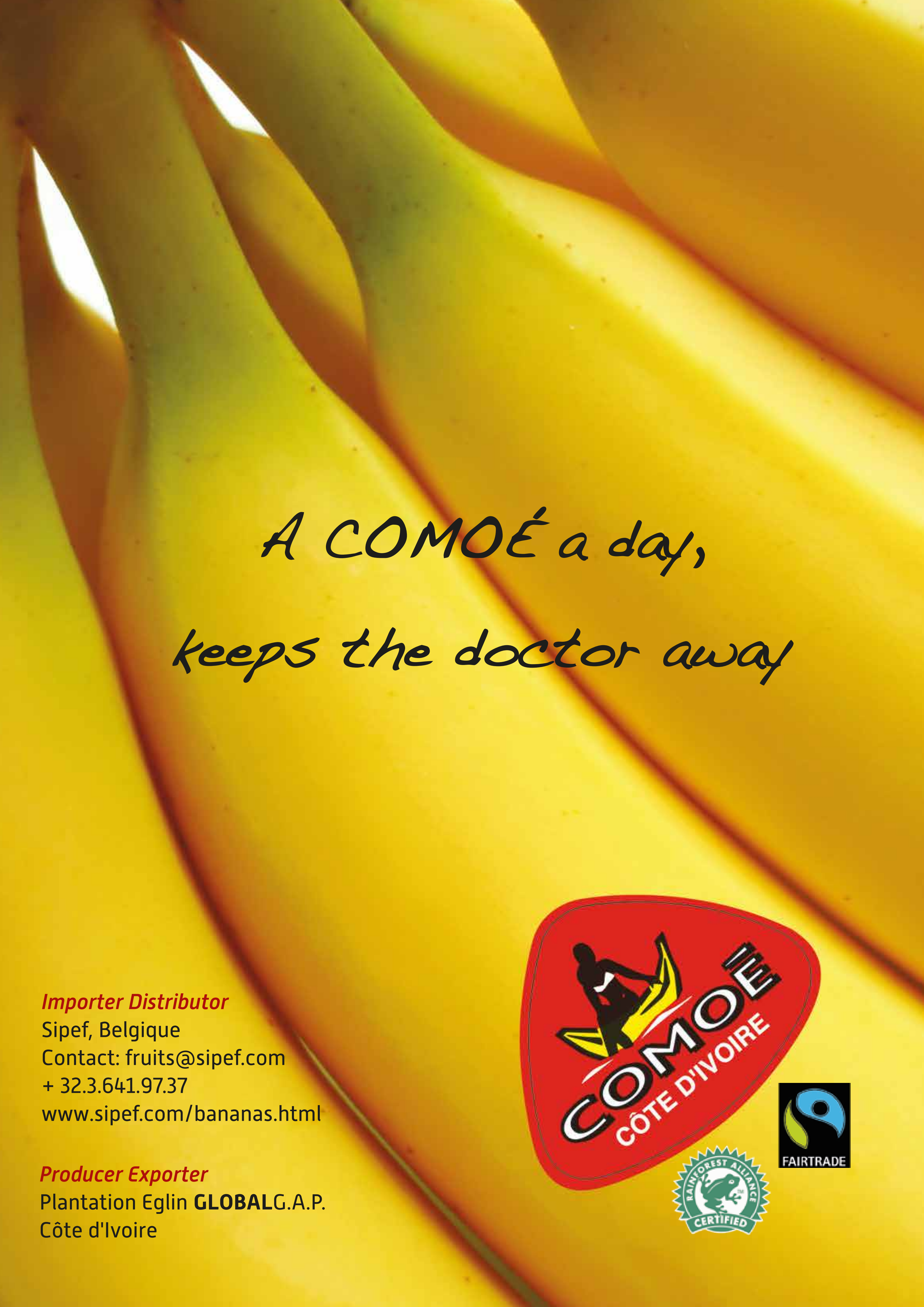
Banana
Word market in 2020

Depressed and depressing

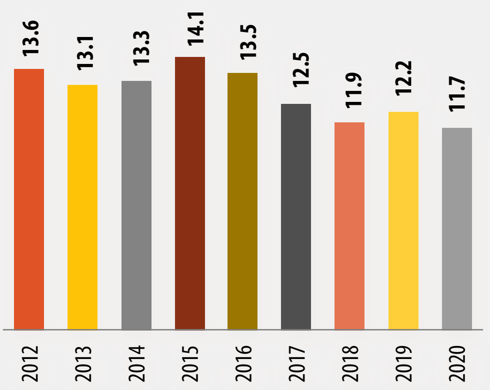
by **Denis Lœillet**, CIRAD
denis.loeillet@cirad.fr

While the health crisis is a human and economic catastrophe, the banana industry has drawn some advantages from it. And while there is a crisis in the industry, and in truth it is a deep one, the reasons for it need to be sought elsewhere. FruiTrop has been pointing them out for some years now, always with one constant: the world supply is increasing, and pushing down prices at all stages. So there is nothing much new under the sun. What remains to be understood is how the production industries will finance their development, but also the progress demanded by the downstream segment and consumers in terms of environmental and social issues.

