

Is an IBA feasible?

Exploring the idea of an International Banana Agreement with social, environmental and economic chapters

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Introductory Remarks

This paper will discuss the considerations involved in establishing and running an International Banana Agreement (IBA) or other mechanism designed to protect banana prices and incomes as well as worldwide employment and environmental standards in the production of bananas for export. Various options are possible and much can be learnt from previous experience about both the political and technical requirements for such action. However, the banana economy is very complicated and it cannot be assumed that mechanisms that have worked on other, simpler markets will necessarily succeed in this case.

There are several different requirements of international action on bananas and its shape will depend on the balance of interests among those directly affected by it, so a single blueprint is not desirable at this stage and will not be offered in this paper. All the conclusions and recommendations are tentative and offered for discussion, modification, rejection or refinement by those at the International Banana Conference. The paper raises questions about the practical negotiation and implementation of new arrangements rather than making any firm recommendations about the form they should take, and as such it is not meant as a firm set of policy proposals.

After this introductory section, the paper is in five parts. The next two will set the current realignment on the world banana market in its wider context, first by describing the crisis of oversupply and low farmgate prices which agriculture faces worldwide, then by examining the general problems of prices on commodity markets and the ways they have been addressed in the past. The next section gives a broad description of the world banana economy today, and is then followed by an appraisal of the options available to correct the price, employment and environmental issues posed by the banana trade. The final section sums up that discussion with an evaluation of the strategic options available.

The paper concentrates on actions which can be undertaken at the intergovernmental level as well as by banana farmers and workers and their representative organisations. It does not examine voluntary standards and initiatives on the part of banana plantations and corporations. The aim is to remove the need for them via more firmly grounded approaches.

2 The World Agricultural Crisis

The world is going through a major agricultural crisis which affects nearly all produce markets and the farmers and agricultural workers of all countries. The reason lies in global oversupplies combined with the concentration of market power in the hands of transnational retailing, trading and agroprocessing corporations. These interests in later stages of the supply chain hold most of the market power and capture most of the value added and profit margins available on agricultural markets today. There is a concomitant reduction in the bargaining power of agricultural exporting countries, farmers and agricultural workers, who receive a steadily falling share of the final prices for their produce.

Data from the U.N. Conference on Trade and Development indicate that over the 24 years from 1977 to 2001, dollar prices declined for 41 out of 46 leading agricultural and mineral commodities, after adjustment for general inflation. The average decline over those 24 years was 2.8 per cent per year; the real price of cocoa fell by 6.9 per cent per year and that of tin, by 7.5 per cent. UNCTAD's figures show that banana prices rose by 1.8 per cent per year over the period; but this too is equivalent to a 0.6 per cent annual decline after inflation is taken into account.¹

Within developing countries, the problem is exacerbated by the strong insistence by international institutions in recent times on opening markets and expanding exports as the only acceptable means of overcoming payments difficulties. This has encouraged oversupplies on the markets for many tropical commodities, including bananas, and sharp falls in price as a result. At the same time, in both the global North and the South, there has been a breakdown of the numerous state institutions which - whatever deficiencies they may have had - existed primarily to assist and support farming people, such as produce marketing boards and the former international commodity agreements (ICAs).

¹ UNCTAD (2003), Table A.2. The table does not state which banana price this refers to.

3 Price Problems Affecting Commodity Markets

i The Price Issues

The price systems on commodity markets display three widespread failings. They are as follows.

1. Price instability

This can take two forms: over the short term (the crop year for agricultural commodities) and the medium term (the length of the business cycle - between five and ten years). Commodity markets are notorious for instability of both sorts, but different means exist to tackle them. Where a futures market exists, those with the capital and financial understanding to do so can guard against short-term fluctuations by "hedging" their purchases or sales on it; this is a form of insurance against adverse price movements. But there is no futures market for bananas or any other fruit. Sharp medium-term fluctuations in price can only be controlled by means of intervention in the markets, although little of that has been attempted in recent years and it can be both technically and politically hard to achieve.

2. Declining prices

There is a recognised long-term tendency for commodity prices to fall in relation to the prices of manufactures and services. But this was made far worse by the export-oriented policies of structural adjustment imposed by the international financial institutions, which led to sustained oversupplies and sharp declines in price.

3. Declining share of final market prices accruing to the farmer

This is a worldwide problem, which arises from the excessive concentration of the markets at key points along the supply chain - for example, in grain trading, coffee roasting and at the supermarkets. It affects both the prices received by farmers and the wages and working conditions of farm and plantation workers.

ii Methods Available to Counter Price Problems

Price problems 1 and 2 can in many cases be addressed by supply management. This is any concerted technique which takes supplies off a market, or puts them back on it, in order to influence price movements. It can take many forms, and the best form for any market can only be discovered with reference to that market.

It includes the De Beers company's control of diamond distribution and the Organisation of Petroleum Exporting Countries' (OPEC's) operations on the oil market, as well as the ICAs which existed between producer and consumer countries on several markets before 1990. Other examples were the control of aluminium and nickel prices by the transnational corporations (TNCs) which dominated those markets until the 1980s. The aluminium one was extremely successful for the first 90 years in which that metal was traded. Those examples all work quite differently from each other: that is no accident, as every commodity market is different.

