

Common Market Organisation of Banana

The day of reckoning is high

Although often criticised, the CMO banana has demonstrated a degree of effectiveness. It can only be regretted that it was not able to resist the tidal wave of deregulation. The weakest origins fell by the wayside and the European market went to the strongest operators. This is no doubt the trend of history but surely not that of reason.

1993-2003 will have been an episode in the life of the European and world banana market. The CMO banana is ten years old. Users' opinion are mixed. Some consider that this common organisation of markets serves well while others feel that it is administrative interference in a liberal economic context.

Major politico-economic manoeuvres led the European Commission to signing with the USA in April 2001 a two-phase plan for the dismantling of the CMO banana. The second phase will lead to the final objective of the reform, the practically total liberalisation of the European market on 1 January 2006 with the setting up of a tariff only system. This transition does not appear to be automatic and questions remain to be settled, in particular with regard to the customs duties applicable to each type of origin. The European Commission must draft an evaluation report on the CMOB by 2004. The day of reckoning is therefore approaching.

In parallel, the Court of Auditors of the European Communities has just released a report on 'the sound financial management of the common organisation of markets in the banana sector'. It analyses the two components of the European banana policy—on the one hand the internal component and its support for European producers' incomes, and on the other the external component and its quota system. It is observed that the objectives assigned to the CMOB are contradictory and only partially attained.

The report is available in the Internet (http://www.eca.eu.int/EN/reports_opinions.htm) and is

accompanied by the Commission's replies. The document shows that the CMOB has failed. Far from being perfect, it has nevertheless performed a large part of the mission set for it by the member-states in 1993.

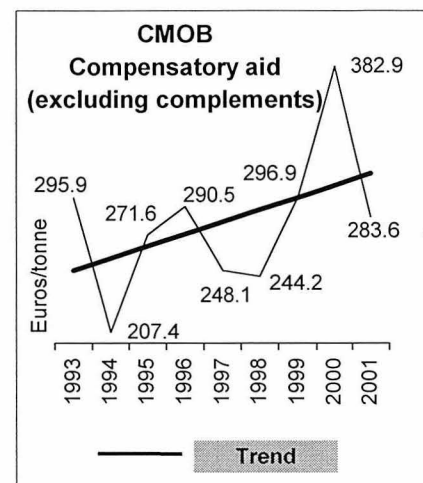
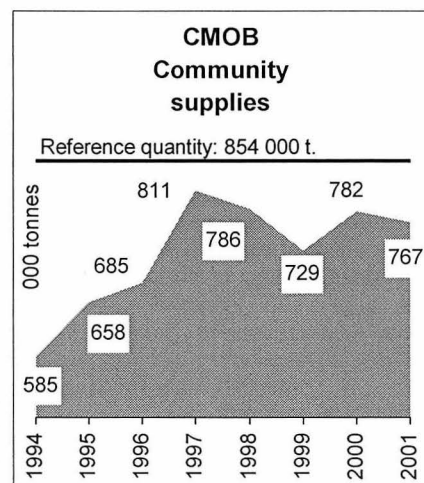
Unknitting the CMOB

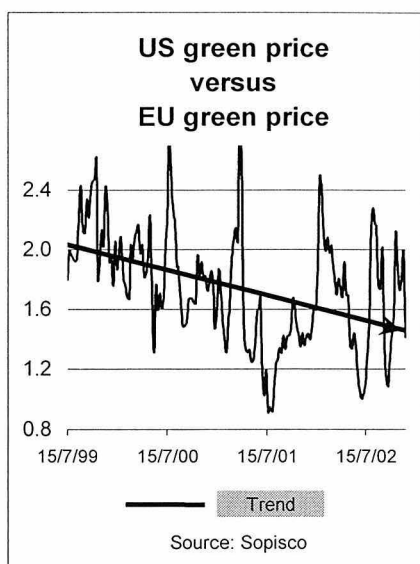
There is not just a single way of reading the CMOB. This tentacular regulation has undergone numerous changes in ten years and, in particular, three major revolutions (the 1995 enlargement, the 1999 reform and the 2001 US-EU compromise). The CMOB designed and implemented in 1993 is very different to that inherited from the last diplomatic battles with the USA. This regulation drift, in particular for the external component, is a true unknitting of the basic principles on which the European regime was based (see box). The very positive effects of the CMOB during the early years are tending to fade.

Community preference is respected as a whole in the regulations and in

practice, at least in the light of the volumes marketed by the different European production regions. The 854 000-tonne ceiling beyond which compensatory aid is not awarded has never been reached. The 800 000-tonne mark was exceeded in 1997 but the performance has never been repeated. Community preference has therefore been assured to date, but at what price! The European market is worsening year after year and the level of support awarded to European producers is a good indicator of this. The trend has been poor since 1993. It is true that access is still guaranteed but at ever lower prices requiring ever increasing support.

