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Analysis and Comment

HISTORICAL OVERVIEW OF THE EUROPEAN UNION BANANA IMPORT POLICY[1/]

Adriana Chacón-Cascante[2/], John M. Crespi**

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RESUMEN

Síntesis histórica de la política de importación de banano de la Unión Europea. Este artículo resume los principales eventos en el conflicto entre la Unión Europea, los países productores de banano de África, el Caribe y el Pacífico, los productores latinoamericanos, y Estados Unidos, relacionados con la importación de banano en la Unión Europea. Se discute el debate histórico acerca de estas políticas entre las partes interesadas, debate que ha llegado a conocerse como "la guerra del banano". Describe eventos recientes relacionados con el proceso de transición de un mercado altamente protegido a un sistema de importación de tarifa única, el cual podría suavizar el conflicto pero no terminar con esta "guerra". El artículo está dividido en 7 partes: 1) descripción de la política de importación de banano de la Unión Europea antes de implementar la Política Comunitaria; 2) descripción de la Política Comunitaria de Importación de Banano en 1993; 3) discusión de los eventos que se originaron después de la aprobación del régimen de importación de 1993; 4) descripción de la perspectiva de la Unión Europea sobre la llamada guerra del banano; 5) convenio entre los Estados Unidos y la Unión Europea; 6) algunos resultados de investigaciones relacionadas con el nuevo sistema de importación y 7) conclusión.

ABSTRACT

The purpose of this article is to summarize the main events that have characterized the conflict among the European Union, African, Caribbean and Pacific producers, Latin American exporters, and the United States, regarding banana imports into the EU. The article provides a discussion of the historical debate over these policies by stakeholders, a debate which has come to be known as "the banana war." This article also shows that current events regarding the transition from a highly protected banana market in the EU to a tariff-only import system, which may lessen the skirmishing, but will not entirely put an end to this "war." There is such a variety of divergent concerns at play, as the debate over the last decade has shown, that fulfilling everybody's interests will prove impossible. The paper is divided into seven sections as follows: 1) description of the EU policy structure prior to the establishment of the Common Market Organization for Bananas; 2) description of the 1993 Common Market Organization for Bananas; 3) discussion of the events that followed the 1993 import regime; 4) description of the EU perspective on the so-called banana war; 5) agreement between the EU and the US; 6) some research findings related to the new import system and 7) conclusion.

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2/ Author to whom correspondence should be addressed.
E-mail achacon@agecon.ksu.edu

* Department of Agricultural Economics, Kansas State University. 332D Waters Hall. Manhattan, KS 66502-4011.

INTRODUCTION

The economic importance of the European Union's (EU's) banana market is evident in the history of trade disputes that have enveloped it for years. There is such a diversity of concerns at play that satisfying everybody's interests has been a nearly impossible task not only for the EU, but for the United States (US), Latin America exporters, banana producers in former European colonies in Africa, the Caribbean and the Pacific (ACP), as well as the involvement of the World Trade Organization (WTO). Even among the same interest groups there is often disagreement on the way import restrictions on this market should be administered. Consider, for example one of the most current cases, Latin American producers who stand to gain the most from an open market. While Costa Rica advocates for a gradual elimination of the current import tariff to avoid an immediate overflow of the European market that would excessively decrease export prices, its neighbors believe that immediate deregulation of Europe is the sensible course of action.

The purpose of this article is to summarize the main events that have characterized the conflict among the European Union, Latin American countries, African, Caribbean and Pacific nations and the United States regarding banana imports into the EU. The subject is of high importance given the new import system adopted by the EU in January of 2006. This new import regime replaces the previous import system whereby the EU banana market was regulated by a complicated combination of tariffs and quotas on non-preferred suppliers. The article is organized as follows. Section 1 describes the EU policy structure prior to the establishment of the Common Market Organization for Bananas (CMOB) in 1993. Section 2 describes the CMOB as it was originally conceived. Section 3 discuses the various trade disputes held between 1993 and 2002 related to the import regime brought by the CMOB. Section 4 describes the most common justifications of the CMOB given by the EU. Finally, section 5 details the agreement reached between the EU and the US in 2002 and the transition to the tariff-only import regime that came into effect in January of 2006. Section 6 concludes.

EU IMPORT POLICY PRIOR TO 1993

The EU is primarily a customs union and as such each member nation must abide by a common set of import and export policies. Prior to 1993 however, bananas were exempt from the union.

The 1993 policy to bring bananas under a unified tariff structure essentially lead to an amalgamation of the variety of prior banana import policies prevalent in member countries, thus in order to understand how the current regime exists, it is necessary to understand from whence it came.

Prior to 1993, there were 3 general agreements that ruled the European banana market: i) a common external tariff of 20% applied to non-preferred suppliers; ii) the Lomé Convention,[1] that gave preferential treatment to the banana imports from former European colonies; and, iii) the Treaty of Rome[2] that allowed France, Italy and the United Kingdom to protect their preferred suppliers. Additionally, a

1 The Lomé Convention actually refers to accords from 4 different conventions of that name between the EU and 71 countries from Africa, the Caribbean, and Pacific. The first accord was signed in February of 1975. It gives to these countries trade preferences for a group of commodities. Protocol number 5 of the Convention deals with the banana trade. It states that no ACP country will be made worse off in terms of its access to traditional markets and its preferred states. Specifically, this protocol allows ACP countries to export duty free bananas to the EU.

