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**REPORT FROM THE COMMISSION  
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

**on the operation of the common organisation of the market in bananas**

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## **INTRODUCTION**

Article 32 of Council Regulation (EEC) No 404/93 on the common organisation of the market in bananas<sup>1</sup> stipulates that no later than 31 December 2004 the Commission is to present a report to the European Parliament and the Council on the operation of the common market organisation (CMO) in bananas. The present factual report provides an overview of the functioning of the banana CMO as of 1999.

An in-depth evaluation of the implementation of the CMO as of 1993 is currently under way and is to be completed in the second quarter of 2005. Simultaneously, the Commission has engaged into negotiations under Article XXVIII of the GATT in order to introduce a “tariff only” regime for banana imports as of 1 January 2006 at the latest.

On the basis of the results of the evaluation, the Commission will deepen the debate with its institutional, economic and social partners on possible improvements of the CMO. Appropriate proposals could be submitted to the European Parliament and the Council following this debate.

### **1. STRUCTURE AND IMPLEMENTATION OF THE CMO IN BANANAS**

The common market organisation in bananas has been set up through Council Regulation (EEC) No 404/93<sup>2</sup> adopted on 13 February 1993 as part of the creation of the single market. It covers common quality and marketing standards, producers’ organisations, assistance to Community producers, and trade with third countries. The banana CMO over the years has undergone several modifications, notably in 1998 and 2001, especially in relation to the import regime.

#### **1.1. Producers’ organisations**

The 21 existing producers’ organisations regroup the totality of Community banana producers and are distributed as follows:

|                |                   |
|----------------|-------------------|
| Canary Islands | 5                 |
| Guadeloupe     | 2                 |
| Martinique     | 4                 |
| Madeira        | 2                 |
| Azores         | 5                 |
| Algarve        | 1                 |
| Crete          | 1                 |
| Laconia        | 1                 |
| [Cyprus        | 1 to be created]. |

The minimal size of the organisation, in terms of number of producers and of quantity of bananas commercialised, varies in function of the production structure of the producing region.

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<sup>1</sup> OJ L 47, 25.2.1993, p. 1. Article as amended by Council Regulation (EC) No 1637/98 (OJ L 210, 28.7.1998, p. 28).

<sup>2</sup> OJ L 47, 25.2.1993, p. 1. Regulation as last amended by the 2003 Act of Accession.

## 1.2. Compensatory aid

The compensatory aid is calculated on the basis of the difference between:

- the "flat-rate reference income" for bananas produced and marketed within the Community and
- the "average production income" obtained on the Community market during each year for bananas produced and marketed within the Community.

The original flat-rate reference income was determined for the ex-packing shed stage on the basis of the information on average prices recorded in 1991. Subsequently, it was increased by 5% in 1998 and by up to 8% from 1999 as a result of the Agricultural Council of June 1998. The present level amounts to EUR 64.03 per 100 kilograms.

The maximum quantity of Community bananas eligible under the compensatory aid scheme is fixed at 867 500 tonnes. This maximum quantity is broken down for each producer region in the Community as follows:

|                                     |           |
|-------------------------------------|-----------|
| Canary Islands                      | 420 000 t |
| Guadeloupe                          | 150 000 t |
| Martinique                          | 219 000 t |
| Madeira, the Azores and the Algarve | 50 000 t  |
| Crete and Lakonia                   | 15 000 t  |
| Cyprus                              | 13 500 t. |

In 2001, the Council introduced a provision<sup>3</sup> authorising the Member States not to grant the compensatory aid for banana production resulting from new plantations. This provision can be applied when a Member State considers that there is a risk for the sustainable development of the production areas, with particular reference to conservation of the environment, protection of the soils and the characteristic features of the landscape. Commission Decision of 31 May 2002<sup>4</sup> permitted Spain to introduce a temporary measure excluding from compensatory aid marketed produce of new banana plantations planted on or after 1 June 2002.

The EU budget expense under compensatory aid varies according to the evolution of the market prices obtained by the Community producers and to the marketed quantities in a given year. The average yearly expenditure within the period 1999–2003 amounts to EUR 249 million.

A supplementary aid has been granted to producer regions, when their average production income was at least 10% lower than the average Community income. In general, with a view to encourage a market-oriented approach by the Community producers, the amount of supplementary aid granted is inversely proportional to the gap between regional and Community price.

