FAO Intergovernmental Group on Bananas and on Tropical Fruits

Latin America versus Africa

Even if the discussions were more solid than at previous sessions (Australia 2000 and Costa Rica 2002), it was once again banana that brought participants at the recent session of the FAO IGG on Bananas and Tropical Fruits (Canaries, 2004) out of their (diplomatic) apathy. It is true that the coming deadlines are primordial for all supplier countries. With regard to tropical fruits, the practically complete absence of sector professionals made it impossible to leave the beaten track. It has been promised that the next session (Ecuador, 2005) will be more open to the professional world.

The Third Session of the Intergovernmental Group on Bananas and Tropical Fruits was held in the Canary Islands from 22 to 26 March. These sessions are the occasion—every two years—to swap viewpoints on world trade in bananas and tropical fruits, trade policies and consumption. They are also the occasion for evaluating the eligibility of development projects for funding by the Common Fund for Commodities.

This very consensual presentation of the Group's mandate would have matched discussions to a fair degree if the list of topics had not included the coming reform of supply of the European banana market. The talks progressed from mild consensus at the talks devoted to tropical fruits to very strong tension between participants on the subject of banana, with the recurrent themes of the setting up of a tariff-only system in the EU by 2006, the coming enlargement of the EU and the position of African origins on the world market, etc.

Models attacked

The FAO secretariat sparked things off during the presentation of two econometric models, one proposing forecasts of banana trade for 2010 and the other the preliminary results of the new banana trade model. Little persuaded of the worth of the first model, the FAO secretariat presented the second with the announcement (lacking conviction) that it should give better results than the first. The oratorical precautions taken by FAO were not sufficient to stem the flow of criticism. The validity of the models was called into question unanimously. Like practically all the delegations present, that of the European Commission did not hide its consternation with regard to this work, although it is doubtless interesting from an intellectual point of view. Indeed, it can be considered that the first model is based on hypotheses that are either totally erroneous (euro:dollar parity, no enlargement of the EU to 10 new members), improbable (switch to a tariff-only system of EUR 75 per tonne in 2006) or out of date (the reference period used was 1998-2000). Ecuador ironically praised the efforts of imagination displayed.

The second, new model aimed at correcting some of the weaknesses of the first one, did not convince delegates, who insisted on obtaining copies in order to appraise the appropriateness of the methods used and the relevance of the hypotheses and data. By waving a red flag, FAO first succeeded in generating unanimous opposition to its report. Cameroon even criticised it for playing the pyromaniac fireman by presenting such studies. Conflict then shifted to between Latin Americans and Africans, in particular on the subject of the future customs dues applicable to bananas imported in the EU. The former consider that a high tariff would be unfavourable for them and ruin their sector whereas the latter stressed the absolute necessity to have an advantage on the European market, arguing their weak competitiveness.

The match between Latin America and Africa

Far from being a new phenomenon, the head-on, aggressive opposition between dollar and African producers has become a ritual as the months go by. The transnational corporations Dole and Chiquita and certain professional organisations in dollar banana producer countries had criticised African producers at the international seminar held by Ecuadorean exporters in January 2004 (***FruiTrop*** 110 page 9 ff.). Two months later, Latin American governmental delegations led by the feisty Guatemalan delegate used the same arguments, holding that African origins are competitive, that the

Enlargement of the EU: 300 000 tonnes for the 10 newcomers

The suspense ended on Friday 16 April. The EU is allocating banana imports of 300 000 tonnes to the 10 new members for the last eight months of 2004. The enlarged community (EU-25) thus has a potential for importing 3 703 000 tonnes from third countries, an 8.1% increase. In annual terms, the additional quantity is set at 464 000 tonnes. This is about 100 000 tonnes less than the figures supplied by national and European customs services.

Traditional operators that supplied the new member-states from 2000 to 2002 are allocated 83% of the volume. The balance (17%) is distributed among non-traditional operators. In order to ensure the continuity of import flows in the new member-states, the 300 000 tonnes must be placed in free circulation in these states.

Additional quantity of banana imports available in the new member-states

Tonnes	Operators		Total
	trad.	non-trad.	
May to December 2004	249 000	51 000	300 000
of which May to June 2004	72 210	14 790	87 000

quantities exported by Cameroon and Côte d'Ivoire are increasing strongly, that foreign investment is probably increasing in these sectors, the dollar quota is not saturated, etc.

We now know where they get their information from. The source is the Centre for International Economics (CEI), a private Australian consultancy firm where the famous economist Brent Borrell works. Well known to the older observers of the banana world, he has frequently taken position in favour of the full liberalisation of the European banana market, in particular in the series *Bananarama*—studies published from 1992 to 1996. He has just published a new work (see box p. 6). Ecuador's official declaration read solemnly during the session leave no doubt with regard to the links between the work of CEI and the positions taken by Latin American governments.

Speaking on behalf of all the ACP producer countries, the Cameroon delegate denied wishing to conquer the European market and was astonished that 4% of world exports could disturb international trade as a whole. He called many times for the launching of true discussions between European market suppliers in order to protect everybody's achievements and maintain an already delicate balance.

