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English edition

The international banana market: from one world to the other

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The international banana market

From one world to the other

The change in the rules governing the supply of the European Union, the largest import and consumer market in the world, has modelled and will continue to model for many years international trade in terms of flow, economic stakeholders, supply zones, the distribution of value-added among stakeholders, etc. Beyond the economic aspect, bananas are also a highly political subject. The banana is both the most-traded tropical fruit in the world and also a sector that has tested—sometimes extremely unwillingly—all the procedures of the settlement of differences of the former GATT and the WTO. The subject has exhausted all possibilities for action and the dossier is marooned in an unusual legal no-man's-land. Bananas are thus not just a world market estimated to total about 16 million metric tonnes. They also form a formidable political terrain in which different views of what international trade should be and its role in economic development affront each other.

Very schematically, the international dessert banana market is divided into a few large import zones: the EU is in the lead with consumption at 5.2 million tonnes, followed by the United States and Canada (4.1 million tonnes between them), Russia and Eastern Europe (excluding EU countries) with 1.5 million tonnes, Asia including Japan (2.1 million) and numerous individual markets that can be grouped geographically, such as the Mediterranean market (0.7 million), the Middle East (0.3 million) and Latin America (0.8 million). As regards sources, geographical origins are fairly concentrated, with 46% of supply from Central America, 30% from South America, 15% from Asia and 3% from Africa. European production is some 600 000 to 700 000 tonnes, all of which is sold in the European Union.

Only the EU draws its supplies from such a broad diversity of sources, together with its own production in the Caribbean, the Canary Islands and Madeira. Indeed, in addition to the classic dollar origins (Ecuador, Colombia, Costa Rica, etc.), it imports bananas from many ACP countries in Africa (Cameroon, Côte d'Ivoire, Ghana), the Caribbean (Dominican Republic, St Lucia, Dominica, etc.) and other ACP states (Surinam and Belize). The United States is supplied entirely by imports from central and South America. Only bananas from Ecuador are sold in Russia and Japan imports this fruit from the Philippines alone. It should be noted that banana is a very internationalised fruit. Indeed, 22% of Cavendish type dessert bananas is traded internationally; this is 15.5 million tonnes of the total 71 million tonnes produced.

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In addition to this classic structuring via supply and demand, it can be noted schematically that on the one side there are supporters of a free, untrammelled market in which the most competitive, best organised or strongest parties gain market shares, and, on the other side of the chess board, those who defend the idea that the large commodities markets should contribute to making international trade fairer by conserving a position for each type of source or organisation in a vision of trade that would serve economic development in a large range of supplier countries. The latter view was dominant in the setting up of the Common Market Organisation of Banana (CMOB) by the EU in 1993. At the time, the system included quotas by source, customs dues differentiated by type of supplier and aid for European production. Finally, the CMOB made it possible to keep a balance between the different types of source (ACP, dollar and European production) and conserved existing trade organisation while allowing it to evolve. The movement of market shares by type of supplier and the immense peaceful restructuring of the import and ripening chains were proof of this.

However, the CMOB of the mid-2000s was fairly different to that initially decided on 1 July 1993. The 'unravelling' took place with the various reforms that the EU was obliged to implement, whether these, like continuous strong headwinds, came from outside (USA, Ecuador, etc.) or from within (from Germany for example). The implementation of the 'tariff only' reform of 1 January 2006 was finally just the last, definitive act of a process that had started in 1993 and that led the European market to adopt the dogmas of a deregulated market. The EU market is now managed by means of differentiated, degressive customs tariffs: zero for the ACP countries and EUR 176 per tonne for the other sources in 2006, with a low point set for the moment at EUR 114 per tonne in 2018. European producers benefit from unlimited access to their domestic markets and a programme of aid (POSEI) with funding of some EUR 280 million. Reform has taken place here too. In 2006, compensatory aid for loss of income was changed into aid partly decoupled from volume and the price fetched on the market. European production covers some 10 to 12% of consumption in EU-27.

