Banana
Supply to the EU

Dollar: on top form!

by Denis Lœillet

After mentioning in the previous article the increasing consumption levels per capita in the EU, and highlighting that the NMSs were outperforming the market, let's examine the changes in the supply to the EU from each origin and major origin family.

We begin with a general observation: the dollar origins fuelled the market dynamic observed in 2017, and have done so since 2011. In index terms, taking the year 2011 as base 100, the dollar origins are now at 130, the ACPs at 112 and EC production at 96. The market meanwhile has gone from index 100 to 123. So the dollar origins have done a lot better than the market (7 index points more). In terms of market share, the dollar origins now account for 73.6 %, as opposed to 17.2 % for the ACPs and 9.2 % for EC production. The latter two origin families fell in 2017 (by 1.8 and 2.2 % respectively), while the dollar banana went up by 4 %. In terms of volume, the dollar origins delivered some 4 707 000 t to the EU, the ACPs remained above the one million mark with 1 100 000 t, while European production came undone, falling to 586 000 t.

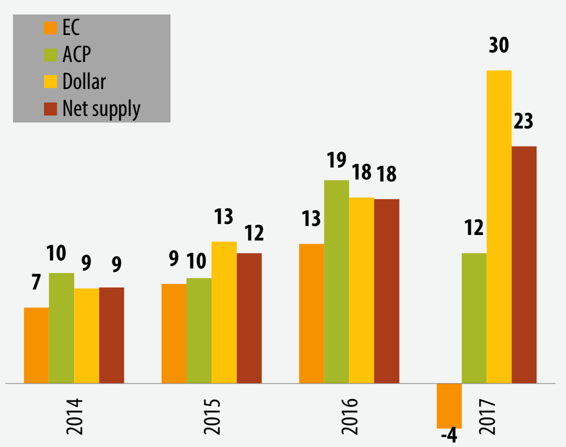
EC production

2017 was a very difficult year for European production. The three main origins fell, in two cases very heavily. Firstly the Canaries, the number one European producer, whose volumes sold went down by 4 % to 399 000 t. However we should be wary of drawing conclusions too soon, as 2016 was a historically high year, when production peaked at 417 000 t (the last record goes back to 2001). The first months of 2018 point to an excellent year. Q1 2018 was a historic best in terms of volume (+ 11 % on 2017). Practically the sole outlet for the Canaries banana is the Spanish mainland market, plus the Portuguese market. Pressure from other origins, especially from the ACP banana, seems increasingly strong on a market which has been able to maintain a very big reserve of affection for its domestic banana.

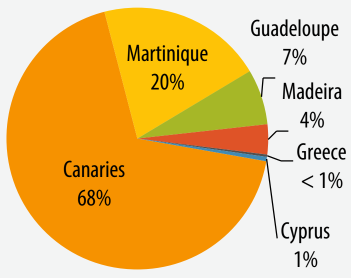
French production from Guadeloupe and Martinique had a very difficult 2017, for the second consecutive year. This was down to climate vagaries, which pushed down the annual supply from Martinique by one third (119 000 t) and the supply from Guadeloupe by more than 40 % (40 000 t). Production was wiped out in Guadeloupe, and the first shipments could not resume until April 2018. It will take at least two years for them to recover their full potential. For 2018, producers planned to manage their return to production to avoid, even partially, the trickiest periods such as the one currently starting. While the natural market for these origins is Mainland France, some of the supply (approximately one quarter) is exported to other Member States, especially in Eastern Europe.

Portuguese production from Madeira rounded off 2017 with a 3 % gain, at 21 800 t. We need to go back to 2000 to find such a level. Its produce was sold locally and shipped to the Mainland Portuguese market. The specificity of the supply restricts this banana to its domestic market only.