2 The Banana Protocol of the Treaty of Rome (March 1957) allowed the then European Community to concede permits to its member states to restrict banana imports from other nations. The protocol states 2 requirements for such a restriction: i) the good must be produced in the other nation and; ii) the restriction must safeguard any quotas the interested nation has.

special protocol of the Treaty of Rome permitted Germany to import duty-free bananas from any country (IICA 1995). In addition to these stipulations, each country was allowed to define its own banana import policy. This explains the wide variety of import regimes among the EU prior the definition of the Common Market Organization.

From the various policies it is useful to define 3 categories of importing European nations within the policies. The first group includes the mostly closed markets that protected their traditional suppliers from the ACP region over non-preferred producers, mainly from Latin America (Table 1). This group comprises Italy, Spain, Portugal, France and the United Kingdom. These countries conferred preferential treatment to other favored nations and granted a minimum price for their bananas. Additionally, they imposed a quota in order to limit imports from third countries (Borrell and Maw-Cheng 1992). The second group comprises those countries that applied a 20% common tariff on non-preferred suppliers with the objective of protecting the ACP countries. The third category is made up of Germany, Austria, Sweden and Finland (Austria, Finland and Sweden were not part of the EU at this time). These nations advocated for free trade and gave boundless access to their market to all suppliers. For a summary of the prevalent national policies before 1993, see table 2.

France constituted one of the most protective markets. In general, France reserved around 2/3 of its market for its overseas departments (Martinique and Guadeloupe) and much of the rest for French speaking African countries, mainly Cameroon, Côte d'Ivoir, and Madagascar (IICA 1995). It is estimated that in 1985-1987, about 94% of the French market was reserved for its overseas territories and former colonies (Borrell *et al.* 1992). Imports from third countries were licensed and allowed only when import prices

Table 1. EU banana exporter categories prior to 1993.

Preferred suppliers		Non-preferred suppliers	
African, Caribbean and Pacific (ACPs) countries	EU overseas territories	Latin American producers and others	Non-traditional ACP
Belize [a]	Crete	Brazil	Belize [b]
Cameroon [a]	Guadeloupe	Colombia	Cameroon [b]
Cape Verde	Martinique	Costa Rica	Dominican Republic
Dominica	Madeira	Ecuador	Ghana
Grenada	The Canary Islands	Guatemala	Ivory Coast [b]
Ivory Coast [a]		Honduras	Other ACP
Jamaica		Mexico	
Madagascar		Nicaragua	
Saint Lucia		Panama	
Saint Vincent		Philippines	
Somalia		Others no identified	
Suriname			
Windward Islands			

Sources: Borrell (1994); Patiño and Andrea (2000).
(a) Traditional quantities. (b) Above traditional preferred quantities.

reached a minimum level. Latin American imports were limited to an annual 270 000 t and were additionally taxed with the 20% common tariff.

The United Kingdom granted free access to Commonwealth producers such as Jamaica, Dominica, Grenada, Saint Lucia, Saint Vincent, Suriname and Belize. Imports from other countries were subject to a licensing system and were only allowed when there existed a shortage in the favored supply. Additionally, the 20% common import tariff was applied to these imports. After 1989, a licensed minimum level of 30000 t was established for Latin American producers. Borrell *et al*. (1992) estimated that 3 quarters of the market was granted to preferred suppliers.

Italy allowed free access to imports from European Community territories and ACP countries, Somalia being its traditional supplier. A 270 000 t quota was established to limit imports from other nations in 1983. This regulation remained in place until the approval of the 1993 import regime.

Portugal and Spain restricted their banana imports to protect their own producers; Madeira in the case of Portugal and the Canary Islands in the case of Spain. Both markets were closed to Latin American bananas other than in exceptional circumstances. Greece also limited access to its

Table 2. Restriction on non-preferred suppliers prior the establishment of the Common Market Organization for Bananas.

Group 1 (Wanted to protect former colonies)			
Country	Tariff	Quota	Other restrictions
France	20%	270 000 t	Mostly closed to third countries' exports.
United Kingdom	20%	30 000 t	Licensed and allowed only when there existed a shortage in the favored supply.
Italy	None	270 000 t	None
Portugal and Spain	None		None
Group 2 (Wanted to protect ACP countries under the Lomé Convention)			
Country	Tariff	Quota	Other restrictions
Denmark	20%	None	None
Ireland	20%	None	None
Netherlands	20%	None	None
Belgium	20%	None	None
Luxemburg	20%	None	None
Group 3 (Advocated for free trade)			
Country	Tariff	Quota	Other restrictions
Germany	No	None	None
Austria (1)	No	None	None
Finland (1)	No	None	None
Sweden (1)	No	None	None

(1) Countries not part of the EU when the CMOB came into effect.

market in order to protect its domestic production setting a prohibitive import tax on bananas from other regions (Borrell *et al*. 1992).

Denmark, Ireland, Netherlands, Belgium and Luxemburg granted free market privileges to the traditional ACP suppliers. Although these countries did not have overseas banana producing territories, the benefits they conceded to the ACP nations were those regulated under the Lomé Convention.