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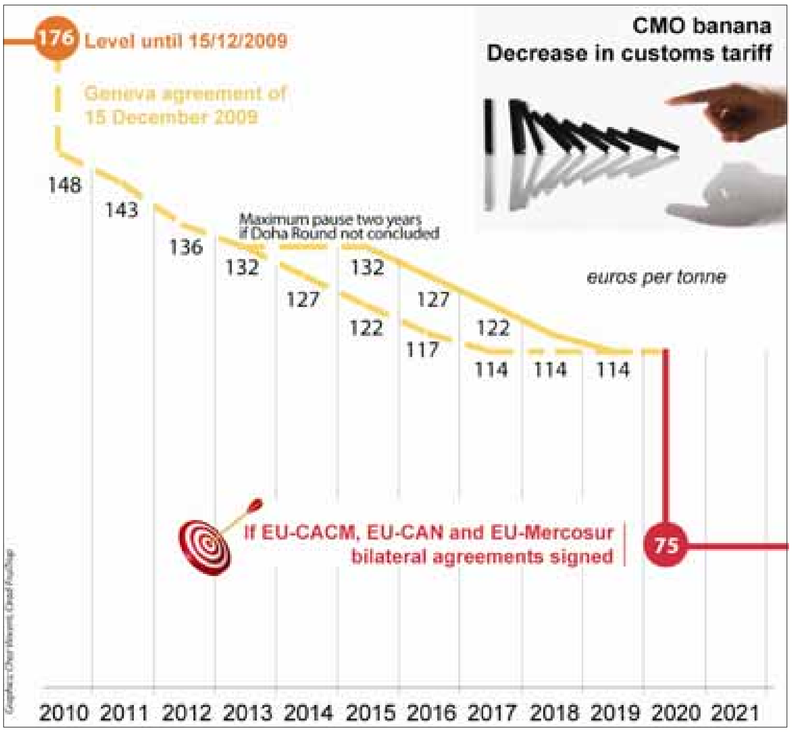
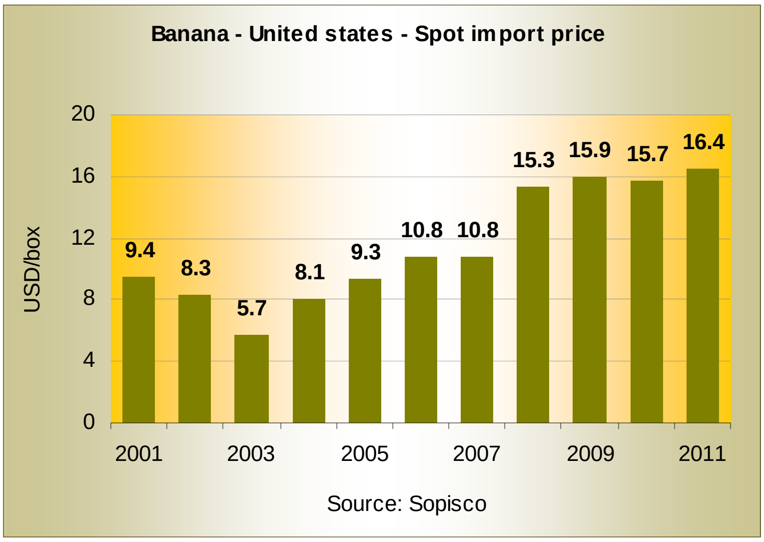


The effects of the switch to a tariff only regime?

The reform of the CMOB resulted in very strong restructuring of the international market. The American and European markets took different and even opposing routes from 2006 onwards. Five years later, the American market is performing well. All the indicators are green. Customs values and the information provided by Sopisco (spot bananas at the green stage) both indicate increasing produce value at the import stage. The spot import price increased by 5% in 2011 in comparison with 2010 and even set a new all-time record of USD16.5 per box (current dollars). The spot price doubled from 2004 to 2011. The increase is so strong that there is no point in checking whether inflation in the US accounts for the rise in prices. There is clearly an unprecedented increase in value on the US banana market. The upward movement started in 2008 in the middle of the commodities crisis. American operators succeeded in per-