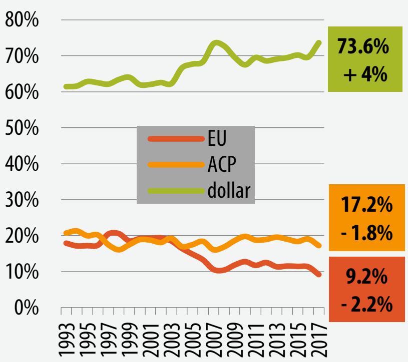
Banana - European Union
Supply dynamics by origin group
(Index 0 base 2011 / sources: Eurostat, CIRAD)



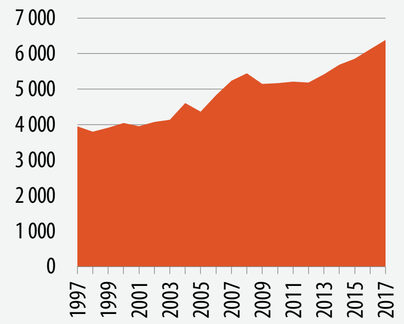
Banana - EU - Community sources
Total 2017: 585 582 tonnes
(source: European Commission)



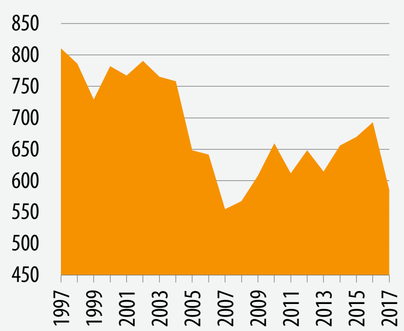
Banana - EU
Market shares by origin
(source: Eurostat)



Banana - EU - Net supply
(in 000 tonnes / source: Eurostat)



Banana - EU - Community sources
(in 000 tonnes / source: European Commission)

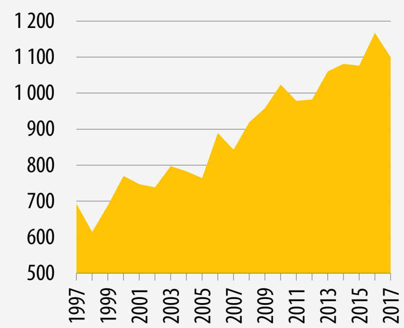


Banana — EU — European production

in tonnes	2014	2015	2016	2017	2017/2016 difference	
					in %	in tonnes
Canaries	364 419	381 827	417 176	399 164	- 4 %	- 18 012
Martinique	193 201	199 241	179 888	119 844	- 33 %	- 60 044
Guadeloupe	73 592	63 781	68 608	40 003	- 42 %	- 28 605
Madeira	18 649	18 645	21 167	21 763	+ 3 %	+ 596
Cyprus	3 952	4 384	4 382	3 161	- 28 %	- 1 221
Greece	2 167	1 795	1 733	1 647	- 5 %	- 86
Total	**655 980**	**669 673**	**692 954**	**585 582**	**- 15 %**	**- 107 372**

Source: Eurostat

Banana - EU - Imports from ACP sources
(in 000 tonnes / source: Eurostat)

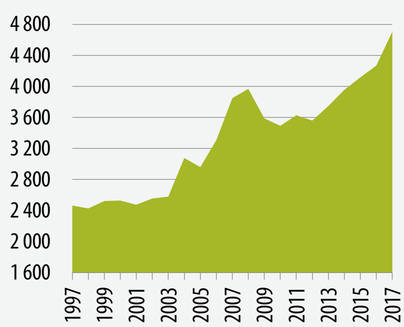


Banana — EU — Imports from ACP origins

in tonnes	2014	2015	2016	2017	2017/2016 difference	
					in %	in tonnes
Côte d'Ivoire	252 766	254 218	308 169	315 855	+ 2 %	+ 7 686
Dom. Rep.	342 016	326 587	375 163	305 311	- 19 %	- 69 853
Cameroon	257 152	278 247	297 058	270 306	- 9 %	- 26 752
Belize	100 707	98 969	71 741	84 635	+ 18 %	+ 12 894
Ghana	46 427	50 990	57 873	70 373	+ 22 %	+ 12 500
Suriname	72 593	58 583	49 739	44 265	- 11 %	- 5 473
St Lucia	8 874	8 339	7 364	8 291	+ 13 %	+ 927
Total, incl.	**1 081 268**	**1 076 315**	**1 167 441**	**1 099 695**	**- 6 %**	**- 67 746**

Source: Eurostat

Banana - EU - Imports from dollar sources
(in 000 tonnes / source: Eurostat)