The consequences of the EU policy structure, compared to a situation with free access for all producers, were reductions in overall banana imports, lower world prices but increased prices for EU consumers and preferred producers. As a result, preferential exporters' production increased, exacerbating the problems related to lower world prices in other regions, particularly Latin America. Further, the way in which the EU import licenses were written generated rent seeking behavior on the part of banana importers (Borrell 1997).

Import restrictions have been calculated to cost European consumers $1.6 billion a year. To put this number in perspective, despite the fact that one justification of the import program was foreign aid, only $300 million actually went back to ACP producers, the remainder going to government revenue or lost surplus. Additionally, it cost $100 million a year to other developing countries due to the lost export opportunities (Borrell 1997).

The cost for society has not been calculated on a world scale. Clearly, however, the incentives encouraged less efficient producers to use resources in the production of bananas and reduced production more efficient regions (It has been estimated that a t of bananas produced in Latin America cost on average $162, whereas the production cost of bananas produced in the EU's preferred nations reached $500 t^{-1} (Cascavel 1998)). Removing the pre-1993 EU policy structure would have led to welfare gains for the global economy (Borrell 1997).

THE COMMON MARKET ORGANIZATION FOR BANANAS

The EU Common Market Organization for Bananas represented the consolidation of various efforts to regulate the market. The first attempt was in the mid seventies, when the main Latin American exporters argued for the necessity of organizing the market in order to overcome overproduction and low world prices. Although the implementation of a Common Market was seen as a reinforcement of a customs union doctrine (WTO 1997), its main goal was to balance opposing interests of diverse groups affected by the hodgepodge of national-level import policies. With the implementation of the 1993 Agreement, free intra-EU movement of bananas was allowed, and the EU took a position of reaching 3 main importer-nation objectives (Patiño and Andrea 2000):

1. To assure overseas territories would get higher prices to compensate for their higher production costs.

2. To fulfill the commitments with ACP countries made through the Lomé Convention.

3. To ensure consumers an adequate supply of high-quality bananas from third-party countries (Borrell 1997).

Since prior to 1993, Latin American bananas represented 99.36% of non-preferred production, all the rules directed at "third-party" nations refer essentially to Latin American or "dollar bananas" (Zúñiga 1993).[3]

3 Since a large portion of the Latin American banana exports are dominated by US-headquartered companies, bananas from Latin America are also called dollar bananas.

During the Uruguay Round negotiations, Switzerland, Japan, Finland, Korea and New Zealand offered to liberalize their banana markets. In opposition to these initiatives, the European Union decided not to include the banana trade in its negotiations. This position was evident with the ratification of the 1993 regulation, which further restricted the EU banana market. However, this new regime was not compatible with WTO's "most favored nation" clause since it conceded trade preferences to ACP nations (IICA 1995).[4]

The 1993 Agreement defined a specific set of importing guidelines for overseas territories and for how ACP and non-preferred suppliers would be allowed to export. A quota for each supplier category was set. Overseas territory and ACP exports were duty free up to the amount specified by the quota. An initial tariff of ECU 100 t^{-1} was imposed on intra quota imports for third party suppliers (mainly Latin America). The regime also allowed free movement of bananas among the European Union.

To protect production in overseas territories and ensure producers from those regions a minimum income, exports up to a maximum of 854 000 t were eligible for deficiency payments (These payments were made by the EU). The payment was defined as the difference between the market price and a reference price determined by the EU. Exports over these quantities were not covered by the compensation system. To guarantee that all countries benefited, a maximum import amount subject to compensation was assigned to each one. This maximum level was allocated based on the historical quantities exported by each country. However, the limits imposed were greater than the 1991 export amount (Table 3). Communitarian suppliers were also eligible for additional compensatory assistance. Producers who had to abandon banana production were subject to an indemnity. To qualify, they had to either cease all production if their plantation is less than 5 ha or at least 50% if it was greater than 8 ha (Zúñiga 1993).

ACP countries were split into 2 groups: traditional and non-traditional suppliers. ACP traditional imports consisted of bananas exported by ACP countries in annual historic quantities. The non-traditional category incorporated imports from traditional ACP suppliers over the quantities habitually exported and imports from other ACP countries that did not produce bananas prior to 1993. Exports from this group

Table 3. Overseas territories' production subject to price compensation.

Overseas territory	Maximum production subject to compensation	1991 production	Excess (%)
Canary Islands	420 000	339 450	23.73
Guadeloupe	150 000	116 124	29.17
Martinique	219 000	181 069	20.94
Madeira	50 000	N.A	N.A
Crete	15 000	N.A	N.A
Total	854 000	636 643	24.00

Source: Patiño and Andrea (2000).

4 Most favored nation guarantees WTO country members they will get the same commercial treatment from their trade partners as any other nation (http://en.wikipedia.org/wiki/Most_favored_nation_clause 2006).

were treated as if they were from non-preferred suppliers and taxed at €750 t^{-1}. Traditional ACP exporters enjoyed duty-free access up to 857 700 t as well as any other quantity imported when unfilled quotas occurred from the non-preferred suppliers. The quota was split among the countries according to the traditional amount exported for each (Table 4).

This treatment of over-quota exports was the only modification traditional ACP exporters faced relative to their situation prior to 1993. Under the Lomé Convention Agreement, traditional ACP countries were not restricted at all in their duty-free imports. However, with the exception of Cameroon, the quotas imposed on each country did not limit their exports. As shown in table 4, nearly all of the export levels of the ACP countries were below the maximum duty-free quantities allowed from 1994 to 2000. One exception was Cameroon, whose banana exports were greater than the duty-free quota in 1999 and 2000.

