

Reform of common market organisation of banana

Ready for combat

The common market organisation (CMO) of banana is to undergo two major reforms in the coming months. The first is related to the enlargement of the EU to 10 new member states on 1 May 2004. The second results from the agreement signed by Europeans, Americans and Ecuadoreans in April 2001 concerning the switch to a tariff-only system on 1 January 2006 at the latest. The two deadlines have generated much discussion in world banana sectors. Everybody knows that there is a risk of destabilisation of the international market. Nevertheless, the proposals for reform differ radically according to whether one is producer or importer, in the ACP or dollar zone or in northern or southern Europe. The recent seminar on banana held in Ecuador is an opportunity to review everybody's positions.

In April 2001, all uniformed observers announced in chorus the end of the banana war. Connoisseurs smiled and let them waffle on. They knew that it was true that the EU-US and then the EU-Ecuador agreements at the time (*Fruitrop* 80 - May 2001 - pp. 5-6) codified immediate, important changes in the mechanics of the CMO banana but above all postponed the major decisions. The agreement took position on one point, the switch to a tariff-only system on 1 January 2006 at the latest, without going into details. It was up to the subsequent negotiators to find procedures for applying the accord.

Nearly three years later, the muddle centred on the reform of market organisation has worsened. WTO rules on enlargements of trading areas, the ACP waiver and its problematical renewal, the switch to a tariff-only system, reform of support for European producers (an internal component of CMOB), not to speak of the strongly divergent interests of operators of all kinds, have all been thrown into the melting pot. It is up to the alchemist—the European Commission—to find the philosopher's stone and turn lead to gold. This is nothing very new for those accustomed to the Banana

Saga. What is different, perhaps, is the number of interested parties at the negotiating table. Although it is fairly simple to list the protagonists, it is more difficult, even practically impossible, to have a precise idea of

to do its job before changing the European supply system. The same observation can be made concerning other major international operators whose bases cover ACP countries, the dollar zones and Europe. They are torn between their different centres, and one day defend the radical opening of the market and the next wish for the adjournment or minimum freedom for the same market.

Ecuador holds the cards

This observation led the Ecuadorean professionals grouped in the AEBE (*Asociación de exportadores de banana del Ecuador*) to hold, at the end of January 2004, an international seminar on the very short term future of the European market and hence that of the world market. As Roberto Betancourt, Ecuadorean Under-secretary of State for bilateral relations, liked to mention, Ecuador is the world's leading supplier and signed the 2001

agreement with the EU and today claims a special place in future discussions. Before any negotiation, Ecuador would like a clearer view amid the maelstrom of opinions. These preoccupations were strongly



Uruguay Round, Marrakesh 1994 — Another new beginning

'And here, the participants wondered about the presence of the banana for a long time. Was it a Moroccan banana or rather a Guatemalan banana illegally imported to Germany via Belgium? Doubts were sown.'

their positions. This is a doubtless unforeseen effect of the globalisation of trade. Those who were the fiercest defenders of free markets in 1993 are now in a somewhat conservative position and would like to leave time

echoed by the sector, as could be seen by the very large participation (200 people) by Latin American producer countries, transnational and national operators and government representatives.

However, three major absences were noticeable at this important meeting: the political authorities of the two main economic blocs (EU and USA), ACP (Africa and the Caribbean) interests and those of European production. This is all the more a pity since the aim of the meeting was not to negotiate but to swap information about the desires of each party in a very relaxed atmosphere. The climate will be very different next time all the protagonists meet—at the end of March in the Canary Islands at a meeting of the FAO's Intergovernmental Group on Bananas and on Tropical Fruits—and more than two months of discussions will have taken place.

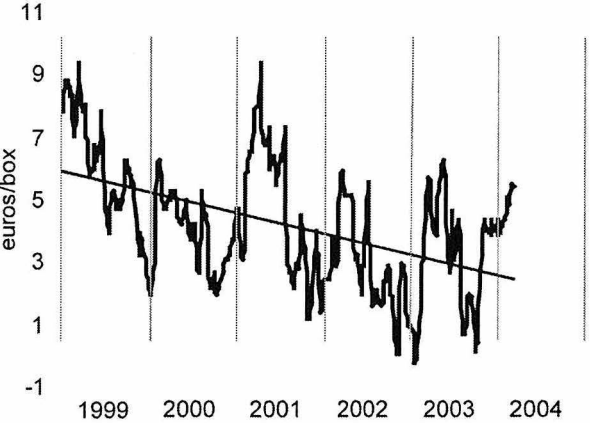
Undogmatic positions

It is interesting to note that the speakers were not at all dogmatic. Whether for Uniban (Colombia) or for Corbana (Costa Rica), the dossier is extremely complex and the field of possibilities is extremely open. Ecuador, the host country, was also very cautious. Sergio Seminario, its Minister of Agriculture at the time, admitted that he was there more to gather information than to take decisions. Analysis of the very dense discussions reveals a number of fears, conclusions or features common to all the participants.