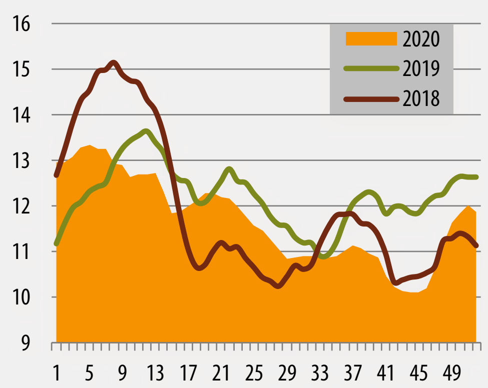
© Denis Lœillet


A COMOÉ a day,
keeps the doctor away
Importer Distributor
Sipef, Belgique
Contact: fruits@sipef.com
+ 32.3.641.97.37
www.sipef.com/bananas.html
Producer Exporter
Plantation Eglin **GLOBAL**G.A.P.
Côte d'Ivoire
COMOÉ
CÔTE D'IVOIRE
FAIRTRADE
RAINFOREST ALLIANCE
CERTIFIED

Banana - EU barometer - Import price
(in €/18.14-kg box | source: CIRAD-FruiTrop)



Banana - EU barometer - Weekly import price
(in €/18.14-kg box | source: CIRAD-FruiTrop)



While disruption is a fashionable concept, the disruption brought by the pandemic has nothing positive about it. The health crisis has turned our lives upside down, and very rarely in a good way. The general disruption 2020 was more like a short-circuit than a milestone towards a brighter future. China had other ideas… The effects of this crisis on the agricultural and food industries have been substantial, both for better and worse. The banana industry was no exception to the rule for the worse, with logistical malfunctions, additional costs throughout the chain (from plantations to distribution) and, of course, operational disruptions during the first weeks of the crisis. For the better, the fruit consolidated itself as a safe bet on many markets. But there we go, it was more than just the health crisis caused by China's gastronomic peculiarities (if that is actually how it happened…) that shook up the world banana market. In fact it was, as is often the case, an explosive mix of several factors which has put the banana market in its sick bed, or perhaps even its death bed.

Some of the factors explaining the very poor market conditions in 2020 are very well known, and nothing to do with the effects of the pandemic. The world dessert banana market is in a structural crisis, and the symptoms are clear: a rapid growth in exports, fuelled by just as quick an increase in world production potential. The world's excess supply was not withdrawn from the market to be destroyed, converted into pulp or livestock feed. It found its way onto the world market, leading to an ultra-classic fall in world prices for the dessert banana. Everyone is delighted at the increase in consumption, while also lamenting its main avatar: the drop in prices.


© Denis Loeillet

I peel good...

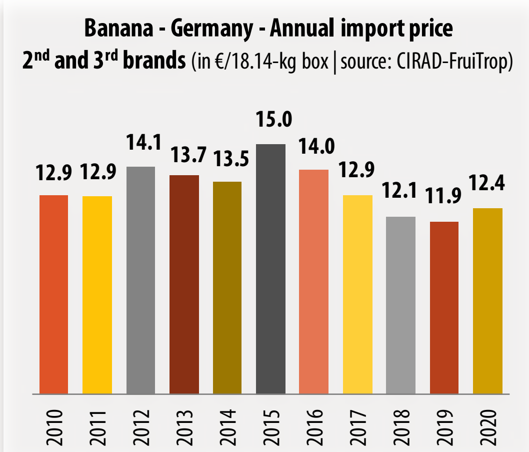
Nanananananana...so good !

GETTING THE MATURITY RIGHT IS QUITE AN ART!

Our bananas put a smile on our customers' faces all year round,
because we work every day to supply them with **the right product at the right time.**

