A SYNTHESIS OF
THE MULTI-STAKEHOLDER ROUNDTABLE ON BANANAS

3rd March 2009 (9h – 18h)
Sciences Po, 56 Rue Jacob, 75006 Paris

What follows presents a brief summary of the discussions held at the Roundtable. This summary has been organized by broad theme and more specific points. When appropriate, each specific point is followed by brief comments from the GEM participants to the Roundtable (C. Delpeuch and P. Messerlin).[1]

SECTION 1. THE BACKGROUND PICTURE

The background picture can be split into two aspects: the broad relations between production and consumption, and the more specific trade issues.

Production and consumption

Although bananas have been part of human diet for over two thousand years (originating in Asia), the world trade of bananas represents only about a fifth of the world production. This situation is caused by the fact that the three largest producers (Brazil, China and India) are also major consumers. Keeping this situation in mind helps to understand the focus of the Roundtable on issues not directly related to trade. For several participants, it also raises the possibility that these three major producers could become large exporters, at the detriment of the existing exporters.

> *GEM comments*. Such a possibility has to be taken with great caution. The three countries in question offer many other economic activities: other agricultural and industrial commodities in Brazil, industrial production in China, manufacturing and services in India. If such activities are much more attractive and less risky than growing bananas—as it is currently the case—the entry of these countries as major banana exporters in the world markets does not look likely. Note however, that India has claimed the ambition of becoming the first exporter Worldwide. In February 2009, Del Monte and Rise n' Shine Biotech have concluded a new joint venture (probable major markets would be the Middle East and East Asia).

[1] We would like to thank Alistair Smith for providing very useful information and comments on previous drafts.

All the current banana exporters share a similar vulnerability due to their significant reliance on banana production. The banana sector employs about 500,000 plantation workers in Latin America, 25,000 in the Caribbean and over 50,000 in Africa. Together, 3 to 4 million people are estimated to be highly dependant on banana production for their living. Part of this vulnerability is associated to features that cannot be easily changed: the demand for bananas in high income markets does not increase substantially if the banana price decreases (price inelastic demand) and it decreases notably when the consumers' income increases (low income elasticity).

> *GEM comments*. It is important to realize that Latin America and African economies are not all that different at the macro level, as underlined by Table 1. Banana growing countries or regions with higher GDP per capita—such as the EC "outermost regions" —should be the first to ask themselves the following question: does a relative unskilled labor-intensive activity such as banana growing fit well their existing labor force, and its capacity to be employed in other, more productive, activities, hence capable to pay higher wages and profits?

Table 1. Gross national income per capita, US dollars 2005

Latin Americans		ACPs	
Venezuela	4810	St.Lucia	4800
Panama	4630	Dominica	3790
Costa Rica	4590	St-Vincent	3590
Brazil	3460	Belize	3500
Ecuador	2630	Jamaica	3400
Peru	2610	Surinam	2540
Guatemala	2400	Dominican Rep.	2370
Colombia	2290	Cameroon	1010
Honduras	1190	Ivory Coast	840
Average	3179	Average	2871

Source: World Bank.

As any other agricultural activity, banana production may be affected by climate change, water and energy constraints. Moreover, the Cavendish bananas (the only type of bananas traded internationally on a large scale) is already facing high biological challenges, forcing growers to use more pesticides and fertilizers.

> *GEM comments*. All these problems are not specific to bananas. The economic literature has now a very compelling set of arguments (both analytical and empirical) showing that dealing with these problems can be successful only if one uses appropriate instruments having a direct effect on the issue to be addressed: for instance, a carbon price or tax for climate change, RD budgets for developing new varieties of bananas (be it for large scale markets and/or for niche markets), etc. An aspect of this literature, which is often ignored, is that open trade is the best insurance against events that are hard to predict, such as the regional impact of climate change or water scarcity.

International trade

Trade is the difference between domestic productions and consumptions. If about a fifth of the world banana production is traded, banana is yet the fruit most commercialized in the world, with the US and EC markets together accounting for 65 percent of the world imports while Costa Rica, Ecuador and Colombia account for 52 percent of the world exports.

Banana world is the source of the current conflicts opposing the banana growers located in the EC (Canary Islands, Guadeloupe and Martinique), those located in the African-Caribbean-Pacific countries (ACPs) and those located in the Latin American countries. As underlined by one participant, the banana market has generated an unsurpassed level of conflicts. The steel and banana sector account in a comparable proportion for most of the WTO dispute settlement body documents. Yet, the steel sector accounts for 474 billion dollars, while the banana sector accounts for only 6 billion dollars.

> _GEM comments_. It is important to stress that this trade is recent (even if producing bananas in the exporting countries is often a much older tradition). It has started at the end of the 19th century with the first notable exports of bananas from Latin America to the United States. And, it is only since the Second World War (less than 60 years) that banana growers in Guadeloupe and Martinique export to France.

B2. The other large share of world trade in bananas consists in Latin American exports to the US markets. As of today, this trade does not raise the same level of debate. However, at several instances, some participants have mentioned that there are difficulties for acceding to the US banana market.

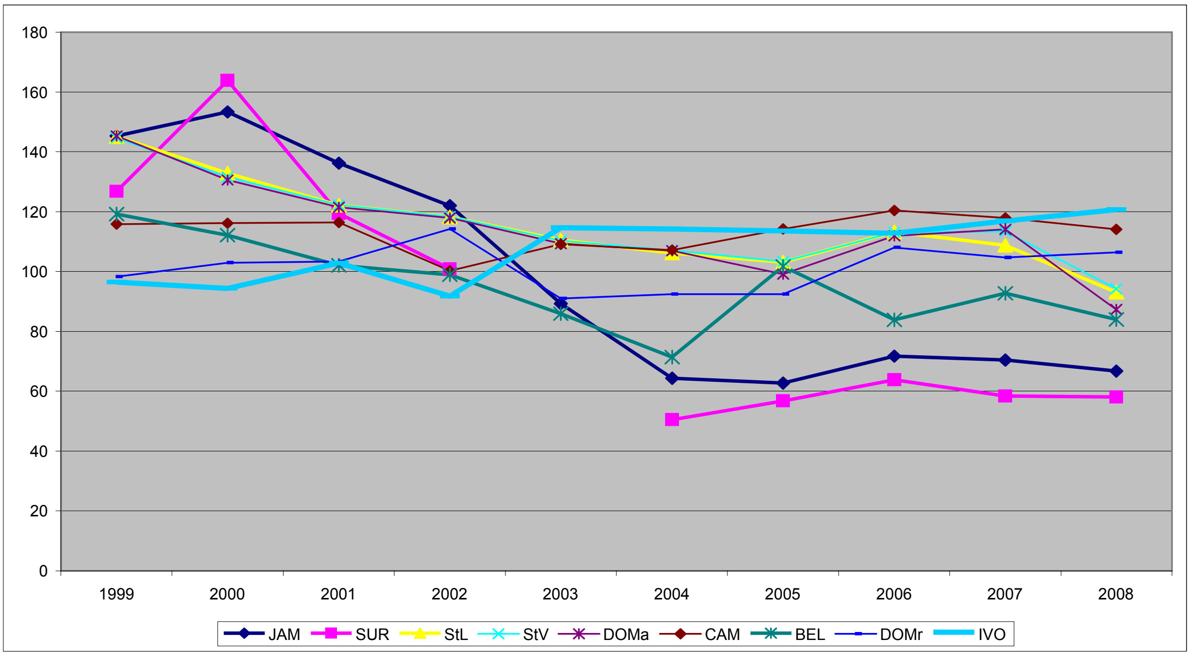
> _GEM comments_. The possible sources of difficulties to get access to the US market are interesting to examine. Some of them are there for lasting long. For instance, as any market, the US market is protected by some geographical constraints hard to remove, starting with distances. Central American exporters, and to a lesser extent Latin American and Caribbean exporters have clear cost advantages over African exporters, as Philippines' exporters have similar advantages over Latin American exporters in key Asian markets (all these advantages differ somewhat between the US East and West coasts). Other sources of difficulties to access to the US markets could evolve more rapidly. A first source is the industrial structure of the downstream part of the value added chain—US banana wholesale and retail trade is dominated by three firms. However, as underlined in section 3, this feature is met by many commodities markets, and requires additional conditions (which were not mentioned in the workshop) for constituting an entry barrier. Another source is the fact that the US banana prices have been lower than the EC banana prices. EC prices inflated by EC protection have made the EC markets more attractive than the US markets. During the last decade, there has been a notable price convergence between the US and EC markets, reflecting the erosion of the pre-2000 highly discriminatory EC protection based on multiple quotas.

One participant to the Roundtable has only briefly evoked the argument according to which there would be a "critical threshold" of protection on the EC market under which producing bananas in certain exporting countries would not be profitable anymore.

> _GEM comments_. The last decade suggests the fuzziness of the notion of a "critical threshold" for a country. During the period 1998-2008, some Caribbean countries have stopped exports, but they continue to produce for their domestic consumption. Meanwhile, other Caribbean countries have undergone deep reforms (privatizing previously inefficient public firm, building port infrastructure, etc.) which have allowed a coming back—at a smaller scale but at much improved costs and prices. For instance, Jamaica and Suriname were, on average, the most expensive ACP exporters in the late 1990s, but are the least expensive ACP exporters since the mid-2000s (see Graph 1). It is too early to say whether this huge improvement has been at the cost of smaller exports

in the long term. Other countries in the Caribbean have achieved significant cost reductions while continuing to increase their exports.

