

**BANANA EXPORTS FROM  
THE CARIBBEAN SINCE 1992**

**PRELIMINARY REPORT**

**Prepared by NERA  
for the Caribbean Banana  
Exporters Association**

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## EXECUTIVE SUMMARY

The report examines the experience, under the banana regime as it has operated since 1993, of a number of Caribbean countries that have traditionally been major exporters of bananas to the UK. These countries are among those intended to benefit from the protections afforded by Protocol 5 of the Lomé Convention and its successor in the Cotonou Agreement. The purpose of the report is to provide NERA's preliminary assessment of whether the regime has achieved its objectives, with respect to these individual states, of ensuring the continuing viability of their banana export industries and a continuing outlet for their bananas on the Community market on terms comparable to those they previously enjoyed.

The evidence shows that, for almost all of these countries, the regime does not appear to have met these objectives. The statistics show very substantial changes in the market structure over the period, providing clear evidence that individual states have not been able to maintain their position as exporters to their traditional markets, and putting into question the viability of their banana growing industries. In particular, one can note:

- the large overall fall in the volume in tonnes of exports to the EU for these countries collectively, and for all but one country individually.
- substantial falls in the actual tonnages of their exports to their traditional UK market.
- falling export values (fob) which indicate major reductions in growers' incomes;
- the complete cessation of exports in Surinam and near cessation in Grenada
- substantial reductions in the numbers of growers, and acreages under cultivation
- the strong downward trend in both retail and producer prices, with significant falls over the period in real terms
- the continuing nature of these trends; with some Caribbean ACP countries experiencing dramatic falls in export volumes, and in export unit values, in 2001 and 2002.

In explaining these trends, it is difficult in a preliminary analysis to isolate the particular effects of changes in the trade protection regime over the period from other factors, such as sterling exchange rates or retail competition. (Distinguishing between different explanatory factors does not however alter an assessment of the success or failure of the regime.) Nevertheless it is clear that a number of the changes will have had the potential to weaken the degree of protection afforded to the more vulnerable high cost producers, a number of whom are among the Caribbean producers we have examined. Changes that were intrinsically likely to reduce the degree of protection, with potentially adverse consequences for the vulnerable producers, include:

- the expansion of quotas for third country and non-traditional ACP imports, if these did not reflect corresponding growth in demand
- the ending of Category B licences for traditional ACP importers; these arrangements had provided an incentive to importers to buy from ACP sources.
- the movement from individual quotas for ACP countries to an overall ACP quota

The latter was intrinsically likely to increase the extent of competition among ACP countries. The change has indeed been followed by substantial increases in production and exports from some of the lower cost ACP countries. This is a development likely to have further increased the pressure on the most vulnerable producers.

Prima facie, the evidence suggests that the regime has offered progressively less protection to the most vulnerable producers, with the result that they have suffered the consequences of falling prices for their production and loss of market share to lower cost producers. For many individual Caribbean countries that have traditionally exported to the UK the extent of the decline, whether measured in terms of the prices available to their growers or in terms of their production, has been severe. For these countries, the regime has clearly not been successful in ensuring the continuing viability of their banana exports.

# 1. INTRODUCTION

## 1.1. Purpose of Study

NERA has been asked by the Caribbean Banana Exporters Association (“CBEA”) to consider the impact from 1993 onwards of the banana import regime of the European Union (“EU”), and changes to it, on a number of Caribbean countries that have traditionally exported bananas to the EU, with the overwhelming majority of these exports being to the UK. In particular we have been asked to examine whether the regime shift since July 1993 has been consistent with the obligations of the Community under the Lomé Convention, and its successor the Cotonou Agreement, namely that under the condition of ensuring viability of the ACP banana industries, “... *no ACP State shall be placed, as regards access to its traditional markets and its advantages on those markets, in a less favourable situation than in the past or at present*”.<sup>1</sup> An important dimension to the aims of the regime is that they relate to each of the ACP countries individually, and not to the banana industry in ACP countries collectively.

With this objective, this preliminary report focuses on the four Windward Islands – Dominica, Grenada, St Lucia and St Vincent - together with Jamaica, Belize and Surinam. These seven countries traditionally exporting to the UK will be referred to as the “Caribbean ACP Exporters”<sup>2</sup> or “traditional exporters”. The report examines how their banana exports have fared under the regime, and makes a preliminary assessment of whether the regime has achieved the objectives of ensuring the continuing viability of their banana export industries and a continuing outlet for their bananas on the Community market.

The statistics presented in the report highlight features of the decline in banana exports to the UK from the Caribbean ACP Exporters. For example the following aggregate statistics demonstrate clearly the extent of the overall decline in their market share. In 1990, prior to the introduction of the EU single market regime in July 1993, these seven countries were the origin of 360,000 tonnes of the total of 470,000 tonnes that were imported to the UK.<sup>3</sup> In contrast, by 2002, they were the origin of only 178,000 tonnes out of a total of 833,000 tonnes. Thus, both in absolute terms and in market share, the Caribbean ACP Exporters collectively have suffered a major drop in their exports to the UK. The UK has continued throughout the period to be the outlet for virtually all exports from these countries.

In the report we describe developments over the period from 1993. These include significant changes to the regime itself, which will at least have had the potential effect of weakening the degree of protection afforded to the more vulnerable ACP producers. A further question can be posed, therefore, given that we can observe the substantially worsened position of some of the traditional exporters to the UK. The question is the extent to which that

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<sup>1</sup> Article 1, Protocol on Bananas, Lomé IV Convention.

<sup>2</sup> This definition, however, includes mainland Belize and Surinam, and excludes Dominican Republic.

<sup>3</sup> Comext

worsened performance can be attributed to trade policy alone, and to the operation of the regime or the effects of particular changes to it. Elements other than changes in the trade regime, such as retail market structure and general economic factors, may have affected the banana market over the time period in question.

Without substantial further analysis, including further statistical analysis, it is difficult with any very complete confidence to assign the extent of causation to specific aspects of the regime or to individual policy changes. Nevertheless, the nature of the market consequences that one might expect from particular changes to the regime, taken with the evidence, does suggest at least a prima facie case that these changes in the regime will have weakened the degree of protection afforded to ACP producers and to the more vulnerable ACP countries in particular, and that this reduction in protection will have had an adverse effect on their position.

The report does not attempt to rehearse or evaluate arguments of trade policy, or to evaluate alternative measures that might have been taken to further the objectives of the regime; nor does it examine the context of international trade negotiations (including GATT and WTO) against which the regime has operated. Its main objective is simply to establish, on the basis of preliminary study of the available evidence, whether the actual operation of the regime has been successful in meeting its stated aims, of sustaining viable banana growing and exporting, particularly in respect of the Caribbean ACP Exporters.

## 1.2. Outline of the Report

The report begins at Section 2 with a general overview of the banana industry and banana trade. This includes some general observations on the nature of production and trade in bananas, as well as a description of the Caribbean banana producers, the UK banana market and the trade flow from the Caribbean ACP Exporters to the UK.

Section 3 describes the EU banana import regime, starting with the Lomé Convention, but focusing primarily on the several distinct phases since July 1993 through to currently contemplated measures.

Section 4 looks at the empirical evidence on production, costs and prices in the banana markets that are relevant to the Caribbean ACP Exporters, and to our analysis. Section 5 attempts to assess the viability of banana production and exports for the Caribbean ACP Exporters. Section 6 aims to interpret this evidence in relation to the development of the regime and provides a very brief economic interpretation.

Finally the conclusions set out the assessments made in this preliminary report. These focus on the main question of whether the regime has been successful in meeting its objectives of ensuring continuing viability of banana production among Caribbean countries traditionally exporting to the UK. As a secondary matter they identify some of the specific developments which, prima facie, may help to explain *why* the regime has not been successful.

## 2. OVERVIEW OF THE BANANA INDUSTRY AND BANANA TRADE

### 2.1. Banana Production

The great majority of world banana production is carried out in developing countries, with only a small volume of production within the EU (mainly Crete and overseas territories of Member States, e.g. the Canary Islands).

On the production side, bananas are a tropical, agricultural product. Growing and production conditions for bananas vary considerably between producer countries, reflecting differences in soil conditions, climate and transport to market, as well as substantial differences in labour costs. The Windward Islands in particular are characterised by a large number of smallholdings facing more difficult physical conditions, with fewer possibilities for economies of scale. Not surprisingly, production costs vary widely across countries.

### 2.2. Banana Trade

Some of the largest banana producing countries such as India and Brazil scarcely export, as their production is almost entirely for domestic consumption. Only around one fifth of world production of around 60 million tonnes enters into world trade.<sup>4</sup> In 2000, exports amounted to 11.7 m tonnes, of which the four leading exporters – Ecuador, Costa Rica, the Philippines and Colombia – contributed more than three-quarters. Bananas are a major source of income, employment and export earnings to many less developed countries in Latin America and the Caribbean – the share of bananas in exports from the Windward Islands is especially high (around a third for the main exporting islands). Bananas from Central and South America (e.g. Colombia, Costa Rica, Guatemala, Honduras and Ecuador) are often referred to as “dollar” bananas. Around 6 per cent of total exports come from ACP countries<sup>5</sup> and 2.5 per cent from the Caribbean ACP Exporters who are the subject of this study.

There is significant fluctuation in trade from one year to the next, especially at individual country level, but world exports rose by 22 per cent in volume between 1992 and 2000. Within this, dollar banana exports rose by 14 per cent and ACP exports increased by only 1 per cent. The Caribbean ACP Exporters’ exports fell in volume by 25 per cent. Thus both dollar and ACP groupings lost market share. The Philippines largely accounts for the remaining exports and its shipments rose steeply, though this was partly due to the relatively low level in 1992.

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<sup>4</sup> [www.unctad.org](http://www.unctad.org)

<sup>5</sup> These are 71 less developed countries in Africa, the Caribbean and the Pacific.

### 2.3. Characteristics of the Caribbean ACP Exporters Banana Industry

Among the seven “traditional exporters” to the UK, there are marked differences in the structure of production between the Windward Island states on the one hand and Jamaica and Belize on the other. The industry in Belize and most of Jamaica’s output for export is organized in large estates, similar to the large plantations of MNEs in Cameroon and the Ivory Coast. Production in Jamaica has both large estates and many small farms but a few large estates produce about three-quarters of the output intended for export. (However, Belize and Jamaican farms are not very large judged by the standards of the dollar banana countries.) Production in the Windward Islands by contrast is characterized by a large number of small farms – 7,000 active growers with farms averaging 2.5 acres.<sup>6</sup> Smallholder production there is the result of topographical features, which militate against the use of plantations. UNCTAD has characterized this kind of small holding arrangement, as compared with Latin American plantations, as follows:

**Table 2.1**  
**Comparison of Conditions in the Windward Islands and Latin America**

Smallholdings (Windward Islands)	Plantations (Latin America)
Land hilly or mountainous. Limited land availability.	Large flat plains. Wide land availability.
Poor soil conditions and low yields (not more than 10 tonnes per acre)	Rich soil and high yields (18-24 tonnes per acre)
Majority are independent small farmers	Largely plantation agriculture, often owned by multinationals, and vertically integrated
Higher wages than in Latin America	Wage rates low, social conditions of workers poor
Unit costs of inputs much higher due to smaller volumes and varying soil types	Lower unit costs of inputs due to high volume. Lower fob price due to lower market wages, low social benefits and economies of scale
Shipping costs generally higher: smaller volumes, more port calls	Low shipping costs due to high volumes.