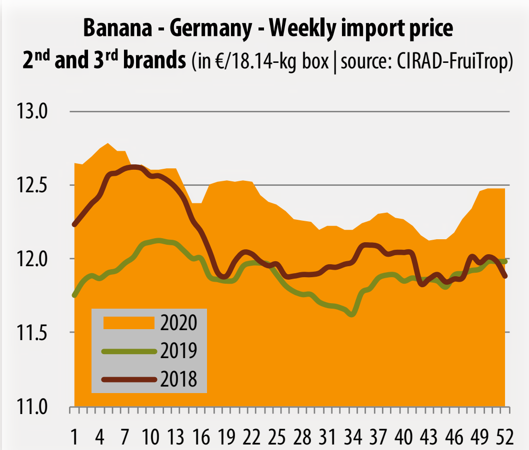
PACKED
WITH SATISFACTION

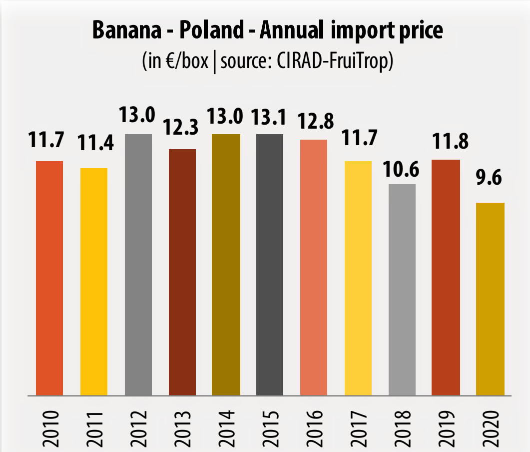
WWW.SOLYIMPORT.COM

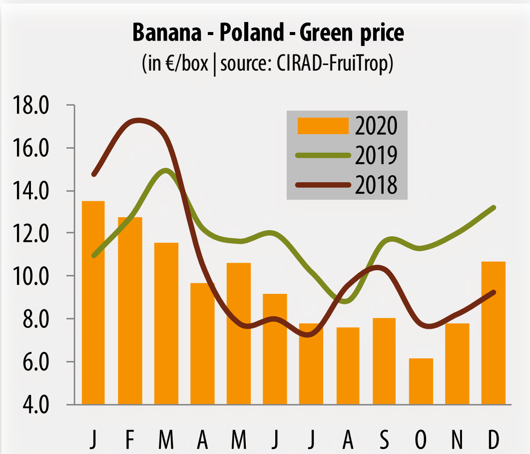


Hope quickly extinguished

If we put to one side the distorted evolution of the import price on the US market, for which we have only the most nebulous representation in the form of the spot price published by Sopisco – the conclusion is unavoidable: the world market is in the midst of a crisis. As proof of this, the Cirad-FruiTrop European barometer plummeted by €0.50, down to a historic low level, i.e. €11.7/box. The previous record low dated from just two years ago, in 2018, with a European import price of €11.9/box. Everyone thought at the time that the worst had passed. That at these price levels, no-one could make money any more. That we had gone a long way past the lower profitability threshold… That the most adventurous operators in terms of price would do their sums properly one day. That collectively, the downstream segment of the industry would finally understand that, yes, import dessert banana consumption was on the increase worldwide, but that this was being accompanied by a dangerous, indeed suicidal fall in prices. That given the highly attractive retail prices, there were other less destructive approaches for the industry to take than simply playing on the price. The slight bounce-back in 2019 revealed a glimpse, albeit to the most optimistic, of hope for reconstruction. But this was quickly extinguished.







Between a rock and a hard place

If we look at week-on-week evolution of import price in Europe, the world's number one import market with more than 5.9 million tonnes (and 6.5 for total consumption), the hardened optimists got it right twice in 2020. Once at the very start of the year, with five weeks of satisfactory prices, and the same thing at the very end of the year for another five weeks or so. Which leaves the other 43 weeks when the market had to choose between cutbacks or depression.

Here is another indicator of the despair in which the European market finds itself: prices only rose above the three-year average for a modest six weeks, i.e. at the very start and very end of summer. For example, in week 15, before 2020 the price had never dropped below €12/box. It only just avoided dropping below €10/box in week 45. This oh so symbolic mark was avoided by just €0.07.

The European barometer of course conceals a wide variety of situations. In Poland for example, which has the particularity of providing the lowest point at any given moment, the import price fell to €5.8/box, precisely the minimum official price in Ecuador, which is set at the plantation stage! It is easy to imagine that with an average like that, some batches actually had no value, or barely covered the destruction costs. The average annual import price in Poland also set a record low of €9.6/box, i.e. €2 less than in 2019. At these levels, everyone would doubtless have signed up to the 2018 level, which at the time appeared scandalously low at €10.6/box.

Weekly banana market report

Comprehensive and relevant European market monitoring

- **Production trends**
- **Detailed review of the main European markets**
- **Detailed import prices for each market**
- **Supply levels**

Annual subscription price: €3 000 pre-VAT

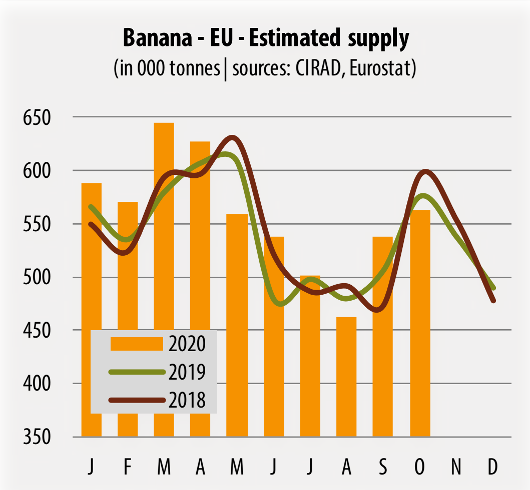
(approx. 48 editions per year)

