

BANANAS: ESSENTIAL ELEMENTS OF THE WORLD AND COMMUNITY MARKETS

CONTENTS

1. World production	3
2. Consideration of possible elements of an international banana agreement	4
3. The European market	6
4. Situation in different Member States	7
5. The multinational companies	8
6. Conclusion	9

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1. WORLD PRODUCTION

World banana production in 1975 amounted to over 37 million tonnes. The principal producers are situated in Latin America, Asia and Africa. Latin-American countries produce approximately 20 million tonnes per year, Asian countries about 11 million tonnes and Africa about 4 million tonnes. Out of this large world production of bananas, only one-sixth or some 6 million tonnes are exported. There is therefore a considerable excess of production over import demand, leading to a situation where prices tend to stabilize or even decrease in a climate favourable to consumers rather than producers. This situation, experts feel, can only be remedied if new markets for bananas can be found or if local consumption in producing countries can be increased; other elements which could reduce the downward pressure on prices would involve the reduction of production and export availability. Although there are possibilities for processing bananas into flour, juice, chips and other products, this would only be a fringe activity at the present time and too much emphasis should not be placed on it as a means of increasing world demand.

(a) Market characteristics

World banana trade is dominated by the Latin-American countries which export on the free world market; banana producers in the African, Caribbean and Pacific (ACP) States, members of the Lomé Convention, account for approximately 40% of world trade and are traditionally considered the 'preferential suppliers' to three of the Member States of the European Economic Community: France, the United Kingdom and Italy.

(b) Exports in 1976

According to statistics published by the United Nations Food and Agriculture Organization (FAO), world exports of bananas in 1976 were estimated at 6.5 million tonnes. This figure is slightly higher than the export figure for the previous year.

Higher exports were recorded by most Central-American countries and Colombia; in Honduras production and exports continued to recover from the devastating effects of cyclone 'Fifi' in September 1974. By contrast, exports from Ecuador declined to 1.2 million tonnes after a six-year period during which they had fluctuated between 1.35 to 1.4 million tonnes.

Caribbean exports increased significantly in 1976, indicating a recovery in banana production in Jamaica, the Windward Islands and Martinique. In the Far East a series of blowdowns caused the first interruption to the sustained upward trend in Philippine exports and the decline in shipments from China continued.

(c) Imports in 1976

Higher imports into North America, the Near East and North Africa were partly offset by lower imports into Western Europe, Argentina and Japan and the centrally-planned countries of Eastern Europe and the USSR.

Imports into North America increased significantly in 1976 to a record 2.14 million tonnes, 11% more than the previous year. Imports into Western Europe declined in 1976 and in fact have fallen at the rate of 3% per annum since 1973; total imports are now about the same level as that of the late 1960s. While the decline in France was mainly due to supply shortages on the part of some of the traditional suppliers (Guadeloupe and the Ivory Coast), the fall in imports into Italy was a result of shipping, quality and marketing difficulties, of Somali bananas. Although imports into the Federal Republic of Germany were slightly more than in 1975, market conditions fluctuated throughout the year; heavy intakes in the first half of the year were almost offset by lower imports in the second half. Imports into Japan, which reached a record 1.1 million tonnes in 1972, have since trended downwards.

(d) Prices and export earnings

According to the FAO, market prices in most import markets in 1976 rose moderately in current terms in comparison with the high growth rates of 1974/75. A preliminary estimate of total export earnings from bananas in 1976 indicates an overall increase of about 10%, mainly as a result of higher f.o.b. unit values. The bulk of the increase took place in Central-American countries and Colombia, where the increase in f.o.b. unit values was combined with a large increase in export volume.

(e) Outlook for 1980

Exporting countries estimate that available exports in 1980 would be of the order of 8.7 million tonnes, a 34% increase on the 1976 figure of 6.5 million tonnes. According to the FAO, these figures may be a little optimistic and a more realistic figure would be 7.8 million tonnes. Import demand in 1980 should stand at 7.2 million tonnes, or 13% higher than actual imports in 1976.

With regard to the medium term, FAO estimates that the considerable excess of supply over demand will continue to result in downward pressure on banana prices. This will make it difficult to market the quantities available at prices which would be remunerative and reasonable to producing countries.

