



Friday October 16 October 2009

Issue: AE2383

## Searching for a solution to the EU banana trade dispute

**As World Trade Organisation talks on bananas and other tropical products move towards at least an outline agreement, supermarkets in the UK and elsewhere in Europe are indulging in a banana price-cutting war which can lead only to serious damage to the incomes of banana growers.**

Thus, while the European Union may be genuinely concerned to liberate trade to the benefit of exporters and consumers, the result clearly brings conflict with its overseas development policies designed to boost the incomes of impoverished farmers in the Caribbean and other areas of tropical crop production.

Indeed, the banana 'price war' is as damaging, if not more so, to producer incomes in the areas dominated by American multinationals as it is to the EU's client banana exporting countries.

Bananas have been at the centre of policy conflict for as long as the EU has existed - both internally and externally. The British and French Governments have sought to protect the incomes of producers in their ex-colonial territories through a complex panoply of tariffs and quotas, while other major EU countries with no producer interests have struggled to liberalise trade and thus reduce prices to consumers.

In practical terms this has meant that while the British and French have fought to maintain protection of producers in the African, Caribbean and Pacific (ACP) group of countries, Germany and other importing countries have championed freer access for bananas from Central and South America - the so-called 'dollar banana' producing areas. Inevitably, the EU's protectionist policies have led to conflict with the United States whose multinational companies dominate dollar zone banana exports.

### **EPA agreements**

Preferential access for ACP countries has been most recently reinforced by the EU's January 2008 Economic Partnership Agreements (EPAs) with ACP countries. Under the EPAs, all agricultural exports from ACP countries which have successfully concluded the negotiations are now allowed duty-free and quota-free access to the EU.

The most important feature of these agreements, so far as the banana trade is concerned, is the ending of the EU's preferential import quota for ACP banana exports. Bananas, sugar and rice are

generally regarded as the three agricultural commodities for which most of the export benefits of the EPAs for ACP countries are to be gained.

As a result of nearly twenty years of negotiations, the discrimination against dollar bananas in the EU market has also been significantly reduced - but still remains, and is likely to remain well into the next decade. The tariff on non-ACP (and non-LDC) bananas remains at the equivalent of €176 / tonne - which is still held to violate WTO rules.

Now however, diplomatic sources indicate that there has been 'progress' in moving towards a new agreement on bananas. It is probable that an outline deal tabled in July 2008 could eventually form the main structure of a new agreement.

This would involve the EU cutting its MFN tariffs on bananas to €14 per tonne by the beginning of 2016, with a €28 per tonne 'down payment' reduction in the first year. The pact would exempt the EU from having to cut banana tariffs under a Doha deal.

### **Uncompetitive growers**

Any such deal will however exacerbate the problem of the uncompetitiveness of ACP producers. While the removal of quotas would allow ACP deliveries to the EU market to increase, bananas from non-ACP countries would increasingly be available at lower prices. It has been estimated that if this tentative July 2008 agreement is implemented, it would result in the erosion of approximately one-third of the benefits resulting from the preferences granted by the EU to ACP countries under the EPAs. It was for this reason that the EU gave undertakings to ACP leaders that the undoubted competitive disadvantage which would result from this agreement would be compensated through direct economic aid.

Between 1999 and 2005, EU imports of bananas from both 'most favoured nation' (MFN) - effectively the dollar area exporters - and ACP countries remained relatively stable. But after the removal in January 2006 of the 3 113 000 tonnes tariff rate quota (TRQ) which the EU had imposed on MFN imports and the introduction of the 'tariff only' import regime, imports from MFN countries steadily increased, from 3 million tonnes in 2005 to 3.4mt in 2006, 3.7mt in 2007 and 3.9mt in 2008.

Thus, contrary to the basis for the WTO rulings against the EU in the 2005 arbitration, the new import regime unilaterally introduced by the EU in 2006 provided more market access to MFN banana exports than its predecessor.

But also - contrary to the fears of the ACP countries - ACP exports expanded as well, from 765 000t in 2005 to 900 000t in 2006 and 850 000 tonnes in 2007. They increased further to 920 000t in 2008, during the first year of operation of the EPAs.