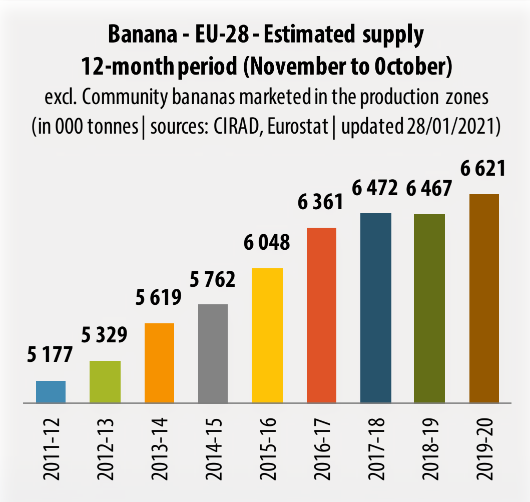
E-mailed out on Thursdays

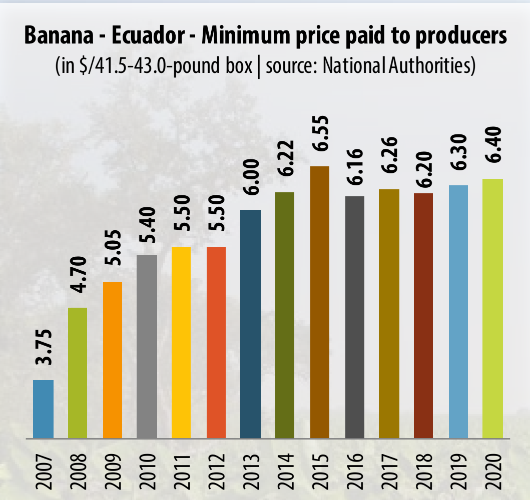
Contact: info@fruitrop.com

or www.fruitrop.com/en/ciradshop/subscribe

FRuiTROP weekly







There will be no miracle

In early 2020, following on from what I dubbed a miraculous 2019 (FruiTrop no.267, January 2020), the banana world breathed easier. The German discount stores left their knives under the table, and the excellent end to 2019 got the new year off to a perfect start. The consumption trend in Asia, and more especially in China, helped absorb some of the increase in the world production potential. The dollar and euro returned to decent parity levels of around $1.10 to €1. The annual German contract price even regained some ground, slightly invigorated by a calmer 2019. Volatility fell, thereby making the market more predictable. In short, the scene set was fuelling hope.

But that was forgetting too soon the devastating effect of a constantly increasing world supply. We should recall that between 2011 and 2019, the consumption of the world's top 5 markets (EU28, North America, Russia, China and Japan) grew by 3.5 million tonnes, a staggering rise of 28 %! Looking at these figures, we would think it was a high-tech market. True, growth did register a hiatus in 2019, except in China and Japan. And since the world banana market is definitely a supply market, it was Asia's absorption capacity which enabled world rates to recover (see FruiTrop no.269, pages 56 et seq.). With lower volume pressure in Europe, rates automatically took an upturn. So the equation was dramatically simple.

Except that dollar banana pressure kept on rising in the meantime. The initial 2020 figures for the big four Central American markets revealed a surge of 630 000 tonnes in exports, i.e. an annual growth rate of 5 %. It was a good job that Guatemala saw a small downturn in 2020.

So in 2020, the supply pressure climbed another notch on the import markets, especially on markets with little or no regulation, and therefore highly sensitive to the world supply level. Russia provides an excellent example of this chain reaction. According to the latest estimates, the Russian market imported more than 77 million boxes in 2020, thereby equalling the absolute record from 2018. Consequently, the import price collapsed more than ever, going from $13.6/box CIF St. Petersburg in 2019 to just $10.7 in 2020, a 21 % fall. The rouble's tumble against the dollar restricted the fall in local currency terms to "just" 12 %.


© Jean-Marc Deboin

The dollar as a booster

So for the EU28, the import price came undone by €0.50, dropping to €11.7/box. Regarding consumption volumes, the data as at November 2020 (source: Taxud) revealed an increase in imports of around 4 %, with a big surge by the dollar banana (+ 6 %), and a downturn by the ACP banana (- 6 %). QED – it is the dollar supply which makes the market. This is no scoop, with every year further confirming the dollarization of both the European and world markets.

In this context the consumption dynamic is only the result of upstream pressure forcing its way through, regardless of price. It is actually even more concerning than that. There is a monetary factor loading the dice, namely the exchange rate effect. For an Ecuadorian, selling in euros and producing in dollars has only advantages. A quick calculation shows that, all other things being equal (especially production cost increases), the dollar origins are taking full advantage of the rise in the European currency. Over the long term (2006 to 2020), the revenue in local currency of a Colombian exporter selling in euros went from an index of 100 in 2006 to 191 in 2020! For the sake of completeness, the strong euro is not the only factor. We must also take into account, depending on the local currency's variation against the euro, the continuous fall in European Customs duty. And given the intensity of the reduction in duty (from €176 to €75 over this period), even paid in a strong currency (euros), it is the dollar origins in every case which get the advantage. For example, for Ecuador, the duty calculated in dollars on each kilo of bananas imported into the EU has been more than halved.

Hence a strong euro and falling customs duty have changed the hand. A contract signed at €11.30/box becomes practically $14 at the current exchange rate ($1.23 per euro at the beginning of January 2021). You will realise that the fall capacity of the dollar zone price is still unfortunately practically intact! You will also realise that at these price levels, the other producers, especially the European ones who produce in euros, and the ACP producers (Côte d'Ivoire and Cameroon) who produce in CFA (fixed parity with the euro), are grounded. They are fully exposed to the market's fall in euros, with only some "compensation", on the part of their cost structure which is dollarized.