2. CONSIDERATION OF POSSIBLE ELEMENTS OF AN INTERNATIONAL BANANA AGREEMENT

Given the importance of bananas to the economies of developing countries and the current problems plaguing the world market of this commodity (in particular producer demand for more just and remunerative prices), the United Nations Conference on Trade and Development (UNCTAD) included bananas on the list of 18 commodities which form UNCTAD's Integrated Programme on Commodities, adopted in Nairobi in 1976. It was decided that as the first step towards the conclusion of an international agreement on bananas, a working party of the Intergovernmental Group on Bananas would meet within the framework of the FAO to study the possible elements of an international agreement on bananas. It is hoped that during the second half of 1978 the working party should be able to present, via the Intergovernmental Group, an advanced working draft which might form the basis for negotiations under UNCTAD auspices of an international agreement on bananas.

Two working sessions of the group were held in Rome in May/June 1976 and July 1977. The first session concluded that bananas were susceptible to an international agreement which might incorporate, *inter alia*, the following five elements:

- (i) establishment of production and export goals compatible with world banana requirements;
- (ii) provision for the examination of appropriate economic measures designed to secure prices remunerative to producers and reasonable for consumers;
- (iii) improvement of the quality of bananas;
- (iv) plans to increase consumption;
- (v) diversification schemes.

(a) Export quotas and market-sharing

In practice it is considered almost impossible to apply 'appropriate economic measures' other than a properly organized export quota agreement, which would be designed to protect an agreed minimum price for the producers and ensure a regular supply of bananas to consumers at reasonable prices. Experts note that as bananas are a perishable commodity the introduction of buffer stocks is obviously quite out of the

question; bananas can also be termed a 'luxury item', whose consumption depends on custom, habit and personal taste, and it is quite possible to do without them. At the meeting of the FAO working group in July 1977, exporters agreed that an export quota agreement was the only way to meet the present difficulties of the world banana market. Such an agreement would require participating producing countries to adjust their production objectives to a level which would be compatible with the aggregate requirements for domestic consumption plus exports. This would require negotiations among exporting countries regarding the sharing out of the market. Banana-exporting countries in Latin America and the Philippines are currently consulting together on the elements of an export quota agreement and in particular on determining ways and means of arriving at individual quotas; the results of these consultations should be incorporated in a working draft of an international banana agreement.

(b) Protecting preferential markets

Exporting countries also agreed that the preferential suppliers (DOM and ACP) would not be subject to quotas but they would have to negotiate with the free-market suppliers (Latin-American producers) an agreed figure, based on past performance, for their total exports. This would be deducted from the total requirement and the free-market suppliers would divide the remaining markets between them and would expect also to supply shortfalls in the preferential markets.

(c) Minimum prices

Exporting countries emphasized that the setting up of a minimum price objective, since it was the continued deterioration in unit returns for banana exports which had led to the present drastic situation confronting banana producers. The minimum price would ensure remunerative returns to producers and allow a margin for economic development, while also maintaining the purchasing power of banana exports in real terms. In a situation where there is no 'world price' for bananas and for which there is no 'recognized commodity exchange market', experts agreed that it would be necessary to use import (f.o.r.) prices in the main free-market importing countries as a basis and point of departure.

Experts stressed, however, that the price should not be set at a level which would encourage undue expansion of production, thus defeating the aims of the agreement; nor should a price level be set which would reduce consumption of bananas and so conflict with other aims of such an agreement related to the promotion of consumption.

Commission experts feel that the situation is slightly different-as far as ACP producers are concerned because the Lomé Convention guarantees them access to the Community market, if necessary at the expense of the Latin-American producers; but, they add that it would seem wiser in present circumstances to spend EDF funds on ways of improving the quality of ACP bananas and on aid for research rather than on large increases in productive capacity.

(d) New markets

Efforts should continue to be made to find new markets for bananas, particularly in North Africa, the Middle East, the Eastern European countries and the Soviet Union. One issue raised by experts in Rome was the possibility of exempting these new markets from the quota system. The advantage of doing so would be twofold: on the one hand, it would stimulate consumption in these markets, and on the other, it would provide a safety valve, enabling the marketing of surplus export availabilities.

