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

on the situation of the Union market for bananas and the state of Union banana producers after the expiry of the stabilisation mechanism for bananas including a preliminary assessment of the functioning of the ‘Programme d'Options Spécifiques à l'Éloignement et l'Insularité’ (POSEI) in preserving the banana production in the Union

1. INTRODUCTION

Bananas are one of the most important crops in the outermost regions (ORs) of the European Union (EU). The largest banana producers among the EU Member States are Spain (Canary Islands), France (Martinique and Guadeloupe) and Portugal (Madeira and Azores), with respectively a share of 64%, 32% and 3% of the total EU production in 2021. The European Agricultural Guarantee Fund (EAGF) supports the banana sector through POSEI¹ with a total of €278.8 million per year. Moreover, the sector can benefit from Rural Development Programmes (RDPs) under the European Agricultural Fund for Rural Development (EAFRD).

European citizens are major banana consumers, making the EU the world's biggest importer of bananas to supply such a large demand. In 2021, approximately 11% of the total supply came from domestic production while the rest was imported from African, Caribbean and Pacific (ACP) countries (around 15%) and Latin America (LatAm) countries (around 74%).

The regulatory framework for imports of bananas in the EU underwent several changes in the last 30 years. Recently, imports of bananas from LatAm countries were subject to a Banana Stabilisation Mechanism (BSM)² until 31 December 2019. The BSM was introduced by the Free Trade Agreement between the EU and Colombia and Peru (joined by Ecuador in 2017) and by the EU-Central America Association Agreement comprising Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama as an accompanying measure to the progressive implementation of the tariff preferences. The Commission has reported on a regular basis about the application and implementation of the Agreements including on BSM.

On top of those reporting commitments, in accordance with the Commission statement annexed to the BSM regulations, “*after the expiry of the stabilisation mechanism for bananas on 31 December 2019, the Commission will assess the situation of the Union market for bananas and the state of Union banana producers. The Commission will report its findings to the European Parliament and to the Council and will include a preliminary assessment of the functioning of the ‘Programme d’Options Spécifiques à l’Éloignement et l’Insularité’ (POSEI) in preserving the banana production in the Union*”. The present document serves to fulfil on that commitment³.

¹ Programme of options specifically relating to remoteness and insularity (Acronym of the FR phrase *Programme d’Options Spécifiques à l’Éloignement et à l’Insularité*).

² Regulation 19/2013 of the European Parliament and of the Council of 15 January 2013 implementing the bilateral safeguard clause and the stabilisation mechanism for bananas of the Trade Agreement between the European Union and its Member States, of the one part, and Colombia and Peru, of the other part, OJ L 17, 19.1.2013, p. 1–12 (Regulation 19/2013) and Regulation 20/2013 of the European Parliament and of the Council of 15 January 2013 implementing the bilateral safeguard clause and the stabilisation mechanism for bananas of the Agreement establishing an Association between the European Union and its Member States, on the one hand, and Central America on the other, OJ L 17, 19.1.2013, p. 13–24 (Regulation 20/2013) as amended by Regulation 2017/540, (OJ L 88, 31.3.2017, p. 1–5).

³ See in Annex the methodology and the data sources used for the report.

2. BANANA WORLD MARKET

According to FAO⁴, bananas are among the most produced, traded and consumed fruits globally. Bananas play a significant role in terms of food security and jobs in several least developed and food-deficit countries, where they are used as basic staple for local household and as a cash crop.

Bananas are predominantly produced in Asia, LatAm and Africa. India and China are the largest producing countries, but most of their production is consumed domestically. World banana trade has expanded unprecedentedly due to significant increase in total import demand and abundant supply growth in the leading exporting countries, in particular Ecuador and the Philippines. The largest importers in 2020 were the EU (5.2 million tonnes), US (4.2 million tonnes), China (1.8 million tonnes), Russian Federation (1.5 million tonnes), Japan (1.1 million tonnes) and the UK (1 million tonnes)⁵. The banana market has hence a worldwide dimension and a variety of international and domestic factors can affect the competitiveness of the sector.

3. BANANA EU MARKET

3.1. Import volumes and total supply⁶

In the EU the total supply comprising imports and domestic production has increased by 37% from 2012 to reach 5.8 million tonnes in 2021. In that year, the EU production of 0.64 million tonnes represented around 11% of the total supply, while imports were mainly from LatAm countries (4.3 million tonnes i.e. 74% of the supply) followed by ACP countries (0.85 million tonnes i.e. 15%).