*Source: UNCTAD website*

Robert Read<sup>7</sup> commented on the overall competitiveness of various banana producers by noting that ACP and DOM (overseas territories of EU member states) producers have been successful in EU markets where they were protected but not successful where they meet direct competition from dollar bananas. The potential explanations he put forward included small average holdings, low yields, shortage of capital, low labour productivity, higher risk, lack of access to the most efficient distribution channels, poor quality controls and less sophisticated marketing strategy. The IMF, much more recently in 2002, identified a similar

<sup>6</sup> WIBDECO

<sup>7</sup> University of Lancaster; paper given at APEB seminar 1995

range of competitiveness problems in the Windward Islands industry<sup>8</sup>. These disadvantages are applicable to all the Windward Islands, which have the added economic problems of small island states. In summary, it is clear that the Windward producers have only been competitive where they have been protected from competition from lower cost producers.

The small banana farmers in Jamaica operate under conditions similar to the Windward Islands and the reduction in their export tonnage mirrors that of the Windward Islands. Much of Jamaican production is consumed locally where the banana is both a staple in the green stage and a fruit in the ripe or yellow stage. Farmers consider the mix of the higher value exports of their best fruit with local sales as essential to the continuing viability of banana growing. Local prices reflect low per capita income and, without exports, the return to growers would be much lower.

## 2.4. Supply Chain

The special characteristics of bananas, including their high perishability, require careful control of growing, packaging, transport, handling, ripening and the distribution process. This has in the past led to a high degree of vertical integration controlled by a handful of multi-national enterprises (MNEs) handling a range of fruit from a variety of world sources. Bananas may contribute between a third and a half of the revenue of these companies. Investment by MNEs is often accompanied by scale economies and measures of quality control. However, large scale production on banana plantations is not universal among the exporting countries. In particular the Windward Islands are characterised by a large number of individual smallholdings operating in more difficult physical conditions. (As noted above, small scale holdings are not the only source of higher costs.)

Until the 1970s MNEs were frequently present at every stage in the chain. More recently they have tended to move away from direct growing, thus avoiding production risks and associated problems, to focus on procurement, transport, ripening, marketing and distribution. Independent producers are usually organized in associations to negotiate supply contracts with MNEs.

More recently the MNEs have been facing the challenge of the increasing role played by national and international supermarket chains, which have increasingly been exercising their buying power.

MNEs are not always present in banana growing. In particular, in the Windward Islands, the growers consist of a large number of smallholders. Their exports account for almost all of their production, and are virtually all to the UK.

For the Windward Islands the chain from producer to supplier is as follows.

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<sup>8</sup> IMF Country Report No. 02/14 St Lucia: Selected Issues and Statistical Appendix. January 2002.

- Producers – large in number and very small scale.
- Local service companies buy the output and provide supplies of, for example, fertilizers. Some of these are now privately owned.
- The Windward Islands Banana Development and Exporting Company (WIBDECO) – buys from service companies, transports to the UK, and now also ripens.
- Wholesalers and supermarkets buy from WIBDECO.

WIBDECO is an undertaking involving the four island Governments and the official Banana Growers Associations of the Islands. It has a 50:50 joint venture with Fyffes plc, which acquired the banana business of Geest plc in 1996. (That business is now essentially a shipping company with some licences to import ACP fruit, which it trades to WIBDECO.) The assets of the joint company include a European dollar banana marketing business.

## 2.5. Banana Importers

Bananas are imported mainly by the EU (26 per cent), the USA (30 per cent) and Japan (8 per cent).<sup>9</sup> Imports into the USA rose by 15 per cent between 1992 and 2000 whereas imports to the 15 countries that currently make up the EU fell by about 3 per cent. This was, however, from a relatively high base level in 1992, which is widely perceived as a result of anticipation of the new quota regime for the EU as a whole. There was little change between 1991 and 2000. Whereas US imports are wholly from the dollar banana countries, EU imports come from a diversity of sources. Japanese imports are largely from the Philippines. These differences reflect differing regimes of protection and, among other factors, transport costs.

Generally, and certainly in the EU as a whole, the growth in demand for bananas has been relatively low, and has not kept pace with the growth in incomes,<sup>10</sup> in spite of a decline in real prices. There may even be some switching from bananas to other fruit as consumer incomes rise. Even so bananas remain one of the largest items in UK supermarkets, and *per capita* banana consumption in the UK has increased, both absolutely and in relation to the EU average.

Exaggerated expectations about prospects for growth of demand, in the single European market and the newly liberalized markets of Central and Eastern Europe, are widely considered to have led to excess supply in the market, leading to intensified competition and lower prices. Lower prices do not appear to have stimulated demand to any major degree.<sup>11</sup>

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<sup>9</sup> [www.unctad.org](http://www.unctad.org)

<sup>10</sup> In economic terms this suggests a low *income* elasticity of demand.

<sup>11</sup> In economic terms, this would mean that bananas have a fairly low *price* elasticity of demand. This view is supported by such empirical studies as have been conducted see eg [www.ifas.ufl.edu](http://www.ifas.ufl.edu)

## 2.6. EU Imports

During 1999-2001, the supply of bananas to the market of the 15 current Member States amounted to around 4 million tonnes per annum. Of these, some 0.75 million tonnes came from the mainland and overseas departments of the EU. This was slightly more than the imports from the ACP countries, and some 2.5 million tonnes came from the dollar banana zone. Imports in 1992 may have been boosted by anticipation of the single market regime. Imports in recent years have been a little below the 1992 level. Even comparing the years 1999-2001 with the 1990-1991 period, the rise has been only about 4 per cent. Using this period as a basis for comparison, EU DOM imports rose, dollar banana imports controlled by quota were little changed and imports from ACP countries rose by about 12 per cent.

Within the ACP total, however, imports from Ivory Coast and Cameroon broadly doubled in volume and there was also a significant increase in imports from the Dominican Republic. Imports from the Caribbean ACP Exporters, with which this report is primarily concerned, fell in aggregate by 30 per cent. The year 2001 was a particularly low year for them, but even if that year is ignored, there appears to have been a fall of over 20 per cent. From this group, only Belize exports showed a rise in this period. The main features of EU supplies over this period are shown in Table 2.2.

During the period 1990/91 to 1999/2000, supply per head, which varies somewhat erratically from year to year, rose by 7 per cent for the EU as a whole.

Table 2.2  
Supplies of Bananas to the EU 15. 1990-2002  
Thousand Tonnes

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
EU DOM	737	699	706	644	585	658	685	811	786	729	782	767	..
ACP	622	596	680	748	727	764	800	693	655	676	756	730	726
<i>Of which:</i>													
Carib. ACP	384	342	384	374	328	340	362	295.4	273	278	288	207	185
Ivory Coast	95	116	144	161	149	160	181	166	158	193	200	218	211
Cameroon	78	115	110	147	158	165	167	157	155	161	205	216	230
Dominican Rep.	4	10	39	62	86	75	61	49	56	42	60	86	97
Dollar	2363	2641	2731	2560	2450	2405	2470	2462	2426	2522	2543	2561	2611
<i>Of which:</i>													
Columbia	421	518	533	452	511	557	653	569	541	552	617	644	665
Costa Rica	643	608	520	565	727	564	604	603	640	663	656	634	686
Ecuador	381	646	745	651	612	632	686	738	569	697	691	702	829
Panama	649	591	601	569	427	416	311	358	417	422	389	347	307
TOTAL	3722	3936	4117	3951	3762	3827	3955	3966	3867	3927	4081	4059	

Source: DG Agriculture. Note: Ivory Coast, Cameroon, and, of the Caribbean ACP Exporters, Belize exported above their traditional quotas which operated 1994-98.

## 2.7. UK Imports

Imports into the UK amount to nearly a fifth of EU imports and in 2002 amounted to 833,000 tonnes, according to Comext.<sup>12</sup> Imports for 1990-91, and for the last four years, drawn from Eurostat data, are shown in Table 2.3 below.

While the volume of imports has increased appreciably over this period – by about half between 1991 and 2001 – imports from each of the Caribbean ACP Exporters to the UK have fallen, with the exception of Belize. (Imports from Belize in 2001/02 were interrupted for several months after a hurricane in September 2001.) Surinam exports to the UK fell from 29,000 tonnes in 1991 to 6,000 tonnes in 2002 ; production ceased altogether in April of that year. The fall between 1990-91 and 1999-2002 is some 30 per cent on average across the Caribbean ACP Exporters. Over the same period, total imports of bananas to the UK increased by 60 per cent – far in excess of the rise for the EU as a whole. Among other ACP countries, Cameroon increased its exports rapidly and it is now a leading ACP supplier to the UK. Imports from Ivory Coast also rose sharply but peaked around 1995-8.

The share of UK imports provided by the Caribbean ACP Exporters has fallen from around 70 per cent in 1990-1992 to around 30 per cent in the 4 latest years. The Windward Islands alone provided about 45 per cent of UK supplies in the earlier period as against 15 per cent more recently. Sources that have been expanding include the Dominican Republic, Honduras, Columbia and Costa Rica. Costa Rica has become the largest single source (supplying over 100,000 tonnes a year in the last 4 years), a position occupied by St Lucia in the first half of the 1990s. Over the same period shipments from EU countries, especially France, have broadly trebled. Our working assumption is that these are transshipments and hence not necessarily from French overseas territories.

The rise in imports over the decade exceeds the increase in UK aggregate personal consumption. The greater increase in the UK may reflect lower prices and wider choice following the introduction of the EU regime, which succeeded a very restrictive UK national regime in which dollar bananas essentially met the shortfall between total demand and supplies available from the traditional suppliers<sup>13</sup>. The increase may also represent a shift in taste or lifestyle changes, or reflect successful marketing. It is certainly higher than EU per capita average consumption, which changed little between 1991/92 and 1999/2000.<sup>14</sup>

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<sup>12</sup> UK C&E data put the figure at 781,000 tonnes.

<sup>13</sup> For many years under the national regime the UK Government consulted the three main importers on import requirements and supplies available from the traditional sources, with dollar import licences allocated to cover the difference. Following a 1988 review changes were made to encourage more competition and a minimum dollar import quota was introduced, allocated wholly to small ripeners. See J Fitzpatrick and Associates, "Trade Policy and the EC Banana Market" (a report sponsored by Dole Europe Ltd.).

