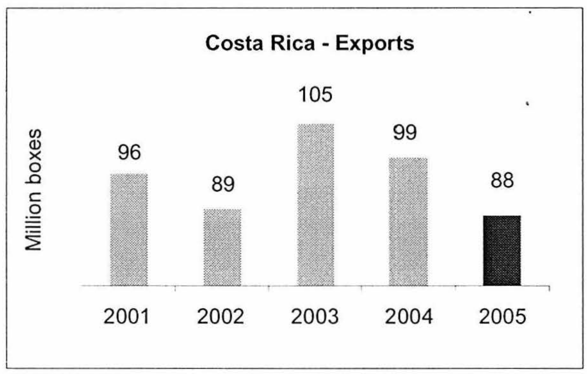


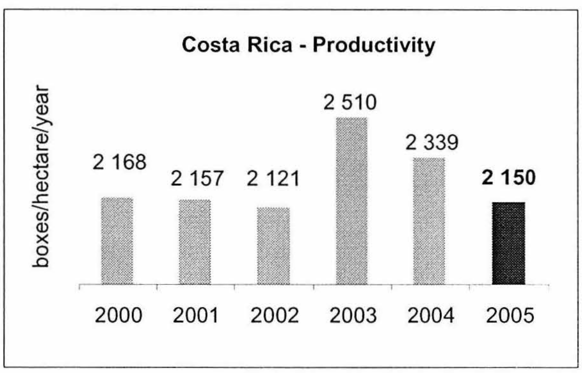


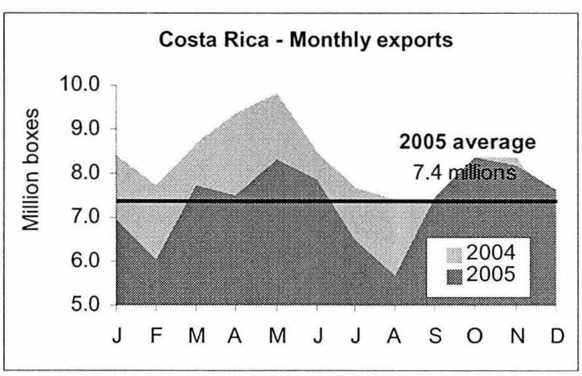


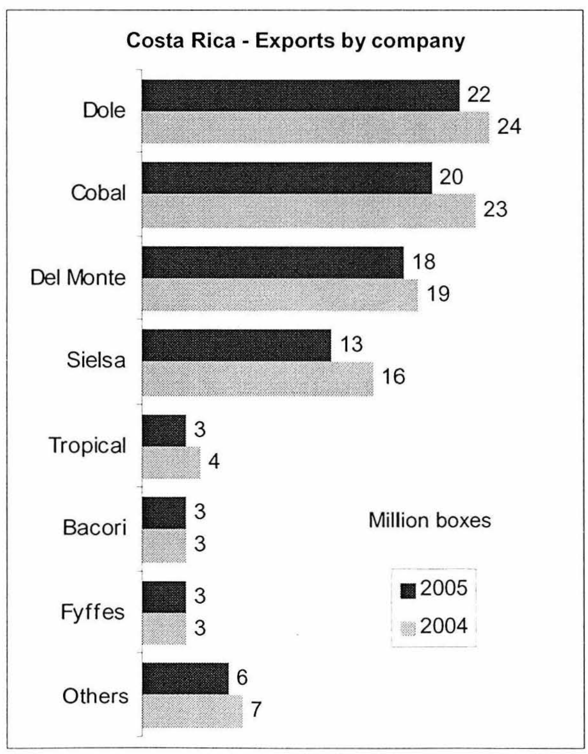
Costa Rica - Indicators



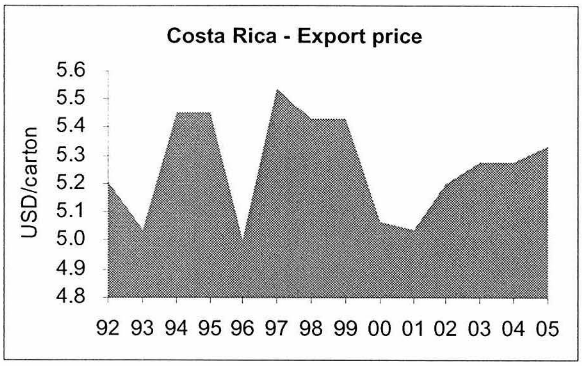


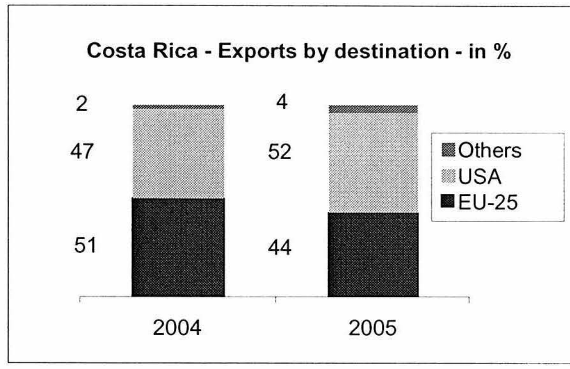




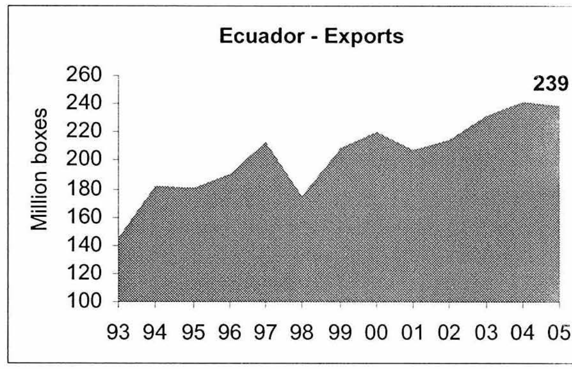


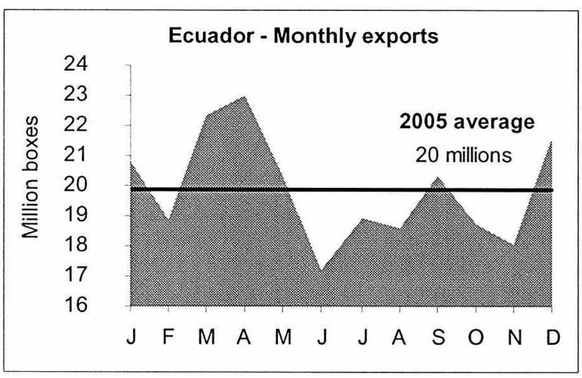
Costa Rica - Indicators

