

EN

EN

EN



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels,
SEC(2006) 1106/3

COMMISSION WORKING PAPER

TOWARDS REFORM OF THE AID SCHEME FOR COMMUNITY BANANA PRODUCERS

Impact analysis summary

{COM(2006) 489 final}
{SEC(2006) 1107}

EN

EN

1. THE REASONS FOR REFORM

Three of the Community's outermost regions, the Canary Islands, the islands of Martinique and Guadeloupe, and Madeira, supply around 16 % of the Community banana market.

The aid scheme for Community banana producers was introduced in 1993 in order to compensate for the effects of unifying twelve national schemes, some highly protective, others based on free access.

The Commission decided to re-examine the aid scheme for banana growers in the run up to a significant change in the import arrangements, due to take effect on 1 January 2006, and a number of events that would have an impact on the rules on preferential market access resulting from the forthcoming conclusions of the Doha Round and from the future economic partnership agreements (EPA) with the ACP countries, against the background of the reform of the CAP and the renewal of the POSEI programmes. Although essential for maintaining Community production, the aid scheme is now out of phase with the development of the CAP and the WTO rules on agricultural support, since:

- the automatic impact of price variations on the amount of aid artificially isolates producers from market trends and goes against the aim of a market-oriented agricultural sector. It also makes it difficult to forecast budgetary expenditure;
- linking aid to the quantities marketed is seen as directly distorting international trade;
- basing aid on the difference between a flat-rate reference income and the average income received by producers has for several years been producing different levels of compensation for producers in different regions.

2. GUIDELINES FOR THE REFORM

Taking into account the priorities of the European strategy for sustainable development and the Lisbon strategy as reflected in the objectives of the reformed CAP, the financial perspective, international commitments and, as the Treaty requires, individual constraints faced by the outermost regions, the reform of the aid scheme should aim to ensure that:

- agricultural activity continues to be a factor in the sustainable development of banana-growing regions;
- support arrangements for producers are compatible with the reformed CAP and with WTO commitments;
- expenditure under the aid scheme is stable and predictable;
- producers have a fair standard of living and that the inequalities in the level of support are levelled out;
- Community aid can be targeted according to the development prospects for agriculture in each production region;
- the environmental impact of banana production is reduced;
- management of the aid scheme is simplified and control of expenditure is improved.

3. OPTIONS AND REFERENCE SCENARIOS

Three options were identified and assessed: the *decoupling* option, involving the replacement of compensatory aid by decoupled aid, fixed on the basis of historical references, in accordance with the reformed CAP; the *memorandum* option, based on a proposal from the principal Community producer countries, which envisages a budget for each country concerned and aid granted on the basis of historical references, with a requirement to maintain part of production; the *POSEI* option, which involves transferring financial resources from the aid scheme to the POSEI programmes, decentralising decisions on the types of aid and the way aid is to be granted so that this can take account of the characteristics of each production region. For regions in continental Europe, this option proposes incorporating the aid into the decoupled single payment scheme. In addition to these three options, two reference scenarios were examined: “status quo” and “liberalisation”.

4. THE IMPACT OF THE REFORM

Over the period 2009–13, the impact of the different reform options on the market would appear to be limited. The options would have a significant economic and social impact on production regions and would affect the balance of certain rural districts. The impact on non-member countries is not directly related to the reform of the aid scheme. The environmental impact of the various options is unclear. The environmental impact of banana production could be improved under all of the options.

4.1. The economic impact

The options would have a direct impact on the level of Community production. By 2013, *decoupling* would lead to a reduction in production of more than 50%. With part of their income guaranteed independently of production, producers would decide to avoid “losses” on production sold below marginal cost. Under the *memorandum* and *POSEI* options, production would remain at an appreciably higher level. Decoupled aid would be sufficiently attractive to persuade producers to grow the minimum quantity required to qualify, i.e. 70% of their previous level of production. Changes in protective tariffs would seem to have no impact on production.

Imports would increase in all cases. This would be encouraged not only by lower tariffs but also by the reduction in Community production, which imports would replace. Imports would increase by between 12% and 14% in the event of *decoupling* and between 8% and 9% under the *POSEI* and *memorandum* options. The options would not seem to have any impact on the distribution of imports between the various countries of origin, which on the other hand is directly influenced by the level of protection.