<sup>14</sup> It should again be borne in mind that the 1992 figure may have been affected by actions in anticipation of the introduction of the EU banana regime.

Table 2.3 below shows the broad division of UK imports from 1990 to 2002 by country.

**Table 2.3**  
**Imports into the UK. 1990 to 2002**  
**Thousand Tonnes**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
EU	55	82	89	201	122	136	177	189	274	199	194	151	198
<b>ACP Countries</b>													
<i>of which</i>													
Jamaica	63	70	75	77	76	84	89	77	62	52	41	43	41
Dominica	47	48	45	46	38	32	39	35	27	28	28	18	17
St Lucia	110	85	111	106	86	100	107	71	70	66	73	35	49
St Vincent	80	61	56	53	28	47	44	30	39	38	43	31	33
Grenada	8	7	6	7	5	5	2	-	-	1	1	1	1
Surinam	28	28	30	28	33	28	26	29	21	33	34	29	7
Belize	24	19	28	38	47	41	52	42	45	46	60	47	30
Cameroon	3	3	7	11	25	20	25	20	16	38	43	59	94
Ivory Coast	-	-	4	7	9	21	23	21	21	12	11	8	7
Dominican Rep.	-	2	1	3	1	3	1	2	5	17	30	50	63
<b>Dollar Countries</b>													
<i>of which</i>													
Columbia	11	27	21	4	9	8	5	1	-	17	1	85	73
Costa Rica	11	11	37	43	53	46	57	73	80	119	129	115	182
Honduras	13	13	15	12	16	28	7	46	47	30	39	45	1
<b>TOTAL</b>	<b>470</b>	<b>489</b>	<b>545</b>	<b>655</b>	<b>561</b>	<b>615</b>	<b>675</b>	<b>644</b>	<b>749</b>	<b>730</b>	<b>749</b>	<b>738</b>	<b>833</b>

*Source: Comext; NB this table does not cover all imports so columns sum to less than total.*

*Imports from the EU include transshipments.*

### 3. THE EU BANANA REGIME

#### 3.1. The Lomé Convention<sup>15</sup>

The Lomé Convention, signed in Lomé, the capital of Togo, in 1975 is a series of agreements made between the European Union and the ACP states about trade relationships between the signatories of the convention. The Lomé IV agreement contains a Protocol on bananas which states at Article 1:

*“In respect of its banana exports to the Community markets, no ACP State shall be placed, as regards access to its traditional markets and its advantages on those markets, in a less favourable situation than in the past or at present”*.<sup>16</sup>

Article 36 of the Cotonou Agreement provides that the Community shall maintain the non-reciprocal trade preferences provided for under the Fourth ACP-EC Convention under the conditions defined in Annex V to this agreement. Annex V contains a further banana protocol, which states:

*“The Parties recognize the overwhelming economic importance to the ACP banana suppliers of their exports to the Community market. The Community agrees to examine and where necessary take measures aimed at ensuring the continued viability of their banana export industries and the continuing outlet for their bananas on the Community market.*

#### 3.2. Historical Background: Arrangements Before 1993

Historically, EU Member States had a variety of different arrangements for banana suppliers, primarily reflecting their colonial history but also including protection of domestic producers. The operation of a diverse set of national import regimes continued after the introduction of the single market in Europe, and in spite of a common commercial policy. For example, the UK, France, Spain, Italy and Portugal used quota based import restrictions to provide preferential access to high cost preferred growers in four overseas territories and seven small ACP countries. Only Germany had a completely free market (including a derogation to permit a zero tariff instead of the CET rate of 20 per cent). Trade policy measures in the Netherlands, Belgium/Luxemburg, Denmark and Ireland involved relatively mild intervention<sup>17</sup>. Broadly, three different kinds of regime operated:

- Duty free imports by virtue of preferences for specific exporters under the Lome Convention;

<sup>15</sup> The following is based on information found at [www.bized.ac.uk/virtual/dc/trade/comesa/issue4.htm](http://www.bized.ac.uk/virtual/dc/trade/comesa/issue4.htm).

<sup>16</sup> Article 1, Protocol on Bananas, Lomé IV Convention.

<sup>17</sup> 12 different regimes operated in the EU- Court of Auditors Special Report No7/2002

- Duty free imports under a special derogation for the importer (Germany)
- 20 per cent duty paid imports in the Benelux countries, Ireland and Denmark.<sup>18</sup>

Relatively high priced Caribbean and African bananas found a market in states operating the first type of regime. Lower priced “dollar” fruit from Latin America dominated in states operating the other two.

In 1993 the EU introduced a new regime with its Common Market Organisation for bananas, which replaced the various national banana import systems.

### 3.3. Aims of the Regime

The EU’s banana regime should be understood in the context of the Community’s attempt to achieve a single market. The main aims of the banana regime were:

- Harmonization and stabilization of the market for bananas in the Community;
- Free movement of bananas within the Community and implementation of a common regime of trade with third countries
- Ensuring adequate incomes for EU producers and for traditional suppliers in the ACP states, and fair prices for consumers
- Through the organization of producer organizations, improving the efficiency of production and maximization of earnings from bananas produced within the Community<sup>19</sup>.

### 3.4. Introduction and Evolution of the Regime

The legislation was an attempt to balance three sets of demands

- Those arising from the completion of the single market
- The EU’s obligations under Lome; and,
- Its obligations under the GATT (later WTO)<sup>20</sup>

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<sup>18</sup> Stevens C “Banana skins and turf wars” in Wallace W and Wallace H (eds) Policy making in the European Union 4<sup>th</sup> ed OUP 2000.

<sup>19</sup> Court of Auditors Special Report No7/2002 OJ C294 28 December 2002.

<sup>20</sup> Stevens (2002) *ibid*.

The different agendas behind these demands led to a long running dispute in GATT and then in the WTO. After the introduction of the regime in 1993, the EU introduced successive changes in order to meet WTO requirements. Whereas under the GATT dispute system the EU could resist Panel decisions with its vote, this was no longer the case under WTO.

The following does not attempt to cover the arguments put forward in the course of these disputes, but merely outlines the main changes in the regime bearing on banana imports. The key events are summarized in Table 3.1.

**Table 3.1**  
**Key events in the EU Banana Regime**

Date of Entry into Force	Event
1993 1 July	Initial regime
1995 1 January	First Set of Reforms. Framework Agreement; also accession of Sweden, Finland and Austria
1999 1 January	Second Set of Reforms
2001 1 July	New regime Phase 1
2002 1 January	New regime Phase 2

#### 3.4.1. Initial regime of 1993

The regime was introduced in July 1993. Its main elements were as follows:

- Quantities imported from the traditional ACP states – a tariff quota of 857,700 tonnes free of customs duties. These were split on a country specific basis including 294,000 for the Windward Islands and 105,000 for Jamaica;
- Non-traditional ACP quantities (in excess of the above quota) and quantities from third countries (essentially dollar bananas) were subject to a tariff quota of 2.0 million tonnes. The former were duty free whilst the latter were to face a duty of 100 ecu per tonne (equivalent to 24 per cent at 1992 unit values);
- Allocation of this quota for the second category (non traditional ACP and dollar) on the basis of
  - Category A – 66.5 per cent for operators established in the EU and marketing non traditional ACP and third country bananas;
 

Allocation for this category as well as category B (see below) was also weighted by the type of commercial activity of the operators:

    - § 57 per cent to primary importers;
    - § 15 per cent to secondary importers;
    - § 28 per cent to ripeners;

- Category B – 30 per cent for such operators marketing EU and traditional ACP bananas;  
Allocation for this category as well as category A (see above) was also weighted by the type of commercial activity of the operators:
  - § 57 per cent to primary importers;
  - § 15 per cent to secondary importers;
  - § 28 per cent to ripeners;
- Category C – new operators marketing non traditional ACP and dollar bananas;
- Non traditional quantities from the ACP and quantities from third countries in excess of the above quota were subject to duties of 750 ecu and 850 ecu per tonne (206 per cent) respectively.
- Community bananas received deficiency payments on output up to 854,000 tonnes.

#### 3.4.2. The first set of reforms in 1995: the Framework Agreement and the accession of three new Member States

These included the following features:

- The expansion of the third country and non-traditional ACP quota to 2.2 million tonnes. This was divided into
  - 49.4 per cent for 4 Latin American countries- Costa Rica, Colombia, Nicaragua and Venezuela;
  - 50.6 per cent less 90,000 tonnes for other countries;
  - 90,000 tonnes for non traditional ACP bananas specifically allocated, of which more than half was to the Dominican Republic;
- Duties on non ACP sources were *reduced* to 75 ecu per tonne;
- Category B licences continued to operate.
- The third country and non traditional ACP quota was further expanded with an autonomous (EU discretionary) quota of 353,000 tonnes to allow for EU enlargement. Imports from all sources into the three accession countries averaged 412,000 tonnes a year in 1991-4 and 322,000 tonnes annually 1995-9.

### 3.4.3. The second set of reforms in 1998 – effective 1 January 1999

The main changes introduced on 1 January 1999 were :

- change in *country specific allocations* under the bound quota of 2,200,000 tonnes and the autonomous quota of 353,000 tonnes.
  - Ecuador            26.17%
  - Costa Rica        25.61%
  - Colombia          23.03%
  - Panama            15.76%
  - Other              9.43%
- *removal of country specific allocations* under the traditional ACP quota of 857,700 tonnes
- *abolition of the operator categories* as set out in the original regulation
- Imports of third country bananas under the bound and autonomous tariff quotas (2.553 m tonnes) were subject to a customs duty of € 75 per tonne. ACP bananas were duty free.
- No duty was payable on imports of traditional ACP bananas.
- Non-traditional ACP imports enjoyed a tariff preference of €200 per tonne for out of quota imports.
- Under the new system both the combined third country quotas and the ACP quota were split as follows :
  - Traditional operators            92%
  - Non-traditional operators        8%

Entitlement to licences for traditional operators were calculated on the basis of average imports of bananas in the three year period 1994-96. The annual allocation was then made available to apply for licences to import bananas from any of the sources – Colombia; Costa Rica; Ecuador; Panama; other third country and non-traditional ACP; traditional ACP. Operators had to specify the source from which they wished to import at the time of submitting their quarterly licence applications.

### 3.4.4. The Regime of 1 July 2001 Onwards

Welcoming the agreement reached in April 2001, both the United States and the EC recognized that they had shared objectives, i.e. *“to reach an agreement on a WTO-compliant system, to ensure fair and satisfactory access to the European market for bananas of all origins and all operators, and to protect the vulnerable ACP producers.”*<sup>21</sup>

Phase 1 was to operate from 1 July until 31 December 2001.

- There were 3 quotas :

-	Quota A	2,200,000 tonnes
-	Quota B	353,000 tonnes
-	Quota C	850,000 tonnes

with Quotas A and B managed as one.

