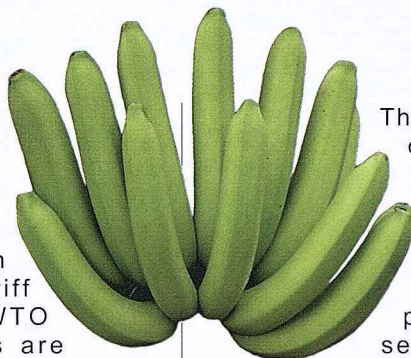


# Banana market

## Value-added versus market liberalisation



**I**t might seem presumptuous to announce here and now a decrease in customs tariff while the WTO

judges are still deliberating and a decision will not be taken for a number of months. However, the logic that has governed the CMOB since 1993 makes it possible to read the future with certainty. This prediction has nothing magic for people in the know. Indeed, it results naturally from the genome of CMO banana. The deconsolidation gene—or more prosaically that of its unravelling, is recessive and dominant. And the external contest of WTO panel, negotiation by trade zone, etc, means that it can express 100% of its potential. The history of this common organisation since 1993 shows that each decision has caused more or less serious damage to the founding principles of the single market for bananas, taking it closer to the

rules of strict free trade. This tendency or natural inclination has been accompanied or even activated—when it did not go fast enough—by an international environment dominated by a movement towards free trade.

There is no question here of shedding tears about the past, but to see how it could be viewed

as a textbook case, what route was taken, and to deduce a few major rules governing the functioning of international markets. And not hesitate to have a go at a few preconceived ideas and sacred cows on the way.

### Free trade is not necessarily synonymous with wealth

It is perhaps stating the obvious, but the banana is a striking example. The international price of banana has a historical tendency to fall and, except in case of climatic disaster, the value-added is often pocketed by the strongest operators—those who can easily reorganise in case of economic or statutory upset. Producer prices in Ecuador have been comparatively high for months, belying the observation, but the phenomenon is a temporary one and only

concerns spot contracts. In addition, this has made it possible to temporarily restore a balance of power that was very unfavourable for producers for many years.

### Supermarket chains garner the greater part of banana value-added

So far, the liberalisation of the European market has been favourable for only one link in the chain—supermarkets. These govern supply from an increasing number of operators, all supplying produce with strictly identical characteristics. The only adjustment variable is the price negotiated. Meanwhile, intermediate costs have increased considerably. Bunker prices have risen by 60% in one year. The prices of intermediate items—plastic, cardboard, pesticides, etc.—have all risen. Falling selling prices to distributors and rising intermediate costs are seriously whittling away operators' returns at the import stage.

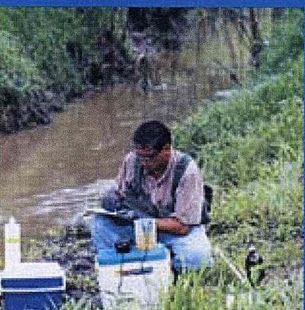
**It's in the bag—the customs dues levied on bananas on entry to the EU will be lowered. In spite of economic indicators, market indicators and the vital interests of the weakest banana exporting countries and in spite of the very spirit of the common market organisation of bananas (CMOB) of 1993, the tariff on bananas from third countries will be lowered. EUR170 per tonne, EUR120, EUR75 or perhaps less. The figure has little importance and neither has the date on which it will happen. The harm has already been done and the effects are clearly visible.**



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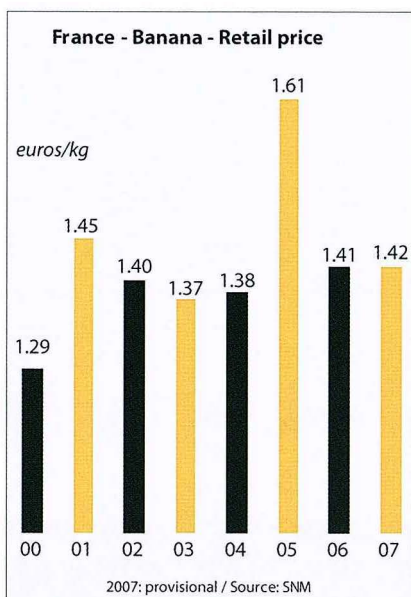
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### Nothing is changing for consumers

The theory according to which consumers benefit from open markets has been flattened by the observations made for the last two years. Except in 2005, an unusual year, retail prices both in France and Germany were higher than those of the CMOB days. Theoretical fiction did not become fact in this case.

### The weakest countries are suffering

In contrast with claims of supporters of free trade, the weakest countries do not benefit from liberalisation. They are always squeezed out. Thus many Caribbean ACP countries are seeing their futures darken, whereas they had hitherto held up fairly well thanks to the organisation set up by the EU that combined financial aid and a special status in Europe.