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suading retail distributors that the purchase price should be increased to cover their increased cost prices. One might have thought that it would be a short-lived phenomenon, with the decrease in tension in commodities from mid-2008 automatically causing a fall in contract prices and spot prices. But this was without allowing for the structure of the market and the imperious need of the multinationals to obtain in the US what they could not succeed in Europe, that is to say a sufficiently large margin. The most astonishing feature is that consumption has increased. Imports during the last twelve-month period for which the figures are known (November 2010 to October 2011) totalled 4,156,000 tonnes in comparison with 4,087,000 tonnes a year earlier. When exports of 515,400 tonnes—mainly to Canada—are deducted, net supply is seen to have increased by 2% to a record 3,641,000 tonnes. And what happened to retail prices? Defying all the laws of classic economics, they even increased by 5% to USD1.35 per kg (provisional figure) in 2011. It should be remembered that retail prices rose by nearly 20% from 2007 to 2008, accompanying the increase in green prices.

It has to be observed that another banana world is possible, at least at the import and retail distribution stage. Organisation and regulation can add value to a market. The United States obtained from the market and its operators what it used regulations to forbid for Europeans. It remains to be known whether Latin American suppliers are satisfied with this 'new deal', because not everybody can gain access to American markets. This is no doubt where the American neo-classical vision of things stops! However, some facts are clear nonetheless. The sources organised around the large world exporters or very strongly contractualised are opting to ship their fruits to the United States at the moment. But Ecuador, with the largest reserves of spot bananas in the world, is turning to the Russia and the EU. In the first ten months of 2011 it sold 7% more bananas (+ 71 000 tonnes) in the EU, while reducing its presence in the United States by 10% (- 81 000 tonnes).

The EU in free fall

The situation is much more contrasted in the European market, which now seems to be hyper-sensitive to the world banana context. In a way, the CMOB had partially cushioned the volatility of the sector. It is difficult to demonstrate this feeling shared by all operators, both upstream and downstream, using an analysis consisting of figures. Indeed, the curve of the German benchmark prices (German import price — second and third brands as reference

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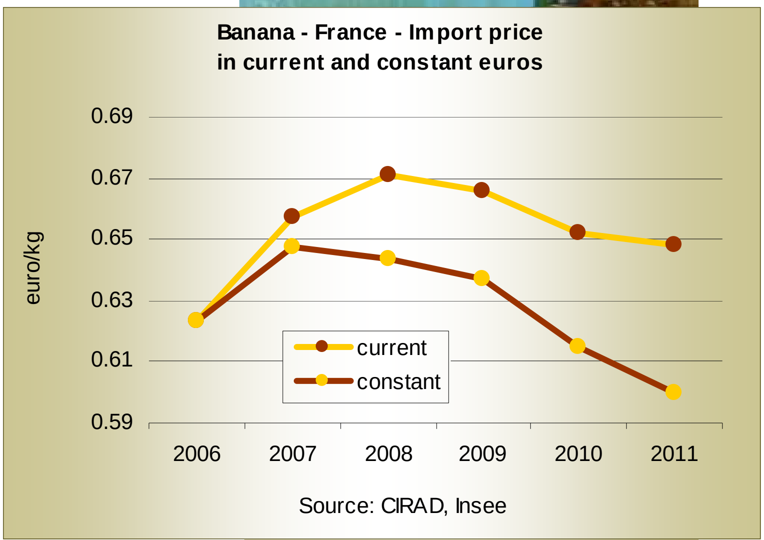
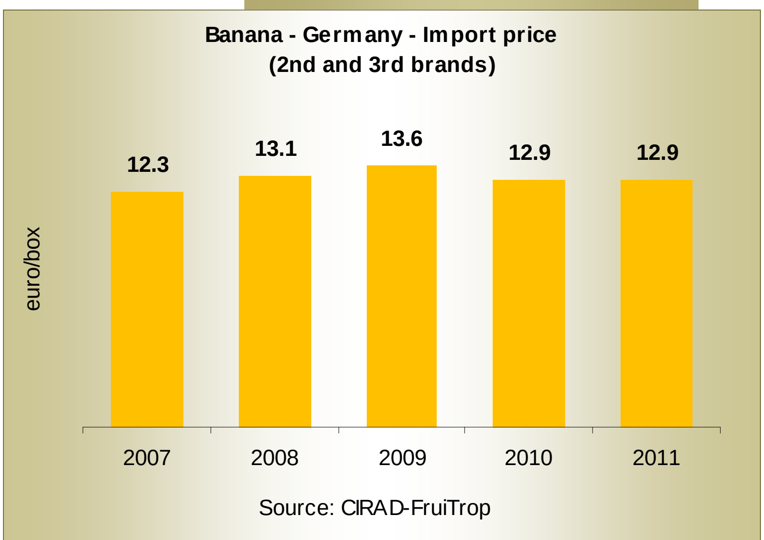


