

FR*ui*TROP

English edition

Rambutan

The hairy cousin
from the tropics

Southern Hemisphere kiwi

Already brighter in
New Zealand

Banana in Europe

A structural or
cyclical increase?

Sea freight

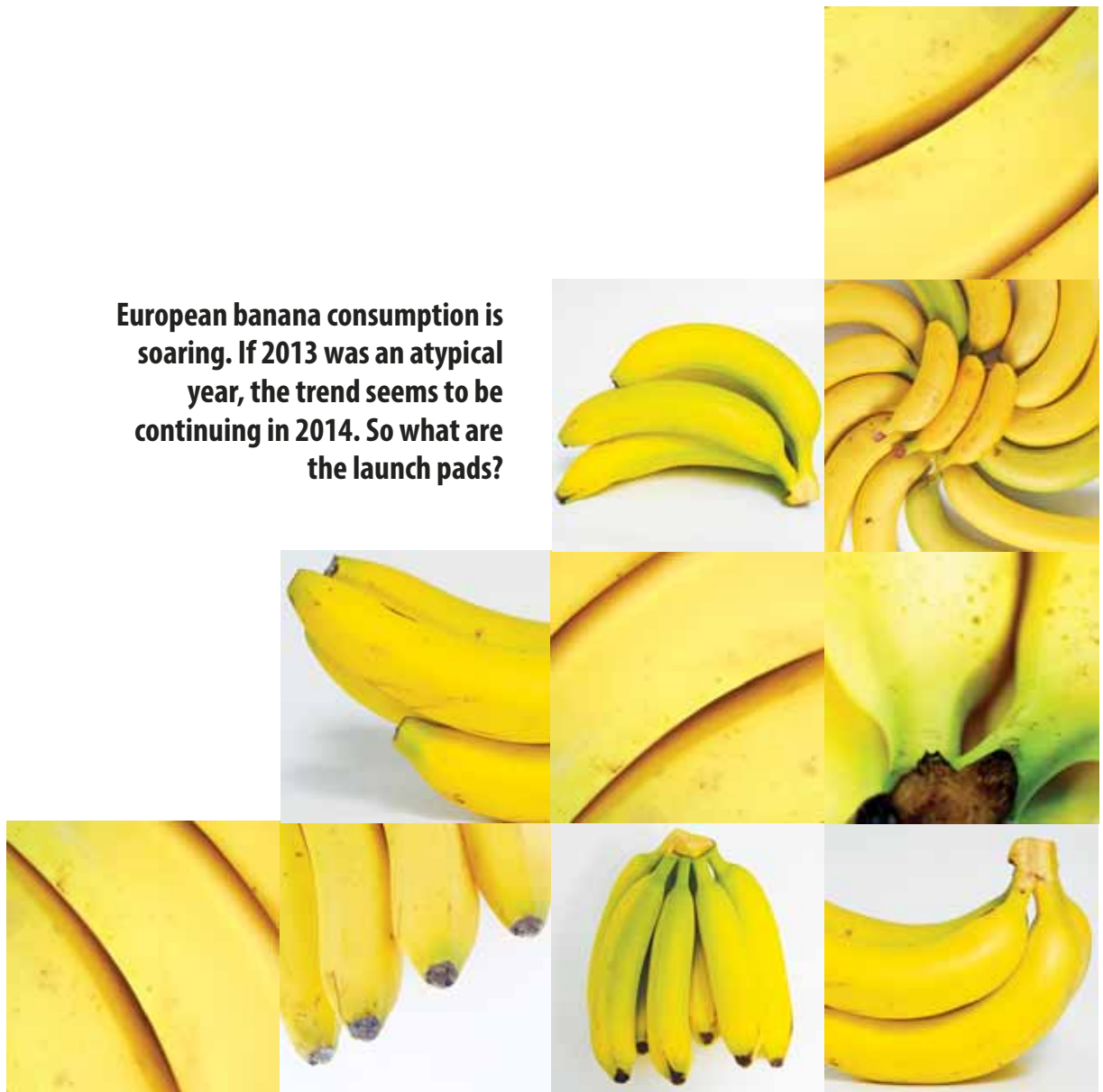
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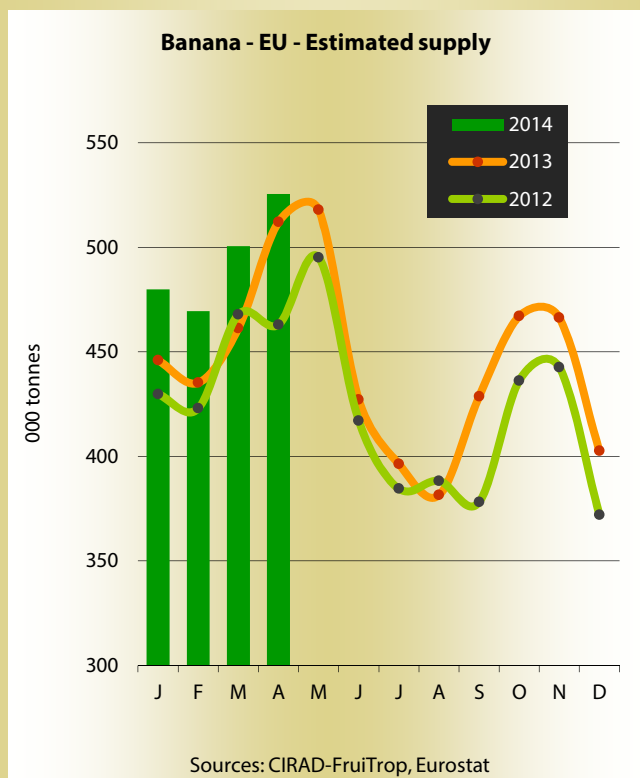
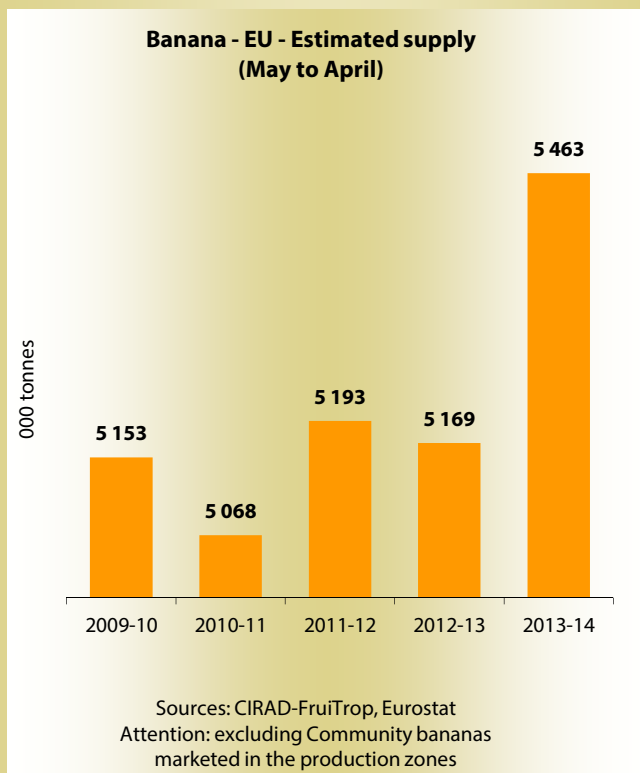
Banana consumption in Europe