The first consensus derives from ordinary common sense. The tariff-only system cannot be set up when the EU is enlarged on 1 May. All the participants agree and the European Commission was also of the same opinion at the Management Committee meeting on 11 February. The subject is too delicate and has too many economic (the general balance of markets) and political

implications to be handled in less than three months. The fact that bilateral or multilateral negotiations have not yet begun would make it even more difficult.

Banana - Difference between the EU green price (T2) and the eastern European green price (T1)



Source: Cirad

As we pointed out, the field of possibilities is still very broad. The obligation to switch to a tariff-only system by 1 January 2006 does not seem completely clear yet for certain interest groups. Some would be ready not to change and to remain in a quota system (see table). Should the tariff system be chosen, the

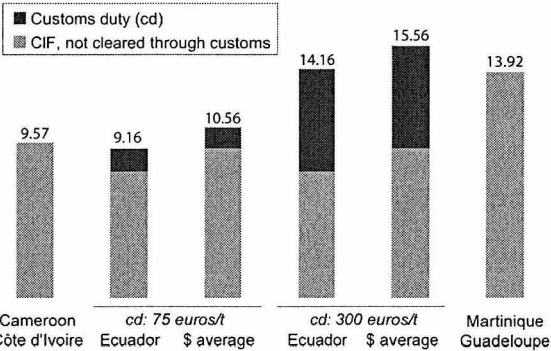
Conversely, too low a tariff would cause a flow of bananas on to the market and the alignment of the European price with the price on the international market. This prospect does not lead to rejoicing among the least competitive dollar origins such as Costa Rica that for years have accused Ecuador of dumping. The dilemma is a sizeable one. An acceptable customs tariff should ensure comparatively high prices in the EU without giving the impression of a planned hold-up. The refunding to suppliers of part of the tariff levied by the EU under certain conditions would be an acceptable measure for producer states (see table).

An extremely fragile market

The third consensus resides in the increasing fragility of the international banana market. The enlargement of the EU to 10 new member states will reduce overflow markets a little more. In much-noticed talks, numbers one and three in the sector in Russia confirmed these fears and called for greater coordination among suppliers. It is true that the Russian market is growing rapidly but it does not escape the classic laws of supply and demand. Its balance is precarious. From 1 January 2006 onwards, operators who have not succeeded in finding a place on the European market will only be able to turn to Russia or the Mediterranean area. As was specified by Paul Trauger, Noboa's representative in Europe, the Mediterranean and Middle Eastern markets have very low prices and very strict regulations (customs dues and import regime).

Turning towards the USA is no use as the situation there is no more favourable in either the short or medium term. Tim Debus, the International Banana Association (IBA) representative whose task is to re-launch banana consumption on the other side of the Atlantic, is having a hard time. As in Europe too, the fruit is suffering from lack of

Competitiveness of suppliers of the European banana market
Euros/box



Source: Chiquita (Seminario internacional - Ecuador - January 2004)

question for everybody is the setting of the customs tariff(s) by type of origin.

The second consensus concerns the very idea of customs tariff. High dues would be perceived as a tax levied by the EU on the developing countries and as a backward step in the process of the opening of markets.

interest. Banalisation is affecting a product that does not conjure up anything special for the consumer who buys bananas for food requirements only. Bananas are already in competition with snack foods and cereals and also an ideal target for the anti-carbohydrate brigade. It is among the foods to avoid on the lists of the very popular Atkins and South Beach diets and could do without this.

Chiquita is studying the question

Finally, and almost out of habit, numerous speakers criticised, sometimes very severely, those 'privileged' by the European banana system. Community producers, and above all ACP producers, were hit at once again in discussions. Dole, Noboa, Chiquita, etc. dwelled sometimes at length on the advantages in particular for African growers. This is once again the over simple opposing of ACP or community producers and dollar suppliers. As if this binary pattern could alone account for the fall in the international price, the slump in demand or the structural surplus in supply.

