(a) Market situation

1. The Sub-Group examined the situation of world trade in bananas against the background of the secretariat paper W(63)2 and of a paper prepared by the Organization of American States distributed in document Spec(63)26.

2. The Sub-Group noted that, although banana production was exposed to considerable natural and climatic hazards, supply had kept pace with increasing demand and, during recent years, the rapid increase in exportable production had been followed by a general decline in banana prices. However, given the low level of consumption in a number of countries, the world market was still far from saturation.

3. It was pointed out that consumer prices in countries granting preferences to certain sheltered markets were in general higher than on the free markets. This was the case in the United Kingdom, France and Italy. Moreover, in Italy the operation of the State monopoly resulted in margins between the import and retail prices which, in spite of substantial reductions in recent years, were still significantly higher than in other countries.
(b) Trade problems

4. Several representatives emphasized the fact that the character of world trade in bananas was different from that of world trade in other tropical products.

5. It was recognized in the Sub-Group that there was a considerable lack of information regarding the organization of the market and such matters as production, transport and marketing costs, wages, social charges, etc. This lack of information made it difficult to analyse fully the situation in world trade in bananas. In this connexion the Sub-Group noted that Latin American banana-producing countries had proposed that a Study Group on bananas should be established.

6. Particular stress was laid by several representatives on the integrated nature of the banana trade. It was pointed out that there was a high degree of integration from plantation to wholesale trade, including transport and marketing networks.

7. The effect of this integration, in the view of some representatives, was to inhibit competition by excluding certain exporting countries from important markets. The monopolistic character of the banana trade and transport might, in fact, be claimed to be more important than trade barriers.

8. Some representatives pointed to another significant feature of world trade in bananas, namely the compartmentalization of markets. This was, in the view of these representatives, in part due to the integrated character of the industry and in part to the preferential arrangements between certain important importing countries, such as the EEC and the United Kingdom, and certain producing countries.

9. It was noted that these preferential arrangements which were made effective through quantitative restrictions, high tariffs or restrictive State-trading practices resulted in high consumer prices and adversely effected the level of consumption.
10. Some representatives also expressed concern about the effects of quantitative restrictions applied by such countries as, for example, Japan and Finland.

11. It was generally agreed that a reduction in prices resulting from an abolition of barriers to trade would bring about an increase in consumption but divergent views were expressed about the magnitude of such increase.

12. It was generally recognized that the consumers' response to a decline in prices was higher in the case of bananas than in the case of other tropical products, such as coffee and cocoa.

13. The view was expressed that account should be taken of the fact that banana consumption was related to that of other fresh fruit. Italy, for example, was among the lowest banana consumers in Western Europe but was among the highest consumers of fresh fruit in the world.

14. It was accepted in the Sub-Group that there was a lack of precise information concerning price elasticities of demand for bananas and elasticities of substitution in respect of other fruit. It was therefore, difficult to give precise quantitative estimates of the effect on consumption which would result from a removal of trade barriers. The representative of the EEC made the point that, in the view of the Community, any increase in consumption by the Community would only represent a small percentage of world trade.

15. There was some discussion on the large trade margins which existed in certain importing countries and the view was expressed that it should be possible to reduce these margins. The point was also made that a reduction of trade margins would permit a reduction in the retail price without any adverse effect on the prices received by the exporting countries; this therefore, would benefit both the exporting countries and the consumer in the importing country.

16. Several representatives stressed the benefits which resulted from preferences for the producing countries concerned and emphasized the loss in export earnings which these countries would experience if the preferences were removed.
17. As regards the export prices of sheltered countries, the representative of the EEC pointed out that, apart from the loss that would result from an alignment of these prices to the world market level, it should be borne in mind that the world price itself had fallen by 20 per cent in recent years and that it might even continue to decline.

18. As regards the volume of exports of sheltered countries, the view was expressed that, in a number of cases, these countries would have to discontinue their exports if the prices they received were to fall to the world price level.

19. Representatives of exporting countries not benefiting from preferential arrangements stressed the inequity of the fact that competitive producers were not permitted access to certain important markets. They pointed out that if competitive producers were granted such access this would not only benefit these producers but also the consumer in the importing country. The view was also expressed that the question of consumer preferences for certain types of bananas tended to be over-stressed bearing in mind that, in certain importing countries, the consumer in fact had no choice as regards the types of banana he could purchase.

20. Furthermore, the representative of non-sheltered exporting countries expressed their serious concern about the effects which could result from an extension of the present preferences to markets where such preferences did not at present exist.

21. The representative of the EEC stated that the Community itself did not consider the present market arrangements to be satisfactory. The problems involved, however, were of considerable complexity and importance but it was nevertheless the hope of the Community that it would be able to co-operate with the other countries in a consideration of the banana question with a view to bringing about a more satisfactory situation, while at the same time safeguarding the interests of the States associated with the Community. There was, moreover, much to be said for the producing countries themselves in co-operation trying to determine what was in the common interest of all banana-producing countries.
22. It was stressed in the Sub-Group that the objective should be the elimination of trade barriers without, however, prejudicing the interests of those producing countries which at present benefited from preferences. Some way should be sought to secure access to markets at a reasonable level for the exports of any "hard-core" cases and, except in respect of exports from these countries, markets should be liberalized. In addition, the provision of financial assistance should also be envisaged.

23. One representative proposed that, in the meanwhile, all importing countries should refrain from any measures which might represent an intensification of barriers to trade.

(c) Conclusions

(i) The Sub-Group stressed the particular character of the banana trade which resulted from the high degree of integration within that trade.

(ii) It was recognized that preferential arrangements, made effective through tariffs, restrictive State-trading practices and, in particular, quantitative restrictions resulted in high consumer prices and had trade directive effects.

(iii) There was general agreement that a removal of trade barriers would result in an increase in banana consumption although there were differences of view as to the extent of such increase.

(iv) The Sub-Group recognized the importance of the preferences to the producing countries concerned and the adverse effects on these countries' export earnings from bananas that might result from the removal of these preferences.

(v) The Sub-Group also recognized the difficulties of the non-sheltered exports and their serious concern about the effects of existing preferences and of any extension of preferences.
(vi) There was agreement in the Sub-Group that there was a considerable lack of knowledge about many aspects of the banana trade and industry, including such matters as price elasticities, elasticities of substitution, organization and costs of production, transport and marketing as well as data on wages, social charges, wholesale and retail prices, etc. The Sub-Group would therefore recommend that studies on these problems should be undertaken. Such studies, which would require the collaboration both of governments and of the banana industry, could, in the view of the Sub-Group, appropriately be undertaken jointly by the GATT and the FAO secretariats.