(e) Increasing consumption and improving quality

Delegates from banana-exporting and producing countries agree that every effort should be made to promote the consumption of bananas particularly in markets and whenever possible in existing markets. In

the long run increasing consumption is one of the best means of achieving a healthy and progressive balance between supply and demand and of protecting the economies of banana-exporting countries. The working party also emphasized the importance of studying ways and means of improving the quality of bananas as a method of increasing consumption both in existing and new markets. Promotion campaigns should be undertaken in markets with a low *per capita* consumption of bananas in relation to *per capita* income. Delegates also recommended that these activities should not be confined to traditional promotion campaigns but should include the provision of technical expertise and advice and financial support in the construction of the necessary infrastructure for handling bananas in selected countries. Experts also underlined the importance and necessity for drawing up more objective and commonly accepted criteria for defining quality.

(f) An international Stabex for bananas

Many members of the working group supported the principle of compensatory financing arrangements to supplement and stabilize export earnings for banana exports possibly on the lines of the Stabex system in force for the ACP countries under the Lomé Convention. The Lomé Stabex (stabilization of export receipts) scheme at present covers some 20 commodities including bananas.

3. THE EUROPEAN MARKET

The European market is very important as it accounts for approximately one-third of world trade in this commodity. The European Community imported just under 2 million tonnes of bananas in 1975 and 1976, with approximately 60% coming from Latin-American sources, 25% from ACP/OCT countries and 15% from the French Overseas Territories (see annexed tables).

There is no common policy for bananas in the Community except for an agreement on the duty-free access guaranteed to ACP bananas in all EEC markets and the imposition of a 20% duty on third-country imports (excluding Germany). Experts feel that there is very little political will in favour of change to a common organization which might put at risk the position of the 'preferential suppliers'.¹ Factors which complicate the introduction of a common policy for bananas are the existence of the 'German protocol' and the obligations accepted by the Community as regards banana exports from ACP countries. For the moment, therefore, the Community markets are a series of national regimes which evolved in different directions for various historical and economic reasons.

(a) The preferential suppliers

The ACP banana exporters have the closest links with the so-called preferential markets - France, the United Kingdom and Italy - where their banana exports are given priority over third countries (or Latin-American exports). In these preferential markets, in addition to duty-free access, ACP banana exports are given privileged treatment under Protocol No 6 (banana protocol) annexed to the Lomé Convention. Imports from Latin America, on the other hand are subject to the imposition of the 20% import duty and to quantitative restrictions in France, the United Kingdom and Italy.

(b) Elements of the banana protocol

Protocol No 6 of the Lomé Convention deals in detail with ACP banana exports to the EEC, promising the ACP countries, that in addition to duty-free access, 'as regards its exports of bananas to the EEC no ACP

¹ Although at present, following the Charmasson judgment in the European Court of Justice in 1974 (which prohibits the existence of national regimes for agricultural products within the EEC) consideration is being given to a number of common measures.

State will be placed, as regards access to the markets and market advantages, in a less favourable situation than in the past or present'; the protocol adds that 'a joint endeavour will be undertaken by the ACP States and the Community to devise and implement appropriate measures particularly with respect to investment encompassing all stages from production to consumption in order to enable the ACP States, particularly Somalia, to increase their banana exports to their traditional markets'; the ACP banana producers are also trying to penetrate the so-called other 'free markets' within the EEC and the Protocol states that 'comparable endeavours will also be undertaken to enable the ACP States to gain a foothold in new Community markets and to extend their banana exports to these markets'.

To assist in the achievement of these objectives a permanent high-level joint group, called the Permanent Mixed Group on Bananas, consisting of representatives from the ACP producers, the Member States and the Commission has been set up. Discussion in this group has shown that there are differences of view between the ACP and the EEC on the interpretations of the Protocol. The ACP are increasingly worried about competition from Latin-American producers who have always been more efficient in their sales and marketing systems because of the part played by the multinational companies. Due to lower labour costs, Latin-American bananas are cheaper than ACP bananas, because of stricter quality controls; the Latin-American bananas are often of better quality and more attractive to consumers. The ACP countries who are afraid of losing their traditional markets to Latin-American producers complained in a recent memorandum sent to the EEC about 'the growing influence of multinational companies on the markets of certain Member States, in particular in Italy'. The ACP countries added that their rights should be protected on all EEC markets and complained that despite the provisions of the Lomé Convention, no concrete measures had as yet been taken to encourage the sales of ACP bananas on EEC 'free' markets.