Graph 1. Relative unit values of the largest ACP banana exporters to the EC, 1998-2008



Source: EC trade data. Unit values are the imported value divided by the imported quantity of bananas. Relative unit values are the country's unit value in percent of the average unit value of the EC imports from the 18 largest banana exporters (nine ACP exporters and nine Latin American exporters).

In the same vein, some participants to the Roundtable have expressed their deep concerns about free trade and specialization. In their views, free trade means that there could be ultimately only one source of banana exports—"the" most efficient country in the world. In such a case, they argue that it would be in the European consumers' interests to keep alive different sources of production thanks to protectionist measures. Taiwan was suggested as a good illustration of such a dramatic evolution: the liberalization of Japan's banana market would have allowed the more efficient Filipino banana exporters to eliminate the Taiwanese banana growers.

GEM comments. Such views do not take into account the many aspects that make competition a much more complex process—hence a much less predictable one. First, the elimination of the Taiwanese banana growers may have much more to do with the rapid industrial growth of this country, and the capacity of industrial activities to offer better-paid and less-hard jobs than those offered in the banana fields. Second, if banana growing requires appropriate land, weather and unskilled labour, banana exporting requires efficient transport infrastructure within the exporting country, adequate ports, ships and skilled labour, etc. In short, banana growers could compensate relative disadvantages in land and weather by relative advantages in these other aspects. Note that infrastructure, ports, etc. may require some public actions: in other words, free trade does not mean *laissez faire* (see also below).

Although it was agreed that the Roundtable would not discuss trade issues per se—but would rather investigate all the other issues—a couple of trade topics have been briefly evoked, hence should be mentioned in this summary.

(i) What has been the role of the banana growers in the negotiations of the Economic Partnership Agreements (EPAs) between the EC and the ACP? Participants from the ACP countries recognized that banana growers have strongly supported the conclusion of EPAs because of their fears to be excluded from the EC markets. This feature illustrates the fact that preferential trade agreements tend to be driven by concessions for producers.

(ii) How to classify bananas in the Doha Round? Should it be as a tropical product (hence entitled to fastest liberalization) or as a products facing erosion of preferences (hence eligible for the slowest possible liberalization)?

SECTION 2. DEVELOPMENT STRATEGIES

The development strategies related to the banana sector raise three issues: the desirability of diversification, the different options of diversification (by exiting or diversifying within the banana sector), and the particular issue of diversifying via the promotion of alternative niches.

Diversification and labour markets

There was a wide agreement among the participants that banana exporters tend to be "hyper-specialized", meaning that their banana exports represent a significant share of their total export revenues. According to the UNCTAD Secretariat, for Ecuador or Costa Rica, exports of bananas represented 9.3% and 7.7% of the total value of exports in 2006, while this dependence reaches 22.3% in St. Vincent and Grenadines, 19.7% in Saint Lucia, and 18% in Dominica. Diversification is thus desirable, almost independently from the level of efficiency of the exporting countries.

> *GEM comments*. In this context, it is worth noting that the opposition between Latin American and ACP producers is not as clear cut than often said. Both groups of countries have efficient and less efficient producers, as illustrated by Table 2. The difference is that the ranking of the major Latin American exporters to the EC in terms of efficiency (as measured by the unit values of the EC imports from these countries) is stable, whereas the ranking of the ACP exporters to the EC has been much more volatile. This volatility reflects largely the change of the EC instrument of protection—in particular, the erosion of the pre-2000 quota system which was strongly detrimental to the most efficient Latin American and ACP producers.

Diversification could be of two types. It could consist in leaving the banana market—an option to be envisaged by countries with non-optimal conditions of production, such as some Caribbean countries suffering from a high frequency of tropical storms. Diversification can also be within the banana sector, and the participants have focused their attention on this second type.

> *GEM comments*. Climate change may be an element to consider by some countries. It is often said that the frequency of tropical storms could increase, making even more necessary the exit of the banana sector. If correct, this prediction should be a serious

source of thoughts for the Caribbean producers which enjoy rich Treasuries, such as Guadeloupe and Martinique.

That said, diversification out of banana production is difficult because it is a sector using intensively relatively unskilled labour. The discussion raises a series of key issues:

- Which is the mobility of this unskilled labour? Some participants underlined the fact that these unskilled people have nowhere to go. In sharp contrast, others stressed the fact that banana companies have to struggle to keep their labour force—suggesting that their social policies were an economic necessity as much as a social goal. Note that the issue of migrant workers has been only briefly evoked during the workshop, though it is a very critical one as, in several countries, over 50% of banana workers are migrants.
- Which is the age pyramid of the banana workers? It may be the case that most of the banana workers are relatively old in the outermost regions and in the Caribbean, opening the possibility of tailor-made income support (see GEM comments in H4).

The discussion on labour issues developed into a wider debate on the broader role of the banana sector, and most notably:

- For how long should the banana sector be a "development-vector crop" with an integrated *filière* approach (as cotton production in Western Africa). Some participants stressed the fact that the banana companies have often stepped in to overcome the lack of public investment in the health and education sectors.
- In this context, a more general debate on "governance" has taken place at several moments of the Roundtable. Some participants have suggested that companies should be protected to be able to continue to play this role in times of declining margins. Others have suggested that, rather, public the money should be invested directly in public infrastructure. An interesting point in this debate is that the private sector could be more efficient than public assistance—for instance, some companies can build hospitals at a much lower cost than similar projects financed by foreign public aid. (See, in particular, the document provided by Chiquita, in the Annex section).

<u>*GEM comments*</u>. This debate raised a critical issue in terms of development aid. The norms and standards of many kinds that are imposed on public investments financed by foreign aid seem to have reached a level where they may have a negative impact on some of these investments, inducing the developing countries' governments to look either for bilateral aid with less strings of this kind attached, or for private actions. Discussing this issue is beyond the scope of this paper, but it is worth mentioning that this problem could be partially solved if EU aid moved from a project-based subsidisation to a budgetary support, which means more flexibility. Besides, this would allow horizontal investments (as opposed to sectoral investment only), and thus help diversification rather than prevent it.

Diversification in and out of banana trade

Once again, diversification is a strategy that almost all the banana countries are pursuing.

The most efficient exporters can diversify by reaching new exports markets as, for instance, Ecuadorian producers did by entering the markets of the new EC Member States (including former East Germany) or more recently the Russian market. Another option that was often mentioned was to expand banana trade with the exporters' neighbours.

> *GEM comments*. This last option does not seem very convincing from an economic point of view, at least if it is envisaged for the Cavendish type of bananas. It ignores the fact that such bananas would be relatively expensive, compared to the local production. Trade of similar products between countries of similar income level misses the key incentive of an existing difference (one does not trade much very similar products and services between consumers with close incomes and tastes).

Diversification could be more easily achieved by focusing on new varieties or on industrial products that can be derived from bananas, such as banana beer, dried bananas, banana flour (as is being developed in Uganda), banana paper (the technology being developed in Australia) or even biomass energy (under investigation in India, Pakistan, Ecuador and Costa Rica). These products are all the more interesting that they could use the bananas that are not conforming to certification processes for being exported as edible fruits, or that they could rely on other varieties of bananas. Some participants also raise the question of why diversification seems less advanced in ACP countries.

> *GEM comments*. There is evidence that diversification is closely related to domestic "governance" (for instance, see Ben Shepherd, 2008. *Geographical diversification of developing countries' exports*. Working Paper, Princeton and GEM).

Finally, diversification could be achieved by producing only for domestic markets. It should be noted that a large share of food production is largely local.

Fair trade, organic products and certification

Note: extracts of a recent information bulletin on standards and labels are presented in the Annex section, with links to the documents reviewed (source: inter-reseaux.org)

Participants stressed the fact that there is scope for diversification within the banana sector in terms of differentiation of the primary product, such as AOC, quality labels, different varieties, organic and fair trade, etc. Some Caribbean Islands produce 90 percent of fair trade bananas, while organic and fair trade bananas already account for nearly 30 percent of total British consumption and over 60% of Swiss consumption. See the FAO table on certified banana trade in the Annex section (page XX). In this perspective, diversification can ensure higher returns to producers by exploiting some specific comparative advantages (for instance, organic competition requires particular climatic and soil characteristics).

That said, the participants made clear that these approaches require actions from the whole value chain, and in particular from the retail sector. For instance, French consumers seem to be willing to consume more "responsible" bananas (according to market studies) but these kinds of bananas do not appear on the shelves as the retail sector does not seem to be willing to commercialize them. Some participants raise the question of whether the public sector could play a role in the development of these niche markets.

SECTION 3. VERTICAL INTEGRATION AND COMPETITION ISSUES

As just said, a great deal of diversification could be achieved within the banana sector through the commercialization of new varieties or industrials derivatives. However, such a choice raises several key issues related to the structure of the banana market and to the role of private standards in this market.

