

OCM Banana

Very favourable reception for the reform of support for community producers

The reform of the system of support for European banana producers will indeed come into force on 1 January 2007. The details of the regime that is to replace the system of compensatory aid for loss of income are not yet known but the essential seems to have been saved. Some 280 million euros will be paid to European producers within the framework of the European POSEI programme that includes specific measures for ensuring the continuity and development of agricultural production in the outermost regions of the EU, taking their specific difficulties into account.

The essential is thus saved. From 1 January 2007, European banana producers will receive annual financial aid of some 280 million euros in replacement of the system of compensatory aid for loss of income.

This is about 20 euros less than the sum requested by professionals (the Madeira Memorandum) but nearly 40 million euros more than the first unofficial proposals that circulated in recent months (*Fruitrop* 137, page 4).

Producers are extremely satisfied. They would be completely so were the European Commission to include a clause adjusting this aid in case of substantial worsening of market conditions. The question is still being negotiated.

The European Commissioner Mariann Fischer Boel simply announced that the Commission will undertake a review of the workings of the scheme by the end of 2009, and earlier if there are substantial changes to the economic conditions affecting livelihoods in the outermost regions.

The sum of 280 million euros in aid might seem large in comparison with the average aid paid out as

compensatory aid for loss of income. Indeed, producers have received an average of EUR 204.2 million per year since 1994. However, it is not possible to address the problem as a whole while remaining at this level of analysis.

A satisfactory package ... at least for the moment

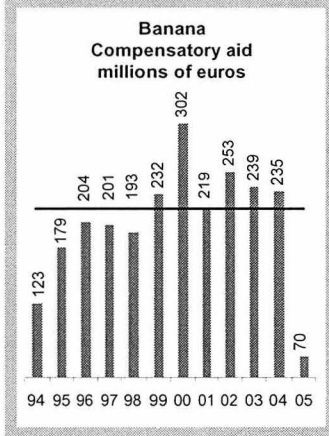
Firstly, the differences from one year to the next are extreme, ranging from 70 million euros in 2005 to 302 million in 2000.

Secondly, the average level of aid does not provide information about producers' real incomes. Much has been published on this subject in *Fruitrop* since 1993. The compensatory aid system has never guaranteed a minimum income for growers. The famous flat-rate reference income that each year forms the basis for calculation of the aid for each production region has only been attained very rarely, especially by French and Portuguese producers. And to top it all, it has been exceeded considerably almost every year by Canary Island producers.

Thirdly, the rules of operation of the European market have

1994-2005 compensatory aid

European banana producers were awarded an average of EUR 204.2 million per year in aid for an average market volume of 736 245 tonnes. In 2005, 15% of EU-25 banana consumption was accounted for by community fruits.



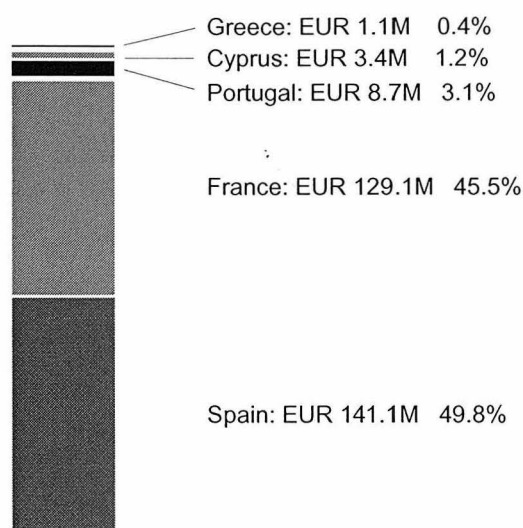
been upset on many occasions, leading to ever more deregulation. The last reform (the switch to a tariff-only system on 1 January 2006) is now starting to have a downward effect on the price of banana in the EU and hence on returns to producers. The present customs tariff seems to be serving its official role of maintaining access to the European market for third countries. In

Banana – Compensatory aid 1994 to 2005

	Income (compensatory aid + complement) greater than the flat-rate reference income	%
Canaries	10 times in 12 years	83
Martinique	3 times in 12 years	25
Guadeloupe	2 times in 12 years	17
Madeira	Never	0