The methods used to manage supplies at different times have included both import and export quotas, tariffs, TNCs' internal controls within their own production and

distribution systems, and tightly controlled outsourcing of supplies by processing and retailing corporations. There are methods which push supplies up (e.g. subsidies and import tariffs), cut them back (e.g. production or export quotas) or can do both at different times with the aim of reducing price volatility (e.g. a buffer stock).

The ICAs mostly operated by intervening on the market to keep prices within a predetermined price band, estimated to be the trend price for the commodity in question. But the method does not have to be so formal or make the same pretensions to precision. Over a period of more than 30 years OPEC has had repeated success intervening in the oil market in the interests of a large, but not dominant, group of exporting countries. It has done so with periodic meetings at which its members decide whether an adjustment in supplies is required, without any specific rules about price levels or the state of the market in which such decisions should be taken. These are political decisions and the relative success of OPEC as a producers' association arises in part from that fact. After all, most private companies also make their pricing and production decisions according to commercial judgments rather than hard and fast rules.

A usual political condition of success in commodity market intervention is the existence of a dedicated core of countries (or companies, if it is a commercial cartel) which feel solidarity with each other on other grounds. This applies to the Middle Eastern countries in OPEC and it was also true of Indonesia, Malaysia and Thailand in the International Tin Agreement, which collapsed in 1985 after many years of successful intervention on the tin market.

In designing a supply management scheme it is necessary to be clear-sighted about whether the main aim is to counter price instability or to push prices up. It should be decided at the outset which of the two the scheme wants to achieve, for it is unlikely to do both over any extended period. Any scheme can also come under severe, unpredictable strain at times, and provisions to accommodate that strain should be built in. The sharp economic recession of the early 1980s, which forced down prices and built up stocks on commodity markets, not only smashed apparently robust ICAs like the tin agreement, but even the previously solid aluminium pricing arrangement. It was not foreseen, but in future the possibility of such severe strains could be built into any agreement - something akin to a *force majeure* provision.

Meanwhile, corporate concentration is an issue of growing importance on all agricultural markets, and relatively new on many of them although it has characterised the banana market for a century or more. Real change will be slow and hard to achieve, and can only be brought about through a wide base of solidarity between farmers, farmers' organisations, agricultural workers and their unions and sympathisers throughout the world.

The only serious way of tackling this problem is by global competition policy of the anti-trust variety pioneered in the USA in the late 19th century, applied globally to global markets. The world is a long way from that at the moment, but regulations should be sought to prevent such concentrations developing in the first place, and to break up companies involved if they have done (as Standard Oil was broken up long ago). Besides raising farmgate prices, the boost to farmers' negotiating strength would give them more say in the supply chains for agricultural produce.

On the commodity markets, supply management has worked where there is a global market with a common pricing system and a single set of market institutions. Most of these markets have operated on this global basis for decades and in some cases for centuries: large markets like oil, coffee and copper as well

as tin, palm oil, rubber and small, specialised markets like vanilla, cloves and tungsten. However, there is not a single global market for bananas; even after the EU's tariff-only system is introduced, there will not be the single pricing system and set of institutions that is usually required. Any attempt to introduce a coherent system of supply management in such a setting could be fraught with difficulties. These should become apparent during the course of this paper.

4 The Banana Trade Today

i Market structure

“Market structure” is a common term used in economics to refer to the relative shares of a market commanded by its competing suppliers, and the degree to which those shares are concentrated in few hands. However, it is used in this section in a broader sense to apply to the general shape of a market, the relative significance of its different participants and the ways in which they interact. The latter can arise from factors such as types of ownership, conditions of production or the foreign trade regimes in various countries.

The banana is the commonest fruit and the fourth most important staple food in the world. It is produced almost throughout the tropics and in much of the sub-tropics, in 130 countries or territories according to the UN Food & Agriculture Organisation (FAO). Nearly all international trade is conducted in “dessert” bananas of the Cavendish variety, which accounts for 47 per cent of total world output. But there are many other varieties in use, many of them for cooking, including plantains. In the Great Lakes region, it is estimated that more than 80 varieties of East African highland banana are grown.²

The banana export market is now almost as valuable as that for coffee, and it is much more complex than the latter. It is going through a transition period, and the interests of banana growers and plantation workers must be fully reflected in the new structure that arises.

Until now the international trade has been broken up into a series of almost separate markets, each operating in its own way. This is mainly due to the different arrangements among importers, especially the European Union and the United States. The US has in principle maintained open access to its market, although in practice that access was always controlled by the US-owned TNCs, Dole, Chiquita and Fresh Del Monte. Until the early 1990s each EU member state set its own import rules, but then these were unified under the twin pressures of the EU’s single market and the World Trade Organisation (WTO). The new provisions guaranteed highly subsidised production within the EU’s member states, in Spain’s Canary Islands and France’s Caribbean territories of Martinique and Guadeloupe in particular.³ Preferential access was maintained for often high-cost historical partners in English-speaking Caribbean states and French-speaking African ones in the African, Caribbean and Pacific (ACP) group. Throughout this period, prices in the EU’s managed banana market were both higher and more stable than in the freely operating US market. The banana corporations still remain of limited importance in some of the EU’s member states, especially France and Spain.⁴

² INIBAP (2002), p. 41.

