CMO Banana

2002 compensatory aid: an unannounced reform

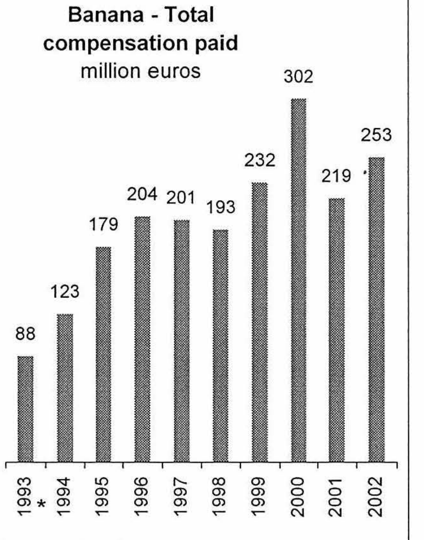
Some EUR 253 million will be disbursed as compensatory aid for loss of income for 2002. As their bananas sold less well on the European market, Martinique and Guadeloupe will benefit from supplementary aid. Beyond the question of figures, discussions concerning the calculation of the final aid for 2002 were the occasion to setting several major principles for the future: aid-related expenditure will be closely supervised and the EU will request substantial efforts from the least competitive producers. It has its eye on French producers.

The European Commission's message is clear and unambiguous. Expenditure involved in the support of the income of European producers (compensatory aid for loss of income) must be closely supervised and should display a downward trend in the years to come.

This is in any case the line of the decisions made at the meeting of the Management Committee for banana on 7 May. On this occasion, EU-15 was to set the final compensatory aid to be awarded to European banana producers for 2002. In principle, this aid should make it possible to limit the harmful effects of the fall of banana prices in Europe on European producers' incomes. Decided in 1993 when the common market organisation of banana (CMOB) was set up, the method used to calculate this aid has always been a source of endless discussion and frustration. The principle consists of calculation of the average selling price of all the community bananas marketed and then the comparison of this with the flat-rate reference income, set at EUR 640.30 per tonne. The difference forms the compensatory aid for each farmer, whatever his individual selling price.

A bonus for the best

The system seems very simple and works wonderfully when the incomes are equivalent in the different production regions. This is not at all the case when a production zone sells its goods at a price well above or well below the European average. Indeed, the system has often been qualified as elitist and is generous to producers who sell their produce well on the market, especially if others have serious sales problems at the same time. As everybody receives the same compensation, the most virtuous producers are overcompensated (aid greater than losses). Conversely, the economically less effective producers are penalised as their losses are not fully compensated by the aid.



* : 6 months of 1993

À la carte supplementary aid

An aid supplement is paid out to reduce some of these perverse effects. Portugal is strongly concerned by the question and adroitly negotiated at the Council of Luxemburg in June 1998 what is known as the Madeira clause. This makes the calculation and payment of this aid supplement automatic without the need for epic negotiations each year. When the selling price of Madeira bananas is 11% lower than the average European selling price,

The aid supplement as an equation

Like the Madeira clause applicable to Portuguese production, the European Commission has proposed a method for calculating supplementary aid for the other production regions. An equation sets three major principles:

- the first 10% of the difference between the community price and the regional average price will not be compensated, thus forming a kind of 'excess';
- in 2004, the European budget will only compensate 50% of the loss against 65% in 2003 and 80% in 2002;
- the idea of graduated aid is introduced: the farther the prices received by a region from the average community prices, the smaller the compensation.

$$\text{2002 aid supplement} = \frac{80\% \times [(0.90 \times \text{average EU price}) - \text{average regional price}]}{(0.90 \times \text{average EU price}) / \text{average regional price}}$$

producers to maintain or even develop production and to be significant stakeholders on the European banana market. Even if this is an established right in the eyes of producers, it is nonetheless almost a heresy in an international economic environment strongly dominated by the globalisation of trade and the reduction of trade barriers. Achieving the coexistence of very different production systems such as that of the strongly subsidised European origins and that of the origins supplying the market at the international price is not necessarily easy.

