A report prepared by Denis Lœillet

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2016: a relative calm before the storm?

While the average annual import prices kept to decent levels in 2016, the last four months were very hard on the nerves of the industry’s up-stream operators. Whereas production capacities are intact or practically intact whatever the export banana production zone, at the other end of the chain, consumption is maintaining a good dynamic only in the EU - the rocket’s last engine still firing. Let’s pray that 2017 does not bring a failure.
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When it comes to reviewing the year, with very few exceptions, the players of the banana world are divided into two groups: optimists and pessimists, and 2016 is no different. This is particularly true since it went through some fairly complex developments. Optimists highlight the fact that while the annual average import price did have a downward trend (-7% for Germany), the reference year (2015) was so good that any other year would struggle to bear comparison. So the fall is not unreasonable. As proof, the 2016 import price was back to the 2013-14-15 trend at approximately 14 euros/box. The optimists add that 2016 confirms that since 2012, the German import price has plateaued out at an average of 14 euros, i.e. one euro more than the 13 euros for the period 2007 to 2011. They also reassure themselves with the observation that besides the hyper-contractualised German market, the European market has on average perhaps held up better. If we go by our barometer (representing the EU import price), the import price dropped by just 3% over one year down to 13.6 euros/box, i.e. exactly the three-year average for 2013-14-15. Moreover, while there was a fall, in Germany or across Europe, it was primarily concentrated over the last four months of the year. The operators are actually emphasising that the summer months, especially June and July (with August more around normal), brought excellent earnings, and the beginning of 2016 only confirmed the very good end to 2015.

Operators at the import stage are especially relaxed since sales volumes continued to increase. The first quantitative reviews for 2016 confirmed an exceptional dynamic. The figures, still provisional, show a rise of 136,000 t of volumes imported into the EU-28, i.e. an annual growth rate of 2.6%. More interestingly yet, this dynamic has been in place since 2012! Two figures express this euphoria: since 2012, the annual average growth rate of imports has been 2.2% and, between 2012 and 2016, the annual import volume leapt up by 531,000 t.
THE EXTRA SWEET PINEAPPLE FROM ECUADOR

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Pessimistic or simply realistic?

And then, there are the pessimists: those who see a plain loss of more than one euro per box, taking the view that the normal and unalterable price should be 15 euros as in 2015 with Germany as the benchmark, or 14.1 euros with our EU barometer. Above all, in how the 2016 campaign went, they see precursors of a lasting turnaround in the market. For them, the equation is very familiar. It combines a slowdown in world demand, with the EU the last buoyant market in terms of volume, and a steadily increasing supply. The years of figuratively rather fat cattle in terms of price and dynamic has driven the operators to follow the herd, and increase their production potential to gain market share. In using the rather vague term operators, I mean to cover both the producers-exporters (in all their organisational diversity) and the importers. Caught in their upward spiral, they have all abundantly supplied the world market, which swelled from 15.4 to 18.3 million tonnes between 2009 and 2016.

It is a sort of banal cynicism which had led the world market to produce ever more while hoping to see the competition deprived of its means of production. Since besides the price, and counter-intuitively for some, climate or sanitary vagaries are the driving forces behind the surge in the supply. If a zone or country is hit by cyclones, floods, tornadoes, etc., competing countries rub their hands together at the thought of the market share freed up and within their reach… rather than considering the human losses, let alone material ones, so devastating for local populations.
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Bearing in mind that such vagaries never devastate the same place, barring exceptions, and that all the zones are affected at one time or another, but end up returning to the market, we end up with an infernal machine, which produces more and more bananas. Apart from certain secondary zones, which have for now been wiped off the banana exporting map (Jamaica, Windwards), the industries pick themselves up every time, sometimes less powerful than before (Belize, Martinique or Honduras), sometimes with greater vigour (Colombia or Côte d’Ivoire), and sometimes much later (Costa Rica). Then again, sometimes, as was the case with the so-called El Niño of the century in 2015-2016, the damaging effects predicted are not as terrible as that. Ecuador, always in the front line in these phenomena, actually enjoyed more favourable climate conditions for banana growing, without suffering serious effects, especially flooding. Here are the figures as proof. Over the first six months of 2016, Ecuador exported 1.5 million more boxes (+1%) than in 2015, and nearly 17 million more (+11%) than the three-year average for 2013-14-15.

