

January 2008 - No. 152

FR*ui*TROP

English version

Close-up:
APPLES AND PEARS

Banana in Europe:
report on 2007 prices



FRUITROP
HALL 22 - STAND D-06

<http://passionfruit.cirad.fr>

Banana in Europe: report on 2007 prices

Strong pressure on import margins

The year 2007 was the year of weather. The smallest common denominator of this banana year was found in bad weather. The worst event was hurricane Dean (end of

August) that had very serious effects on the production capacity of the French West Indies (Fruitrop 148, page 3) and other Caribbean islands as well (Jamaica, Saint Lucia, etc.). Gales and floods devastated the south and then the north of the Dominican Republic. Flooding also affected Colombia and Costa Rica. Banana plantations in Ecuador and Central America were hit by cold weather that delayed part of production. Africa suffered serious weather damage—a gale in Cameroon in May seriously reduced the export capacity of the country.

Less can mean more

It should not be concluded that there are no longer any bananas on supermarket shelves. Weather damage did not cause any price tension. Quite the opposite! The illusion of a shortage

stimulated exports to the EU, with lower prices often being the only way to stand out from the other suppliers and sell large quantities.

Nevertheless, we know that production capacities expressed at time t depend on demand and that a production reserve is always available. It is activated immediately by a lowering of the quality requirements set by importers. Proof of this is found in the supply records. We shall not be able to draw up a precise balance of the supplying of the European and US markets until the June 2008 issue of Fruitrop (No 157). However, it is possible to affirm (see box: banana monitoring) without risking a mistake that the quantities imported by EU-27 increased substantially by some 6% (figures to September 2007) after a phenomenal 13% increase in 2006. The United States displayed the same trend for the first nine months of

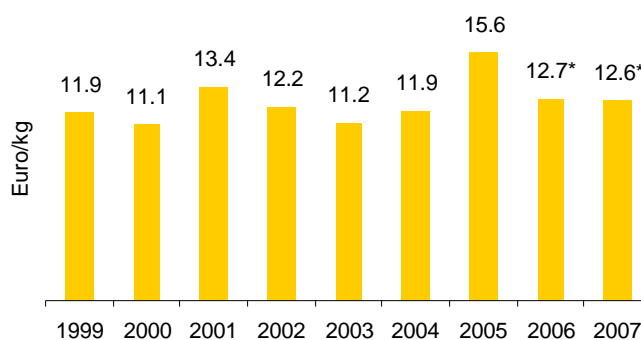
2007 with a 5% increase. The increase was smaller in Russia where, over the whole year, the gain was a probable 3% over 2006, but this is 15% more than in 2005.

In spite of this fresh inflow of banana on the market, satisfaction can be drawn from the absence of the highly disturbing quantities of spring 2006 that were shipped from Guatemala and caused a lasting slump on the European market.

2007 was also the second year of the new EU import regime with the EUR 176 per tonne tariff still levied on imports from third countries and on ACP bananas in excess of the quota. There has been much discussion within and outside the European Commission – MFN contact group and during the examination of the complaints by Ecuador and the United States but this has not yet led to a compromise on the

Average is a synonym for mediocre in the banana market dictionary. Although import prices stagnated in 2007 in comparison with 2006, intermediate costs have rocketed. Importers' incomes decreased. Conversely, Latin American producers have succeeded in grasping a larger proportion of the value-added. However, the big winners are European distributors who are consolidating their power over the sector.

Banana — Germany — Evolution of the Aldi price



*Eurepgap certification / Source: Cirad

Charles De Wulf

Independent consultant

**Surveys
Consultancy
Lobbying**

Fresh and
Processed
Foodstuff

Specialized in
Fruit and Vegetables

**EVALUATION MISSIONS
DEVELOPMENT PROGRAMS
TECHNICAL ASSISTANCE**

Targeting Producers,
Insurers, Sea and Road Carriers,
Importers and Institutions

Based in Brussels

CONTACT charles.dewulf@skynet.be

MOB +32 495 55 28 55

SKYPE charles.dewulf

Agronomist - 18 years experience
Management in Tropical Production
Pineapple and Banana Specialist
Quality, Audit and Survey on food products