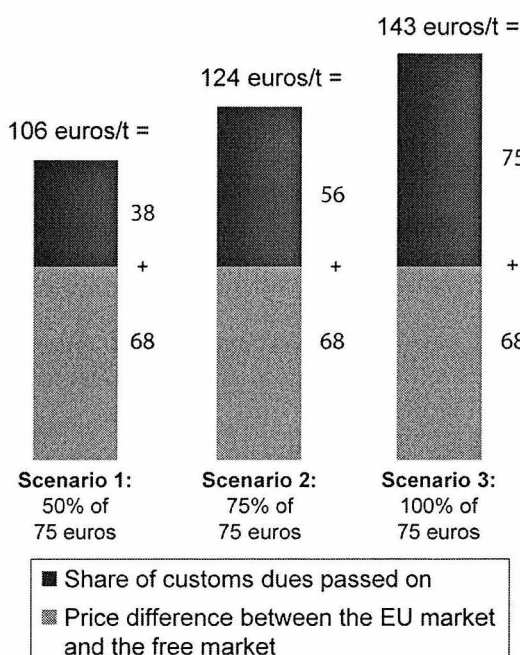
Participating in this outdated debate, Chiquita, through the voice of Manuel Rodriguez, showed how the tariff advantage awarded to the ACP countries (customs dues of EUR 75 for dollar fruits and zero for ACP production) makes ACP production much more competitive than that of most Latin American countries. Their competitiveness would even be comparable to that of Ecuador (see figure). He held that the very strong increase in exports from Cameroon and Côte d'Ivoire to the EU (more than 220 000 tonnes each) is flagrant proof of this. Chiquita's argument is based on two economic studies that it is currently performing. Waving a red rag, it warns that if customs dues of EUR 300 per tonne were to be applied to dollar bananas without the exception for ACP bananas touched, the Latin American sectors would lose more than USD 1 thousand million and European demand would

fall by 1.5 to 2.6 million tonnes. At EUR 150 per tonne, demand would fall by 0.5 to 1.1 million tonnes. Even at EUR 75, as is the case today, it is very probable that Latin America would be hit hard. Chiquita holds up as proof the fact that the A and B quotas have not been used to the full for two years. The latter point is totally nullified by the documents provided by the European Commission. The balance shows that in 2002 A and B quota certificates were used for 2 647 565 tonnes, that is to say under-use of 5 435 tonnes, forming slightly more than 0.2 % of the maximum potential!

customs dues of the price differential between the European market and a free market that is comparable in terms of standard of living, etc. Norway is used as an example, among others.

The study then takes the customs dues effect into account by using the hypothesis that the entire customs dues of EUR 75 per tonne is not entirely passed on along the distribution channel. In short, Dole proposes that the switch to a simple tariff system should be made as soon as possible to prevent the market from continuing to worsen and that the tariff should vary from EUR 106 to 143 per tonne depending on the hypothesis.

Tariff-only according to Dole



Source: David G. Raboy / Dole

Dole in for tariff-only

Dole expressed its position the most clearly, through Bernard O'Connor. Armed with a study conducted by an American law firm and widely distributed to the European authorities, Dole shows what the procedure should be for fixing customs dues in a switch to the tariff-only system. Rejecting econometric models, the study proposes the methods classically used by WTO in the case of change from a quota system to a tariff system. As in principle the new system should have the same economic effects (consumption, supply, demand and price level) as the present system, it proposes the conversion into

Social and environmental clauses: the Euroban premium for the best performance

Beyond the very interesting debates at Guayaquil, *Fruitrop* proposes a review of the positions of other groups of interest.

Presented in official speeches, on banners and on glossy paper, references to good social and agricultural practices did not take up much space in the discussions. Euroban (European Banana Action Network) nonetheless wishes to launch the debate. In a study written by two economists, Liz Parker and James Harrison, Euroban proposes the modulation of the customs dues to be applied to origins according to the respect or not of social and environmental criteria with a view to the sustainability of production and of the world banana trade. Even if the themes addressed in the document lead to more questions than answers, the approach is an interesting one and merits study.

There is nothing to prevent the European Commission from signing an agreement with supplier countries concerning the refunding of customs dues on condition that steps to make progress in good agricultural or social practices be taken by these countries. The EU could finance

An additional quota for the 10: what could be better?