³ According to a Swedish government report, the fixed income currently guaranteed to EU banana growers amounts on average to €8,800 per hectare, compared with €500/ha for olive production and €550-€900/ha for cotton. “Only tobacco, with a support level of 7 800 euro/hectare, reaches a level near that of bananas,” the report notes. The maximum EU production guaranteed by the banana subsidies is 854,000 tonnes. See Ministry of Agriculture, Food and Consumer Affairs, Stockholm (2004), pp. 3-4.

⁴ The European Commission’s announcement in 2004 of negotiations over a tariff-only regime referred first to the intention to “safeguard the interests of the EU banana producers” and then that to “pay

ii Production for domestic consumption

This accounts for more than three-quarters of banana production worldwide, including nearly all the bananas produced by the largest supplier (India) and 96 per cent of those in the second (Brazil) in 2002.⁵ In much of Africa bananas are an important part of the diet, while among European countries Spain is almost self-sufficient with its crops in the Canary Islands. Most traded bananas are imported by developed countries, but average *per capita* consumption is higher in developing countries. Nearly half of world production of Cavendish dessert bananas goes to export, but very little of the other varieties, which serve as domestic food staples.

iii Production for export

The export sector operates in several different ways. Despite recent changes, trading patterns remain segmented geographically. Thus, the US is supplied with the so-called “dollar” bananas of Central and South America, Europe with its own domestic bananas as well as those from the Caribbean and Africa (mainly Cameroon and Côte d’Ivoire) and, in several countries, dollar bananas. Most of the Philippines’ exports go to Japan.

While fruit for domestic consumption is mostly grown on small family farms, dollar bananas from Latin America generally come from plantations, many of them owned by the banana TNCs. Others are owned by domestic companies, while the TNCs buy an increasing share of their needs on contract from other farms (“out-contracting” or “outsourcing”). In some traditional exporting countries, especially on Caribbean islands, bananas are produced on small farms. Much of the plantation production is very intensive and brings high yields per hectare, and the costs per box of bananas are generally lower. Costs vary considerably and an important variable is the cost of labour. Thus, Costa Rica is a relatively high-cost supplier because its wage costs are among the highest: this more than offsets the gain it acquires from also having some of the highest banana yields in the world. The lowest-cost producer among the leading exporters is Ecuador, while wage costs are also low in the African countries which have plantations, such as Cameroon. The Caribbean islands generally have low yields and high unit costs.⁶

iv The TNCs and market power

The “market structure” in the narrower, more orthodox sense has been an issue in bananas for much longer than in most agricultural markets because of the dominant position of the three big US companies and, more recently, the Irish-owned Fyffes and the Noboa company in Ecuador. The concentration in a small number of companies (or “oligopoly”) derives from economies of scale in banana production and marketing, and their vertical integration from the specialised

particular attention to the implications of the change ... for ACP banana producers” (European Commission 2004).

⁵ Data from FAO, published at faostat.fao.org/faostat/collections?subset=agriculture.

⁶ Ibid.

technology and capital needs for the careful and timely picking of bananas, and their packing and despatch to consumer markets. Owning or controlling these stages in the supply chain, including shipping lines, is an imposing barrier to market entry by other companies. Even if they move away from owning plantations, the TNCs go to outsourcing rather than arm's-length trade on the spot market.

These companies have enjoyed great influence over the exporting countries' governments - and over the United States too, judging by the WTO cases which Washington brought, in effect on their behalf. In recent years their market power has been eroded by the supermarkets, which have used their own purchasing muscle to squeeze prices down. The biggest margins along the supply chain are now found among retailers and not the vertically integrated specialist companies.

v Pricing in a Globalising Market

The leading banana import markets have been managed in various ways in the past. Nowhere has a fully competitive free market held sway. Supply management existed officially in the EU with tariffs, subsidies and quotas assisting high-cost producers in its own territories and the ACP countries. This boosted those supplies while the quotas (and later, tariff quotas) restricted imports. The US government never managed its own market in this way, but supplies were managed by the internal processes of the banana TNCs. Commercial supply management has been historically common in the commodities business, as we saw earlier in the cases of diamonds and aluminium. A consequence was that over a long period US banana prices were lower than those in the EU but also more volatile.

The Cavendish banana is a standard product which lacks the variety in quality and aroma which, in commodities such as coffee, requires a system of premiums and discounts against the international reference price. However, despite the standard nature of the product there is not a single reference price. Within the international trade, every price is negotiated separately.

5 Three into One: Will it Go?

i The Problems to be Addressed

Banana prices and oversupply

There is a consensus that the banana market is suffering from several years of oversupply. It is unusually difficult to find reliable figures for the balance of production and consumption as bananas are very perishable (the FAO shows one-eighth of production every year goes to waste⁷) and much is produced only for local markets or by households for their own subsistence. The FAO's data indicate that there has been a surplus of production over utilisation every year since 1990, reaching a peak of 2.4 per cent of annual utilisation in 1997. The surplus in 2002 was 1.9 per cent.⁸ These figures do not indicate how much of the surplus production was of bananas intended for export. If most of it was, it means that in some years the surplus on export markets could amount to eight to ten per cent of world import demand.