Banana — EU — Imports from dollar origins

in tonnes	2014	2015	2016	2017	2017/2016 difference	
					in %	in tonnes
Ecuador	1 474 454	1 361 756	1 299 935	1 487 100	+ 14 %	+ 187 165
Colombia	1 086 273	1 315 399	1 292 212	1 412 494	+ 9 %	+ 120 282
Costa Rica	940 393	947 760	1 126 529	1 153 282	+ 2 %	+ 26 753
Panama	224 879	207 274	200 169	249 411	+ 25 %	+ 49 242
Peru	96 650	102 326	115 472	117 808	+ 2 %	+ 2 337
Guatemala	29 167	79 024	98 448	113 023	+ 15 %	+ 14 575
Nicaragua	-	9 326	34 467	86 483	+ 151 %	+ 52 015
Mexico	70 784	69 102	72 478	64 497	- 11 %	- 7 981
Total, incl.	**3 956 439**	**4 116 432**	**4 268 613**	**4 706 762**	**+ 10 %**	**+ 438 148**

Source: Eurostat

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ACP group

These highly disparate origins are divided into four production zones: Africa, Caribbean, Central America and South America. They have extremely different, or even diametrically opposite, dynamics. They are developing a highly segmented supply. Finally, their competitiveness levels are heterogeneous to the point of having nothing in common. Overall, in 2017, the ACP group exported 1.1 million tonnes to the EU. This was a fifth year in excess of the one million mark, though there was a 6 % downturn, attributable to the Dominican Republic, Cameroon and Surinam.

We should recall that all ACP bananas are exempt from customs duty on entry to the EU-28 market. The supplier countries will soon lose the competitiveness aid provided under the European programmes (BAMs).

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Let's review the origins forming this group in light of the differences listed above. First the Africa zone: Côte d'Ivoire, Cameroon and Ghana form a relatively homogeneous group, in any case compared to the others. While Côte d'Ivoire (316 000 t in 2017 with 2 % growth) is the place in Africa seeing development of new plantations, as well as to a lesser extent Ghana (70 400 t, i.e. + 22 %), Cameroon is in decline (270 000 t, i.e. - 9 %), with the 300 000-t mark fading into the distance. Phytosanitary problems and the ongoing effects of a tornado explain this downturn. The operators and national authorities are still exhibiting big ambitions. To achieve them, reinvestment would be required in the part of the production sector run by the Cameroon Development Corporation, well below world productivity standards. Côte d'Ivoire is a country in boom: while doubtless not all the projects announced will come to fruition, its production capacity is increasing. Half a million tonnes of exports is a perfectly credible medium-term objective. We should note that Ghana is developing a supply of certified organic or Fairtrade bananas. Côte d'Ivoire is also developing an organic supply, though for the moment on a very limited scale. 2018 has started on exactly the same footing. For Q1, volumes on the market were up by 4 % for Côte d'Ivoire and by 14 % for Ghana. In both cases, they recorded their best starts of all time. Cameroon meanwhile was down by 20 %, its worst start to a year since 2014.

The Caribbean zone is the second biggest ACP banana production region, with just one dominant player: the Dominican Republic. It makes nearly 100 % of its exports to the EU, totalling 305 000 t in 2017. This figure was a long way down on 2016, but also on 2015. The production zone (Mao region in the far north-west of the country) was flooded twice, and even worse than in 2017. Large quantities of water were brought by the cyclones circulating in the Caribbean, and the obsolescence of the infrastructures and calamitous management of the dams led to an agricultural disaster. However, the sector very quickly resumed production. In Q1 2018, exports to the EU were only 3% down on 2016.

The sector has great resilience. Production costs are among the lowest in the world, and the climate conditions (semi-arid zone) are favourable for banana production, especially certified organic. However, the future of the Dominican industry is handicapped by the lack of organisation of the sector, which remains highly individualistic, very low productivity (due to low technical level) and poor logistics (limited loading and sea-freight capacity). We might add that the subject of social production conditions is a weighty issue, especially the issue of Haitian (and now stateless) immigrant workers or the tough working conditions for women. Finally, the organic and organic-Fairtrade supply, which made the origin's fortune, is undergoing intense competition from other supplier countries, especially Ecuador. The floods in late 2017 showed up a large part of these shortcomings. While producers cried wolf, announcing massive losses, European demand switched to other origins, partly turning away from the Dominican Republic, even when it returned to the market sooner than announced.

The other Caribbean ACP origins are in a state of advanced dilapidation. They have all stopped exporting (Dominica, Saint Vincent, Grenada), except for Saint Lucia. The latter exported to the EU, more precisely to the United Kingdom, approximately 8 300 t of certified Fairtrade bananas in 2017, as opposed to 7 400 t in 2016. It peaked a long time ago in 1990, with 127 000 t.