The structure of the banana market

As most of the agricultural markets, the banana market is characterized by a very diverse degree of concentration at the growing stage. Banana growers range from tiny units (Madera) to small farms (Ecuador, the Windward's Islands or Colombia) to large entities (Central America or West Africa). However, the production process does not stop at the farm gates. It continues during the trade operations which offer the time necessary for achieving certain production steps (such as ripening)—a situation unknown in other farm commodities such as grains. As a result, trade has offered the opportunity to develop large multinational companies: two multinationals account for 50 percent of the world exports, and 5 for 80 percent. Such a situation is not so different than the one observed in other farm commodities.

> GEM comments. That the banana market structure differs little from the market structure observed in other agricultural products is worth noting. For instance, there is only one dairy company for the whole Dutch market, and one for the Swedish dairy market. There is no consensus among observers on whether the fact that these companies are farmers' cooperatives makes a difference.

That said, the degree of vertical integration has formally decreased over the past 30 to 40 years with the entry of the retail firms in the banana market, as indeed it also did in other food markets. This entry has shifted the complaints about the large multinationals specialized in fruits (bananas) to the large domestic retail firms for which banana sales represent 1 to 2 % of their total sales. Some participants suggested that such a change would shift the potential gains of liberalization into greater margins for the largest commercial players. Others argued that a competitive retail puts a lot of pressures on banana growers, mentioning estimates suggesting that 80 percent of the value-added in the sector would go to the retail companies.

> GEM comments. The degree of competition in the retail portion of the market has more complex impact than discussed during the Roundtable. The competitive British retail sector may exert a stronger pressure on the basic Cavendish bananas, but it helps to develop the only mass-market of organic-fair value bananas in the EC. By contrast, the less competitive French retail sector may exert a lower pressure on the basic Cavendish bananas, but it has not contributed to the development of niche markets—forcing the banana companies to try to do the job

That said, the competition issues in the banana sector are threefold.

- The fact that more competition brings along better resource allocation and increases the potential for technology transfers assumes the absence of any side-effect on factor markets. This assumption may not be verified in banana sector of the developing countries where more competition would raise equity problems because negotiation power is unequally distributed and because of the over-specialisation of producing countries. Side-effects on the factor markets (especially on employment) would likely occur as the reallocation of human capital would be difficult. Besides, as demand elasticity is only moderate; price increases do not necessarily mean decreasing consumption.

- Competition policy results from political choices, and does not emerge "naturally". A choice thus has to be made by the exporting and importing countries regarding the desirable degree of competition in the banana market, and in the markets closely involved in the banana business, such as ports and shipping.
- Increasing competition in the banana markets may require leadership in terms of price. This may require modernisation of production techniques. For instance, in ACP countries, even if the climate and soils are less favourable to banana production than in some Latin American countries, there is scope for some production costs reduction. This may also require public investment in infrastructure or, alternatively, the elimination of some intermediaries in the production chain and more direct contacts with the retail segment of the chain.

GEM comments. The EC has made the choice of an active competition policy. It may thus be time to make a wider—pro-development—use of this instrument. For instance, an extra-territorial reach of the EC competition policy could involve a look at the ACP ports and key infrastructures for the banana trade that happen to be held by (very) dominant firms based in Europe. Such a use of the competition policy would be pro-development in two ways: it would enhance the productivity of the existing infrastructures, and it would reduce the need for additional investments in such infrastructures, making the EC aid available for other investments.

Private norms as an anti-competitive tool

Today, there are over 380 private norms in the EC, of which many are in fact stricter and enforced more strictly than public norms. All these norms reflect a wide range of the many social demands—from the many aspects of food safety (including the more mundane, such as the size of the fruit, its colour, etc.) to child labour and human rights. They also serve the interests of some banana-growers, as best illustrated by the retailers' very successful push for fair/organic bananas in Britain.

However, these private norms also impose costs. As they are often incompatible between themselves, they entail significant direct costs for banana growers—especially for the small ones who cannot conform to increasingly demanding conditions —and they increase the farmers' dependency on their buyers. As a result, some participants have stressed the anti-competitive impact of private norms and certification procedures, such as those imposed by GlobalGap – a "private sector body that sets voluntary standards for the certification of agricultural products around the globe" (formerly EuropGap, Euro Retailer Produce Working Group, created in 1997 by and for retailers).

The participants discussed then the fine balance between the benefits and the costs of these private norms—with often some reference to the competition policy. Here follows a brief list of the questions raised:

- Would producing a guide for producers (an ongoing process in the EC) or promoting mutual recognition within the sector be enough? Or is there a need to regulate such private norms?
- Should one ensure that these private norms are development-friendly and do not address only the "visual" characteristics of the products?

- Should there be a difference between mandatory norms and voluntary labels that go further?
- Should their implementation and control be private or public—and in this case, who should assume the charge of it?
- Is there a need to ensure the compatibility of some norms (such as those generated by EuropGap) with WTO law or the EC competition policies?
- Would one way to overcome the excessive power of retailers be to empower producers' unions?
- Should there be more international cooperation regarding the establishment of norms? Is it normal that developed countries impose their norms on developing countries?

During this discussion, many participants underlined the fact that the problem is not of a need for regulation but of the nature of the regulation.

> *GEM comments*. One wonders whether an approach to deal with such difficult issues would not benefit from the concept of "mutual evaluation" embodied in the Services Directive. Mutual evaluation is a procedure that deals with issues (the private norms here) that are not clearly anti-trade and anti-competitive, but that can be used as artificial barriers to competition.

SECTION 4. WHO DOES WHAT?

Introducing the social and environmental aspects of the banana sector, one participant insisted on the fact that three levels of action are possible: private sector, international trade policy and domestic policies. The key point is to look for the most appropriate mix of these three levels.

Several participants described what the private sector is doing for making the production processes more social and environment friendly (see Annexes XX, YY, etc.). But social and environmental matters are so important that they cannot be left only to the private initiative as the private sector will be the guardian of the public interest only if it is in line with its own incentives. And there are lots of incentives not to care as consumers are interested mainly in the product, not in the production process. Besides, even "responsible" consumers cannot always easily understand the underlying stakes (because of a lack of information to decide).

Hence, a lot is left for government or collective action. But should it be assumed by trade policy or domestic policies? The primary objective of trade policy is not to preserve the environment or to promote social norms: aiming at this through the trade policy results generally in a legal and conceptual mess. At the EU level, for example, is indeed very difficult to impact on the production process once a good has entered the EC. One option, though, to tackle this issue would be differentiated tariffs (which are still problematic with regards to GATT's article 3). The possibility to use such an instrument has been acknowledged by the Commission, but not in a near future (i.e. once the WTO case is solved). For more on this topic, see, for example:

- "Bananas: Differentiating Tariffs According to Social, Environmental and/or Economic Criteria" (January 2004) [http://www.ibc2.org//images/stories/tariffs.pdf]
- Chapter 8 in the "Preparatory Papers IBCII" from the 2nd International Banana Conference [http://www.ibc2.org//images/stories/textibc/finadoc.pdf]

Domestic policies thus appear as the best suited tool. This however does not mean that producing countries should tackle these issues on their own. They should receive assistance from consuming countries. This assistance could come in two very different ways. Either, the EC could support the creation CAP-like regional policies in ACP regions (the ECOWAS is currently trying to set up a common agricultural policy). Or, alternatively, the EC could feel particularly responsible of the situation in all the exporting countries because of the very distortive nature of the banana regime until the early-2000s and act in consequence: when a country wants to put an end to old policies that are not adapted to the current globalized situation, it would have to find alternative "protection" tools (in replacement for protectionism).

GEM comments.

The latter alternative—the EC responsibility—is a crucial point. The two EC farm policies with the most severe impact on the developing countries—be the ACPs or their competitors—are those in sugar and bananas (fish would be the third one). By opening its banana market to non-ACP countries, the EC is eliminating the distortions imposed on these countries. But the EC should exert its responsibility towards its traditional suppliers of bananas. Such an approach has been taken in the sugar case with the introduction of compensation schemes. It should be also adopted in the banana case—but in a better way – that is, by a much better targeting of the small farmers.

Two EC Member States have a special responsibility in the banana sector because they host a sizable banana production. France and Spain should accept a domestic EC banana policy much closer to the existing Common Agricultural Policy—that is, much more based on direct income support, in order to help French and Spanish banana growers to better realize who, among them, should envisage a progressive shift to other activities, and who, among them, could be successful in the long run.

SECTION 5. CONCLUDING REMARKS

A better understanding of common interests among all the banana growers could be greatly enhanced by a common on better governance. In this perspective, one participant made a pledge for a "Multi-Stakeholders Forum" aiming at creating a new mode of regulation between the private sector, governments, NGOs and International institutions. The idea being that efforts to promote a more sustainable banana trade should be proportionate to the benefits extracted from the sector (See the Name of A. Smith's document in the Annex section).

The Roundtable started by recognizing that the EC banana policy has long played some South countries against other South countries. However, very early in the Roundtable, one participant suggested a strong interest in having direct meetings between the ACP and Latin American countries. It was also recognized that if the commercial problem was solved, cooperation between African and South-American producing countries could develop and allow these countries to remain competitive against potential new entrants. At the end of the Roundtable, proposal for ACP-Latin American dialogue was repeated—and agreed by both sides.