However that may be, prices have been on the decline, due to the oversupply and the supermarkets' pressure on suppliers. Except for a sharp price recovery in 2001, US import prices have been on a steady downward trend since the early 1990s. The annual average fell from \$564.60 per tonne in 1991 to \$374.90 in 2003.⁹ French retail prices meanwhile fell from an annual average of Ffr11.20 per kg in 1991 to Ffr8.00 per kg in 2000.¹⁰

There also seems to be a new volatility in banana prices. UNCTAD figures for the period 1977-2001 show price instability for bananas to be about middling when compared with other commodities.¹¹ A detailed series of US import prices shows sharp fluctuations from month to month throughout the period since 1980, but not such volatility between annual averages.¹² However, this has abruptly changed: the average price increased by 38.8 per cent in 2001 and fell back by 28.8 per cent in 2003.¹³

These lower but more volatile prices could actually be damaging for banana demand, at least in Western Europe. The inroads of premium-priced fairtrade bananas in West European markets suggest that consumers are not put off much by higher prices; in the language of economics, European demand is price-inelastic.¹⁴ On the other hand, consumers do not seem to like prices to change. David Read, Chairman of the U.K. Banana Group, was recently quoted as saying, "A drop in

⁷ Data from FAO, published at faostat.fao.org/faostat/collections?subset=agriculture. Click on "Food Balance Sheets."

⁸ Ibid.

⁹ UNCTAD 2003, Table A.1, "Free market prices and price indices of selected primary commodities" and Table 2.2, "World Primary Commodity Prices, 1998-2003." The price quoted is for fresh bananas from Central America and Ecuador, fob US ports.

¹⁰ Data from the www.fruits-et-legumes.net website in early November 2004.

¹¹ UNCTAD 2003, Table A.2, "Instability indices and trends in monthly market prices for selected commodities." The index for bananas from 1977-2001 is 16.9, compared with a more unstable 28.6 and 26.0 for coconut oil and coffee respectively, and 7.7 for iron ore and 8.1 for tobacco as the most stable prices listed.

¹² For example, the monthly average price more than doubled between October 1987 and June 1988 and between August 2003 and July 2004. The price series can be found on the internet at www.imf.org/external/np/res/commod/index.asp.

¹³ UNCTAD 2004, p. 48, Table 2.2.

¹⁴ As stated in Dickson 2003, p. 5.

retail prices does not cause an increase in purchases... Rather, price fluctuations can cause sales to stagnate.”¹⁵ This implies that a policy which led to higher but more stable prices might not risk a serious contraction in banana demand.

The current trend risks the opposite, however. Despite the surplus, there has been a flurry of reported investments in new or expanded plantations: by Dole in Ecuador and Honduras, Fresh Del Monte in Brazil and Costa Rica, and others in Guatemala and Cameroon. Surinam has restarted exports after a pause while a new development in the Indian state of Kerala is planned to yield 60,000 tonnes per year of bananas for export.¹⁶

The “race to the bottom”

The widespread failure of banana-exporting countries to respect their obligations at the International Labour Organisation reflects the weak bargaining power of plantation workers and the dominant position of the TNCs. The glut of bananas adds to the supermarkets’ market power and further increases the pressure on their suppliers to ensure that farms and plantations cut their costs and prices, or else withdraw from high-cost producers in favour of cheaper ones. Hence the deterioration in banana workers’ wages, employment rights and conditions of work, especially in higher-wage countries such as Costa Rica. It is also experienced by the small farmers who grow bananas in the Windward Islands and elsewhere in the Caribbean.

Fighting the race to the bottom requires, as a minimum, that the ILO’s conventions are implemented, but an effective campaign should go into much wider fields than that. Although price levels and environmental degradation can be dealt with market by market, the issue of corporate power on agricultural markets has to be tackled across a broad front. This is now agreed among many farmers’ organisations worldwide, and banana farmers and workers should make common cause with them. The recent World Farmers’ Congress of the International Federation of Agricultural Producers¹⁷ resolved to fight industrial concentration in agricultural supply chains, through better control of anti-competitive behaviour at both national and international levels and agricultural policies that stabilise the farm economy and maintain food security.

Environmental degradation and occupational health

As currently practised, export banana production is among the most environmentally damaging of all forms of agriculture. As a tropical lowland crop, bananas are best grown on rich soils reclaimed from rainforests. Most plantations grow only bananas, so the former ecological diversity is replaced by a monoculture. This leads to a deterioration in soil quality, while the fertilisers used to increase yields and pesticides to prevent parasites and diseases find their way into the soil and watercourses, causing further damage. Some of the chemicals involved have been banned in the TNCs’ home countries but they are often applied in wasteful aerial spraying, which uses far greater quantities than necessary while much of the spray drifts away to other vegetation. Meanwhile the concentration on one variety for 47 per cent of world production means that a disease (such as Black Sigatoka)

¹⁵ Banana Link (2004), p. 8.

¹⁶ As reported in recent editions of Banana Link’s *Banana Trade News Bulletin*.

¹⁷ In Washington, USA, in June 2004. See IFAP (2004) for more information. An analysis of market concentration on numerous agricultural markets, including a chapter on bananas, can be found in Vorley (2003).

can spread fast. This is made worse by the fact that the commercial banana plant is reproduced by cuttings rather than sexually, and any disease is transplanted with the cuttings.

