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Apples & pears



<http://passionfruit.cirad.fr>

The European banana
market in 2011:
beware of mines

Citrus and exotics:
monthly reviews



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The European banana market in 2011

Beware of mines

'I'm fine, Mummy'

The 2011 annual import price in France is perfectly in line with the average for the last four years at some EUR 0.66 per kg (EUR 12 per box). In Germany (the reference for second and third brands), it is EUR 0.71 per kg (EUR 12.90 per box), matching the 2010 average. Consumption in EU-27 estimated by CIRAD displayed a small 1% increase (+ 48 000 tonnes) over a ten-month period and was perfectly stable at 5.2 million tonnes for the twelve months from September to October.

The figures are even more encouraging for the United States where the excellent trend observed in recent years was confirmed. The Spot price of green bananas was up by 80 cents to USD 16.50 per box, an all-time record. Declared customs value confirms the figure at USD 445 per tonne against USD401 a year earlier. The increase at the import stage did not have a negative effect on net supply. Quite the opposite, as the latter even increased by 2% (+ 62 000 tonnes) in the ten-month period. Discontented operators should keep quiet!

Yes but...

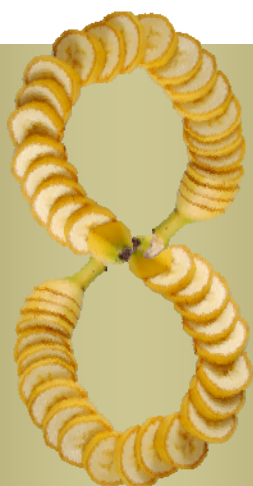
After reading the above, some readers will probably be reaching for their telephones to complain or will have lit a few candles and be praying for an abandoned and lost editorial team. Neverthe-

The situation is worrying, even though this is not apparent at first sight. This is what will be remembered of the 2011 banana year in which the best rubbed shoulders with the worst. Some people even consider that at least the second half of the year—the most difficult period—was just a dress rehearsal for a play that should run throughout 2012. But be assured, coups de théâtre form the foundation of the banana scenario.

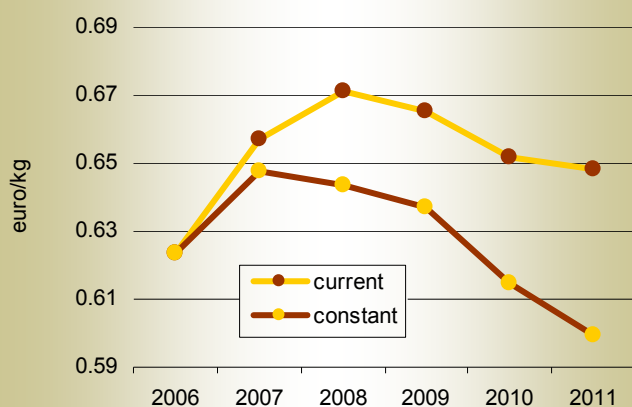
less, a glance at the annual figures shows that although the situation is not magnificent it is not desperate either. But this is in total contradiction with the widespread grumbling about the poor European in the broad continental sense (including Russia) and Mediterranean market. Complaints are heard at both production and import stages. Beyond what can be considered as the usual noise from traders, there are unmistakable signs: some large operators are scaling down in Europe with poor financial results, a major crisis in Ecuador and in other major export countries, etc. This leads to making a closer analysis and identifying the causes of the present anxiety.



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**Banana - France - Import price
in current and constant euro**



Source: CIRAD, Insee

The banana roller coaster

It's all in the details once again. As we stressed last year, the instability of markets means that monthly or even weekly analysis is needed to understand the situation in 2011 and also to draw conclusions for the coming months and years. Because, in contrast with the description at the beginning of this article, the situation is very bad.

It is true that the year was not deplorable from start to finish—far from it. The first quarter was even very generous with French import prices flirting with the peaks at EUR 0.95 per kg in week 4. The symbolic one euro level was not exceeded as it had been in 2009 (weeks 10 to 12) but the situation was very good. First quarter import prices in France and Germany were respectively EUR 15.4 and 16.1 per kg. The exceptional trend continued in April.

However, the trend changed in May. The situation went from bad to worse in the spring and especially in the summer. A timid recovery in the autumn was not enough to catch up. The last quarter was dull, as in previous years apart from the exceptional end of 2010.

The year was strange to say the least and the main causes were discussed in part in the October issue of **Fruitrop** (193, October 2011, page 17 onwards). The noteworthy events are shown in the table below.

