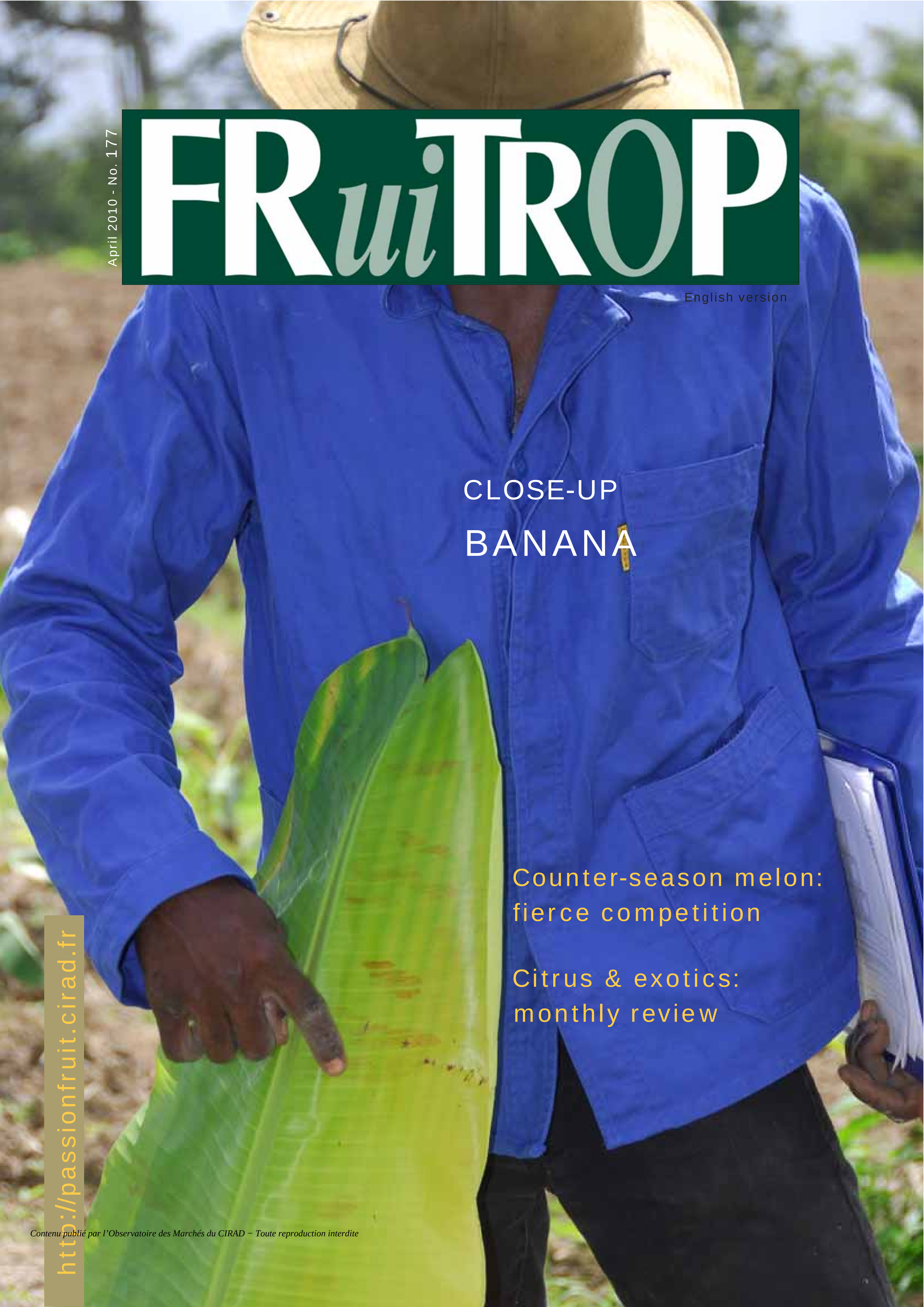

April 2010 - No. 177

FRuiTROP

English version

CLOSE-UP

BANANA

Counter-season melon: fierce competition

Citrus & exotics: monthly review

http://passionfruit.cirad.fr

The banana market

Reasonably pessimistic

Physicists of all kinds are in search of the famous missing particle and theories about dark energy and black matter abound. They all attempt—unsuccessfully—to explain the origin and fate of the universe. At a more trivial scale, the banana sector also has its mystery that many people think they can solve. This is the finding of the missing link between the level of the European customs tariff and market supply.

For years, various schools of thought have competed with each other and each has put forwards a conjecture. There are those for whom the customs tariff (for lack of a quota system) should be as high as possible to restrict the volumes released and hence maintain prices. Others, waving econometric calculations, call for a very low level or even no dues at all; holding that this would conserve the balance of forces using a basic principle: market forces are wise enough to settle everything. According to Joseph Stiglitz, winner of the Nobel Prize for Economics, the market does not possess the self-regulating abilities attributed to it by neoclassical economic theory. Supply and demand never balance each other spontaneously, even with hypotheses of pure and perfect competition, and state interventions are generally much more effective than a market left to itself. In all cases, the sheep-like and irrational behaviour of operators means that, for lack of a quota, the market is governed directly by world supply and imbalances are inevitable without strong market regulation by volumes.