Source: Cirad

Banana - Aid for European producers POSEI and single payment



Note:

POSEI: EUR 278.8M for the Canary Islands, Martinique, Guadeloupe and Madeira
Single payment system: EUR 4.6M for Greece, mainland Portugal and Cyprus

contrast, doubt can be expressed with regard to whether it stabilises markets and protects the major economic balances for banana. It is true that Latin American suppliers do not seem to suffer constraints with regard to the volumes marketed (see box on banana monitoring), by import prices are displaying a very unfavourable trend this autumn. Some consider that this very recent situation is just a rehearsal for what will happen in 2007. In this context, it is possible to better understand the Commission's decision to give satisfaction to European producers to a considerable degree.

The producers' memorandum

This aid will be handled by decentralised management through European measures for the outermost regions, referred to as the POSEI scheme. Each year, the different producer

member states will submit an action plan to the European Commission. On approval by the latter, the funds will be managed solely by the national authorities on the basis of this plan. At the time of writing, projects are being drafted and the details are not known. Given the programmes proposed for the other sectors (sugar cane for example) and also managed by the POSEI scheme and the main principles of reform of the CAP also mentioned in the various documents released by the Commission, it can be imagined that the projects will respond in part to the questions of sustainability, competitiveness and orientation by the market.

For the moment, only the memorandum provides information about the way in which the envelope is apportioned. A reference sales volumes and a financial envelope of established rights covering the period are 2000-2003 are calculated for each producer in the Canary Islands,

Martinique and Guadeloupe. For a given year, a producer will receive 60% of his established rights if he has delivered 70% of his reference amount. The aid remitted to a producer who has delivered less than 70% of his reference amount would be reduced in proportion. In case of natural catastrophe, the requirement for at least 70% of the tonnage to qualify for aid would no longer be required.

The second component of aid is related to the specific features of production. Open field production (without greenhouses) in the Canaries and production in mountain zones in the French West Indies would receive supplementary aid of EUR 30 per tonne.

The balance of the financial envelope would be distributed among producers proportionally to the level of rights gained over the period 2000-2003.

In the case of Madeira, reference aid per tonne is calculated by dividing the financial envelope awarded to Portugal (EUR 8.6 million) by the total 2000-2003 reference tonnage. Aid is then distributed to producers on a pro rata basis according to deliveries to producers' organisations. Aid for production for Greece and Portugal (EUR 0.1 million for the continental zone) and for Cyprus will be managed using the European single payment system.

Much remains to be negotiated

The file is far from complete. The frequency of aid payments must be set in the coming weeks. A two-month interval will probably be favoured, as in the present aid regime. Weekly prefinancing must be awarded to each producer in all cases. Beyond the subject of the procedures for the

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

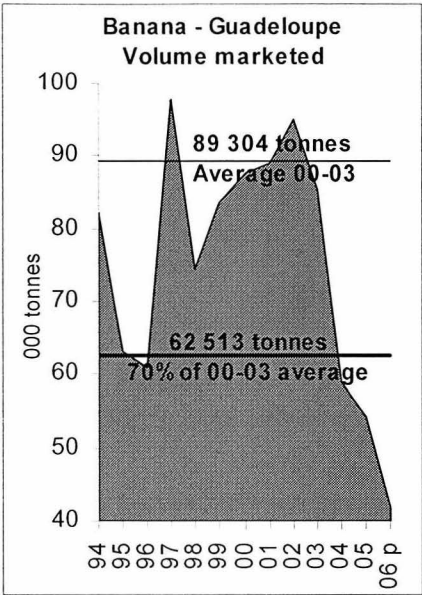
* Cyprus: from May to December 2004

payment of aid, the new scheme raises a fundamental question. Will it not result in a decrease in supplies of community banana to the European market? Indeed, once aid is not fully linked to a production volume, the risk of this decreasing is great. The situation of Guadeloupe is even more disturbing. An average of 89 304 tonnes was marketed during the 2000-2003 reference period. The forecast for 2006 totals some 42 000 tonnes, that is to say 47% of the reference tonnage (62 513 tonnes). In the light of these figures, the case of Guadeloupe will doubtless receive special treatment.