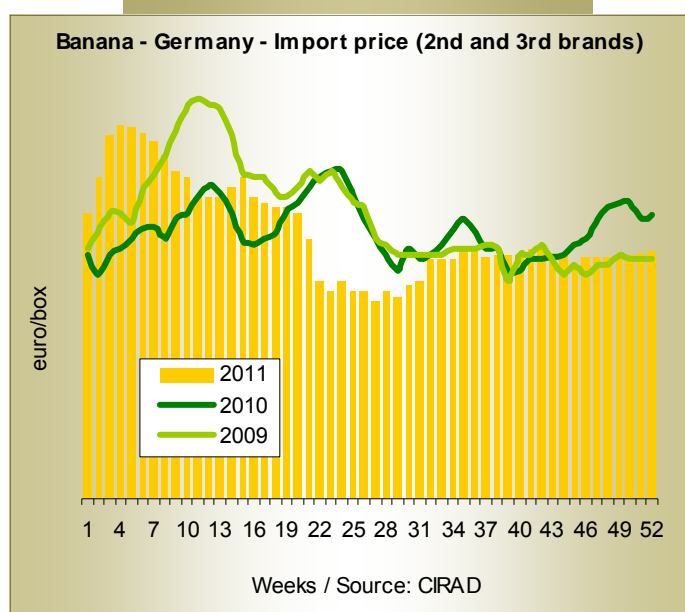
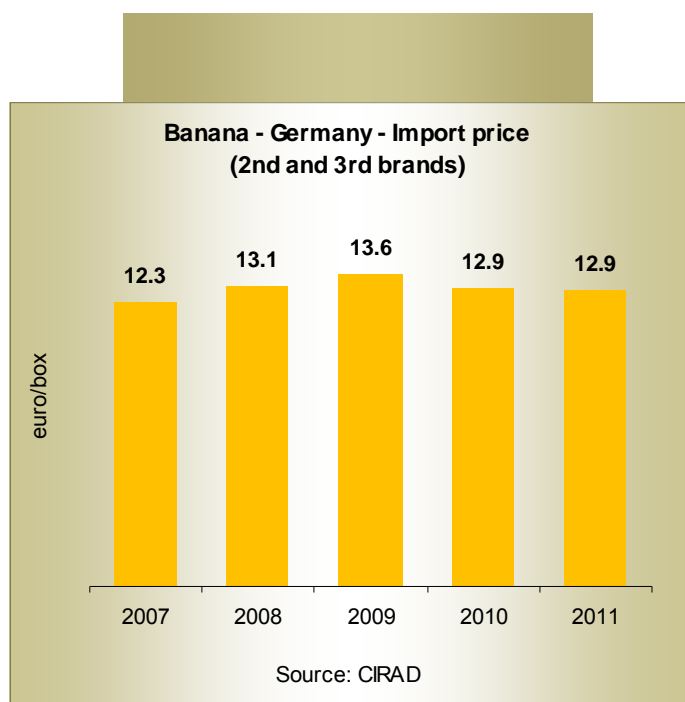
The European banana market in 2011 — The major events

Positive for the banana market

- The end of 2010 was marked by weather damage to both the world banana plantations and the main production area (decrease in supply from Latin America and the West Indies following hurricanes, floods, drought, etc.) and by a decrease in the European pip fruit harvest.
- Summer 2011 was not very favourable for the season's fruits (abnormally low temperatures in July for example) but the banana market did not benefit because of over-supply during the whole of the summer.
- The hurricane season was fairly quiet, especially in banana production areas, leaving world production potential intact.

Negative for the banana market

- The revolutions in the Mediterranean in spring 2011 considerably disturbed southern European flows of bananas.
- The *E. coli* psychodrama in May/early June in Europe and also in the United States made fruit and vegetables seem to be potential bombs, putting off consumers.
- Spring 2011 was extremely warm in Europe and hence not very favourable for banana consumption.
- Competition from the season's fruits was marked in spring 2011 as harvests started about a fortnight earlier than usual.
- European imports increased strongly from April to August (+ 2 to + 8 % in volume in comparison with 2010).
- Finally, the difficult economic context affected the morale of households and food prices. According to Interfel, consumption of fresh fruit and vegetables is decreasing in terms of volume.