A structural or cyclical increase?

European banana consumption is soaring. If 2013 was an atypical year, the trend seems to be continuing in 2014. So what are the launch pads?



photos © Régis Domergue



Such is the record-breaking surge of the European banana market, we are running out of superlatives. We should specify that this performance is restricted to volumes alone, as the situation is more delicate on the import price side. On a market that had been said to have reached maturity, this is no less a great feat. The proof is that at the last count, over the first four months of 2014, consumption had leapt up by 9 % from the 2011-12-13 three-year average, and by 7 % from 2013, which was already an exceptional year (see FruiTrop no.221, April 2014, pages 34 et seq.). Our consumption estimates reveal a surplus of between 120 000 and 170 000 tonnes, depending on the reference period. The statistical error affecting Peru at the end of 2013, which Eurostat has still not rectified by the way, would actually lead us to believe that it had exceeded 200 000 tonnes! And it is not the accession to the EU of Croatia, the 28th Member State, which has inflated the results to reverse the trend. This country actually only imports direct from third countries just under 50 000 tonnes per year. So the increase observed leaves no room for discussion.

The analysis for the last twelve months is even more optimistic. The surge in volumes is relatively recent, and so the greatest effects are manifested in the 2013 and 2014 figures. And in no small way... Over the past twelve months, the surplus climbed to 300 000 tonnes (comparison between 2012-2013 and 2013-2014). To drive home the point a little more, let's try a forecast, always a very risky matter in the food sector. The hypothesis is as follows: over the past five years, the first four months represented between 34 and 36 % of annual consumption. Knowing that we consumed 1.97 million tonnes in early 2014, a simple rule of three leads us to believe that the year could give us a total volume of nearly 5.7 million tonnes, i.e. more than 330 000 tonnes better than in 2013! If the hypothesis is confirmed, the EU would have consumed more than 580 000 extra tonnes of bananas in the space of

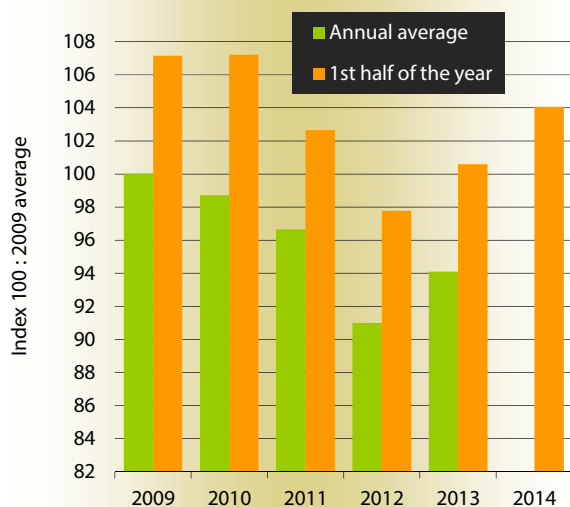


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Banana - Germany - Activity rate in multiples



Source: TWMC

Banana — France — Consumption (kg/capita)

12 months (May to April)		Full year	
2010-2011	7.91	2010	7.49
2011-2012	8.48	2011	8.75
2012-2013	8.56	2012	8.18
2013-2014	9.06	2013	8.83
Diff. 2012-13/ 2013-14	0.50	Difference 2012/2013	0.65
By percentage	+ 6 %	By percentage	+ 8 %

Source: CIRAD-Fruitrop

two years, the equivalent of France's annual banana consumption.

Of course, projections are there to be proven wrong. Yet this time everything is pointing in the same direction. The European market still has potential, regardless of the time reference considered, and that is all to the good. In these columns we have lamented the sight of a lifeless market, lacking any spring and close to suffocating, enough to be able to enjoy this extraordinary situation. After eight months of uninterrupted growth, we now have to question the very nature of this trend. Is it cyclical or structural? Of course, this is difficult to judge. We can only set out some avenues for discussion.

