ANALYSIS OF THE BANANA JUNCTURE 2002-2001

1. The sector's legal frame

The normative under which the banana sector activity is supported is called "Law for stimulating and controlling the Banana Production and Trade", issued in August, 1997 and reformed in December , 1999.

Main dispositions of the banana law are:

- To establish a sustained floor price per box at the foot of the ship that exporters are obliged to pay to producers, for any contract or trade act allowed by law, as well as fixation of minimum exporting benchmark prices (FOB) to be declared by exporters. These prices are jointly established by the Ministers of Agriculture and Livestock (MAG), and Foreign Trade, Industrialization, Fishing and Competitiveness (MICEIP).

- To determine that floor price will be equal to national average production cost, plus a reasonable profit.

- Law establishes that these prices shall be established each three months, for what the MAG will organize negotiation tables.

- In order to warrant that the support floor price will be paid by exporters or middlemen, they shall deposit a guarantee (insurance policy, banking guarantee or cheque) in the corresponding Under-secretariat of the MAG before any shipment.

- As exporting banana of non-registered farms, producers are obliged to register their names in the MAG.

- The MAG, through the Litoral Under-secretariat, is empowered to bring a legal action against exporting companies that fail to comply with payment of sustained price, previous verification of such non-fulfilment.

- Forbids new banana sows (any variety).

This law regulation was issued in the Official Registry No. 199 dated November 21, 1997 and was firstly reformed through Executive Decree No. 858 issued in the Official Registry No. 186 dated October, 2000. Its last reform was done in May 7, 2003 through Executive Decree No. 374.

Supplementary to this Banana Law there is the Banana Consultative Council created through Ministerial Agreement No. 399, that advises the Ministry of Agriculture on the sector's policies and is the mean for performing the negotiation tables for establishing the banana price. This is formed by:

- The Minister of Agriculture and Livestock, or its delegate.
- Five members of the producing sector by production zone.
- Five members of the exporting sector by exporting markets.

- Minister of Foreign Trade or its delegate previous invitation of the Minister of Agriculture.

2. Characteristics of production

According to last National Agricultural Census data, the area dedicated to banana production is estimated at 180,000 hectares, distributed as follows:

Provinces	Area (hectares)
Los Rios	50,419
Guayas	44,646
El Oro	43,352
Esmeraldas	7,611
Manabi	5,778
Other	28,524
Total	180,331

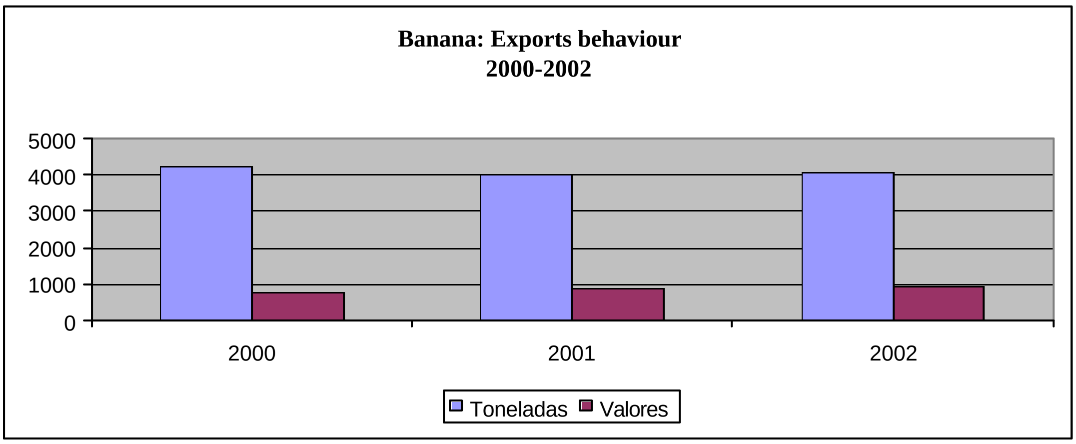
According to the Census, 53 percent of banana area is concentrated in plantations whose sizes go from 1 to 100 hectares, and the remaining 47 percent in plantations larger than 100 hectares.

