

EU banana regime

Compensatory aid: reform is essential

The setting of compensatory aid for EU producers' loss of revenue for 2005 has been an occasion to observe the malfunctioning of the system. Indeed, 2005 compensatory aid is an exaggerated demonstration that the system is deeply unfair with regard to production zones and that it only partially addresses the deterioration of the positions of certain European producers. It is more than time to switch to another support method. This is the whole issue of the ongoing negotiations in Brussels that should result in early 2007 in an in-depth reform of support.

Were it necessary to provide further proof that the support system for European banana producers is unsuitable, the final results for 2005 published by the European Commission fit the bill perfectly. Indeed, there are a host of incongruities: the flat-rate income (income from the sale of fruits + total compensatory aid) was only attained by Canary Island producers. Better still, the Canary islanders receive aid whereas the income from the sale of fruits alone considerably exceeds (by 11%) the flat-rate reference income (FRRI), set at EUR 640,30 per tonne; this is the European standard for the 'normal' income of a producer. But the oddities of 2005 compensatory aid do not stop there. Greece turned in an income lower than the FRRI for the first time in 13 years. In fact, it voted against the level of aid proposed at the Management Committee meeting. Less linked to the calculation method used than to the exceptionally favourable situation in 2005, total aid (EUR 37.9m) came close to

being less than complementary aid (32.3m). Aid exclusive of the supplement does not cover the whole of the advance paid in principle on a bimonthly basis and calculated as 70% of the aid paid the preceding year. The production zones took action very early in 2005 when they observed the outstanding income levels, especially at the beginning of the year, and froze payments.

While awaiting 2007

The system is thus on the verge of imploding and its replacement scheduled for 2007 can only make the payment of European aid for banana a fairer business. Indeed, how can a system that exaggerates income differences between producers be continued? This is not a question of a tiny difference in income as in 2005 the difference is some EUR 170 t between the best-favoured (the Canary Islands) and the least-favoured (Guadeloupe) producers.

A better picture of the unsuitability of the system is given by comparison of the differences between selling prices in production regions. The difference between the two main production zones—the Canary Islands and Martinique—is stupefying at EUR 280 per tonne. As the aid calculation does not take this

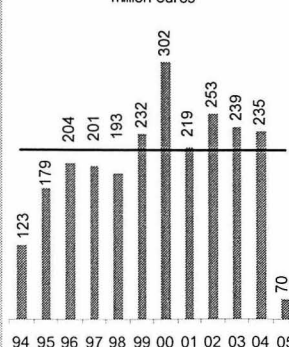
difference into account and is based on an average EU selling price, over and under-compensation for loss become enormous. Proof of this is that the Canaries are substantially over-compensated for 2005 by nearly EUR 45m while Martinique and Guadeloupe are under-compensated by some EUR 11m. The record since 1994 is very clear. The Canary Islands have received an excess EUR 220m while French and Portuguese producers have scored EUR 116 m in uncompensated losses.

The same malfunctioning is seen in the calculation of supplementary aid for loss of income. It is often the subject of interminable discussion. In the absence of clearly defined rules or at least of application of the rules, each member-

EUR 70.2m

A total of EUR 70.2m will be paid to producers for a sales volume of 648 395 tonnes. This is a very steep decrease on 2004 when EUR 235.1m was paid out for 750 910 tonnes and also in comparison with the 1994-2004 average of EUR 216.4m for 736 245 tonnes.

Banana - Compensatory aid
million euros



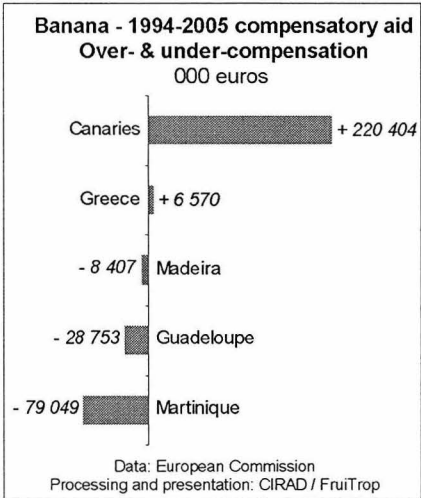
Banana — 2005 — Net income by region

Euros/tonne	Selling price	Aid	Supplement	Net income *
Canaries	710.6	59.0	0.0	769.6
Madeira	549.7	59.0	0.0	608.7
Greece	477.8	59.0	77.6	614.4
Martinique	431.0	59.0	112.7	602.7
Guadeloupe	419.7	59.0	121.2	599.9
Cyprus (**)	390.3			
EU average	581.3	109.3		690.3

