

Customs duties and CMO Banana

The curse of the European banana market

In contrast with what one might think, the overall good behaviour of banana prices during recent years is a malediction for the European market. Indeed, superficial analysis of the physiognomy of the market since its partial liberalisation in January 2006 might make it seem that the level of duty (EUR176 per tonne or EUR3.22 per box levied on dollar bananas) is too high, causing the present strong increase in import and retail prices. Fingers are being wagged at the guilty party—customs duty. At the time of writing, we are awaiting the verdict and the punishment to be applied: an immediate massive reduction in customs duty.

But curiously, although we have the guilty party and the sentence, we are still looking for the victims. Because those vaguely indicated by partisans of a reduction in duty have not asked for anything and have not complained. The martyrs are said to be a mixed batch of growers who suffer from the levy in Europe, exporters and importers whose development is bridled and their returns pillaged, and European consumers who, to buy this so expensive fruit, have to part with ever more of the few euros left to them by the downturn.

But nevertheless it works

So let's have a look at the victims. The upstream part of

the sector has not suffered from the new regime, far from it. Growers in Ecuador and Costa Rica have seen a very significant increase in official minimum prices and, what is even better, the real prices for both Spot transactions and contract sales have rocketed. Exporters and importers have also benefited from the favourable trend. This has resulted in an increase in the Aldi price (+ 6% in 2008 to EUR13.4 euros/carton), proof of excellent market dynamics. It is true that intermediary operators have paid producers more for bananas, but many of them are producers themselves. Finally, consumers—described as being the mugs in the game—do not seem to be hostile to banana. Annual European consumption has increased considerably since 2006 and has gained 1.3 kg per person since 2005, that is to say an extra 1 000 000 tonnes! Retail prices have remained practically stable throughout Europe, as in Germany where prices at discount supermarkets increased from EUR0.99 to EUR1.01 per kg from 2007 to 2008. The situation is similar in France, where the average retail price has increased by 3.5% since

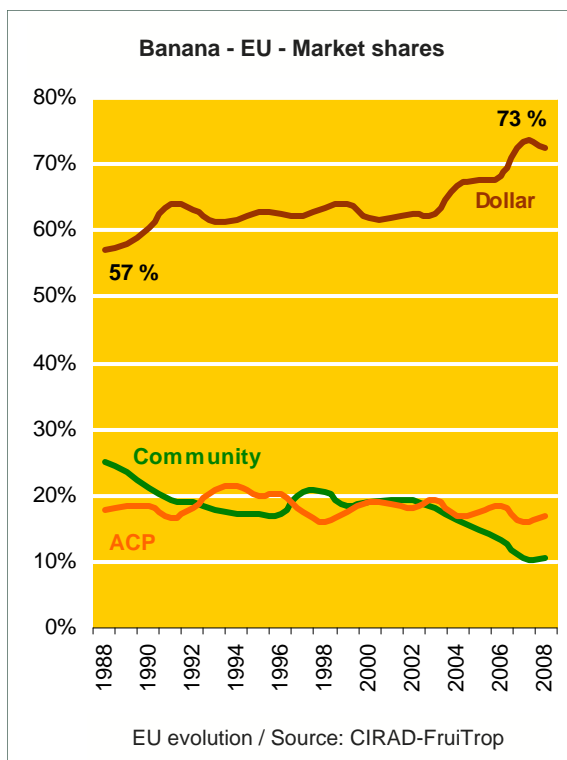
2006, while the retail price index for fresh fruits gained 8.4% during the same period! If these are fast-climbing prices, they are operating in slow motion.

However, criticism of the present regime does not stop there. Some pseudo-robbed victims still complain that 'it is true that everything is fine in the best banana market in the world except that some (dollar sources) suffer to the benefit of the others (EU producers and ACP sources)'. Unfortunately for the diehards of liberalisation, monitoring of the European banana market shows that no category of source (third country, ACP and dollar) has been excluded from growth. Dollar sources exported 974 000 tonnes more in 2008 than in 2005. During the same period, ACP exports increased by 155 000 tonnes. Shipments by European producers decreased strongly by 80 000 tonnes. Even though the EU gained two new member-countries during the period, it can be agreed that (1) the increase is impressive, (2) growth benefited extra-EU imports only, and (3) the dollar sources took the lion's share.