Banana production is estimated at 5,274 millions tons.

3. Foreign trade

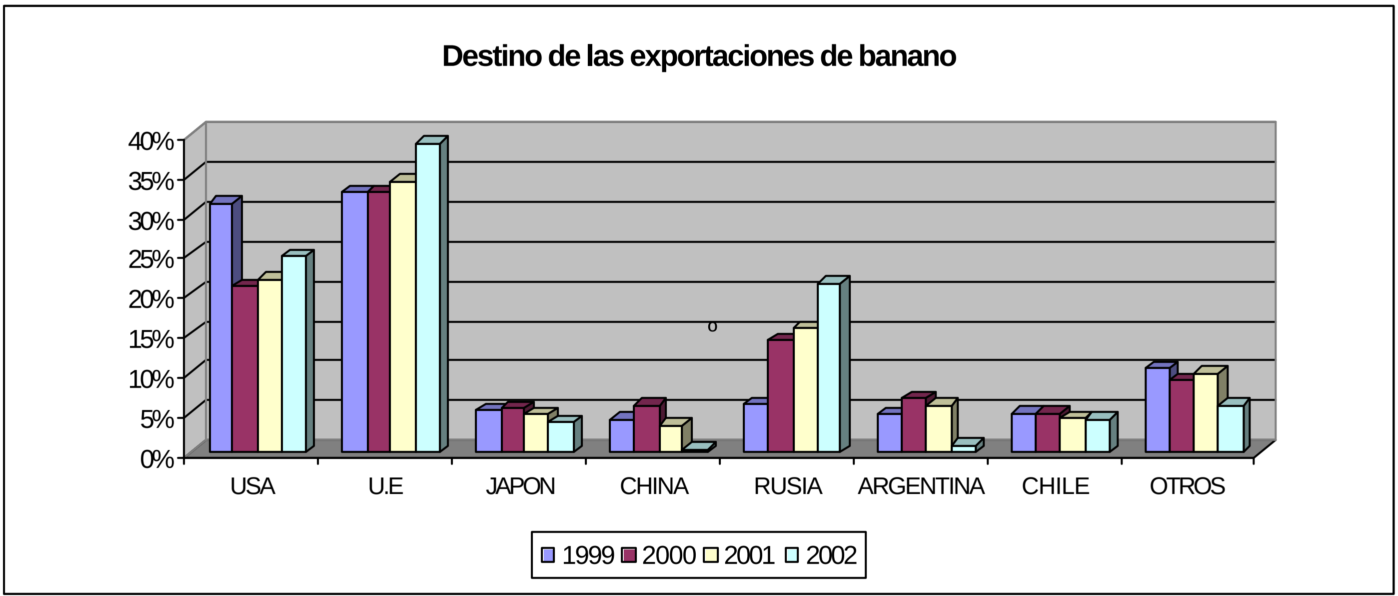
According to Empresa de Manifiestos, during last three years banana exports volume have been changing. In the year 2000 sales were registered at 4,200 million tons, in 2001 these dropped in 5.5 percent registering 3,990 million tons, and during the year 2002 they increase about 1.4 percent, and reached about 4,047 million tons. So far this year's first trimester, sales are estimated at 1,187 million tons.

As for values obtained for banana sales, these have grown during last three years from $785 millions in the year 2000 to $869 millions in 2001 and $904 millions in 2002. This tendency has remained the same during the first trimester of 2003, as during first months of 2002, sales increased in 7 percent, reaching a value of about $300 millions.