GEM comments. We wish the best luck to such an endeavour!

ANNEXES

1. FAO Table on certified banana trade

2. Banana Link graphs on EU and US banana trade

3. Document provided by G. Jakcsh (Chiquita) : "Chiquita: The progress of Corporate Responsibility" (sent as a separate document)

4. Document provided by A. Smith (Bananalink) : "Establishment of a Multi-Stakeholder Forum for Sustainable Banana Production and Trade – Draft for discussion"

5. Review of papers on product differentiation, extracts from the "Bulletin de veille special" n° 141, www.inter-réseaux.org

6. The *ad valorem* tariff equivalent of the EU quota regime by Patrick A. Messerlin (2005).

1. **Certified banana trade, 2007**

Estimated exports and sales of bananas certified to selected sustainable agriculture standards

Standard	*Estimated global exports 2007 (MT)*	*Estimated share of banana exports 2007 (%)*	*Estimated sales 2007 (USD million)*
Organic agriculture	310,000-330,000	2.2	800
Fair-trade	250,000-260,000	1.7	450
Rainforest Alliance	1,500,000-1,700,000	11	1,800
Total*	2,000,000-2,200,000	14.5	2,900-3,000

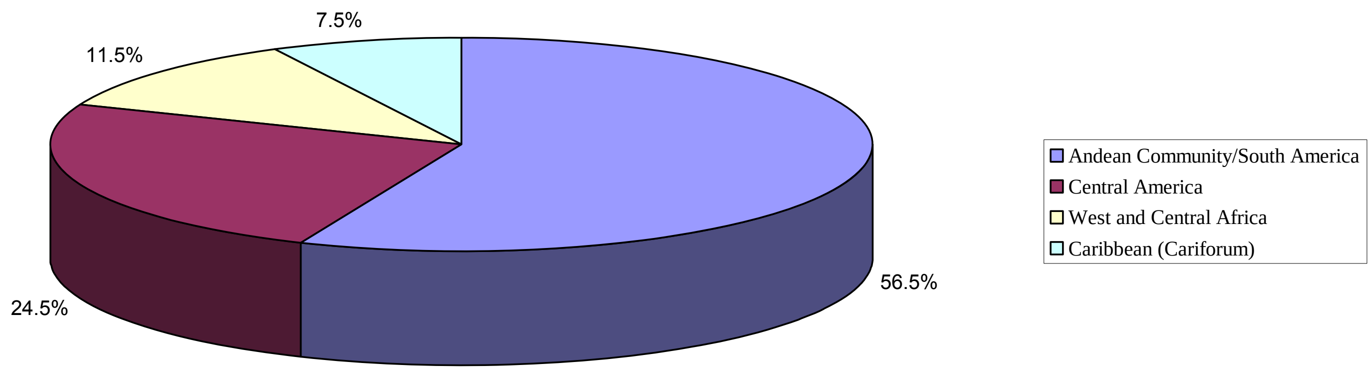
Author's calculation based on governmental and industry sources
(*) the total is less than the sum of the rows due to multiple certifications

Source: Pascal Liu (2009). «Certification in the value chain for fresh fruits: the example of the banana industry», FAO Commodity Studies 4, Rome.