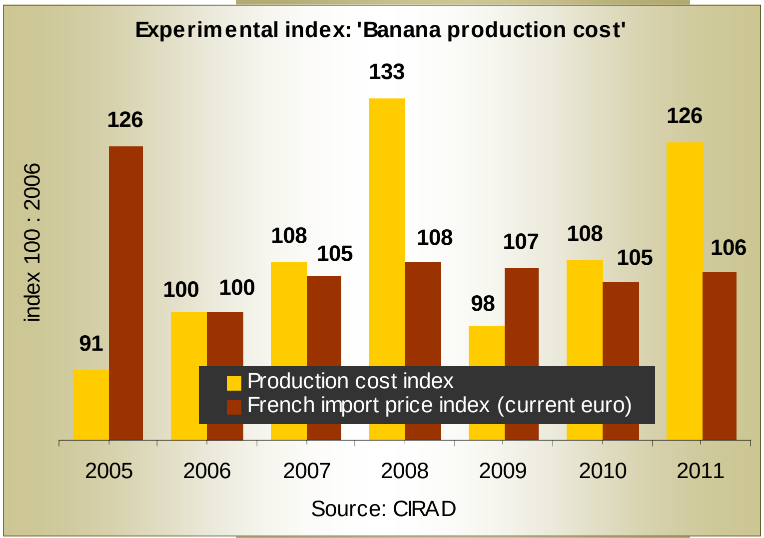


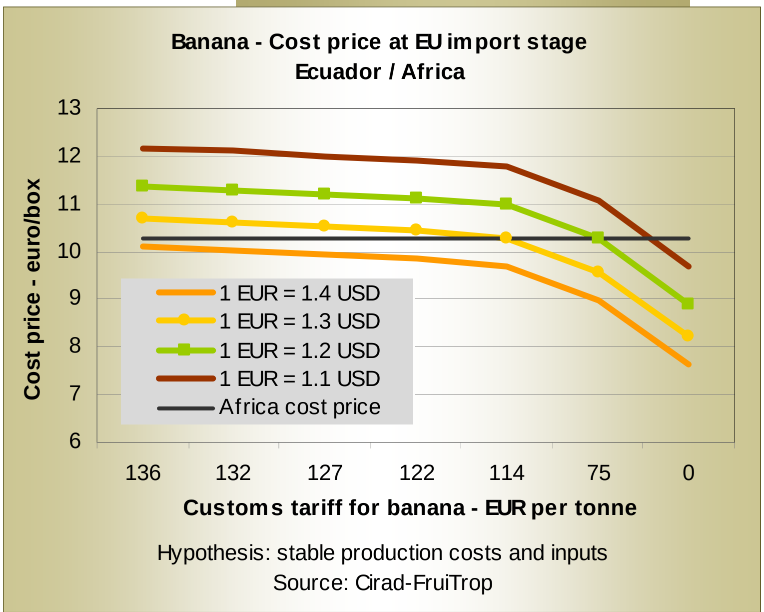
— source: CIRAD) is fairly stable. The 2011 import price was EUR 12.9 per box, that is to say the same as in 2010 and also the 2007-2010 average. A collapse is sought. But as in all analyses, the devil is to be found in the details. First, it can be seen that world supply has never been normal since 2006. Often serious climatic events reduced production capacity in dollar zones, ACP producer countries and EU production areas. Meteorological phenomena played a regulating rule, replacing that played by the CMOB before 2006. In economics, it cannot be considered that a price that remains stable over such a long period is good for the sector as reflection in constant euros changes the result. Indeed, even if inflation in the EU was small, it was significant over a 5-year period. Current prices in France since 2006 display average growth of 0.8% and a fall of 0.7% per year in constant euros. Finally, the value of a kilo of bananas at the import stage in France fell by 7% in constant terms!