FR*ui*TROP

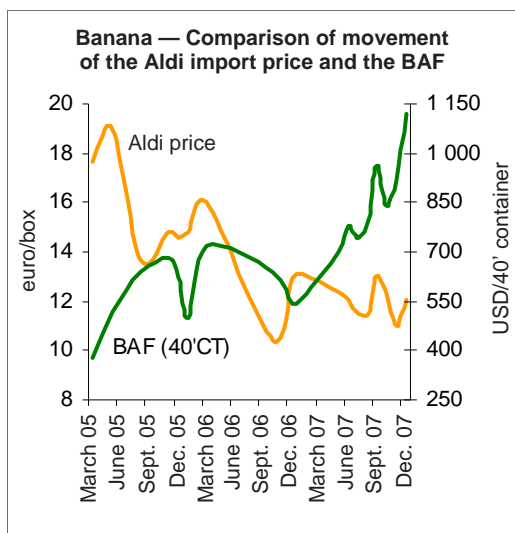
Your monthly journal on the web



New Website

<http://passionfruit.cirad.fr>

3 500 articles in full text!



reduction of the tariff.

Lower highs and higher lows

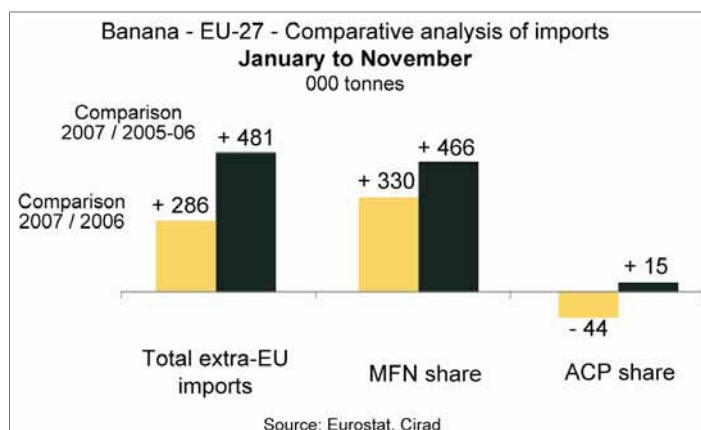
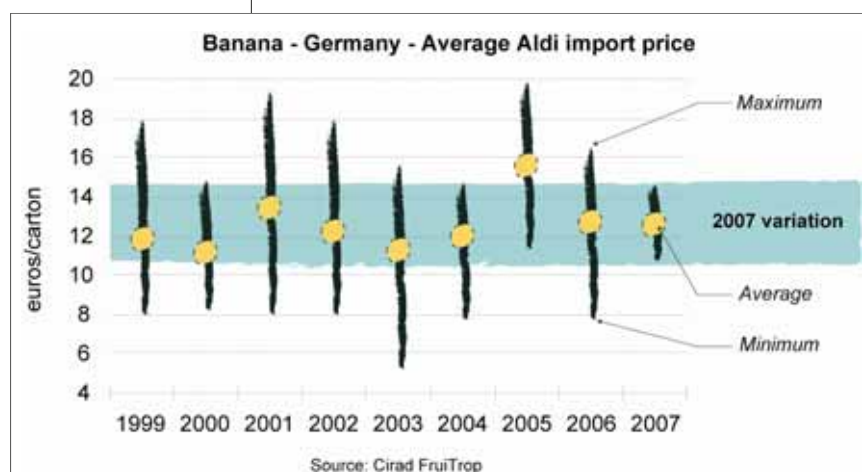
As in 2006, performance as regards prices was mixed. Reference prices (Aldi import price) were practically identical at EUR 12.6 per box in 2007 in comparison with

EUR 12.7 in 2006. If the very unusual 2005 is left out, the average was very slightly above that for 2001-2006. And 'average' is doubtless the term that best describes the movement of import prices. The amplitude of variation of the Aldi prices was twice as narrow as in preceding years. In 2007, the difference between the lowest and highest weekly prices was EUR 3.8 per box while it had been nearly EUR 9 in 2006 and EUR 7 in 2004. It is true that the 2007 summer dip was not as marked as those of 2006 or 2004. This partly explains why the low point of the year was higher than EUR 10.00 per box. There are several reasons for the good behaviour of the banana market in summer 2007: cold and rainy weather favourable for this fruit and unfavourable for its competitors and supply that was not over-

abundant. The 2004 and 2006 slumps seem to have quietened the enthusiasm of European operators who have now soft-pedalled on imports during this period.