Other environmental problems include the use of plastic bags to hold banana bunches during growth. They are not biodegradable and not always properly disposed of. The used bags are blown with the wind to other plants, which can be affected by the chemical residues they contain, or into the sea since many plantations are in coastal regions. Sea-turtles and corals are examples of the sealife which has been harmed by intensive banana production.

Plantation workers and banana packers suffer from serious problems of occupational health. Use of the nematicide DBCP has led to more than 20,000 cases of male sterility amongst banana workers in general, as well as skin cancer and birth defects. The average Costa Rican consumes 4 kg of pesticides per year, which is eight times the world average and places the country at the top of the list of incidence of pesticide poisonings. Rates of pesticide poisonings in the banana regions are three times as high as in the rest of Costa Rica. The average use of pesticides on Costa Rica's banana plantations is 44 kg per hectare per year, compared with 2.7 kg/ha/year for most crops in industrialised countries.¹⁸

ii An Exporters' Association or a Producer-Consumer Agreement?

General considerations

There are various choices of strategy, if it is accepted that action is needed on social, environmental and economic issues in the banana market. An essential first step lies in promoting solidarity between all the producers. This seems especially important in the case of bananas, for the following reasons. There is a core group of exporting countries centred on Latin America and the Caribbean; and even the biggest geographical outlier, the Philippines, has much in common culturally and historically with Latin America. However, not only are there historical divisions between the dollar and ACP producers but also sub-divisions among the latter and tensions between the leading dollar exporters.

Meanwhile, the size (and low costs in many cases) of the non-core group give ample opportunities to the banana TNCs and supermarkets to source their requirements among them; they include countries that produce Cavendish bananas but do not yet export many, including both India and Brazil. The attempt in 2001 by the Association of Coffee Producing Countries to impose export quotas in order to stem the decline in coffee prices failed in part because of a rapid increase in exports from a new producing country, Vietnam. Either a producer group or a producer-consumer agreement on bananas would risk being undercut in the same way.

However, no producer or consumer country can be compelled to join an agreement. If a limitation of supply raises a commodity's price, producers that are not party to the agreement will also benefit, without any obligation to reduce their own production or exports; indeed, they could even increase exports and gain in volume as well as price. This is called the "free-rider" problem. A related difficulty arises with the disposal of anything produced above a member country's permitted quota. It can be difficult in practice to prevent such surpluses being

¹⁸ Corporate Watch (1997) and Chambron (2000), p. 4.

sold to non-member countries, and in some cases re-exported from them to consumer member countries. In that case the commodities produced will remain in circulation and the reduction in overall supply (and rise in price) will be negated.

A second question concerns the environmental impact of banana production. This requires a serious package of far-reaching measures on monoculture of bananas, rainforest management, the dangers of relying on one main variety with asexual reproduction, and the ecological and health effects of pesticides and other chemicals. The question is whether they would be better addressed as a separate item or jointly with the economic and social issues. A joint package would take longer to negotiate and some countries might be unwilling to sign up to all three elements but ready to sign one or two. Some might support supply management but be reluctant to enforce employment or environmental standards, while others might support the latter but refuse to depart from free trade. In that event, the attempt to agree all three elements in one package leaves a risk of no agreement being reached at all, or it being reached by only a handful of countries.

On the other hand, there are ways in which the different elements can be made to interact and support each other; differentiated tariffs are an example. Moreover, environmental measures such as limits on chemical use would have to take into account their impact on producer countries' banana yields and incomes.

Redesigning supply management

As we have seen, the mixed structure of the world banana market has included significant elements of supply management, in both EU quotas and internal controls of the banana corporations. Now, the supply management mechanism of a typical ICA relies on a buffer stock, in which quantities have to be sold if the price rises above a certain level and bought if they fall below another, lower level. The price bands are renegotiated every five years. But as bananas are perishable, such a buffer stock would be infeasible. It was not used in the former intervention mechanism (abandoned in 1989) of the International Coffee Agreement, although coffee is less perishable than bananas; export quotas were used instead. But this did not prevent too much coffee being *produced*. Coffee-producing countries were tempted to sell production which was surplus to quota to consumer countries which were not members of the agreement. They would accept lower prices simply to dispose of the stock, and the same coffee was sometimes re-exported to consumer countries which *were* members of the agreement.

Among those who advocate a return to supply controls in tropical commodities, there is for this reason probably a consensus that production quotas are preferable to export quotas. Production quotas would be easier to operate in bananas than for example in the coffee market, where there is a large degree of inertia due to the size of the investments tied up in coffee trees (which inhibits any decision to abandon them when prices are low) and the long period required before they bear fruit (which makes any expansion slow). Banana production is somewhat more flexible.

However, production quotas on their own would not solve the problem of oversupply on *export* markets, since domestically available bananas can be diverted abroad. This is a difference between a product in which many producing countries have large domestic markets (like bananas) and one which is almost entirely exported to a discrete group of consuming countries (like coffee). Export quotas would therefore seem desirable in this case. However, they could lead to other complications, as we shall see. One arises over those countries or trading blocs (notably the EU) which both produce and import bananas. It would be

desirable to subject their output to quotas, but that would be difficult if only export quotas were in use.

However, quotas of either sort for bananas could be used creatively to assist with non-economic goals. For example, quotas and permits could be deployed to encourage multi-cropping in order to diversify farmers' and plantations' income sources and reduce the contamination and soil depletion arising from monoculture.