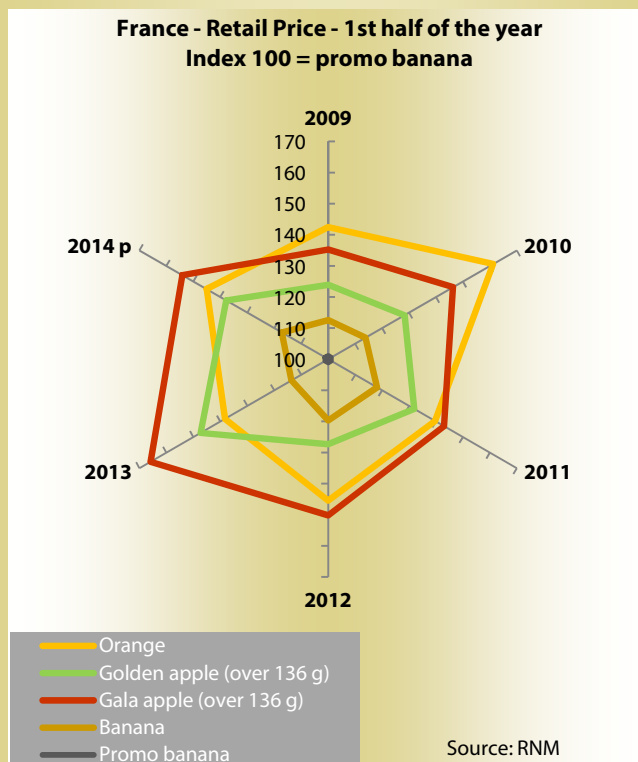
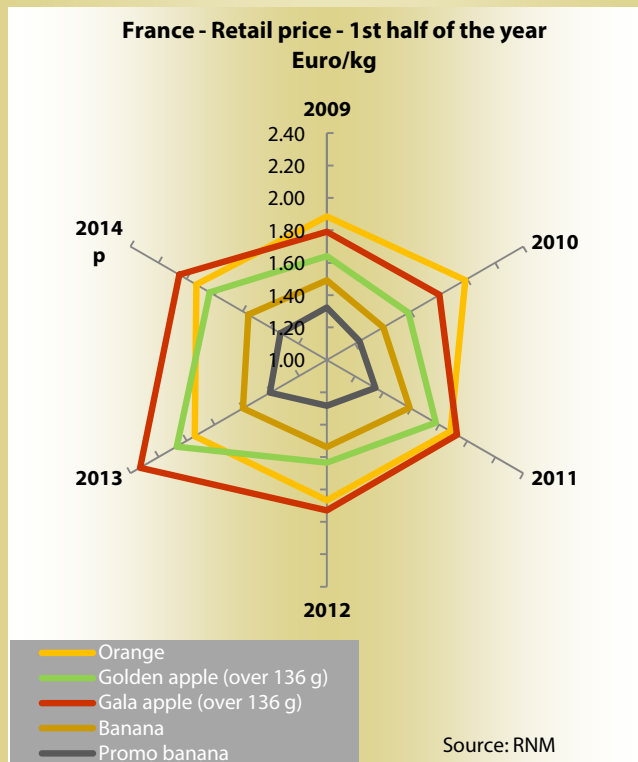
Hypothesis time

To answer this question, we first of all have to sort between one-off events that have influenced the banana market and the groundswell, if there is one. Clearly, late 2012 and the majority of 2013 were marked by a historic reduction in the European seeded fruits harvest, which opened up the way for the banana. Competition between the main benchmarks of the fruit market (apple, banana and citrus-es) is a reality, and every change in the supply or price of one of these products affects the sales of the others. The weather too, gave tropical fruits a boost, with a very average spring and summer, and a summer fruits season that was small-scale, late and with mediocre quality. In short, all the stars were aligned to make the banana the top dog in the fruits section. There can be no doubt that we are in a cyclical-defined sequence.

Unstoppable momentum

What happens next is less clear, since the appeal of the banana has increased constantly month after month, even with competing fruits returning to the market. Indeed, when the 2013 European apple and pear harvest was abundant and the Mediterranean orange season registered historically high volumes, the European supermarket sector purchasers continued to favour the banana. The "banana" activity figures from the German distribution sector, produced by TWMC, are incontrovertible. They show an average 3 to 4 % increase in the first half of 2014 from the average for the first halves of 2012 and 2013.

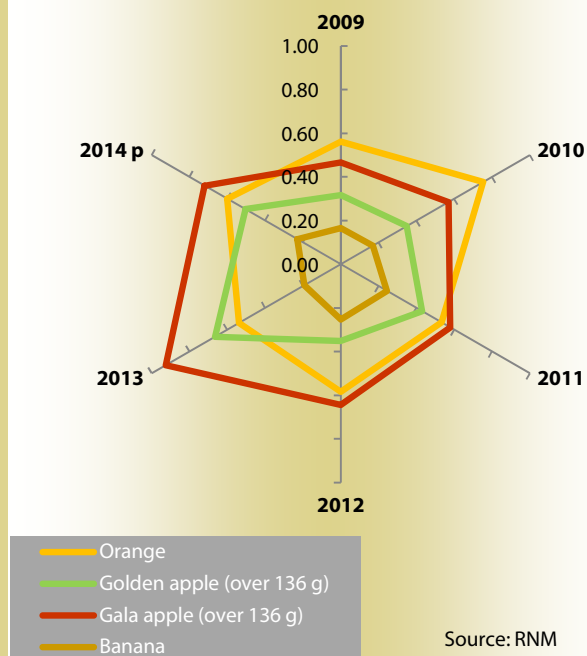
Since the average European stomach is non-expandable (despite the growing obesity epidemic!), there has to be a system of communicating vessels between competing fruits, or with other food products.