A detailed assessment of the functioning and the cost-effectiveness of the internal regime, including possible shortcomings in its application, will be carried out within the evaluation of the CMO currently under way.

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<sup>3</sup> Council Regulation (EC) No 2587/2001 (OJ L 345, 19.12.2001, p. 13).

<sup>4</sup> Commission Decision 2002/414/CE (OJ L 148, 6.6.2002, p. 28).

Detailed data on the amounts of the “basic” compensatory aid and of supplementary aid as well as on budget expenditure for the years 1999–2003 are shown in Annex 1.

### **1.3. Structural measures**

Banana producers are also entitled to structural support in the framework of rural development measures, generally applicable to various products and financed through the EAGGF. The legal basis for this support is Council Regulation (EC) No 1257/1999<sup>5</sup>.

Three kinds of measures of rural development are applicable to bananas: farm investments, improving the processing and marketing of agricultural products and agro-environmental measures. Such measures were included in the Operational Programmes of the producing regions. The synergy between the various Community aid instruments to the banana sector will be specifically analyzed within the evaluation.

### **1.4. Trade with third countries**

#### *1.4.1. Import regime (EU-15)*

The import regime has undergone two significant modifications in 1998 and in 2001.

The 1998 reform was laid down in Council Regulation (EC) No 1637/98 of 20 July 1998<sup>6</sup> and implemented by Commission Regulation (EC) No 2362/98 of 28 October 1998<sup>7</sup>. The modified regime came into force on 1 January 1999. The division of operators on the basis of category and function was abandoned in favour of a single division into "traditional operators" and "newcomers". The newcomers had access to a bigger share of the tariff quota – 8% instead of the initial 3.5%. The allocations of "traditional operators" were established on the basis of recent "actual imports", that is the release into free circulation and the payment of import duty. The licences could be used for the import of both dollar and ACP bananas (the principle of "single pot").

In January 2001 the Council decided that a tariff-only import regime had to take place no later than January 2006<sup>8</sup>. Consistently with the Understandings concluded between the EU and respectively the United States and Ecuador in April 2001, an interim regime through import licences is being currently applied as of 1 July 2001. The waivers to Articles I and XIII of the GATT obtained in November 2001 have allowed to reserve quota C (750 000 tonnes) for ACP countries, and to apply a zero tariff duty to ACP bananas imported within the three tariff quotas A/B and C. For that purpose, the common market organisation has been amended by Council Regulations No 216/2001 of 25 January 2001 and No 2587/2001 of 19 December 2001<sup>9</sup>. Implementing rules have been adopted by Commission Regulation (EC) No 896/2001 of 7 May 2001<sup>10</sup>.

The following three tariff quotas apply:

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<sup>5</sup> OJ L 160, 26.6.1999, p. 80. Regulation as last amended by Regulation (EC) No 583/2004 (OJ L 91, 30.3.2004, p. 1).

<sup>6</sup> OJ L 210, 28.7.1998, p. 28.

<sup>7</sup> OJ L 293, 31.10.2004, p. 32. Regulation as last amended by Regulation (EC) 1632/2000 (OJ L 187, 26.7.2000, p.27).

<sup>8</sup> Regulation (EEC) No 216/2001 (OJ L 31, 2.2.2001, p. 2).

<sup>9</sup> OJ L 345, 29.12.2001, p. 13.

<sup>10</sup> OJ L 126, 8.5.2001, p. 6. Regulation as last amended by Regulation (EC) No 838/2004 (OJ L 127, 29.4.2004, p. 52).

- Quota A: 2 200 000 tonnes at a bound tariff rate of EUR 75/t (0 for ACP bananas),
- Quota B (autonomous TRQ): 453 000 tonnes at a tariff of EUR 75/t (0 for ACP bananas),
- Quota C: 750 000 tonnes at a tariff of EUR 0/t (reserved to ACP bananas).

Quotas A and B are open to bananas of any origin, the C quota is reserved for ACP countries. Banana imports outside the quotas are subject to a customs duty of EUR 680/t. and ACP bananas benefit from a tariff preference of EUR 300/t.