A way around the production-or-export-quota question might be to limit the agreement to Cavendish bananas only. This would leave other varieties which are mainly consumed locally, including plantains, unaffected. If banana companies or supermarkets wished to avoid the terms of the agreement, it would give them an incentive to use other varieties and reduce the monocropping of Cavendish. There is much to be said for this alternative, but it would have two disadvantages. Plantations converted to other varieties would not be governed by the labour and environmental clauses in the agreement, while if much of supply was converted in this way, in the long run the control of supplies on export markets would also fail.

Another possibility would be to limit the agreement to dessert bananas, of any variety. This might create greater problems of definition but they would not be insuperable, and it would be easier to avoid the two risks just described. Both of these limitations by variety are offered as options to consider.

Whatever the application of the agreement, arguments about quota would seem hard to avoid, while monitoring and enforcement of the agreement also poses problems. Production or export quotas would have to be enforced by producer members, perhaps by means of annual permits. This would be open to domestic political argument and, no doubt, corruption. These considerations apply in both a producer-only organisation and a joint producer-consumer one.

Any ICA-style price intervention needs to be based on an agreed international reference price for the commodity. Reference prices are determined daily for all commodities which are traded on futures exchanges. Fluctuations in price are readily known and there is no doubt about their validity. However, despite its relative uniformity as a traded commodity, there is no standard, public reference price for bananas. The definition of a *de jure* reference price would be a further item to negotiate in market-intervention arrangements. It would be important to prevent this being open to manipulation by any participant in the market. This is a complicating factor for negotiating a price-stabilisation or price-boosting arrangement, but it is not insuperable.

A producer-consumer agreement

An Intergovernmental Group on Bananas and Tropical Fruit (IGG) already exists at the FAO for the exchange of information on these markets. It is recognised within the U.N. as the international commodity body for bananas and it would seem a suitable forum in which to start negotiations for an IBA.

A vast number of 130 countries or territories produce bananas, and nearly all of them export, at least in small quantities.¹⁹ A difficult problem lies in how many of them should be invited to join an agreement: in particular, whether it should be restricted to the leading exporting countries, at one end of the scale, or extended to all countries in which bananas are produced, at the other. The former would open up the free-rider risks which have already been discussed, and which were a factor in the eventual rejection of market intervention clauses under the

¹⁹ Data from FAO, published at faostat.fao.org/faostat/collections?subset=agriculture.

International Coffee Agreement. On the other hand, opening the producer side of the agreement to all comers would expose it to bigger wrangles over quota rights. Throughout the 25 years in which coffee quotas operated, there were continual disputes about the size of each country's quota and the entry of new coffee-producing countries to the agreement.

For countries which produce large amounts of bananas but do not export much might not agree that they should not have the *right* to export, especially if richer countries with small populations and less banana production overall were to be offered large quotas regardless. One can imagine such a tussle between, for example, India and some of the Latin Americans. Indeed, opening up such a discussion might encourage some countries to see themselves as potential banana exporters for the first time, and make the problem of limiting supply in international markets worse rather than better. But on the whole, it is probably preferable to discuss these questions openly at the negotiating table than to have them decided slyly behind the agreement's back. Therefore inclusive membership is recommended here.

On the consumer side, a comparable question arises over the participation of the United States in particular. Even under a strongly pro-corporate Republican administration, the US government recently decided to rejoin the International Coffee Organisation (ICO) after many years' absence. So despite its support for the TNCs in the WTO banana disputes, it is not inconceivable that it could join an IBA. But it is hard to see it subscribing to any deal which would seriously circumscribe the TNCs. On the other hand, without the US the consumer side would be dominated by the EU, and the tenor of the EU's current trade negotiations with groups of developing countries is about further liberalising trade rather than regulating it via commodity agreements.

Finally, the IBA would have to have mechanisms to verify and enforce compliance. Production or export quotas, relations with non-members, enforcement of ILO agreements and environmental rules all imply a strongly rule-based system, which would need firm policing. Sanctions would be required against errant member governments, plantation owners and corporations. This is quite different from an orthodox ICA's buffer stock, the terms of whose operation are negotiated every five years but which then operates autonomously, in accordance with the agreed rules. The ILO's weakness lies precisely in the low priority accorded by the most powerful nations to enforcing its rules worldwide. Would the IBA be in any better position?

Under present circumstances, it may be that energy would be better spent on attempting to correct the balance of forces within the banana trade (and other agro-industrial markets) than pursuing such a complicated goal.

Producer action

There are various initiatives at present for banana-exporting countries, or at least the dollar producers, to cooperate in pushing for higher banana prices. Colombia is pursuing one such initiative among Latin American countries.²⁰ Another proposal is for the dollar producers to establish an Organisation of Banana Exporting Countries, similar to OPEC.²¹ This would be a unilateral form of supply management among influential exporters. There is a long history of similar attempts by commodity-exporting countries, several of them (like UPEB in the banana sector) established in

²⁰ Information received in a private communication.

²¹ Bright (2005).

the 1970s in imitation of OPEC. More recent was the Association of Coffee Producing Countries, set up by several leading Latin American producers after the cessation of the ICO's export quotas.