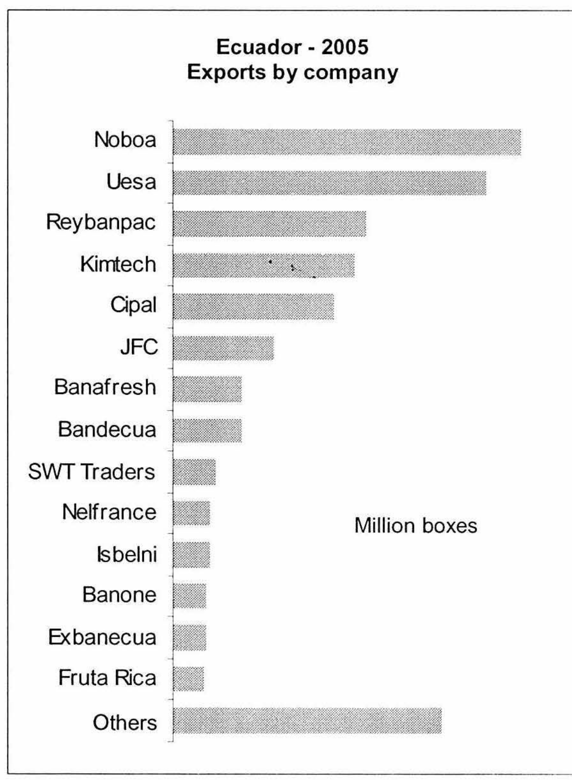


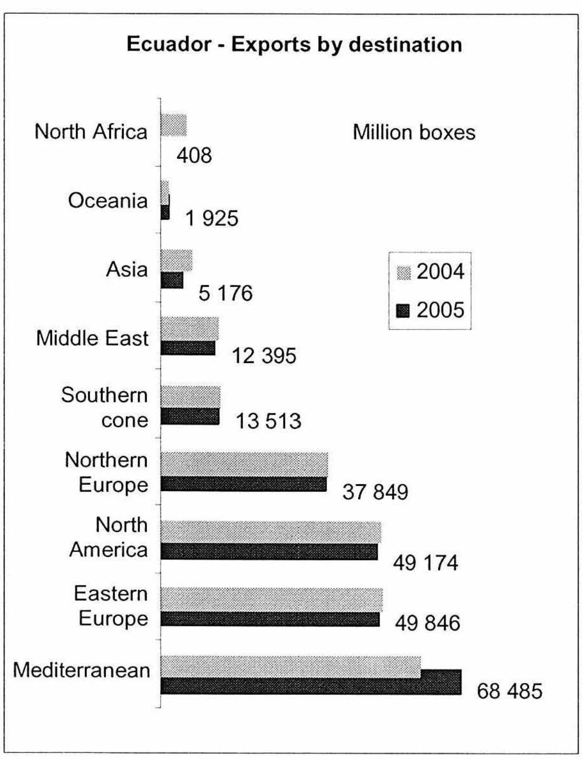


Ecuador - Indicators









Sources:

World data and Costa Rica
Corporacion Bananera Nacional, SA (Corbana) - Exportacion de banano - 2005 - Omar Sanchez Rojas, Mariano Jimenez Zeledon

Ecuador data
Asociacion de Exportadores de Banano del Ecuador (AEBE) : Anuario 2004 and Bananotas No. 4-2006