United States: mum's the word

With the exception of the Spanish delegation that hosted the event, the largest presence was that of Chiquita. Representatives of the US transnational corporation were to be found in the American and Spanish delegations and among observers. In contrast, the Caribbean ACP countries were markedly absent, as were the new EU members and Colombia, the third largest exporter in the world. The United States did not take the floor at all, doubtless leaving dollar supplier countries the job of discussion.

EU-15 was very present, expressing itself regularly via the voice of a recent European Commission banana dossier manager. While sharing FAO forecasts of slow trade growth between now and 2010 because of the already high consumption of bananas in numerous importing countries, the Commission doubted the conclusions of the models and asked FAO to be more credible in this field. It also postponed any discussion of the common market organisation of banana until the publication of the evaluation report currently being written. Finally, it defended the ACP countries, stressing that the EU structural support system is the only type of aid that allows sustainable adjustment of their banana sector.

Ecuador as the only negotiating partner

The Latin American delegations were very active. Ecuador played the role of special or even sole negotiator with the European Union. It mentioned the agreement that it signed with the EU in 2001 and its position as 'leading supplier' of the European banana market. Furthermore, the European Commission recognised that Ecuador is now a leading source of supply, not only for national marketing companies by also for the multinationals. This remark was meant for the other dollar suppliers, and especially Guatemala which is calling for the EU to consult all the origins, whatever their market share in the EU.

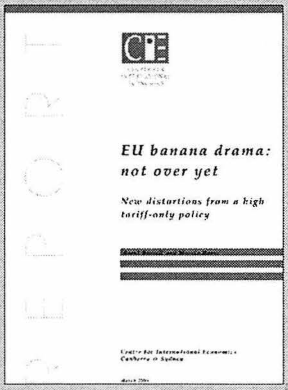
Without ever clearly taking a standpoint on the abandoning of the present import regime or the necessary switch to a tariff-only system, Ecuador clearly rejected high customs dues. It quoted Brent Borrell's study word for word, thus participating in the jousting between the dollar zone and Africa. In contrast, Ecuador was much more loquacious and original on the subject of the enlargement of the EU, by drawing a line that should not be crossed. Even if he displayed open-mindedness, the Ecuadorean delegate nevertheless ended one of his declarations with a threat aimed at Europe. Explaining, in substance, that if the latter did not respect its international obligations, Ecuador would be ready to refer to WTO authorities for its rights to be enforced.

Costa Rica was also present but the style was different. The country's line of negotiation was announced in formal terms: 'Costa Rica refuses the implementation of a tariff-only banana import regime as long as customs preference for ACP countries and aid for community production are maintained. Instead, [Costa Rica] proposes the maintaining of a quota and licence regime together with specific quotas for each region (third-countries, ACP and community) and a minimum tariff for all the origins within the same quota.'

Africa criticised

Extracts from the study by Brent Borrell and Marcia Bauer entitled *EU banana drama: not over yet.*

- It is almost certain (...) that Latin American access will decline for a tariff above EUR 100 a tonne after 2005.
- There is even a 22 per cent chance that Latin American access could decline with a EUR 75 a tonne tariff, particularly if the strong euro prevails.
- African production and exports expand rapidly. (...) Africa would greatly increase its share of the EU market with that level of preference. Indeed they would expand for any level above EUR 75 per tonne.
African exports doubled under the current preferential arrangements, and that growth will accelerate if the current preference is enlarged.
With few constraints and competitive costs, Africa could easily more than double production over a six year period and possibly sooner.
With large increases in producer prices foreign investors are likely to quickly establish large new plantations in Africa — Ivory Coast, Cameroon and several other African ACP banana-producing countries.
- With preferences in excess of EUR 75 per tonne, African banana exports would expand and displace Latin America exports in the EU market. If a EUR 300 per tonne most favoured nation (MFN) tariff were installed, for example, Latin American exports would decline from around 3.0 to 3.2 million tonnes at the end of 2005 for a 25 member European Union to only 1.65 million by 2012 — a 50 per cent decline.
- (...) high tariffs could cause trade values for Latin American exporters to be over USD 1.3 billion a year lower.



A non-event

The declarations and positions adopted by each party seem to mark a new stage in the process of reform of the common market organisation of banana. The various parties concerned are making their positions known. Even if they are not particularly surprising, they have the merit of being public. The scene is being set little by little.

Diagrammatically, four major types of position are emerging, defined according to the following criteria:

- the comparative competitiveness of each origin,
- the current level of protection on the European market,
- the nature of parties involved (trade operators or producer state),
- the trade links between states,
- the relations between national operators and their governments (in both producing and importing countries),
- and finally the market share of each operator in Europe.

The importance awarded to each criterion by the different parties determines their negotiating positions.

But what about the European Commission's position? Faithful to its strategy of emergency negotiation, constrained by European diversity to perform expert weighting of the criteria listed above and, finally, obliged to respect numerous sometimes contradictory international obligations, the Commission has not yet made a statement on the subject.