Finally, there are two origins on the American continent: Surinam and Belize. It is hard to paint a portrait of these suppliers, which both exhibit ambitions, but whose results have not been there to match. Belize seems to have reached its maximum potential back in 2014, at 100 000 t. After serious climate damage in 2016, the sector is recovering bit by bit. Belize exported 84 600 t in 2017, i.e. 18 % more than in 2016. There are numerous agronomic handicaps (treatment resistance of strains of black sigatoka, impacts of soil parasites, soil compaction, etc.), and the sector is having recruitment difficulties. Surinam is in a permanent limbo. The recovery of the sector has often been announced, even before it was practically privatised, but the effects have yet to be translated into figures. In 2017, Surinam exported 44 200 t to the EU, down 11 % from 2016, and more seriously down 50 % from 2012. There too, agronomic problems (especially Moko disease) and social problems (complexity of labour management) are curbing development. An expansion in surface areas has long been announced.

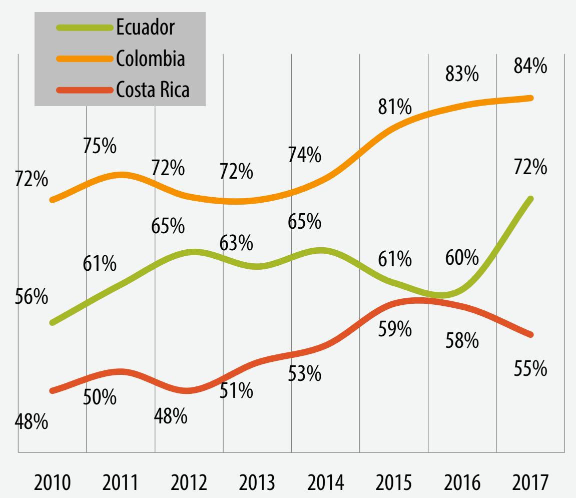
Dollar group

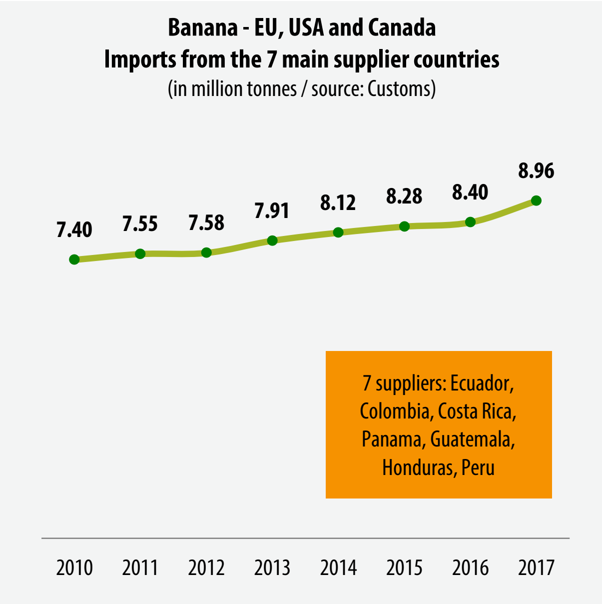
The big winner on the European market, year after year this group has strengthened its presence, in terms of both volumes and market share. It is hard to say whether the dollar supply has boosted the market, or whether red-hot European demand has opened wide the doors of the market to the dollar origins: doubtless a bit of both. Nevertheless, the quality (in fine form most of the time), service (highly flexible and reliable) and the legendary competitiveness of the dollar supply make it the world banana champion.

Ultimately, the group is a fairly small one. Eight origins make up 100 % of the supply, i.e. 4.7 million tonnes. Just four (Ecuador, Colombia, Costa Rica and Panama) provide 90 % of the supply. Yet Panama weighs in five times lighter than Costa Rica (250 000 t as opposed to 1.150 million tonnes).

Overall, the dollar group controls nearly 74 % of European demand for the dessert banana. Aided by the various EU enlargements, the upward trend in consumption, the fall in Customs duty, but also more cyclically the more or less tran-

Banana - Share of exports to the EU
(in % of total exports to EU + USA + Canada / source: Customs)





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sient weakness of some ACPs or some European production regions, the dollar origins have placed more than a million additional tonnes on the EU market since 2013. Expanding surface areas, improved productivity, trading in favour of the EU, etc., are some internal factors explaining this surge in volumes. In 2017, only Peru and Costa Rica were slightly disappointing, with growth of just 2 %. The rest saw extravagant growth rates: + 25 % for Panama (249 000 t), + 14 % for Ecuador (1.487 million tonnes), + 15 % for Guatemala (113 000 t), + 9 % for Colombia (1.412 million), etc.