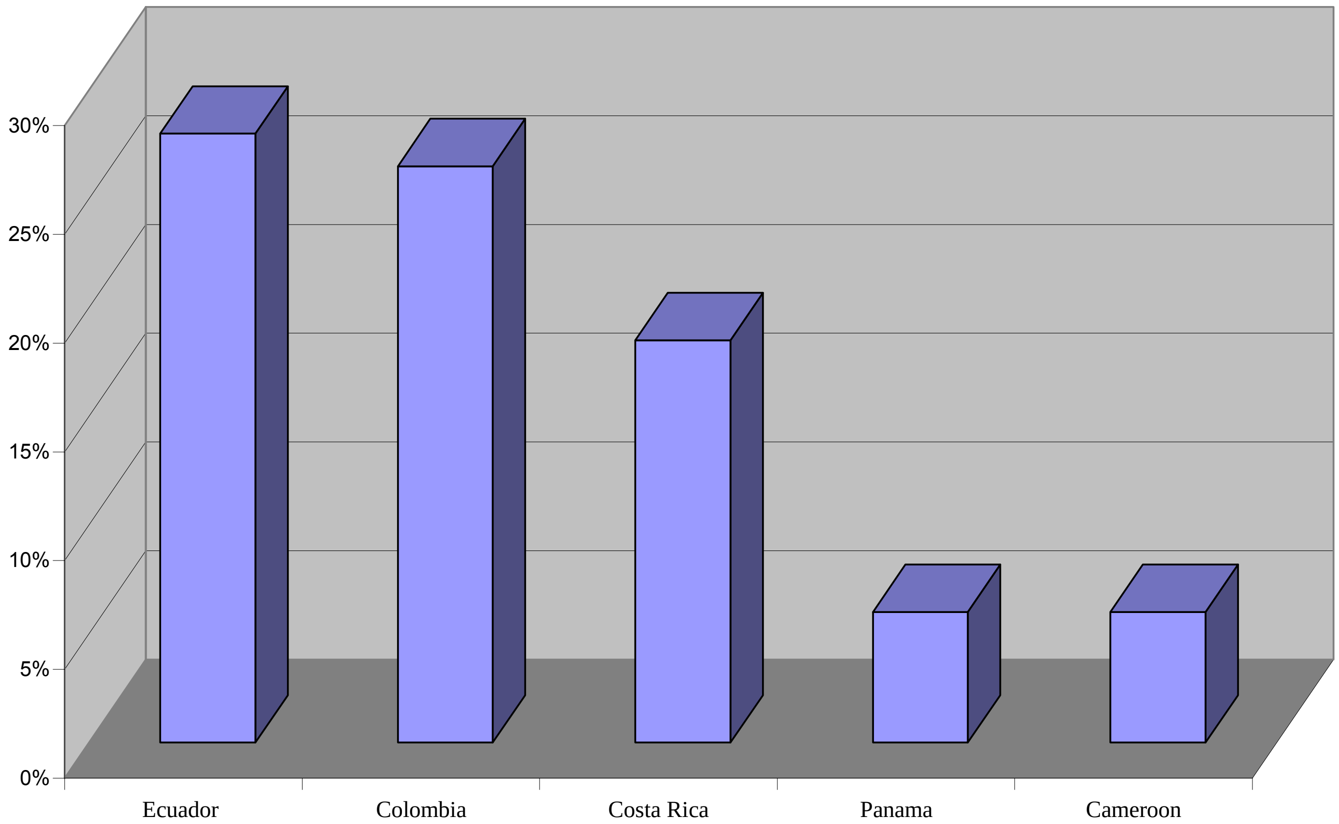
2. EU and US banana trade, 2008

Graphics courtesy of Banana Link, based on latest data from Eurostat and USDA

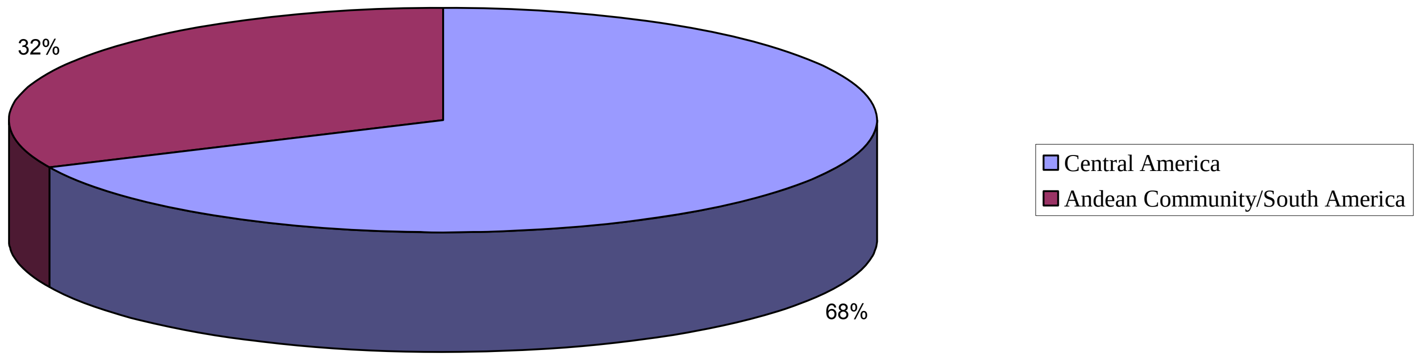
EU-27 Banana Imports by Region, 2008



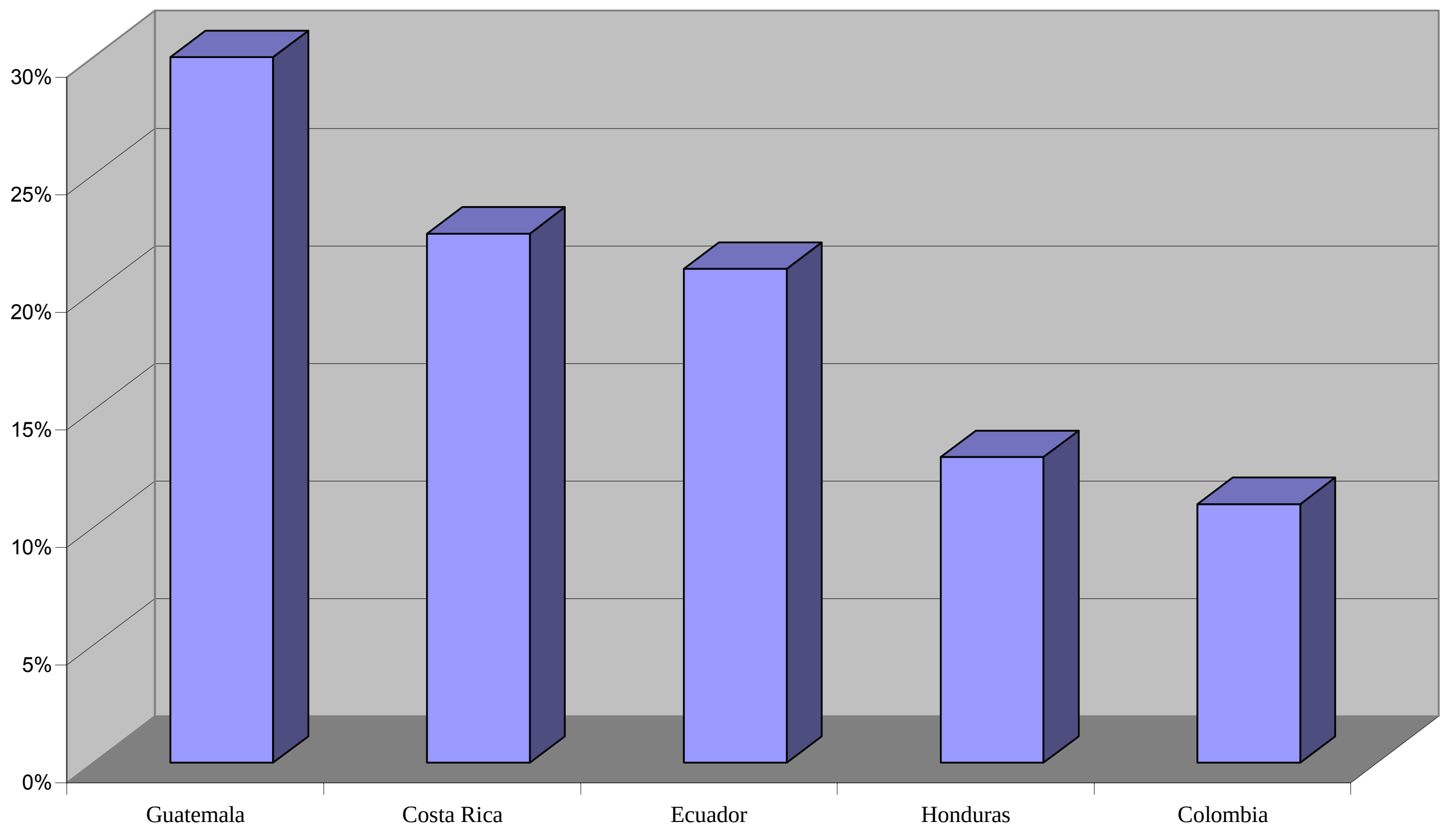
EU-27 Banana Imports: Top Five Major Supplier Countries, 2008



USA Banana Imports by Region, 2008



USA Imports: Top Five Major Supplier Countries, 2008



Establishment of a Multi-Stakeholder Forum for Sustainable Banana Production and Trade

Draft for discussion
(Extract of the official document)

1. BACKGROUND

Bananas: economic significance and challenges for exporting countries
Bananas are the world's most exported fresh fruit both in volume and value. In volume, world exports of fresh bananas exceeded 14.1 million metric tonnes in 2006[2]. Global imports were estimated at 12.6 million metric tonnes.[3] In the fresh fruit industry, bananas have the highest export ratio, since approximately one quarter of global banana production is exported as opposed to 11 percent for apples and less than 3 percent for mangoes. Bananas are exported primarily from developing countries to industrialized countries, the latter accounting for close to 90 percent of world net imports. With global exports worth some US$5 billion in 2006, bananas are an essential source of income and employment for hundreds of thousands of households in developing countries, notably in Latin American, the Caribbean, Southeast Asia and West Africa. Yet, the livelihoods of banana producers, workers and their families have been threatened by two phenomena. First, the banana industry has suffered from global oversupply, which has resulted in recurrent price falls. The latest episode of price collapse in the late 1990s - early 2000s was very severe. Although prices picked up in 2005, this rebound was mainly due to temporary factors such as unusually-violent hurricanes, strong economic growth in emerging markets and market liberalization in the European Union (EU). Prices are expected to contract again in the medium term as these demand factors recede and recently-established plantations enter full production. The second threat is the widespread use of unsustainable production and trade methods. These methods have contributed to the depletion of natural resources and have had adverse impacts on the health of farmers, workers, their families and local communities. High levels of agrochemical usage in often fragile tropical and sub-tropical environments present real and growing threats to local ecosystems, on and off-farm, downstream and in coastal areas where river systems empty often considerable loads of pollutants into adjoining seas. Low wages for workers, combined with frequent violations of labour rights, including in some countries, assassination of trade union leaders make the industry a source of social tension and potential disorder. Overproduction, with supply outstripping demand, combined with intense downward pressure on prices from highly competitive retail chains produce low levels of returns throughout the industry, and exacerbate the tendency for the industry to minimise costs by depressing wages and avoiding potentially expensive investment in environmental protection.

These two phenomena are mutually reinforcing. When prices collapse, producers are pressured into using methods that are cheaper in the short term but unsustainable. In turn, the widespread use of unsustainable methods depresses prices. Several commentators have argued that fierce competition in an oversupplied global banana market has lead to a 'race to the bottom' that is detrimental to farmers, workers, the environment and eventually the entire economy of the producing countries.

[2] plantains excluded

[3] The difference between exports and imports is mainly due to fruit shrinkage and loss in transit, in addition to possible under-reporting by some importing countries.

Bringing together the industry's stakeholders: a brief history

The proposed Banana Multi-Stakeholder Forum (MSF) is the outcome of a long process, which has entailed building understanding and trust between potential partners, many of which have been in conflict for a period of years. A first International Banana Conference was convened by a consortium of Civil Society Organizations (CSOs) in 1998 and a second (IBC2) in 2005. Both conferences were held in Brussels. The conferences were convened in order to bring together stakeholders from the entire banana production and distribution chain, to reflect on the difficulties and challenges which faced the industry. The stakeholders ranged from small producers and representatives of field workers, through large multinational producers, exporters, ripeners and traders to retailers selling the fruit from supermarket chains in importing countries. There was no dissent at the first Conference from the view that the difficulties and challenges were considerable.

At the time of the first Conference, the industry tended to favour systems of self-regulation and a number of voluntary initiatives were being established aimed at providing environmental protection and securing minimal workers' rights. However at the second conference there was general agreement that conditions in the banana industry, both environmentally and socially had actually mostly deteriorated further in the intervening period between the two conferences rather than improved, partly due to falling prices. The second conference ended with a decision *inter alia* to establish a permanent multi-stakeholder forum to undertake the challenging task of reversing this decline and raising standards across the industry in order to generate a banana industry and trade which were environmentally, socially and economically sustainable.

Since that time a number of meetings have been held, the most important of which were a seminar in October 2007, held at UNCTAD in Geneva, which brought together representatives of CSOs, governments and inter-governmental organizations and an "Industry Workshop", held in Amsterdam in October 2008, which brought together CSOs and industry representatives (including delegates from 3 of the 5 biggest multinational banana companies). The two meetings confirmed the commitment from key players to participate in the proposed forum. In particular, the Industry Workshop resulted in the creation of a Preparatory Committee with active participation from industry and CSO representatives which will prepare the first forum meeting. Another outcome was the establishment of a working group to prepare a budget and raise funds.

2. RATIONALE

2.1 Problems/Issues to be addressed

While import prices for bananas have been relatively high for 3 years, exporter and producer prices have only increased marginally and much less than input prices, putting pressure on small farmers, workers and natural resources. Downward pressure on prices has dire consequences for suppliers and impedes social and environmental progress in the sector as explained above. Faced with urgent economic, environmental and social problems, the various stakeholders of the banana sector (farmer groups, worker unions, producing and trading companies) have now become much more open to constructive dialogue among themselves to seek solutions. However, there is no international forum where they all can meet, as the membership of the Intergovernmental Group on bananas and tropical fruit (IGG) is restricted to governments. The creation of an international forum where all the stakeholders are represented would enable participants to agree and undertake industry-wide research of practical solutions.

2.2 Stakeholders and Target Beneficiaries

The stakeholders in the MSF will include representatives from all the major geographic regions which contribute to world trade either as producers or consumers, including on the producer side Central and South America, the Caribbean, Africa, the EU and the Philippines and on the consumer side, among others, the USA, EU member states and the Russian Federation.

Stakeholders will be drawn from three major constituencies: CSOs, Private Enterprise and Governmental Institutions.