Thus, there are more questions than answers so far. This is perfectly

normal when a system that has been running for 13 years in a very sensitive sector is overhauled. Proof of this is that while Latin American suppliers had never before called into question the internal support system for European producers, Costa Rica, Panama and Nicaragua have just broken the rule. Discussions centred on the EUR 176 per tonne customs tariff and the need for Latin American suppliers to show that it is more difficult for them to gain access to the European market are encouraging them to mix issues in a way that is not very convincing so far ■

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Banana monitoring: EU 1 : MFN 0

The recent meeting at which the results of banana monitoring in Europe were presented was a new occasion—with statistics in hand—to demonstrate that the European Union's undertaking to the WTO has been maintained. Indeed, Eurostat data running to July 2006 (partial figures) revealed a 9% increase in volumes in comparison with 2005 and a 6% increase in comparison with the average for 2003-2005. Full access to the European market has thus been maintained unambiguously. All origins benefit from this increase in imports. The MFNs (third countries excepting ACP countries) increased by 7% in comparison with 2005 (+ 125 085 tonnes) and ACP suppliers by 20% (+ 83 635 tonnes). Latin American criticism is obviously focused on the latter feature and the Latin Americans now prefer to talk in terms of market share and stress the fact that they are losing in this respect in spite of the increase in absolute value. However, this reading of the WTO conclusions on banana has little chance of convincing as no reference to this notion was ever made. Monitoring thus has a few months of respite before a decision is taken on the level of customs tariff before 1 January 2007.

The commercial difficulties affecting the European market are more of a worry. The recent sharp decrease in the Aldi

price (import stage), a true reference in Europe, import prices lower than cost prices and the announcement of very low retail prices are a disappointment and a source for concern among European operators. Whereas supplies of competing fruits are moderate and prices high, the banana market is still dull. Fingers are pointed at the inflow of bananas via the eastern frontiers of Europe and the sector is worried about the possibility of large-scale fraud. Sales at a loss seem to be on too large a scale to result solely from business strategies aimed at gaining market shares. Indeed, how is it possible to sell bananas at the import stage at between EUR 7.5 and 9.5 per box after buying the fruits packed from the producer, paying EUR 3.00 to 4.00 per box in transport and unloading and paying EUR 3.2 per box in customs dues? The other troubling feature is the difference in the European import price in relation to the world price. The United States import stage spot price of USD 9.00 per box adjusted by supplementary transport costs and customs dues corresponds to a duty paid price of some EUR 12.00 per box of green fruits in the European Union (*). So how is it possible to last on a market that pays only EUR 9.5 per box at most?

(*) details of the calculation: USD 9 (EUR 7.) + USD 2 (EUR 1.6) in extra transport costs + USD 4 (EUR 3.2) in customs dues.
Exchange rate: EUR 1.00:USD 1.25

Banana – UE-25 - Imports									
	January to July - tonnes					Variation			
						Tonnes		%	
	2003	2004	2005	2006	Average 2003-2005	2006/2005	2006/Av. 03-05	2006/2005	2006/Av. 03-05
Total imports extra EU	2 363 979	2 321 657	2 254 822	2 463 541	2 313 486	208 719	150 055	9	6
of which NPF (excl. ACP)	1 898 083	1 860 556	1 826 591	1 951 676	1 861 743	125 085	89 932	7	5
including ACP, of which	465 096	460 772	428 230	511 865	451 366	83 635	60 499	20	13
African ACP	297 552	278 711	245 518	288 722	273 927	43 204	14 795	18	5
Other ACP	167 543	182 062	182 712	223 143	177 439	40 431	45 704	22	26

Source: Eurostat
2003 & 2004 NMS Customs code HS4 : 0803 - Bananas, including plantains, fresh or dried
EU-15 Customs code 08030019
2005 & 2006 NMS & EU-15 Customs code 08030019
2006 data (July 06 in particular) are partial for Cyprus, Estonia, Spain, Finland, Latvia and Slovakia