Improvements should nevertheless be made, in particular in the everyday management of aid. The main problem for planters is the need for cash. The pre-financing of advances by banks is expensive. It is urgent to set up different payment procedures: monthly payments, adjustments at regular intervals, the implementation of exceptional measures according to market conditions, etc.

Development for the long term

Improving the incomes of producers—and of French producers in particular—also requires reflection on marketing procedures. Martinique, and Guadeloupe in a more timid manner, have undertaken the reform of their commercial approach. It is the beginning of awareness that better knowledge of the downstream part of the sector is needed in addition to actually growing bananas. The strengthening of links with importers, ripeners and large-scale distributors and the development of a partnership with these operators on a long term basis form very large reserves of competitiveness. True discussion with the large-scale distribution sector, first of all in France, should also be an essential feature. It is incomprehensible that distributors maintain high prices during periods of slump when the prices tumble at the import stage. In contrast, a downward adjustment of prices is necessary in this case to clean up the market by stimulating consumption.

Criticising and fighting the European system of support for producers is pointless. All this is just the trees hiding the forest. The system must certainly evolve but the sectors must undertake procedures to make progress and seek reservoirs of competitiveness. This requires first of all improvement of the value of the produce throughout the sector ■

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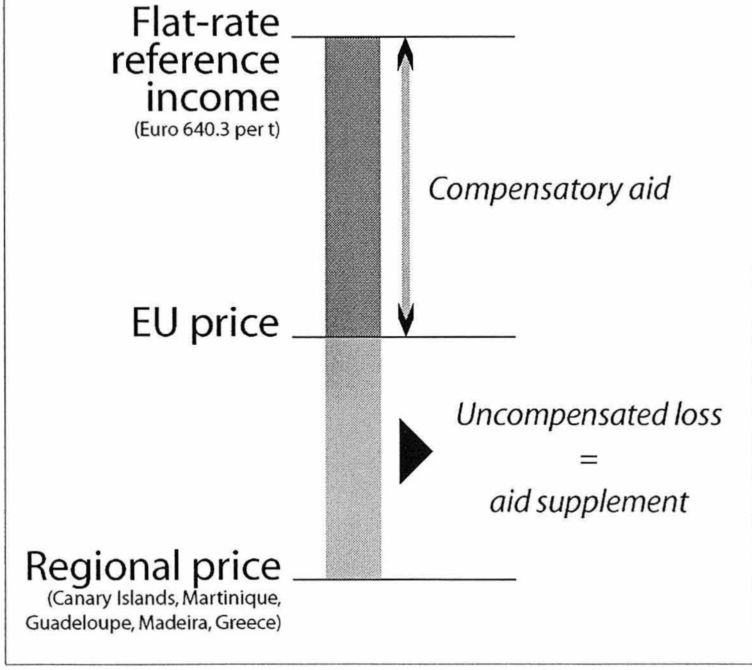
1994/2002 — Community bananas sold

Tonnes	1994	1995	1996	1997	1998	1999	2000	2001	2002	*Guide quantity*
Canaries	321 555	369 387	345 943	403 999	437 414	362 188	397 578	420 919	407 343	*420 000*
Martinique	151 965	188 073	249 733	277 013	240 499	258 501	271 269	233 716	263 880	*219 000*
Guadeloupe	82 165	63 207	60 919	97 734	74 294	83 508	87 592	89 042	95 063	*150 000*
Madeira	25 866	34 401	24 203	27 890	30 436	21 770	22 461	20 682	21 903	*50 000*
Greece	3 071	3 138	3 807	3 901	3 589	3 336	3 276	2 909	2 433	*15 000*
Total	**584 622**	**658 206**	**684 605**	**810 537**	**786 232**	**729 303**	**782 176**	**767 268**	**790 622**	***854 000***

CMO Banana Complementary aid and the supplement



Calculation of supplementary aid

❶ **Madeira clause**
If the difference between the EU price and the Madeira price is more than 11 percent, 75 percent of the difference is paid

❷ **For the other regions, the following formula is applied in 2002**

$$\frac{80\% \times [(0.90 \times \text{average EU price}) - \text{average regional price}]}{(0.90 \times \text{average EU price}) / \text{average regional price}}$$

Source: FruiTrop / Cirad-flhor

producers pocket 75% of the difference. Portugal was awarded supplementary aid eight times during the first ten years of the CMOB. It is true that this concerned no more than 3% of the total quantity of community bananas. The sums involved are therefore comparatively modest.