In France, the data from a consumption panel sheds some light on a possible transfer. Apple consumption apparently fell by practically 1 kg per household between the last two seasons (2013-14 and 2012-13), and by more than 2 kg over a longer historical period (average since 2008). This same panel also taught us that orange consumption is down slightly. It is hard to be sure of the transfer rate toward the banana. The phenomenon is definitely there, but its intensity is difficult to determine. The panel revealed a long-term increase of 400 g per household. The supply balance calculated every month by CIRAD is more optimistic. The figure determined in April 2014 reveals a 6 to 8 % increase in consumption per capita, depending on whether we compare on a rolling annual basis (May 2013 to April 2014 compared to the previous twelve months) or on a calendar year basis (2013 compared to 2012). By absolute value, the French apparently consumed 500 to 650 g more banana per capita in the space of a year.

It is tricky to compare figures not estimated in the same way. So we will stick to the trends, and conclude that the banana seems to be in large part absorbing the fall in apple and orange consumption.

France - Retail price - 1st half of the year
Difference in euro/kg compared to promo banana price



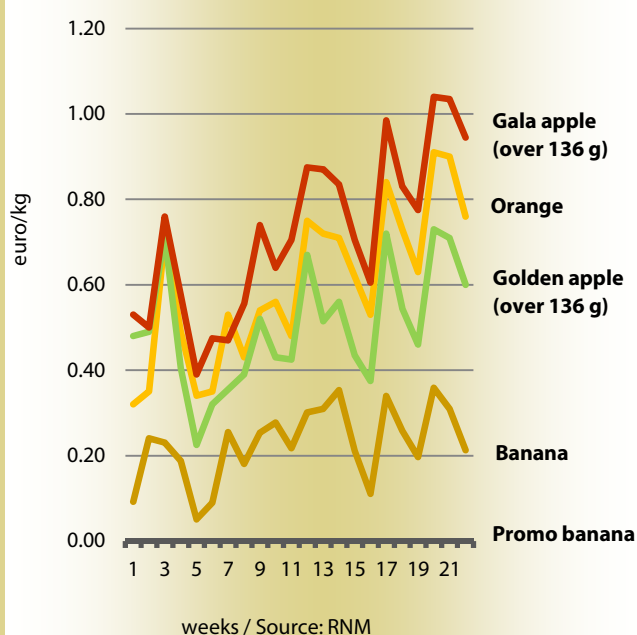
The deep-rooted inertia of the banana price

In the absence of any certainty as to the actual causes of this fine performance, we can only hypothesise.

The leading hypothesis is focused on retail prices, and more precisely the difference between the banana and its competitors. Based on the French example, and thanks to the comprehensive data provided by the RNM (market news network), the situation seems relatively clear. In 2013, the effect of the reduction in the seeded fruits supply really made its mark, manifested by a very wide price difference between the banana (average or promo price) on the one hand, and the apple, whether Gala (top-end) or Golden (bottom-end). As proof of this, with the average retail price index of the promo banana in 2013 fixed at 100, the apple index reached 163 for Gala and 161 for Golden. As a reminder, the 2009 to 2012 averages were respectively 150 and 137, again in relation to the promotion banana. Note that only the orange registered a fall in prices, with an index of 157 in 2013, i.e. the lowest since at least 2009.

By absolute value, these differences from the banana amounted to 0.89 euro for Gala and only, if that is the right word, 0.61 euro for the orange. So the price appeal played in favour of the banana. Since its supply was not restricted by serious climate vagaries, both distributors and consumers switched toward this product.