For the sake of completeness on the subject, we should add that this El Niño has had adverse impacts on the Eastern part of Latin America and the Caribbean due to a long period of intense drought. This resulted, for example, in steeply falling Colombian exports between May and July (-10 to -20%) and in a spectacular recovery starting in August, with a peak in October and November. This was also the case for the Dominican Republic, which suffered a severe drought, but which as soon as it emerged from it (May 2016), started to beat export records again. We can also mention the case of Surinam, which has been hard hit by Moko disease, but which is pulling out all the stops to return to its heights over the months and years to come.
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EU consumption: while it lasts...

We also need to factor in the newly-created plantations and extensions. This is the case on both sides of the Atlantic: Guatemala is extending its surface areas, taking advantage of highly favourable agro-climatic and social conditions (taking price competitiveness as the sole viewpoint). Côte d’Ivoire seems to some to be Africa’s new banana El Dorado, Cameroon and Ghana are increasing their surface areas or improving their productivity. Similarly, Colombia has unfathomable reserves of competitiveness (via irrigation for example), and thanks to better financial returns, is able to boost its relatively low productivity, without increasing its surface areas by one hectare. And this list is by no means exhaustive. An idea of the scale of the phenomenon can be provided by the increase in the volume of the international banana trade. As we have seen previously, the market increased by nearly 3 million tonnes in six years, i.e. between 80 000 and 90 000 hectares of additional banana plants, to attain the iconic figure of half a million hectares for the export planted area alone (see FruiTrop Banana Focus, January 2017).

If production, and above all exports, are on the up, it is because there is rising demand at the other end of the chain. What can we say about the changes in consumption by the major import zones? Some main trends can be outlined. The first related to the United States + Canada. While these two countries have long driven world demand, this is well and truly over for now. As we emphasised above, the EU has taken over and holds the role of world leader. Russia and Japan seem, for very different reasons, stuck at 1.2 and 1 million tonnes respectively, with no potential anticipation of improvement. More serious still, China has risen strongly to in excess of one million tonnes of imports, though this could be deflated rapidly if its borders are closed as quickly as they opened. As for the Near East, Middle East and Mediterranean, consumption is at best at a standstill. Asia, excluding Japan and China, South America and Africa, outside of the big exporter countries, also seem to be grounded. As you will have realised, this all too rapid world overview leads to the only possible conclusion: the banana market could now be in a situation of structural overproduction. The effects of this potential banana overabundance have not yet been fully expressed since all the market’s determining factors (supply, demand, competing fruits, cost of intermediate consumptions, exchange rate, trading policy of States, diseases, etc.) have for years boosted the supply. Yet this is a fragile formula. While the ingredients are well known, their respective effects on the overall stability are highly variable.

Finally, the big question, the only one that really counts, is to know when the supply and demand curves will intersect, not on occasion as can happen in any agricultural sector, but cyclically. This will be manifested by prices charged on the big import markets which will no longer even cover the cost of the unpacked fruit at the plantation side.
"It’s reassuring to know that there are on-board specialists caring for our cargo - assuring optimum quality through to the end-consumers."

Martin, receiver
Market restlessness making its big comeback

Leaving aside both pessimism and optimism, let’s try to look at the recent past and draw some prospects for the future, at least for the short term. It has given us a highly unsettled market over the last four months of the year. It is hard to make a direct link between this restlessness, which practically turned into a crisis, and a generalised increase in the EU supply. In fact, the data produced by the European Commission over Q4 2016 (to be confirmed in February 2017 by Eurostat data) show a well-supplied market, but with no excess. Q4 2016 represents just 97% of the volume imported in Q4 2015, yet 101% of the Q4 average for 2013-14-15. Leaving European production to one side, let’s look in detail at the structure of these imports. Three major countries have exceeded the trend by some margin: Costa Rica (122% of Q4 2015), the Dominican Republic (125%) and Côte d’Ivoire (113%). Cameroon has not let up either, though its rise was more modest (102% of Q4 2015). Taking a closer look (via the weekly data collected by CIRAD-FruiTrop), we should add Colombia, which had a relatively average performance for the quarter (88% of Q4 2015), yet recorded two massive months, with 11% growth in October and 19% in November from the same months in 2015. This can be explained fully by Colombia trading in favour of the EU, and its traditional production peak being deferred by around two months due to El Niño (drought).