The EU production has remained rather stable since 2012, oscillating between 0.6 and 0.7 million tonnes, although with important regional variations. Martinique and Guadeloupe have been affected by climatic hazard events as well as plant pests and their production has not fully recovered since the significant drop in 2017. In regions of Spain and Portugal, despite yearly variations, production remained stable or increased slightly. Most of the EU bananas are consumed outside the region of production. In 2021, out of some 638 000 tonnes produced, only 62 000 tonnes⁷ were marketed there. The vast majority of bananas marketed outside the region of production is destined to the respective mainland countries⁸.

From 2012 to 2021, the increase in EU demand has therefore been met mainly by a rise in imported bananas. As a matter of fact, in terms of volume, the market share of EU bananas went down from 15% to 11%, while ACP bananas increased from 13% to 15%, and LatAm bananas from 72% to 74%. The evolution was not a linear one: for example the share of LatAm bananas was 75% in 2020 and decreased in 2021 due to lower imports mainly from Panama and Guatemala.

⁴ <https://www.fao.org/markets-and-trade/commodities/bananas/en>

⁵ 2020 FAO net imports data.

⁶ See Table 1 in Annex.

⁷ Out of which 48 000 tonnes are marketed locally in the Canary Islands in order to satisfy the local demand which is also boosted by tourists.

⁸ This is especially the case for ES and PT.

The top three LatAm exporters to the EU, Ecuador, Colombia and Costa Rica, with respectively around 1.60, 1.16 and 1.02 million tonnes exported in 2021, have maintained a rather stable combined market share of around 65% since 2012. Among them, Costa Rica is the country with the highest growth rate, with an increase of its exports to the EU by 56% in 10 years.

The top three ACP exporters to the EU are Ivory Coast, Dominican Republic and Cameroon with respectively 0.32, 0.26 and 0.17 million tonnes exported in 2021. This represents around 13% of the market share as compared to 9% in 2012. The increase in market share for the top three ACP exporters is mainly due to Dominican Republic (almost tripling in volume) and Ivory Coast (doubling in volume). Cameroon's exports, instead, oscillated throughout the period to end in 2021 only slightly above 2012 levels.

3.2. Import volumes by MS⁹

ACP bananas are imported only by few Member States with the top three accounting, in 2021, for 84% of total imports from ACP. France, which historically has been a major ACP importer, is still the first entry point, mainly from the Ivory Coast. Belgium is the second importer, mainly from Cameroon and Ivory Coast. The Netherlands, which in 2012 imported rather small amounts from ACP, have become a major importer, almost exclusively from Dominican Republic.

LatAm bananas, instead, enter the EU market through a larger number of Member States. Imports are less concentrated, with the top three Member States accounting for 55% of the total imports in 2021. At the top of the list is the Netherlands, which significantly increased its imports over the period, mainly from Costa Rica, Ecuador and Panama. It is followed by Italy, which increased its imports almost linearly over the period, mainly from Ecuador, Colombia and Costa Rica. Belgium comes third, and it is one of the few MS which has imported considerably less in 2021 compared to 2012. A significant increase can be noted for Poland importing more and more directly instead of sourcing from neighbouring Member States (e.g. Germany, which consequentially has shown a decreasing trend since 2015).

3.3. Prices and market value¹⁰

Banana prices have shown a different trend over the period according to the three groups:

- Prices of bananas grown in the EU are the highest mainly thanks to Spain and Portugal's premium prices, oscillating between €0.9/kg and €1.2/Kg in the last 4 years. Prices of French produced bananas were significantly lower and fluctuating between €0.5/Kg and €0.6/Kg;
- ACP prices sit in between EU and LatAm prices and have increased over the period, although less significantly than Spanish bananas and with some

⁹ See Table 2 and 3 in Annex.

¹⁰ See Table 4 and 5 in Annex.

differences between the sourcing countries. On average, prices increased from €0.66/Kg in 2012 to €0.75/Kg in 2021, with higher peaks in between;

- LatAm prices kept clearly lower, with an overall decreasing trend, touching the minimum level of €0.57/Kg in 2021.

The overall average price of imported bananas (ACP and LatAm combined) is estimated at €0.6/Kg for 2021, the lowest value in the last 10 years and around 7% lower than in 2020 due mainly to lower priced imports from LatAm. EU bananas prices also experienced a drop in 2021 from the record levels reached in 2020.

