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**COMMUNICATION FROM THE COMMISSION  
TO THE EUROPEAN PARLIAMENT**

**Special Framework of Assistance for Traditional ACP Suppliers of Bananas**

**(Council Regulation 856/1999)**

**Biennial Report from the Commission**

**2000**

## **1. INTRODUCTION**

Traditional ACP producers of bananas had been favoured under the Lomé convention with an assurance that their access to the European market would be no less favourable than the past. This assurance was provided by EC Regulation 404/93 with ACP duty free country-specific quantities. In order to assist traditional ACP countries to adjust to the changes in the market following the introduction of Regulation 404/93, a special system of assistance to help countries increase their efficiency of production was put in place under Council Regulation 2686/94 of 31 October 1994 and Budget Line B7-5023. This system came to an end in 1998, but disbursements still continue. An evaluation of the system was made in 1999.

Following a ruling in 1997 by the Dispute Settlement Body of the World Trade Organisation, the Commission's import regime was found not to be completely in conformity with the WTO.

In response, the EU introduced amendments to its import regime on 1 January 1999<sup>1</sup>. The revised regime continued duty free access for traditional ACP producers but under a global ACP quantity of 857,500 tons.

Certain aspects of the new regime were again successfully challenged in the WTO in 1999 and the USA imposed trade sanctions of \$ 191.4 mn per year on EU exports to the USA.

In order to assist the ACP countries concerned to adapt to the new realities of the market, a new special framework of assistance (SFA) was introduced in 1999.

## **2. LEGAL BACKGROUND TO THE SPECIAL FRAMEWORK OF ASSISTANCE (SFA)**

Council Regulation (EC) No 856/1999<sup>2</sup> establishing a special framework of assistance (SFA) for traditional ACP suppliers of bananas was adopted on 22 April 1999. The Regulation provides for financial and technical assistance to twelve ACP countries, taking account of changes in the marketing arrangements for bananas in Europe following the amendments to the import regime introduced on 1 January 1999.

Commission Regulation (EC) No 1609/1999<sup>3</sup> laying down the detailed rules for the implementation of the Council Regulation was adopted on 22 July 1999.

A Commission Decision<sup>4</sup> fixing the amounts available in 1999 under the special framework of assistance for a total of € 45 mn was published on 30 September 1999. A second Commission Decision was made on 18 July 2000 for the 2000 budget line (€44.5 mn).

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<sup>1</sup> Council Regulation (EC) No 1637/98 amending Regulation (EEC) No 404/93 on the common organisation of the market in bananas.

<sup>2</sup> OJ L 108, 27.4.1999, p. 2

<sup>3</sup> OJ L 190, 23.7.1999, p. 14

<sup>4</sup> OJ L 280, 30.10.1999, p. 122

## *Objectives*

The overall objective of this programme of assistance is an improvement of competitiveness of traditional ACP banana production. The Council Regulation aims to achieve this goal by funding projects designed *inter alia* to increase banana productivity. Funding is also being made available for diversification where no sustainable increase in competitiveness in the banana sector can be foreseen. The method for calculating eligibility for funding is based upon a competitiveness gap formula.

## *Reporting*

Article 9 of the Council Regulation specifies that by 31 December 2000, and every two years thereafter, the Commission shall present a report, accompanied if appropriate by proposals, on the operation of this Regulation to the European Parliament and to the Council. The present report is in fulfilment of this requirement.

### **3. MARKET BACKGROUND**

The world banana market is dominated on the consumption side by the US and EU markets each of which consume between 3.5 mn and 4.0 mn tons of bananas a year. The USA imports practically all its bananas, while the EU imports about 80 per cent (the remaining twenty per cent coming from Community producers). On the production side, producers in Latin America supply all the US market and about 80 per cent of EU imports, leaving some 20 per cent of imports for ACP producers. Because of the supply restricting provisions of the EU banana regime, prices in the European market are approximately twice those in the USA and Eastern Europe.

Banana prices at point of import into Europe vary widely between Latin American supplies (averaging € 558 per ton in 1999) to an ACP average of €620 per ton, to €745 for the Windward Islands alone. These figures give some idea of the gaps in competitiveness between the Latin American suppliers and the ACP suppliers, and of the improvements in productivity that the SFA is aiming to attain.

Banana prices weakened in 1999 mainly as a result of abundant supplies entering international trade coupled with constrained demand growth in the emerging markets of the former USSR and China. During the course of 2000, banana prices slumped to unusually low levels, declining to \$ 307 per ton in the US in July and \$ 622 per ton in Europe in June. While prices do fluctuate through the year, these prices were only 62 per cent of the yearly average prices in 1998.