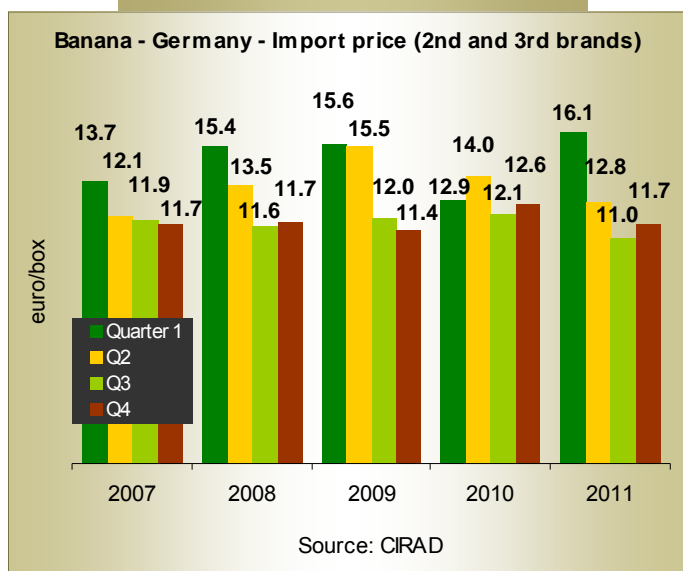
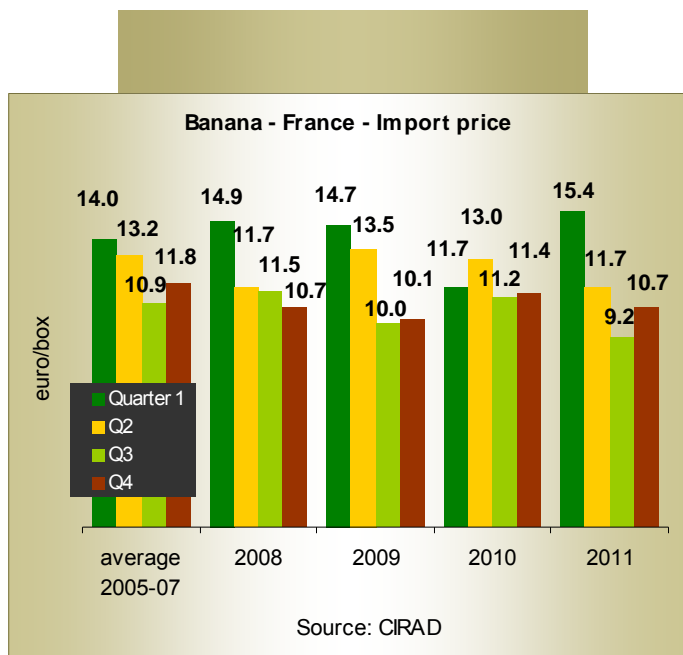


Confirmation

The study of European supply is instructive and also answers many questions. Only the figures for the first ten months of the year are available at the time of going to press. They are enough to provide an extremely simple explanation of the impact of the increase in banana supply on prices at the import stage. Indeed, the monthly increase of the volumes sold in the EU (imports + European production) was positive from May to August inclusive (from 2 to 8% more) and then again in October (+ 2%) after a dip in September (- 4%). This was all the more revealing as supply was larger than normal. The supply curve was thus totally inverted with regard to import prices. Another illustration of the famous theory of supply and demand.

However, the rate of supply alone does not explain the moroseness of banana operators. There is first of all the case of France whose supply profile differs considerably from those of other countries like Germany and Italy for example. The fact that its own producers cover a proportion of consumption structures the market. This is also reciprocal: France is the first outlet for these producers. Their destinies are closely linked. If further proof were needed, unfortunately 2011 is a textbook case. French growers, and especially those in Martinique, were hit by a double whammy. Absent from the market during the euphoric first quarter because of damage caused by weather at the end of 2010, they returned strongly, as required by the physiology of banana plants, in the spring and summer. The market could not take this flood of bananas during period that are also delicate for fruit consumption (see preceding table). In addition, takers paying decent prices for these extra volumes were not found on the other European markets as exports were already too large during the period, as has already been mentioned. The end of the crisis in September was more delicate and longer than elsewhere for the same reasons.





Loss of purchasing power

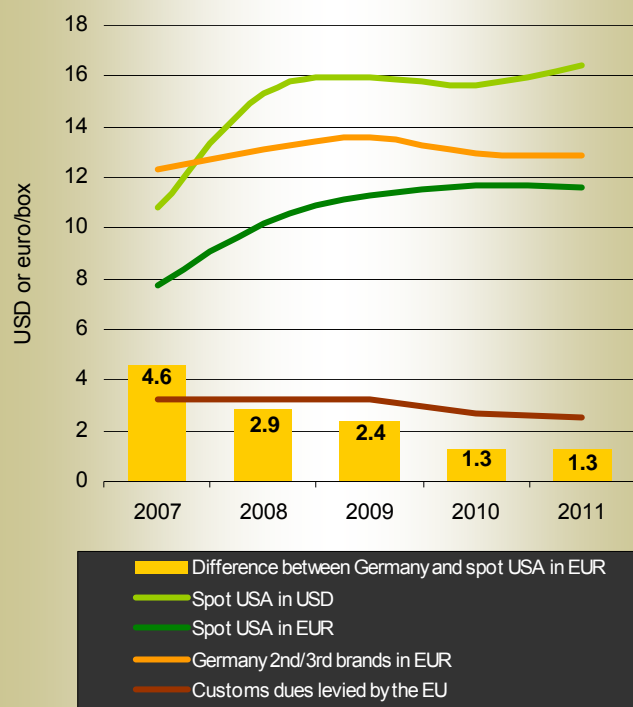
Price stability in Europe should be seen in relative terms as reference is made to current prices and not constant prices. It is true that inflation is under control in the EU but the price curve cumulated over a period of several years displays quite a different pattern. Since 2006, current prices of green banana have increased by an average of 0.8% per annum while they have lost 0.7% per annum in current euros. This means that the value of a kilo of bananas at the import stage has decreased by 7% per year in constant euros! It will be remembered that the current pre-tax performance ratio for shippers in the fruit and vegetables sector in France is some 1.4% per year (Observatoire de la formation des prix et des marges des produits alimentaires – Report to Parliament - June 2011 - FranceAgrimer). Given the extreme financial fragility, it is certainly useful to analyse prices in constant euros.