In short, the ACP banana-exporting countries feel that the EEC should be more *dirigiste* and insist on non-traditional importers taking ACP bananas. In fact the Community gives priority and duty-free access to bananas of ACP origin in three protected markets, where quantitative restrictions are applied to bananas of third-country origin, as well as duty-free access to the so-called free markets. It is clear, though, that in these six latter markets, there is much more emphasis on competitive market forces and consumer choice. In a reply to an ACP memorandum on the subject, in June last year, the Community stressed that the ACP countries' own efforts should remain the determining factor in the promotion of sales in the EEC as they will continue to face tough competition from the Latin-American countries, and more particularly from the multinational companies who are able to supply the world market at any time at highly competitive prices, which give them the edge despite protective restrictions imposed by importing countries. The EEC maintains that the situation could be remedied by a more intensive use of the provisions of the Lomé Convention, and in particular its aid and trade promotion mechanisms. The EEC added that the ACP banana producers should make a greater effort to improve product quality and regularity of supply with a view to improving their position *vis-à-vis* the multinationals.

4. SITUATION IN DIFFERENT MEMBER STATES

(a) The Federal Republic of Germany

West Germany is the largest consumer of bananas in the Community, consuming 547 900 tonnes of bananas in 1975 and 550 000 tonnes in 1976. Under the terms of the German banana protocol annexed to the Treaty of Rome, Germany has a special and privileged position as regards its consumption requirements, i.e. it is allowed to import bananas originating in Latin-American countries duty free. The quota given to Germany under this protocol is the subject of annual discussion both with the Member States and interested ACP suppliers who are keen on penetrating what they see as a relatively closed German market. Experts feel, however, that the ACP countries will not find it very easy to set foot in the German market, given the fact that the prices offered by German importers would be unattractive to ACP exporters, and problems could also arise over quality criteria. However, a number of Member States continue to feel that Germany should 'share the ACP burden' and for 1976 Germany agreed in principle to allow 13 000 tonnes of preferential fruit into its market out of a total quota of over 500 000 tonnes. The German quota for 1977 has been fixed at 598 000 tonnes, allowing a margin of 7 000 tonnes for the ACP countries. This will not necessarily be taken up.

(b) France

France is the second largest importer in the Community (479 870 tonnes in 1975, 454 000 tonnes in 1976) the majority of whose bananas come from the DOM islands of Guadeloupe and Martinique. The French have a national market organization which ensures that two-thirds of its requirements are allocated to the DOM and the remaining one-third to the Ivory Coast, Cameroon and Madagascar producers, all of course with duty-free access. In the event of a shortfall from these sources France obtains additional supplies from third countries which are subject to the 20% Community tariff.

(c) Italy

The Italian market is supplied mainly by imports from Latin America and in part from Somalia, Martinique and Surinam. There are now no restrictions on imports of bananas from Somalia but this country is only able to supply approximately one-sixth of Italian requirements. All bananas imported into Italy are subject to a consumption tax of LIT 110 per kg and bananas from South America have to pay the 20% Community tariff and there are quantitative restrictions imposed on Latin-American fruit by means of a third-country quota.

Experts note that there has been a steady decline in Somali exports to Italy due in part to the closing of the Suez Canal and escalating freight rates but also in part to difficulties experienced by the Somalis in producing and marketing quality fruit on the Italian market, where they have to compete with the efficient methods of the subsidiaries of the United Brands Company. The Community is ready to support a trade-promotion campaign for Somali fruit on the Italian market so long as the Somalis are able to deliver regularly and convince Italian traders that they are reliable suppliers. From experience in recent years it seems unlikely that the ACP countries and in particular Somalia, will be able to supply 100 000 tonnes of bananas or approximately one-third of the market.

(d) The United Kingdom

The British market has been supplied traditionally from Commonwealth sources, notably Jamaica and the four Windward Islands, but since the signing of the Lomé Convention all other ACP countries have free access to it. Nevertheless traditional and other ACP suppliers are unable to fulfil the requirements and Latin-American banana producers make up for the shortfalls. Imports in 1976 amounted to 307 000 tonnes of which 193 200 were supplied from Jamaica and the Windward Islands, 65 000 tonnes from the Ivory Coast, Cameroon, Surinam and Martinique and the balance from the 'dollar zone' (Latin America) amounting to 48 000 tonnes. Imports from third countries are now subject to the full Community tariff of 20% as the transitional period is over.