Why maintain a balanced and profitable banana market for all sector stakeholders? Why not lower customs duty and add to world market imbalances when the production sector has reached its full potential again? Why not destroy a little more value-added?



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Who benefits from deregulation?

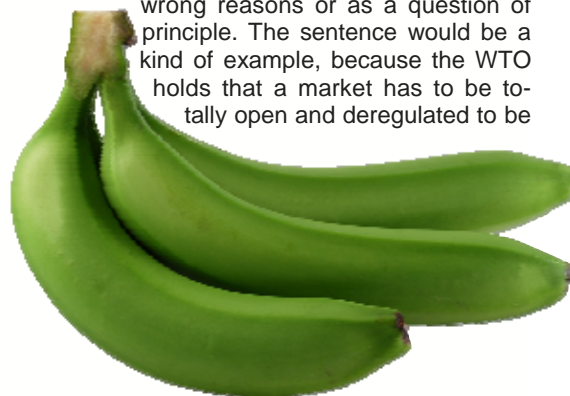
So why upset such a virtuous market? Especially as world production and export potential has not been fully expressed since the opening of the European market. Indeed, all production regions have been hit by bad weather: gales in Africa, floods in Costa Rica, Colombia and Brazil, hurricanes in Central America, the Dominican Republic, Martinique, Guadeloupe and Jamaica, and very cold weather in Ecuador, etc. Supply pressure has thus been limited, with nature playing a regulatory role, helped by a context of strong demand in Europe, Russia, the Mediterranean and the Middle East. Some people have been quick to forget spring 2006. With their new right to ship unlimited quantities to the European Union, Latin American operators of all sizes finally had a taste of the European eldorado. We know

that this caused a strong market dip. It is interesting to reread the analysis made by Eric Imbert, researcher at CIRAD and recognised as a leading specialist in these markets, who wrote as follows in

Fruitrop: '... the dollar bananas available in limited quantities but at competitive prices played a destabilising role' (**Fruitrop 134** – Market report for March 2006) and then, in the following month '... although the quantities of dollar

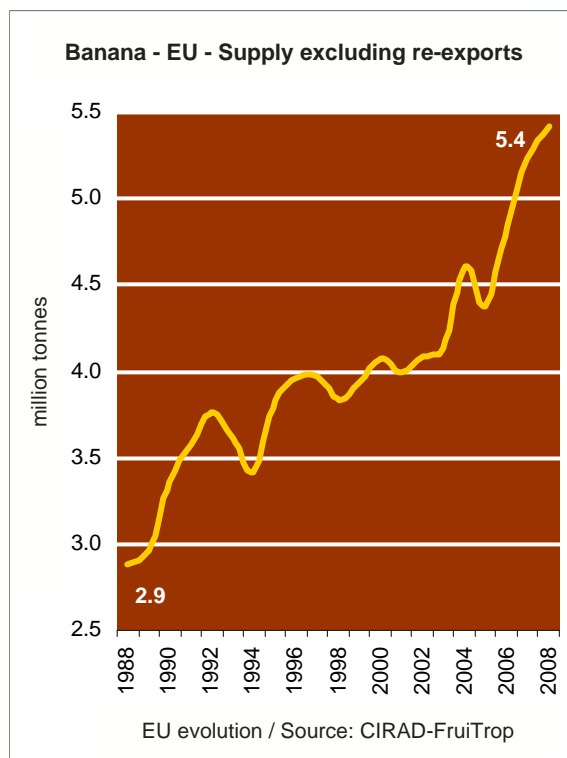
bananas were fairly moderate, these very dispersed supplies at sometimes very competitive prices succeeded in upsetting the situation in the sector...' (**Fruitrop 135** – Market report for April 2006).

If the market displays good dynamics, why disturb it? If its good behaviour is the result of world supply running at less than its potential, why take the risk of over-supply by opening the market a little more? Let's hope that we are not going to see the forced liberalisation of the market for the wrong reasons or as a question of principle. The sentence would be a kind of example, because the WTO holds that a market has to be totally open and deregulated to be



efficient. The sentence would be for reasons of honour—that of the Latin American leaders who succeeded in making the EU a pariah and who now want reparations that would destabilise a market where their growers earn a somewhat better living than they did before. And too bad if the day after victory these people, like Pyrrhus, say 'One more such victory and we are lost' ■

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