We have seen how lack of accuracy in what we are analysing—current and constant prices—can make comments less perspicacious. Beyond the question of the reincorporation of inflation in the prices, it is important to say that there should be no confusion between price and value-added or even between price and profit. Value-added is what remains of the selling price when the producer has been paid or generated in integrated banana structures and when intermediate expenditure with a view to release on the market has been settled. Gross profit is the value-added minus payroll costs and other expenses. These two small examples show that producers do not make money through the simple evolution of prices, but in contrast are impoverished when costs increase. Whence the great importance of not thinking in terms of even constant prices but to integrate in the analysis the movement of costs and especially those related to raw materials. Some might think that this is stating the obvious but during discussions in certain circles, especially in Brussels and Geneva, it seems that even a simplified reminder of accountancy indicators is not superfluous.



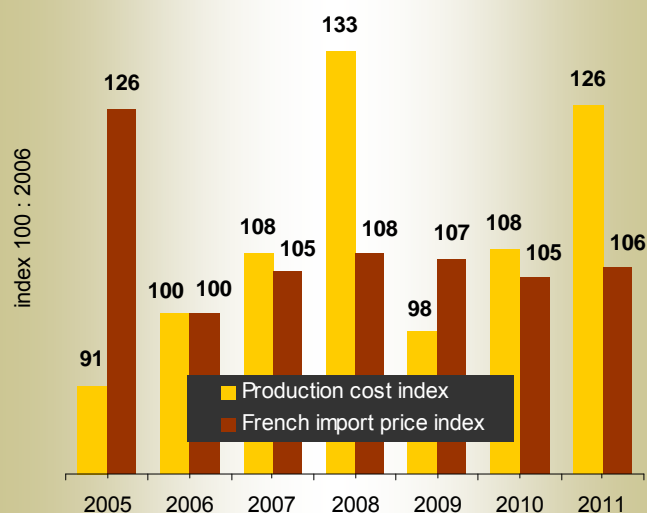
© Régis Domergue

Banana - Movement of the difference between the Germany import price (2nd and 3rd brands) and the spot price in the USA



Sources: Sopisco, CIRAD

Experimental index 'Banana production cost'



Source: CIRAD

Avoid confusing price and cost

However, after saying that, we have not got very far. It should therefore be possible to apply very accurate monitoring, at the same rate as sales price movements, of the various components of the cost price of bananas. This can concern situations as different as that of a small grower in the Machala region of Ecuador, a multinational corporation in Costa Rica or a highland grower in Guadeloupe. In addition, access to information remains in the strictly private field of cost price structure and is very dependent on the conditions of purchase of raw materials. The CIRAD Market News Service that publishes FruiTrop has undertaken to create a cost price index using only public or easily accessible sources of data (World Bank, Reefer Trends, etc.) and a few expert cost structures that describe part of world supply as accurately as possible. For the moment, the index does not cover certain costs such as payroll, depreciation or financial or structural costs.

Now for analysis after these long preliminaries. It is short and to the point. Indeed, a cost price index and an import price index each at 100 in 2006 only rose to 106 in 2011 for the current import price but to 126 for cost price. We are not very far from the record 133 of 2008 with the boom in raw materials before the financial crisis.



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Banana — Europe — Retail price

euro/kg	2010	2011	Difference	
			Euro	%
United Kingdom (£/kg)				
Loose banana	0.88	0.73	- 0.15	- 17%
Prepacked banana	1.24	1.21	- 0.03	- 2%
Spain				
Banana from Canaries	1.7	1.93	+ 0.23	+ 14%
Other origins	1.38	1.34	- 0.04	- 3%
Germany				
Traditional distribution	1.17	1.19	+ 0.02	+ 2%
Hard discount	0.99	1.04	+ 0.05	+ 5%
France				
Average price	1.23	1.26	+ 0.03	+ 2%
Special offer price	1.43	1.48	+ 0.05	+ 3%