The CSO group includes small-farmer associations (e.g. from the Windward Islands and Ecuador, among others), trade union representatives of banana field workers and packers (e.g. Colsiba from Central America, Gawu from Ghana among others, along with representatives of the IUF, the International Union of Foodworkers), environment and development NGOs, consumer associations and Fairtrade organizations.

The Private Enterprise group includes national producers, national producer organizations, multinational producers and traders, exporters, ripeners, importers and representatives of major retail chains, distributing bananas particularly in developed countries (e.g. Wal-mart, Tesco, and Ahold among others).

The Government group includes both government representatives of producing and importing countries and also inter-governmental institutions, notably UNCTAD, FAO and the ILO.

There will also be places available for specialist agencies, such as research organizations.

Broad Reasons for Engagement by these Stakeholders

The CSOs involved have a clear interest in supporting moves towards raising standards across the industry, as these impacts directly on their memberships or on the workers and small producers for which they undertake advocacy work.

Members of Private Enterprises increasingly acknowledge that low standards are detrimental to the long term survival and success of their businesses. While private enterprise is generally committed to competing in a “level playing field”, intense competition, leading to cost-cutting approaches which in turn tend to foster low environmental standards and failures to uphold social and labour standards make companies vulnerable to negative publicity and campaigns by CSOs, targeted at offending players. Raising standards across the board has the potential to allow intense competition to continue but without the dangers to brand image which these players currently face.

Retailers are particularly vulnerable to damage to their brands and many have instituted auditing and other procedures, using a range of voluntary standards, which are aimed at ensuring that labour violations and environmental catastrophes are avoided. However the proliferation and lack of transparency of the numerous standards available have left the retailers in vulnerable positions. The current approach also entails considerable expense and duplication of resources. Many retailers would welcome a better coordinated and agreed approach which would make them less exposed in the future and the forum would provide a unique opportunity to achieve this.

Exporting governments have a clear interest in maintaining export revenues and in ensuring employment in an industry which is frequently a major contributor to their local economies. However intense price competition means that success may be most easily obtained by keeping standards in the industry low. This in turn perpetuates low wages and environmental pollution, reducing the benefits of success to exporting governments. Again, raising standards may potentially allow continued export earnings but with better rewards accruing to their populations, as well as a reduced downside in terms of social disharmony and ecological damage.

Importing governments from developed countries tend to favour trade as a means of aiding development overseas. Currently the negative impacts of banana production systems may offset the potential gains from trade. Redressing this contradiction by raising standards across the board can potentially help importing governments to realise their developmental objectives while allowing them to continue to source essential foods.

The above-mentioned UN agencies have a clear remit and hence interest in improving terms of trade, agricultural standards and labour conditions worldwide.

2.3 Project Justification

As the process of building trust and understanding has unfolded over the last 14 years since it began, there has been a major change of atmosphere, as exemplified during the recent Industry Workshop held in Amsterdam in October 2008. At that workshop it became evident that there was a real determination among industry participants to find workable solutions to problems which had so far proved intractable. In particular, there was a feeling that there were a number of potential short-term win-win situations which could be developed, notably in the area of environmental management. For example, systems approaches to managing banana plantations, devised by CIRAD, France could allow for dramatic reductions in the use of agrochemicals to roughly a tenth of their current levels. These approaches have already been shown to be effective in a range of national settings and could be diffused rapidly through the forum to constitute a new industry standard with much lower environmental impacts and greatly reduced dangers to human health and safety.

On the social side, there was a universal acceptance of the ILO's Core Conventions and also of the ILO’s Decent Wages initiative, which could allow for major steps forward in adoption and enforcement.

At the economic level, there was also clear recognition that the moment had arrived to explore ways in which retailers could commit to paying sustainable prices, which would be capable of covering the costs of Decent Wages, adherence to the Core Conventions and adoption of improved environmental management systems, whilst at the same time avoiding the dangers of collusion on price. In the longer term there is an interest in exploring the feasibility of an International Banana Agreement to achieve a more sustainable balance between supply and demand in the banana sector. Developing a more formal system of governance for the operation of the forum itself would be a necessary precursor to such a long-term development and is likely to be the focus for one of the working groups adopted at the inaugural forum meeting in December 2009.

While industry stakeholders would like to see a forum established, they believe it is essential that the forum be moderated by a neutral organization. They have trust in the United Nations agencies, in particular FAO and UNCTAD which have taken part in and facilitated the discussion process in recent years. They want them to initiate the forum and facilitate it. As the forum expands and yields concrete benefits for the industry, they will be prepared to contribute funding to ensure its sustainability. However, public funding is needed in the initial stage.

2.4 Past and Related Work

FAO's Trade and Market Division has worked on banana trade policy and markets for decades. It has participated in the two international banana conferences mentioned above and in recent workshops organized by UNCTAD and a consortium of NGOs to prepare the ground for the forum. It has played an active role in the informal preparatory group.

2.5 FAO's Comparative Advantage

As an intergovernmental organization, FAO is trusted by all stakeholders to play the role of a neutral facilitator. Its technical expertise in banana production and trade is widely recognized. It can give the forum the objectivity, independence and credibility that are prerequisites for its success. Several stakeholders have insisted that it is essential that the MSF be moderated by a neutral organization.

In addition, FAO holds the secretariat of the IGG on Bananas and Tropical Fruits, whose members include governments of banana importing and exporting countries.

3. PROJECT FRAMEWORK

3.1 Impact (long term)

Banana production and trade has become sustainable from the economic, social and environmental perspectives as the industry has adopted best practices for production, trade and labour management. This benefits producers, farm workers, exporters, local communities, the environment and the economies of producing countries. In addition, importers, distributors, retailers and consumers benefit from higher product quality, while the first three of these also reduce their exposure to reputational risk.

3.2 Outcome and Outputs

Outcomes of the project

1. An international forum promoting sustainability in the banana industry has been launched and enjoys active participation from a wide range of industry stakeholders (producers, trade unions, exporters, traders, importers, distributors and retailers) as well as support from civil society organizations (e.g. consumer associations, human rights and environmental groups), researchers, governments and intergovernmental organizations. The forum is supported by a Secretariat hosted by United Nations agencies.
2. The multi-stakeholder forum (MSF) has produced and adopted a programme of work for the period 2010-2011 with activities aiming to improve the sustainability of banana production and trade. These activities focus on concrete outputs that can be achieved in the short run and benefit a wide range of stakeholders
3. The forum has established thematic working groups to undertake joint field research on best practices in specific areas where key improvements can be achieved rapidly for more

sustainable production and trade (e.g. use of integrated pest management methods, health and safety at work, reduction of pesticide use)

The intention, endorsed by all the participants in the process so far, is to establish a "permanent forum" which meets face to face every 2 years. In between successive forums, work will be carried forward by a number of Working Groups (between 4 and 6), which will exchange information and ideas via a series of internet fora and meet face to face twice a year. The Working Groups will report back to the Forum and its Secretariat.

Outputs in Year 1:

- Official launch meeting of the Forum held (150 participants expected)
- 2 meetings of the Preparatory Committee held
- Electronic conferences (minimum 2) held
- Forum Charter produced and approved
- Forum website set up and operational
- Forum Secretariat established and operational
- Discussion briefs produced and circulated among members
- Forum programme of work 2010-2011 produced and approved
- Budget for work programme drawn up and funding identified
- Working Groups established

4. IMPLEMENTATION AND MANAGEMENT ARRANGEMENTS

4.1 Institutional Framework and Coordination

The forum will be jointly convened by FAO and UNCTAD with both organizations providing a range of facilities to the forum.

Planning and logistics for the first forum meeting will be undertaken by an informal transitional Preparatory Committee of participants from each of the three major constituencies (CSOs, Private Enterprise and Government, in this case specifically representatives of inter-governmental bodies, the FAO, UNCTAD and the ILO) who have volunteered to steer the process through its initial stages, until such time as a more formal governance structure can be put in place. The Committee will be supported by a Secretariat and will meet twice in 2009. One meetings will be held in FAO and the other in UNCTAD.

For practical reasons, the inaugural forum meeting will be held at the end of 2009 at FAO's headquarters in Rome, immediately before the Intergovernmental Group on Bananas and Tropical Fruits (IGG), allowing easy access to the forum for government participants with an interest in bananas who will already be attending the IGG meeting. Taking the venue of the forum meeting into account, it has been decided that the Secretariat should be located at the FAO in Rome at least for the first year. In spite of the foregoing, UNCTAD will be fully involved and in future years the Secretariat may be located in either of the two organizations.

4.2 Strategy and Activities

Stakeholders will be allowed the space to develop at their own pace and to arrive at shared and agreed conclusions in the most democratic way possible, taking into account all the difficulties involved.