There is nothing automatic for the other production regions with prices traditionally lower than the European average, such as Guadeloupe and Martinique. The extent of coverage of the price difference varies from 45 to 50% according to the year. This range was exceeded once (75%) to cover part of the damage caused by hurricane George. This is henceforth no longer the case. The European Commission has proposed a mathematical formula for the calculation of supplementary aid without discussion (see box).

Using the new rules of the game, the Management Committee decided on classic compensatory aid (CA) of EUR 303.30 per tonne and a supplement of EUR 33.30 per tonne for Martinique and EUR 45.70 per tonne for Guadeloupe. The supplement covers 40 to 42% of the difference respectively. This is clearly very remote from the Madeira clause (75%).

Talk of regionalisation again

This system can be criticised when the net income in each production region is examined. The Canary Islands are outright winners once again. Their net income (selling price + aid supplement) is more than EUR 720 per tonne, i.e. 113% of the flat-rate reference income. In contrast, even when the supplement is added, Guadeloupe falls to EUR 576 (90% of the flat-rate reference income), Martinique to EUR 590 (92%) and Madeira to EUR 619 (97%).

Compensatory aid — Balance 1993/2002

Euros/tonne	Value of EU production	Compensatory aid (excl. supplement)	Flat-rate reference income
6 months of 93	297.0	295.9	592.9
1994	385.5	207.4	592.9
1995	321.3	271.6	592.9
1996	302.4	290.5	592.9
1997	344.8	248.1	592.9
1998	378.3	244.2	622.5
1999	343.4	296.9	640.3
2000	257.4	382.9	640.3
2001	356.7	283.6	640.3
2002	**337.0**	**303.3**	**640.3**

Today, the least competitive producers face up to their responsibilities and agree to bear part of their losses. However, they cannot help but be surprised to see their poor commercial situation benefiting the Canary islanders. Under these conditions, a ceiling for aid set at the flat-rate reference income would be more logical. This would mean re-examining the thorny dossier on the regionalisation of aid which, as can be understood, does not receive unanimous approval (***FruiTrop*** 92, pages 7 to 9).

The system is complex and has been led off target, with exceptions to the rule, over-compensating some and under-compensating others, and it can be criticised in many respects. However, producers should not pillory a system that has played its role overall. It is the most generous of all the market organisations in Europe, with the disbursement of more than EUR 250 million in aid, the equivalent of the value of production. Aid forms between 57% and 61% of the net incomes of the most fragile producers. Furthermore, its automatic mechanism reassures financial establishments when loans are applied for. Finally, this system, combined with the other management measures for the European banana market, has enabled community

Banana — 2002 — Net income by region

Euros/tonne	Selling price	Aid	Supplement	Net income*
Greece	457.9	303.3	0	761.2
Canaries	417.4	303.3	0	720.7
Madeira	315.1	303.3	0	618.4
Martinique	253.3	303.3	33.4	590.0
Guadeloupe	227.0	303.3	45.7	576.0
EU	**337.0**	**319.9**		**656.9**

* Net income = selling price + compensatory aid + supplement

2003 worse than 2002?

While 2002 was already a difficult year for West Indian producers, what can be said about 2003? Indeed, the very poor situation observed during the first five months of this year and the widening gap between the selling price of Canary Island bananas and that of French bananas risks hitting planters' morale. In week 19, the difference in price between the two production regions was EUR 0.20 per kg to the advantage of the Canaries. In addition, during the first 19 weeks of the year, the French import stage price fell by 7% in comparison with 2002 and 28% in comparison with 2001. The first six months of the year are said to be the best period for banana, but this is strongly compromised. What is going to happen during the next six months?