- All 3 quotas were open to imports of products originating in all third countries (including ACP).
- Imports under tariff quotas A and B were subject to a customs duty of €75 per tonne.
- Imports under tariff quota C were subject to a customs duty of €300 per tonne.
- Out of quota imports were subject to a customs duty of €680 per tonne.
- A tariff preference of €300 per tonne applied to imports originating in ACP countries both under and outside any of the three quotas effectively rendering them duty-free when imported within the quotas.
- Licences to import under the quotas were allocated as follows:
 

-	Traditional operators	83%
-	Non-traditional operators	17%
- Entitlement to licences as a traditional operator were calculated as follows :
 

-	Quota A/B: average imports of third country and non-traditional ACP bananas in the three year period 1994-96
-	Quota C : average imports of traditional ACP bananas in the three year period 1994-96

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<sup>21</sup> FAO Intergovernmental Group on Bananas and Tropical Fruit – An Assessment of the New (April 2001) Banana import Regime of the EU December 2001.

Phase 2 was introduced on 1 January 2002.

- There were to be 3 quotas as above but with a transfer of 100,000 tonnes from C quota to B quota:
  - Quota A : 2,200,000 tonnes
  - Quota B : 453,000 tonnes
  - Quota C : 750,000 tonnes
- Quota A and B were to continue to be managed as one and open to imports from all sources.
- Quota C is open to imports of products originating in ACP countries only.
- Within tariff quota A/B, imports of non ACP third country bananas are subject to a customs duty of €75 per tonne. ACP bananas are duty free.
- Imports under tariff quota C (now open only to ACP bananas) are subject to a zero customs duty.
- Out of quota imports continue to be subject to a customs duty of €680 per tonne. A tariff preference of €300 per tonne applies to imports originating in ACP countries.
- Licences to import under the quotas are allocated as follows:
 

	A/B Quota	C Quota
- Traditional operators	83%	89%
- Non-traditional operators	17%	11%
- Entitlement to licences as a traditional operator for 2002 and 2003 were calculated as follows :
  - Quota A/B: average imports of 3<sup>rd</sup> country and non-traditional ACP bananas in the three year period 1994-96
  - Quota C : average imports of traditional ACP bananas in the three year period 1994-96

From 1 January 2004 traditional operators entitlement to licence will be based on usage of licences issued under the new system. Details of how this will operate in practice are not yet available.

### 3.5. Arrangements After 2006

As part of the arrangement agreed in 2001, the Council agreed that, at the latest on 1 January 2006, the tariff quota/licence system would end and be replaced by a tariff-only system. The level of this tariff has not yet been decided but there may continue to be a tariff preference for ACP suppliers. Whilst, in principle, a tariff with preference could be calculated which would give the same protection, it seems to be generally agreed that competition faced by the traditional suppliers will be intensified. An IMF report on the industry in St Vincent states that “the viability of the industry is now in serious question post 2005”<sup>22</sup>.

### 3.6. Summary of Main Events

The EU banana regime since 1993 is – in very stylised terms – one of tariffs and tariff preferences (for ACP suppliers), and, more importantly, quotas.

The UK national regime had been one in which, essentially, third country supplies made up the difference between expected demand and what could be supplied by the traditional suppliers in the Caribbean. The initial, EU-wide, regime of 1993 included the following features

- a country-specific quota for traditional ACP imports
- a quota of 2.0 mn tonnes on third country and non traditional ACP producers
- allocation of licences for this second group included 30 per cent assigned to operators marketing EU and traditional ACP bananas providing encouragement to import ACP bananas
- non ACP country bananas within quota faced a duty of 100 ECU per tonne, ACP bananas were duty free
- non traditional imports from ACPs and third country imports in excess of the above quota were subject to punitive import duties.

The reforms of 1995 and effective in that year

- Increased the bound quota by 0.2 million tonnes
- Introduced an autonomous quota of 0.353 million tonnes
- Reduced the duty on non ACP sources to 75 ECU per tonne

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<sup>22</sup> IMF Country Report 03/29 St Vincent and the Grenadines Statistical Appendix February 2003.

**The reforms effective in 1999**

- Removed the country specific allocations under the traditional ACP quota, thus giving more scope to the more competitive countries in this group to expand exports
- Abolished the operator categories provided for in the original regulation including category B that assigned 30 per cent of licences for third country/non traditional ACP imports to operators marketing EU and traditional ACP bananas; this change removed the previous incentive for importers to buy from traditional ACP sources

**New Regime Phase 1 from July 2001**

This made the three quotas open to imports from all sources. Imports from third countries were subject to a duty of €75 per tonne on the A and B quotas (2.2 million and 0.353 million tonnes respectively, and €300 per tonne on the C quota (0.85 million tonnes). Imports from ACP countries were duty free when within the quotas, and in principle had a preferential margin of €300 per tonne outside the quotas.

**New Regime Phase 2**

- Increased the autonomous quota by 0.1 million tonnes and reduced the third quota by 0.1 million tonnes and this resumed its ACP status
- From 1 January 2004, traditional operators entitlement to licence will be based on usage under the new system, thus seeming to favour more competitive sources.
- 2004 will see the expansion of EU membership, which will need to be taken into account. At the latest by January 2006, the tariff quota/licence system will end and be replaced by a tariff only system (presumably with preference for ACPs), the level of which has still to be decided.

## 4. EMPIRICAL OBSERVATIONS ON THE CARIBBEAN ACP EXPORTERS

Section 3 above analysed the EU banana regime. In this Section we examine some empirical data on the banana market. In order to isolate the effects on the high cost producers we focus primarily on the Windward Islands, which probably face costs that are among the highest of all banana producers.

### 4.1. Banana Prices

We first look at the price of bananas. As an example, and to illustrate prices at the various stages of the supply chain, an indication of the build up of the price of Windward bananas from placing on board a ship (fob) through to landing, wholesaling and retail stages is provided by the following figures (for 1995).

- Windward export fob \$0.225/lb or 14p/lb
- Windward import (cif) 20.4p/lb
- Windward wholesale 28.8p/lb
- UK retail price 41.6p/lb

The price to the exporter therefore represented about one third of the UK retail price in 1995. This figure may however vary significantly as different influences operate on different parts of the supply chain.

#### 4.1.1. Import prices

Sterling import prices (cif) of Windward bananas coming into the UK were tending to fall slightly in nominal terms during the first half of the 1990s. They recovered in 1998/99 but fell again in 2000 and were little changed in the first nine months of 2001. On a cif basis Windward import prices have been higher than those of dollar bananas. Even after the tariff is added, dollar bananas were around a fifth lower in price in the early 1990s. However, the import price of dollar bananas, both before and after (changing) tariffs, was rising up to 1995, so that by 1994/95 the import prices of Windward bananas were on a par with the tariff-inclusive prices of dollar bananas. The statistics suggest that a gap of about 20 per cent had opened again by 1999 (with Windward prices higher) but this narrowed as Windward prices dipped and dollar prices rose somewhat through to the first nine months of 2001.

**Table 4.1**  
**Import prices cif. 1990-2001**  
**pence per lb**

	Windwards	Dollar	Dollar plus tariff
1990	21.7	15.0	18.0
1991	22.5	14.7	17.6
1992	21.2	13.3	16.0
1993	21.7	15.0	18.5
1994	21.1	17.2	21.4
1995	20.4	17.7	20.5
1996	21.2	19.9	22.7
1997	20.6	15.5	17.9
1998 (Jan - Nov)	22.2	14.4	16.6
1999	22.6	15.4	17.7
2000	19.4	16.1	18.4
2001 (Jan - Sep)	19.7	16.4	18.7

*Source: MAFF up to 1998. 1999-2001 based on FAO data. For 1999-2001 NERA has added 2.3p per lb to allow for duty on dollar banana imports*

#### 4.1.2. Wholesale prices

During the period 1994/95 to the autumn of 2000 the UK wholesale price of dollar (Costa Rican) bananas was 1 or 2 pence per lb higher than that of Windward bananas.

#### 4.1.3. Retail prices

From a high level in 1990-91, retail prices in nominal terms fell with the introduction of the regime and were relatively low in 1995-96. Since the recovery in 1997, average annual prices in the UK market have remained mostly in the range 95-105 pence per kg. However, the closing months of 2002 saw the aggressive lowering of prices by ASDA; this had knock on effects through rival supermarkets. Over the period between 1990-91 and 2002 the nominal retail price of bananas has fallen by 12 per cent while the UK retail price index has risen by 40 per cent. Thus for much of the period, real prices have been 30-35 per cent lower than in 1991-2. Nominal and real retail prices(deflated by the retail price index) since 1990 are shown in Table 4.2.

**Table 4.2**  
**Nominal and Real Retail Prices of Bananas in the UK 1990-2003**

	Retail prices of bananas £/kg	Real prices (1990=100)
1990	1.14	100
1991	1.19	98.4
1992	1.06	84.7
1993	0.96	75.4
1994	0.94	72.2
1995	0.80	59.4
1996	0.89	64.5
1997	1.00	70.2
1998	1.04	70.6
1999	1.02	68.2
2000	0.99	64.2
2001	1.08	68.9
2002	1.02	64.1
Jan-Mar 2002	1.09	
Jan-Mar 2003	0.90	

*Source: Fyffes 1992-2003, ONS 1990-91<sup>23</sup>; real prices calculated by NERA*

#### 4.1.4. ASDA purchasing

The acquisition of ASDA by Wal-Mart led to purchase from a sole banana supplier, Del Monte, which obtains its bananas from Cameroon and dollar sources rather than the Caribbean. However Fair Trade bananas *are* obtained from the latter. In September 2002, after bananas had been priced £1.08 per kg, ASDA reduced prices to 85 pence per kg. Tesco, Sainsbury's and Safeway followed suit<sup>24</sup>. Following the fall in prices in the autumn of 2002, the average retail price in January-March 2003 was 17 per cent lower than a year earlier.<sup>25</sup>

## 4.2. Production

Production in the Windward Islands more than doubled between 1981 and 1990-2. From a level of around 260,000 in the early 1990s the level had broadly halved by the late 1990s and there has been an appreciable fall since 2000. Windward Islands production is almost entirely dependent on exports to the UK. All have experienced steep declines and production in Grenada, where bananas were not the major crop, has almost ceased.

<sup>23</sup> Fyffes' data are unweighted average prices. The ONS weighted average price series shows a similar change in nominal prices during the period as a whole, but a smaller fall over the period 1992-95.

<sup>24</sup> S Ryle, Observer 24 November 2002.

<sup>25</sup> ONS data also show a fall during this period, of 12 per cent.