France - Retail price differences in the "Fruits" category - 2014





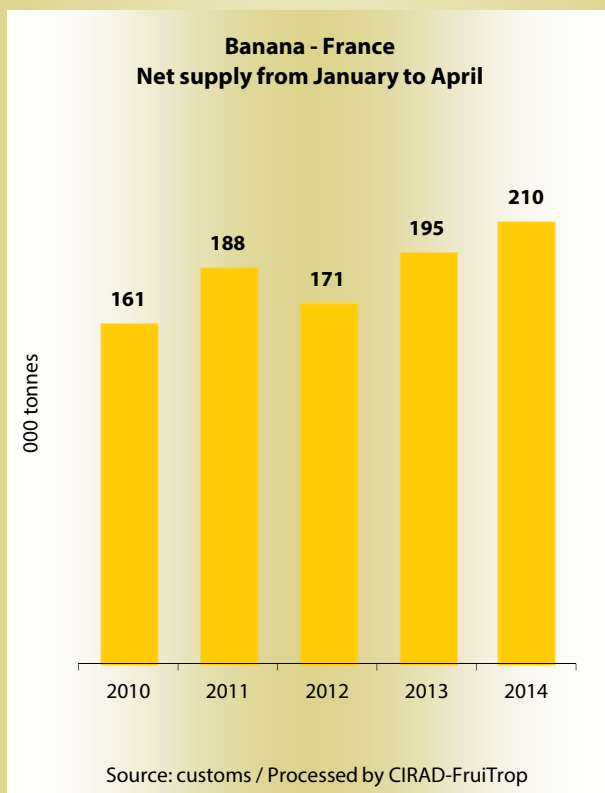
The “price difference” hypothesis is even more powerful if it is verified when the situation in terms of supply of competing products is considered to be normal, or even surplus. This was the case during the 1st half of 2014, with a situation largely identical to that of the highly eccentric year 2013. The difference held up between the promotion banana and the orange (0.60 euro), as well as with Golden (0.50 euro), though it dropped with Gala (0.72 euro).

It should be said in passing, given the massive price differences, that it is reasonable to doubt that we are talking about the same consumption worlds: the apple and orange at practically 2 euros/kg, while the banana remains inexorably stuck at 1.33 euro/kg (1st half of 2014). Since, while there is a large difference, the actual retail price level of the banana is low, and nothing seems to affect it; its stability is the absolute rule. We are in a system very much, or even completely, disconnected from the balance between supply and demand, where the position of the banana is not equivalent to that of the other fruit section benchmarks. It is a sort of staple, whose price no-one would dare touch for fear of causing riots.

Banana versus toothpaste

Two recent events lend credence to this theory. The first shook the banana sector in France. In May, the Auchan group launched a highly aggressive banana promotion, at 0.75 euro/kg. Besides the fact that the French West Indies source was needlessly associated with this action (see inset), it devalued the product a bit more, from an already basement price, with the shock-wave predictably spreading to other chains. In every case, if we remain focused on the “banana” product, this destructive fall in added value throughout the industry is incomprehensible. In fact, the banana has left the fruit section once and for all, to become the brand image standard bearer of the chains, which are all committed to appearing cheaper than their competitors. The financial crisis of 2008 had this effect on marketing policies: a general trend of the stores repositioning themselves on low prices. The banana serves this policy remarkably well.

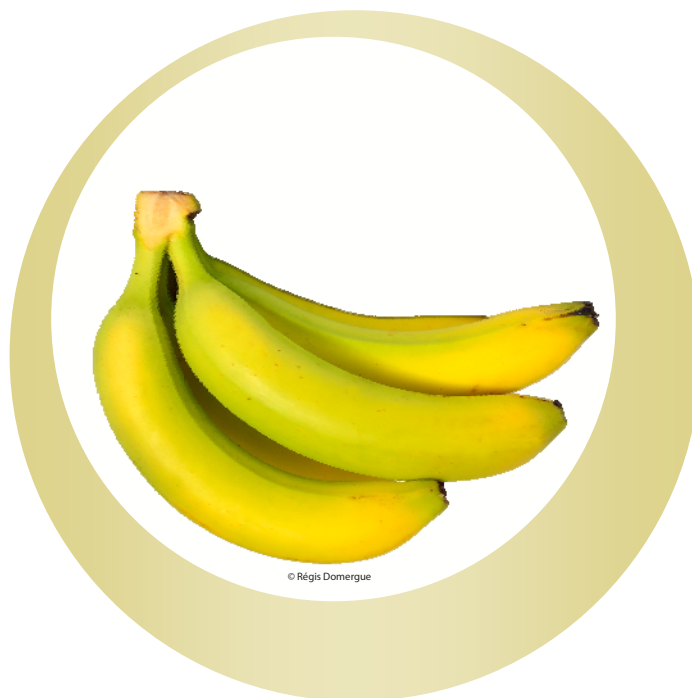
Tesco, recently brought into question for the price war raging in the United Kingdom, ended the discussion by declaring at a colloquium in Costa Rica in February that its in-store price policy did not have any relationship with its purchasing policy from producers. QED: the banana is perfect for selling toothpaste or cans of beer too.