A small part of the slump in the European market may reflect the issue of fraudulent licences for Ecuador banana imports into southern Italy. On 9 June 2000 a joint team of Italian officials and OLAF investigators discovered that 101 false import certificates had been presented in order to import fraudulently into the Community over 160,000 tons of bananas since March 1998.

#### **4. AMENDING THE EU REGIME FOLLOWING THE WTO RULINGS**

Following detailed discussions with interested parties the Commission put forward a proposal to the Council to amend Regulation 404/93 in November 1999. This proposal included a transitional tariff quota system, with three quotas being established, prior to the introduction of a tariff only system by 2006 at the latest. During discussions with third parties it became evident that a system of quota management with licence distribution based on traditional trade flows with a historical reference period was the preferred option.

After months of intensive discussions it seemed that a tariff quota system either based upon licences allocated on historical performance or auctioning would be difficult to achieve, and that the discussions on historical reference periods were at an impasse. Thus the Commission proposed in its Communication to the Council in July that the Commission should conclude its examination of the First Come, First Served (FCFS) method of quota management. This was accepted by the Council and in October 2000 following its assessment of the FCFS method, the Commission presented a further Communication to the Council indicating that it considered the FCFS method a viable option. The Commission put forward several amendments to its November proposal:

- The fixing of a maximum tariff of € 300 per ton in the third quota (instead of fixing the tariff by tender system as originally proposed in November 1999),
- The increase to a maximum of the ACP preference, from € 275 per ton to € 300 per ton,
- The possibility for the Commission to reduce the maximum tariff in the third quota.

The Communication was reviewed in the General Affairs Council of 9 October 2000 in Luxembourg. A formal Council position is expected once the European Parliament has expressed its opinion. An ACP-EU Joint Parliamentary Assembly resolution on the reform of the EU banana regime was made during its session in Brussels from 9 to 12 October.

#### **5. BUDGET LINE 1999**

In the first half of 1999, country strategies were prepared by nine of the twelve traditional banana producing ACP countries, and presented to the EDF Committee for information. Somalia was unable to submit a strategy or an investment proposal because of continuing civil strife and absence of a national authority. Madagascar was unable to submit a strategy or an investment proposal because of over-stretched capacities in the national authorising office. The strategy document for Cape Verde arrived too late in the year for the necessary administrative procedures to be completed in time. After due consideration of need and efficiency considerations, the Commission reallocated the amount of € 1,100,000 between Ivory Coast (€ 600,000) and Grenada (€ 500,000) in November 1999. Thus nine country proposals were received and approved in 1999, following EDF Committee submissions, for a total of € 44.5 mn (see Table 1).

Eight of the nine financing agreements for 1999 were signed by the Commission on 27 August 2000. The Ivory Coast financing agreement is to be signed in November following the conclusion of a dialogue between the Commission and the national authorities on procedural matters relating to the respective roles of the NAO and the Banana Association (OCAB).

## **6. BUDGET LINE 2000**

Following the announcement of the indicative country allocations for 2000 on 4 April, eleven financing proposals were received by the end of May. Only Somalia did not present a proposal. SCR was unable to give its approval on procedural grounds to a proposal from Madagascar to use the funds for diversification on the basis of an existing MoU relating to Stabex.

As a result of Somalia and Madagascar not qualifying for budget line finance in 2000, a sum of € 1.6 mn was available for re-allocation. The Commission decided on 11 October that €400,000 be set aside for a monitoring consultancy, and that additional resources be made available to Belize (€ 400,000), St Vincent (€ 250,000), Cameroon (€ 200,000), Cape Verde (€ 100,000), and Ivory Coast (€ 250,000), on grounds of efficiency, and capacity to use the funds effectively within the time frame.

The ten financing proposals will be considered by the EDF committee in October, November and December, following which financing decisions will be made for all ten country proposals by the end of 2000 for a total amount of € 44,075,000, with €400,000 being committed for monitoring consultancies (see Table 1).

## **7. INCREASING BANANA COMPETITIVITY OR DIVERSIFICATION?**

The Council Regulation permits beneficiary countries to use the finance available for technical and financial assistance to improve competitiveness in the banana sector or to support diversification where improvement in the competitiveness of the banana sector is not sustainable. In practice, most beneficiary countries have opted for banana competitiveness in their strategies, even against the increasing uncertainty of the future EU banana regime. The evaluation study for the earlier budget line suggests that Ivory Coast and Cameroon have the best chances of competing on costs with Costa Rica or Ecuador<sup>5</sup>.