**Table 4.3**  
**Production of bananas in the Windward Islands. 1990-2001**  
 '000 tonnes

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Dominica	58	56	59	56	43	33	40	35	29	28	28	18
St Lucia	135	101	135	123	91	106	106	71	73	65	70	34
St Vincent	81	63	79	59	31	50	44	31	40	37	42	32
Grenada	8	10	7	5	5	5	2	-	-	1	1	1
<b>TOTAL</b>	<b>282</b>	<b>230</b>	<b>280</b>	<b>242</b>	<b>169</b>	<b>194</b>	<b>191</b>	<b>137</b>	<b>142</b>	<b>131</b>	<b>141</b>	<b>85</b>

*Source: WIBDECO; quoted in IMF country report 03/29 ibid.*

Because bananas in the green stage are consumed as a starch in Jamaica, and are an important element in the Jamaican diet, there is a large difference between the export tonnage and the total production. Data on local consumption is less accurate than export data, leading to a disparity between estimates of Jamaican production. FAO puts the level at around 130,000 tonnes. Jamaican official figures record levels of 200,000 – 250,000 tonnes since 1990. In relative terms decline in Jamaican output appears to have been smaller.

Production for export in Belize rose during the 1990s and that in Surinam held up well during those years. However, production ceased in Surinam in April 2002 due to the bankruptcy of Surland, the Government –operated banana production company.

#### 4.2.1. Number of producers and acreage under cultivation

WIDBECO estimates the number of active growers - those who deliver bananas for export during the calendar year - in the four Windward Islands as 24,000 in 1993 falling to around 6-7,000 in 2001.

Along with the decline in the number of producers there has been a marked fall in the area under cultivation. Compared with the level in 1992, this had fallen in the Windward Islands as a whole by around 60 per cent by 2001. Among the three larger producers the biggest proportionate fall was in Dominica. The area cultivated in Grenada is now only a tenth of what it was in 1992.

After being stable at 1.7 acres between 1992 and 1997, there has been an increase in the average farm size but it remains very small at 2.4 acres in 2001.

It has been suggested that one explanation for the trends is that less serious farmers – those for whom it is not their sole occupation - have been leaving the industry. Whilst the volume of exports per active farmer was falling slightly between 1992 and 1997, it has risen a little since then. In value terms, the level is around US\$5,000-6,000 per farmer.

In contrast with the Windward Islands, the EC study indicated that in Jamaica there were three estates with an average acreage of 1,200 acres, which produced about three-quarters of

exports. There were another 500 farms (averaging 9 acres) in 1997<sup>26</sup>. In comparison, the IMF suggests competing dollar banana plantations range from 2,500 to 12,000 acres in size<sup>27</sup>.

**Table 4.4**  
**Number of active growers in the Windward Islands 1993-2001**  
 '000

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Dominica	5.8	6.8	6.2	5.5	4.8	2.9	2.9	2.4	1.3
St Lucia	9.7	8.0	7.4	6.7	4.8	4.5	5.2	4.8	3.8
St Vincent	7.8	7.4	6.1	5.7	6.7	4.2	4.4	3.8	2.2
Grenada	0.9	0.9	0.5	0.2	-	0.1	0.1	0.1	0.1
TOTAL	24.1	23.0	20.2	18.0	16.3	11.7	12.6	11.1	7.3

Source: *WIBDECO*

### 4.3. Productivity and Costs in Comparison with ACP and Dollar Competitors

Some guidance as to the relative costs of production can be gained from the fob unit values of exports. In 1999, unit values of exports for Windward Islands and other Caribbean ACP suppliers, and some of their competitors were as shown in Table 4.5. The level in the Caribbean islands was higher than in Belize and Ivory Coast amongst ACP countries and a lot higher than for the dollar banana producers and Cameroon. The level in Cameroon was little different from that in major Latin American producing countries by 1997.

The EC evaluation<sup>28</sup> suggested that costs of production in 1997 in Costa Rica, a benchmark country for international competitiveness in banana exporting, were two thirds of the level in the Windward Islands and a little over half the level in Surinam.

The EC study<sup>29</sup> indicated that, in 1997, the yield was 5 tonnes per acre in the Windward Islands. This figure is in line with estimates for exports per acre derived from data provided by WIBDECO. The yield in the Windward Islands stayed at that level in 1999 and 2001. This was rather lower than the levels of 6-7 tonnes per acre recorded for 1992, 1993 and 1995. In Jamaica, estates showed yields of 12-14 tonnes per acre and other growers 2-4 tonnes per acre. Figures for Belize and Cameroon at around this time were 12 tonnes and 15-17 tonnes respectively

It has been put to NERA that levels in Latin America are in the region of 24 tonnes per acre. IMF calculations for 2000 suggest a yield of 17-20 tonnes per acre for Costa Rica in the late

<sup>26</sup> Hubbard et al *ibid.*

<sup>27</sup> IMF Country Report St Lucia *ibid.*

<sup>28</sup> Hubbard M et al (2000) *ibid.*

<sup>29</sup> Hubbard M et al (2000) *ibid.*

1990s<sup>30</sup>. It has been suggested that cost per acre in South America may be higher than in the Windward Islands, eg for treatment of plant disease, but yields per acre are over three times as great. The small scale of production, of about two acres on average, means that the Windward Islands farmers look for a much larger margin in their selling price in order to have an acceptable income. As a result, asking prices in the UK are difficult to obtain in spite of a preferential tariff. Given price volatility the position is precarious. WIBDECO appear to be running their UK operations at marginal profits or losses with encouragement from the Windward Islands governments, though these are not subsidizing the running costs of the organization.<sup>31 32</sup> The EC study suggests that growers associations made payments to lower quality producers at the expense of higher quality ones.<sup>33</sup>

Given their high production costs, Windward Islands producers are potentially very vulnerable to UK price fluctuations, exchange rate movements and competition from dollar and African producers.

The EU has provided the traditional ACP banana producing countries with funds to improve quality and productivity. The Caribbean has responded with efforts to improve export quality and productivity. For example there was little irrigated land before 1993 and there is now about 4,000 acres. Many farmers however have stopped banana growing; hence the decline in total exports. Increases in productivity have not been sufficient to offset the fall in export prices.

Table 4.5  
Comparison of unit values (fob) of banana exports 1999

Country	US\$ per tonne
St Lucia	520
St Vincent	535
Dominica	552
Jamaica	558
Surinam	562
Belize	568
Ecuador	235
Costa Rica	221 (302 in 1998)
Cameroon	261
Ivory Coast	388

*Sources: WIBDECO; other ACP sources; FAO Yearbook*

<sup>30</sup> IMF Country Report St Lucia *ibid*.

<sup>31</sup> Gill H and Gonzalez A, "Economic consequences of a banana collapse in the Caribbean", Report to the Caribbean Banana Exporters Association May 1995 suggest a break-even price of 587 ecu per tonne including shipping and insurance.

<sup>32</sup> Costs of production are not easily obtained – eg it is only now that growers keep records.

<sup>33</sup> Hubbard et al *ibid*.

#### 4.4. Exports

There has been a decline in exports in most of the Caribbean ACP Exporters (most of whose exports go to the UK). Export volumes are shown in Table 4.6 below. Exports from the Windward Islands halved between 1991/2 and 1999/2000. Jamaican exports peaked in the mid 1990s and have since declined steeply. Surinam's exports have been erratic but have not shown a decline over the period in the table. However, as noted in section 1.7, production in Surinam ceased in April 2002. In contrast, exports from Belize have risen over the period, though production was reduced for a time following the hurricane in September 2001.

The overall fall occurred in spite of the marked growth of the UK banana market during this period. The three main Windward Islands producers (Dominica, St Lucia and St Vincent) had previously experienced very large increases in exports to the UK during 1982-92, around threefold in the case of St Lucia and St Vincent, with a doubling for Dominica<sup>34</sup>.

**Table 4.6**  
**Volume of Banana Exports by the Traditional (Caribbean ACP) Exporters**  
**'000 metric tonnes**

Year	Windward Islands				Total	Jamaica	Belize	Surinam
	Dominica	St. Lucia	St. Vincent	Grenada				
1991	56	101	63	7	227	74	25	28
1992	58	133	77	6	274	77	36	30
1993	55	120	58	5	238	77	43	28
1994	43	90	31	5	169	76	53	33
1995	32	104	50	5	191	83	52	36
1996	40	105	44	2	191	86	65	25
1997	35	71	31	0	137	76	63	33
1998	28	73	40	0	141	62	60	21
1999	27	65	37	1	130	52	65	33
2000	27	70	42	1	140	42	..	..
2001	18	34	30	1	83	43	..	..
2002	17	48	33	1	99	40	..	..

*Sources. WIBDECO (Windward Islands), other ACP sources, and FAO Yearbooks Vols 47,50, and 53.*

<sup>34</sup> Dearden S "The EU banana protocol" in Dearden S (ed) "The European Union and the Commonwealth Caribbean," Ashgate 2002.

Export earnings (fob) of the producers are the data most closely corresponding to the earnings of producers. These are likely to overstate net revenue accruing to producers.<sup>35</sup> Offsetting this, they do not take account of revenue from local sales, though this is perhaps of major significance only for Jamaica. The value of exports (fob) is shown in Table 4.7.

**Table 4.7**  
**Export Values (fob)**  
**US\$ million**

Year	Windward Islands				Total	Jamaica	Belize	Surinam
	Dominica	St. Lucia	St. Vincent	Grenada				
1991	32	60	34	4	130	49	7	10
1992	32	72	40	3	147	40	10	10
1993	26	55	25	2	107	36	12	11
1994	24	49	17	2	92	46	15	11
1995	18	52	25	2	97	46	22	8
1996	18	52	22	1	93	45	29	9
1997	18	37	16	-	71	45	26	24
1998	15	37	22	-	74	36	25	15
1999	15	34	20	-	69	29	27	21
2000	12	28	19	-	59	23	..	..
2001	8	16	13	..	36	..	..	..
2002	..	..	..	..	45	..	..	..

*Source* WIBDECO (Windward Islands 1992-2002); FAO Yearbooks vols 47, 50, and 53. Values for Jamaica, Belize and Surinam for 1999 and 2000 are from Internet sources.

Export revenue in the Windward Islands has been hit by the decline in export volumes. Between 1991/92 and 1999/2000 the value of exports (fob) fell by over a half. They fell further in 2001 and 2002 for the Windward Islands. However, as a measure of real income, these dollar revenues need to be converted to local currencies and deflated by a broad indicator of local inflation. This measure has been attempted in the following table. It shows a fall of three quarters by 2000-01 for the Windward Islands and more than this for Jamaica.

<sup>35</sup> Hubbard M, Herbert A, Roumain de la Touche Y "Country Report on Assistance to the Windward Islands" Evaluation Association 2000 suggests that Windward Island growers receive only 61 per cent of the fob value of their bananas from the growers associations compared with over 90 per cent in Jamaica and Belize. However, interpretation of this is uncertain.

