

Reform of CMO Banana

The European Union is busy calculating

'At least maintaining total market access for MFN [Most Favoured Nations] banana suppliers'. This esoteric utterance means much to stakeholders on the world banana market. Indeed, the rule decided in April 2001 by Europe and USA-Ecuador is the backbone of the reform of the European banana regime. Respecting this undertaking ensures that the new CMO banana is 'WTO-compatible'.

On 1 January 2006, a tariff system replaced the quota system in force in the EU since 1993. The customs tariff is henceforth EUR 176 per tonne. Only ACP exporters are exempted from this for a quantity of up to 775 000 t. Beyond this, the common regime applies. Repercussions on market equilibrium are difficult to forecast. The new regime has yet to endure its baptism of fire.

After the rejection of two proposals, the EU made its last offer on 29 November 2005 before the WTO conference in Hong Kong: customs tariff of EUR 176 per tonne for all and, for ACP countries, a duty-free allowance of 775 000 t and the normal regime for quantities over and above this. A battle was announced between those in favour of the status quo, those who asked the EU not to make a further revision of the decreased dues proposed and finally those who wanted a drastic reduction in customs dues. Banana—more than cotton or sugar—would be the stumbling block of the conference. A pretext for

triggering the implosion of the system had been found at last.

The illusion was very short-lived. An exchange of opinions on banana was conducted for the form. Honduras even announced that disagreement would call into question the conclusion of an overall agreement. Nicaragua and the Caribbean ACP countries also tried to tip the balance in one direction or the other. No dice. The major participants at the conference (Europe, USA, Brazil, etc.) had already decided not to clash on the question of banana.

After a year of intense negotiations and numerous disappointments, the European Commission has thus been victorious. It has succeeded in imposing a compromise on all the EU member states and profiting from the determination of WTO decision-making members to avoid acrimonious discussion of the banana dossier alone. Especially as the Commission undertook to provide material proof in 2006 of the compatibility of the new regime with EU undertakings. For this, it has set up a system for monitoring the quantities marketed by means of the issuing of certificates serving only to maintain statistical records. The increase in the volume imported, or at least the maintaining of the volume, will be proof that the new regime has created conditions for maintaining full access to the European banana market.

Watching and waiting

However, two questions remain unanswered. Will the EU have fulfilled its contract if one very competitive origin increases its market share rapidly at the expense of the other suppliers? We know about Ecuador's production potential and its productivity reserves. The other question concerns price levels in Europe since deregulation should not be synonymous with deconstruction and loss of product value. Operators, and especially producers, will be penalised if this is the case and European consumers will not benefit from lower retail prices. Impoverishing the upstream part of the sector in order to enrich the European supermarket sector, while levying customs dues of EUR 3.25 per box (EUR 176 or USD 211 per tonne) for the various European budgets should not form the conclusion to so much discussion and mark the end of 13 years of CMO banana.

The situation at the beginning of 2006 shows that the European system works so far. Latin American suppliers now ship bananas to the European market without any constraints with regard to regulations. The avalanche of bananas forecast for 1 January onwards has not yet arrived. Non-traditional shipments are non-existent so far and the Mediterranean and Russian markets—good indicators of short-term trends—have not shown any signs of weakness. Should it be concluded that the European recipe is a good one and sufficient to organise a market handling more than 4.6 million tonnes of fruits? In the short term, comparatively weak demand serves the European cause. The bad weather in the main production zones limits the quantities available for the moment. Indeed, prices are very high at production with FAS Ecuador prices at over USD 7 per box in some cases. But some specialists consider that the market is watching and waiting. Once the transition phase is over, with an increase in the quantities available at the world scale and more attractive import prices in Europe (over EUR 14 per box, that is to say nearly USD 17), market supplies could increase. Weaker structuring of the European market as a result of the reform and the appetite of the supermarket sector could nudge the market into a downward trend. The behaviour of certain European operators who wish to maintain or increase their market shares with regard to the major supermarkets already leads to fearing the worst. It is time to ensure that bananas are well-considered by distributors and consumers. Any other policy would lead the sector into a downward price spiral ■

Denis Loeillet, Cirad
denis.loeillet@cirad.fr