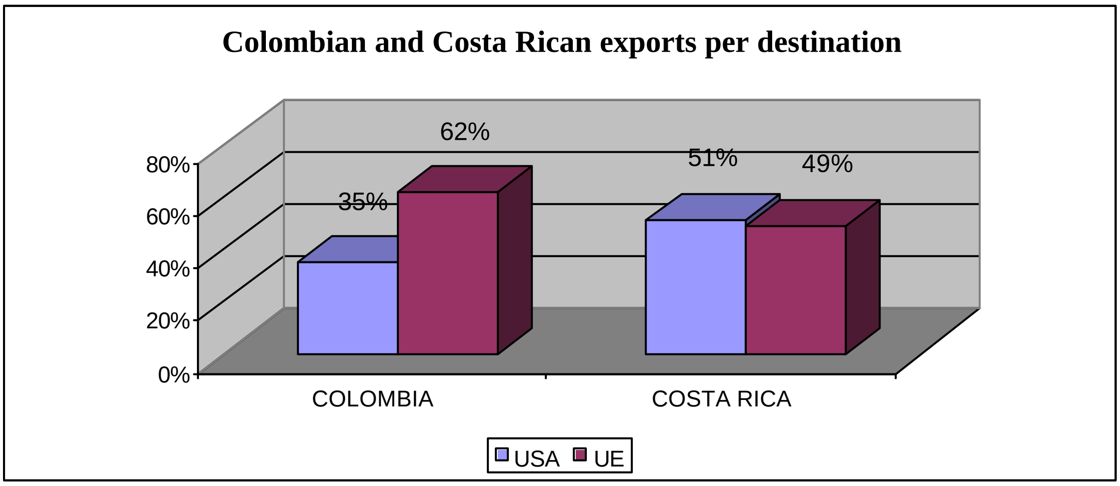
With regard to markets of destination where the fruit is sent, about 90 percent is for the following countries: the U.S. 25%, European Union 35%, Japan 5%, China 4%, Russia 14% and Argentina 5%.

It is important to highlight that, because of the Banana Community Regime, the European Union participation data belong to registers of shipments sent to that market and no necessarily to effective volumes that enter that market. According to European Union sources, during last four years this market represented an average of 18% of total exports of the country; the portion that can not enter becomes in-transit fruit to East Europe markets.



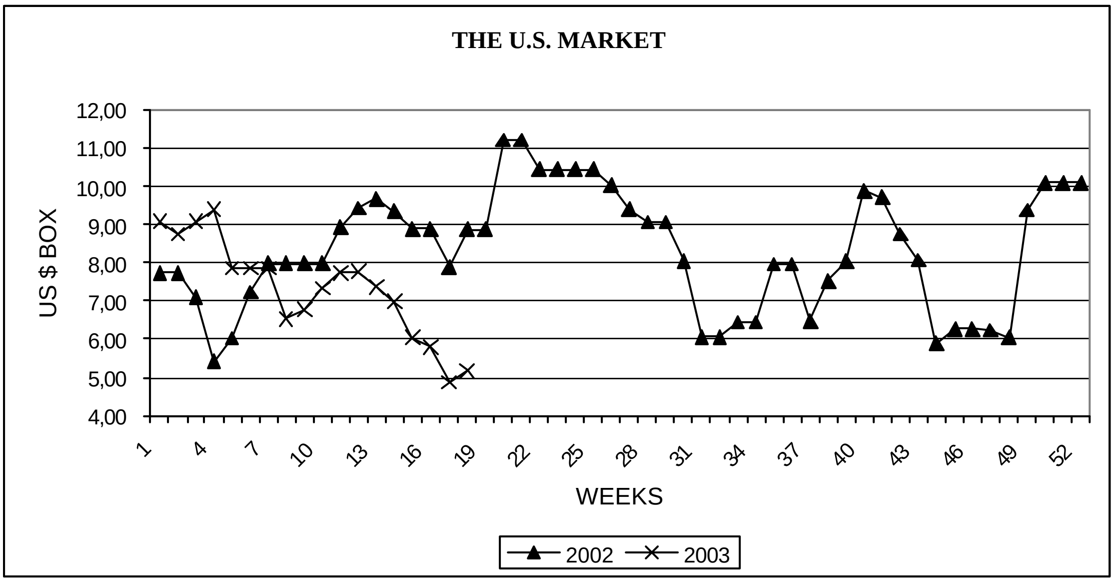
According to last years' behaviour in some markets, the U.S., China and Argentina showed a decrease, and Russia and the East Europe markets showed an important growth. Although this reflects a market diversification, the problem is because main consumers and most stable markets are the U.S., the E.U. and Japan, which together consume about 70% of banana traded worldwide. Other markets are unstable and have strong price variations, Russia specially (about 50% of exported banana –in-transit- fruit included- is sent to unstable markets.