Let’s go back for a moment to the climate damage of late 2016. It was concentrated primarily in three zones: Martinique, Costa Rica and the Dominican Republic. For Martinique, it was the transit of Storm Matthew, at the very end of September, which destroyed a large part of the production capacities. While the sector recovered a good growth rate, the latter three months of 2016 were awful, with a 50% decrease in volumes going onto the market. In the case of Costa Rica, it was Cyclone Otto which hit the far north of the country (border with Nicaragua) on 24 November 2016. While we might lament the human and material losses, the banana stock was only very marginally affected. The year ended with floods in the Dominican Republic over the last days of November. Cyclone Otto brought a great deal of rain to the zone. Fearing that the dams would burst, and in a complete state of unpreparedness, the authorities carried out massive deballasting, instantly flooding thousands of hectares of cultivated land, and in particular a good part of the Dominican banana stock (north-west region). The losses are still not known, but we might imagine that at least 30 to 40% of surface areas were affected to a greater or lesser degree. The severity of the damage depends on how long the banana plants have their roots submerged. Within barely a few days, uprooting and re-planting become vital.

We will not talk about the occasional climate damage inherent in banana production (cold spell, persistent Harmattan, drought, etc.) often associated with climate change and which disrupt production here and there, but which have no medium-term impact.
BANANAS & TROPICAL FRUITS FROM IVORY COAST

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Poland: Europe’s fuse

As further proof of this fragility of the European market, we have the evolution of Polish import prices. Despite its slow development, this country remains a clearance market for the big European markets, Germany and France. Hence the evolution of Polish prices is a good indicator of the balance of the European market. Over the last four months of the year they collapsed, falling in December by as much as 24 %, both from December 2015 and from the 2013-14-15 average! They went below 10 euros/box for nine of the thirteen weeks of the last quarter, for a record worst performance.

Meanwhile, elsewhere in Europe, prices fell though in infinitely smaller proportions. In France, for example, with the fall at its most intense (September), prices slipped by “only” 12 % from 2015, and even had the luxury of a 5 % rise in November. Over the year, and despite this big bad patch, the average remained the same as in 2015, i.e. 13.2 euros/box. Once again, this shows the greater resilience of the French market in the face of an influx of merchandise, especially of dollar-banana volumes. Indeed, the main operators control all or some of their volumes, either by being producers, or by long-term contracts with a producer. So they take a longer-term approach, with the ability to ship to other countries what they deem to be surplus to the market’s absorption capacities, and reduce to the appropriate portion the allocation for the spot banana. We have already mentioned the consequences of this policy on maintaining a price level. In previous editions of FruiTrop, we have also mentioned the adverse consequences on consumption. A specific review will be conducted in our special edition of April 2017, but we can already emphasise that France has a consumption per capita which is stagnant, whereas the EU-28 consumption is increasing on average. While the link is doubtless not so direct, and many other factors should be taken into account, defending a market seems nonetheless to be detrimental to its consumption dynamic. Over the past twelve months (December 2015 to November 2016), French consumption had dropped back to slightly below 540 000 tonnes, thereby wiping out three years of rises. We are eagerly awaiting the first marketing actions by the Banana Interprofessional Association (AIB), which officially came into being at the end of 2016, bringing together all the professional families of the French banana industry.
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Desperately deflationist

We saw a tighter situation in Germany, with a fall of one euro per box, to 14 euros on average for the year. On this highly contractualised market, we should note that the fall was divided evenly over the year, and ultimately was just the result of decrease in the annually negotiated prices. For 2017, the situation seems more serious since, according to our information, the contractual price is set to fall by another euro per box, to below 13 euros, a level not seen since 2011. Two factors have come together to make the annual price negotiations round a very high-risk period. The high production potential (little climate damage in the main production zones) was one of the causes. The second was the fall in European Customs duty for the Ecuadorian industry. On 1 January 2017, the cost price after customs clearance of the Ecuadorian banana was automatically cut by 55 eurocents per box, with the customs duty decreasing from 127 to 97 euros/tonne. This much-covered fall has been fully factored into the calculations of the distribution sector purchasers. Hence this preferential tariff granted by the authorities to a single supplier, albeit a major one (22% market share), has been extended to all suppliers, whether dollar, ACP or European production. Together, these two effects lead inevitably to this sad downward record for 2017.
This is not a...
What is harmful in this short-term downward trend is that it is converging with the very long-term trend. The gap is irreparably widening between value on a current euro and constant euro basis. The chasm has never been as great as in 2016. The calculation for France, highly representative of the general trend for import prices, shows that the added value per kilo of bananas fell by 11% between 2007 and 2016 ("Fresh fruits" inflation rate, source: INSEE), i.e. a loss of 1.2 euro/box. Fortunately, the current basis price managed to climb by 9%. Against the general price index ("Overall" inflation rate, source: INSEE), the situation is less dramatic, though still with negative figures. The European market is definitely not managing to build added value: indeed, it is tirelessly continuing to destroy it.