The second event is along the same lines as the first. From 17 to 22 June 2014, in a great number of Netto stores (an Intermarché group discount chain), the banana was at 0.99 euros per kilo (American or African sources). Nothing extravagant if we compare this price to the Auchan promo, on a market which deteriorated even further in June. Yet the biggest surprise lay in the messages supporting this promotion: "For more than a year" and "Banana prices frozen." Damn! So our Market News Service slipped up by failing to observe this great price stability at all the industry's other trading stages.

To recap, the case of the banana confirms that the act of purchasing is governed by two decisive factors: the price level and the difference from competing products. So the price hypothesis seems to be the correct one for explaining the historic rise in banana consumption, at least in France.

There are also other vague factors - definitely of secondary importance whose intensity is not measured - affecting the purchasing decision. They sometimes even reinforce the dominant theory. For example, there is the perception that it is the European economic crisis, to which no-one sees an end, which has dedicated the banana to being the anti-crisis fruit par excellence. Others believe that the poor quality of the competing supply at certain periods is also playing its part. On this subject, there has been a lot of talk



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about the small sizes and poor durability of this season's apples and oranges.

We might also believe that over recent years, thanks to organic and organic-fair trade segmentation, the banana has gained in appeal, or at least space, in stores. In many hypermarkets, these products have additional shelf metres in-store alongside the conventional banana. Hence this expanded presence would encourage purchases. Furthermore, an American study recently showed that setting up more points of presence helped increase sales very significantly.

This article has not kept to all its commitments. We are still unable to conclude whether the increase in banana consumption throughout Europe is due to cyclical or structural factors. The most optimistic believe that we have entered a new era, sliding bit by bit towards a long-term groundswell. Although such promises are binding only on those who listen to them, I will studiously refrain from picking sides.

The fact is that consumption is increasing at a practically frenetic tempo. As in many sectors, where sheep-like behaviour is the rule, we hope that it will not generate too many production and export incentives. The new planting creation or extension programmes have already been filled out enough that way. Unless El Niño, said to be weak this year, puts everyone on the same page ■

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Banana: how to stop haemorrhaging added value?

In this period of remembrance in Europe, some terms have added resonance: "Since 19 May 2014, the French West Indian banana has been in conflict with the Auchan chain". These are the words employed in the press release distributed by UGPBAN, the company which markets all FWI bananas. Associated against its will with a highly aggressive promotion campaign (0.75 euro/kg), the source reacted by declaring to all and sundry that it was suspending all business relations with the chain. This is a strong action from a supplier - and it is not the first time. Back in September 2010, UGPBAN refused to serve Intermarché, for an in-store promotion at 0.69 euro/kg. Then, the whole food industry hailed the decision. Besides the tension between two links in the industry, an important game is being played.

Since the issue is about deciding how much added value this industry is to generate, and about its distribution. According to our information, Auchan did not make any loss on the deal. Its purchase prices could easily withstand this sale price in-store. Yet that is not the point; this discussion is not that im-



portant, since the stakes are elsewhere. Ultimately, it is more interesting to ask whether such a promotion is reasonable. It is from the viewpoint of the chain, which regards the banana as a foil for the rest of its range, thereby showing its customers how good its price positioning is. But it is unreasonable from the viewpoint of the other industry players, who consider that it generates downward benchmarks, with all the other distributors hurling themselves into the breach. The downward effect spreads to the whole market, and over the long term.

Yet why destroy value in this way, with the price already very low and consumption highly dynamic? The dialogue between Tesco and a banana producer, at the recent Corbana seminar in Costa Rica, is a good illustration of the game being played. The producer noted the desire of the world's number distributor to strengthen its upstream presence in the industry via extensive contractualisation, but also recalled: "You have rights as the strongest operator in the chain; now accept your duties to the other links in the chain." This is in substance what UGPBAN wanted to reiterate, in an action not lacking in panache. We can bet - true in a burst of optimism - that these crises will help establish a dialogue between the members of the industry, both to co-develop sales and generate and distribute added value. After all, that is one of the definitions of sustainability, on which they all supposedly pride themselves. Or better still, we challenge them to do it!

