Reform of CMO banana

One quota regime may hide another

After two failures at the WTO, both the European Union and Latin American suppliers have their backs to the wall. A compromise must be found quickly so that the European market—the largest in terms of volume and the most profitable—can continue to function on 1 January 2006.

No! WTO arbitrators have rejected the European Commission's proposal once again. This is the second time in less than three months. CMO banana has never succeeded in getting past the international trade policeman since it came into force in 1993.

The three WTO arbitrators considered that the tariff of EUR 187 per tonne proposed by the European Commission '...would not result in at least maintaining total market access for MFN [Most Favoured Nations] banana suppliers'. The EU had nevertheless made an effort since the first rejection at the beginning of August 2005 by lowering the customs tariff from EUR 230 to EUR 187 per tonne, by detailing the preferential tariffs awarded to the ACP countries (775 000-tonne tax-free quota) and even by using new sources of information (the weekly Sopisco News).

The decision marks the end of a very long procedure that started in April 2001 with the understandings between the EU and Ecuador and between the EU and the USA whose details were confirmed by the Doha decision of November 2001. How can the two failures in the final arbitration be explained after four years for the preparation of a proposal ? The EU cannot be accused of sparing its efforts. There have been numerous multilateral meetings and official and less official meetings. In addition, seeing the extreme complexity of the banana dossier as a reason for the European difficulties shows lack of knowledge of the solutions found in other trade disputes that were much more complicated and more important from the trade point of view. Part of the answer can be found in the very arguments of the arbitrators. Indeed, their comments on the various sources of information concerning the movement of banana prices reveal the major impossibility of converting the effect of the present quota system on the European market into customs tariffs.

Whatever the sources used or available (Eurostat, Sopisco News, FAO, wholesale prices, etc.), the exercise required by the various 2001 understandings would seem impossible to carry out. The pathway followed from the outset thus led up a blind alley.

The real start of negotiations

As the procedure is now played out, a new negotiation universe is opening. Discussions will be resumed with the arbitrators' decisions in the background. European, Latin American and American negotiators must answer the question 'What import regime would have the same effects as the present quota regime?'.

Some consider that having seen the double failure of its negotiators, the EU will force its way through by applying a tariff system combined with customs dues of EUR 187 per tonne or less. Others have already answered the question and propose that the quota system should be replaced by—guess what ?—a quota system ! The Latin American origins met in Colombia at the beginning of November and proposed among other things that the present regime should continue in a modified form. This idea of a modified status quo could well be approved by all. For this, the changes would have to both simplify the system and give it room to breathe.

The system could be adjusted in various ways. For example, it would be possible to apply a slight taper to the tariff applied to third country quotas and non-quota volumes.

It would also be possible to increase the third country tariff quota substantially and simplify the rules for the issuing of import certificates. Larger access (by increasing the quota) would have three positive effects:

- open the door a little wider to the plaintiffs;
- reduce the 'inflationary' effects on retail prices deplored by certain member-states since the 2004 enlargement;
- automatically reduce the quota rent.

The right dosage remains to be found that would prevent excesses that disturb good market balance.

The merging of the quotas (consolidated, autonomous and enlargement) would make the issuing of certificates more transparent, simple and fair. Certificates would be redistributed to a larger number of European operators (deconsolidation of the positions of certain companies) and the completion of the 25-member single market (elimination of the territorial feature of enlargement certificates).

It is interesting to observe that the effects expected—fair prices for consumers, decompartmentalisation of the European markets; evolution of trade structures, opening to new operators and the respect of traditional trade flows—were all listed as part of the fundamental principles of the common market organisation of banana in 1993.

Consumers, importers and supplies have to reconcile more openness and more flexibility without destroying market dynamics. Negotiations are only just beginning... ■

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