

Banana

European market in 2021

And yet it moves...

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The European contract price has seen a really considerable increase in 2022. This is cause for celebration, since it has been on a distinctly downward curve since 2015. However this revaluation is an illusion, as it is objectively only the consequence of spiralling prices for practically all the production factors. Hence we should not see therein any paradigm shift, with all the operators banded together to halt the assault on added value. No, the revolution is not happening today, or tomorrow, or doubtless the day after. It is true that while the industry is still moving for most operators and origins, it is ultimately maybe worth waiting for.

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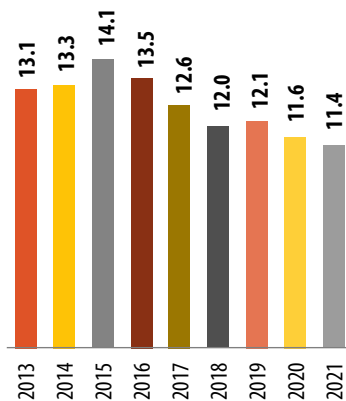


The word “blasé”, in its original French meaning, can be defined as follows: rendered insensitive and indifferent to excitement and pleasures. This definition is perfectly suited to the world banana market, and more particularly the European one. In both its EU27 and EU28 incarnations, the world’s leading import market has settled into chronic depression and debilitation. Upon the closure of the annual accounts, the only suspense is to see whether the balances will show whether there is any remaining potential for a further drop in European import prices, or whether the carnage has finally stopped. In other words, the only eagerly anticipated point is to find out whether the market was able to remunerate its players even less well than the previous year. Such morbid excitement!

Blasé is certainly the word, since there seems to be no limit to the price fall. There is even some resignation at witnessing the destruction of added value, with the scenario already written and familiar to all. In a world where there is no longer any regulation by public authority, neo-liberal economic processes are taking the place of the law. It is supply which influences market price, which for decades has deemed the banana to be a staple, i.e. cheap product, and therefore a value marker for the distribution chains. “The banana isn’t quite free, but it’s still cheap,” as one operator quipped. The huge success of the banana in terms of household penetration rate, for example in Europe, is ultimately a curse. The banana is tagged cheap to bring in customers. Especially since recently, protecting their purchasing power has returned to the very top of Europeans’ concerns. The fall guy is, and will continue to be, the banana.

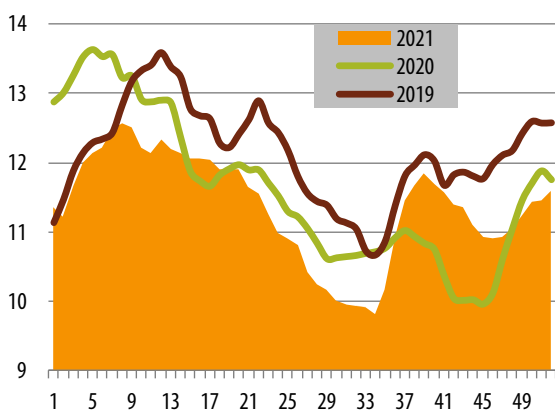
Banana - EU barometer - Import price

(in €/18.14-kg box | source: CIRAD-FruiTrop)



Banana - EU barometer - Weekly import price

(in €/18.14-kg box | source: CIRAD-FruiTrop)



A wretched record

But let’s look back in detail at how the 2021 campaign went. Unsurprisingly, the European price (Cirad reference) once again reached a low of €11.4/box, i.e. down by 2 % or 30 eurocents per box from 2020. Since 2015 – the high point of European import prices over the past decade – it has lost €2.7/box, collapsing by 20 %. We thought that the basement level of €12/box, which held up between 2018 and 2019, marked the limit between the possible and impossible in economic terms... but no way! Impossible is nothing, for the banana! Every year, the certainties tumble.

Let’s take for example the price evolution curve on a weekly basis. Between weeks 31 and 34, the Cirad barometer dropped below €10/box. We need to go back ten years (weeks 23 to 31 of 2011) to find such a catastrophic level. The 2021 campaign was also marked by a summer crisis which followed a flat period throughout the 1st half-year, which determines the commercial success, or otherwise, of the entire year. Profits are made over the first part of the year, and then it’s a case of damage limitation until the end of the year. That’s how the market works. In 2021, while the price took four weeks to hoist itself up to barely €12, this modest rise halted, with fluctuation between €12 and €12.5 until week 17. Thereafter it plummeted straight through the €12 mark down to an incredible level of €9.8 in week 34! It made a quick bounce-back, but very moderate in scale, approaching €12 in week 39, before ending the year on an average of €11.3.