Compensatory aid called into question

European producers were very thin on the ground during the discussions. It is true that Canary Islanders and French—united for the occasion—had a weighty dossier to work on, that of the reform of compensatory aid for loss of income. The long discussions gave results. Indeed, the two largest European production zones succeeded in defining a joint platform on the reform of the internal component of the CMOB and especially in the subject of income support for European producers (see below). Reform of the support system for producers seems inevitable in all cases. The EU mentioned this in one of its contributions, stating that on the subject of the future of the internal system of aid for community banana production, and in particular compensatory aid following the switch to a tariff-only system, it should be mentioned that the ongoing evaluation should give an opinion on the impact of this aid on producers' incomes and on the effectiveness of this aid since the setting up of common market organisation of banana in 1993. It was added that certain changes to the system could be envisaged in the light of these conclusions.

Soft law

Other more consensual subjects were addressed, in particular via a very well-prepared FAO document on social and environmental certification in the banana sector. Organic sectors and fair trade were examined, together with the various types of certification that have mushroomed during the past few years and that are more or less related to the environmental and social sphere: the FLO (Fair Trade Labelling Organisation) standard, ISO 14001, Eurepgap, the Sustainable Agriculture Network (SAN) and Rain Forest Alliance's sustainable agriculture programme and standard SA 8000 (Social accountability). The study shows that supply of organic bananas is sufficient to cover demand whereas supplies of fair trade bananas already exceed demand.

Pouncing on the opportunity, the Costa Rican delegate stated, as usual, that his country had a long tradition of social and environmental standards. He pointed out that private certification such as Eurepgap is voluntary in essence but soon becomes an obligatory standard if it is required by the large distributors in

Europe. Costa Rica is against what it is agreed to refer to as 'soft law' that is imposed by usage rather than by principles. Eurepgap certification would cause extra expenditure by producers of USD 0.25 to 0.30 USD per box, with no hope of this being passed on in the selling price.

Tropical fruits: lack of information

The atmosphere at the session devoted to tropical fruits was more relaxed. It is true that the problems examined less concerned supply policies set up by the various importers than the trade dynamism generated by private operators.

The delegations frequently deplored the lack of information about the tropical fruits sector. Indeed, outside a few major fruits (pineapple, mango and avocado), the others, considered as minor in terms of international trade (papaya, passion fruit, litchi, etc.), are studied very little. This is why the Tropical Fruit Net (TFN) was set up in 2000 at the preceding session of the Intergovernmental Group (Australia, 2000). Hosted and managed by Malaysia, it does not always plays its role as decision aid for operators in these sectors. Furthermore, it made no contribution to the discussions and did not present a market study.

Pineapple: the 'sweet' trap

Reacting to a detailed presentation of the international pineapple market, the Côte d'Ivoire delegate stressed that the success of MD-2 (or extra sweet) pineapples should not be seen just as a result of varietal innovation. He considered that it was more the success of a transnational company that has organised a very effective production and marketing system centred on a high-quality variety. Growers of 'sweet' type pineapples who are now flooding the market with these fruits may realise this a bit too late.

More generally, the group complained about the lack of reaction by participants. Seeking solutions to add pep to discussions, it was decided to call on sector professionals. The next stage is therefore the Third Session of the Intergovernmental Group to be held at the end of 2005 in Guayaquil (Ecuador) ■

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Reform of common market organisation of banana

European producers on the same wavelength

In the sidelines of the recent FAO meeting in the Canary Islands devoted to bananas and tropical fruits (March 2004), Spanish and French banana producers came to an agreement on the reform of the income support regime. They propose to set aid at EUR 302 million (with 2000 as reference) to increase the budget according to market uncertainties and, finally, to authorise national aid. A contract for progress records the undertakings of each of the parties (European Commission, member-state and producer).

Banana producers in the two main European production zones have finally reached an agreement on the reform of the internal component of the common market organisation of banana. The dossier is essential for European producers, considered particularly sensitive by the Commission and very complex in general. Furthermore, the reform requires unanimity among European producers and from this point of view it has always been very difficult for the two main parties involved (the French West Indies and the Canary Islands) to see eye to eye. French producers suffer from the present system while their Spanish counterparts have been able to reap all the benefit.

Reform of the internal component

It is reminded that the principle is that the average weighted selling price is calculated for all the community bananas released on the market for a year and then this is compared to the flat-rate reference income, set at EUR 640.30 per tonne. The difference is the compensatory aid to be paid to each producer, whatever his individual selling price. This system does not generate any distortion between the different producers or production zones when the individual income of a Canary, French or Portuguese producer is much the same. And this is where the problem lies because the average selling prices on the French and Canary markets differ considerably. The Canaries have displayed selling prices higher than those of Martinique seven times since 1994. The difference was colossal in 2003. The figures published in mid-April revealed a difference of nearly EUR 240 per tonne! The present system allows the compensation of Spanish producers beyond the flat-rate reference income (extra