Under the supervision of the Preparatory Committee and with the active support of its members, the Secretariat will implement the following activities in 2009:

- Establishment of a Secretariat (initially hosted by FAO)
- Establishment of a website providing information on the forum and facilitating interactions between members
- Production of a draft charter detailing the forum's mission, objectives, activities, structure, membership and rules of procedures for discussion by forum members
- Production of a draft programme of work and budget 2010-2011 for discussion by forum members
- Preparation of briefs and papers for discussion by forum members
- Facilitation of electronic conferences to prepare the ground for the meeting of the MSF (in particular to collect ideas and proposals from members and obtain their feedback on draft documents such as the charter, the work programme, etc.)
- Organization of the first meeting of the MSF in late 2009
- Identification of sources of funding and fundraising

Between 4 and 6 thematic Working Groups will be established at the end of the Forum. The topics which will form the focus for the Working Groups will be decided at the inaugural meeting of the forum, so as to ensure a participatory and inclusive *modus operandi*. At least one of the groups will focus on an environmental theme, a second on a social theme and a third on an economic theme. A fourth group will focus on issues of governance, so that a formal, participatory, democratic structure can be established in the long term.

The emphasis will be on developing practical ways for improving environmental, social and economic sustainability. Synergies between different thematic working groups will be identified and disseminated to forum members by the Secretariat.

4.3 Timeframe for the initiative

Together with the Preparatory Committee, FAO will establish a Secretariat from March 2009. A full time worker will then be hired to assist the officer from the FAO's Trade and Markets Division who will manage the Secretariat. One of the assistant's first tasks will be to establish and run a website that will serve as information and enquiry point for the forum. The Terms of Reference for the assistant are provided in Annex 2.

The first Preparatory Committee meeting (one day) is scheduled to be held in late March-early April 2009 at FAO, Rome and will involve approximately 20 participants taken in more or less equal measure from the three major constituencies. The second Preparatory Committee meeting (1.5 day) will be held at UNCTAD in Geneva, in the late summer 2009 according to the availability of participants.

At least two electronic conferences will be run between May and October 2009 to facilitate discussion among members, collect their ideas and proposals, build consensus and obtain their feedback on proposals and draft documents such as the charter, the work programme, etc.

The draft charter and work programme will be produced in the period July-August 2009.
The inaugural meeting of the Multi-stakeholder Forum will be held in late 2009 at FAO, Rome and will last for two days. The forum will be attended by approximately 150 participants.Working Groups will be established at the end of the Forum meeting and will begin work on specific themes to be agreed at the forum in early 2010.

Extracts from the “Bulletin de veille special” n° 141 (www.inter-réseaux.org)

Interview de B. Daviron.

La notion de qualité est relative, très subjective et diverse selon les critères retenus. Cet interview vidéo permet de comprendre la différence entre : i) la qualité matérielle (qui renvoie aux attributs intrinsèques du produit : couleur, arôme, taille du café) ; ii) la qualité symbolique (qui renvoie à l’existence d’un signe de qualité, comme une marque, une indication géographique/d’origine ou un label, équitable par exemple) ; iii) la qualité « service personnalisé ».
http://www.cirad.fr/upload/fr/actualite/videos/paradoxe_cafe/BenoitDaviron.html

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- Accord sur les aspects des droits de propriété intellectuelle qui touchent au commerce – annexe 1C

Au niveau international, le terme d’Indication géographique (IG) renvoie à la dimension géographique d’un produit traditionnel et permet de reconnaître et de protéger la réputation de ce produit (droits de propriété intellectuelle). C’est un terme générique dont la seule définition mondialement reconnue est constituée par les 4 lignes de l'art 22.1 de l’accord ADPIC (Accords sur les aspects des droits de propriété intellectuelle touchant au commerce, signé en 1994 dans le cadre de l’OMC). En vertu de cet accord on entend par IG « des indications qui servent à identifier un produit comme étant originaire du territoire d'un membre, ou d'une région ou localité de ce territoire, dans les cas où une qualité, réputation ou autre caractéristique déterminée du produit peut être attribuée essentiellement à cette origine géographique ». Les IG en Inde, Chine, etc. ne sont ainsi pas la même chose que les AOP et IGP en Europe.
http://www.wto.org/french/docs_f/legal_f/27-trips.pdf

- Promotion des produits agricoles et alimentaires traditionnels de la région: une nouvelle étape sur la voie du développement rural durable

De son côté, la FAO ne parle pas d’IG, mais de produits traditionnels. Lors de sa 26ième conférence, elle a donné lieu à un document intéressant à ce sujet.
http://ftp.fao.org/docrep/fao/meeting/013/K2473F.pdf (PDF, 25 p.)

- La certification participative : une qualité sans label

Il existe aussi des démarches pour spécifier une qualité, sans passer par une labellisation officielle. Des initiatives de certifications participatives ont été développées par des producteurs (Nord et Sud) qui ne se retrouvaient pas ou plus dans la certification officielle (jugée trop contraignante : cahier des charges non adapté aux pays, lien non direct avec les consommateurs, coût…). Une référence ci-dessous de l’Ifoam (International Federation of Organic Agriculture Movements) qui montre des principes d’un Système de garantie participatif. Et un exemple pour illustrer : la certification participative bio plus adaptée par exemple aux réalités écologiques et économiques locales.

Système de garantie participatif : une vision idéale. Ifoam.
http://www.ifoam.org/about_ifoam/standards/pgs/pdfs/SystemesDeGarantieParticipatifs-VisionIdeal.pdf

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- Les indications géographiques et leurs enjeux pour les pays ACP

O'Connor. Document de travail. CTA. Avril 2005. 20 p.
http://agritrade.cta.int/fr/content/view/full/1794

- Origin-based Products. Lessons for pro-poor market development

P. von Kop, D. Sautier and A. Gerz (Eds.). Bulletin 372. Cirad.106 p.

Ce document en anglais regroupe des études sur des produits typiques de certaines régions du monde : manioc (Gari) Missé du Bénin, fromage Mantecoso du Pérou, thé Rooibos d'Afrique du Sud, café arabica du Costa Rica et fromage Comté de France. Certains de ces produits bénéficient déjà d'une indication géographique. D'autres non, mais la question d'une IG y est néanmoins posée pour protéger le produit, faire reconnaître un savoir-faire et/ ou permettre un accès au marché international. À noter, la forme intéressante de ce document : fiches de 10-15 p. par produit, et accompagnées de références bibliographiques.
http://www.kit.nl/net/KIT_Publicaties_output/ShowFile2.aspx?e=921

- Le café de Colombie : la protection et la promotion d'une origine connue

L. F. Samper, Président de la Fédération nationale des cultivateurs de café de Colombie. 2005.

Ce PowerPoint présenté par le président de la Fédération de producteurs de café de Colombie explique comment la Fédération et ses producteurs sont passés de marques commerciales (distinctives, reconnues, et puissantes, mais toutefois avec des limites) à des marques de certification officielles, puis à une démarche d'Appellation d'origine. Le « Café de Colombie » est la première IG non européenne reconnue en Europe.
http://origin.technomind.be/fileadmin/origin/PDFs/French/OriGIn_en_action/Evenements_OriGIn/Hangzhou_Novembre_2005/Luis_Samper-Origin_China_FR.ppt

The *ad valorem* tariff equivalent of the EU quota regime
Patrick A. Messerlin [4]

In December 2004, the European Commission tabled the *ad valorem* tariff that it said it would use for shifting from the tariff-quota to a tariff-only regime on imported bananas. The note offers a revised calculation of this *ad valorem* tariff equivalent, based on the Commission's methodology, but more in line with the WTO obligations, in particular the condition of *"at least maintaining total market access for MFN banana suppliers"* mentioned in the waiver that the EC got in the Doha Ministerial. The note shows a revised specific tariff of 134 €/ton, instead of the tariff 230 €/ton calculated by the Commission.

The three left columns of Table 1 reproduce exactly the successive steps of the calculations done by the Commission, and its results. The right column of Table 1 presents the revised figures that are then shown to fit WTO disciplines more accurately.

The calculation procedure starts with the EU duty-paid price for dollar green bananas in Hamburg (see line 1) which is defined as the average of the annual (average) prices recorded by the FAO. The period of reference adopted by the Commission is the years 2000-2002. The note takes these starting points as given, and does not look at alternative sources of price series (such as the World Bank series) nor at the consequences of taking Hamburg instead of Antwerp which is the largest EU banana port. As a result, the first (very modest) source of revision comes from the fact that not rounding FAO prices (as the Commission did) slightly lowers the estimated duty-paid prices, as shown by the right column of Table 1.

Table 1. Calculation of the tariff equivalent on bananas in the EC25

The successive steps of the Commission procedure		Notes and remarks	Commission calculations	Revised calculations [FAO]
1. Hamburg duty-paid price (euro/ton)	[a]		**890**	**889**
year 2000			806.00	805.73
year 2001			926.00	925.59
year 2002			937.00	936.92
2. Ratio South/Central Am. bananas	[b]	see Table 2	0.998	0.904
3. Adjusted duty-paid price (euro/ton)		calculated = (1x2)	888	804
4. Ratio wholesale EU15/Germany	[c]	see Table 3	0.939	0.939
5. EU-15 duty-paid price (euro/ton)		calculated = (3x4)	834	755
6. Ratio wholesale EU15/EU25	[d]	undisclosed data; see Table 4	0.946	0.918
7. EU-25 duty-paid price (euro/ton)		calculated = (5x6)	789	693
8. EU-25 unit values (euro/ton)		see Table 5	559	559
9. Specific tariff equivalent (euro/ton)		calculated = (7-8)	**230**	**134**
10. Ad valorem tariff equivalent (%)	[e]	calculated (see footnote)	**52.4**	**30.6**

European Commission's sources and footnotes:

[a] EU duty-paid green bananas prices (Source: www.fao.org/es/esc/prices, with a Ū/ Dmark exchange rate of 1.95583).