Other indicators perfectly describe the market as resigned to live in a state of permanent crisis. Let’s take volatility, estimated in this case by the mean deviation over 52 weeks between the highest and lowest price. With €2.75/box, it is the worst level ever reached since Cirad has recorded the European price, i.e. a decade.



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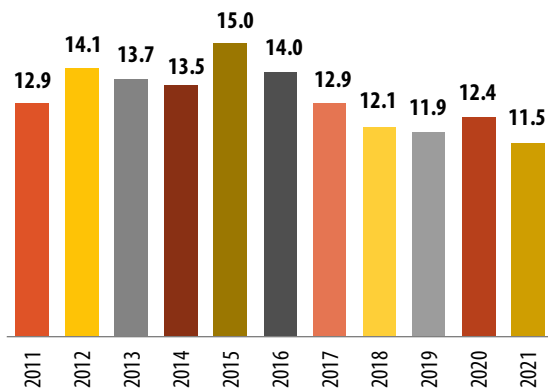
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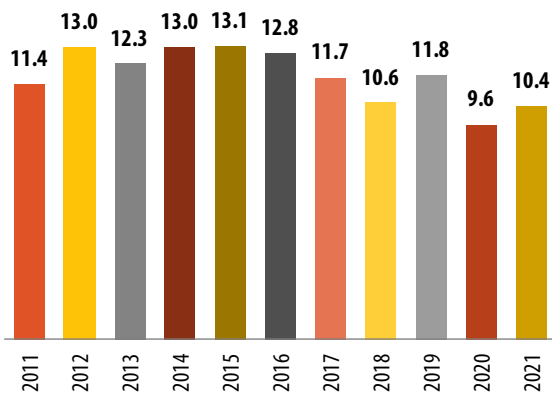
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Banana - Germany - Annual import price - 2nd and 3rd brands
(in €/18.14-kg box | source: CIRAD-FruiTrop)



Banana - Poland - Annual import price
(in €/box | source: CIRAD-FruiTrop)



Signs of morbidity

In economics, the fact that a market is somewhat predictable in terms of price evolution is the mark of two completely opposite profiles. A profile of products with a perfectly controlled supply, and whose price is influenced by the degree of rarity. This is clearly the case for luxury products or certain electronic brands, but also products perceived as essential for the shelves, such as certain sodas, or even administratively managed products which are subject to quotas, restrictions, etc. The other, less rosy profile, is that of commoditised markets, where supply is not a limiting factor. Unfortunately it is all too clear to which profile the banana belongs. Since while for the former, it is the upstream segment which has weight in the negotiations, for the latter it is the downstream segment that sets the rules of the game.

Since deregulation of the European market, now practically complete, the world supply has reached its full expression, especially into Europe. The end of the quota-based management of the European market switched the power from upstream to downstream, in a context of growing supply pressure. Between 2013 and 2020, the total exports across all destinations from Ecuador, Costa Rica, Guatemala and Colombia went from 517 to 719 million boxes. And 2021 should confirm the trend. Colombia and Costa Rica have announced a growth rate of at least 3 %; Ecuador is reckoning on 1 %, although a historic record has already been set. Even Guatemala, hard hit by cyclones Eta and Iota in late 2020, has made up its shortfall, and has already surpassed its absolute record, with export growth over the first nine months of around 5 %. Regarding the ACP, overall volumes exported to the EU27+UK are also on the upgrade, with a provisional growth rate of 2 %.



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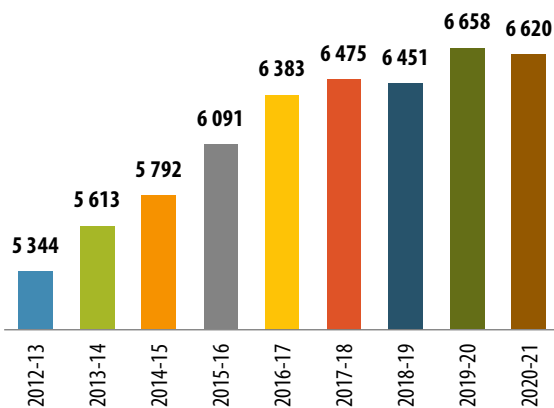
Europe: a supply market