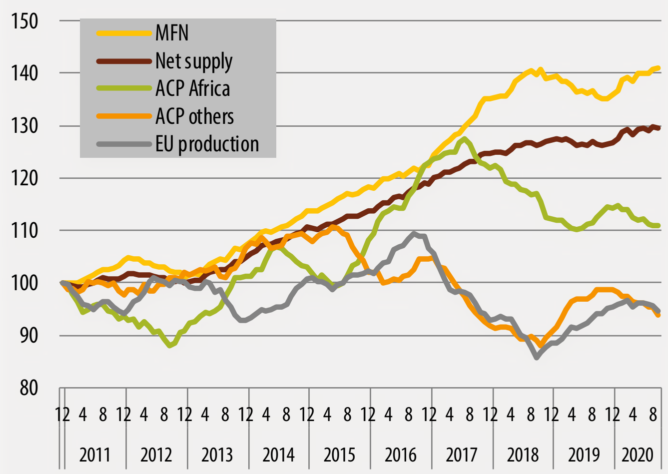
© Brigitte Pogam

Banana – Total exports

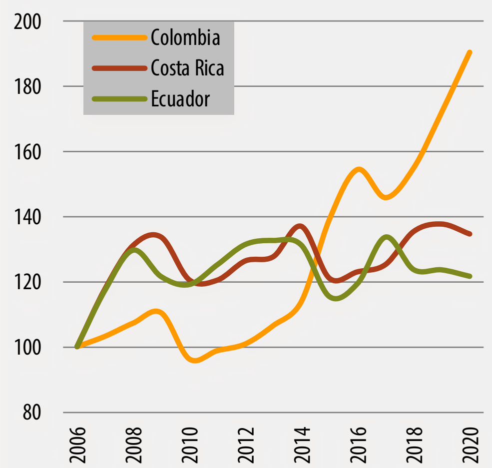
in million boxes	2018	2019	2020	2020 / 2019 in million boxes	2020 / 2019 in %
Ecuador	341	349	370	+ 21	+ 6 %
Colombia	96	99	105	+ 6	+ 6 %
Guatemala	112	117	115	- 2	- 2 %
Costa Rica*	125	119	128	+ 9	+ 8 %
Total	**674**	**684**	**718**	**+ 34**	**+ 5 %**

* extrapolated from exports as at week 44
Professional sources

Banana - EU-28 - Supply on a 12-month sliding basis
(Index 100 = year 2010 | source: CIRAD-FruiTrop)



Banana - Europe - Import price less Customs tariff (local currency) (index 100 = 2006 | source: CIRAD-FruiTrop)

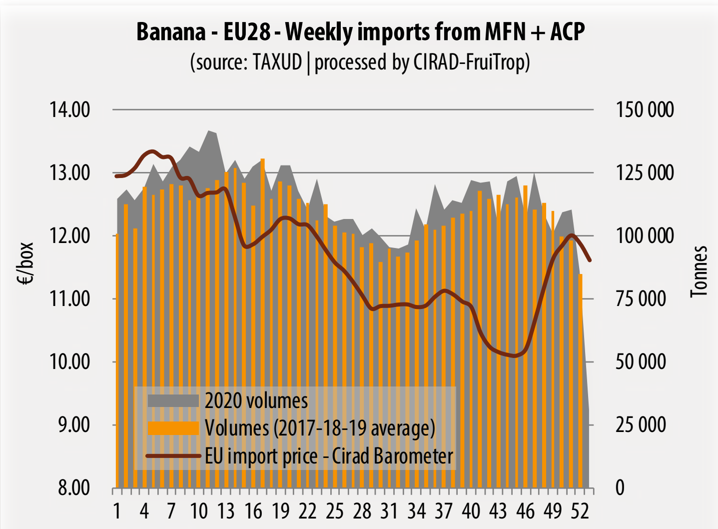


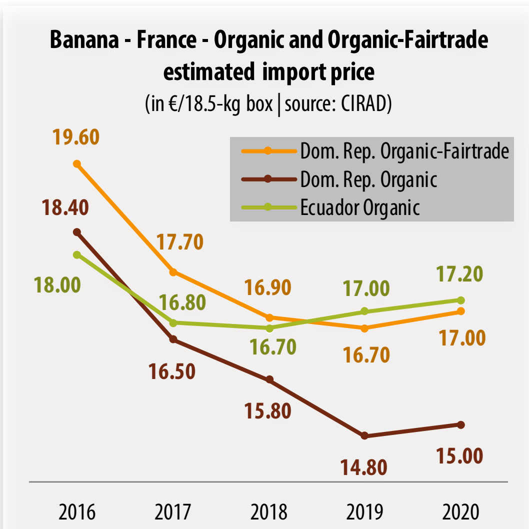
Again, it could have been much worse!

