

CMO Banana

Should compensatory aid be regionalised?

Between 200 and 300 million euros have been distributed to European banana producers every year since 1993. The way in which this aid is calculated is unfair as it has 'institutionalised' net incomes that differ considerably according to the European production regions. The regionalisation of aid would be one of the solutions for a partial reform of the system.

A detailed analysis of compensatory aid for 2001 was published in the previous issue of *Fruitrop*. It was stressed in the article that the comparatively low level of aid and above all the convergence of the average receipts of the main European banana producers would not encourage discussion of reform of the aid system. Even if the discussion has not taken place, everything goes towards initiating it.

Net income: considerable differences

First of all, this aid is important with regard to the sums paid out to the European fruit and vegetables sector, reaching a fifth of the support fund in 2000. Recent reforms of the CAP in general and of support for the fruit and vegetable sectors in particular have featured a considerable reduction in direct aid for incomes. Furthermore, would it not be preferable to profit from the calm resulting from the 'fair' distribution of 2001 aid between the three main producers (Martinique, Guadeloupe and the Canary Islands) to consider a partial reforming of the system? Finally, the method of calculation itself invites criticism. It generates considerable differences in net income (sale price + compensatory aid + supplementary aid) between the different production zones. In 2000, Guadeloupe and Martinique obtained a net income of EUR 617.10 per tonne in comparison with EUR 666.20 for the Canaries. The system makes it possible to over-compensate the loss of income of some and under-compensate that of others to a considerable extent (cf. *Fruitrop* 81, pages 2 and 3). For example, Guadeloupe 'lost' more than EUR 23 per tonne in 2000, that is to say an outright loss of EUR 2 million for the sector. At the same time, the Canaries were the major beneficiaries of the system and were over-compensated by EUR 26 per tonne,

resulting in a gain of more than EUR 10 million!

Regionalisation: a solution?

The regionalisation of the calculation of aid could be one of the lines of reflection for a partial reform of the system of support for European producers. Today, European regulations require the payment of the same level of compensation whatever the sales level obtained by the different production regions. Regionalisation would enable the accurate calculation of the effective loss by production zone and comparison of this with the real selling prices of the bananas from the region in question on the European market, thus avoiding the very considerable distortions described above. Regionalisation would thus enable the different production regions to obtain identical incomes.

The impact on the European budget would be fairly slight. Application of regionalisation since 1994 would have enabled the saving of EUR 22.5 million, that is to say less than 1.5 % of the sums paid out since that date (EUR 1 741 thousand million). In contrast, regionalisation at the production zone scale would have a marked impact on each of them. There would be 'winners'—Martinique, Guadeloupe and Madeira—and 'losers', starting with the Canaries and then Greece. The Canaries have been over-compensated six times during the eight years of CMO banana and have received an extra EUR 63 million. Greece, even though it is a very marginal supplier of the European market, has received a financial bonus of over EUR 6 million. The system even enabled it to receive aid from 1994 to 1998 when the selling price was considerably higher than the flat-rate reference income!

A virtuous but perverted system

The present system nevertheless has a considerable advantage but this is perverted in practice. One of its objectives was to encourage each producer to improve his own competitiveness: the more his selling price exceeded the European average, the greater his individual bonus. However, few producers have played the game. Most saw this measure as an elitist system, whereas it would be preferable to talk in terms of merit or virtue.

Many factors are in favour of a change or the maintaining of the status quo (see following page). One factor, the total regionalisation of aid, is considered to be prohibitive for change by French producers, especially in Martinique. This would consist of regionalising the method of calculation with regard to prices (comparison of selling prices by region and the flat-rate reference income) and also volumes. Each production region would be limited to the reference quantities defined in 1993. However, Martinique has long exceeded its quantities, profiting from the unused volumes, especially by Guadeloupe, as permitted by the system. The creation of a French quota combining Martinique and Guadeloupe could remove reticence. Such a quota already exists for Spain.

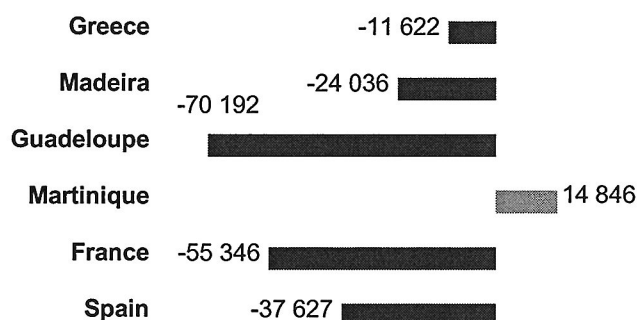
As can be seen, the discussion is not simple. This gives all the more reason for European producers to reflect and work within their professional organisations on a proposal in a peaceful atmosphere rather than in a rush. *Fruitrop* has opened the debate and will contribute its analyses ■

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Banana - Differences between average performance (1994-2001) and reference quantities
Tonnes



For the status quo

The risk of a switch to the total regionalisation of aid with a return for each production region to the reference quantities set in 1993. Martinique heavily penalised.