Only the Windwards have made specific allocations for diversification (both agricultural and economic) and, in the case of St Lucia, for social recovery for those falling out of the industry. It should be noted that the Windwards have received considerable amounts of Stabex funds which have been used in the past for banana productivity improvements, and more recently for diversification and social recovery purposes. Cameroon, Belize and Ivory Coast have made allocations in favour of improving social conditions for banana plantation workers.

With the decline in banana prices and worsening expectations as to the future course of prices, the ACP countries have been asked by the Commission to reconsider their strategies with a view to putting more of the SFA finance into diversification.

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<sup>5</sup> Evaluation of EU Assistance to ACP Banana Producers under Regulation 2686/94, Nordic Consulting Group/University of Birmingham/Synergie, January 2000.

## **8. STRENGTHENING ECONOMIC AND FINANCIAL ANALYSES**

A common feature of financing proposals has been a weakness in their economic and financial analyses. *Inter alia*, this makes it difficult to arrive at informed judgements about the inter-country and inter-sectoral allocation of investment funds.

To remedy the situation, terms of reference have been prepared for a consultancy which will help to strengthen the economic and financial analyses, initially in Jamaica and Cameroon, and eventually to all the principal beneficiary countries. A particular feature of the study will be an assessment of the future market prospects for ACP banana producers in the light of forthcoming changes to the EU banana regime in the Commission's bid to make it WTO compatible.

## **9. ARRANGEMENTS FOR MONITORING**

In order to obtain comparative and current information on progress achieved, and for the task team to be able to make recommendations on any modification of sectoral or country allocations in a meaningful manner, consultants will be engaged in 2000 for an initial period of two years to make annual visits to each of the major recipient countries. In consultation with the Commission Delegations concerned, they will report on improvements in efficiency in the production and marketing of bananas. Where relevant, they will also review progress in diversification. Financial provision for this consultancy has been made in the Commission Decision for 2000.

## **10. CONCLUSIONS**

The Commission concludes that the Special Framework of Assistance foreseen in Council Regulation 856/1999 is being put into effect in accordance with the rules of implementation laid down in Commission Regulation 1609/1999.

It is too early to assess the impact of the SFA funds on banana productivity and/or diversification in the countries concerned, but arrangements are in hand for these to be fully assessed by monitors recruited for this purpose.

**TABLE 1**  
**BANANA BUDGET LINE B7-8710**  
**COUNTRY ALLOCATIONS 1999 AND 2000**  
**as at 2 october 2000**

<b>Budget Line B7-8710</b>				
<i>Special Framework of Assistance for Traditional ACP Suppliers of Bananas</i>				
	<b>Initial Allocation</b>	<b>Revised Allocation</b>	<b>Initial Allocation *</b>	<b>Revised Allocation</b>
	<b>1999</b>	<b>1999</b>	<b>2000</b>	<b>2000</b>
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
<b>Africa</b>				
Cameroon	6.200.000	6.200.000	5.500.000	5.700.000
Cape Verde	500.000		500.000	600.000
Ivory Coast	4.100.000	4.700.000	4.100.000	4.350.000
Madagascar	500.000		500.000	0
Somalia	600.000		1.100.000	0
sub-total	<i>11.900.000</i>	<i>10.900.000</i>	<i>11.700.000</i>	10.650.000
<b>Caribbean</b>				
Jamaica	5.300.000	5.300.000	5.300.000	5.300.000
Belize	3.100.000	3.100.000	2.700.000	3.100.000
St Lucia	8.500.000	8.500.000	8.875.000	8.875.000
St Vincent	6.100.000	6.100.000	6.200.000	6.450.000
Grenada	500.000	1.000.000	500.000	500.000
Dominica	6.500.000	6.500.000	6.500.000	6.500.000
Suriname	3.100.000	3.100.000	2.700.000	2.700.000
sub-total	<i>33.100.000</i>	<i>33.600.000</i>	<i>32.775.000</i>	33.425.000
monitoring				400.000
<b>Total</b>	<b>45.000.000</b>	<b>44.500.000</b>	<b>44.475.000</b>	<b>44.475.000</b>
* as approved by the Commission on 18 July 2000 E/2000/1055 - C(2000)1993 Décision de la Commission fixant les montants disponibles en 2000 au titre de cadre spécial d'assistance en faveur des fournisseurs ACP traditionnels de bananes				