The health disruption without doubt saved the market. It seems a bit disconcerting to be writing this, but it must be acknowledged that the crisis – which is not yet over – has boosted banana sales. It has to be said that the banana is very much the ideal product for a health crisis: a staple of the fresh fruit section, easily storable (this comes from opinion polls), potentially safe (as protected by its skin), handy, universal (all age segments) and of course, very cheap. While the shutdown of the out-of-home sector (primarily schools and business canteens) put a stop to one outlet, home consumption largely took over. This is what appears to be the case at any rate if we look at the weekly import figures. From the partial data for 2020, we can note that 35 of the 49 weeks recorded a rise in imports compared to 2019, of practically 200 000 tonnes.

So we avoided the worst, since how would the European market price have gone without the first lockdown which boosted demand? A market on which the operators did not have this pressing desire to reduce the range of fresh fruits, especially during the first wave in March, to focus on the section staples, of which the banana is one, alongside citruses and the apple. This provides further proof for those, doubtless few and far between now, who still believe that demand drives the market. Yes it does drive it, but downwards in terms of remuneration. A lot more bananas were sold, but at ever lower prices. Imagine the catastrophic scenario if the health crisis had not given the banana this image boost!

Furthermore, the spring time and early autumn in Europe definitely revealed the true nature and therefore the true foundations of this over-supplied market. Since there was no let-up in the primarily dollar banana surge. It actually intensified, and prices definitely came undone. We had to wait until early November for the supply pressure to fall, when the sky fell in on the heads of the banana zones of Nicaragua, Honduras, Guatemala, Belize and also Mexico (cyclones ETA and IOTA https://lc.cx/n5H6-R_eW). The emergency was such that in a collective rush, several big traditional suppliers (or even exclusive suppliers) to the US market unilaterally triggered the Act of God clause, which enabled them to raise contract prices, in a range going from $1.76 to $2/box! We need to go back to 2008 and 2011 for the last times this Act of God clause was triggered.



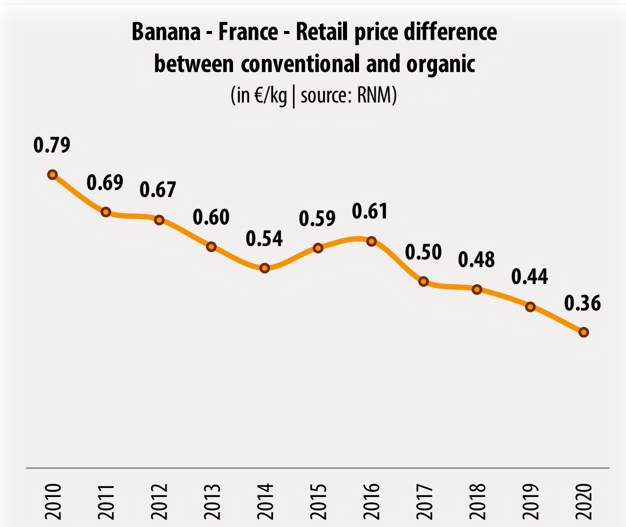


Catastrophe which came too late

It was the effect of the announcement of the transit of two cyclones during the 2021 price negotiations between the upstream and downstream segments that managed to quieten a little, and only for a time, the German discounters' desire for reductions, especially Aldi. The latter unilaterally announced at the end of October a price of €11.33/box. As one, and via the press (4 November 2020), the dollar production sector rose up against a price deemed crazily low. Except that at the risk of causing shock, it has to be said that all the downstream segment did was numerically express the deterioration of the world market, responsibility for which according to many is down to the dollar producers, who themselves blame the distributors. The charge is being fuelled by operators in Ecuador, Guatemala, Colombia and also Costa Rica, which are accusing each other of collapsing the market through unbridled growth of their supply. Finally, according to certain European sources, most contracts were signed very late at between €11.3 and €11.8/box.

This downward pressure also reveals an anachronism with the situation in the USA. As we have seen, the traditional operators on this market raised their bill to the distributors to $2/box for economic reasons. They claim that their supply will be more expensive since their own Central American plantations will have a shortfall of hundreds of thousands of boxes per week – and for a period difficult to evaluate, of at least half a year. The most pessimistic estimates imagined up to 1 million crates, while now we are talking about half a million.

If we want to find a link between the behaviour of price in the USA and in Europe, Alistair Smith, in his excellent analysis published on the Bananalink site (https://www.bananalink.org.uk/blog/blog-big-banana-brands-playing-into-the-hands-of-big-european-retail/), wonders whether the additional cost in the USA is ultimately financing highly aggressive price positioning in Europe. While US distributors' prices are raised, the European distributors are getting their way, whatever the costs might be in economic, social and environmental terms.



Not sustainable but long-lasting … for some

With a view to putting together a highly sustainable supply, we might also be concerned at the behaviour of the traders and distributors, who can bring themselves to talk about nothing but price in their negotiations with the downstream segment. This is of course easier said than done, but the sheep-like behaviour of an entire sector leads unavoidably to a deterioration in the product's face value, while its intrinsic value (economic, social and environmental) has in many cases increased.

The requirements of the downstream segment and consumers in social and environmental terms are constantly increasing. The decisions of the Rain Forest Alliance label, but also the FairTrade label, unilateral according to producers, to impose payment of a living wage for labourers on plantations applying for this precious brand, are only one of many possible ways to respond to the market. The recent declaration by the ABNB (Action alliance for sustainable banana – bringing together NGOs, certifiers and industry operators in Germany) shows that sustainability concerns are increasingly at the heart of discussions between stakeholders.