In terms of value, the EU banana market in 2021 is estimated at €3.6 billion, a growth of 35% from 2012 (€2.7 billion). The drop from the peak reached in 2020 (estimated at €4 billion) can be mainly attributed to both the lower volume imported and lower prices for LatAm in 2021. The market share in terms of value shows a different picture than the one seen in the section 3.1 presented in terms of volume. Indeed, while ACP's market share has increased significantly from 14% to 18%, EU bananas remained almost stable at around 15% and 16% for most of the years whereas LatAm bananas decreased to 68% (from 70%). This is mainly due to the different dynamics of prices of the three origins as described above.

4. MARKET ACCESS TO THE EU AND THE BANANA STABILISATION MECHANISM

4.1. History of banana market access to the EU

Banana production and import have always been a sensitive matter both inside and outside the EU. The banana production is a particularly crucial employment sector in certain areas of the EU (see chapter 5) but it is also considered an important revenue for ACP countries. In the same vein, bananas are also the most important fruits produced in LatAm ensuring employment to hundreds of thousands of farmers and related businesses.

Banana trade gave rise to one of the longest running disputes in the twentieth century multilateral trading scheme. The disputes dated back to 1992 under the General Agreement on Tariffs and Trade (GATT) and related in particular to the special trade relation the EU maintained with the former colonies of its Member States regarding the imports of bananas. This was considered not compatible with GATT. The disputes continued when the GATT became the WTO in 1995 generating considerable litigations.

A number of modifications to the EU's banana regime was finally agreed in 2001, which aimed at balancing out the various interests at stake, notably by (1) designing a WTO-compatible system of preferences, (2) providing adequate protection to domestic banana production and (3) guaranteeing a diversified supply of bananas to an ever-increasing banana market with affordable prices for EU consumers. Thus a tariff-only import regime was put in place on 1 January 2006, together with a modification of the support scheme to EU banana producers (see section 5.1).

Between 2002 and 2006 the import of bananas into the EU took place through import licences distributed on the basis of past trade. From 2006 the principal Tariff Rate Quotas (TRQ) for Most Favoured Nation (MFN) suppliers were lifted, and a new duty rate of €176/tonne was applied. The TRQ in favour of the ACP countries was

maintained until the conclusion of the new Economic Partnership Agreements (EPA). Under these agreements, EPA partners do not pay any tariffs or duties on any of their exports to the EU.

This revised EU banana regime, however, led again to disputes in WTO, which were ended with the comprehensive “Geneva Agreement” between LatAm banana producing countries, the US and the EU in December 2009. Under this agreement the MFN tariff on bananas was to fall gradually from €176/tonne to reach €114/tonne in 2017.

In parallel, the negotiations of comprehensive trade agreements with Central America and with the Andean Community countries were concluded in 2012 and the trade provisions of the agreements started to apply provisionally during 2013 (with the exception of Ecuador in 2017)¹¹. The Agreements provided for a gradual decrease of tariff for bananas to reach €75/tonnes in 2020¹² accompanied by bilateral safeguard clause¹³ as well as a stabilisation mechanism to guarantee a smooth transition (see section 4.2).

By establishing this scheme with tariff treatment and accompanying measures (instead of a full liberalisation), both Agreements took into account the sensitivities of the EU, especially the interests of its ORs and the vulnerability of its banana sector as well as the similar interest of ACP producers.

All the above changes allowed the current EU import banana scheme not only to strike the right balance between its different objectives, but also to become stable and widely accepted by all EU trading partners.

4.2. Banana stabilisation mechanism

As mentioned, the BSM was introduced by the Agreements with Central America and the Andean Community countries and provided an additional stability during the transition to a gradual decrease of the tariffs, which started to apply in 2013. The BSM provided for a progressive annual increase of trigger import volumes specific to each country, a decreasing preferential customs duty common to all countries, coupled with the possibility to temporarily suspend the preferential customs duty. The temporary suspension was not automatic but was conditioned to the conclusion of an assessment of eventual market disturbances in the EU.

During the application of the BSM, the temporary suspension of the preferential duty was never applied. The trigger import volumes were regularly reached only by “smaller” exporting countries (Peru, Guatemala and Nicaragua)¹⁴ with minor impact on the EU market. The Commission systematically undertook an analysis of the

¹¹ Trade Agreement between the European Union and its Member States, of the one part, and Colombia and Peru, of the other part (OJ L 354, 21.12.2012, p. 3–2607); Ecuador has acceded to the Agreement by means of a Protocol of Accession (OJ L 356, 24.12.2016, p. 3–1456) which is provisionally applied since 1 January 2017; Association Agreement between the European Union and its Member States, on the one hand, and Central America, on the other (OJ L 346, 15.12.2012, p. 3–2621.).