The Ecuadorian sales structure is quite different from our competitors: Colombia and Costa Rica, which sale higher percentages to most stable and larger consumption markets.

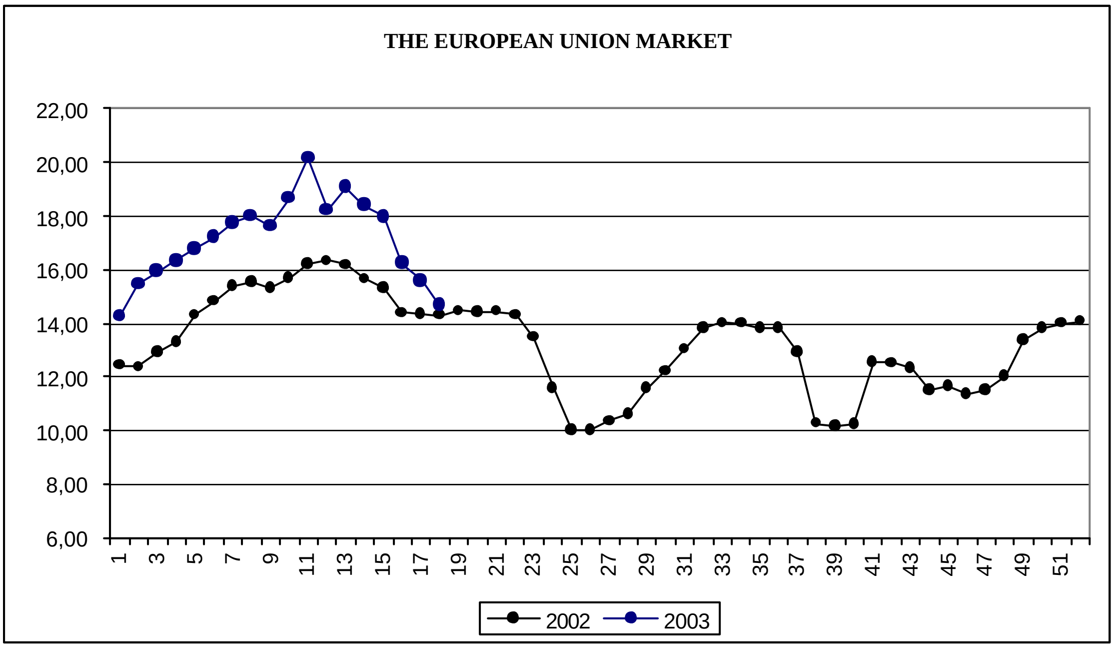


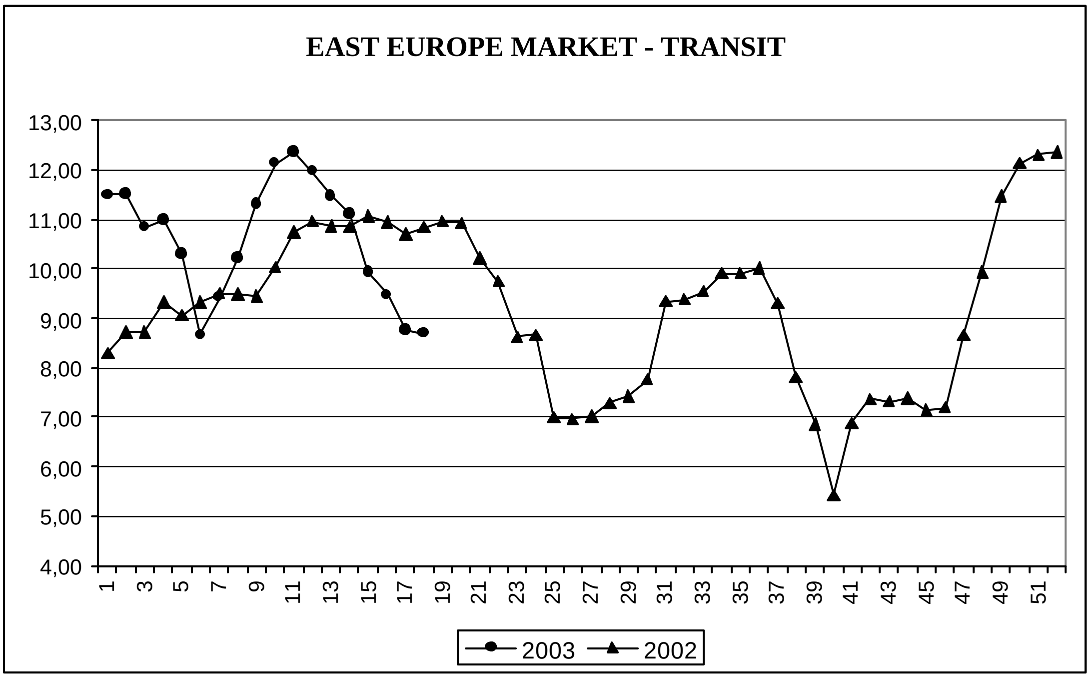
4. Situation of international prices and producer's floor price

Banana international prices are determined by supply and demand in different markets, however, they are adversely affected by some protective policies applied by certain countries such as the European Union's ones, through a regime of import quotas and licences.



Thus, the 2002 – 2003 period prices behaviour were differentiated according to markets from which there is information, for instance the U.S. compared with first weeks of the year 2003 (week 24^{th}) registered a decrease of about 8%, while in the EU market an increase of about 16% was registered, and the East European countries registered an increase of 6% (fruit-in-transit).