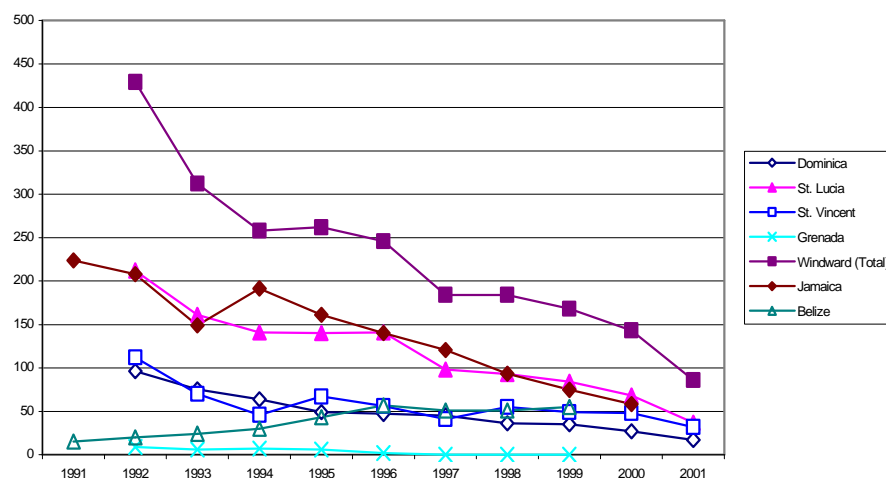
**Table 4.8**  
**Real Value of Banana Exports (in millions of respective real local currencies)**

Year	Windward Islands					Jamaica	Belize
	Dominica	St. Lucia	St. Vincent	Grenada	Total		
1991	101	184	99	12	396	2,237	15
1992	96	212	112	9	429	2,078	20
1993	75	161	70	6	312	1,492	24
1994	64	141	46	7	258	1,913	30
1995	49	140	67	6	262	1,609	43
1996	47	141	56	2	246	1,399	57
1997	45	98	41	-	184	1,206	51
1998	36	93	55	-	184	935	51
1999	35	84	49	-	168	746	55
2000	27	68	48	..	143	583	..
2001	17	37	32	..	86	..	..

*Sources: Previous table and NERA calculations.*

*Notes: The local currencies are Jamaican \$, Belize \$, East Caribbean \$ (for the Windward Islands). The East Caribbean \$ and the Belize \$ are pegged to the US \$ for the entire period. The national GDP deflators with reference year 1995 were used to calculate the real export values. Deflators for years from 1998 onwards are constructed for Dominica assuming that GDP deflator grows by the average percentage of the previous years. The CPI was used for Grenada due to lack of a complete GDP deflator series for this country.*

**Figure 4.1**  
**Real Value of Banana Exports (in respective local currencies)**



*Sources: WIBDECO for Windward Islands, FAO for Jamaica and Belize. IFS. NERA's own calculations.*

*Notes: The local currencies are Jamaican \$, Belize \$, East Caribbean \$ (for the Windward Islands). The East Caribbean \$ and the Belize \$ are pegged to the US \$ for the entire period. The national GDP deflators with reference year 1995 were used to calculate the real export values. Deflators for years from 1998 onwards are constructed for Dominica assuming that GDP deflator grows by the average percentage of the previous years. The CPI was used for Grenada due to lack of a complete GDP deflator series.*

The prices received by exporters in dollar terms (fob) are shown in Table 4.9 below<sup>36</sup>. The levels are volatile with evidence of a recovery to 1991-92 levels in 1998-99, but this was not sustained in 2000-2002.

The prices received by producers in real terms are described in Table 4.10 below by the dollar unit values of banana exports deflated by a broad local price index. Following the initial decline after 1992, these prices fluctuated but appear to show a further substantial fall in 2000-2001.

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<sup>36</sup> We have observed some inconsistencies between unit value numbers derived from FAO data on export value and volume data for Belize and Surinam and unit value data coming directly from other sources. The sources selected for these tables give a reasonably consistent picture of trends over the period.

**Table 4.9**  
**Unit Values (fob) of Banana Exports**  
**(US\$ per tonne)**

Year	Windward Islands					Jamaica	Belize	Surinam
	Dominica	St. Lucia	St. Vincent	Grenada	Average*			
1991	557	588	527	506	545	656	..	..
1992	552	543	513	520	530	514	..	..
1993	469	457	424	400	450	466	529	485
1994	547	547	545	480	550	608	556	503
1995	572	499	496	420	510	552	606	519
1996	460	496	493	300	490	526	586	577
1997	511	523	516	..	520	595	547	577
1998	532	504	558	..	520	581	566	524
1999	552	520	535	..	530	558	568	562
2000	433	404	457	..	420	545	601	545
2001	417	462	433	..	440	..	510	451
2002	..	..	..	..	450	..	491	472

*Sources:: Derived from FAO Trade Yearbook, Vols. 47, 50, 53. Derived from WIBDECO tables (for Windward Islands 1992-2002) and other ACP sources. \*rounded to nearest US\$10.*

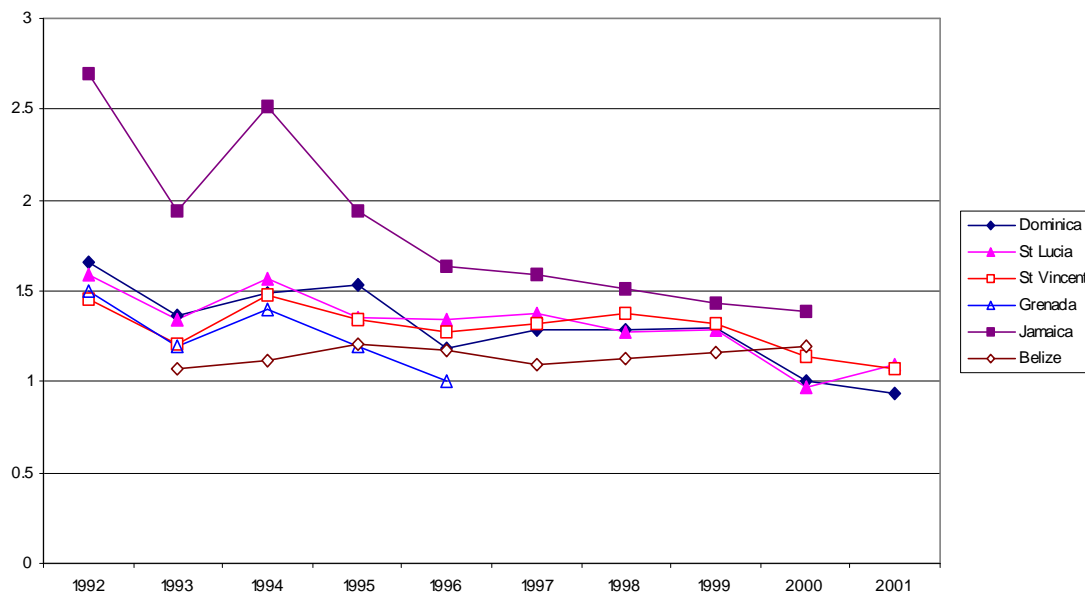
**Table 4.10**  
**Unit Values (fob) of Banana Exports (in real local currency units per tonne)**

Year	Windward Islands					Jamaica	Belize
	Dominica	St. Lucia	St. Vincent	Grenada	Total		
1991	1.74	1.80	1.55	1.50	1.71	3.02	..
1992	1.66	1.59	1.45	1.50	1.57	2.70	..
1993	1.36	1.34	1.21	1.20	1.30	1.94	1.07
1994	1.49	1.57	1.48	1.40	1.51	2.52	1.11
1995	1.53	1.35	1.34	1.20	1.41	1.94	1.21
1996	1.18	1.34	1.27	1.00	1.26	1.63	1.17
1997	1.29	1.38	1.32	..	1.33	1.59	1.10
1998	1.29	1.27	1.38	..	1.31	1.51	1.13
1999	1.30	1.29	1.32	..	1.30	1.43	1.16
2000	1.00	0.97	1.14	..	1.04	1.39	1.19
2001	0.94	1.09	1.07	..	1.03	..	..

*Sources: Previous table and NERA's own calculations.*

*Note: Local currencies are: East. Caribbean \$ for Windward Islands, Jamaican\$ for Jamaica, Belize\$ for Belize. Figures are indicated in 1000 local currency units per tonne for Windward and Belize and in 100 local currency units per tonne for Jamaica. Only Dominica, St. Lucia, and St. Vincent considered when calculating the average unit value for Windward Islands from 1997 onwards.*

**Figure 4.2**  
**Real Unit Values of Banana Exports (In Local Currencies)**



*Sources: WIBDECO and other ACP sources (for Windward Islands and Belize), FAO (for Jamaica).*

*Note: Unit Values are in 1000 real local currency units per tonne. For Jamaica, unit values are in 100 real local currency units per tonne.*

#### 4.5. Outlook for the Industry

Guyomard and Mouel<sup>37</sup> projected EU banana supplies for 2005 from the EU territories, ACP countries and third countries. Their main conclusions were:

- The A/B and C quotas would be constraining in 2005, ie rises of 10 per cent and 8 per cent respectively on the 1996-8 average.
- Supplies from EU territories would rise by 6 per cent over this period.
- Exports from the Cameroon and Ivory Coast would rise by 17 and 22 per cent respectively. Exports from the Windward Islands and Jamaica would decrease by 6 per cent.

<sup>37</sup> H Guyomard and Cle Mouel, The new banana import regime in the EU: a quantitative assessment INRA-ESR Rennes 2002

## 5. ASSESSMENT OF THE VIABILITY OF BANANA PRODUCTION & EXPORT FOR THE CARIBBEAN ACP EXPORTERS

Section 4 above described the empirical trends in the production and export of bananas for the Caribbean ACP Exporters. In this Section we provide some interpretation and analyse the viability of the Caribbean ACP Exporters.

### 5.1. Mitigating Possibilities Against the Decline of the Banana Market for Traditional Exporters

There is little scope for adding value to bananas except by improving quality and packaging, or by differentiating the product. Organic farming is an option; the Dominican Republic is the leader in this field and our understanding is that only Grenada among the Windward Islands is currently pursuing this option. However, Sainsburys have envisaged a tenth of their banana sales as organic in the long term<sup>38</sup>. Windward Islands bananas are sold under the Fair Trade logo; this improves prices provided consumers are willing to pay a premium.

EU measures provide some assistance.

- Stabex – income compensation to meet loss of preferences. In the Windward Islands, considerable amounts have been used for banana productivity improvements and also for diversification and social recovery.<sup>39</sup>
- The 1994 Special System of Assistance – for improving quality, marketing etc. This provided ECU 95mn of which 78mn was given over 3 years for 7 banana producers (cf 185mn for EU producers). This provided income support like Stabex but also technical assistance. The Windward Islands got ECU 1.7mn after hurricane damage plus ECU 7.7mn technical assistance.