83% of the quantities available under the A/B quota are allocated to "traditional operators", and 17% to "non-traditional operators". Within the C quota the above percentages are respectively 89% and 11%.

Import licence arrangements for traditional operators are managed on the basis of historical references. The reference quantity for each traditional operator is established on the basis of the average of his primary imports during 1994, 1995 and 1996 taken into account for 1998. To update the data, the reference quantities for traditional operators for 2004 and for 2005 are calculated on the basis of the usage of import licences in 2002 and in 2003 respectively.

#### *1.4.2. Licence usage and operators in the (EU-15)*

Imports of bananas into the Community are made on basis of import licences issued by Member States at the request of the registered operators. Licences are valid in the whole Community.

During the period January 1999–June 2001, licences available for dollar bananas have been practically used in their totality. However, licences for bananas originating from the traditional ACP suppliers<sup>11</sup> have not been fully utilised. In 1999 traditional operators have used 88% of licences available to them, and newcomers just 36%. In 2000 these figures were respectively 84% and 46%. In the same period 625 traditional operators were registered while the number of newcomers was constantly increasing up to 1383 in the second half 2001.

In 2001, which was a transition year, licences were used in full in case of quota A/B. In case of quota C, 86.6% were used. The performance improved in the following years. In 2002 licences have been used in full in case of quota A/B and in 95% in case of quota C. In 2003 all quotas have been used 100%.

Within the period July 2001–2003, the number of traditional operators remained rather stable with 174 traditional operators overall in 2003 (respectively 147 A/B and 26 C operators).

Within the same period the number of non-traditional operators has been steadily increasing, especially within the C quota. The number of non traditional operators in quota A/B increased from 188 in the second half of 2001 to 220 in 2003. In quota C it increased from 37 to 79.

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<sup>11</sup> 12 ACP countries: Belize, Cameroon, Cape Verde, Ivory Coast, Dominica, Grenada, Jamaica, Madagascar, Somalia, St. Lucia, St. Vincent, Suriname.

#### *1.4.3. Transitional measures due to enlargement (EU-10)*

An additional quantity of 300 000 tonnes has been fixed for imports of bananas into the new Member States for the period 1 May – 31 December 2004<sup>12</sup>. For the year 2005, the additional quantity has been fixed at the level of 460 000 tonnes<sup>13</sup>.

The additional quantity has been fixed on a transitional basis. It is managed separately, but using the same mechanisms and instruments as in the case of the tariff quotas A/B and C. It should in no way prejudice the outcome of WTO negotiations and could be increased if justified by demand.

#### *1.4.4. Negotiations under Articles XXIV.6 and XXVIII of the GATT*

On 19 January 2004, the EC notified to the WTO the withdrawal of the EC schedule, the withdrawal of the schedules of the ten new Member States and the temporary application of the EC schedule for the EC-25 pending the finalisation of negotiations concerning compensatory adjustment as well as the EC's readiness to enter into negotiations to address compensatory adjustments under Article XXIV.6 of the GATT. On 22 March 2004, the Council authorised the Commission to conduct Article-XXIV.6 negotiations with the Community's trading partners.

On 4 June 2004, the Council authorised the Commission to conduct Article-XXVIII negotiations. On 15 July 2004, the Commission has notified the WTO about its intention to modify the bindings on bananas in the Community GATT tariff. Negotiations have started in November.

## **2. SPECIAL FRAMEWORK OF ASSISTANCE FOR TRADITIONAL ACP BANANA SUPPLIERS**

In order to tackle the problems of competitiveness, the EC has put in place the Special Framework of Assistance (SFA) for traditional ACP banana suppliers. Set up in 1999 by Council Regulation (EC) No 856/1999<sup>14</sup> of 22 April 1999, the SFA seeks to assist traditional ACP banana suppliers in their adaptation to the changing market situation. The funds of the scheme are helping the beneficiary countries to improve the competitiveness of their banana sectors, and to support diversification where improvement in the competitiveness of the banana sector is not sustainable.

Within the period 1999–2003 a total of EUR 216.18 million has been assigned to the beneficiary countries. The biggest beneficiaries of the funding are the Windward Isles<sup>15</sup>, where 51% of the funds within the period have been assigned.

The Commission regularly submits reports on the implementation of the SFA to the European Parliament and the Council.

