

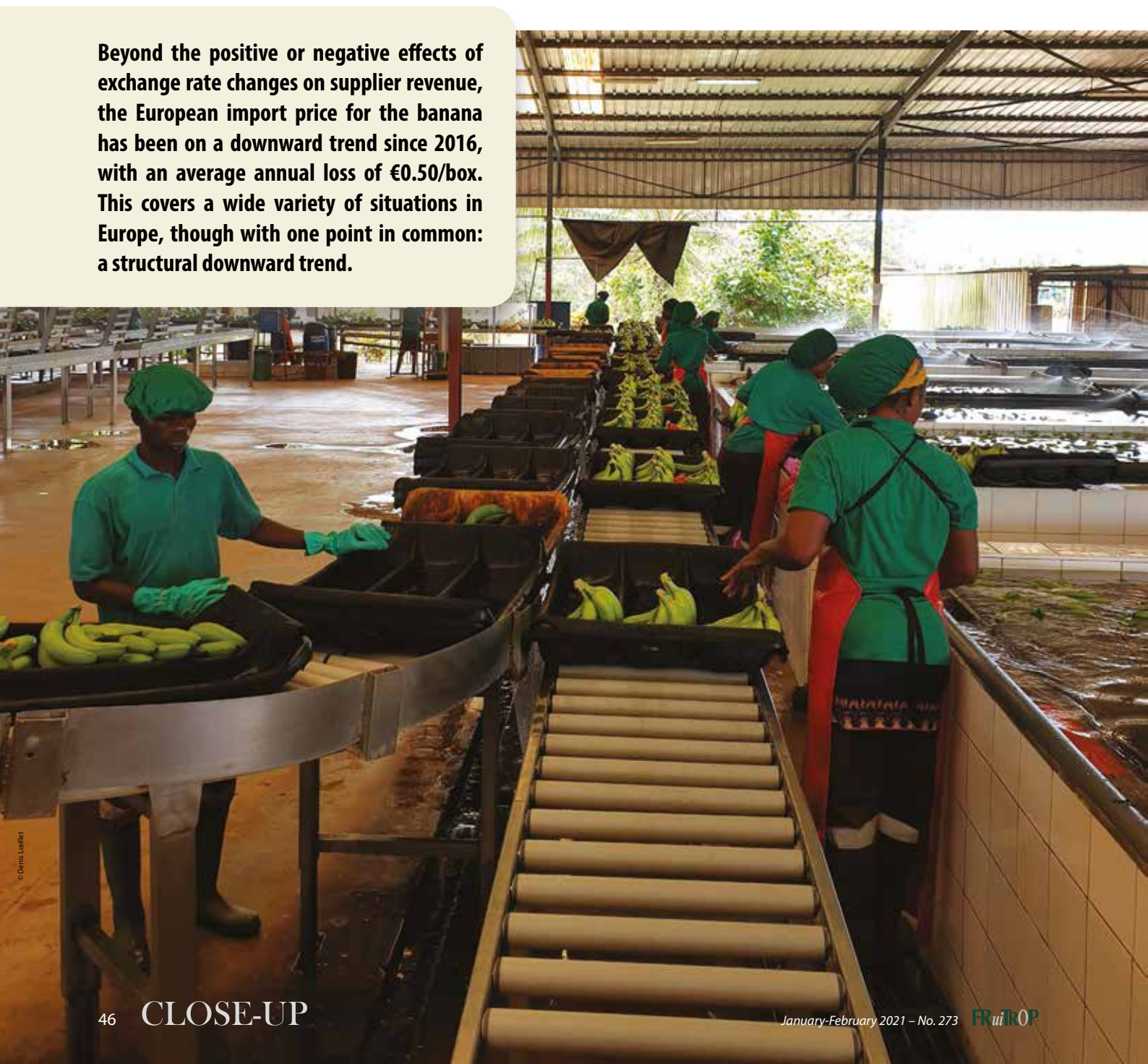
Banana

Destruction of value

No limit

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

Beyond the positive or negative effects of exchange rate changes on supplier revenue, the European import price for the banana has been on a downward trend since 2016, with an average annual loss of €0.50/box. This covers a wide variety of situations in Europe, though with one point in common: a structural downward trend.





Tissue culture production of tropical fruit plants
Your banana tissue culture plant specialist



A unique range of elite varieties

What we promise you

- The most productive selected elite varieties
- Prime bunch quality
- Optimum homogeneity in the field
- The best sanitary guarantees of the market
- Unequaled responsiveness

