

Close-up

## COCONUT



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Winter tomato: an early 2011-2012 season

The world banana market:  
a crisis more structural than conjunctural

Litchi from Madagascar: progress!

The European papaya market:  
unfulfilled promise

# The world banana market

## A crisis more structural than conjunctural

The world is generally divided between optimists and pessimists. The banana world is divided between the pessimists and the reckless. At the moment, the former are more frequent than the latter. The composition of this group is historically those in favour of a completely open market. Indeed, the WTO, the European Commission, the Ecuadorean government,

most European member-states and the United States firmly believe that the banana world will be a better place with a deregulated European market. The group of pessimists—roughly all the sector operators—is in a way suffering from the delusions of the reckless group. Since 2006, the first year of the liberalisation process, climatic and meteorological phenomena have substantially concealed the consequences of the change in regulations on the European market. Some, with a fair dose of hypocrisy, pointed a finger at the depressive effect of the switch from a quota system to a tariff-only system combined with a scheduled decrease in customs dues.

The sinister oracles will prove to be right or wrong in 2011 and doubtless 2012 as well. After finishing 2010 and starting 2011 on a wave of optimism close to exaltation (record import prices in Europe and the United States), the downturn was violent in the second quarter and considerably amplified in the third.

Overall, the reasons for this worsening of the market can be identified as the increase in the quantities traded at the world level and especially in Europe. In fact, 2011 was a demonstration of the classic relation between supply and demand. The basic trend is clear: 5% more volume from April to July 2011 in comparison with the same period in 2010. Month

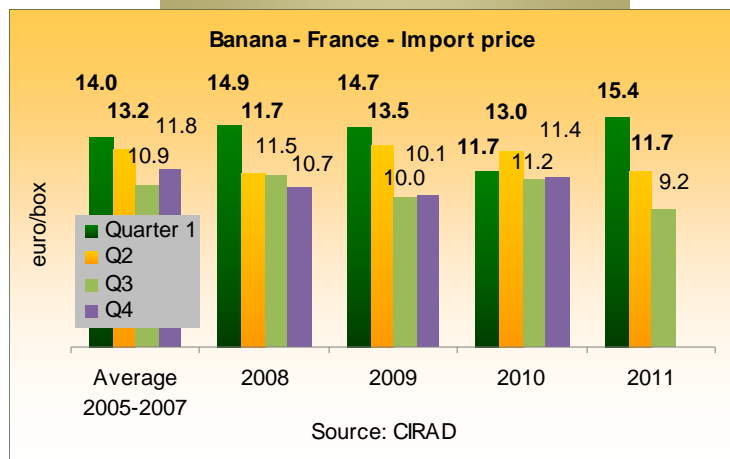
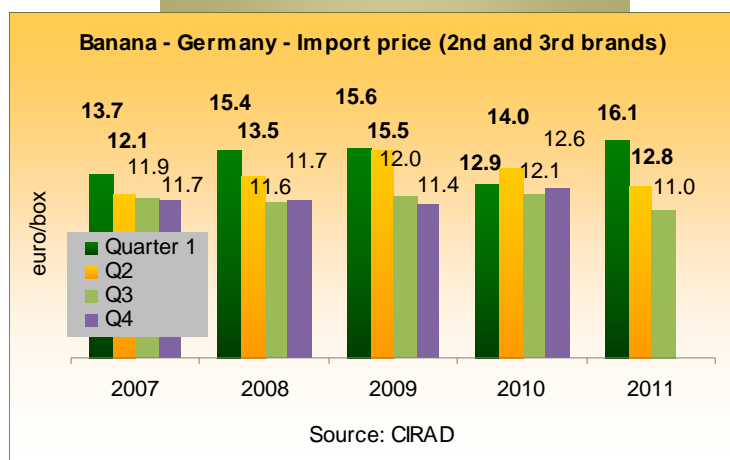
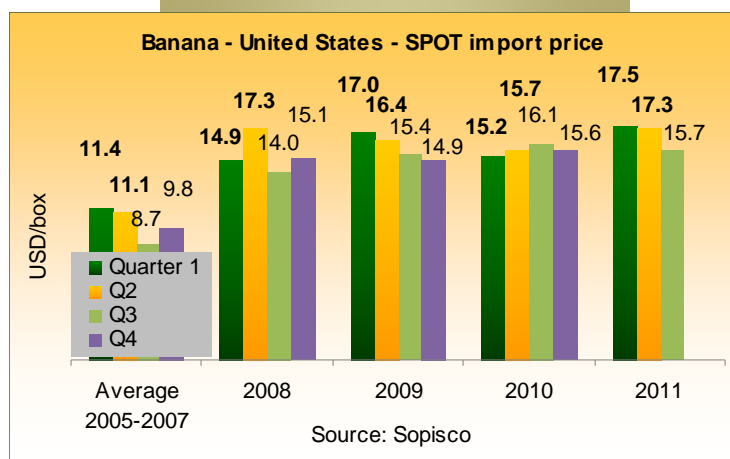
after month, the increase ranged from 2 to 8%. Finally, 76 000 tonnes more fruits were sold in four months. Another indication of the pressure of supply was found in Ecuador, the world's leading supplier, which has never exported so much: 193 million boxes shipped in the first eight months of 2011. This is 15 to 20 million more than in preceding years.

