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# Trade Policy Monitoring

# European Commission Proposes New Tariffs for Bananas

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**Report Highlights:**
On January 31, the European Commission formally notified the WTO of its proposed tariff-only system for imports of bananas. The proposal has been met with strong opposition from the main Latin American banana producing countries who signed a declaration rejecting the proposal.

Includes PSD Changes: No
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## European Commission Proposes New Tariffs for Bananas

On January 31, 2005, the European Commission formally notified the WTO of its proposed tariff-only system for imports of bananas. The proposed new system, scheduled to enter into force on January 1, 2006, would replace the current complex quota and tariff system. Latin American exporters would no longer be limited by quotas but would pay a higher duty (EUR 230/MT) than the current in-quota duty (EUR 75/MT). African, Caribbean and Pacific (ACP) suppliers would continue to export bananas under preferential arrangements. The new tariff is lower than the EUR 275/MT duty requested by the ACP countries but significantly higher than the EUR 75/MT duty pushed for by the Latin American banana producers. According to a Commission press release, "the proposed new tariff is based on a methodology to calculate tariff equivalents enshrined in the WTO texts and on objective data".

The proposal has been met with strong opposition from the main Latin American banana producing countries who signed a declaration rejecting the proposal. They maintain that the EU's proposal is in contradiction with the WTO ruling that the preferential import rules for ACP bananas were discriminating against Latin American suppliers. Growers in countries whose currencies are linked to the dollar say that the new tariff will result in a loss of market share. Latin American suppliers have 30 days to request the WTO to arbitrate over the EU's proposal. Arbitration would take 3 months once officials are appointed.

According to the EU, ACP banana producers are small-scale producers who struggle to compete with the much larger-scale Latin American producers. The new tariff is meant to "strike a balance" between the demands of the larger Latin American producers and the interests of the traditional ACP producers. Roughly 82 percent of EU-15 banana imports come from third countries: 63 percent are "dollar bananas" originating in Latin America with the four biggest exporters being Ecuador, Costa Rica, Colombia and Panama; 19 percent originate in ACP countries, mainly former European colonies. The remaining 18 percent of the market share are bananas of EU origin.

## Background

In the 1990's, the EU lost a WTO dispute initiated by the U.S. on behalf of U.S. companies operating in Latin America. The WTO ruled that the EU's import regime favored imports from ACP countries and discriminated against Latin American suppliers. The so-called banana war started when the U.S. was allowed to impose 191.4 million dollars in trade sanctions against EU imports. A truce was called in 2001 when the EU agreed to change its import system and established an interim regime.

The EU obtained two waivers in the WTO to cover the preferential import arrangements for ACP countries. The first waiver covers the tariff preference for the import of bananas for ACP countries under the Cotonou Agreement until January 1, 2008. The second waiver covers the reservation of quota C for ACP countries until January 1, 2006.

Since January 1, 2002, the following tariff quotas apply:

- Quota A: 2,200,000 MT at a tariff of EUR 75/MT (0 for ACP bananas)
- Quota B: 453,000 MT at a tariff of EUR 75/MT (0 for ACP bananas)
- Quota C: 750,000 MT at a tariff of EUR 0/MT (reserved for ACP bananas)

Quotas A and B are open to bananas from any origin, the C quota is reserved for ACP countries. Banana imports outside the quotas are subject to a customs duty of EUR 680/MT; ACP countries benefit from a tariff preference of EUR 300/MT.

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