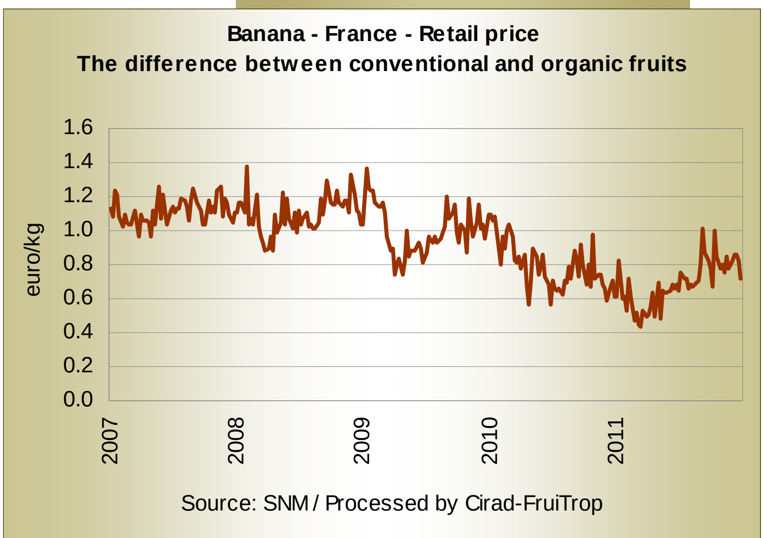
Finally, if a decrease in returns is observed, costs should also be observed. Here again there is an accumulation of bad news. The 'production' cost indicator developed by CIRAD shows an increase from index 100 in 2006 to 126 in 2011 (provisional figure); this is not far from the record 133 attained in 2008. At the same time, the banana import price index for France rose from 100 to 106 (in current prices). In plain terms, value-added is decreasing in the sector. Operators are squeezed between falling returns and increasing production costs. Once again, supermarkets will be accused of intercepting this decrease in value at the upstream stage in the sector. This analysis is also counter-intuitive. The hypothesis is refuted by an examination of retail prices. They have remained stable overall in current euros in the EU and have thus fallen in constant euros. It is thus easy to conclude that the whole sector, everybody together, has destroyed value-added.

Everything about cost competitiveness

And the movement of exchange rates has not reversed the trend. In supplier countries whose currencies are weak against the euro, such as Costa Rica and Colombia, in 'dollarised' economies such as Ecuador, the exchange rate effect is a powerful remedy for falling sales prices and increased production costs. Although this might seem—but only in certain respects—a benediction for America, it is a curse for Africa. The advantage is cancelled out for a West African producer tied to







the euro. These producers are also being hit head-on by the decrease in value on the European market, which is practically their sole export destination.

In contrast, as the import customs dues for their bananas are paid in euros, the cost for Latin American producers increases when their currencies lose value. The scheduled decrease in euros tariffs is not always followed by an equivalent decrease in dollars or local currency. For example, the strong appreciation of the euro in 2011 cancelled out the decrease in customs dues. This being said, what is true today in exchange rates is no longer true tomorrow. Exchange rates are an exogenous factor with regard to the banana sector. The decrease in the euro against the dollar since the end of 2011 has hit the competitiveness of dollar bananas somewhat and given a breathing space to competing suppliers. The respite was short-lived as the euro started to appreciate again in January.

To be competitive or cease to exist! This is clearly more of a statement than a question. But navigation is difficult among the production costs in each source country, the movements of prices of raw materials, exchange rates and decreasing customs tariffs. The subject is also delicate as the differences in competitiveness between countries are great. Indeed, how can one compare the costs of a family grower in Machala and those of a plantation managed by a multinational corporation? How can the freight costs or unit prices of inputs for a small growers' cooperative be compared with those of a company with thousands of hectares of banana? To further the discussion, CIRAD has used figures from professional and official sources to compare the FOB (European port) prices from Ecuador (source: Ministry of Agriculture) and Africa (calculations using survey data), varied the euro/dollar exchange rate and finally applied the falling EU customs tariffs as laid down in the Geneva Accord.