The very low high point observed in 2007 (EUR 14.60) shows the inability of the import link of the chain to increase trading prices for supermarket chains. The improvement of market conditions will never be lasting enough to allow a significant, lasting increase in prices. In an open system, supply has an annoying tendency to pop back up on the market immediately and so 'de-seasonalisation' seems to be taking place. But beware of making a mistake. The good situation now in early 2008 should be seen in relative terms. Import prices are rising but only reaching very classic levels.

We have seen that the average annual price in 2007 hides substantial breaks in the everyday functioning of the market. It also hides a tremendous change in cost structure

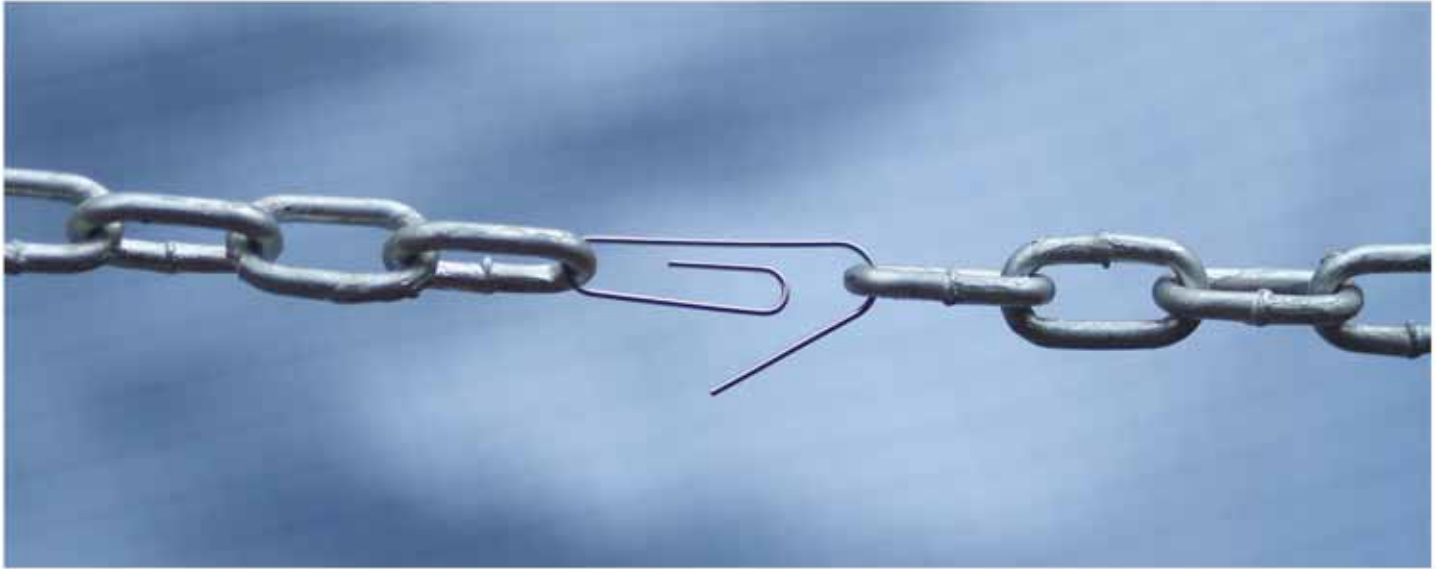


and analysis should be taken further. Three major changes can be seen: the increase in freight costs, the increase in producer price and the application of customs dues to all the bananas imported from dollar zones and to over-quota ACP bananas.

Strongly rising intermediate costs

Freight costs increased by 10 to 15% (reefer spot reference) in 2007 in comparison with the 2004-2006 average, with peaks at + 65 and + 89% in May and January respectively. The increase results from higher oil prices. The Bunker Adjustment Factor (BAF) used to correct freight rates using the cost of oil has doubled in 12 months and tripled since the beginning of 2005! And the impact of

Information... your weak link?