In other words, we do not need to go much further to seek the reasons for the 2021 slump. There is a structural abundance of supply. As proof, after two devastating cyclones affecting major worldwide suppliers to the North American market (Honduras and Guatemala), prices on the European market have barely twitched upward. And yet, these disastrous climate vagaries have led Ecuador, Colombia, Costa Rica and also Panama to shift their trading policy favour of the North American market. Here we are talking about 8 million boxes over just the 1st half of 2021. Nonetheless, this did not lead to banana shortages in Europe. Even with the communicating vessels mechanism, the source seems inexhaustible. The quantitative review (FruiTrop 281, May-June 2022) will provide an opportunity to document this idea. Without getting too far ahead, we should observe that the European market has, at worst, shrunk by just one percent.

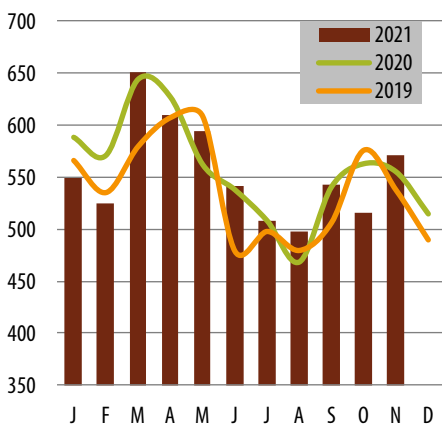
As you will have understood, the supply and policy of the distribution chains are the only factors affecting import prices. To make matters worse in 2021, the effects of the health crisis have been felt on the world's logistical chains, which have been disrupted (freight supply, container availability, port congestion, etc.). All that has not helped get the market moving, thereby creating the conditions for saturation, and therefore greater depreciation.

Besides this cyclical situation, let's come back to import volumes to explain the desperate listlessness of the market. Given the evolution of the rate and annual supply over the long term, it is reasonable to believe that the EU27+UK are long past the import levels enabling them to guarantee an average price above €12 to €13/box. This level is estimated at around 6.3 million tonnes, which makes the price a bit more sensitive to volumes on the market. I.e. a shortfall at a given moment is reflected by a price increase. True, this is still the case if we analyse the situation over a weekly period. But as we have demonstrated previously, these variations over short periods are generally small. Conversely, over an annual interval, the market saturation effect is increasingly making itself felt.

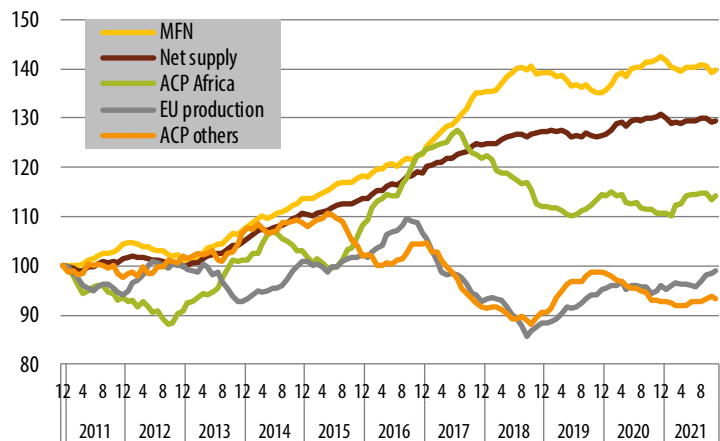
Banana - EU27+UK - Estimated supply
12-month period (December to November)
 (in 000 tonnes | sources: CIRAD, Eurostat | updated 1/02/2022)



Banana - EU - Estimated supply
 October 2021: subject to confirmation
 (in 000 tonnes | sources: CIRAD, Eurostat)



Banana - EU27+UK - Supply on a 12-month sliding basis
 (Index 100 = year 2010 | source: CIRAD-FruiTrop)