Worse still for the banana market, the competition from other fruits was moderate overall. The 2015-16 citrus campaign was light and late, while the apple campaign avoided the pitfall of the Russian embargo thanks to a strong export flow (fall in the euro). According to the FranceAgriMer news service, in 2016, it was not the summer fruits which curbed banana consumption, already idling at this time of year: "In 2016, the summer fruits and vegetables market saw rates overall above the five-year average, due to an imbalance between a more moderate supply for most products and demand boosted by the summery climate conditions." Two major campaigns (pip fruits and citruses) are in progress (2016-2017). At the time of writing, while the beginning of the apple campaign was relatively good, things have got a bit more complicated since December 2016, with sales slowing down and prices failing to take off. For citruses, after a normal start in terms of price and volume sold, the intense rains in December in Spain have changed the face of the end of the campaign, which should finish sooner than forecast, with the late varieties starting earlier.

The day after

Which other factors should be taken into account for the months and years to come? While Brexit is in the making, with even our British friends themselves somewhat in the dark, one of the collateral effects of the June 2016 referendum has been the drastic fall in the pound sterling, which has put the banana business in trouble. The value of imports should logically have increased due simply to the unfavourable exchange rate. Yet British distributors have continued to take the banana hostage and wage a ferocious price war. So the intermediate operators are forced to absorb the increase in the import price (due to the tumbling pound sterling) and provide the British supermarket sector with ever cheaper fruits. Can you spot what’s wrong with that picture?
Furthermore, the prospect of a euro/dollar exchange rate at parity is of course playing on everyone’s mind. The effects of such a downward movement by the euro have been abundantly described in previous *FruitTrop* reviews. We might just reiterate that it is increasing the prices of European imports from the dollar zones, such as Costa Rica or Ecuador, and even now Colombia, whose advantage in terms of exchange rate has tended to disappear in recent months. While the exchange rate trend is driving producers toward the North American markets (USA and Canada), the latter are by nature very much closed-off to extra-contract volumes. Furthermore, Guatemala, an ultra-competitive source, leaves little room for its competitors. The CFA zone (Cameroon and Côte d’Ivoire), however, is ideally placed thanks to a fixed exchange rate with the euro.

As for energy prices, we are back to an upward cycle, which we can safely say will be very moderate, and which in any event will depend on the stringency in the application of the reduction agreement signed between the OPEC members (plus Russia). The level of 50 USD/barrel was well and truly breached at the end of 2016. The World Bank is reckoning on a 25% increase in 2017 from 2016, i.e. 55 USD per barrel on average. The cost price should of course rise, since the price of the other agricultural inputs, i.e. boxes, plastic, fertilisers and phytosanitary products, is directly indexed to the price of crude oil.

As mentioned above, the news regarding regulation of the European market will turn on the scheduled fall in EU Customs duty, and above all the entry into force of the trade agreement with Ecuador on 1 January 2017. At a stroke, the duty applied will go from 127 to 97 euros/tonne, i.e. approximately from 2.3 euros to 1.8 euro per box, a very long way from the 176 euros/tonne (3.2 euros/box) in place in 2012.

Between a sale price which is declining on all sides and a rising cost price, the only good news remains the good consumption trend, although that is true only for the EU. It would be hard to find a more explosive situation. And because I need to end as I began, from an optimistic perspective, we will conclude with the slightly cynical confidence of a European importer questioned about the market outlook: “We shouldn’t be unduly worried, something will always happen to alter the balances. We don’t yet know what, but the only certainty is that there will be an event”. The depth of the analysis may appear superficial, yet given what has happened for the past decade, we can only hail the visionary aspect of this statement.

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