The setting of the quota awarded to the 10 new member-states has been a fashionable subject for discussion for months. *Fruitrop* devoted a special issue to it in November 2002 (*Fruitrop* 96 page 4

ff.). The size of the quota should be related to real consumption by an extra 65 million people. And here lies the problem. It is impossible to obtain a precise idea of re-exports to EU-15, of movements between the 10 or the quantities exported from EU-15 to the 10 but already entered in EU accounts. These doubts fed the hypothesis of the probable over-supply of the European market after enlargement, should the quantities

announced by the countries be accepted when the additional quota is set.

350 000 tonnes for the last eight months?

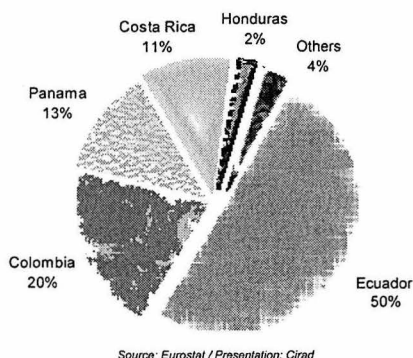
Analysis of common positions reveals average net imports of some 640 000 tonnes (average from 1998 to 2000). The latest Eurostat is the occasion for us to publish a new set of very recent data on the net imports of the 10 and possibly approach the official volume to be decided shortly by the Commission. Eurostat data for the most recent 12-month period (October 2002 to September 2003) indicate net imports of 543 000 tonnes. A simple pro rata calculation applied to this figure for 8 months (as the 10 join the EU on

1 May) gives 362 000 tonnes. This is very close to the current talk of 350 000 tonnes in professional circles.

Dollar, dollar, dollar

The ACP suppliers fought for a while for recognition of the right to participate in the increased European market. Import data do not allow them to hope that the C quota currently reserved for them might be raised. ACP countries supply 13 100 tonnes, that is to say 2.4% of imports from third countries (excepting European origins). More than 94% of imports are from only four countries: Ecuador (50%), Colombia (20%), Panama (13%) and Costa Rica (11%).

New member states
Banana imports by origin
October 2002 - September 2003



Banana — Trade in the 10 new member-states

October 2002 to September 2003	Imports			Exports			Balance	
	All origins	of which EU	of which new member-states	All origins	of which EU	of which new member-states	All origins	%
TOTAL of which	562 835	3 145	15 688	19 201	2 011	10 962	543 634	100.0
Poland	241 545	1 740	19	7 569	2 002	4 311	233 977	43.0
Czech Rep.	108 314	51	0	5 136	5	4 924	103 178	19.0
Hungary	74 198	118	38	108	0	20	74 090	13.6
Slovakia	51 068	119	3	2 136	0	1 082	48 933	9.0
Slovenia	32 432	40	0	3 455	0	18	28 977	5.3
Lithuania	20 766	19	0	769	0	599	19 997	3.7
Latvia	16 655	1 028	15 628	2	0	0	16 653	3.1
Estonia	10 734	0	0	26	4	9	10 708	2.0
Malta	6 450	0	0	0	0	0	6 450	1.2
Cyprus	672	31	0	0	0	0	672	0.1

Notes: 10 months only for Cyprus

Source: Eurostat / Presentation: CIRAD-FLHOR

projects in the supplier countries in the same way as technical and financial aid has been awarded to the ACP countries for years. It would thus play an active role in the setting up of sectors that are sustainable in every way. It is essential to reduce the impact of banana production on the environment. Even if the governments of producer countries do not wish to address the subject, Central American producers know that current practices sometimes sacrifice the long term in favour of the short term in both economics and ecology. Europe has considerable responsibility here with regard to future generations. Why spray plantations 50 times a year, use

nematicides or other pesticides (*Fruitrop* 99 p. 2 ff.) while less drastic techniques—some have been tried and tested and others are being developed—are used in other parts of the world? This should not be seen as interference in the public policies of the producer countries concerned but rather as a way of ensuring a return of value added to the producers and sectors.

Euro/dollar exchange rate enters discussions

Other proposals are currently on the negotiation table. French importers

have recently joined the fray. Via the CSIB (*Conseil supérieur des importateurs de bananes*), they request a switch to tariff-only on 1 January 2005. As they seem to have lost all hope of a severe limiting of the quantities allocated to the 10 new member-countries and hence fearing increased over-supply of the European market, they want the change in system to be implemented very rapidly. They also wish the exemption from customs dues currently allowed to ACP producers to be extended beyond 31 December 2007.