Sources: TWMC, SNM, national authorities

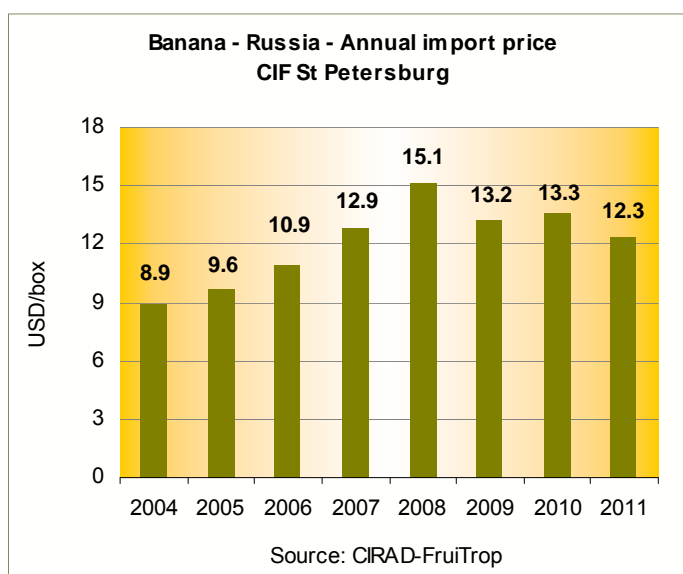
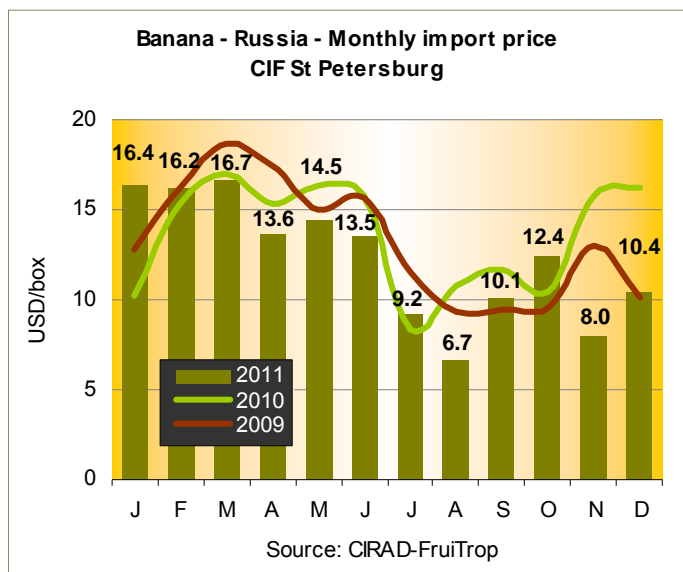
From individual to collective

We now know that producers are becoming poorer, trapped between rising costs and falling sales prices. It now remains to be known whether retail distributors, the final link in the chain, have creamed off the surplus generated—in spite of themselves—by producers or intermediate operators. Examination of retail prices refutes this hypothesis. Current prices have remained stable overall in the EU and have thus fallen in constant euros. It is thus simple to conclude that the sector as a whole has lost value-added. As this is a longstanding phenomenon, especially in France, it would be logical for operators throughout the chain to try to re-stimulate this fruit that is suffering from pauperisation. And raising retail prices as one of the pathways that such cooperation should take would not be a case of treating consumers as hostages. Bananas are by far the cheapest fruit on the shelves and, at equivalent nutritional value, the cheapest foodstuff. This is not a new idea in France. Studies of all kinds and the subsequent commissions have all shown the advantages of a collective marketing approach. However, the initiatives have always come to nothing. But as a sign of the times, the leading operators on the French market seem to be moving in the right direction at last. With encouragement from the Conseil supérieur des importateurs de bananes (CSIB), the Association interprofessionnelle de la banane (AIB) should come into existence in February 2012. This is an important founding act. It will assemble all the professional groups in the banana sector: producers, importers, ripeners, wholesalers and retailers. This is a point of departure that is certainly not enough but it is essential for the ambitions of a sector in the throes of a crisis.

Scissors and then a hatchet

This is why in contrast with the annual figures and my very optimistic introduction, 2011 was distressing to say the least. And it is not for a morbid thrill that we add stress to stress when discussing 2012. Indeed, as we wrote in October (Fruitrop 193, page 17 ff.), production capacity in the Caribbean and Latin America has emerged practically unscathed from the hurricane season and, although La Niña is there, its effects will be minimal. In short, after acting as a regulator after 2006, the climate was absent. In addition, there is nothing to show that tension with regard to raw materials will ease off. This is especially the case of oil, the master standard for much intermediate consumption. According to the latest forecasts and unless there is a very serious world-wide recession, all observers see oil prices at around USD 105 (Deutsche Bank, BNP Paribas, etc.) per barrel (WTI). Costs will therefore continue to increase and selling prices will not benefit from a temporary decrease in supply. The price and costs scissors are opening to a dangerously wide extent and must not become a hatchet affecting the whole sector. As the saying goes, 'He who thinks of the worst becomes right'. So let's hope that we will become perfectly not right ■

Denis Loeillet, CIRAD
denis.loeillet@cirad.fr



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Russia: вляпаться в говно*!

Russia is a land of contrasts. Observers of the Russian banana world are like Winston Churchill: 'I cannot forecast to you the action of Russia, it's a riddle wrapped in a mystery inside an enigma; but perhaps there is a key.' (October 1939). Erratic is the best adjective for describing this market which is a market for non-contractual Ecuadorean bananas. The two countries go well together in fact, giving the impression that everything is always possible. The frontiers of the possible were pushed further back once again in November 2011 when arrivals practically doubled from 1 to 2 million boxes per week. This immediately caused a decrease in price, which fell through the floor to USD 6 per box CIF St Petersburg in Week 47. In comparison, the

green price across the border in Poland was USD 13.3 per box, a feature that might make some people want to become exporters.