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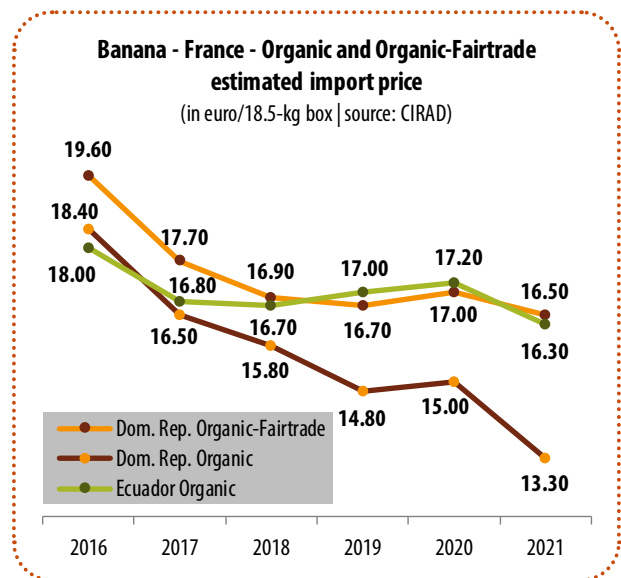


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Anything always possible

This alarming finding is also fuelled by the belief system governing the market: “anything is always possible”. As we have said, the power on the market is now at the distribution end. It uses and sometimes abuses this belief system in multiple forms. This of course is manifested in the contract price. The distribution sector has it all sewn up since ultimately, there is always an operator which will offer a better price to win the contract. It is the law of the market, in particular a market characterised by an abundant supply. In addition, the counters are not reset every year. For the price negotiated at the end of the previous year (n-1), they try to apply anticipations for the following year (n+1), while also factoring in the cyclical conditions of year n. That gives forecasters some work to do... but also makes for some disinformation! Since subjecting a tropical agricultural product to commercial techniques which apply to industrial products is a heresy. Hence they are trying to avoid the main characteristic of these industries: exposure to agricultural risks, and in particular to the impacts of climate vagaries. The triggering of the Act of God clause in the USA, decided on by all the operators simultaneously, is an example of the fact that long-term forecasts are not worth much for our industries. This is especially true in a period of health crisis.



Product sophistication – occasionally a sacrifice for segmentation

The distributor's injunctions, conveyed or created by society or public authority, are pushing for ever greater sophistication of the banana as a product. There are all kinds of injunctions: health, social, cosmetic, presentation, etc. We can only applaud any incentives helping redesign the production system, increasingly doing without pesticides, applying the principles of agroecology or proposing improvements to social conditions of production. The bar is sometimes high, but the objective is noble and non-negotiable. Cirad is a stakeholder in this paradigm shift, by proposing technical solutions or developing R&D programmes which in the long term will help make the systems more virtuous. Regarding social aspects, we can only hail the increasing awareness across the board.

On these two points, once again things are moving in the right direction, but as always, the devil is in the detail. Firstly, the injunctions must relate to important subjects, which make sense in terms of progress for the environment or people. Reducing or eliminating use of herbicides is laudable in itself... but it is far preferable to first withdraw insecticides and nematicides, which are highly toxic to people and the environment. In this undertaking, we also need to watch out for ideas which only seem good. For example, we can ask whether we should do without air-borne treatments. Except that, if it is carried out according to good practice, they are far preferable, in every respect, to land-based technical solutions.

Above all, the efforts need to be shared between the players. We cannot ask for the growers everything, and sometimes anything (in terms of direction or impact), while continuing to drive import prices down. This is at best lack of awareness, and at worst a con on the part of distributors and consumers. Since, traditionally, it is the most fragile links in the value chain which will pay the price, i.e. the growers and agricultural labourers.

The upstream can't do it all

The changes, or even disruptions, demanded come with a cost. The increasing uncertainty and spiralling cost prices, for example, go alongside reduced use of pesticides. Eliminating synthetic phytosanitary products, doing without systematic mancozeb treatment (cf. article <https://www.fruitrop.com/en/Articles-by-subject/Economic-analyses/2021/Mancozeb-as-a-banana-treatment-the-end-of-an-icon>) to combat black sigatoka, using leaf cutters, removal of hands at certain periods, etc., all affect the yield, the green or yellow lifetime, the commercial potential, etc. This proves that we need to rethink the division of efforts between the links in the value chain.

Furthermore, we will also need to take a close look at the undesirable effects of this sophistication of systems, which the least technical growers could bear the cost of, thereby reducing the “biodiversity” of the players. Since the entry ticket into agroecology is not in everyone’s reach without strong agro-technical support, which for the moment is widely lacking.