The market is too stupid

Photos © Régis Domergue

2009 will remain a great source of inspiration for 'banana market physicists'. It gave an advantage to those who consider that the world supply level is the key to the functioning of markets. Indeed, the world's two main markets displayed strong decreases in volumes (the USA market was 12% down and EU-27 was 6% down) as world supply was affected by the loss of a proportion of Costa Rican production. The serious floods that hit Central America at the end of 2008 caused market undersupply. Ecuador and Colombia only made up part of their deficits. It can be understood that when supplies are decreasing customs dues have no effect on market balances. Did prices rocket everywhere in Europe, in the United States and in related markets such as Russia and the Mediterranean basin as one might have expected? Examination of average annual prices hardly revealed a price explosion. The level seen in 2009 was similar to that of the two previous years at EUR 0.67 per kg at import stage in France (**FruiTrop 172**, January 2010). Analysis of half-years is more interesting, confirming the theory that world supply models the market. Indeed, during the first half of the year when Costa Rica and many other Central American countries were absent from the market, quay prices in Europe and elsewhere shot up to EUR 0.78 per kg. In the second half of the year, the scheduled return of the suppliers that had had problems, fairly sluggish consumption in many European countries including Germany and pressure from supermarket chains forced prices down (EUR 0.65 per kg). But the depressive effects of renewed production in Central America were observed right at the end of 2009 and at the beginning of 2010. Here, the first quarter of 2010 is very revealing as regards the relation between world supply and import prices in Europe. It can be summarised in two words: direct and depressing.

Bananas are not goods

In 2006, the EU switched from a quota system to a tariff-only system. The level of customs dues, currently EUR 148 per tonne after a previous EUR 176 is the focus of discussion. Interpretations obviously differ. Some people consider that it does not have a regulating effect on the market; whatever the level, if world supply displays a surplus, the produce will reach the market. And horrors! Regulation by volume is essential because, like other produce, bananas are perishable, very sensitive to unfavourable weather events, are for mass consumption, are a cash crop, etc. Others think that the tariff is currently too low to dissuade the same operators and, in addition, since the application of a tariff-only system in 2006, world supply has not been normal and the protective effect of a tariff at EUR 176 per tonne was not tested.

Finally, the most optimistic commentators think that market self-regulation is more effective. We can remind them of a recent episode in banana history—the disastrous spring of 2006. At that time, doubtless drunk on the possibility of being able to export bananas to the EU with no volume constraints, very ambitious operators on both sides of the Atlantic caused deep disturbance to the European market for several months because they thought that they could gain market shares. The customs tariff had no regulating effect. Since this painful experience, nobody can say that he has verified, for even an instant, the postulate that the market is regulated by customs dues'.

The worst is yet to come

In short, with or without customs dues, the market is like an aeroplane with no pilot. This leads to fearing the worst for 2010. A banana apocalypse has often been prophesied—in 1993 when the common market organisation of banana was set up, during enlargement of the EU to 15 member-states and then 25 and 27, and in 2006 at the switch to the tariff-only system. As I mentioned, 2006 was a very difficult period to weather but mainly because of actions by just a few people, essentially one producer-exporter and one importer. The conditions are very difficult today because if it is considered that the supply level is decisive the peril is very great.

Indeed, Costa Rica has returned to its very high production levels and even announced (**FruiTrop 175**, February 2010, page 5) record export forecasts with 110 million boxes exported in comparison with an average of 108 million from 2006 to 2008. The trends are excellent in Colombia, which finished the year with exports of 97 million boxes. Finally, after breaking export records in 2009 with 271 million boxes (+6%), Ecuador has announced improved productivity in the weeks and months to come. Africa has not suffered from very many strong gales and the Caribbean plantations have not sustained much damage from hurricanes and tropical storms.

The economic results and above all the market profile at the beginning of 2010 make the alarmist hypothesis more credible. The French average import price is EUR 0.64 per kg, that is to say 21% lower than last

Common market organisation of banana or how to dance on a grave

At the end of 2009 we announced the scheduled execution of the common market organisation of banana (CMOB), floored by the WTO on 15 December. A gaggle of Latin American banana exporting states helped by the European Commission decided on the programme for finishing off this 16-year-old trade organisation. The removal of the quota principle in 2006 opened the way to a tariff-only system. On 1 January 2006, supplier countries were classified as belonging to the ACP group, benefiting from exemption from dues, or the MFN (most-favoured nation) category, or dollar banana sources, that had to pay customs dues of EUR 176 per tonne. The Geneva agreement planned the lowering of the tariff to EUR 114 per tonne in 2017 or 2019. According to econometric models, this decrease will not depress markets but rebalance forces to the benefit of dollar sources against ACP sources, and especially African banana exporting countries, ideal targets pictured as bogeymen with a thirst for conquest, ready to pour masses of bananas into Europe, scaring other sources away from this juicy market.