The different reform options would have no impact on trends in import prices, which closely follow trends in imports and protective tariffs.

The different reform options would have no impact on consumption trends. Consumption would increase as prices fell in response to increased imports and would be influenced by the levels of external protection.

One of the principal features of each of the options is that the aid *budget* would be fixed. The global financial envelope for each option would be based on the average aid granted to EU banana producers over a historical multi-annual reference period.

The reform options would also have an impact on *resources* generated from import duties. These would increase as imports increased to make up for a fall in Community production (*decoupling* and *POSEI/memorandum*). They would fall as tariffs were reduced.

Comment [DQC1]: Superfluous white space at the beginning of the paragraph.

4.2. Regional impact

The regional impact of a reduction in banana production would be proportional to the crop's importance in the different production regions. Maintaining production would seem to be essential for agriculture in Martinique, relatively important in the Canary Islands and Guadeloupe and less important in Madeira.

Given the characteristics of these regions, the experts consulted recognise that the scope for diversification within and outside the agricultural sector is limited.

They also point to the indirect impact of banana shipments to the continent on keeping down the cost of maritime transport to and from the islands and to the role of plantations in maintaining the countryside in regions with a high tourist potential.

They thus agree on the need for a progressive reorientation of agriculture towards local markets and for the development of rural activities complementary to agriculture. In implementing these common guidelines, a range of objectives and strategies would be required, according to the potential and the characteristics of each region.

4.3. Social impact

Banana growing requires a large agricultural *labour force*. The number of workers can vary in the same production region, from 0.8 AWU/ha on plantations on the plains in the south of the Canary Islands to 1.4 AWU/ha on plantations on the rugged hillsides of the north of the Islands.

Overall, in the three outermost regions in which bananas are grown, directly and indirectly the sector accounts for 30 000 full-time jobs. Given the fact that some farmers are involved in multiactivity and that mixed-farming is practised in certain regions, these full time equivalent jobs are in fact occupied by a larger number of people.

This overall figure masks differing situations that influence the impact of any fall in production. Some holdings are specialised and use paid labour while others grow bananas alongside other crops and use mainly family labour.

Workers on plantations are generally poorly skilled and sometimes relatively old. This considerably limits the possibilities for retraining for work in the service sector, which provides three quarters of all jobs in the three production regions concerned.

In the opinion of the experts consulted, there is no credible alternative employment in the medium term for agricultural workers in the banana sector. Any reduction in production would therefore aggravate the already serious job situation in the main production regions.

4.4. Non-member countries

The reform of the aid scheme would have no direct effect on export earnings and the situation in non-member producer countries. However, competition to maintain market shares would force companies to reduce their margins and put pressure on working conditions on some

plantations, which would be likely to compromise efforts to protect the environment. To prevent this, some of those consulted propose (1) recycling part of the additional resources generated by the increase in customs duties to promote more sustainable production methods and (2) financing an international forum to promote dialogue among those in the sector. Although an increase in customs revenue does not, for technical reasons, increase the possibilities for financing such expenditure, these proposals are not without interest for Community taxpayers.

Several areas in which Community banana producers and those of non-members countries in the same regions could cooperate were identified. However, coordination of regional policy instruments and development instruments remains problematic.

4.5. Environmental impact

Banana growing has a narrow genetic basis, which makes banana trees particularly vulnerable. The prolonged use of chemicals increases the resistance of pests and the need for treatments. This poses a threat to the health of workers, to biodiversity, to the soil and to water tables.

Despite a much more moderate use of pesticides, Community production regions are not without pollution problems. In the Antilles, the adoption of integrated production systems has allowed the quantity of pesticides used to be reduced by a half in eight years, without any fall in production or profitability.

An action plan aimed at achieving further progress has been discussed at a meeting of environmental experts. The plan envisages action over five years to develop, scale up and transfer to all the Community regions concerned innovative growing systems and more resistant varieties that could drastically reduce, or even totally eliminate, the use of pesticides. In some areas, implementing the plan might also encourage a move to organic banana production. Community production, which accounts for barely 1% of world production, could then provide an example that might encourage others to follow. In addition to the transitional support available for farmers undertaking to move to integrated production, the long-term success of this type of farming depends on there being credible prospects for differentiating the bananas concerned to increase their market value.