The 1999 Special Framework for Assistance (SFA) for Traditional ACP Suppliers of Bananas aims to improve competitiveness by raising productivity. If no sustainable increase in competitiveness can be foreseen, funding will be available for diversification. Eligibility for funding is based on a competitiveness gap formula. Only the Windward Islands have hitherto made specific allocation for diversification; and, in the case of St Lucia, for social recovery for those leaving the industry. The Commission has suggested more use of SFA for diversification and Jamaica from 2002 onwards will use a portion of the grant for diversification purposes. The countries were to receive some € 33 million in both 1999 and 2000, (three-quarters of the total) of which c. € 21 million per annum would go to the

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<sup>38</sup> C James, Financial Times, 13 November 2001.

<sup>39</sup> EC, Communication from the Commission to the EP 2000

Windward Islands <sup>40</sup>. There are indications that much of the support has been directed towards diversification into other forms of agriculture such as fruit and vegetable production, as well as outside agriculture. A major UK retailer has indicated a willingness to source other fruit from the Windward Islands “but it has got to be competitive”. Relations with the supermarkets are said to be good but diversifying into other branches of agriculture faces many of the same problems as banana production. As far as moves outside agriculture are concerned, one issue is likely to be the adaptability of the workforce, many of whom are aged over 50.

From this perspective banana growing remains a more attractive option<sup>41</sup>. It is labour intensive (unemployment is high), there are quick returns on investment, the plants recover quickly from hurricanes, and there are crops throughout the year. Fertilizer is available at favourable prices from the BGAs for inter-planted root crops. Raising productivity in banana growing seems to be easier than diversification into other crops; in the Windward Islands the latter suffer from the same problems of small plots and limited basic infrastructure.

There is also a strongly held view that restructuring can only supplement, but not replace banana production. Fruit for export rely on the weekly banana boats. Indeed these regular sailings are also important for the backhaul of foodstuffs and raw materials<sup>42</sup>. There is a fear that if exports fall too low the weekly boat services will become endangered. Diversification, on this view, has to be based on a core of banana production.

## 5.2. Indicators of Viability

When production is undertaken by companies responsible to shareholders, an obvious test of viability is the financial rate of return achieved over a period of time. In other words viability means financial viability. This criterion can in principle be applied to an agriculture dominated by companies, and hence is probably meaningful where growing is done predominantly in plantations. Plantation agriculture is important in Belize and for the greater part of Jamaica’s growth for export. Belize in particular is a country that has been successful in expanding production. At this stage we have not attempted to examine or collect information on the financial returns to banana growing there. *Prima facie* the evidence suggests that growing is viable in Belize, since production has been expanding.

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<sup>40</sup> EC 2000 *ibid.*

<sup>41</sup> Dearden S (2002) *ibid.*

<sup>42</sup> H Gill and P Gonzalez (1995)*ibid.*

In the case of Surinam, production was in the hands of a state-owned company Surland. The company went bankrupt, resulting in the ending of production for export there in 2002. Bankruptcy may have occurred, clearly, for many reasons, but the bankruptcy of a state operated company suggests that the Government may have been unwilling or unable to maintain financial support to the industry against a background of worsening selling conditions and falling prices.

In the case of the Windward Islands, growing is in a large number of smallholdings. Growers may not think directly in terms of conventional profit measures but, more likely, whether the income is worth the input of effort required. For some, growing may even be a part time occupation, and the rewards to alternative occupations may be relevant to individual judgments on the viability of growing bananas. While the underlying considerations are likely to reflect financial viability (in view of the next best alternative for the individual in question), direct data on smallholdings which may measure viability and separate the return to capital, labour costs etc, is unlikely to exist in any meaningful sense.

In consequence we mainly attempt to use the indicators and trade statistics set out earlier to provide *prima facie* evidence of whether growing and exporting bananas (to the EU) has in fact remained a viable economic activity for the producers traditionally supplying the UK.

Volume of exports. Total exports of the Windward Islands broadly halved from just before the start of the regime in 1993 to 1999-2000. There has been an appreciable fall since 2000. Exports of Jamaica fell by one third over the period. Those of Belize and Surinam rose but production in Surinam ceased in April 2002.

Share of EU-15 imports. For the Caribbean ACP Exporters as a whole, the share of EU-15 imports fell from 9.4 per cent in 1990/92 to 6.4 per cent in 2000/2001. For the Windward Islands alone the share has fallen from 6.3 per cent to 2.8 per cent and for Jamaica from 1.7 per cent to 1.0 per cent.

Share of UK imports. Exports of the seven countries go almost entirely to the UK. Over the period 1989/1992, the selected countries share of the UK market was around 70 per cent. For the period 2000 to 2002 it had fallen to 29 per cent. For the Windward Islands alone, the share fell from 45 per cent to 14 per cent, and for Jamaica from 12.3 per cent to 5.3 per cent.

Export value. This is the best indicator available of the aggregate of growers' incomes. (Tables 4.7 and 4.8.) In US dollars, Windward Islands exports fell from \$130 million in 1991 to \$ 36 million in 2001. US dollar values of Jamaican exports halved over the same period. In real terms, ie in the local currency and deflated by the GDP price index, export values show an even more marked fall. For the Windward Islands, banana exports, measured in local currency and in real terms (at 1995 prices), fell from \$ 396 million in 1991 to \$ 86 million in 2001. Jamaican exports, similarly, show a larger decline, when measured in terms of the real value of the local currency. Export values for Belize and Surinam had risen over the period up to 1999. However, production for export in Surinam ceased in April 2002.

**Export unit value.** This is the best indicator we have of the price received by the growers. But this is not identical with their value added or their incomes. Windward Islands and Jamaican dollar unit values are 50 -100 per cent higher than those of competitors in Latin America. It is not evident that their relative position has improved over the period of the banana regime. Cameroon unit values are broadly at Latin American levels. These differences are primarily a reflection of cost differences and therefore of competitiveness.

In real terms, export unit values are also a guide to the real price received by growers. They have fallen sharply for both the Windward Islands and in Jamaica. Unit export values for Windward Islands exports were high before the introduction of the EU regime. This reflects the high prices in the protected UK market at that time - 22-23 pence per pound cif import price, and retail prices of 48-54 pence per pound.

**Production levels.** Output in the Windward Islands is largely for export and the behaviour of production has mirrored that of exports in showing a large fall. Production in Grenada has been almost eliminated. (Yield per acre in the Windward Islands remains low at 5 tonnes.) Jamaican output appears now to be well in excess of exports; output has been relatively stable but the export ratio (proportion of output) has fallen. Output had been stable in Surinam until it ceased in 2002 with the bankruptcy of the Government agency involved. Output in Belize has been rising.

**Number of growers.** The number of active growers in the Windward Islands had fallen from 24,000 in 1993 to 7,000 in 2001, a fall of about 70 per cent. This does not reflect any marked concentration of production or export, as exports per grower have risen from around 10.5 tonnes per farm to 12 tonnes per year between 1990-3 and 2000-1. Average farm size has risen since 1997 but remains very small at 2.5 acres in 2001.

### 5.3. Assessment of Viability

Overall the above indicates very serious issues of continuing viability. To quote a recent IMF paper, "***Recent developments in the international banana market have brought into question the viability of the industry [in the Windward Islands]. Increased competition in the world market and uncertainties concerning preferential access to the EU have contributed to weak prices and lower farmers' confidence.***"<sup>43</sup>

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<sup>43</sup> IMF Country Report No. 02/14 St Lucia: Selected Issues and Statistical Appendix. January 2002. *The Restructuring of the Banana Industry in St Lucia and the Windward Islands.*

The above statistics essentially confirm this judgement. The IMF also note the reduction in the number of farmers in the Windward Islands, and anticipated continued reduction, with a steady migration of farmers to other activities. The scale of the decline, against the market circumstances described above, indicates that banana growing has ceased to be a viable activity for a very large part of the industry.

## 6. INTERPRETATION OF THE EVIDENCE

### 6.1. Economic Forces at Work in the EU Banana Regime

The purpose of the trade regime has in essence always been to protect banana growing in ACP countries (and EU domestic production) from the effects of competition from low cost producers, the “dollar bananas”, who were capable of expanding production. The result of unfettered competition was seen as likely to include a consequential driving down of prices and reduction or elimination of the market share of the higher cost producers. The group of countries protected by the regime includes, as one would expect, many with costs of production and transport intrinsically higher than those of the dollar banana countries.

In the case of the Caribbean ACP exporters putting their bananas on the UK market, the shift to the EU regime was fundamental in character. In highly simplified terms, the pre-1993 regime was one in which the lower cost dollar bananas were allowed to “top up” supplies of bananas to the UK market after the anticipated level of supplies to the UK from the protected sources had been accommodated<sup>44</sup>. The EU regime by contrast has essentially become one in which a quota of cheaper “dollar” or “third country” bananas has been fixed, and the market, in principle, became one in which ACP producers could compete to supply the EU market as a whole. The Caribbean ACP exporters, therefore, both lost the protection of agreed volumes and also faced potentially intense competition from other ACP countries even in the market reserved for protected ACP/EU sources.

The regime introduced by the EU has consisted of a complex mix of tariff and quota arrangements. However, in simple terms, it has been intended to work through a mix of

- Restricting the supply of low cost “dollar bananas” to the EU market through a quota; and
- Other measures, notably the Category B licences, aimed at providing incentives to importers to buy from ACP producers.

The expected consequence of a quota system that “bites” on the supply of low cost bananas, and hence allows or necessitates continuing production of higher cost ACP bananas, is that prices will reflect competition between ACP producers. Within broad limits, lower quotas of low cost bananas will tend to lead to more ACP production and higher prices, reflecting the costs of the higher cost ACP producers. Higher quotas, conversely, lead to less ACP production and lower prices, reflecting the costs of lower cost ACP producers. It follows that quota size for “third country” or “dollar bananas” is a critical determinant of the degree

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<sup>44</sup> A committee, the Banana Trade Advisory Committee, met monthly or, in times of unusual volatility in supply, weekly to discuss the forecast supply position from the traditional sources - Windwards, Jamaica, Belize and Suriname. Their total supply position was then compared to the estimated demand and the necessary licences to import dollar bananas were issued by the DTI. See also reference to the Fitzpatrick report in footnote 13.

of protection that is being afforded, and of both prices and volumes supplied from the protected sources.

The further complicating factor, in interpreting the potential effects of the regime, is that the ACP countries are very far from being a homogenous group. Production costs vary considerably between them, from relatively low cost producers in West Africa to more vulnerable high cost producers in the Caribbean, a group which includes a number of the producers traditionally supplying the UK. The practical effect of competition between ACP countries, potentially, is to add to the degree of protection required by the more vulnerable producers, if their position is to be protected or preserved. Individual country quotas within ACP were indeed a feature of the regime in the early years after 1993, until 1998.

