

Important commodities in agricultural trade: bananas

SUMMARY

- ▶ Banana exports are growing and provide incomes to a number of developing countries. Developed countries account for over 80 percent of banana imports.
- ▶ The EU, the world's largest banana market, is expected to replace its tariff-quota import system with a tariff-only system in 2006. There are no elements to guarantee that a tariff-only system can maintain current trade flows unchanged now or in the future.

Bananas: a growing trade, from developing to developed countries

EXPORTED VOLUMES CONTINUE TO RISE BUT PRICES DECLINE.

Bananas are the world's most exported fresh fruit in terms of volume and value. They are grown in all tropical regions and play a key role in the economies of many developing countries. Virtually all banana exports originate from developing countries.

World banana trade has grown in volume for decades, although the rate of growth decreased in the 1990s (Figure 1). The value of exports rose steadily from the mid-1980s until it reached a peak in 1997 and declined in subsequent years. This decline was mainly due to falling US dollar prices from 1998 to 2003 (Figure 2).

Figure 1: World banana exports 1973-2004
(Source: FAO and FAOSTAT)

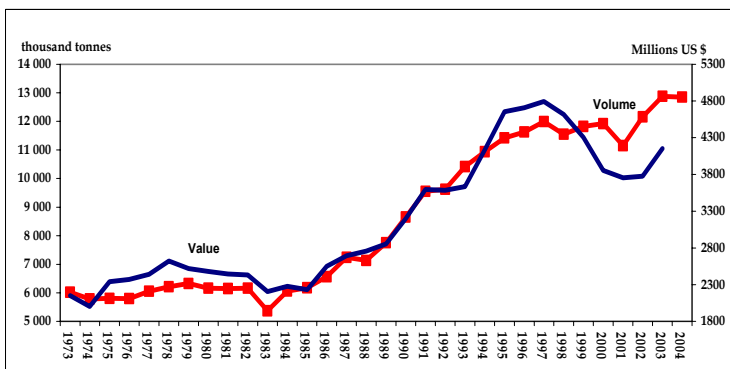
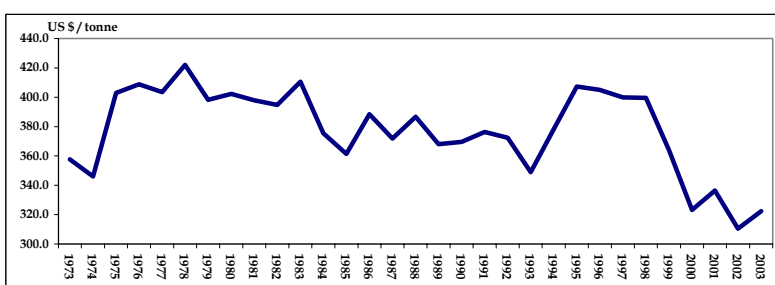


Figure 2: Unit value of world banana exports 1973-2003 (real terms)
(Source: FAOSTAT)



Import prices in US dollars recovered in 2004 and reached a new peak in 2005 mainly due to higher transportation costs, the depreciation of the US dollar against other major currencies and firm demand in import markets. Part of this increase was reflected in higher export prices. However, over the long run, export prices in real terms have been on a declining trend.

BANANAS: A DEVELOPING COUNTRY EXPORT.

Latin American countries account for the bulk of world banana exports (over 80 percent, see Figure 3). Four of the five leading suppliers of bananas are found in Latin America (Table 1). However, some countries of Africa (Cameroon, Côte d'Ivoire), the Caribbean (the Dominican Republic, the Windward Islands, Jamaica) and Asia (the Philippines) also export significant quantities.

Figure 3: banana exports by region of origin 2001-2003
(Source: FAO)

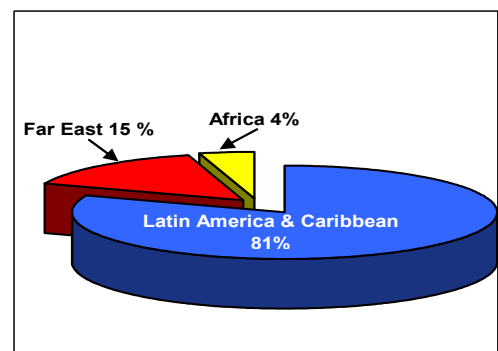


TABLE 1: LEADING BANANA EXPORTERS AND IMPORTERS

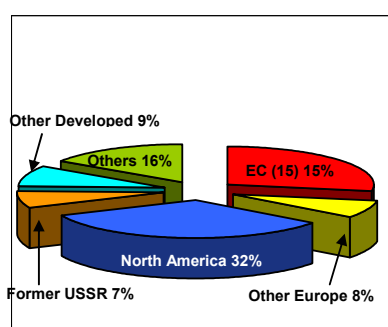
| NET EXPORTS (thousand tonnes) | | NET IMPORTS (thousand tonnes) | |
|-------------------------------|---------------------|-------------------------------|---------------------|
| | 2002 - 2004 average | | 2002 - 2004 average |
| WORLD | 12 616 | WORLD | 12 041 |
| Ecuador | 4 490 | UNITED STATES | 3 455 |
| COSTA RICA | 1 772 | EU (15) | 3 336 |
| PHILIPPINES | 1 771 | JAPAN | 983 |
| COLOMBIA | 1 455 | AREA OF FORMER USSR | 922 |
| GUATEMALA | 992 | CANADA | 427 |

Source: FAO

DEVELOPED COUNTRIES ARE THE MAIN MARKETS

Developed countries accounted for approximately 84 percent of world banana imports in 2001-2003. Until recently, the United States was the leading importing country, followed by the European Union (EU) and Japan (Table 1). Following its enlargement to include ten more countries in May 2004, the EU has now become the largest banana import market in the world. With 25 member states and a population of 450 million consumers, most of whom have a high purchasing power, the EU market is important to banana exporting countries both for the large quantities it imports and for its high prices. While banana consumption has been relatively stable in the United States and Japan, it has grown steadily in Russia and the countries of the former USSR. Due to economic growth and the transition to a market economy, Russia has become an important market for bananas and might overtake Japan as the world's third largest importer in the future. However, prices have been much lower than in the other major markets.

Figure 4: banana imports by region 2001-2003



The rest of the world accounts for only 16 percent of banana imports but consumes 84 percent of world production. The largest importer is China, although its imports have been on a decreasing trend since a peak in 2000 as domestic production has risen. The main importing region is the Middle East and its imports are growing.

MARKET ACCESS

Most developed countries grant unlimited access (with or without a tariff) to bananas imported from developing countries. There are two important exceptions. The EU limits banana imports through a system of tariff-quotas. It is in the process of replacing this system with a system based on a single tariff for MFN bananas and a duty-free quota for ACP bananas. The new system is expected to be in place in January 2006 (see FAO Trade Policy Brief No. 6 www.fao.org/trade/index_en.asp).

The second important exception in the developed world is Australia. Australia prohibits the importation of bananas on the grounds that imported fruit may introduce diseases that are not found in the country and may threaten its domestic banana production. However, the Philippines has challenged this claim and argued that this ban constitutes unfair discrimination against its exports. A panel was established at the WTO in August 2003 but the two countries continue to negotiate.

Key challenges

- ▶ Prices in the world banana market have been characterized by volatility and a long-term decline trend, as supply has grown faster than demand. Investors should base their expansion plans on cautious assessments of future market prospects;
- ▶ Due to the EU's large imports, the forthcoming changes in its import policy might have a substantial impact on world banana trade, but assessments of these impacts show conflicting results.