For non-preferred exporters, the Common Market Organization introduced an aggregate tariff-quota of 2 million t with a €100 t^{-1} tariff (roughly equivalent to a 20% *ad-valorem* tax). Over-quota imports were subject to a levy of €850 t^{-1} (comparable to a 170% *ad-valorem* taxation, Zúñiga 1993). Further, the quota was subject to change depending on the projected market situation each year as a function of predicted European consumption and preferred supplier's production only. Changes in Latin American production were not considered and Latin America was the only region whose allocation was smaller than the quantities it exported to the EU prior 1993. Notice for example in table 5 that Latin America exported to the EU on average more than 2.7 million

Table 4. Duty free import quantity limits for ACP suppliers and export levels in the period 1994-2000 (3)

Country	Duty free quota	Actual imports						
		1994	1995	1996	1997	1998	1999	2000
Cote d'Ivoire (2)	155 000	-	-	13 684	122 045	114 664	141 924	140 916
Cameroon	155 000			148 921	113 121	109 978	170 734	191 925
Suriname(2)	38 000	27 861	33 438	22 227	24 162	17 853	28 467	28 064
Somalia (2)	60 000	-	-	13 540	13 457	4 551	0	0
Jamaica (2)	105 000	75 595	82 832	66 858	67 999	55 588	41 428	30 973
Saint Lucia (2)	127 000	-	-	79 877	52 602	56 861	53 579	47 692
Saint Vincent/ Grenadine	82 000	-	-					
Dominica (2)	71 000	-	-	27 260	27 053	22 543	22 755	18 058
Belize (1) (2)	40 000	-		34 409	35 027	27 613	36 979	37 826
Cape Verde	4 800							
Grenada	14 000	4 504	4 695	1 451	59	47	501	507
Madagascar	5 900	-	-	-	-			
Total	857 700	107 960	120 965	408 227	455 525	409 698	496 367	495 961

Source: CORBANA (1993) and United Nations Statistics.
(1) Only a portion of Belize's exports enjoys preferential treatment in the EU.
(2) Exports estimated from banana imports reported by the EU.
(3) t (Tons)

t year[-1] during 1980-1999. The quota of 2 million t represented about 72% of the annual average exports by this region to the EU.

The new regime also created an import licensing system to distribute the non-preferred quota among importers. The allowance was split into 3 categories of operators on the basis of historical quantities imported. Category A comprised traditional banana importers from Latin America who were allowed to import 66.5% of the 2 million t quota. Category B consisted of operators who traditionally imported bananas from preferred suppliers. They were authorized to import 30% of the quota assigned to Latin American producers. A category C was created to reserve import rights for new importers established in 1992. These received the last 3.5% of the import quota assigned to Latin American exporters.

Transference of import licenses was allowed between importers in the same category and among importers of categories A and B. It was not permissible to transfer licenses from or to category C. However, the principles that ruled the license transference were different for each category and harmed Latin American operators. For instance, if an importer of category A sold its import license to a category-B operator, the seller lost its license for the next period. However, if the transaction was in the opposite direction, from category B to A, this rule did not hold and the B operator was able to make use of its license the next period.

CMOB RELATED EVENTS AFTER 1993

The European policy has been extremely controversial since its creation in 1993. It faced numerous obstacles with most of the involved parties in the market, leading in most cases, to modifications of the original policy.

Although the Latin American countries, as a region, do not enjoy the same economic power as the European Union, they have been proactive with regard to modifications to the 1993 import system leading to 3 of the major adjustments. The United States, because of its economic interests in the region, also had an important role in the so-called banana war challenging the EU import regime several times.

Table 5. Exports of main Latin American banana producers (1980-1999) (1).

Country	Total exports	Exports to the EU	Share of imports to the EU	Share into EU total imports
Colombia	10 719.1	4 290.4	40.03	15.5
Costa Rica	13 034.4	5 730.7	43.97	20.7
Ecuador	17 567.3	3 931.9	22.38	14.2
Guatemala	4 025.6	497.1	12.35	1.8
Honduras	9 953.9	2 162.9	21.73	7.8
Nicaragua	845.0	259.0	30.65	0.9
Mexico	778.0	0.0	0.00	0.0
Panama	7 766.8	4 701.2	60.53	17.0
Dominican Republic	70.6	8.5	12.04	0.0
Total Latin America	71 951.6	27 734.4	38.55	100.0

(1) 100 t.
Source: United Nations. Comisión Económica para América Latina y El Caribe. Tendencias y Perspectivas de las Exportaciones de Banano de América Latina y El Caribe. 1993

For exposition purposes, adjustments to the banana import policy are split into 2 chronological periods. The first covers changes that occurred between 1993 and the 1999 WTO declaration that the European import system was illegal. During this period, the 1993 regime was only marginally modified. The second period covers changes after the WTO declaration in 1999 through 2001. The last WTO resolution urged the EU to modify its policy. In this sub-section, the failed attempts to define a new import policy to please everybody are presented. It also describes the background for the EU-US 2001 agreement.

The first adjustment to the regime was made in 1994 when Colombia, Costa Rica, Venezuela and Nicaragua reached an agreement with the EU in the context of the Uruguay Round Negotiations (GATT). On this occasion, the quota for Latin America was raised to 2.1 million t.

