Reform of common market organisation of banana

The countdown has begun!

So the European Commission started the process. A few days after making public its new proposal for the reform of the common market organisation (CMO) of banana and fearing that the Latin American plaintiffs might play for time, it requested the WTO arbitrators to take a decision on its own proposal. This started a 30-day period that should lead to an arbitrators' decision by 26 October 2005.

CMO banana will long remain a textbook case for generations of political science and economics students. For the moment this is the only feature that we can be sure of! Indeed, banana has once again shown that the dossier is an example. A seemingly unique case in this kind of negotiation, the European Commission—tired of waiting for the official reactions of the Latin American countries—requested WTO arbitrators to make a ruling concerning its own proposal for the reform of CMO banana. It demonstrates that it is still going in the right direction and respecting the road book provided by the Council. It says that it has great confidence in its proposal for reform, which is the least it can say. Its sole aim is that of setting up a tariff-only system at EUR 187 per tonne on 1 January 2006, combined with a duty-free quota for ACP countries (775 000 tonnes).

The Commission's obstinacy is normal. The negotiation framework is fierce and difficult as those around the table are ready to take advantage of any voluntary or involuntary opening provided by the EU and hence make gains. Alternative positions to that taken by the Commission are currently too numerous, diffuse and contradictory to form a united front and become a viable solution. Procrastination and even volte-faces by numerous parties, their double-speak and power plays in each country have confused the issue to such a degree that the compromises that the EU might have been able to accept before no longer seem possible to envisage.

And then there is the wear of it all. More than ten years of fighting and procedures between Europeans and between Europe and the rest of the world have discouraged a fair number. The interminable banana saga must come to an end sooner or later. Furthermore, we have the impression that the Commission wishes to arrive in Hong Kong having settled the banana dossier at any price.

An eye for an eye and a tooth for a tooth

Finally, the EU's offensive is not surprising at all. Condemned by the very people that today request the continuation of the present system, it can only tell them that they should have thought carefully before attacking the quota system, even though a large fringe of stakeholders now consider that it is an effective system. Furthermore, it should not be forgotten that the opponents of a status quo type system—Del Monte, Dole, certain member-states and especially the new members and certain Latin American plaintiffs (authorities or national operators)—have no interest in the continuation of the present regime. The changing of the system and the broader opening that will result will enable some to be present in Europe again and others to lower their retail prices.

But the sacrifice seems to be a sizeable one and the risks of destabilisation of the market are high. If the EU is authorised to apply a customs tariff of EUR 187 per tonne, this entry ticket to Europe will necessarily have an impact on the distribution of value-added in the sector, with producers paying a high price in the end. Furthermore, this high tariff will not necessarily result in the rapid regulation of supplies. Quite the opposite, a number of studies (see ***FruiTrop*** 120, page 11) favour the hypothesis that liberalisation processes in the agricultural sectors increase the risk of instability. The customs tariff will become all the more painful for the upstream end of the sector with the expected downward spiralling of selling prices in Europe. The present precarious balance will just be a faint memory. In addition to a difficult return to market stability, the effect of the liberalisation of markets for agricultural production and tropical raw materials are known. In his last book (*Le roman noir des matières premières*), Jean-Pierre Boris uses numerous examples to show how market liberalisation has not only caused a fall in the absolute and also relative value of returns at the upstream end of the sector, and especially for producers, but also in produce quality. It has also strengthened the large agrifood groups and distributors in the downstream part of the sectors. Furthermore, deregulation has encouraged zones with small production or that export little to enter the international market, thus increasing the world structural surplus.

A surprise in store?

Even if the prospects are not clear and everything leads to believing that the tariff system is coming to an end, there is room for a last-minute compromise. Fatality is not a concept that goes well with the common market organisation of banana. Indeed, the history of CMO banana is dotted with surprises to the extent that it is tempting to believe that it is the only way in which it evolves: the Marrakesh framework agreement (1994), the future and already dead and buried 'first come first served' import certificate management system (2001), the EU-USA agreement (2001) and so on. And how can we believe that international relations have evolved in such a way in the past few months that political decisions will never win again? That trade negotiations and relations will henceforth be based solely on technical calculations and on studies containing calculations (these are always contested)? The Chinese textiles affair showed us that operating rules engraved in marble have a strong tendency to dissolve in the great geopolitical bathtub.