The theme of carbon footprint too has been on the rise for some time. It can now indeed be expressed via "Carbon neutral" certification (e.g. Costa Rica). We can also mention increasingly frequent use of environmental assessment via Life Cycle Analysis methodology (LCA).

There is also an economic tool. The value in use needs to be increasingly high to attract the consumer. It is expressed through very different segmentations: labels such as organic or Fairtrade, promoting the origin, which speaks to domestic consumers – such as in Spain for the Canaries, or in France with the French West Indies – but also practicality, with shelves invaded by 5-finger ribbon-wrapped bananas for example. The problem is that these attributes, these values in use, are increasingly losing value in comparison to the generic conventional banana. This is the case with the organic banana, which is certainly suffering the full effects of the law of diminishing returns. Yet the big novelty, in particular due to the Covid effect, has been the ribbon-wrapped banana bursting onto fruit shelves. They are a real cash cow for the distributors: sold without weighing, so handy for the consumer, no mark-down, reduced losses, etc. Except that now it is one of the most hard-fought ranges in terms of price between suppliers and distributors, bearing in mind that the costs are borne by the suppliers. The suppliers' move upmarket has in a way been turned against them.

Mancozeb: the end is nigh

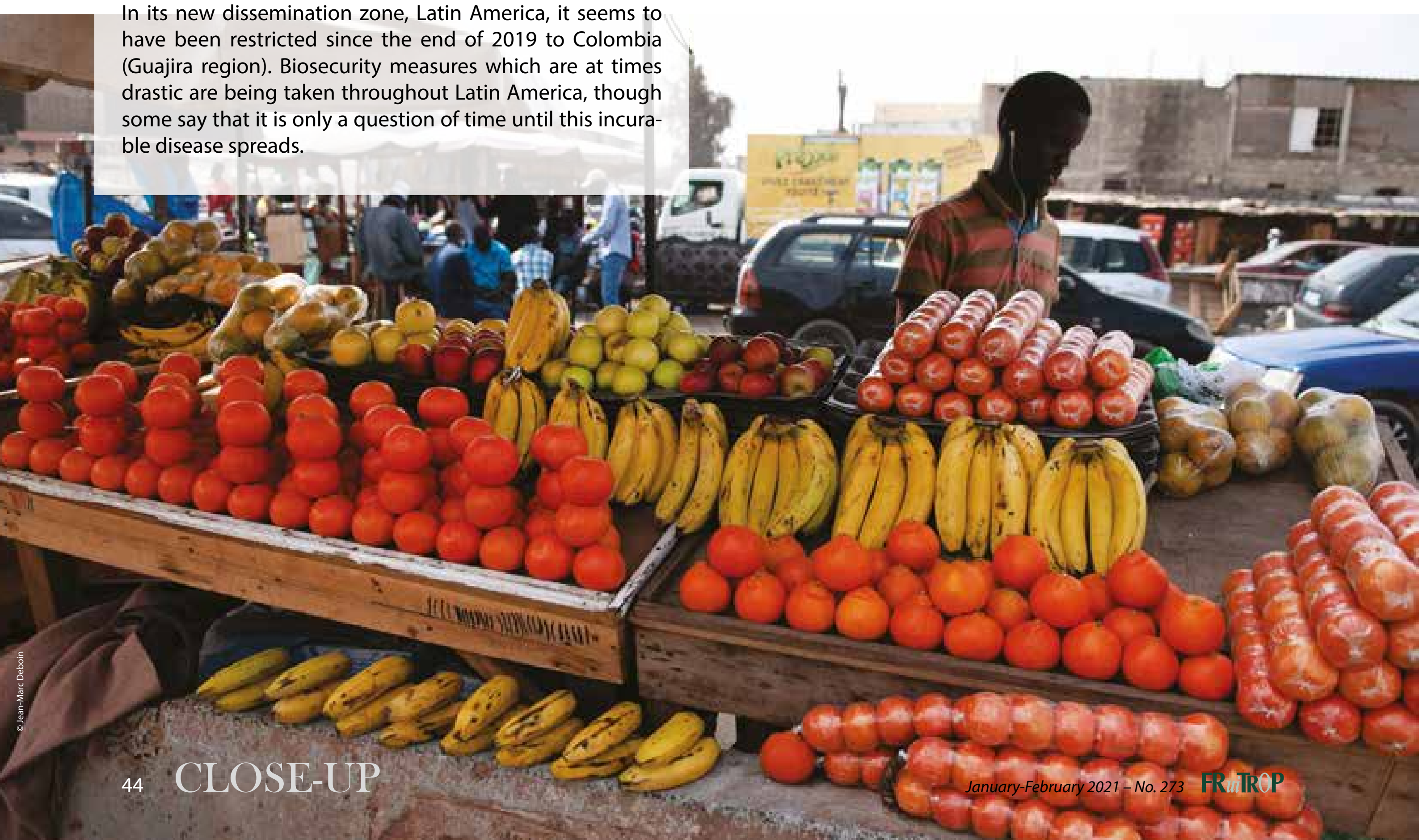
The authorities are also getting involved in reducing pesticide residues on imports into Europe, and therefore de facto, in reducing or even halting the use of certain phytosanitary products at the production stage. This is the case with mancozeb, a pesticide classified among other things as an endocrine disruptor, used in high doses to control banana black sigatoka, especially in Central America. Widely employed in Europe, in particular on the potato and other vegetables, arboriculture and wine growing, a ban is in the process of being imposed (by January 2022). This ban will be extended to imports (in terms of residue), since the authorised maximum residue limit will drop to the detection threshold, i.e. 0.01 mg/kg. This new import constraint will have consequences on spreading frequencies and doses in certain production zones, and therefore on disease control. The impact could be felt through a fall in productivity, and even fruit quality (link established between black sigatoka and green or yellow lifetime). The debate has not been completely settled, since unlike European producers, third-country producers have a worldwide phytopharmaceutical kit at their disposal, from which they could pull out substitute products. The question is whether these will have the same effectiveness as mancozeb – some are highly doubtful about this. For European, and in particular French producers, the public regulator wants to reduce even further the number of authorised triazole applications. Other players involved in cutting down the pesticides usable are the distributors, which are for example asking producers to increasingly refrain from phytopharmaceutical specialities aimed at controlling post-harvest diseases.