Then in 1995, with the conclusion of the Uruguay Round negotiations, at the request of Costa Rica, Colombia, Ecuador and Panama, the quota was increased to 2.2 million t and the within-quota tariff was reduced from 100 ECU to 75 ECU t^{-1}. Additionally, these countries negotiated a fixed participation in the quota applied to the Latin American exporters. Costa Rica and Colombia obtained the greater portion with 23.4% and 21% of the global quota, respectively. Nicaragua got 3% and Venezuela 2% of the allowance. The parties were allowed to trade the import rights among themselves. However, the agreement was canceled in 1998, when Germany and Belgium requested an inquiry by the Justice Tribunal of the EU. The quota allocation was considered illegal, since the export rights discriminated among exporters.

An additional modification of the quota to Latin American exporters was introduced in 1995. A temporary tariff quota of 353 000 t was added when Austria, Finland and Sweden joined the European Union. Nonetheless, the increase in quota was not large enough to match the total banana import levels these countries had prior to their entering to the European Union. As shown in table 6, total imports of this group during the period 1990-1994 were greater than the additional Latin American quota approved. Indeed, the growth tendency shown by these countries' imports stopped once they joined the European Union. The additional allowance applied until 1997, when the third-countries' quota was set back to 2 200 000 t.

It is interesting that the EU banana regime not only caused difficulties between the EU and the affected parties, but also divided the Latin American block. As a consequence of the quota allocation agreement negotiated by some nations, the Latin American unit split into 2 groups. One composed those countries that accepted the new import regime: Costa Rica, Venezuela, Nicaragua and Colombia. The other comprised nations that advocated for an alternative system: Ecuador, Mexico, Honduras, Guatemala and Panama.

Table 6. Austria, Finland and Sweden banana imports for the period 1990-2000 (1).

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Austria	144	154	150	146	144	111	96	94	88	102	93
Finland	70	73	86	96	169	66	58	60	58	64	62
Sweden	143	160	162	153	154	147	149	159	175	185	187
Total	357	387	398	395	466	324	303	313	321	351	341
Difference respect to the quota	-4	-34	-45	-42	-113	29	50	40	32	2	12

(1) 100 t.
Source: FAO Statistics

The US supported the latter group claiming that its firms were harmed by the EU import regime. In fact, the US-headquartered, multinational firms felt more threatened when Colombia, Costa Rica, Nicaragua and Venezuela negotiated their allocations. The US firms argued that their economic interest would be harmed if the national quotas were executed because most of their production was not allocated in those countries.

Because of this discontent, the US government started an investigation process to determine if the actions taken by those countries truly harmed the US firms' interests. The US threatened to impose economic sanctions on the nations that accepted the import regime if the harm to its companies were proved. As a result, Nicaragua and Venezuela resigned the agreement and did not execute the allocated quotas assigned to them. On the other hand, Colombia and Costa Rica ratified the agreement.

The US government threatened Costa Rica and Colombia with the suspension of commercial benefits these countries enjoy as part of the Caribbean Basin Initiative (CBI) (The CBI is a unilateral preferential treatment between the US and countries from the Caribbean Area. It allows duty-free entrance to exports to the US and its territories). Finally, the US favored Costa Rica and Colombia's position. The US government understood these countries acted in defense of their interest, considering the high dependence of these countries' economies to the banana activity.

In 1997, the US, Guatemala, Honduras and Mexico requested a hearing of the Dispute Settlement Body (DSB) of the World Trade Organizations against the EU (Ecuador and Panama supported the action but did not take part since they were not WTO members at that time). This group argued that the EU's import policy harmed their interests and favored ACP suppliers.

On this occasion, the WTO's resolution partially favored the EU. The DSB determined that, although based on the terms of the Lomé Convention, the EU was right to concede preferences to the ACP nations, some aspects of the new import system were found to be in opposition to WTO rules, specifically, the Agreement on Import and Licenses Procedures, and the General Agreement on Trade and Services. The WTO affirmed that the CMOB unfairly discriminated against some importing and marketing firms in Latin America. As a result, the EU adopted a modified set of import policies that entered into force in January 1999. Three principal changes were introduced:

a) The 4 "substantial suppliers" of the EU (Ecuador, Costa Rica, Colombia and Panama) were allocated specific shares of tariff-quotas A and B on the basis of the 1994-1996 period.

b) The country-specific, sub-quotas within the quota for countries of Africa, the Caribbean and the Pacific were abolished.

c) The complex system of import license allocation was simplified by reducing the number of market operator types from 7 to 2 (traditional and newcomer operators).

These adjustments came in the context of a greater liberalization of the EU's agricultural sector and its commitment to the WTO. The adapted import system safeguarded the obligation the EU had with the traditional ACP suppliers and, at the same time, it met the responsibilities the EU had acquired with the WTO.

In 1999, Ecuador and the US confronted the European policy again and brought another demand to the WTO. These countries were not pleased with the modifications enforced in 1999 by the EU. This time, the case was resolved in favor of Ecuador and the US. The resolution imposed an important precedent in the WTO since it was the first time a developing country was authorized to execute economic sanctions on a developed block. The US was also authorized to impose economic sanction on the EU.[5] Additionally, the EU was asked to make further changes to its banana import regime in order to make it compatible with WTO specifications.