¹² See Table 6 in Annex.

¹³ Both Agreements foresee a bilateral safeguard clause applying up to 10 years from their application, which will expire in 2022 (for AC countries) and in 2023 (for CA countries).

¹⁴ See Table 7 in Annex.

situation and never found evidence of the risk of disturbances and therefore concluded that the temporary suspension of the preferential duty was not necessary¹⁵.

The Regulations implementing the BSM comprised a series of commitments for increased and timely transparency that were undertaken by the Commission. These included, among others, an annual reporting obligation to the Council and the EP on the application of the Agreements and the Regulations¹⁶ and an imports surveillance database allowing the monitoring of the imports of bananas on a weekly basis¹⁷. As of 2017, an early warning system was also put in place engaging the Commission to inform the Council and the EP when import volumes reached 80% of the trigger levels. All these commitments provided for a close monitoring of the banana market in the EU. On top of that, an additional assessment of the situation of EU banana producers by 1 January 2019 was also carried out to decide whether the request for an extension of the validity of the mechanism was necessary. This assessment concluded that no deterioration had occurred¹⁸.

Consequently, the BSM expired on 31 December 2019 and imports of bananas from the countries covered by the above mentioned Agreements reached the final preferential customs duty level of €75/tonne without any other condition. Following a specific review clause in the Agreements, it was discussed and concluded that no further decrease below €75/tonne can be envisaged after 2020.

5. EU FINANCIAL SUPPORT TO THE BANANA SECTOR

5.1. History of EU support and POSEI scheme

Bananas are one of the most important crops in the ORs of the EU accounting for almost 100% of the total EU production.

The Common Market Organisation for bananas (CMOB) established in 1993 a common import system with tariff quotas as well as a compensatory aid scheme for Community producers. Following several consecutive reforms to CMOB, the aid scheme was integrated into POSEI, considered as best adapted to support banana production in the EU. As such, in 2007 the budgetary allocation of POSEI¹⁹ was increased with a total amount of €278.8 million.

The POSEI scheme²⁰ provides for specific measures for agriculture in the ORs. The total POSEI annual allocation amounts to €653 million for the three Member States (France, Spain and Portugal). The POSEI programmes in the ORs replace the measures of the first pillar of the CAP: for farmers, including banana producers

¹⁵ See Table 8 in Annex.

¹⁶ See Table 9 in Annex.

¹⁷ https://ec.europa.eu/taxation_customs/dds2/surv/surv_consultation.jsp?Lang=en

¹⁸ Note for the attention of the Trade Policy Committee and Note for the attention of the INTA Committee on EU banana market analysis from the Commission – December 2018

¹⁹ Council Regulation (EC) No 2013/2006 of 19 December 2006 amending Regulations (EEC) No 404/93, (EC) No 1782/2003 and (EC) No 247/2006 as regards the banana sector (OJ L 384, 29.12.2006, p. 13–19).

²⁰ Regulation (EU) No 228/2013 laying down specific measures for agriculture in the outermost regions of the Union and repealing Council Regulation (EC) No 247/2006 (OJ L 78, 20.3.2013, p. 23–40).

POSEI hence assures an income support similar to what farmers receive across all Europe, but adapted to the specific conditions and needs of ORs²¹.

For the banana sector in particular, Spain allocates an annual budget of €141.1 million for the Canary Islands, France €129.1 million for Martinique and Guadeloupe, and Portugal €8.6 million for Madeira and Azores. In 2020, it represented 43% of the total POSEI allocation. Member States have kept the same level of financial support to the banana sector since 2007, with the only exception in 2012 when the POSEI budget was increased by an one-off payment of €40 million in order to help the European banana producers adapt to changing EU market access conditions.

In the Multiannual Financial Framework 2023-2027, the total level of funding for POSEI has been maintained despite the general cuts to the Common Agricultural Policy (CAP) budget, thus recognising the scheme's particular role in supporting agriculture in the ORs.

The POSEI basic regulation does not define any specific allocation for banana production. Member States decide, based on the identified priorities in the programmes of each OR, the types of measures to apply, their financial allocations and conditions of eligibility. Membership of a recognized producer organisation is a common eligibility condition.

5.2. Banana sector and the POSEI programme in Spain²²

In the Canary Islands, with an unemployment rate of 22.6% in 2020 (three times higher than the EU average), banana production plays an important role in stabilizing income and jobs in rural areas.

The total POSEI budget for the banana sector is over half of the total POSEI budget.

