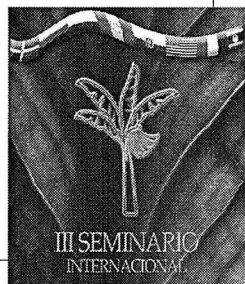


The international banana market

Producers in a dream



The third international seminar on banana held by in Guayaquil, Ecuador, at the end of January 2006 was the occasion for Latin American producers to show that they are present on all fronts—from agronomy to marketing by way of the social aspects. They clearly intend to profit unreservedly from the new situation in Europe. Stimulated by exceptional high international prices as a result of temporary decrease in the volumes available, producers are becoming euphoric to the extent of losing their minds.

Another success. The third international seminar on banana held by Ecuadorian exporters (AEBE) attracted a very large number of operators. Latin American and African producers and exporters, European operators and transnational corporations were all present in Guayaquil.

176 euros per tonne. So what?

Whereas discussions at the first two seminars in 2003 and 2004 were focused solely on the reform of the common market organisation of banana (CMOB), those of 2006 carefully avoided the subject. It seemed that it was not the moment for recrimination, although bitter discussions are still in progress at the WTO. Indeed, since it came into force on 1 January 2006, the reform seems to have considerably improved the incomes of Latin American and especially Ecuadorian producers. Better still, the elimination of quotas and import certificates for the 25 EU countries gives more freedom to both large and small Latin American operators—they can export directly. Eldorado is in sight at last. So why not rush there?

Especially as prices are excellent. Some consider that they are even the arithmetical result of the redistribution of value added

in the sector. Adding the Ecuadorian minimum price (USD 3.20 per box) to the former rent linked with the holding of European import rights before 2006 (between USD 3 and 4 per box) gives the present EUR 7 to 8 per box offered to Ecuadorian producers.

In dreamland

It is difficult to be the voice of doom after this brilliant demonstration, especially in the light of the promises made by many importers. The concomitance of facts is too strong.

However, some spoke during and on the fringe of the seminar to say how much appearances were false and today's excellent situation fragile because the main-springs of the market have not changed. The present situation is exceptional because it is related to the very limited availability of fruits. Damage caused by bad weather in Central American and the Caribbean and severe drought in Ecuador have logically reduced supplies on the world market. Price tension is even visible on the US market where the spot rate has gained more than a dollar per box.

The rains arrived at the end of January, one and a half months late. If rainfall continues, production volume should increase strongly from April onwards as the area under banana is immense. The figure of 5.5 or even 6 million boxes exported each week could be exceeded by Ecuador alone. The produc-

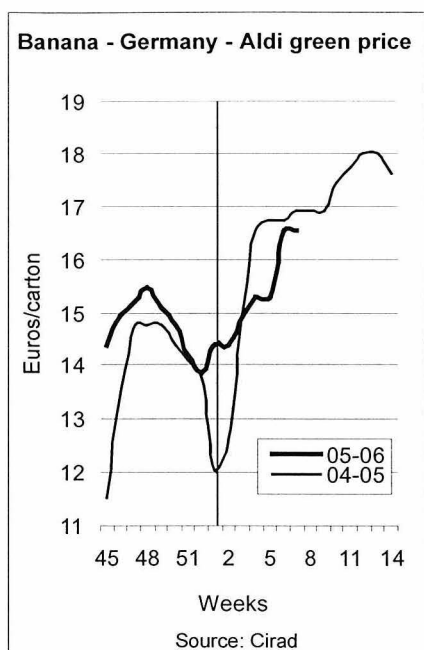
tion potential is even more likely to be expressed as investments in the field have been possible thanks to the good financial returns of recent months. However, the equation seems to be becoming more complicated at the beginning of February. Meteorologists report that a drought cycle may have begun (La Niña).

Atomisation at all stages

Far from these agro-climatic concerns, certain European operators who want to deal directly with cooperatives or producers' groups at all costs will enhance the development of production and exports. This is all the more true as Ecuadorian producers are not all under annual contracts, unlike other origins where there are no or practically no volumes available for spot purchases each week.

The recent Fruit Logistica show (Berlin, Germany), that has just finished, showed the extent to which all suppliers of Ecuadorian bananas are wooed. This was the case in particular for the Russians JFC, Sunway and also Fruit Brothers, established in Ecuador. Their sea freight capacity, local establishments (own production, contract or spot purchases) and their attraction for the European market make them interesting prospects for EU operators who wish to develop this origin without having a production base or transport capacity.