Finally, thanks go nonetheless to the Russian market for having taken so much fruit: a 25% increase from 2010 to 2011. This is as much as the Mediterranean or Europe. Or the East European frontiers are more permeable than reported. But as you might say, 'not seen, not caught'!

*вляпаться в говно [vlyapat'sya v govno] :
'To get unexpectedly into a difficult situation, to get stuck between a rock and a hard place'

United States: the banana 'new deal' stands the test of time

A year ago, Fruitrop asked the question of whether the American miracle would be confirmed in 2011. The verdict is that the market is still well-oriented. Both customs values and Sopisco data (green bananas, Spot stage) agree that the produce is still gaining value at import. The Spot import price climbed by 5% in 2011 in comparison with 2010, setting a new all-time record of USD 16.50 per box (current dollars). It even doubled between 2004 and 2011. There is no point in checking whether US inflation has wiped out the excess. There is an unprecedented increase in value on the US banana market. The upward movement started in 2008 right in the inflationary crisis suffered on the commodities market. At the time, US operators succeeded in persuading retail distributors that it was necessary to increase purchasing prices to cover the increase in cost price. One might have thought that it was a flash in the pan, with the decrease in tension in commodities automatically causing a change in contract and Spot prices.

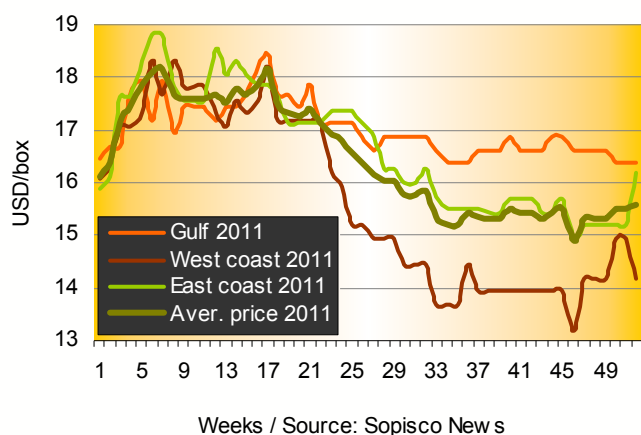
The most astonishing feature is that consumption has increased. After a very dull 2009, the market regained lost ground in 2010 and even made fresh progress. During the last

12 months for which statistics are available (November 2010 to October 2011), imports totalled 4 156 000 tonnes against 4 087 000 tonnes a year earlier. When exports, mainly to Canada, are deducted (515 400 tonnes), it is seen that net supply increased by 2% to a record 3 641 000 tonnes.

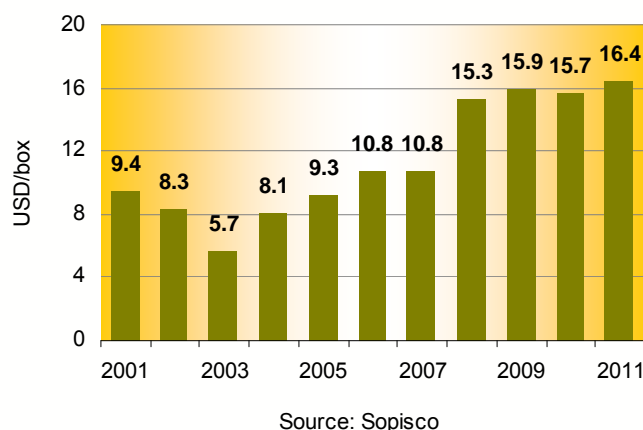
And what about retail prices in all this? Braving all the laws of classic economics, they even increased by 5% in 2011 to USD 1.35 per kg (provisional figure), regaining 2009 or 2008 levels. It should be remembered that retail prices increased by nearly 20% from 2007 to 2008, accompanying the increase in green prices.

This is not experimental economics or computer models. It is real life, that of the international markets. And it has to be admitted that another banana world is possible, at least at the import and retail distribution stage. Organisation and regulation can improve the value of a market. The United States used the market and its operators to achieve what the regulations forbid Europeans to do. It remains to be known whether producers are happy with this new deal. That is a very different story as not everybody can access the American markets. This is doubtless where the American neo-classic vision of things stops!