The quality of production is a central element of the overall POSEI programme. This is particularly true for the banana sector, as only production with the PGI “Plátano de Canarias” is eligible to POSEI. Bananas from the Canary Islands are mainly sold on the Spanish market which is characterised by a strong loyalty of consumers. “Plátano de Canarias” clearly attracts a premium price on this market.

The island of La Palma was affected by the eruption of the volcano of Cumbre Vieja in 2021, which covered with lave around 210 ha of banana cultivation. The CAP provided certain possibilities of support to the affected farmers under POSEI scheme and the RDP.

According to the conclusions of the synthesis report by Ecorys, there is evidence that POSEI provided a considerable contribution to the development of the sector.

5.3. Banana sector and the POSEI programme in France²³

In Guadeloupe and Martinique, with an unemployment rate of around 17% and 12.4% respectively, the banana sector also plays a key role in stabilizing income and jobs in

²¹ POSEI is the implementation of Article 349 of TFUE in EAGF of the CAP,

²² See Table 10 in Annex.

²³ See Table 11 in Annex.

rural areas. 56% and 77% of agricultural workers in Guadeloupe and Martinique, respectively, are employed in this sector.

In France, the POSEI budget allocated to bananas took up around 46% of its total POSEI budget.

In the recent years, the marketed production has decreased significantly mainly due to the following factors: climatic events such as cyclones (Matthew in September 2016 and Maria in September 2017) and drought episodes (2019) as well as plant health issues.

Indeed black sigatoka (cercosporiosis) remains a critical issue in the Antilles. This very contagious disease that started in 2010-2012 and now is present in both Antillean regions, might be responsible for a potential loss of up to 25% of production. With the significant reduction in plant protection products available, the fight against this disease has become more labour-intensive and costly. To control cercosporiosis the sector focuses on resistant varieties, which however might not be available before 2024.

According to the conclusions of the synthesis report of Ecorys, the falling production volumes and yields may indicate a loss of competitiveness of banana producers in these regions, especially in the period 2015-2019. In this situation, the POSEI support may have contributed to keep the sector still operational²⁴.

5.4. Banana sector and the POSEI programme in Portugal²⁵

Banana production is an important part of the agriculture of Madeira (accounting for 15% of utilised agricultural area - UAA), but less in the Azores (0.2% of UAA).

The POSEI budget programme for Portuguese ORs shows a clear difference in the weight of the banana sector in the two regions. In the Azores, the support to the sector is rather insignificant in the overall POSEI budget (around 1%) whereas in Madeira, banana support accounts every year for over 27% of all payments to the region.

According to the conclusions of the synthesis report of Ecorys, POSEI provided a considerable contribution to the development of the sector in Madeira.

With regards to Azores, although being of minor relevance compared to Madeira, the growing number of beneficiaries, marketed production, and POSEI support indicate a positive evolution of the sector.

5.5. Rural development aid²⁶

In the 2014-2022 RDPs which are co-financed with EAFRD, the ORs can benefit from advantageous conditions. The programmes are drawn up in accordance with the priorities and needs of the ORs and include support measures aimed to restore, preserve and improve biodiversity in agriculture and forestry, and promote economic

²⁴ Assessment of ECORYS report.

²⁵ See Table 12 in Annex.

²⁶ See Table 13 in Annex.

development in rural areas. Risk management and quality systems are also included among the actions available to banana producers.

6. CONCLUSIONS

EU agricultural and trade policies have always paid particular attention to the EU banana producers in the ORs. While POSEI and RDPs continued to strongly support them, the EU trade policy struck the right balance between different objectives by respecting the EU's international obligations, maintaining a stable relationship with all EU trading partners and meeting the steadily increasing EU consumption.

Specifically, for the period during which BSM was operational, EU banana's producers, despite losing market share in terms of volume, have been able to keep a rather steady share of the market in terms of value thanks to a positive price evolution. This happened in a context of increasing consumption in the EU as well as increasing import volumes and decreasing import prices from LatAm suppliers.

The marketing strategy as well as an efficient use of the POSEI and RDPs resources seem to play therefore an important role in the competitiveness of the European banana sector. While Portuguese and especially Spanish producers (the later focusing on quality of production) were able to keep high prices and slightly increased their supply, French producers were affected by loss of production, increasing production costs and lower prices.

Finally, at the time of drafting, the impact of the invasion of Ukraine was not yet reflected in the official data available. The inflationary pressure affecting all the commodities and the likely considerable drop in demand from countries hit by the war are expected to affect the banana supply chain and EU banana market as well, in the short and medium term.

Annex: Methodology used, relevant data and sources