This is one of the repercussions of the opening of the European market to international competition via an unjustified increase in tariff quotas (excluding ACP countries). Except for the increase decided in 1995 related solely to the three new EU member countries (+ 353 000 tonnes), these tariff quotas (a great proportion of which are used for importing dollar bananas) were raised by 300 000





tonnes between 1993 and 2002, that is to say a 15% increase.

The suction effect for dollar bananas was accompanied by the loss of the meaning of the CMOB. In the system in force until 1 January 1999, obtaining a share of the dollar banana import certificates was subjected to the importing of community or ACP bananas. This meant that the more community or ACP bananas an operator marketed, the more rights he obtained to import dollar bananas. The abolition of this certificate issuing system under pressure from the transnational corporations was the end of the principle of the interdependence of origins.

The supplying of Europe was no longer based on its own production and the availability of fruits from the ACP countries (historically privileged partners). Since 1999, the EU has obtained supplies on the international market, completing them with community and ACP supplies. The priorities of the CMOB have changed considerably. The most competitive countries sell in the EU and the others

Some founding principles of the CMOB

- Respect of community preference.
- Respect of international obligations.
- Allowing sale on markets at fair prices.
- Respect of traditional flows and trade channels.
- Maximising community producers' incomes and increasing productivity.

unload their production and the European producers are compensated to the limit of their production costs. The system will function as long as compensation is both sufficient (a question of budget) and also acceptable for European public opinion. It will always be easy to point a finger at European production receiving 'exaggerated' levels of aid, while forgetting the reasons leading to providing such massive support for this sector.

ACP countries marginalised

The same causes can have much more painful effects. Since 1999, the policy of deregulation of the European banana market has had dramatic effects for the least competitive ACP producers. Those in the Caribbean are in the front line. Even though they receive investment aid from the EU (technical and financial aid), they can no longer manage. These origins grow bananas in a more or less artisanal manner in comparison with the large Latin American producers and are not equipped for survival in a European market that no longer has a privileged position for them. Europeans have a true political choice to make rather than an economic one. What alternative can be proposed to countries that will never be competitive and that draw a large proportion of their resources from growing bananas? Have the objectives of the CMOB become incongruous at a time when the watchwords include 'sustainable development' and 'ethics'?

Banana sector employment in relation to total employment	
St Lucia	30%
Dominica	36%
St Vincent	35%

Source: Winfa 1999; 1995 data

The latest unfavourable measure for ACP producers was the transfer of 100 000 tonnes from the C quota (known as the ACP quota) to the preferentially dollar A/B quota. A very simple analysis of ACP banana movements in 2000 (*Fruitrop* 88) shows that this measure can result in strong competition between ACP producers for the obtaining of import certificates as the quota is smaller than the quantities available at production. This critical situation did not occur in 2002 for the simple reason that the quantities available were well down in St Lucia (weather problems) and Surinam (socio-economic problems). Finally, it is better to make an offering

and call upon the gods of wind and rain than expect the respect of Europe's international undertakings with regard to the ACP countries. The current enlargement process (10 new members) is no reassurance. I bet that the increase in EU banana consumption will benefit the dollar origins alone (*Fruitrop* 96).

The reforms have also changed the balance between European operators. 1 January 1999 already changed the procedures for the distribution of import rights. The agreement of April 2001 (that came into force on 1 July 2001) was a step backwards once again, strengthening the positions of the large international operators and simultaneously weakening the positions of most national operators.

Towards an effective tariff only situation

Study of the European market reveals two strongly contrasted periods. The period from 1993 to 1998 was that of resistance to attacks by the United States and certain dollar banana supplier countries. There was resistance to deregulation and the abandoning of the founding principles of the European regime. The second period started in 1999 when the system was made conform to the conclusions of the WTO panels. The concessions considered too timid by the USA were extended in 2001, gradually emptying the CMOB of its spirit.

The next and doubtless the last stage of the reform of the CMOB is the switch to a tariff only system on 1 January 2006 at the latest. However, it can be seen that the market could change to this before the official date. The reckless increase in availabilities with no reference to the actual consumption makes the quota system ineffective as there are no constraints. The test of European enlargement will be revealing with regard to the determination of the European authorities to contain imported quantities. If not, we might soon find ourselves in a *de facto* tariff only system, without the need to renegotiate the customs duty of Euro 75 per tonne already applied to the dollar origins. What time-saving for European and American negotiators!

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