The greater the number of operators functioning up-



stream and downstream in the market, the less the latter can be forecast and structured. Management or anticipation on such a market is thus more complex and the risks are greater. Until now, sea freight formed an obstacle to this multiplication of centres of decision. A talk by the Sea Trade company confirmed that things have changed. The last check that could have a structuring effect on the sector (control of the quantities shipped) is being removed. The particularly strong increase in container transport capacity combined with stagnation of reefer capacity will result in extremely marked atomisation of banana supplies. With the increase in container transport, anybody can ship a few tonnes of banana to European operators who do not necessarily possess the profession-

Organic banana: Ecuador takes the number one spot

The international organic banana market is growing strongly. World trade totals approximately 300 000 tonnes. As has been shown by Pilar Ramirez, organic specialist at IICA, demand is dynamic and seems far from being saturated. Ecuador also wants to join in this trade battle and will gain the position of leading exporter this year, just ahead of the Dominican Republic. Ecuador is currently exporting

140 000 boxes per week against Dominican Republic's 100 000 (150 000 boxes per week exported in 2005). With regard to price, Ecuadorian operators observe that for the moment they do not sell their organic produce as well as spot sales of traditional banana as the market is unusual at the moment. To access organic markets in the North, producers have to handle three sometimes very different certifications: Japan (Japan Agriculture Standards), the United States (National Organic

Program) and the EU (Regulation EC 2092/91). EU imports of certified organic products are made much easier when the exporting country is on the list of countries for which equivalence has been recognised by Europe: Argentina, Australia, Costa Rica, Israel, New Zealand and Switzerland. Colombia, Chile, the Dominican Republic, Guatemala, the United States, India, Japan, Tunisia and Turkey are about to gain this status. It considerably reduces certification costs.

alism and networks required to market these fruits under the best conditions. This increase in sea freight capacity will have repercussions in the countries that traditionally supply bananas (a flood of export operators) and will also stimulate origins hitherto absent from the world market.

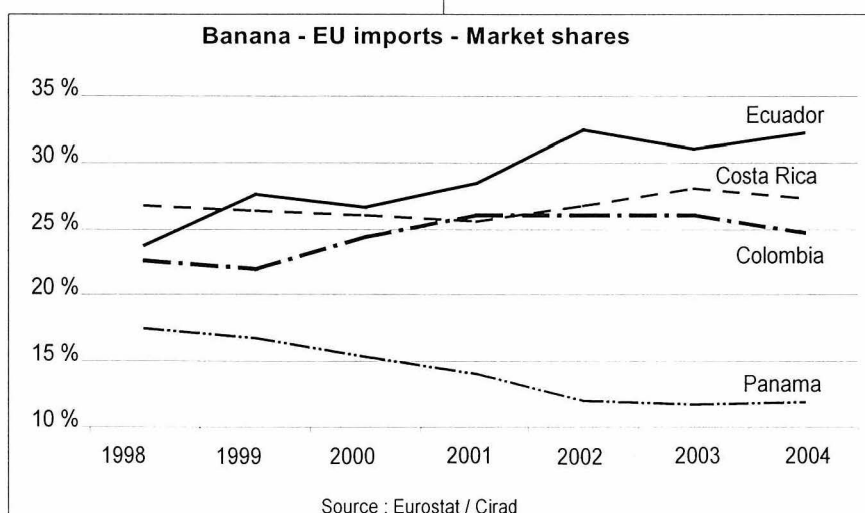
In this context, how can European deregulation be seen as a new obstacle to trade when producer prices have never been as high as they are today? Growers who do not yet have annual contracts even refuse to sign with exporters for USD 4.50 per box, excluding packaging, that is to say USD 1.20 per box more than the minimum price in Ecuador. It is true that they have been earning twice this price since the beginning of the year.

Even the imbalance observed on the markets in southern Europe and especially in Italy caused by a flood of produce at attractive prices has not damped the prevailing optimism.

The probable movement of the USD:EUR exchange rate has not generated discussion either. At USD1.20 to EUR 1.00, the European market, with its good prices, is all the more attractive. But it is a factor that should nonetheless be taken into account. A decrease in the value of the euro accompanied by a decrease in European import prices would have devastating effects on the competitiveness of the zone.

Ecuador, the undisputed master

It is clear that the average price in a few months time is not a subject that greatly interests Ecuadorian producers. What interests and even obsesses them is the extra quantities that the European market is capable of taking. For who better than Ecuador can supply the world market? The limit will finally be the floor price below which even Ecuador, as competitive as they come, will no longer be able to supply the market. In fact concern among other origins, and especially Costa Rica, was felt during the two days of the seminar for no other origin would be able to supply the market at Ecuador's floor price.



