Reform of the common market organisation of banana
Uncertainty gradually dispelled

After 18 months of discussions and negotiations, on 9 October the European Commission submitted a text to the European Council in Luxemburg that forms the foundation stone of the future common market organisation (CMO) of banana. It sets out a quota system with quota distribution using a first come first served system until 2006, and then a switch to a tariff only system.

When it was France's turn to take the presidency of the European Council in July this year, the idea that there could be a decision concerning reform of the CMO of bananas by the end of 2000 was in the realm of the imaginary. The energy devoted by the European Commission—and especially the Directorate-General for Trade run by the Frenchman Pascal Lamy—to settle the banana dispute will doubtless win against the lack of eagerness of most European capitals and of numerous operators.

A CMO under temporary reprieve

The EU implemented a new market supply system on 1 January 1999. This third version of the CMO banana (cf. ***FruiTrop*** 53, 62 and 68), revised after its condemnation by the WTO, is based on three major principles: (1) support for European producers, (2) protection of the interests of ACP growers and (3) application of quotas to 'dollar' and ACP origins accompanied by a distribution of quotas among European trade operators on the basis of historic references.

As soon as it was implemented, this version was condemned once again by the WTO for failure to conform with the rules of international trade and the United States and Ecuador obtained the right to apply extra duty on imported European products for a total amount in excess of $US400 million per year. In principle, European Union member-states have two solutions. Either those hardest hit by this retaliation agree to pay the 'tithe', considering that they have more to lose than to gain in reforming the CMO once again, or they propose a 'WTO compatible' reform on a collegial basis. EU member-countries have not chosen the trial of strength. At the international scale, they do not desire an impasse in the settling of the banana problem and the continuation of this trade dispute between Europeans and Americans.

The Commission has multiplied all kinds of consultations for more than 18 months, holding discussions with supplier countries, trade operators, the United States, EU member-states, etc. Four of the official documents produced by the Commission provide a glimpse of its strategy. The first is dated May 1999. The Commission reported very great difficulties in finding a middle ground on the subject, but proclaimed that if there is a reform it must on no condition add to the budget allocated to the support of European producers, i.e. €250 million in 1999.

The second document was delivered to the Council of Ministers at the beginning of September 1999. In a very short text, the Commission noted the impasse reached by the negotiations and suggested the establishment of a tariff only system. Two months later, the Commission proposed a two-stage reform with a transitory phase of the quota type to remain in force until 2006 at the latest and subsequently a tariff only system.

On 4 October 2000, the Commission refined the text again and gave more details of its proposal. The calendar and features of the previous proposal have been conserved (transitory quota phase and then a tariff only system). However, the text goes further into quota management during the transitory phase. After confirmation of the feasibility of the system by the Directorate-General for Taxation and the Customs Union, the Commission proposed the setting of three tariff quotas (A, B and C) totalling 3 403 000 tonnes for all extra-community origins. In practice, quotas A and B would be administered as a single quota. All the operators would have the same access to these three quotas on the basis of a slightly revised 'first come first served' system. The Commission preferred this to the distribution of quotas on the basis of historic references, in particular for reasons of compatibility with WTO rules. The text proposes that the quantities should be divided into sub-quotas open for a week or, more probably, a fortnight, with these periods being referred to as 'windows'.

The customs duty levied on bananas other than those of ACP origin will be €75 per t for quotas A and B and €300 per t for the C quota, the former traditional ACP

Reform of the CMOB — October 2000

	Bound tariff quota			Above quota
Transitory phase — Until 1 January 2006 at the latest				
	A	B	C	
Quantity (tonnes)	2 200 000	353 000	850 000	Without limits to quantity
Open to...	Third countries including ACP			
Customs duty	€75 per t: third countries excluding ACP €0 per t: ACP		€300 per t (*): third countries excluding ACP €0 per t: ACP *(*) : reduction possible during the year*	€680 per t: third countries excluding ACP €380 per t: ACP
Change	Fixed	The quota can be increased in two cases : • increased consumption, • supply affected by exceptional circumstances.	Fixed	-
Quota management system	'First come, first served'			-
1 January 2006 at the latest				
Tariff only				

quota. ACP origins in the three quotas will be zero-rated. The Commission wishes to maintain control of the customs duty on the C quota and lower it during the year if necessary. It is noted that 'traditional ACP supplier' status disappears, which will doubtless please candidates like Ghana or other potential ACP exporters.

Banana liar poker

In parallel with the progress made in the EU, or rather encouraged by the hyperactivity of the Commission with regard to the subject, certain operators and Latin American countries substantially changed their positions as the negotiations proceeded. Indeed, seeing that the Commission had only a single imperative—that of the compatibility of the CMO with WTO—they above all sought a compromise so as not to finally smash the European market, one of the last in the world to be profitable.

Everything would seem to indicate that we are in the final phase of the negotiations. Some people are even talking of the system coming into force in the second half of 2001. The plan proposed seems to be terribly simple: no more certificates and transfers ('paper bananas'), the abolition of allocation by origin and the end of the notions of trade operator and traditional ACP status.

Nevertheless, many areas of uncertainty remain outside the general framework. Indeed, the measures planned do not ensure sufficient reliability for the system in spite of the disappearance of the paper banana market and of the deposit (€200 per t) that accompanied import requests if the quantities authorised had not been imported. Supposed and proven fraud in the present system (counterfeit certificates, illegal imports, changes of origin, fraud in the net weight of boxes, etc.) encourages caution in quota management. Many operators also question the technical feasibility of such a system. Should the total amount of demand during an import window exceed the imports allowed, a reduction coefficient would be applied to all the requests. The entire cargo of a vessel might not be allowed entry to the European market within the framework of the quotas. Markets outside the European community would serve as safety valves, as is the case today. However, medium-term programming will no longer be possible. The reaction will be instantaneous in the future because the bananas will already be at sea when operators are informed of the reduction coefficients.

This difficult day-to-day management will be accompanied by problems in fortnightly or even weekly market administration. Close market knowledge and the setting up of an economic watch to provide indicators for market steering (consumption, export potential, prices, competition from other fruits, etc.) will be essential.

Finally, I should like to stress the considerable imprecision—and even the absence of serious calculations—concerning the financial repercussions for both the transition phase and the tariff only situation. The lack contrasts with past threats to the European growers of reducing the support policy were the banana market to deteriorate seriously.

Operators and states are now drawing up their accounts. Heinz Moeller, the Chancellor of Ecuador, has announced his country's support for the proposal. In contrast, many producer countries influenced by the United States reject the proposal. It is just the beginning of a war of nerves ■

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