The threat to the more vulnerable producers is essentially similar to that which they, and ACP producers as a whole, faced from the dollar bananas. The threat, without protection, is that the lower cost ACP producers would expand production and gain market share, and that prices would fall, with consequential falls in output for the most vulnerable producers.

It is clear therefore that factors such as quota size for the large dollar banana quota, which is the core element of the EU regime, and the abolition of national quotas within ACP, are, potentially at least, crucial in determining how the market behaves. They are also crucial to the success or failure of a regime aimed at protecting *all* the ACP countries, and not merely maintaining the viability of banana growing in ACP countries as a whole. To these factors one can add any additional incentives built into the quota licensing regime that favour EU/ACP producers. The development of the regime, partly in response to international and WTO pressures, has seen the removal of a number of the specific protections that were built into the initial regime.

In interpreting the actual outcome of the regime, it is also worth noting that highest cost producers are, as one would expect, a “barometer” for the market, since they will suffer most immediately from any shift in the demand. These producers are of course also the most relevant to consideration of whether the regime has been successful in the protection of *all* the ACP countries, as intended.

## 6.2. Summarising the Market Trends

With this in mind, it is useful to review the actual experience of price and volume trends, particularly for the most vulnerable producers, in relation to the development of the regime over the period. A fuller analysis of individual changes in the regime, and the measurement of their market effects, would necessarily involve a more detailed examination of the precise changes in the EU banana regime, analysis in the framework of international trade theory, and much fuller statistical investigation of all the changes affecting the position of the Caribbean ACP Exporters. The following observations do however show that actual regime changes, many of which are of a nature that one would expect, intrinsically, to weaken the degree of protection afforded to the Caribbean ACP Exporters, have been followed by

market conditions with actual adverse effects for those producers. The adverse effects take the form of lower prices and loss of markets. *Prima facie* we take the view that the regime changes are likely to have made a significant impact on the market. Were more detailed analysis to be undertaken, it is in our view likely that it would establish that the connection is not simply coincidence, but reflects direct causal and possibly quantifiable links between alterations in the EU banana regime and the outcomes for the Caribbean ACP Exporters.

Generally the early decline in prices from pre-1993 levels suggests early evidence that the regime was struggling to sustain prices at the levels necessary to meet its objectives. Certainly, for the Windward Islands (a “barometer” group), the real value of their banana exports had, by 1994 and 1995, fallen by about a third from their pre 1993 levels (Table 4.8 and Figure 4.1). This reflected both substantial falls in tonnages (Table 4.6) and smaller falls in real prices (Table 4.10 and Figure 4.2). The data that we have, though, does not indicate very large falls in producer prices at this stage in the life of the regime. Retail prices in the UK, however, had already fallen dramatically by 1995 in real terms from a pre-1993 base (Table 4.2).

One obviously plausible explanation would be that the main (dollar banana) quota had been set initially at a level too high to sustain prices at sufficient levels to constitute effective protection. There was a substantial increase in UK imports of dollar bananas from Costa Rica in this period.

The first major change in the regime was in 1995, and included a quota increase to allow for the accession to the EU of three member states. The immediate effect on prices does not appear to have been dramatic, with a suggestion of very modest recovery after 1996. Export values and actual export tonnages for the Windward Islands “barometer” appeared to stabilise over the period 1994-1996 but then fell sharply between 1996 and 1997.

The second major set of changes was in 1998 (and effective in 1999). These included the abolition of Category B licences, which had hitherto provided an incentive for importers to seek out ACP bananas, and also the abolition of country specific quotas within the ACP group. Again, major effects were not instantaneous. However by 2000 and 2001 a number of quite dramatic developments can be observed. Average producer prices for Windward Islands producers (as measured by the unit value of exports) fell by about 20 % in 2000. There was also a very sharp fall in exports from the Windward Islands, from 140,000 tonnes in 2000 to 83,000 tonnes in 2001, consistent with growers responding to the much lower prices on offer.

Imports from the two main dollar banana countries currently supplying to the UK (Costa Rica and Columbia) increased substantially in 1999 and again grew dramatically in 2001 and 2002 (Table 2.3). Whilst aggregate dollar banana imports to the EU have been constrained at a fairly constant level by the quota, this has not prevented shifts in their exports within the EU. These have increased substantially in the UK since the mid 1990s.

At the same time there was a large increase in UK imports from other ACP countries, notably Cameroun, exactly the kind of development (as indicated above) that might be expected, on the basis of theoretical analysis, to result from the abolition of country specific quotas. UK imports from Cameroun have risen from 16,000 tons in 1998 to 94,000 tonnes in 2002.

The evidence therefore shows that a decline in volume of, and earnings from, banana exports from the most vulnerable producers, has occurred after a number of key changes in the EU banana regime. The connections in terms of timing are at least consistent with the hypothesis that some of the changes in regime have themselves had significant market effects. The intrinsic character of some of the changes, particularly in introducing more ACP competition and removing market incentives to import ACP bananas, also adds weight to the *prima facie* evidence for a link between the regime and the decline in the fortunes of the most vulnerable producers.

## 7. CONCLUSIONS

This preliminary report has examined the operation of the EU banana regime from its inception in 1993, with particular emphasis on price and volume trends relating to the producer countries traditionally exporting to the UK market. It provides our *prima facie* assessment of how they have been affected by the regime over the period. It also considers whether the regime has in fact secured the objective of ensuring the continuing viability of their banana export industries and a continuing outlet for their bananas on the Community market on terms comparable to those they previously enjoyed.

Economic and trade statistics indicate that the regime has not met these objectives. In particular they provide clear evidence of

- Substantial falls in the prices available to banana growers exporting to their traditional markets
- Loss of sales volume and market share in those markets
- Non viability of banana exports as growers exit the industry
- No sign of stabilisation, as prices and volumes have continued to fall

Falling prices. Banana prices for Caribbean ACP Exporters have fallen substantially.

- Banana prices had declined substantially by 2000. Table 4.10 shows producer prices (unit values of banana exports) for Caribbean ACP Exporters as having fallen by about a third in real terms by 2000. (UK retail prices fell by around 30-35 % in real terms over the same period followed by a sharp fall during the last 12 months..)

Loss of sales volume and market share in traditional markets. The Caribbean ACP Exporters have lost sales volume and market share in their traditional UK market, and this has not been offset by any gain in other EU markets.

- Exports of dollar bananas to the EU 15 as a whole have remained more or less constant over the period as a whole, and have been constrained by the quota. Within the UK, however, there has been a substantial rise since the mid 1990s.
- The Caribbean ACP Exporters collectively, and for all but one country individually, have experienced an overall fall in the volume in tonnes of EU exports.
- They have also experienced very substantial and continuing falls in the actual tonnages of their exports to their traditional UK market, including a substantial fall since 2000; this represents an even larger fall in their market share, since the UK market unlike the EU market as a whole, has shown significant growth over the period.

- Export volumes in a number of growing countries, essentially those with the higher levels of cost and/or least favourable growing conditions, have declined substantially, including an appreciable fall since 2000.
- Export volumes from other countries, notably including some other ACP countries, have increased substantially. These appear to be the ACP countries where growing conditions are more favourable and costs are lower.

Evidence that the banana industries in several Caribbean ACP countries are no longer viable. To the extent that the protection of the highest cost producers has not been effective, it is manifested in prices that are inadequate to provide sufficient incentive to growers to continue in production.

- falling export values (fob) which indicate reductions in growers' incomes;
- the complete cessation of exports in Surinam, following bankruptcy of the state owned company, and near cessation in Grenada
- substantial reductions in the numbers of growers, and acreages under cultivation.

No sign of stabilisation in the market for Caribbean ACP banana exports. The recent experience includes

- further appreciable falls in producer prices and in UK retail prices during the last 12 months, falls in export volumes and in numbers of growers in the more vulnerable producing countries

This evidence creates a strong presumption that the EU banana regime has, at least for a number of the Caribbean ACP Exporters, failed to secure their position in their traditional UK market, without any compensating exports to other EU countries. Given that the commitment relates to individual countries, and not to ACP countries collectively, one may infer that an intended objective of the regime was to ensure that even the higher cost producing countries were able to sustain traditional levels of export to their traditional markets. The evidence therefore suggests that the regime has not been successful in respect of this main objective.

As a corollary, the regime also appears to have failed, in consequence, to meet the objective of sustaining viable banana growing and exporting in a number of the more vulnerable high cost producing countries. These include, in particular, a number of the Caribbean ACP Exporters, and especially the Windward Islands. A January 2002 IMF country report commented that recent developments in the international banana market had brought into question the viability of the Windward Islands industry. The extent of the change has been dramatic, most particularly so in the period since 1999, with, for the Windward Islands in particular, substantial falls in producer prices (as measured by export unit values), in

volumes of exports, and in numbers of growers. The scale and pace of the decline are remarkable.

In explaining these trends, it is difficult in a preliminary analysis to isolate the effects of particular changes in the trade protection regime over the period from other factors, such as sterling exchange rates or retail competition. (The precise identification of cause does not affect assessment of the success or failure of the regime.) Nevertheless it is clear that a number of the changes were intrinsically likely to weaken the degree of protection afforded to the more vulnerable high cost producers, a number of whom are in the group of countries we have examined. Changes with this potential included

- the expansion of quotas for third country and non-traditional ACP imports, if these did not reflect corresponding growth in demand
- ending of Category B licences for traditional ACP importers
- the movement from individual quotas for ACP countries to an overall ACP quota

The last of these was intrinsically likely to increase the extent of competition between ACP countries. Substantial increases in production in some of the lower cost ACP countries are likely to have further increased the pressure on the most vulnerable producers.

Prima facie, the evidence suggests that the regime has offered progressively less protection to the most vulnerable producers, notably a number of the individual Caribbean countries that have traditionally exported to the UK. The regime has certainly not been successful in ensuring their access to their “traditional markets and their advantages on those markets”, on terms comparable to those they previously enjoyed. Nor has it been successful in ensuring the continuing viability of banana exports from those countries.

**GLOSSARY**

**ACP.** Africa, Caribbean and Pacific group of states. Partners with the EU in the Lome and Cotonou Agreements.

**CET.** Common external tariff of the EU. Also known as the common customs tariff.

**DOM bananas.** Bananas from within the EU ie from Domaines d'Outre Mer – overseas territories of member states eg Martinique, Canary Islands.

**Dollar Bananas.** Bananas imported from Latin American countries which are not ACPs. They are sometimes referred to as “dollar” banana exporters because of their association with US based multinational (or US dollar revenue based) companies.

**Traditional ACP Bananas.** Exports of 12 ACP countries within the ACP quota.

**Non-Traditional ACP Bananas.** Exports of these in excess of quota, plus those from the Dominican Republic etc. Since 1 July 2001 there has ceased to be a distinction between Traditional and Non-Traditional ACP Bananas.

**Third Country Bananas.** Bananas from other, very largely dollar, sources.