So evaluating the economic, social and environmental impacts is logically the only way of producing numerical data, sharing it and making it the basis for enlightened negotiations between the upstream and downstream segments. Which is just like asking poker players to show their hand! Given the lack of collaboration from the players, the “Observatory on the costs of sustainable production and the distribution of value (OCOSP)” project, run within the World Banana Forum by the FAO, Cirad and Le Basic, has been halted, proof that the sector is not yet on the edge of the economic precipice.



In this context, cold analysis of the situation, i.e. rising world production potential, the structural fall in import prices, increasing cost prices, etc., counts for little against the individual behaviour by some upstream operators (including importers), which believe that, for things to go well, they need to conceal their costs, and the collective is only good for anything if it cries wolf on the media stage, since there will always be some money still to be made. However, they should be wary of their word losing value over the years since, we stress once again, major efforts are required and it is no good having the same players always bearing the burden of the change.

Saying yes to everything is also the best way for the demands to keep on coming, and even intensify. We might point to format types (band, flow pack, etc.) which suppliers are now asked for. To make your money on the shelves, you need to offer a visually different supply. While this is the case for organic, Fairtrade or certain promoted origins or brands, the consumer is only being fooled in the other segments, which are more to do with size, external appearance or presentation (5 or 6 fingers, entry-level bag, loose) than with a real difference. Regardless, this makes the industry branches’ job more complex. For example a ripener will have to manage up to ten production lines, combining a production or certification system (organic, Fairtrade), box types (US, 60 x 40, reversible, etc.), loose, flow pack, bands, etc. And this is not to even mention the maturity stage criteria viewed through the prism of coloration (and now even semi-coloration) now spicing things up even more.

While it is a diversified supply, what story is the consumer being told? How do they justify different prices for false differences in characteristics? The illusion of wealth is not wealth. A merchandising work to verify the commercial efficiency (sale price, turnover per linear metre, volume purchased) of a segmentation would doubtless teach us a lot on the optimum range to offer. Oh, I forgot! Unfortunately, the banana is sold only to bring consumers into the store: without applying the slightest merchandising, the banana section is still profitable. And this is doubtless more than enough for things to carry on without asking too many questions.

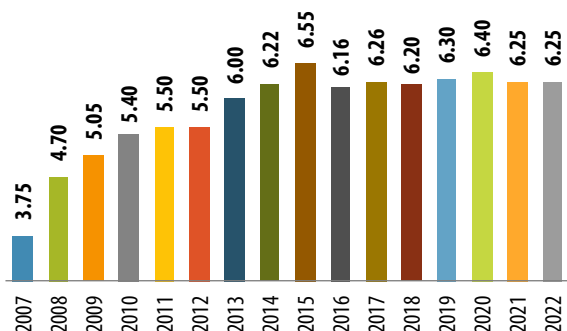
Price increase in 2022 not settling the underlying issue

Negotiations for 2022 contract prices were once again highly acrimonious. Partisans of an approach that some might dub “name and shame” once again marked these negotiations. Latin American operators denounced the widening gulf between price and cost. Their demands to raise the purchase price were all the more insistent this year given the tough international economic environment, still suffering from the effects of the pandemic. Inflation got the better of all cost items: primarily energy and its avatars which are fertiliser, boxes, plastic, logistics, agricultural equipment, etc. Not to mention the new threats weighing on the dollar zone with the extension, or even expansion, of TR4 in Colombia, where a second centre has been declared in the Santa Marta region, and in Peru where the disease has every chance of rapidly getting out of control. This threat, besides quite rightly concerning growers in terms of their future, means deploying biosecurity measures which have some impact on their cost price.

If we add to this the increases decided on in the USA by the operators themselves, and the general economic atmosphere which is showing an inflationary recovery in all sectors, the downstream segment could only make a gesture by offering price increases. According to our information, the European reference import price went from €11.5 to €13.3/box. So we are talking about an increase of €1.8, i.e. + 15.7 %. At this stage we should specify that this is an indicative price, and that major variations are sometimes possible, depending on the downstream operators, the origins, volumes, qualities and format concerned, etc.

So besides the caution always required when handling these figures, it remains to be seen whether the increase agreed is sufficient to cover the drift in costs. It would take a smart cookie to demonstrate this, since the heterogeneity of the production and logistics systems in our sector is huge, a given production system provides different products and finally opacity is a rule which seems to suit many. In addition, this increase will be cyclical, since nothing has fundamentally changed, and the factors driving down value are still there.