With regard to the customs dues to be applied to dollar bananas, French

Enlargement: softly-softly

The European Commission is maintaining the suspense. While the sole concern of the world banana sector is the additional quantities of fruits allocated to the 10 new member-states, the Commission told the 11 February meeting of the Management Committee that the question would not be answered until just after 1 May, the date of enlargement! The Commission nevertheless undertook to provide a preliminary estimate in April. Although such uncertainty weighs heavily on trade operators, the Commission has reasons that trade reason does not know. It justifies this mystery by favouring a

negotiation strategy. It will lead a single discussion covering the size of the quota for the 10 and the level of customs dues in an as rapid as possible switch to a tariff-only system. In international trade jargon, this consists of the well-known negotiations under WTO articles XXIV:6 and XXVIII. For this, the Commission will shortly request the Council of Ministers of the European Union for a negotiating mandate on the basis of a proposal including a level of customs dues. The level of dues will not be known for a long time. In contrast, the Commission has already defined the principle of taking over of community achievements

by the 10: the definition of operators and management procedures for the quantities allocated. With regard to operators, the rule in force in EU-15 (regulation EC 896/2011) applies to the 10. Quantities will be handled in the proportions of 83% by traditional operators and 17% by non-traditional operators. It will doubtless be difficult to find traditional or non-traditional operators in the 10 countries. The work of primary importing will be handled mainly by traditional operators in EU-15. It would seem that very few operators can fulfil the minimum conditions required of a non-traditional operator: banana imports to the 10 countries in 2002 or 2003 with a customs value of at least EUR 1.2 million.

The supplementary quantities will be managed via an additional quota (doubtless called D) that is distinct from the other quotas already reserved for EU-15. The quantities delivered must be released freely in the 10 or the operators might forfeit the deposit made with the import application. This measure should make it possible to locate the import flows into these countries. After customs clearance, the bananas can be distributed throughout the EU. We bet that forwarding agents are already working hard on finding logistic and administrative 'solutions' in order to overcome this restriction.

professionals have brought the euro:dollar exchange rate into the negotiations. The solution considered to be 'ideal for combining both a tariff that is acceptable for third countries and sufficient protection for the ACP countries would be to index the tariff on the evolution of the euro:dollar exchange rate. With such a scheme and assuming EUR:USD parity (1:1), a tariff of EUR 220 per tonne could

be established and indexed to this exchange rate'. The CSIB's calculations are based on the price per box CIF, dues not paid, of USD 9, a level considered to be acceptable for producers in Latin and Central America (see figure).

Statements of intent

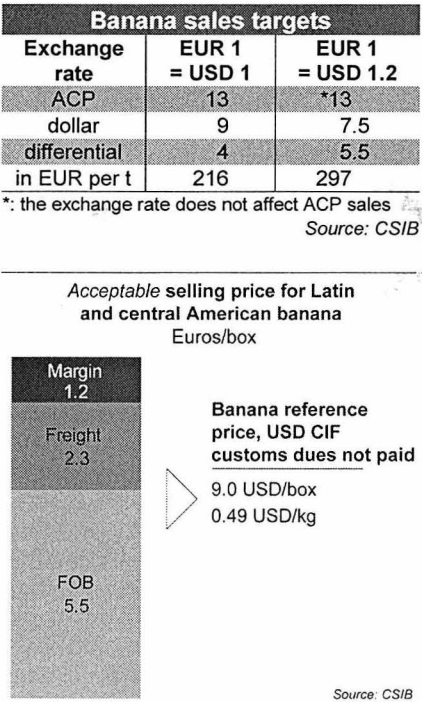
The other protagonists have not yet made real proposals. Like the statements made in February 2004 by the Colombian Minister of Trade during President Uribe's tour of European capitals, the positions taken by Colombia are vague to say the least. The country fears the destabilisation of the European market and the consequences for prices. Conversely, in the same statements, it refuses the setting by the EU, on the pretext of protecting community and ACP production, of high customs dues on the switch to the tariff-only system.

