EU’s bananarama—slipping

The European Union’s banana scheme is touted as help for a group of small economies—but direct aid would be better and cheaper

More bananas are sold in world trade than any other fruit. And more of them are peeled in the European Union (EU) countries than anywhere else. The EU countries consume almost 40% of the bananas in the world market. Latin America is the most efficient, lowest-cost grower. The region ships three out of four bananas in world trade. But few of these go to Europe.

France, Greece, Italy, Portugal, Spain, and the United Kingdom have long used import restrictions (quotas) to benefit inefficient, high-cost growers in four territories and seven small African, Caribbean, and Pacific countries.

A few European countries have interfered with the banana trade only through mild tariffs. And Germany has had a free market in the fruit. The results are no surprise. Consumers in the import-restricting countries paid more and ate less. With the lowest prices, German consumers bought 14 kilos of bananas per person per year—compared with 8 kilos in the United Kingdom.

The policies of the protectionist countries were an exceptionally inefficient method of transferring resources. Every year European consumers spent $1.6 billion to transfer $300 million to the 11 beneficiary economies. Transferring a dollar cost the European consumer $5.30 because nearly 60% of the $1.6 billion—$917 million—was paid to protected EU importers and wholesalers in the form of excessive marketing margins. Some of the European cost was outright waste: it cost more to grow the privileged bananas. Moreover, because one side-effect of the European scheme was to force down prices elsewhere, each dollar in aid took another 32 cents out of the pockets of the efficient Latin Americans.

In unifying EU members’ disparate import policies in 1993, the European Union had a golden—or at least yellow-tinged—opportunity to get rid of these perverse incentives and obvious inefficiencies. Instead, it opted for a unified scheme that is worse than any of the national programs replaced. The new policy limits competition, restricts trade, and allows officials removed from the market (but not from political pressure) to make decisions affecting resource allocation in banana production, shipping, and marketing. It relies on quotas to limit supplies and raise prices. It protects and improves profits for a few marketing companies that benefited from the various national policies and now have been handed a piece of the Latin American trade.

This distorted, illogical policy has been extended across the entire European Union, at the expense of German consumers as well as those in the four countries—Belgium, Denmark, Ireland, and the Netherlands—that previously imposed only mild tariffs on bananas. The average EU price of bananas has gone up 12% and is now about twice what it would be in a free market. The annual cost to consumers has jumped from $1.6 billion to $2.3 billion (see figure).*

What now?
The new program doesn’t want for critics. Several studies have highlighted its cost, inefficiencies, and conflicts with the General Agreement of Tariffs and Trade (GATT) policy, competition law, aid to developing countries, and consumer welfare. Among those pushing for dismantlement are Latin American producers, the U.S. and German governments, and the GATT. All the European Union has done so far is try to divide the Latin Americans by offering Colombia, Costa Rica, Nicaragua, and Venezuela a package of increased quotas and special privileges.

The European Union’s policy is as damaging to its supposed beneficiaries as to anybody else. To get aid, they grow bananas. The Windward Islands, for example, are now dependent on banana exports for most of their export earnings. The artificial market locks the supplier countries and territories into dependency. With no reason to invest in new techniques or improved cultivation practices, few if any of their growers could compete in an open market. So a program nominally intended to help ends up encouraging inefficient production and using up land, labor, and capital that other, diversified ventures could use more productively.

If Europeans are willing to spend $2.3 billion to transfer $300 million to the supported areas, they ought to be happy to slice their banana bill and get more money to these small economies by separating aid from fruit. If that is too unpalatable for the bureaucrats, they should consider making the quotas transferable by turning them over to the governments in the supported areas, allowing them to fill the order any way they please. Enterprising administrators would buy Latin American bananas at world prices, sell them at the protected European prices, and use the spread for infrastructure investments and other means of encouraging sustainable local manufacturing and helping banana farmers shift to more economical and profitable crops.

In the end, the areas benefiting from the EU banana policy could be its greatest victims. The silliness of the program is so apparent it is hard to predict that it will not be changed at some point. A complete loss of the aid could be disastrous economically and socially for the small economies that now survive because of it. Yet the current aid program gives them no way to prepare for economic independence.

What’s needed is to reduce the uncertainty with a fixed timetable and clear objectives, arrangements for transition, and direct, simple economic support until the economies become self-sustaining.

... so European consumers pay too much ...
Average retail prices for bananas in 1990 (US$ per metric ton)

... yet the subsidized growers still don’t get much help ...
Total annual cost to EU consumers (US$ millions)

... and remain dependent on transfers while the world becomes more efficient.
World banana prices (1990 US$ per metric ton)