What if the European Commission does in fact wish to go to the end of the logic that it has developed to envisage other negotiation pathways once the blockage has been recognised officially?. Should arbitration be unfavourable to the EU once again, the community would then have two possible choices—that of seeking a compromise with the Latin American producers or forcing its way through. The latter solution (tariff-only system on 1 January 2006) seems fairly unlikely just a few weeks before the interministerial meeting of the WTO, a crucial even for the future of the world trade system. Indeed, the choice boils down to accepting both the return of the US and Ecuadorean trade sanctions (some USD400 million per year) that were suspended in 2001, the lodging of a request for a panel by the Latin American plaintiffs and finally being accused of being a spoilsport. In addition, it is difficult to see the Europeans heading for such a clash after putting all their reserves of diplomacy into avoiding the worst, with the 2001 UE-USA agreement being the highpoint of the EU's good intentions.

There would remain a solution negotiated with all the parties. Nevertheless, the approval of all WTO members would be needed to settle the question. This is difficult to achieve and financially more painful. The compensation obtained by Thailand in the fisheries sector when the EU negotiated the ACP waivers in Doha comes to mind. Compensation would doubtless be very substantial. It remains to be known whether the Europeans are ready to pay the price. Only a 'yes' from the arbitrators would mark the end of the CMO banana in its present form. The verdict is expected by 26 October 2005 ■

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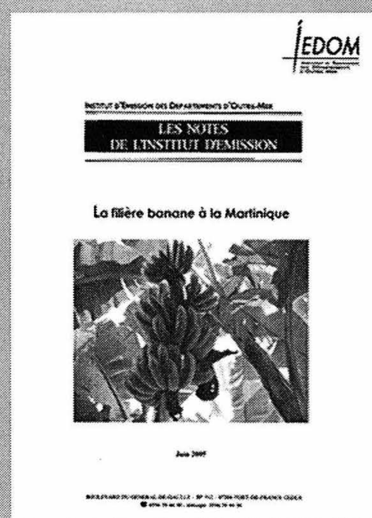
The Martinique banana sector

The Institut d'Emission des Départements d'Outre-Mer (IEDOM - France) has just published a rich monograph (46 pages) on the banana sector in Martinique. It is available from IEDOM (etudes@iedom.fr) at EUR 8.00.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LES NOTES DE L'INSTITUT D'EMISSION
La filière banane à la Martinique

Questions concerning the EUR 187 per tonne calculation

In a four-page document dated 15 September 2005, the Commission explains how it came to propose a customs tariff of EUR 187 per tonne for MFNs. The calculation method (price gap) is the same as for the first proposal. It consists of comparing the price outside the EU (the external price) with the price within the EU (the internal price). The price gap is the tariff equivalent applicable on 1 January 2006. The European Commission was strongly criticised for the sources and reference period used in its first proposal and used prices published by the journal *Sopisco* for 2002 to 2004. The price of bananas arriving outside the EU in eastern Europe and the Mediterranean area is the external price. The internal price is the price of the same bananas unloaded and cleared through customs in the EU.

This approach raises important questions. For example, it is difficult to consider that the prices at the frontiers of EU-15 (before enlargement) were independent of those within the community. Indeed, it was precisely the opposite. Operators first sold their fruits in the lucrative EU market and then supplied the peripheral markets.

How can the recent enlargement of the EU be handled? The method chosen by the Commission is aimed at reintegrating part of the price outside the EU in the annual EU price to allow for a market that has consisted of 25 member-states rather than 15 since 2002. This theoretical calculation does not reflect reality for the new members in 2004 who have seen their prices move towards those of the EU and not the opposite.

Finally, a cost price approach would have been more logical for the objective. It is true that producer countries have very varied production structures and the work would have been long and complex, but combined with a price gap approach it would have shed fresh light on the relative competitiveness of each origin. Finally, the whole of the Commission's argument would have gained muscle.