The conclusion is very clear. With the customs tariff applied in 2012 (EUR 136 per tonne) and with an exchange rate of USD 1.3 to 1.4 to EUR 1, the competitiveness levels are equivalent in the two zones. The decrease in the customs tariff will therefore be devastating for ACP sources, for all community production areas and even for certain dollar producers. It is true that European producers have a substantial aid plan (POSEI), but this will not be sufficient if the situation in the banana sector continues to worsen. For ACP producers, sector support (Banana Accompanying Measures for 10 ACP countries with an allocation of EUR 190 million) should therefore be devoted entirely to improving competitiveness and increasing value-added.

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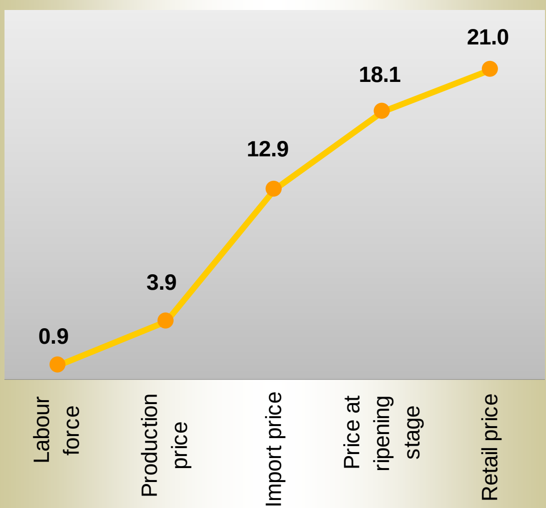
Attention should also be paid to producers of fair trade and/or organic bananas as both of these markets are threatened by a very rapid increase in the quantities available world-wide. Supply of fair trade bananas is increasing as a result of a certification policy that extends the benefits of the label to large plantations. It remains to be seen whether demand in Europe is lively enough to take the surplus without weighing on selling prices. In addition, the fair trade and organic movement has strongly encouraged large operators to positively increase social impacts on the populations of production zones while reducing the environmental costs of export banana production. Private labels and certification systems have therefore blossomed, doubtless contributing to make a certain improvement to the environmental and social aspects of banana. However, they have reduced the market potential for existing labels such as that of fair trade. The example of the organic banana market is edifying in this respect. Supply is increasing strongly, driven by retail distributors who wish to shift the fruit out of the specialised department and make it available to the largest number of shoppers possible, thus causing a tendency for a price convergence between organic and conventional bananas. If the example of organic bananas reveals the ongoing process there is reason for concern. Thus some production sources and especially certain ACP producers in the Caribbean, who also have to face an increase in agricultural constraints with the arrival and spread of Black Sigatoka disease, must make a difficult choice as regards reconversion. The problem is that the search for an economic sector to which these producers could turn is still in progress.

Banana - Distribution of value - Example German market 2010-2011 (euro/box)



Note: mixing of cost and price / Various sources
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Increase value and distribute it better

These reflections centred on the notion of sustainability are very beneficial for the sector and the corresponding initiatives taken by the WBF are essential. Even if the ongoing work will make it possible to examine the details, it is already possible to estimate the distribution of value along the chain. As in the case of production cost, variations from one chain to another are considerable. On the basis of experience in Ecuador, a farm worker receives 3 to 4% of the total value of the chain. Let us imagine a world in which this share were to be increased to 5%. The worker's wages would increase by 30% and his life would change, while the retail price would increase by only EUR 0.02 per kg! This calculation might well seem too theoretical, simplistic and imperfect as the issues are not just wages but also the working and living conditions of the first players in the sector. But the calculation is useful nonetheless so that everybody can see that the road to be travelled is perhaps not as long and complicated as all that. It will be even shorter when everyone has understood that on the one hand it is possible to halt the worsening of value-added and even to increase it, and on the other hand distribution can be somewhat fairer. If not, there is still 'something rotten in the state of Denmark' ■

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Contribution to the World Banana Forum
Working Group 02: Distribution of Value

Second conference of the World Banana Forum
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