

Q&A: The banana wars

The European Union has agreed a deal with Latin American countries and the US to end the long-running "banana wars" trade dispute. So what is the dispute about and why has it taken 16 years to resolve?

What are the banana wars?

The term "banana wars" refers to a series of trade disputes between the European Union, the United States and several Latin American countries concerning access to Europe's banana market.

The disputes surround EU tariffs on banana imports.

There is no duty imposed on bananas imported from former European colonies in Africa, the Caribbean and the Pacific (known as the ACP countries).

However, the EU charges duties on bananas imported from other countries.

This includes bananas from some of the world's largest banana producers in Latin America, who argue that the tariffs are unfair and breach free trade rules.

The US has a vested interest in the issue, as the largest banana producers in Latin America are operated by US companies including Dole and Del Monte.

Why does the EU have trade agreements with the ACP countries?

Many of the ACP countries are former European colonies.

When these countries became independent in the 1950s and 60s, trade agreements were put in place to ease the transfer of power, providing them with access to European markets and aid.

In 1993, the EU introduced Europe-wide banana tariffs to replace the various trade agreements of individual European countries.

Why is it a problem now?

Latin American banana producers have been complaining about the unfairness of the EU tariffs ever since they were introduced.

In 1996, Ecuador, Guatemala, Honduras and Mexico, together with the US, formally complained to the World Trade Organization (WTO) about the tariffs.

Since then the WTO has repeatedly ruled that the EU tariffs are unfair, but little has changed thanks to continued discussions and arguments between the major players.

Repeated delays to the WTO's Doha round of trade talks, which have now been delayed for nine years, have also helped to stall an agreement on banana imports.

Why are bananas such a big deal?

The European banana market is the largest in the world. The EU imported nearly 5.5 million tonnes of bananas last year. More than 70% came from Latin America, with 17% coming from the ACP countries.

The banana industry is also hugely important to the economies of many developing countries.

In the Windward Islands in the Caribbean, for example, banana production is the single biggest sector of the economy and the biggest employer.

Ecuador is the world's biggest exporter of bananas, and the industry is the country's second biggest earner after oil.

The EU does grow some bananas within its own territories. Producers include Spain (Canary Islands), Portugal, Cyprus and Greece, as well as the French overseas departments of Martinique and Guadeloupe. Together they provide more than 10% of the EU's banana needs.

What's in the agreement?

"The Geneva Agreement on trade on bananas", brokered without the WTO, will see the EU gradually reduce the tariffs it charges Latin American banana importers.

Tariffs will be reduced from 176 euros per tonne now to 114 euros per tonne over a seven-year period.

The first cut, to take effect in 2010, will see the tariff cut to 148 euros per tonne. Further cuts will then be implemented annually.

The EU has also agreed a compensation package with the ACP countries who will lose out as a result of the deal. They will receive 200m euros over four years.

What's the impact likely to be?

According to Geneva-based International Centre for Trade and Sustainable Development, banana imports into the EU from the ACP countries could decline by 14% over the next seven years as a result of the deal.

But European consumers are likely to see a benefit, with banana prices expected to fall by 12% as a result of the deal.

Latin American producers should also benefit from the cheaper import opportunities.

Are the banana wars over then?

Perhaps.

The deal looks promising in that all the major players appear to be on board.

But the banana wars have been declared "over" before, only for the trade agreements to fall through soon after.

There is also the issue of wider WTO free trade talks, which are still continuing after eight years of delays. The EU and ACP countries might feel less happy about freeing up the banana market if those talks do not result in the opening of other world markets too.

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