After the WTO declared the European banana import system illegal in 2000, the European Union Commission started a consultation process with the involved parties. Its goal was to define a new WTO compatible policy generally accepted by the parties. By the end of 1999, the Commission proposed a "tariff only" system that would be introduced in 2006. Meanwhile, it suggested adopting a transitional tariff quota system with preferential access for ACP producers. The proposal suggested maintaining type A and B quotas during the transition period, namely, maintaining the EU's 2.2 million t charged with a €75 t^{-1} tariff. The type-B quota would be autonomous and for an amount of 353 000 t for which the €75 t^{-1} tariff would also apply. Additionally, the EU considered the creation of a new autonomous quota (type C) of 850 000 t. ACP exports would continue to enter duty free under any quota category.

None of the parties expressed any kind of disagreement with this component of the proposal. The conflict with the parties started when the Commission communicated its intention of conceding import licenses on a historical basis. A new period of consultation started.

After 7 months of discussion, the Commission announced a new import license distribution system. It was based on its initial proposal of license concessions based on a historical reference period but also considered a proposal made by the Caribbean countries and redefined the operators that would have access to the quotas.

5 The US increased by 100% the import tariff on European textiles, cheese, jam and cookies. The sanctions affected all Communitarian countries but Netherlands and Denmark. The US government claimed this tax would compensate for the estimated $520 million losses US firms have had as a result of the EU import banana policy (La Nación 1999).

The proposal was not accepted by the US operators nor by some Latin American producers. The US held its opposition even though the Commission estimated that US operators would fall into the new definition and therefore would increase their market share. A new dialogue process started with the objective of reaching an agreement about the historical reference period for the license allocation. Once again, the process did not yield any agreement between the parties (Commission of the European Communities 2000).

At this point, the Commission initiated an evaluation of a quota system based on a "first come, first served" system. It was considered the last option to define an import policy compatible with the WTO rules and that would please the involved parties. The EU recognized many advantages in the "first come, first served" system. First, it was a WTO compatible import structure. In fact, the WTO defined it as a good system for the management of tariff quotas in its resolution of the Ecuador panel in 1999. Specifically, it represented the solution to the quota management problem for it would imply the elimination of national quota allocations and definition of operators. The distinction between traditional and newcomer operators would disappear. In addition, the rent shifting originated by the trade in license would be overcome (Commission of the European Communities 2000).

However, there were some weaknesses attached to the system that required an adequate solution by the EU. For example, the perishable character of bananas requires the period between transportation from the production center and the arrival of the fruit to be limited. The proposed system could delay the process. There was also the possibility of technical difficulties in the ports because increased shipments may create congestion. Additionally, there were also budgetary implications for the EU. Under a "first come, first served" system, the banana supply would increase in the market driving the price down but, perhaps, more importantly, raising the compensatory payments to European producers (Commission of the European Communities 2000).

Not surprisingly, each party claimed some kind of modification to the proposal that would fit their interests. Some of them even advocated for a different system. For example, most exporters favored an import regime based on historical references. Their main argument was that the proposed system would reinforce the large operators' position to the detriment of the small and medium sized ones. They claimed that the larger exporters were more capable of negotiating shipping arrangements (Commission of the European Communities 2000).

European community producers were indifferent to the system since the compensatory payments would have covered any decrease in their income. On the contrary, ACP producers favored the maintenance of the quota system as long as possible. However, even though the new system did not perfectly fit their interests, the foreseen increase in the tariff preference in one of the quotas was to their benefit (Commission of the European Communities 2000).

The system never came into effect however, primarily because of US opposition. At this point the EU started the bilateral negotiations with the US that brought the EU-US agreement in 2001 discussed in the next section. But, before moving on to this, it is important to mention the CMOB's estimated economic impacts.

The 1993 policy resulted in higher priced bananas for most EU consumers. Many studies have been conducted since the introduction of this policy to quantify its effects on European countries' welfare.[6] All of them agree that German consumers were the most affected by the CMOB due to a lower supply of bananas in this market and its consequent increase in prices. Recall, Germany initially had no restrictions on imports. After the 1993 regime, exports to Germany were estimated to decrease by 250 000 t year^{-1} compared to a free market situation. German consumers' welfare losses were calculated at $50 million year^{-1} (Kersten 1995). On the other hand, consumers in countries that had restrictive import policies, such as France and UK, were made better off. In those countries, real import prices of bananas decreased with the introduction of the new regime. A similar situation occurred in Spain, Portugal, and Greece (Kox 1998).

However, despite the gains for some countries, total consumer welfare decreased in the European market. Consumers' losses for the EU (excluding Germany) were calculated at approximately $640 million compared to the market situation that prevailed before 1993 (Kersten 1995, Borrell 1997). This estimation corresponds solely to consumers' losses due to the CMOB. As mentioned in Section 1, Borrell estimated that policies prevalent prior to 1993, cost consumers $1.6 billion a year.

Additionally, the goal of protecting developing countries was inefficiently, and only partially, reached. The 1993 regime imposed costly resource transfers from one group of underdeveloped nations to another. It is estimated that Latin American nations incurred a cost of $0.32 ($98 million a year) for every dollar of aid reaching preferred suppliers (Kersten 1995, Borrell 1997).