Spain shuts out France

The balance is markedly negative just a single quarter after the agreement. The world market is depressed after the return to normal of world supplies after the very serious damage sustained by South American banana plantations at the end of 2008. Quay prices have hit the bottom. It is difficult for producer prices to reach the minimums set. And many people are already forecasting a disastrous year like that suffered by the market in 2004. It is obviously too early for these pessimistic forecasts to be confirmed and the factors for evaluating and understanding the market are intertwined: very slow economic recovery, freezing weather, competition from other fruits, etc. We could at least all agree about the currently delicate world situation. Nothing doing. The MFNs want to put the boot in. Whatever the consequences. The ink of the signatures on the multilateral agreement is hardly dry and Spain, holding European presidency for the first half of 2010, has put the banana question back on the table—in bilateral discussions this time. France is the last member-state to be in favour of customs dues, at least at the level of the Geneva agreement, and is totally isolated in this negotiation. Spain is playing the compromise game as hard as it can, presenting all the European states concessions in various sectors but progress in others such as the car industry for Germany, olive oil for Greece and dairy products for Ireland. Even delaying the setting up of these agreements seems out of range for opponents. At the end of March 2010, the ACP-EU Joint Parliamentary Assembly did threaten—in diplomatic terms—not to ratify last December's Geneva agreement. The chances of mobilising the European parliament against the implementation of the Geneva agreement are very small. But this could be the first question about which the new authority could give its opinion. What is the use of new prerogatives if the positions of the European Council and Commission are followed meekly in such a symbolic dossier.

A 25-year round trip

What are bananas in all this? Just a bargaining counter so that Spain can sign the agreements with the Andean Pact countries (Colombia and Peru but not Ecuador for the moyear, making the first quarter of 2010 one of the worst of the decade. The German import price displayed the same trend (Aldi reference) in the first quarter, and you have to go back to the *annus horribilis* 2004 to find an import price as low as EUR 0.70 per kg. The major international operators are beginning to be frightened. For example, Chiquita issued a release in which it expressed concern about price movements in Europe during the first quarter. At least shareholders will have been warned. A new stage was reached in early April 2010 with German operators weighed down with dollar bananas and re-shipping them to the Russian market in large quantities.

Less spot trading, more contracts

Pessimism about imports is contaminating exports and production. Whereas spot bananas from Ecuador still changed hands at USD 12 per box in January (ex-Guayaquil), the price reached USD 5.40 at the end of March—not a single cent more than the Ecuadorian *precio minimo*. Some Ecuadorian growers have also signed fixed price contracts for the coming months, thus moving from an approach consisting of acceptable risk-taking in negotiating the selling price week after week to the need for a guaranteed price because market uncertainty is increasing. This had not happened for years and is doubtless a warning sign of difficult days ahead for the markets ■

Denis Loeillet, CIRAD
denis.loeillet@cirad.fr

Photos © Régis Domergue

ment) and the Central American Common Market (CACM) before the summer of this year (May has been mentioned). The result of this non-negotiation will be a further decrease in customs dues to reach a highly symbolic EUR 75 per tonne in 2020. We shall have travelled a full circle as this was the tariff applied to dollar bananas in 1995, although at the time the dollar banana quota was 2 553 000 tonnes, strictly distributed about a few supplier countries. Twenty-five years to reach this result is perhaps not much at the geological scale but one might wonder whether it is still too long at the scale of globalisation handled like a forced march.

So what remains to be done? All the solutions except one differ according to production source, with the common one being increased competitiveness. Such gains can be found within farming systems (improved productivity), in segmentation or differentiation, also applied to production methods and sector governance. As regards support from the European authorities, European and ACP production require accompaniment to make such progress. This is the least that can be done when the rules are changed during the game.

ACP producers have been awarded EUR 200 million to strengthen the competitiveness of producers. This is to be awarded to the ten leading banana exports during the period 2010-2013: Belize, Cameroon, Côte d'Ivoire, Dominica, the Dominican Republic, Ghana, Jamaica, St Lucia, St Vincent and Surinam. Allocation of aid will be based on three main criteria: the volume of bananas released on the EU market, the importance of banana exports to the EU in the country's economy and the level of development measured by the United Nations human development index (HDI). The European Commission considers that for European producers the POSEI allocation (about EUR 280 million per year from 2007) was calculated taking into account the probable decrease in customs dues. It is maintaining its position for the moment, leaving Spanish and French growers for example to turn to their national authorities.

If Europe has used bananas as a bargaining counter to conclude trade agreements that benefit the community, it should compensate the difficulties that these agreements engender for the most fragile suppliers. A modern version of 'an eye for an eye and a tooth for a tooth' would require a fair balance between crime and punishment.