[b] Ratio between Central and South American bananas CIF unit values.

[c] Weekly data from Member States authorities for wholesale yellow banana prices (Regulation 896/2001:27a).

[d]. Estimated by comparing the wholesale banana price in the EU15 with partial data transmitted by several new Member States.

Authors' footnote:

[4] Excerpt from Francois, J. and P. Messerlin. 2005. The EU Banana Regime: An Assessment of the Shift to a tariff regime. February. Policy brief. Groupe d'Economie Mondiale at Sciences Po.

Three successive adjustments are then introduced by the Commission. What follows shows that two of them lead the Commission's estimates to be significantly biased upward, so that the final Commission's result does not fulfill correctly the obligation of "*at least maintaining total market access*" stressed by the Doha Decision I.

<u>The first adjustment</u>

Line 2 consists in calculating the ratio of the German unit values of banana imports from Central and South America, respectively, in order to take into account the geographical origin of imports. The Commission uses the unit values of bananas imported from Panama and Costa-Rica as a proxy for Central America's unit values, and those of bananas imported from Ecuador and Colombia as a proxy for South America unit values. As shown by the bottom panel of Table 2, using these proxies instead of the total imports from the two regions makes no difference.

However, such a limited adjustment relies on an implicit key assumption—namely, that the German imports and the imports by the rest of the EU-15 have the same origin (quality and price) structure. Indeed, Table 2 shows that this assumption is wrong by presenting the same calculations as those made for Germany by the Commission—but based on EU-15 wide imports. Instead of the adjustment ratio of 0.998, a EU-15-based approach ends up with a ratio of 0.904—in other words, the Commission's assumption significantly biases the results up. The revised lower figure makes a lot of sense. It reflects better the differences between the origin pattern of the bananas imported by the other EU15 Member states, as well as the many differences in the structure and efficiency of the distribution sector in Germany, compared to the distribution sectors in the rest of the EU15. These differences are essential in order to ensure the respect of the WTO condition of "*at least maintaining total market access*." As these differences are not taken into account in the following adjustments introduced by the Commission when shifting from German-based observations to EU-wide estimates, it is thus essential to take them into account at this stage by using the ratio based on EU-15 unit values.

<u>The second adjustment</u>

Line 4 aims to estimate the duty-paid price in the EC-15. It is based on wholesale prices for the period of reference shown in Table 3. Table 3 is based on information provided by the Member States that the Commission has made public for the first time. However, as there is no way to cross-check the data provided and properly assess their economic value—a regrettable fact—the figures are reported in Table 3 and taken as given. That said, it is important to note that this information has—at least—two severe limits. First, it does not include France and Ireland, two key countries for banana markets and banana trade policy. Second, wholesale prices reflect distortions that the current tariff-quota regime has generated in the banana distribution networks in Europe as well as distortions or specificities in the EU Members states distribution regimes which may not be related to the banana sector *per se*, but which may have an influence on it. Ignoring these limits are likely to bias the results up—in other words, the following calculations are likely to provide the maximum tariff rate in the context of the Doha Decision.

Table 2. German and EC unit values of Central and South American bananas, 2000-2002

	Commission calculations German unit value (euro/ton)				Revised calculations EC-15 unit value (euro/ton)			
	2000	2001	2002	2000-02 [b]	2000	2001	2002	2000-02 [b]
Ecuador	611	595	621	609	526	574	596	566
Colombia	616	600	621	613	527	537	613	559
Panama	609	603	620	611	607	617	665	630
Costa Rica	609	608	620	613	562	618	663	615
Ratio [a]	1.007	0.987	1.002	0.999	0.900	0.900	0.910	0.904
Central America.	609	607	620	612	583	619	666	623
South America.	614	597	622	611	528	557	603	563
Ratio	1.007	0.984	1.002	0.998	0.906	0.901	0.905	0.904

Source: Eurostat.
Note [a]: the Central/South ratio is defined as the ratio of (Panama-CostaRica)/(Colombia-Ecuador).
Note [b]: simple annual averages.

The third adjustment

In line 6, the Commission estimates the EU-25 price by using another wholesale price ratio—the ratio between the EU-15 and the EU-25. For doing so, the Commission has gathered information on the wholesale prices of the 10 Member States (EU-10) which have acceeded to the EU in May 2004. However, this time, the basic data are not even disclosed by the Commission. They are merely vaguely described in a footnote ("*partial data transmitted by several new Member States*," as reported in footnote 4 of Table 1). All this raises serious doubts (from a purely statistical point of view) about the robustness and representativity of the data used by the Commission.

There is a good additional reason for such doubts from a purely economic perspective. Line 4 (the second adjustment, see above, which relies on the same kind of information) was based on the banana trade regime enforced since 1994, closely monitored by the EU-15 Member States since then, and giving to a few trading firms a key role. Since then, both trading firms and EU-15 Member States have thus had strong incentives to get the best possible information on wholesale prices. In sharp contrast, there is no reason to believe that the EU-10 Member States and the firms operating in these markets have had the same motives to gather data. Until their accession, six of these EU-10 countries imposed no tariff at all, and the other EU-10 Member States imposed only *ad valorem* tariffs (no specific tariffs and no quotas). In other words, the EU-10 countries have had little—if any—incentive to collect representative data on wholesale prices, and the trading firms have been in the same situation. There is thus good reasons to believe that the data collected by the Commission are of poor quality.

As a result, it seems more appropriate—and indeed more consistent with the initial steps of the Commission's procedure—to use again the FAO price series (the FAO collects specific data on exports shipped to Central Europe though Hamburg) in order to estimate the EU-15/EU10 ratio. Table 4 presents the available price data. The prices are weighted by trade volumes (as provided by the Commission) for the EU-15 and EU-10. Import-weighted FAO prices can then be calculated for the EU-25, leading to a ratio of 0.918.

Table 3. EC15 wholesale prices, euro/kg

	2000	2001	2002	Average
Austria	0.924	1.023	1.038	0.995
Belgium	0.942	1.051	1.059	1.017
Britain	0.854	0.972	0.927	0.918
Denmark	0.866	1.024	0.900	0.930
Finland	0.958	1.044	1.108	1.037
Germany	0.894	1.034	0.973	0.967
Greece	0.667	0.586	0.747	0.667
Italy	0.848	0.963	0.930	0.914
Netherlands	0.911	1.014	1.014	0.980
Portugal	0.695	0.862	0.800	0.786
Spain	0.663	0.808	0.793	0.755
Sweden	0.928	0.956	0.908	0.931
EC-12	0.846	0.945	0.933	0.908
EC-12/Germany	0.946	0.914	0.959	0.939

Source: EC Commission, December 2004.
Note: No information is available for France and Ireland.

Table 4. Adjustment for estimating the EU-25 prices, 2001-2002

	2000	2001	2002	2000-02
	FAO prices (euros/ton) [a]			
EU-15	805.73	925.59	936.92	889.41
EU-10	406.18	503.29	557.00	488.82
	Imported volumes (tons) [b]			
EU-15	2543133	2474568	2561256	7578957
EU-10	592953	559089	527885	1679927
EU-25	3136086	3033657	3089141	9258884
	FAO prices (weighted by import volumes)			
EU-25	730.19	847.76	872.00	816.65
ratio EU-25/EU-15	0.906	0.916	0.931	0.918

Sources: [a] FAO banana price series [b] Commission's data.

Conclusion

Finally, the revised estimate of the EU-25 duty-paid price is 693 €/ton (line 7), compared to the Commission's estimate of 789 €/ton. As a result, the specific tariff equivalent to the current regime amounts to 134 €/ton—almost half the 230 €/ton tariff tabled by the Commission (see line 9 in Table 1). It is important that, for reasons mentioned above, this result is very likely to be biased up.

However, stopping there is not enough to fulfill the Doha Decision I obligation of *"at least maintaining total market access for MFN banana suppliers."* This is because it is essential to underline that only an a*d valorem* tariff is consistent with the Doha Decision I expression. This is because the protective capacity of specific tariffs varies when world prices fluctuate (as they do in the banana case). They protect less the domestic market when world prices are high—a situation which, by definition, generates few incentives to protect markets since high prices are the sign of short supply—than when world prices are low—a situation which, by definition, fuels strong incentives to protect markets since low prices are the sign of excess supply.

In sum, a full compliance with the Doha Decision I obligation of "*at least maintaining total market access*" requires that the EU express in *ad valorem* terms (that is, in percent of the unit value of banana imports from non-ACP countries, estimated to 438 €/ton for 2003) the estimated specific tariff. Our revised calculations suggest an *ad valorem* tariff of at most 30 percent (this is the *ad valorem* equivalent of 134 €/ton).

Post-scriptum (December 2009)

In 2005, the Commission finally imposed a specific tariff of 176 €/ton. The agreement close to be signed in December 2009 would reduce this tariff to 148 €/ton.