EU PERSPECTIVE ON THE CMOB AND THE BANANA WAR

In addition to the point of view of the third parties affected by the EU banana import policy, it is important to consider the European perception

6 Welfare is an economic measure of well-being that takes into account theory-based measures of the difference between what consumers would pay and what producers would accept for the product and the actual price in the market. The calculations thus take into account consumers, producers as well as the government sector and researchers strive to measure the difference between the welfare that exists under a particular regime and that which might exist if, say, the quotas and tariffs were abolished. Interested readers are referred to Alston, Norton and Pardey for a discussion of different economic methods used to measure these changes.

and justification of its own banana regime. One of the main justifications given by the EU is the need to fulfill the requirements established by the European Single Market (ESM). This policy intended to increase welfare within the EU through a higher level of competition and efficiency. Therefore, defenders of the CMOB argue that this policy had a justifiable goal: to benefit domestic producers and consumers of bananas within the EU's borders. Defenders argue that there is sufficient proof that the European Single Market was indeed successful at enhancing global welfare when considering the policy as a whole (Allen *et al*. 1998). Therefore, one could argue that the CMOB is an exception to the success the more global policy had.

As a second goal, the policy was meant to protect the economies of the ACP nations. These countries are alleged to be highly dependent on the banana sector and any sudden adjustment in their productive structure would have had devastating social consequences.[7] The nobility of this argument breaks down however, when one considers developing nations outside the ACP. As discussed earlier, the 1993 regime imposed extremely high costs for Latin American countries, also developing nations, thus the transfer of surplus is arguably from one developing region to another. Based on their Human Development index many ACP nations are considered among, so called, medium developed nations (Cameroon and Cote d'Ivoir are the exceptions). By comparison, most of the Latin American countries are doing very poorly based on the same index (Table 7).

Evaluating dependency on the sector, a study performed by Kox in 1998 found that banana exports to the EU represent only 3-7% of total export earnings for the poorest ACP countries. Meanwhile, banana exports' contribution to domestic income in Honduras, Costa Rica, Ecuador and Panama is 3-8 times more than in most ACP countries.

In addition to the economic justification of the CMOB, there are also political reasons that made the EU's adopted systems preferable to a free-trade alternative. One of the stronger arguments is that under free trade, the EU would have felt political pressure to make direct payments to the communitarian and ACP producers of their former colonies. This would have been a hefty expense. Even if the EU had had the budget, Tangermann (1997) argues that none of the benefited parties felt comfortable with the idea of resources provided in such a fashion. Additionally, both the EU and the ACP nations worried about the social consequences that adjustment to their productive structure would have.

Perhaps the biggest argument used by the CMOB defenders is that this policy was not as costly as has been estimated. Most studies make their welfare estimations based on the situation prevalent in 1991 and 1992 (Borrell). However, this period is arguably unrepresentative of the real tendency in the market because the Latin American exporters increased their shipments forecasting a change in the policy (Tangermann 1997). Nevertheless, defenders of this argument left an important question unanswered: how were the Latin American exporters able to increase their shipments if most of the European market was protected under the multi-policy situation prior to 1993?

AGREEMENT BETWEEN THE US AND THE EU

After 8 years of controversy (1993-2000), the EU negotiated with the US a settlement that would put an end to the CMOB. It also involved, in addition to the US, most traditional nations implicated in the banana dispute. Both the United States and the European Union agreed to modify their commercial policy related to the banana dispute.

The agreement was conceived in 2 stages. The first phase came into effect in July 2001.

7 For example, 70% of Saint Vincent's revenue depends directly and indirectly on the banana sector. One of every 3 people in Saint Lucia depends on this activity. Additionally, 60% of the revenue received by the 4 EU overseas territories comes from banana production.

Table 7. Human Development Index (HDI) of the EU banana suppliers [(a)].

Country	Region	Human development index	Rank (1999)	GDP per capita ($US) [1]
Dominica*	ACP	0.873	-	3778
Grenada *	ACP	0.843	-	3295
Saint Lucia *	ACP	0.838	-	4505
Saint Vincent and the Granadillas [(a)]	ACP	0.836	-	3018
Costa Rica	LA	0.821	41	2942
Mexico	LA	0.790	51	5036
Panama	LA	0.784	52	3397
Belize	ACP	0.776	54	3045
Colombia	LA	0.765	62	2093
Suriname	ACP	0.758	64	1657
Brazil	LA	0.750	69	3525
Philippines	Others	0.749	70	1032
Jamaica	ACP	0.738	78	1487
Ecuador	LA	0.726	84	1109
Cape Verde	ACP	0.708	91	1400
El Salvador	LA	0.701	95	2007
Nicaragua	LA	0.635	106	459
Honduras	LA	0.634	107	856
Guatemala	LA	0.626	108	1637
Madagascar	ACP	0.462	135	239
Ivory Coast	ACP	0.426	144	808

Source: Human Development Reports. 1999
(a) The HDI combines the real purchasing power per capita, life expectancy at birth, education in terms of adult literacy and school enrollment.
* The index was not reported for these countries in 1999. The value shown corresponds to 1994.
(1) Source: Statistics Division of the United Nations Secretiarat and International Labour Office.