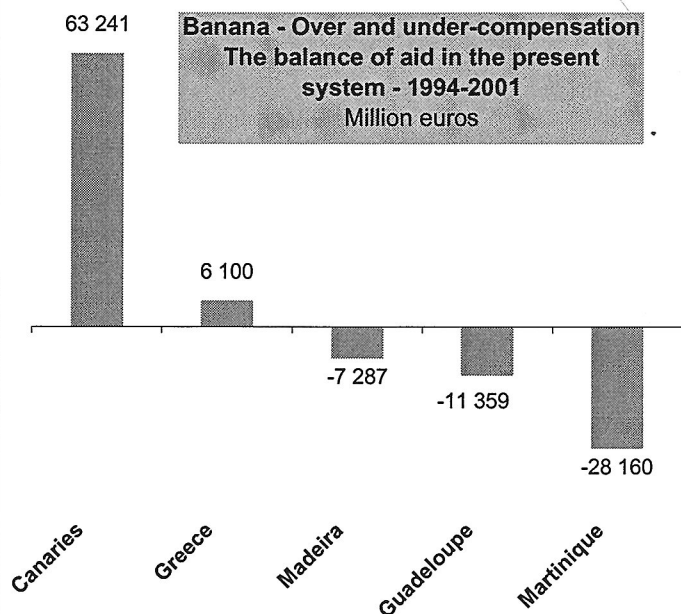
Position of the Canaries

Measures making it possible to improve the sale of Canary Island bananas in Europe:

- ambitious marketing plan,
- over-compensation makes it possible to conduct commercial and marketing operations,
- reduction of the number of producers' organisations: about 10 in comparison with 20 today.

1994-2001 financial balance **favourable** for the Canary Islands and Greece.

Banana - Over and under-compensation
The balance of aid in the present system - 1994-2001
Million euros



Source: Cirad-flhor Market News Service, Eurostat, European Commission

For regionalisation

A 'reasonable' level of final aid in 2001...

... and a practically identical 2001 average income in the three main production regions (the Canaries, Martinique and Guadeloupe).

Aggregation of the Martinique and Guadeloupe quotas in a French quota.

Position of the Canaries

Trend of 2002 prices (first 5 months) in favour of a regionalised system, especially if the depressed market trend is confirmed in the medium term.

Determination to organise banana production:

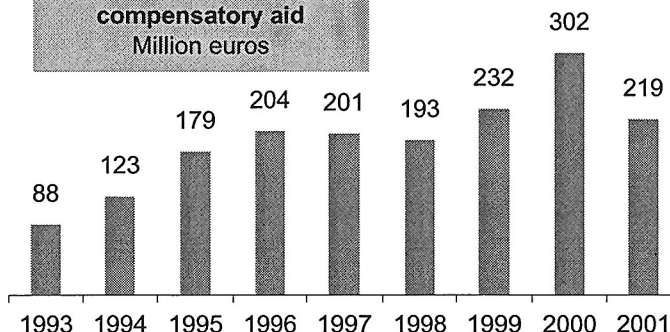
- exclusion of new plantations in the Canaries from the aid system,
- reduction of the number of producers' organisations: about 10 against over 20 today,
- limiting the attractiveness of the banana sector in the Canaries.

Financial balance for 1994-2001 **unfavourable** for Martinique, Guadeloupe and Madeira.

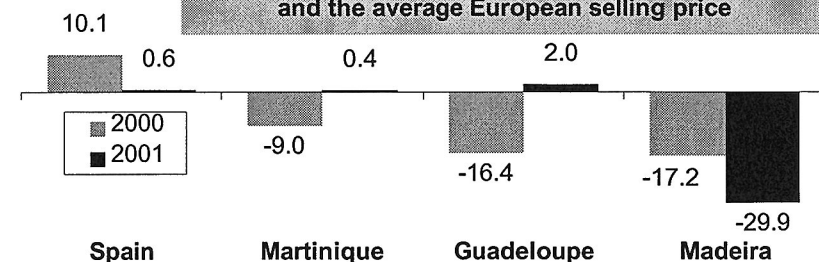
The European Commission is in favour of a reform in order to control expenditure (limit and ceiling).

Considerable differences between net incomes.

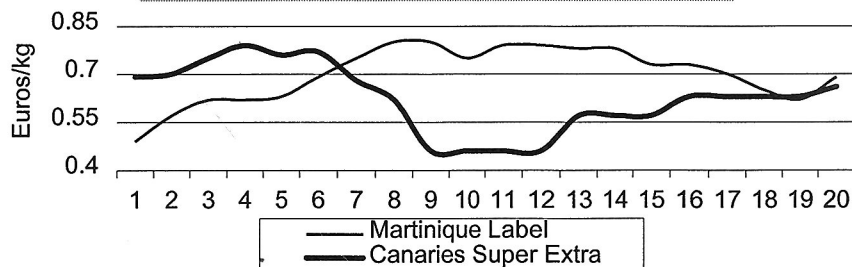
Banana - Financial weight of compensatory aid
Million euros



Banana - Difference between the selling price by region and the average European selling price



Banana - 2002 - Difference in green prices between Martinique and the Canaries



Banana - 2000
Net income by region:
selling price +
compensatory aid +
supplementary aid