In terms of dynamics, since 2010 Costa Rica has clearly led the way, although 2017 was an off year. This country is performing much better than the market, with an index of 148 (base 100 in 2010), while the index for the dollar group is a "mere" 133. Panama is also on a very positive dynamic, with an index of 135 in 2017. The others (Colombia and Ecuador) range between 112 and 118. Guatemala is in a race of its own, on a vertiginous development curve. Starting from scratch in 2012 (5 200 t), it sold some 113 000 t in 2017, i.e. a monstrous index of 3 409!

Besides the giants of the sector, we can note the reappearance of Nicaragua with 86 000 t in 2017 (+ 150 %), or Honduras with 18 000 t (+ 132 %) and the under-performance of Mexico at 64 500 t (- 11 %), while many thought that the origin would come to the fore very strongly. We need to bear in mind that whatever the status of these origins, major or minor, they all have development plans underway, especially through transnational initiatives, as in Nicaragua and Panama.

The initial data for 2018 show a Community market supply at particularly record levels: 1.2 million tonnes for Q1, i.e. 1 % growth. The rumour that the Central American zone would be in shortfall at the start of this year has been disproven. While Colombia had a big trough at the beginning of the year, this was not the case for Costa Rica. Furthermore, Ecuador had such big export volumes that it was readily able to offset the shortfall from its competitors.

We might also take the opportunity to take a closer look at the trade-offs made by these suppliers between the EU and USA. In 2017, Colombia continued to favour the EU, with 84 % of its total exports going to this economic zone. Ecuador, which of course has more than just these two catchment areas, sent 72 % of its supply to the EU, as opposed to just 60 % in 2016. Costa Rica meanwhile fell back to 55 %.

As regards regulations, practically all of the dollar supply was subject to a customs duty of 96 euros per tonne in 2017 (+ 1 euro for Ecuador), which fell to 82 euros in 2018 (+ 1 euro for Ecuador), and which will be reduced to 75 euros from 1 January 2020. Meanwhile, in the short or medium term, we wait to see whether these suppliers will ask for and receive zero duty ■

Stabilisation mechanism

Brand new system for sale, never used

The European monitoring system and stabilisation mechanism for the banana is like the road to hell: paved with good intentions. Yet that would mean attributing good intentions to the negotiators who came up with the European text in 2012. Given the set-up of the system, we might wonder whether it really was designed for any purpose!

Let's just reiterate the principle. The nine dollar origins involved (the so-called MFNs, according to their WTO status), which represent 100 % of the group's supply, each have an annual import threshold into the EU. A sort of maximum level above which preference suspensions (for example) might be taken against an overly greedy supplier. While the principle is clear, raising hopes upon the signature of the agreements, it is never applied, nor will it ever be. Hence the various over-supplies observed (every year for Peru since 2013, i.e. six times, three times for Guatemala and twice for Nicaragua) have made no difference. It is true that these are still for the moment minor origins, or origins developing a specific supply such as organic-Fairtrade. Worse, the system was designed to prevent the biggest suppliers (Ecuador, Costa Rica, Colombia, etc.) from being penalised. Indeed, and this is the root of the problem, the threshold (1) increases every year, and (2) was set very high from the outset, well above historic levels. Hence the guillotine is nothing more than a replica to look good in an international treaty. Other elements make the system inefficient, such as the analysis of import prices via Eurostat unit prices or wholesale prices alone. Both these figures are either false (Eurostat unit value), or unsuitable for analysing market disruption at the import stage (wholesale).

Rest easy good people, it's all under control. The mechanism will expire on 1 January 2020, only to be repackaged as an as-new mechanism, never used and still in its original box. Its only advantage, which it will absolutely need to retain after 2020, is the statistical monitoring developed in support of this mechanism and which could trigger the alarm signal, practically in real time, in case of market destabilisation over the coming years.

Banana - EU - Stabilisation mechanism
Unused import potential of the 9 pays signatory countries (Ecuador from 2017 only)
(in 000 tonnes / sources: Eurostat, CIRAD)