OPEC has indeed been relatively successful over a long period in an export industry which is also dominated by powerful TNCs. But much of the oil production in OPEC countries remains nationally controlled and the governments appear to have retained greater influence over production decisions than the banana producers have. Oil is also a scarce resource, and an agreement which limits supplies in the short term should allow producers to benefit from higher prices in the future, when oil starts to run out. This adds a strong incentive to stick to the agreement. While oil prices are high at present, OPEC has not managed to keep them up throughout the 30 years since its first price hike in 1973. Indeed, UNCTAD's figures show the crude oil price has been one of the more unstable since the 1970s, with an instability index between 1977 and 2001 of 29.3 (compared with 16.9 for bananas).²² Nevertheless, throughout this period OPEC has remained influential; few other groups of commodity-producing countries can claim the same.

There are many advantages in a producer-led approach. Agreement is more easily reached than over an ICA, since all members have a common interest. In the right market, it can enable producers to exert those interests much more effectively. However, it must be remembered that despite high hopes a generation ago, UPEB's activities are very limited now. The success of such an initiative would depend greatly on the number of exporting countries which joined it and the extent to which the TNCs could be prevented from undermining it by switching their sourcing to non-member countries. An absolute requirement would seem to be Ecuador's membership.

²² UNCTAD 2003, Table A.2.

6 The Options Available

i An IBA

An International Banana Agreement could be proposed at the IGG, with the aim of regulating banana prices and enforcing labour and environmental standards throughout the industry. On the labour side it could require producer countries to comply with relevant ILO conventions, while on the environmental side it could require:

- A limited list of chemicals permitted for use in banana production, restrictions on their use and guarantees of workers' safety in using them. Every chemical used would require prior approval by the IBA. Aerial spraying would be permitted only under strictly limited circumstances.
- Limits on felling rainforests for banana plantations, and requirements for replacement tree planting and protection of biodiversity.
- Incentives for the use of intercropping and other techniques to reduce banana monoculture.
- Financing of research into additional varieties to place on export markets, and into ways to avoid ecological damage from the disposal or loss of anything used in the production of bananas, such as plastic bags.

Three sets of options may be considered for the application of the agreement. They are important for the economic clauses in particular:

Types of banana:

- All bananas and plantains
- Only Cavendish variety
- Only dessert varieties (recommended);

Desired membership on the producer side:

- All producer countries in this category (recommended)
- All countries that export bananas in this category
- Only the leading exporting countries;

Method of supply management:

- Production quotas only (recommended)
- Export quotas only
- Both production and export quotas.

The economic clauses could apply to all countries that wish to export bananas, and to all countries and trading blocs that both produce them and import them in quantities above a certain, quite high floor level (so as to include both the EU and China but not any smaller, poor countries which were not quite self-sufficient). They could prohibit public subsidies or other forms of compensation for banana growers, except for special cases such as small, independent island states. All producer countries subject to these clauses could be obliged to license all banana production or exports, agree national quotas by joint negotiation in the IBA annually, and only supply licences up to the total amount of those exports or that production (the latter being estimated according to historical yields). Export volumes to non-member countries would be limited by agreement.

The total volume of quotas for the first year of the agreement should be set below the previous year's production or export level, to achieve an immediate reduction in the surplus. There would be a compensation fund for all farmers and plantation workers who would be adversely affected by any cut in quotas. The fund would be administered centrally and financed by a graduated levy on IBA members.

The IBA would be administered by an International Banana Organisation (IBO), set up for the purpose. Among its functions would be to regularly monitor each member country's compliance with the agreement, both by reports to the IBO and in-country visits made by it or on its behalf. Each member country would be responsible for enforcing the agreed terms, for example on permitted chemicals, compliance with ILO rules and observation of quotas. Non-compliance would be subject to firm sanctions, including mandatory reductions in quota and, as an ultimate penalty, temporary cessation of the right to produce or export.

It should be borne in mind that this is a very ambitious goal and it may be difficult under present circumstances to persuade a sufficient number of countries on either the producer or consumer side to enter negotiations. But however weak the arguments for it may appear to consumer-country governments now, in five years' time the case will be seen to be stronger all round. Free-market solutions to commodity problems have visibly failed and the idea of concerted market intervention is creeping back on to the agenda. This will represent a sea-change in international opinion but it is bound to take time to achieve.

ii An OPEC for bananas

The case for an "OBEC" of banana-exporting countries is tempting, and it has rightly been argued that the banana trade has several similarities with oil. The extent of the banana TNCs' domination of all stages of the export supply chain is very unusual in agricultural markets (although it is spreading to others now). This is essentially a political issue for the producers to confront, and an international agreement between producer and consumer countries would have limited bearing on it. However, the situation will not improve as long as banana sectors in different countries do not work together.

The similarities are just as strong with other markets in which attempts (like UPEB) were made to imitate OPEC in the 1970s but in the long run failed. Two other examples were the International Bauxite Association and the Consejo Intergubernamental de Países Exportadores de Cobre (CIPEC, or international copper exporters' council). Both were set up by exporting countries in TNC-dominated markets which had as much in common with bananas as oil has. CIPEC failed because there were too many copper-producing countries and they were too widely dispersed and diverse, so concerted action could not be achieved. In the case of bauxite, the aluminium companies undermined the attempted levy on bauxite exports by reducing production in members of the Association and expanding in those that did not join it. There was also a successful operation to destabilise Michael Manley's government in Jamaica, which led the bauxite initiative.