Panama Canal Toll for 20-foot equivalent

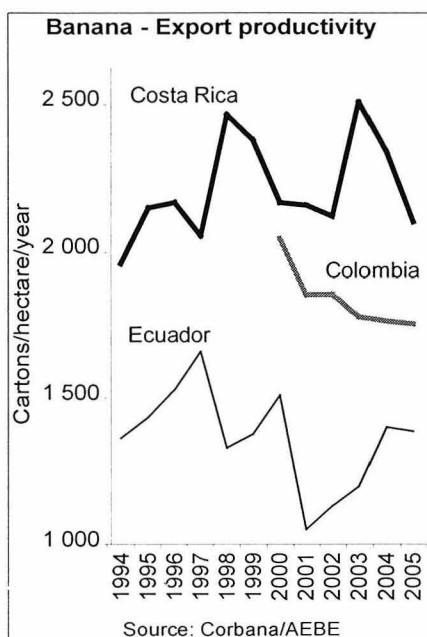
From...	USD
May 2005	42
May 2006	49
May 2007	54

Source: Bananotas - November 2005

Ecuador's market shares are certain to increase, in particular on the less profitable world market. It is true that this origin is further from the European and North American markets than its direct competitors. It also has to bear the ever-increasing cost of passage via the Panama Canal. Conversely, it is also true that its excellent competitiveness enables it to withstand a fall in international prices for longer than its neighbours.

Objective 1: productivity

Producers in Colombia, Costa Rica and Panama should therefore improve their productivity. Addressing this subject in Ecuador and during this type of seminar—whereas it was not mentioned at the first two meetings—was an event in itself. Ecuador knows that its productivity is very low (1 390 boxes per hectare in 2005) and that it also has the resources to improve production costs considerably. An increase in yield of 10% per hectare (seen in the number of boxes exported per hectare) would result in an increase in supplies of half a million tonnes and a fall in production cost. Com-



UNREBAN

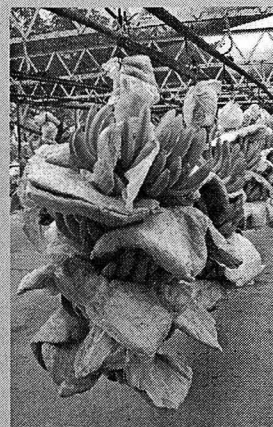
Latin American banana producer/exporters have always tried to maintain a united front. The failure of UPEB will be remembered. The trade dispute with the EU gave them an opportunity to regain a certain unity. The new organisation proposed at a meeting in Costa Rica in July 2005, right in the middle of WTO arbitration on the EU's customs tariff proposal, lists its missions as follows:

- operating as a

coordination body between the governments of the countries represented;

- facilitating dialogue with a view to the adoption of common positions among private operators in Latin America;
- fighting obstacles to free international trade;
- acting as a forum for discussion of current events in the international banana sector;
- facilitating the development of

multilateral projects in sectors such as funding, research, marketing, etc.



parison of the average productivity of the three major Latin American banana exporting countries leads to considering that the 10% target could be attained by the great majority of Ecuadoran producers as the difference with the other producer countries is great. Colombia (1 755 boxes per ha) is also very concerned by its steady decrease in productivity. An investment plan, concerning irrigation in particular, should make it possible to reverse the trend. Costa Rica (2 100 boxes per ha) will try to conserve its high average yield in a deteriorated agronomic and meteorological context.

Respectful of everything

And then, as is now a tradition in the sector whatever the production zone, discussion focused on the social and environmental aspects of banana production. Here again, Ecuador wished to be seen in its best light but without denying the extreme poverty found there, especially in rural areas. It is true that the country had not been spared by criticism of child labour in banana plantations.

The number of initiatives is increasing. They are launched by charity foundations set up by the major Ecuadoran production and export companies (Noboa, Wong, Dole) or projects run by the banana sector united in AEBE. The latter is currently launching an ambitious project that is to start in the El Oro production zone (small producers). Ecuador

suffers from a poor image in the social field while other countries are setting an example. Costa Rica has developed eco-tourism, in particular, and various socio-environmental initiatives. In Colombia, the Aúgura company has developed a project called Banatura aimed at reducing the negative environmental effects of banana production and improving the quality of life of workers in the sector and production techniques through training for producers as well as workers.

Finally, Ecuador would like its good practices to be recognised and especially quality control by certification. This could take the form of a marque or a distinctive feature (labelling) aimed at promoting its banana on import markets.

In addition to individual agro-environmental, economic and other initiatives, the idea of the pooling of forces in more political fields is making progress. For this, UNREBAN, the union of Latin American banana exporting countries, should shortly come into existence.

Offensives are thus being conducted on all fronts. The excellent prices at the beginning of this year are giving wings to Ecuadoran producers. The other production zones will have to behave themselves. A new era in banana is beginning—whatever the behaviour of prices in the coming months ■

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