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<sup>12</sup> Commission Regulation (EC) No 838/2004 (OJ L 127, 29.4.2004, p. 52).

<sup>13</sup> Commission Regulation (EC) No 1892/2004 (OJ L 328, 30.10.2004, p. 50).

<sup>14</sup> OJ L 108, 27.4.1999, p. 2.

<sup>15</sup> Dominica, Grenade, St. Lucia, St. Vincent & Grenadines.

### 3. MARKET TRENDS

#### 3.1. Supply of the Community market

Appropriate graphics are given in Annex 2.

##### 3.1.1. EU production

The total **EU-15** production with 754 000 tonnes in 2003 constitutes roughly 1% of world production in the same year (Figure 2, Annex 2).

In the years 1999–2003 the EU-15 production has been fluctuating around 750 000 tonnes, and has overall increased by 3.5%. Within this period of time, the evolution of production has differed from one Member State to another (Figure 3, Annex 2).

##### 3.1.2. EU imports

The **EU-15** market absorbs 4 million tonnes of bananas a year, this number has been fluctuating and has overall increased by 5% during the period 1999–2003. The EU-15 countries import roughly 82% of the bananas consumed on its market that is 3.4 tonnes (2003). This number is composed in 63% of "dollar bananas", originating in Latin America, and in 19% of bananas originating in ACP countries. The remaining 18% of the market share goes to bananas of Community origin (Figure 1, Annex 2).

The share of bananas of the three different origins on the EU market has been rather stable over the years, but although the aggregate numbers do not experience significant change, the structure of imports within "dollar" and especially ACP banana suppliers is changing (Figure 6, Annex 2).

Among the suppliers of "dollar bananas", the dominance of the four biggest exporters: Ecuador, Costa Rica, Colombia and Panama has always been evident (97% of the total dollar banana imports), the others suppliers being much less significant (Figures 4 and 7, Annex 2).

Among the ACP countries, the evolution of EU supply has differed a lot between the suppliers. The Caribbean supplies to the EU have overall dropped by 9.6% within the years 1999–2003 and constitute currently 36.8% of total imports from ACP countries. The decrease has been especially marked in case of the Windward Islands whose exports to the EU have dropped by 51.1%. On the other hand the Dominican Republic has over the same period increased its exports to the EU by 159%, and currently accounts for 14% of the ACP figure (6% in 1999). The share of African ACPs, in particular Cameroon has increased between 1999 and 2003 by 83%, and constitutes currently 37% of the total ACP figure (Figures 5 and 8, Annex 2).

Out of the **10 new Member States** that have joined the EU in May 2004 the biggest import market is Poland. In 2003, 98% of bananas imported by new Member States were "dollar bananas". The biggest share of the market is held by Ecuador (49%), followed by Colombia (21%), Panama (13%) and Costa Rica (12%). Bananas of Caribbean origin are practically inexistent on the market. The share of African ACP bananas is 2% (Figure 9, Annex 2).



### 3.1.3. *Prices*

#### 3.1.3.1. Green banana prices

CIF import prices of bananas have experienced a rise of 8% over 1999–2003, and in 2003 they were at an average level (ACP and dollar bananas) of EUR 598 per tonne (Figures 10, 11, 12 and 13, Annex 2).

#### 3.1.3.2. Yellow banana prices

The wholesale prices of yellow bananas on the EU market have been fluctuating over the years. Within the period 1999–2003 they were at an average level of EUR 808 per tonne (Figures 14 and 15, Annex 2)

The price gap between the CIF and wholesale value of bananas over 1999–2003 was at the average level of 28% for ACP bananas and of 55% for dollar bananas.