In short, on examination of the extremely numerous statements, notes, press cuttings, working documents, etc., and with a risk of simplifying the debate, the banana world appears to be divided into three opinion groups: the undecided and those for and against the tariff-only

system. The undecided—the largest group—would like both to keep their shares of the European market, maintain high prices and not pay too much in the way of customs dues into the EU coffers. Those for the tariff-only system in turn consist of those for and against high customs dues. They all think that the tariff-only system will enable them to maintain a market advantage or, at best, to gain new market shares. Finally, faced with the apparently inexorable nature of the deadline, the number of those against the tariff-only system is dwindling. They seek to extend the deadline and use the time gained to negotiate high customs dues or, in the case of European producers, the reform of their support system.

It is not easy to pick one's way through this maze. In order to clarify things, but at the risk of distortion, *Fruitrop* has drawn up a table summarising its reading of the positions of each party. The synthesis is a picture of the situation at a precise moment of the debate and we leave you to contribute remarks, criticism and additional information ■

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Tariff-only – The positions of the various groups of interest

Company Group of interest Government	Principle	Position	Source
Dole	According to the study performed by David G. Raboy, the method used for calculating customs dues is dictated by WTO. The level of dues results from the difference between the EU domestic price and the price on external markets (the price-gap). The effect of the current levy of EUR 75 per tonne is added to the price-gap.	EUR 106 to 143 per tonne	Study
Chiquita	Is not against the continuation of the quota system. Dues should be as low as possible in the case of a switch to a tariff system.	As low as possible	International seminar, Ecuador, January 2004
Fyffes	Refuses the premature implementation of the tariff system.		Press, January 2004
Noboa Ecuador	Continuation of the quota system and then switch to the tariff-only system on 1 January 2006.		Prof. source
Favorita Ecuador	Automatic switch to the tariff-only system.		Prof. source
Ecuador Government	Switch to the tariff-only system as rapidly as possible and in any case before 1 January 2006.		Prof. source
Costa Rica and Colombia Professional organisations	Neither origin wishes to stir things up. The continuation of the quota system does not necessarily seem to be a bad thing. In all cases, they are against customs dues that are too high.		International seminar, Ecuador, January 2004
Dollar origins: Colombia, Costa Rica, Ecuador, Guatemala, Honduras and Panama Governments	In a letter addressed to European Commissioner Franz Fischler on 17 December 2003, six dollar origins requested the rapid opening of negotiations on the tariff-only system, to be among the Commission's special negotiating partners and that the present level of EUR 75 per tonne should not be affected.	Point of departure: EUR 75 per tonne	Letter to the Commission, December 2003
CSIB (<i>Conseil supérieur des importateurs de bananes</i>) The main French operators	Its calculation: what market price is profitable for the dollar zones and the ACP zones? It would also like a modulation of customs dues according to the movement of the EUR:USD exchange rate.	EUR:USD rate: if 1:1: EUR 220 per tonne if 1:1.2: EUR 300 per tonne	Study, February 2004
ACP, Africa Producers and trade operators	In the case of a switch to a tariff system, the African ACP origins would like high customs dues to reduce the competitiveness gap between them and dollar origins such as Ecuador.	Cf. CSIB proposals	Press, statement
ACP, Caribbean Governments	The tariff-only regime must be set at a level which ensures the continued viability of the Caribbean banana industry.		Statement
France Producers	Switch to the tariff-only system as rapidly as possible. Reform of support for community producers to take into account the resulting worsening of the market.		Prof. sources
Spain Producers	They use FAO calculations. In all cases, Spanish authorities and professionals wish to delay the setting up of the tariff-only system for as long as possible.	More than EUR 300 per tonne	Press, statement
FAO Institution	Various estimates of the impact of the tariff-only system on the volumes imported by the EU and prices have been published. Updating of the model used is in progress.	EUR 75 per tonne: vol. + 13 %, price - 20 % EUR 300 per tonne: vol. and price unchanged	FAO study
INRA Research centre	Calculation of customs dues is based on the use of a partial equilibrium model developed by a team of French economists at INRA Rennes (France).	EUR 182 per tonne for third countries and 0 for ACP countries	Study
Euroban Fair trade pressure group	In the case of a tariff-only system, proposal of customs dues set according to the environmental and social performances of shippers or origins.	Conditioned by the operator's social and environmental performance.	Study, February 2004
Fruitrop Journal	Customs dues levied on imports refunded to suppliers on a pro rata basis in the form of project financing (like the technical and financial aid awarded in ACP countries) aimed at improving social and environmental conditions in the production and export sectors.	Sufficient to maintain price levels.	February 2004

Note: the positions (not exhaustive) set out above are drawn from a very large number of extremely varied documents. Errors of interpretation are possible and we apologise for any such to the authors.