(e) Benelux, Ireland and Denmark

These Member States are grouped together because they all import bananas from the same source (Latin America) and their imports are all subject to the same regime, the Community tariff. Despite the 20% tariff, consumers in the Netherlands enjoy the cheapest prices in the Community because the market is streamlined with ripeners selling direct to retailers, thus omitting the wholesale stage. Ireland and Denmark are the smallest importers in the Community. In recent Anglo/Irish talks on the banana trade, the Irish authorities stressed their willingness in principle to accept suitable ACP fruit.

5. THE MULTINATIONAL COMPANIES

Due to the necessity of having to box, ship, ripen and market bananas in the shortest possible time, multinational companies play a very significant part in the world trade of this commodity. Experts note that it is difficult for others to compete with the efficiency of the integrated exercise undertaken by the multinationals.

However, the part played by the multinationals in plantation ownership and dominance in the Latin-American republics is lessening and serious attempts are being made by such organizations as the Union of Banana Exporting Countries (UPEB) in Latin America to lessen the stranglehold by means of export taxes and even the beginnings of ideas to provide alternate shipping arrangements. The part played by the multinationals is of considerable concern to UNCTAD which has provided experts to help the producing countries lessen their dependence on these companies.

The Community is also aware of the problem and has looked at it in particular from the point of view of abuse of dominant position which infringes its competition policy. The Commission ruled in December 1975 that United Brands, an American-controlled multinational, had a dominant position on the Benelux, German, Danish and Irish markets and that it had abused this position by refusing to allow ripeners or distributors to resell bananas in their green state, by charging unfair prices, by charging discriminatory prices, i.e. different prices on different markets for an equivalent product, and refusing to sell to one of its Danish wholesalers. United Brands appealed to the European Court of Justice, which in a judgment made public on 14 February 1978 found that United Brands had, in fact, abused its dominant position on the banana market in six EEC countries. Of the four infringements cited by the Commission, three were upheld by the Court in its judgment. The only Commission complaint quashed by the Court concerned the application of unfair prices where the Court found that the Commission had not adduced adequate legal arguments of United Brands production costs and was therefore unable to prove that the company charged excessive prices. The Court decided to reduce the fine of one million units of account imposed by the Commission to a fine of 850 000 units of account.

6. CONCLUSION

The general feeling in Commission circles and in the Member States is that the existing national regimes for bananas work well; this is one of the reasons why a common policy for bananas is, for the moment at least, considered to be of secondary importance. The essential task of the Community is to ensure that the privileged position of the preferential suppliers is not eroded and to encourage these suppliers to be ready to export to other Community markets. Moreover, the ACP producers should not be isolated from the international scene and should be encouraged in their international dealings in the FAO and UNCTAD contexts.

Imports of bananas into the Community

	1974	1975	1976	1977 Jan.-Sept.
Belgium/Luxembourg	88 000	88 021	86 200	62 612
Denmark	34 000	33 178	32 300	24 907
FR of Germany	589 000	547 912	550 000	416 146
France	490 100	479 870	454 000	380 227
Ireland	32 000	44 214	33 000	25 953
Italy	318 000	304 144	268 000	229 769
Netherlands	120 000	111 930	113 400	88 176
United Kingdom	303 800	308 251	307 000	210 209
Community	1 974 900	1 986 000	1 843 900	1 437 999
World	6 469 100	6 672 000	6 396 500	

Sources: FAO, Nimex.

Principal exporters to the Community

(tonnes)

	1974	1975	1976	1977 Jan.-Sept.
Martinique	186 000	167 528	201 200	168 324
Guadeloupe	118 200	111 415	104 600	78 992
Cameroon	74 000	74 674	79 700	55 427
Ivory Coast	157 000	124 132	87 800	64 539
Jamaica	72 500	68 839	77 200	61 975
Madagascar	6 000	3 481	5 400	2 894
Surinam	35 000	37 620	34 700	20 284
Somalia	47 000	34 214	45 000	25 763
Windward Islands	112 000	92 105	116 200	86 370
Latin America	1 204 800	1 080 004	1 094 366	866 739

Note: In 1976 the total exports from the above-named countries were destined for the Community markets with the exception of 37 000 tonnes from Ivory Coast to North Africa and 26 000 tonnes from Somalia to the Middle East.

Sources: FAO, Nimex.

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