But the increase in the quantities sold in the EU does hide a few subtle points. Thus the revolutions in the Mediterranean region disturbed the flows of banana, with a proportion of the fruits returning to the EU. The crisis centred on summer fruits did nothing to solve the problem. The poisonous cucumber syndrome also had an impact on demand, further widening the gap between the latter and the vast quantities available. Finally, the more or less diffuse effects of the economic slump also weighed on consumption in general. But you have to be clear. These conjunctural factors just aggravated a clear trend of increased supply of bananas on the world market and particularly in Europe.

**The depression in the banana trade in recent months leads to fears that the market may experience another serious structural crisis. If production capacity remains intact at the end of the hurricane season, supply should be plethoric in 2012. Especially as the aborted emergency plan set up by Ecuador shows how difficult it is to regulate supply. In any case, there is no question of doing this on the supply side: the funeral oration for the common market organisation of banana was given a long time ago.**



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## Thank you Uncle Sam

Salvation, or at least a partial rescuing of the market, came from the United States. The arsonist unwittingly played fire-fighter. Monthly quantities imported into the United States increased steadily throughout 2011. The monthly surplus in comparison with the 2008-2010 three-year average ranged from 3 to 10%. Only the March imports were stable. In the first seven months of the year, an additional 130 000 tonnes was imported into the USA. And in contrast with European import prices, which plummeted during this period, US prices held steady at the worst and increased at best. The very special structure of the US market enabled this performance. This is further proof that market organisation, whether on a volunteer basis, as is the case in the United States, or under the constraint of regulations, as was the case in Europe for nearly 15 years, can maintain a fair price for everybody—including consumers. Indeed, with or without market regulation, retail prices seem to be disconnected from import prices to a considerable degree: they have not displayed any major inflation in the USA and Europe. They are disconnected to such an extent that French retail prices increased markedly this summer whereas supply was plentiful.

