Reform of the CMO Banana

What for?

The discussions centred on the reform of the CMO banana make it necessary to focus on the future functioning of the European banana market and to ask this question: will a customs tariff have the same regulating effect on the European market as the present regime?

The positions of the different producer countries and trade operators concerned by the coming reform of the CMO banana have been reported many times in ***FruiTrop*** (January 2005, pages 3 to 11). In short, there are those in favour of a switch to a tariff-only system combined with the highest or lowest customs tariff possible and those who desire the maintaining of the present system.

The Euro-American and Euro-Ecuadorean agreements of 2001, approved by WTO, set the conditions for this reform. The customs tariff applicable from 1 January 2006 will be determined according to the WTO price gap rule. The external price (the world price) is compared with the internal price (price in the EU); the difference between the two will correspond to the customs tariff needed to guarantee effects equivalent to those that the EU market knows today. The principle of the calculation is simple and clear even though questions remain concerning the quality of the data and the reference period chosen. For example, a year like 2004 would lead to defining a relatively low customs tariff. Another consideration lies beyond these technical questions. Will the tariff-only system have the same effects on the stability of the European market, especially on the import price, as the present quota system? On the eve of a fundamental choice for the banana markets, opening this debate is not irrelevant.

The idea that the effect of a customs tariff would be equivalent to that of a quota system is based on the following principle: the dues levied on each tonne of banana moderate the volumes released on the market. Indeed, the customs tariff mechanically increases the cost price at the import stage for each origin and each operator. The trade operator stops releasing fruits of a certain origin when their cost becomes incompatible with the market price. The level of competitiveness corrected by the customs tariff becomes the sole arbitrator at the entry to the European market.

But this means ignoring commercial behaviour that may seem economically illogical. The litchi sector is a striking example of this on a much smaller scale. In spite of a policy of pooling transport and the coordination of market releases that has clearly proved its worth, some operators choose to ship fruits outside this organisation—certain of being capable of doing better than their competitors. As a result, the quantities released on the market largely exceed demand, prices fall and operating accounts slide into the red. This is nevertheless the way fruit sectors work. In this context, how could a simple customs tariff—even a high one—be able to protect the market against such behaviour?

What economists think

Can a single tariff have a stabilising effect on a market that fluctuates considerably throughout the year? The method used (price gap) does not answer this question. The customs tariff is calculated using historical data valid at time t and has a strong smoothing effect (preventing inter and intra-annual variations). It is also set once and for all and this assumes that the calculation method guarantees the longlasting effect of the tariff. Furthermore, the effects of the euro:dollar exchange rate and the cost of sea freight are not taken into account.

Let us see the economists' answers to the question of whether the price instability that is a feature of agricultural products can be eliminated by market liberalisation. Contrasting ideas have been put forward on the subject.

There are those who consider that liberalisation will result in the convergence of world prices towards a stable probability law, thus enabling better forecasting. Fluctuation is not eliminated but contained and, above all, foreseeable. This theory is based on the very academic principle that liberalisation is total, which is never the case, if only because of the existence of oligopolies (transnationals or retail giants) or constraints outside the sector such as the availability of sea transport.

In contrast, the work of other economists favours the hypothesis (see refs. below) that the liberalisation process in agricultural sectors increases the risk of instability on markets because of anticipation or speculation or because of irrational or herd behaviour by economic players. The speculative behaviour preceding the implementation of the CMO banana in 1992 is one example of this among others.

European market sensitivity to unstable supplies is another factor to be taken into account. This comes down to evaluating the volume level of bananas sold from which the market will be lastingly disturbed. According to operators, a tiny increase in the weekly volume would be enough to do this.

To finish, and as an example, we can look at the new EU member-states who have gone in the opposite direction to that proposed in the reform of the CMO banana. They were hitherto keyed into a type of market that can be considered as liberalised; they took unsold goods from Europe, were hypersensitive to the international banana situation, etc. Their markets featured strong instability and moved in line with the world market. Their entry to the EU swung them into an organised, more stable market operating at the European price—obviously higher. Would a tariff-only system have had the same effects?

This article contains more questions than answers. It is now up to European market stakeholders to decide and choose ■

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