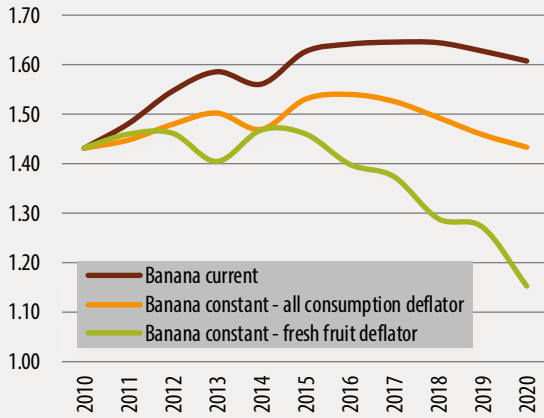


Tel: +33 (0)4 67 55 34 58
Fax: +33 (0)4 67 55 23 05
vitropic@vitropic.fr

ZAE des Avants
34270 Saint Mathieu de Tréviérs
FRANCE
www.vitropic.fr

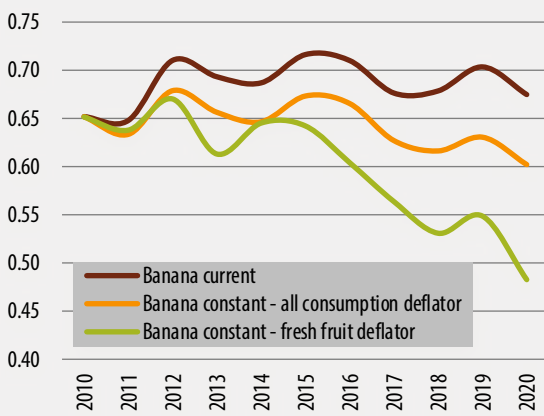


Banana - France - Retail price on a current and constant basis (in €/kg | sources: CIRAD, INSEE)



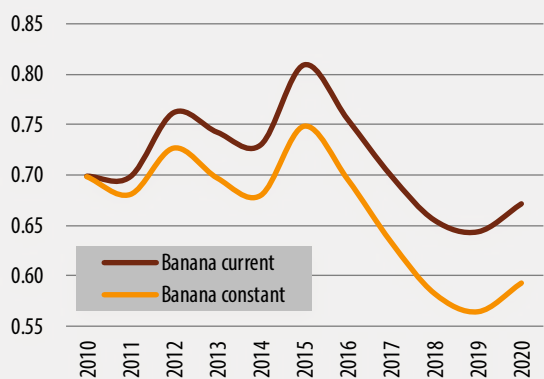
Note: "all consumption" and "fresh fruit" deflators

Banana - France - Import price on a current and constant basis (in €/kg | sources: CIRAD, INSEE)



Note: "all consumption" and "fresh fruit" deflators

Banana - Germany Import price on a current and constant basis (in €/kg | sources: CIRAD, inflation.eu)



Note: "all consumption" deflator

The databases of Cirad's Markets and Innovations News Service (ODMi) provide us with the means to conduct a long-term study of how import and retail prices are behaving on a current euro basis, and even more interestingly, on a constant euro basis. While European governments are currently in a state at the near-deflation of their economies, it makes sense to look at whether, over a decade, purchasing power from selling a kilo of bananas has increased or not, and whether the value derived from selling a kilo of bananas has followed the same evolution as competing fresh fruits.

This is the evaluation that we conduct every year for France, using the annual average import price into France, and two deflators at our disposal (source: Insee), which are the general evolution ("all goods and services") and specific evolution ("fresh fruit") of consumer prices.

The findings are indisputable. The purchasing power of a kilo of bananas at the import stage, or more simply the value of a kilo of green bananas, has constantly decreased since 2015. The bounce-back in 2019 was as fleeting as it was fragile. Between 2015 and 2020, prices went down by 8 % on a constant euro basis with the "all" deflator, and collapsed by 26 % with the "fresh fruits" deflator. The banana is being devalued both in the average French shopping basket, and even faster in relation to its fresh fruit section competitors.

The same analysis on import prices into Germany, but limited to the general inflation rate (source: www.inflation.eu), confirms this downward price trend.



© Jean-Marc Daboin

The banana's appeal is detrimental to its value

What about the retail stage? The same approach reveals a different behaviour, to say the least. Indeed the retail price in France since 2015 (source: RNM) has remained stable on a current euro basis (between €1.60 and €1.65/kg), after gaining approximately €0.20 between 2010 and 2015. On a constant euro basis, we can note a fall from 2015 onwards, though without returning to its 2010 level. In relation to the general inflation rate, the distributors have maintained the product value for their benefit. The situation is very different if we apply the "fresh fruits" inflation rate. In this instance, the situation for the banana has deteriorated in a big way, with a collapse in its constant value of 20 %. A banana sold in 2020 costs on average €1.15/kg expressed in 2010 value, i.e. practically €0.30 less than in 2010. We might easily conclude that the appeal of the fresh fruits section is driven at least by the banana segment, which distributors have made their warhorse.

Finally, if we plot the constant prices ("fresh fruits" deflator) at the import and retail stages of the industry, we get a straight-line regression curve! There is a definite correlation (very high prediction quality). But correlation does not mean causality. Knowing the market mechanisms, the price setting method (often by contract), the supply pressure, the strong negotiating power of the European distribution sector, the banana reference spearheading a store's appeal,

etc., we might conclude that it is the retailer which is imposing the price reduction on the importer, rather than the other way round.

It is worrying overall for the industry to see its product used as a mere foil. And there are justified fears of the infernal cycle getting established before long, since with the help of the health crisis, consumers will continue to focus on a food with an unbeatable quality-price ratio. The difficulties encountered by certain big distribution groups, especially in France, will also contribute to bring down the price of such as iconic product. This means a redoubling of efforts to attract consumers. Finally, we have seen in the recent negotiations a re-consolidation and re-centralisation of banana purchases for some of the big distributors, via a Europe-wide bureau, to add a little more weight to the negotiations.

So the conclusion is indisputable, and it is unclear how the industry will recreate value to distribute it fairly. This is one of the core themes of many national or international organisations. The World Banana Forum, in collaboration with Cirad and "Cabinet Basic", has just launched an initiative of this sort, in an attempt to set up "The Observatory on the costs of sustainable production and the distribution of value". The initial results are expected by the end of 2021 ■