## The derisory effects of regulation by supply

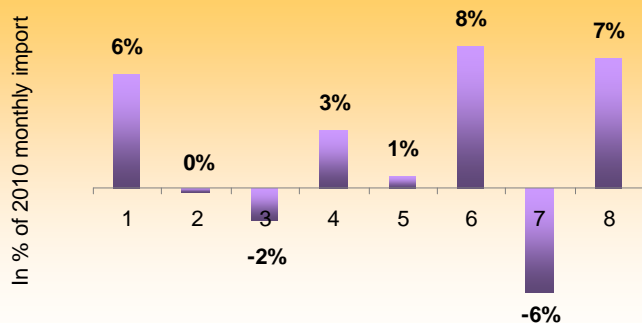
Once the observation has been made, the central question is that of knowing whether the crisis is more structural than conjunctural. Like any market, and especially agricultural markets, the banana market is punctuated and shaped by crises. Some indications make it possible if not to reach a conclusion at least to guide reflection towards the 'structural crisis' hypothesis. We can examine three examples. First, the triggering of the banana emergency plan in Ecuador. Starting on 18 August 2011, the authorities have set up a support fund for small producers. It totals a little more than 10 million euros and the aim is the weekly withdrawal of 1 million bunches of the 5 million exported and distribute them to small livestock farmers in the Andes or ship them to friendly countries such as Cuba and Venezuela. The system soon turned into a total fiasco. Hardly 100 000 bunches a week were purchased, that is to say less than 2% of 'official' Ecuadorean supply. The rules of eligibility (invoice, listing on registers of producers, tax returns, etc.) soon became too much for the great majority of producers. Furthermore, transport from the production zone to the Andes was neither organised nor funded. In addition, numerous producers complained that they had not been paid in time, further eroding the little confidence that they have in the Ecuadorean government. Finally, the programme took so long to set up that the market did



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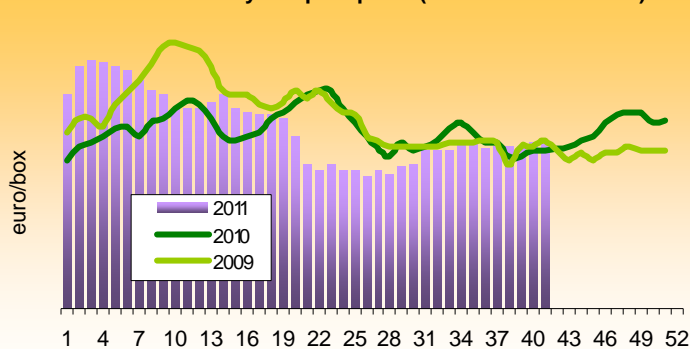


Banana - United States - Monthly import - Variation 2011/2010



Source: US customs

Banana - Germany - Import price (2nd and 3rd brands)



Weeks / Source: CIRAD

its work for it. Producers prices recovered to USD4 per bunch, marking the final end of the emergency plan. There is now talk of financial support for aerial spraying to control Black Sigatoka in small farms.

On another note, it is interesting to dwell a moment on the Ecuadorean government's interventionist policy. It is good, it is good politics and it is often the only solution in agriculture as agricultural prices are extremely volatile. But, in this 'Do what I say, not what I do!' series, the policy is of the same theoretical nature as the inspiration of the CMO banana, whose leading gravedigger was Ecuador. Pity!

Colombia and Costa Rica are the second example. They recently undertook a voluntary reduction of exports for a certain period in order to maintain world prices. This is extremely rare and it happened in 2011! Finally, as regards trading companies, even though Dole's major capital-intensive and organisational manoeuvres in Europe are not related to the current crisis alone, they prove that companies in the sector are suffering and expect to suffer more.

Note should also be taken of the effect of exchange rates that make a large contribution to the competitiveness of certain countries, especially on the European market. Thus the relative fall of the euro against the dollar in recent months has bitten into the returns of Latin American producers.

### Mayan prophecy with a taste of banana

At a risk of being alarmist once again, we can prophesy that 2012 will be particularly dangerous for the banana sector. Indeed, at the time of writing, production capacity is intact and the hurricane season is over. It is true that the rains have been heavy throughout Central America and the Caribbean, but the hurricanes missed the banana production zones. This is obviously magnificent for the local populations but it forms a threat for the world market. In previous years, the world market has had to live with hurricane seasons, gales, El Niño and La Niña and floods. A calmer year as regards weather means that world supply will increase automatically. And the regulation mechanisms for handling this strong increase have disappeared, especially in the EU.

So the Mayas might well have been right. They forecast that the world would end in December 2012. Why wait until then? The first signs could be confirmed in the first few months of 2012! Unless the sky falls on us before then ■

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