This was principally because of the removal of the tariff on out-of-quota deliveries. Until 1 January 2006, ACP exports outside the 775 000t duty-free quota were subject to a preferential tariff of €60/t, but since the introduction of the "tariff only" regime the tariff imposed on out-of-quota ACP exports was the same as the much lower MFN tariff - €176 / t.

### **EU banana imports**

While the EPAs are expected to have only a minor impact on overall supplies and prices in the EU market, they will significantly affect the position of ACP exports in relation to those from MFN

exporters. As a result of the EPAs, ACP exports in 2016 are forecast by the International Centre for Trade and Sustainable Development (ICTSD)\* to increase by 84% (from 970 000t to 1.8mt), at the expense of MFN exports, which are likely to decline by five percent overall, and by 24% in terms of MFN exports to the EU. The MFN tariff would have to be reduced to €60/tonne, without any other changes, to leave MFN exports unchanged compared with a situation where the EPAs had not been implemented.

What these figures suggest is that the most favourable position for ACP countries in the short-term is the current situation, where they have access to the EU market quota-free and duty-free, and where neither the Doha Round or the tentative July 2008 agreement are concluded and implemented. A study by the ICTSD indicates that if the tentative July 2008 agreement is implemented, one-third of the benefits resulting from the preferences granted by the EU to ACP countries with the EPAs would be lost. But the current situation can only provide short-term advantage, due to the basic uncompetitiveness of ACP producers.

### **Link with Doha agreement**

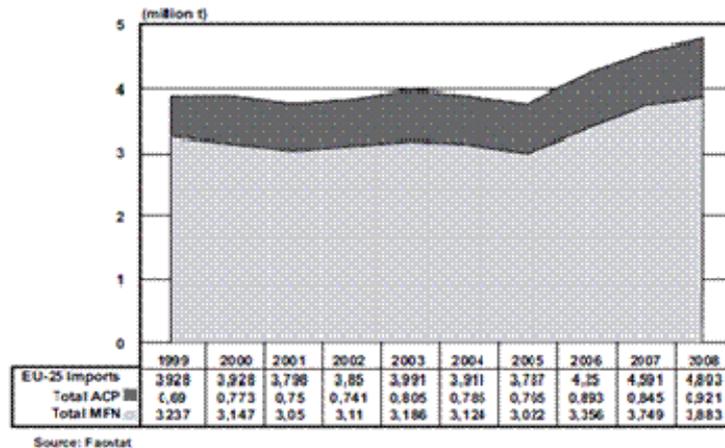
If the EU tariff on imports from the MFN exporters is to be reduced, then it would be better for ACP countries if it occurs within the framework of the conclusion of the Doha Round. This is because this should create an increase in market access for ACP exporters to countries other than the EU, as well as partial diversion of MFN export supply towards non-EU markets. This would increase ACP competitiveness on the EU market as well as the EU import price.

The ICTSD concludes: "While in the short term ACP countries take advantage of the preferential market access granted by the EPAs, in the longer term those preferences will almost certainly erode and ACP exporters will need to find other ways to maintain their competitiveness".

ICTSD simulations suggest that by 2016 ACP countries as a whole would find it increasingly profitable to export to third (non-EU) countries. "In this context, a successful conclusion of the Doha Round might open new markets in third countries and provide significant gains in other sectors, which could overcome expected losses in bananas exports incurred because of preference erosion".

It is therefore likely that a Doha Round agreement which included unconditional liberalisation of trade in tropical products would mark the beginning of the end of the conflict between the EU's trade policies and its development policies.

The present regulated market is the would-be monopolist's playground. If a Doha Round agreement were to include the tentative July 2008 agreement on bananas, both MFN and ACP exporters would benefit from the liberalisation of banana trade in importing countries other than the EU. The more liberalised banana trade becomes, the higher export prices, exports and export revenue can be expected to be. (bg)



"How would a WTO agreement on bananas affect exporting and importing countries?" The study was conducted by Prof. Giovanni Anania (University of Calabria, Italy) and was the result of a joint effort by ICTSD, the AGFOODTRADE research project funded by the European Commission and the PUE&PIEC research project funded by the Italian Ministry of Education, *University and Research*." <http://ictsd.net/i/publications/50782/>