Banana-exporting countries are divided by the historical divisions between ACP and dollar bananas, between both of those groups and non-exporting banana producers (including India and Brazil), between French- and English-speaking ACP countries, and among dollar producers. Ecuador has been reluctant to join any joint initiatives. Proposals such as Colombia's should be welcomed and assisted, but it is

tempting to conclude that at present the exporters lack the necessary solidarity to make such a programme work. In the face of UPEB's achievements, it is open to question whether any modern equivalent would fare better under current circumstances.

It may indeed be better initially to work on more limited joint activities and exchanges between a wide range of banana growers, workers and exporting countries, in order to build up the necessary basis of mutual understanding and support. For example, rather than passively hearing complaints about Cameroon's "slave labour" conditions, banana workers elsewhere should be encouraged to get together with those in Cameroon to log the inadequate wages and conditions that they face in each country, and then expose them together in a joint international campaign. Likewise, there should be joint campaigning against new banana plantations everywhere, on both ecological and economic grounds.

The first requirement in each producing country is for farmers and plantation workers to take their sights off other producers and direct their attack jointly at the banana TNCs, supermarkets and Northern governments.

An inherent problem with both the IBA and OBEC lies in the fact that they are intergovernmental, not based on farmers' or workers' needs and interests. It is important to build up the bargaining power of banana farmers and workers and their national governments, and reduce that of the TNCs in the supply chain. The supply management and labour rights elements of the IBA would push in this direction, but such a cumbersome instrument (which would be very time-consuming to negotiate) is not necessarily required for these purposes. Other activities are also needed, in particular the introduction of international competition (anti-trust) rules to ensure that a greater number of outlets for banana production and exports becomes available than just the present TNCs and supermarket companies. Otherwise, the latter will only take their present methods of divide-and-rule further.

Tables

Table 1 World dessert banana production, utilisation, market balance and prices

Year	Production	Utilisation (consumption)	Market Balance		Price*
			Surplus: + Deficit: -		
	Metric tonnes		'000 m. tonnes	Per cent	
1970	30,782	30,822	-40	-0.1	--
1980	36,060	35,919	+141	+0.4	375.20
1990	45,767	45,342	+425	+0.9	540.85
1995	55,576	55,210	+366	+0.7	439.20
1996	54,535	53,773	+762	+1.4	472.10
1997	59,950	58,561	+1,389	+2.4	492.20
1998	58,593	58,509	+1,084	+1.9	476.80
1999	64,418	63,983	+435	+0.7	429.40
2000	65,676	65,080	+595	+0.9	419.50
2001	67,362	65,897	+1,465	+2.2	582.40
2002	67,245	65,981	+1,264	+1.9	526.50

* Central American and Ecuadorean origin, fresh, f.o.b. U.S. ports, U.S. \$ per tonne

Source: FAO (statistical database), UNCTAD (*Commodity Yearbook 2003*), International Monetary Fund and the author's calculations

Table 2 Leading countries in the banana market, 2002 (millions of metric tonnes)

	Top ten producers		Top ten exporters*		Top ten importers†	
1.	India	16.45	Ecuador	4.55	United States	3.91
2.	Brazil	6.42	Costa Rica	1.87	Germany	1.18
3.	China	5.78	Philippines	1.68	Japan	0.94
4.	Ecuador	5.53	Colombia	1.42	Belgium	0.88
5.	Philippines	5.26	Guatemala	0.98	United Kingdom	0.83
6.	Indonesia	3.68	Honduras	0.44	Russia	0.65
7.	Costa Rica	2.05	Panama	0.40	Italy	0.60
8.	Mexico	1.89	Côte d'Ivoire	0.26	Canada	0.42
9.	Thailand	1.80	Brazil	0.24	China (mainland)	0.41
10.	Burundi	1.60	Cameroon	0.24	France	0.35

* Excluding re-exports † Including fruit for re-export

Source: FAO (statistical database)

Table 3 Evolution of import (f.o.r.), wholesale and retail prices in the United States, France and Japan 1985-2002 (real US\$ per kg)

	USA			France			Japan		
	Import	Wholesale	Retail	Import	Wholesale	Retail	Import	Wholesale	Retail
1985	0.65	0.84	1.15	0.82	0.94	1.47	0.62	0.85	1.37
1990	0.66	0.86	1.19	1.05	1.41	2.33	0.57	1.05	1.83
1995	0.45	0.60	1.08	0.77	1.14	2.15	0.46	0.89	2.19
1996	0.46	0.65	1.05	0.64	0.97	1.91	0.49	1.03	1.99
1997	0.49	0.68	1.02	0.68	0.97	1.78	0.44	1.02	1.85
1998	0.46	0.61	1.01	0.73	1.01	1.72	0.49	0.93	1.93
1999	0.38	0.52	0.99	0.57	0.82	1.53	0.51	1.04	2.16
2000	0.38	0.55	0.98	0.43	0.63	1.26	0.47	1.11	2.12
2001	0.50	0.63	0.96	0.51	0.75	1.40	0.49	0.95	2.77
2002	0.45	0.53	0.95	0.44	0.70	1.32	0.63	0.87	2.35

Source: FAO, citing New York City Wholesale Fruit & Vegetable Report and World Bank

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