And then, it is not just the market or regulators which set rules, nature also imposes its choices… or rather its constraints, with for example additional costs due to measures to prevent the spread of tropical race 4 (TR4) fusarium wilt. In its new dissemination zone, Latin America, it seems to have been restricted since the end of 2019 to Colombia (Guajira region). Biosecurity measures which are at times drastic are being taken throughout Latin America, though some say that it is only a question of time until this incurable disease spreads.

An inevitable paradigm shift, but for the moment circumvented

The constraint frameworks are hardening in agronomic, economic, social and environmental terms, leading ultimately to increased costs and lower productivity or reduced commercial potential. On the other hand, we can see that the market destroys value, at least in euros (see value destruction article). The question arises of how to finance progress in this industry. As the economists say, the terms of trade are deteriorating, and it is no longer very clear who will benefit in the long term, since the strategies are lose-lose.

The world industry is still working on the same old trilogy: monovarietal, monoculture and input-intensive. Some are banking on the system continuing into the long term, without running out of steam. Others believe that the industry is a very long way from achieving minimum sustainability levels. That in the long term we will need to implement a wide range of agro-ecological solutions already tested and validated in certain production zones, apply varietal mixing (resistant or tolerant hybrids), introduce trees into production systems to make them more resilient and in so doing generate diversification industries, develop circular economy loops (livestock – cover plants – organic manure), increase wages and improve the living conditions of the most vulnerable, work on the link between the export industries and the local production areas, reduce the carbon footprint, etc. If I began this article with negative disruption, imposed by Covid, I will finish it with this concept of positive disruption, which will mean the industries finally undergoing a paradigm shift, to put themselves back on the road to a brighter future ■



© Jean-Marc Deboin

World Musa Alliance (WMA) :
in the starting-blocks

The arrival of tropical race 4 fusarium wilt in Colombia in August 2019 went down in the banana world like an electric shock: in the absence of any treatment to control it, the disease poses a risk of breakdown for contaminated zones. There are preventive measures, which are essential for the future of production. Yet the fact remains that more sustainable solutions will need to be found in the long term. As with other crops, the varietal route should be among those favoured. Genetic improvement of banana plants is however a highly complex business given its biology (for example, sterility of species cultivated for international trade), and also the very low investment in research and development enjoyed by the banana. The route of non-conventional improvement, via genome editing, represents an opportunity, though European regulations classify this route as GMO, and the reputational risk among consumers should not be ignored.

So are we in a deadlock? While genetic improvement by conventional cross-breeding is difficult, knowledge and experience have progressed in recent years, and resistant varieties have been obtained. The challenge is now to bring together in these new varieties resistance to TR4, but also to other diseases, and in particular black sigatoka, while retaining very good agronomic and technological qualities (transportability and preservability of the fruit in particular, and taste quality). One of the conditions for addressing this challenge very probably lies in the ability to create an agile innovation dynamic, bringing together the industry and research players. This is the strategy proposed by the World Musa Alliance initiative (WMA).

This initiative proposes organising precompetitive research & development, by bringing together the means and know-how of the private operators of the banana industries with those of the research teams, with the aim of creating and selecting dessert banana varieties resistant to TR4 and other diseases. The operational phase of the project will begin in the 2nd half of 2021. The founding members of WMA will test on a multi-location basis a set of varieties already available, usings the Cirad creation and selection platform (Guadeloupe). Some of these varieties have already shown a good response in particular to TR4 (Australian bananas, no.59, August 2020, pages 20 et seq.). So watch this space…

CONTACT:

denis.loeillet@cirad.fr

Tel. 33 6 76 21 13 18

Banana and Plantain Industry Correspondent
CIRAD
TA B26/C
34398 MONTPELLIER CEDEX 5
France