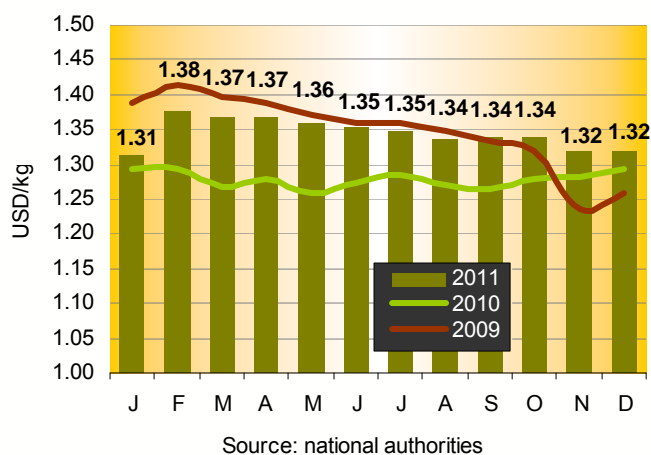
Banana - United States - Spot import price



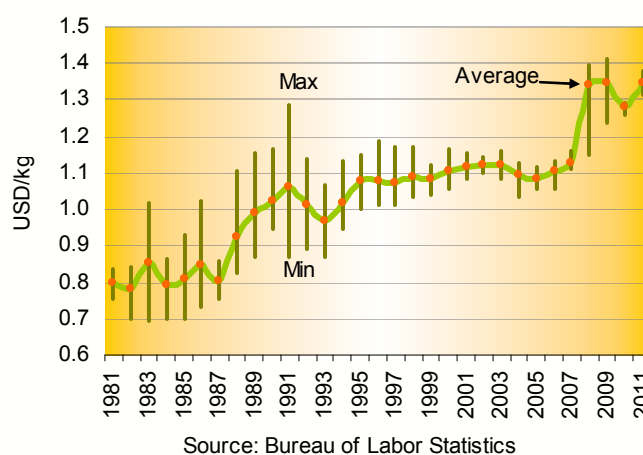
Banana - United States - Spot import price



Banana - United States - Retail price

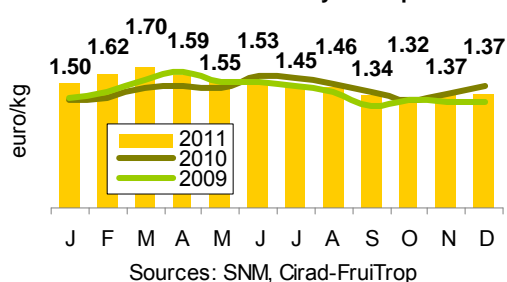


Banana - United States - Retail price

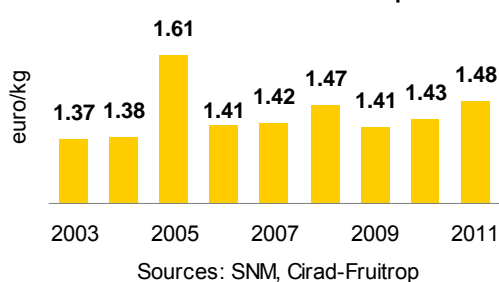


France

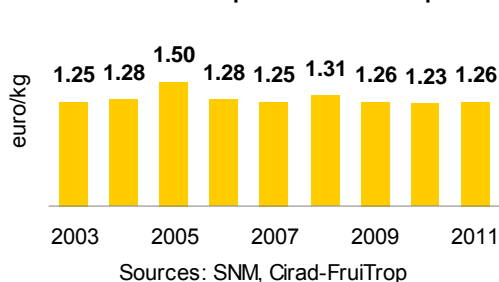
Banana - France - Monthly retail price



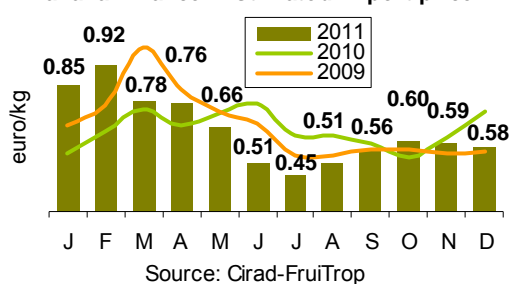
Banana - France - Annual retail price



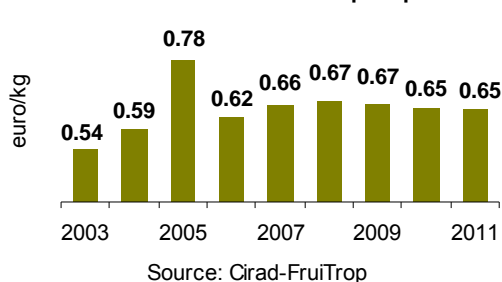
Banana - France - Special offer retail price