It established a temporary elimination of the 100% *ad valorem* tariff the US had imposed on imports of certain European goods. This tariff was applied by the US as a sanction on the EU for the banana dispute held with the Latin American countries. Additionally, the US agreed to drop its hold to the Lomé Convention, allowing the waiver to Article I of the GATT to pass (This waiver allowed the EU to continue giving preferential treatment to ACP countries). The European Union agreed to allocate 2 more 100 000 t quotas for Latin American bananas and to eliminate a third quota for the ACP countries. The distribution of quotas was based on historical allocations of import licenses using the years 1994-1996 as the reference period (this reference period was selected by the EU based on trade data availability).

The second stage would move toward the elimination of the CMOB and the adoption of a new import system. A difference of this phase with respect to the first stage of the agreement was that it did not have a definitive schedule for its implementation although it had to enter into force not later than January 2006 (Guyomard and Le Mouël 2002). However, it was established that for the elimination of US sanctions imposed on the EU to be definitive, this phase had to be fully implemented. The EU started a consultation process in July 2002 aiming to define the new regime, but it was not until January 2006 that a new import policy was implemented.

The disputed regime was substituted by a tariff-only import system under which protected and non-preferred exporters compete solely on the basis of tariff differences. Quotas on Latin American bananas were eliminated and imports from this region are taxed at €176 t^{-1} (Recall, the previous regime had a tariff of €75 t^{-1} with a quota). ACP imports are allowed duty free up to a quota level of 775 000 t, but ACP imports exceeding this amount must pay the same €176 t^{-1} as the dollar bananas.

Defining a tariff level was a long process for the EU and it involved 2 disputes brought to the WTO by Latin American nations. The initial requirement imposed by the WTO on the EU was that the tariff level had to ensure Latin American suppliers at least the same market access they had enjoyed under the previous import regime. In January 2005, the EU announced that after several months of consultation with ACP countries, they had defined a tariff level of €230 t^{-1} to imports from non-preferred suppliers. The ACP acquiesced to this tax believing it would let them compete against Latin American bananas. Considering this tariff level prohibitively high, a group of Latin American exporters requested arbitration with the WTO under the Doha Ministerial Decision. The arbitration panel determined the proposed tariff did not grant Latin American suppliers the same market-access they had previously enjoyed.

Afterwards, the EU proposed a lower tariff of €187 t^{-1}, which still did not please non-preferred suppliers. On this occasion, the EU requested a second arbitration to determine whether this new tax level was satisfactory. However, the report made by the WTO ruled out this tariff level on the grounds that it still did not provide Latin American access to the EU banana market. Finally, the EU set a tariff of €176 t^{-1} to imports from this region and that is the level that exists today.

EQUIVALENCE OF THE TARIFF-ONLY AND THE PRE-2006 IMPORT REGIMES

Since the WTO required the EU to set its new tariff at a level that would maintain market access to its market, several authors have analyzed the feasibility of this task by trying to calculate a tariff equivalent to the tariff-quota system of the old regime. Others have analyzed the possible effects that alternative tariff levels would have on the main producers. Due to differences in modeling approaches, market parameters used and in the interpretation of what "maintaining market access" means, quite diverse results have emerged among the different studies. However, there is a common factor among most of these studies. This is that maintaining the pre-2006 market structure is almost impossible by just using a tariff restriction.

Guyomard and Le Mouël (2002) for example, calculated that a tariff of about €182 t^{-1} would maintain 2005 market structure. But the author warns readers that this result is highly sensitive to model parameterization and modeling assumptions. Furthermore, this tariff level would only maintain market share in 2006. The level of this import tax must increase in subsequent years for ACP countries to maintain their 2005 market share given productivity changes in Latin American banana production.

Arias *et al.* (2006) used a partial equilibrium model to test various market scenarios and their corresponding tariff equivalence. The authors concluded that the EU had to use several policy instruments if its objective was to simultaneously achieve all policy objectives attained with the CMOB import policy. That is, a single tariff level is not enough to maintain the pre-2006 market structure.

Arce *et al.* (2004) also tried to determine the minimum tariff level that would sustain the pre-2006 market equilibrium. Their estimations indicate that the EU must impose a tariff level of €259.8 t^{-1} for equilibrium prices and trade flows to stay as in 2004. The authors estimated that setting the tariff level at €75, as requested by Latin America, would increase imports from this area by 7% and reduce its corresponding prices by 8.5%

Finally, Anania (2006) estimated that the current tariff level of €176 t^{-1}, benefits non-preferred suppliers. Results show that exports of these countries will increase by 400 000 t in 2007 and further in subsequent years. The author estimated that the tariff level proposed by the EU in the second arbitration would have maintained at least the same market access to non-preferred exporters.

CONCLUSION

The purpose of this article was to provide a brief but detailed history of the so-called "banana war". The article summarizes the main events that have characterized the conflict among the European Union, Latin American countries, African, Caribbean and Pacific nations and the United States regarding banana imports into the European Union. Disseminating the work of various sources, our goals were to provide in a single article i) the relevant details and histories of the myriad trade disputes; ii) a succinct discussion of the diverse and complicated tariff and quota regimes for banana imports that have existed in the last decade and how the came about, and iii) explain how the banana export market has been shaped by these forces. Hopefully we have provided the interested reader with a concise synopsis of how the newest import system adopted by the EU in January of 2006 came about and what the current research has to say with regard to the economic cost of the previous import regimes and, finally, whether this new system is an improvement or not.

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