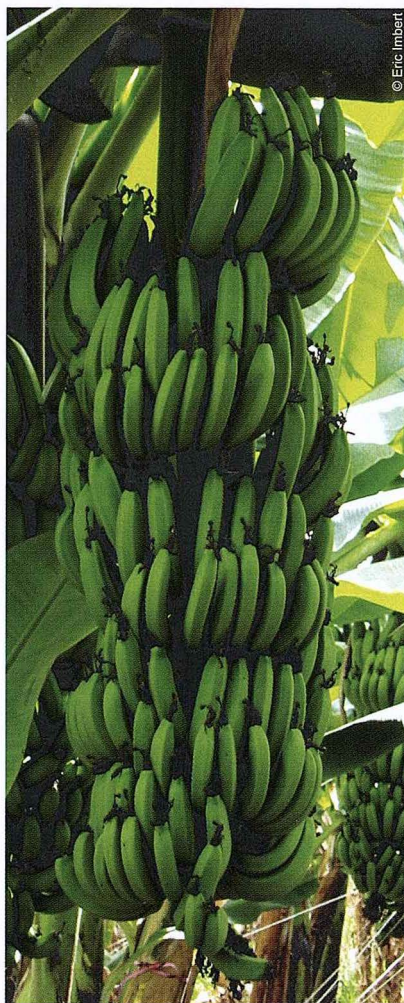
### Everything has 'commodity' status

Positive discrimination based on the mode of production (organic, fair trade, etc.) is an ideal that has never been taken into account in the codes that govern international trade relations. Preferential treatment according to origin (ACP production, EU bananas, etc.) has less and less say. The trial of strength concerning the EPA question is one of the most

recent misfortunes in this view of the world (see following article). Banana now has commodity status and its standardised banality means that it can at last match the canons of beauty of the WTO.

### Regaining value-added

We thus have the feeling that everyone has backed a losing horse. On the eve of the switch to the tariff-only

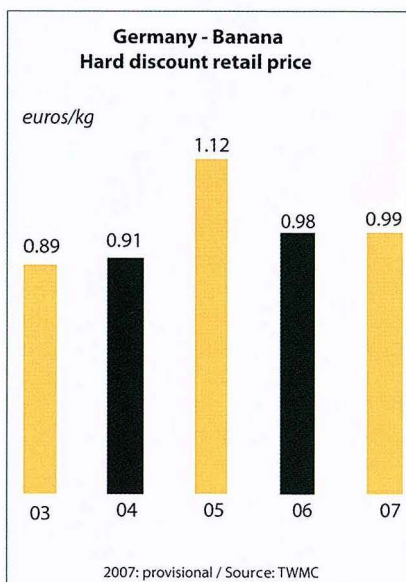


system on 1 January 2006, doom-sayers, including **Fruitrop**, forecast a failure of this market. At first, their forecasts did not seem to have come true. The volumes sold in Europe increased and although import prices fell they did not collapse. The alert in spring and summer 2006 was a one-off accident caused by the sudden and excessive love of a Guatemalan operator for Italy. In fact, the inertia of the banana market (relations between operators, freight contracts, etc.) was greater than could be imagined. Furthermore, the excellent

trend in world demand (Russia, USA, EU, etc.) slowed potential up-sets.

Awakening has been a little more difficult in 2007. The first part of the year was morose for imports and the second half very disappointing. Many people thought that the major hurricane damage in the Caribbean at the end of summer 2007 would clear a market imprinted by increasing supply and that the state of grace would continue. Finally, although dramatic for the production zones affected, this episode clearly revealed the process that is slowly unfolding: the destructuring of the banana industry for the benefit of the final link in the chain—the retail trade. The mechanism is finally a fairly classical one. The illusion of a shortage on the banana market encourages banana professionals or simple adventurers to obtain supplies directly at production (spot operations) to be able to participate in the feast announced. The sheep behaviour phenomenon operates at full strength and, of course beyond real market requirements. The quantities available soon become too large and clog the sector. To make things worse, sellers sometimes just work in the sector occasionally and this does not ensure a sensible approach to selling bananas.

In the face of this patent absence of organisation, retail distributors just play their role of bringing prices down. This is pretty easy as nothing looks more like a banana than another banana. Banality at the service of a decrease in value-added.





Regularisation of the market by means of regulations, the source of sector organisation, is definitively no longer possible. It would be just as pointless to be waiting for El Niño, his little sister La Niña, a hurricane or a new disease to change the balance of supply and demand. The international market does not lack bananas and never will.

If we can no longer play on volumes to increase value, let us inject value into the product. 'Commodity status' has only just been attained and this must be left behind at any price. Initiatives to individualise banana are the only remedy for the decrease in value-added. Segmentation policies exist for this. The other agricultural sectors have used this technique with greater or lesser success. Varietal clubs, starting with that of 'Pink Lady' apple, are doubtless one of the best examples.

Scope for segmentation of banana is not infinite. In the short term at least, distinction with the Cavendish varietal standard can hardly be imagined. Differentiated modes of production form a possible line of attack. It has been partially used by the organic and fair trade movements. Other aspects have been little or not at all explored: these are modes of presentation and use. Examples have been shown in the United Kingdom and the United States. Ideal segmentation means being able to provide each customer with a tailor-made commercial service matching his or her expectations. The banana sector is so poor in this respect that the range of possibilities is very large. One might imagine increasing product availability to compete with snack foods, developing new packaging based on eating habits (for sport, students, etc.), tastes (stage of ripeness), appetites (finger size), etc. There then remains the work of gauging the size of markets, assessing the durability of these innovations and also evaluating the value-added that can be generated. This would be followed by discussion between sector stakeholders to ensure that the increased value is shared. In short, a remake of the Twelve Labours of Hercules ■

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