(*) Net income = selling price + compensatory aid + supplement

(**) Cyprus is not concerned by the compensatory aid mechanism but its prices are included in the aid calculation

Compensatory aid — Balance 1993/2005			
Euros/tonne	Value of EU production	Compensatory aid (excl. supplement)	Flat-rate reference income
6 mois de 1993	246.0	245.0	491.0
1994	319.3	171.7	491.0
1995	321.3	271.6	592.9
1996	302.4	290.5	592.9
1997	344.8	248.1	592.9
1998	378.3	244.2	622.5
1999	343.4	296.9	640.3
2000	257.4	382.9	640.3
2001	356.7	283.6	640.3
2002	337.0	303.3	640.3
2003	345.7	294.6	640.3
2004	359.3	281.0	640.3
2005	581.3	59.0	640.3



state has to do its utmost to defend a budget increase for its producers. The Commission attempted to clarify and straighten out the situation in 2002. Calculation of the supplement was then based on an equation (see *FruiTrop* n°102) that was certainly complex but that had the merit of institutionalising the calculation method. Opposition to the system made its application delicate in the first year, perilous in the second year and impossible from 2004 onwards. Only Portugal benefits from a simple and advantageous rule. Known as the 'Madeira clause', this method of calculating supplementary aid was opportunely negotiated at a European

Council meeting in Luxembourg in 1998. It provides for the automatic payment of a supplement of 75% of the difference between the income of Portuguese producers and the average European income when Portuguese income is 11% lower or more than the average community income. The mechanism did not operate for 2005 as Madeira producers had earned only 5.45% less than the European income.

The several cases of malfunctioning indicated in the setting of 2005 aid are all arguments in favour of a full revision of the system. The European Commission and European producers and their governments are working on this reform actively. At the beginning of May 2006, producers meeting within the framework of APEB reaffirmed their position by defending their joint memorandum and especially the two following points:

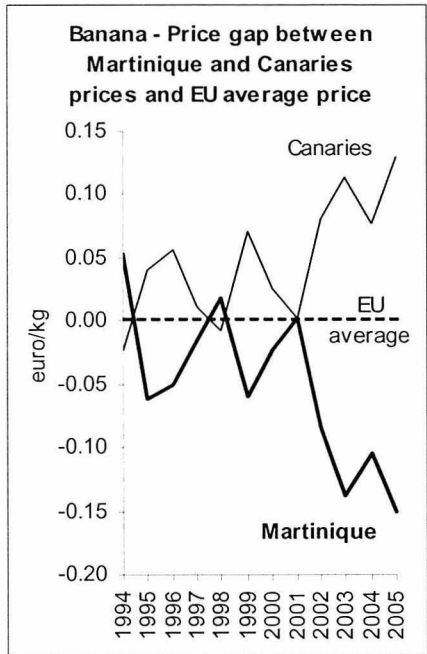
- a fixed budget identical to that of 2000 when prices were at their lowest since the implementation of the common market organisation of bananas in 1993;
- a temporary budget adjustment measure to be applied for three years to allow for the effects of the new import regime on prices and hence on producers' incomes.

Memorandum or POSEI?

Producers have also requested their governments to continue to support them in this proposal. With regard to the Commission, the Commissioner should be informed by the summer on the reflections of his departments. The Commission has also provided several lines of approach concerning the main lines of reform. Two options draw attention: the proposals of the producers' memorandum and the incorporation of aid in the POSEI system. This assumes the transfer of European banana regime financial resources to the POSEI programmes by decentralising award procedures and the types of aid according to the priorities and features of each production region.

Whatever the option chosen, the reform will see the light in 2007. European producers are very active in this question and still have a few months during which they can make themselves heard ■

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1994/2005 — Community bananas sold													
Tonnes	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Guide quantity
Canaries	321 555	369 387	345 943	403 999	437 414	362 188	397 578	420 919	407 343	400 911	418 407	344 997	420 000
Martinique	151 965	188 073	249 733	277 013	240 499	258 501	271 269	233 716	263 880	243 706	246 199	226 243	219 000
Guadeloupe	82 165	63 207	60 919	97 734	74 294	83 508	87 592	89 042	95 063	85 517	59 071	54 231	150 000
Madeira	25 866	34 401	24 203	27 890	30 436	21 770	22 461	20 682	21 903	21 382	21 161	14 165	50 000
Greece	3 071	3 138	3 807	3 901	3 589	3 336	3 276	2 909	2 433	2 670	2 869	2 932	15 000
Cyprus	-	-	-	-	-	-	-	-	-	-	*3 203	5 827	13 500
Total	584 622	658 206	684 605	810 537	786 232	729 303	782 176	767 268	790 622	754 186	750 910	648 395	867 500

* Cyprus: from May to December 2004