Reefer Trends is an independent news and information provider, financed exclusively by revenue from subscriptions.

First published in 2003, it provides a number of services for users along the reefer logistics chain: the Reefer Trends weekly charter market brief is the benchmark publication for the specialist reefer business – it tracks the charter market for reefer vessels, as well as fruit and banana production and market trends that influence charter market movement.

The weekly publication has close to 200 paying subscriber companies from 34 countries worldwide. The list of subscribers includes all the major reefer shipping companies and reefer box operators, the major charterers, reefer brokers, banana multi-nationals, the major banana exporters in Ecuador, Costa Rica, Panama and Colombia, terminal operators in the US and Europe, the world's leading shipping banks and broking houses

as well as trade associations, cargo interests and fruit importers on all continents. It is also circulated within the European Commission and the World Trade Organisation.

As well as the weekly Reefer Trends report it provides a separate online daily news service, covering developments in the global fruit, banana and logistics industries. The daily news is e-mailed direct to the desktops of several thousand subscribers worldwide.

Reefer Trends' consultancy clients include shipbuilding yards, banana majors, banks, brokers and equities analysts. Reefer Trends provides sector reports and forecasts for brokers and charterers. It has also acted as an expert witness in a chartering dispute.

For more information on subscriptions, please contact:
info@reefertrends.com or visit www.reefertrends.com

reefer trends



Simba France-Del Monte out to conquer Mars

Simba France wishes to create a new occasion for purchasing and eating bananas during the day, using the logistics of Del Monte, distributed by Simba in France. For this, it proposes to adapt supply to the demand of consumers who have less and less meals at home and would like a more balanced diet. Chocolate bars and sweets had better watch out. The recipe recommended with the 'Gourmet' formula consists of bananas packaged singly and a 10-fruit showcase suitable for all types of outlets: snack bread and pastry sellers, fast food and catering, neighbourhood groceries, delicatessens, hotels, etc. From the trade angle, Simba France guarantees to deliver its customers a set number of fruits per package

(56 fingers), standard unit weight (130 to 150 g) and regular supply.

more expensive fuel does not stop at the dock. An increasing number of European purchase centres in Europe require that the seller (importer or ripener) handles road transport in Europe.

Spot purchases at production have also been more expensive. The price negotiated in Ecuador has become very much in favour of producers who choose this sales method. Another proof of the increase in the price of produce is that the Costa Rican government decided to raise the reference price paid to producers from 1 January 2008 to USD 6.45 per box.

The customs tariff was raised from EUR 75 to 176 per tonne in 2006, that is to say from EUR 1.39 to 3.26 per box. This steep increase on 1 January 2006 conceals a different distribution of the expense. Some operators have lost quota rent and pay customs dues at more than double the previous rate while others paid customs dues but no longer had to purchase import certificates.

Distributors take the power

For importers, continued downward pressure on import prices and the rocketing of intermediate costs also means the capture of value by the downstream link in the chain. The reform of the common market organisation of bananas in 2006 led to the destructuring of the European market and a search for a new framework and fresh balance. Power was strongly concentrated at the import stage and has shifted slightly

towards the production stage with the increase in spot prices but above all towards the tail of the chain. Figures clearly prove this new distribution of forces. Retail distributors are now succeeding in damping the import price by means of strongly dispersed competition in supply but have not given an inch as regards the retail price of bananas (see boxes). The added value is now in the hands of distributors. Three options are available to intermediate operators:

reorganising supply in order to master it, persuading retail distributors to release value-added or creating supplementary added value. The first two solutions are utopian in a liberalised market. The third solution would seem to be the most virtuous one. Varietal innovation, creativity applied to packaging, distribution and consumption and also new ways of selling produce to consumers are all pathways that operators are beginning to explore. What seemed to be minor in 2006 is becoming essential in 2007, forming the one and only way of consolidating or even saving an industry ■

Denis Loeillet, Cirad
denis.loeillet@cirad.fr