The reform options for the aid scheme would have only an indirect impact on the prospects for reducing the environmental impact of banana growing.

Since the reform of the CAP and despite the exclusion of the outermost regions from the decoupled single farm payment scheme, cross-compliance has applied under the provisions on the granting of direct aid. It would therefore continue to apply under the three reform options. Under the *POSEI* option, the environmental aspect would also be specifically covered in the preliminary studies necessary for the approval of aid.

There would also be the possibility of receiving rural development aid or aid under other Community instruments for drawing up and implementing *agri-environmental measures* under each of the reform options.

Banana plantations generally contribute to the beauty of the landscape in production regions. In view of the particular difficulties involved in agricultural diversification, the abandonment of banana growing might also mean the abandonment of agriculture and a move to other forms of land use.

5. SUMMARY OF THE ADVANTAGES AND DISADVANTAGES

The *maintenance of agricultural activity and agricultural employment* as factors in the sustainable development of the outermost regions appears to be seriously threatened by the *decoupling* option, which would lead to the abandonment of the greater part of production. The very rationale behind decoupling aid for bananas, i.e. giving growers the freedom to base decisions on marketing opportunities rather than on the level of subsidies, is seriously undermined by the exclusion of other crops from decoupling.

The other two reform options would have less of an impact on the maintenance of agricultural activity, reducing production by around one third from the current level. This would most likely be concentrated in those areas where economic activity is strongly dependent on banana growing, particularly as the *possibilities for diversification and conversion*, when these exist, would appear to require considerable effort. There are, however, opportunities for diversification and conversion, however small they might be. Analysis shows that a range of strategies are required, although these share certain characteristics: reorientation towards local markets; better integration of downstream processing stages, which generate a larger part of added value; the development of activities complementary to agriculture in a rural environment. In this regard, the *POSEI option* differs from the *memorandum* option in the greater flexibility it gives the regions.

By maintaining the volume of aid essential to compensate for the handicaps affecting the outermost regions without directly linking this to the quantities produced, the *memorandum* and *POSEI* options to a certain extent meet the objective of a *market-orientated sector*. The potential for meeting that objective is higher with the *POSEI option*, although its voluntary nature means that there is no guarantee.

All the options protect the *Community budget* from any risk of instability by fixing the volume of aid in advance (although the *memorandum* option does include a revision clause). In addition, all the options level out the current *differences in the levels of support* by using the scale for distributing aid between regions proposed by the producer countries.

With regard to the objective of maintaining *farmers' incomes*, at first sight, *decoupling* offers the clearest improvement. Income would be guaranteed, while producers would no longer have to incur the cost of producing quantities sold below their marginal cost. However, the number of farmers would fall drastically, with most growers abandoning the profession. The *POSEI* option could achieve this objective more effectively by giving the authorities the possibility of managing at a more local level the conflict between short-term constraints and the need to achieve a viable diversification of activities.

All the reform options take account of the need to *preserve the environment* and this is the result of the systematic way in which this objective has been incorporated in the different forms of support available under the CAP. Cross-compliance would remain a requirement for receiving aid under all the reform options. Environmental protection measures adopted beyond what is required by good farming practice would continue to enjoy Community support under the agri-environmental measures implemented under rural development policy. The *POSEI* option nevertheless has greater potential for ensuring the consistency of actions to protect and enhance the value of the environment. The drastic reduction in production that *decoupling* would involve would automatically reduce the pressure on the environment and natural resources. Under that option, most of the land now planted with banana trees would

probably be turned to non-agricultural uses, whose impact on natural resources, the environment, biodiversity and the landscape cannot be assessed in advance.

With regard to the objective of *simplified management and better control* of aid, there is potential in each of the options except for the *memorandum* option, but the differences are not significant.

On the whole, after analysing the options in the light of the selected evaluation criteria, the *POSEI* option appears to be the one that best meets the reform guidelines.