Banana - France - Estimated import price

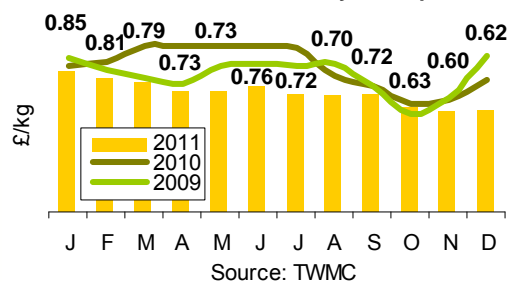


Banana - France - Annual import price

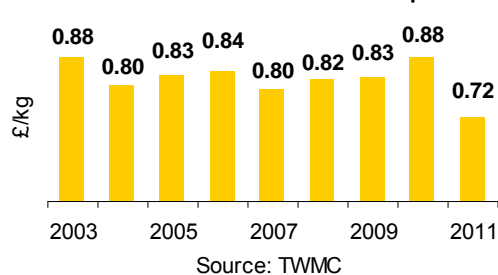


United Kingdom

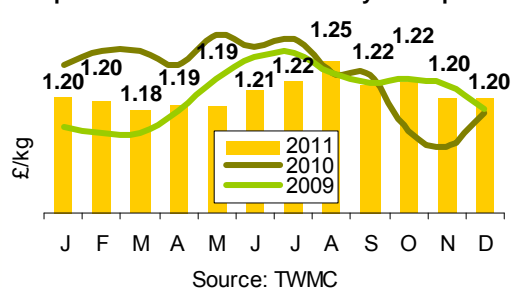
Loose banana - UK - Monthly retail price



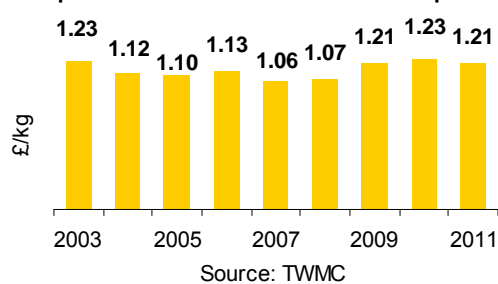
Loose banana - UK - Annual retail price



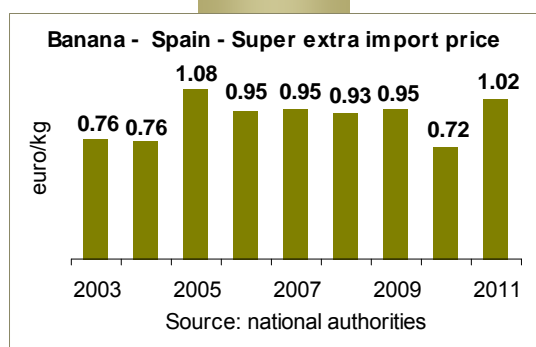
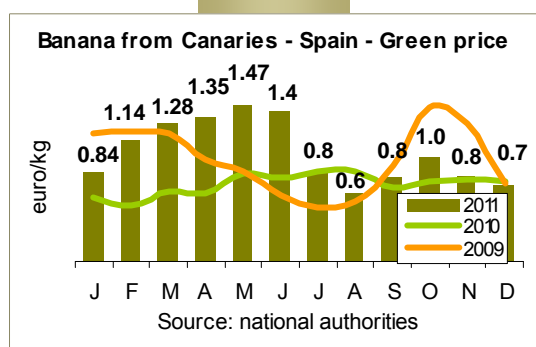
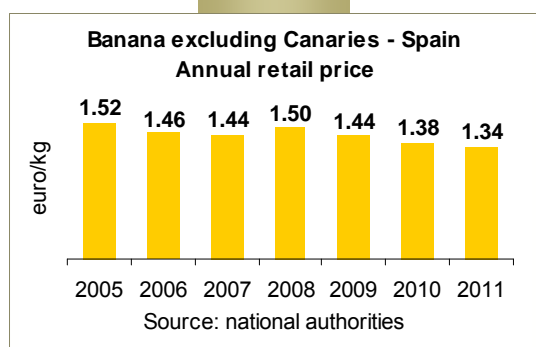
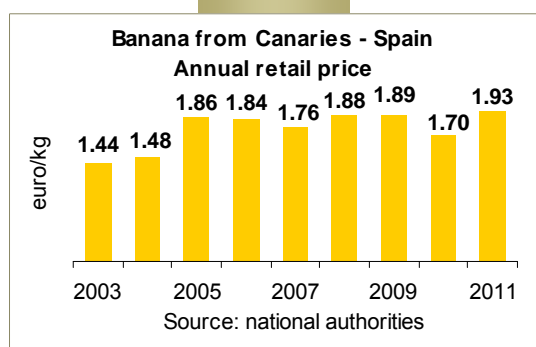
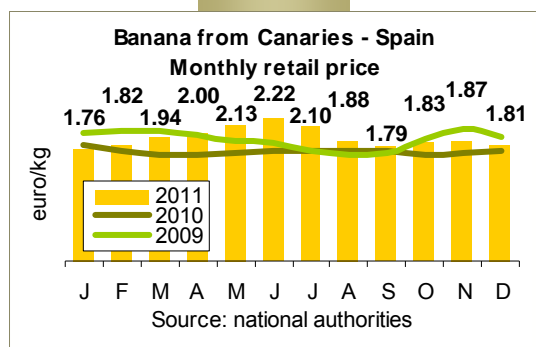
Prepacked banana - UK - Monthly retail price



Prepacked banana - UK - Annual retail price



Spain



Germany