Banana - Ecuador - Minimum price paid to producers
(in US\$/41.5-43.0-pound box | source: National Authorities)

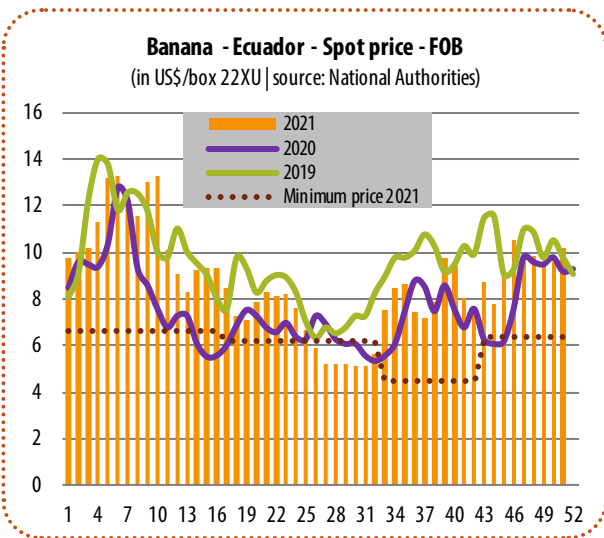


The reactions to this price increase are well-rehearsed: the downstream congratulates itself for the efforts that it has agreed on, and the upstream laments pillaging of value by the downstream. Hence they collectively avoid addressing the gangrene of destruction of added value, a fresh redistribution of value between the links in the industry and the need to fund major social and technical changes, which production must face. For an editorial writer, it's all in all fairly comfortable. No doubt I could reuse this paragraph in my forthcoming analyses for a long time to come.

Unless the terms of the equation change. As we have seen, factors for change have often come from the downstream segment, sometimes chaotically and sometimes even without any sense. Now the injunctions could come from the political sphere. In the more or less long term, we can mention several initiatives of different kinds. For example, the forthcoming measures derived from the implementation of the European Commission's Green Deal, which among other things proposes applying reciprocal measures on the EU's imports, i.e. having the importers comply with the environmental and social standards of the European industries. The appearance of an opinion piece recently in the French daily *Le Monde* by three European ministers (Austria, Spain and France) is a sign that the subject is on the European political agenda. On the other hand, the initiatives around “sustainable cacao” by European governments (Switzerland, the Netherlands, Belgium, Germany and recently France) but also the Japanese government, are showing the way for the other import sectors, by questioning many aspects of sustainability. Finally, on a different tack, we can mention the initiatives of the European authorities, conveyed or driven by certifiers (such as Rain Forest Alliance or Fairtrade), which are drastically reducing use of many pesticides.

Not all that bad

The banana world is a never-ending source of astonishment... and despair more often than not. The distributors can boast of making quality progress in terms of their sourcing, and still for cheap since it is burdened by the first link in the chain, the growers. Consumers purchase a product on which they receive environmental and social reassurances, again on the cheap. Ultimately, if everyone seems happy and does not change their attitude, it is because the sector is not yet at the very end, economically speaking ... So let's draw inspiration from Schumpeter and Galileo. The former for his theory of creative destruction, except that if the destruction phase is underway, it does not seem deep enough to move on to the creative phase. And the latter for the famous saying that we would like to borrow: "And yet it moves" ■



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Exchange rate effect on the value of a box of bananas

What if some of the resistance of the dollar origins to the fall in the European import price could be explained by something completely different from higher productivity or below-average production costs among the producers supplying the market? If we look at the comparative evolution of exchange rates, we might think that currency is something to do with the European market's appeal for a given origin. A simple calculation giving the European price in the local currency, minus the Customs duty taken upon entering the EU, might lead us to believe that it is a considerable, or even central, factor.

The numbers provide proof. If we convert the price level into the national currency, and index it from a base of 100 in 2006, Colombia obtained a peak of 197 for 2021 - no less than doubling in the space of fifteen years! For Costa Rica, the 2021 index reached 146, while for Ecuador it was just 124.

However, we need to handle these figures with care, since while the turnover has increased in national currency for the same unit of sale, that tells us nothing about the variation in the cost structure for the upstream link of the industry, the price variation in raw materials, labour, nor the proportion of intermediate costs paid in national currency, US dollars or euros.

The fact remains that the doubling of Colombia's revenue raises questions. Especially since it has hugely stepped up its export share to the EU, now with a large majority of over 80%. So this perhaps explains it... you can draw your own conclusions!

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