## ANNEX I

### Evolution of compensatory aid

(Quantities expressed in tonnes; value in EUR/t)

|                                    | PORTUGAL        | FRANCE     |            | SPAIN      | GREECE     | EU AVERAGE<br>WEIGHTED | Evolution<br>in relation to<br>previous year |        |
|------------------------------------|-----------------|------------|------------|------------|------------|------------------------|--|--------|
|                                    |                 | MARTINIQUE | GUADELOUPE |            |            |                        |  |        |
| <b>1999</b>                        | <i>Quantity</i> | 21.770     | 258.501    | 83.508     | 362.188    | 3.336                  | 729.304                                      |        |
| Price at ex-packing shed stage (1) | 277             | 284        | 231        | 415        | 516        | 343                    |  |        |
| Aid                                | 297             | 297        | 297        | 297        | 297        | 297                    |  |        |
| Supplementary aid                  | 49,9            | 29,9       | 84,5       | -          | -          | 22                     |  |        |
| Total aid (2)                      | 347             | 327        | 381        | 297        | 297        | 319                    |  |        |
| <b>Total (1) + (2)</b>             | <b>624</b>      | <b>610</b> | <b>612</b> | <b>712</b> | <b>813</b> | <b>662</b>             |  |        |
| <b>2000</b>                        | <i>Quantity</i> | 22.461     | 271.269    | 87.592     | 397.578    | 3.275                  | 782.175                                      | +7,2%  |
| Price at ex-packing shed stage (1) | 213             | 234        | 215        | 283        | 473        | 257                    |  | -25,0% |
| Aid                                | 383             | 383        | 383        | 383        | 383        | 383                    |  | +29,0% |
| Supplementary aid                  | 33,2            | -          | 19,1       | -          | -          | 3                      |  |        |
| Total aid (2)                      | 416             | 383        | 402        | 383        | 383        | 386                    |  |        |
| <b>Total (1) + (2)</b>             | <b>629</b>      | <b>617</b> | <b>617</b> | <b>666</b> | <b>856</b> | <b>643</b>             |  |        |
| <b>2001</b>                        | <i>Quantity</i> | 20.682     | 233.716    | 89.042     | 420.919    | 2.909                  | 767.268                                      | -1,9%  |
| Price at ex-packing shed stage (1) | 250             | 358        | 364        | 359        | 487        | 357                    |  | +38,6% |
| Aid                                | 284             | 284        | 284        | 284        | 284        | 284                    |  | -25,9% |
| Supplementary aid                  | 80              | -          | -          | -          | -          | 2                      |  |        |
| Total aid (2)                      | 364             | 284        | 284        | 284        | 284        | 286                    |  |        |
| <b>Total (1) + (2)</b>             | <b>614</b>      | <b>642</b> | <b>648</b> | <b>642</b> | <b>770</b> | <b>642</b>             |  |        |
| <b>2002</b>                        | <i>Quantity</i> | 21.903     | 263.880    | 95.063     | 407.343    | 2.433                  | 790.622                                      | +3,0%  |
| Price at ex-packing shed stage (1) | 315             | 253        | 227        | 417        | 458        | 337                    |  | -5,5%  |
| Aid                                | 303             | 303        | 303        | 303        | 303        | 303                    |  | +6,9%  |
| Supplementary aid                  | -               | 33         | 46         | -          | -          | 17                     |  |        |
| Total aid (2)                      | 303             | 337        | 349        | 303        | 303        | 320                    |  |        |
| <b>Total (1) + (2)</b>             | <b>618</b>      | <b>590</b> | <b>576</b> | <b>720</b> | <b>761</b> | <b>657</b>             |  |        |
| <b>2003</b>                        | <i>Quantity</i> | 21.382     | 243.706    | 85.517     | 400.941    | 2.670                  | 754.216                                      | -4,6%  |
| Price at ex-packing shed stage (1) | 321             | 207        | 209        | 460        | 447        | 346                    |  | +2,6%  |
| Aid                                | 295             | 295        | 295        | 295        | 295        | 295                    |  | -2,9%  |
| Supplementary aid                  | -               | 52         | 52         | -          | -          | 23                     |  |        |
| Total aid (2)                      | 295             | 347        | 346        | 295        | 295        | 317                    |  |        |
| <b>Total (1) + (2)</b>             | <b>615</b>      | <b>554</b> | <b>555</b> | <b>754</b> | <b>742</b> | <b>663</b>             |  |        |

#### Budgetary cost of compensatory aid per commercial year

|      |     |         |
|------|-----|---------|
| 1999 | 232 | Mio EUR |
| 2000 | 302 | Mio EUR |
| 2001 | 219 | Mio EUR |
| 2002 | 253 | Mio EUR |
| 2003 | 239 | Mio EUR |

Source: Member state communications

**ANNEX 2**