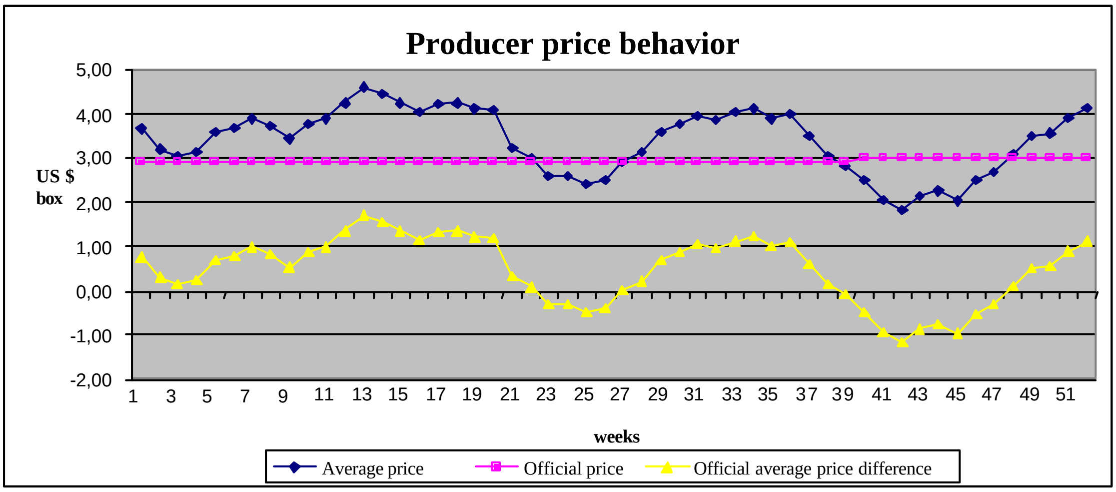


It shall be cleared that banana prices are stable all year long, where higher prices were registered beginning from lately December to lately May-early June, i.e., 22 weeks. While lower prices were registered during the week 23rd until week 50ty. Such stability is caused by consumption characteristics and existence of other fruits that compete with banana: during the winter stage and having no higher volumes of other fruit, consumption is larger, while during the summer stage the contrary occurs.

Due that about 50% of the Ecuadorian banana exports are addressed to the East European markets, during the year 2002 this market influenced on producers' prices levels. Last data provided by the Banana Exporters Association (AEBE) show that price paid during 2002 by exporting companies was estimated at US$3.40 per box, US$0.47 up from sustained floor price established by the government: US$2.93/box.

Next chart shows evolution of prices received by producers during 2002 versus the current sustained floor price.

Since early 2003, however, international conditions changes have negatively influenced on the banana box price. The Middle East war pressed the commodities markets.



An important feature of the East Europe markets is that almost all banana traded inside these markets is from Ecuador, therefore, competition is not with other countries but with other Ecuadorian companies that in certain weeks of the year over supply them resulting in prices reduction, thus, exporting companies did not accomplish with the sustentation floor price.

Although banana domestic price is influenced by the international market, the production domestic situation is influenced by local prices levels, the more it produces the lower cost are obtained and vice versa.

5. Main aspects of banana problematic

5.1 Producer's price

The producer price aspect is one of the main problems one should face, specially when markets are weak and there is an over-supply which makes the producer to fail what was established by the government.

The main reason for establishing a sustained floor price is that market is concentrated at exporters level; i.e., 63% of exported volume is performed by five exporting companies only.

Although the law determines a sanction for not paying the official price, such non-fulfilment shall be duly proved and complains shall be clearly and specifically done before a judge by producers that did not receive the official price payment. To this effect, current scheme of prices fixation has not have the chance to solve such problem, and as banana is a "basic product", therefore with permanent fluctuation of prices during last years, it is necessary to study a new domestic commercialisation method or renew law.

On this basis there are some options:

- Strength the existence or contracts between exporters and producers that use to trade at one price only during the whole year long on a floor sustained price equal all year long.

- Renew this law in order to modify prices fixation quarterly policy towards a policy that determines just one price per year with upward or downward ranks on a seasonality basis, which will be the base of contracts between exporters and producers.

- Controlling exporting companies by creating an exporters unique registry in order to safeguard guaranties and basic infrastructures of those companies that trade banana.

It is important to highlight that when markets have appropriate conditions and sometimes supply is lower than demand, exporting companies pay higher prices than sustained floor prices as occurred in 2002; for what it is important to manage a policy that establishes a fair price during operative year and not week after week.

5.2 The European Union Market

The EU has a banana importing regime based on application of three global quotas of 2,200,000 tons with a Customs right of 75 euros/ton, another of 353,000 tons with a Customs right of 75 euros/ton, and a third one of 850,000 tons, with a Customs right of 300 euros/ton.

The administration of these quotas is done by distributing via import licences assigning it under importers categories: "traditional" 83% and "new" 17%. Moreover, the EU got a waiver in the WTO for applying this regime with the commitment that beginning in January 1st, 2006 a regime based in tariffs only will be applied, which shall be negotiated based in the WTO normative.

There is another pending matter for the European Union, access of new partners: Cyprus, Malta, Hungary, Poland, Slovakia, Lithuania, Latvia, Estonia, Czech Republic and Slovakia, which will adopt the banana regime of quotas and licences. These countries' markets import about 650,000 tons/year, from which Ecuador provides 15% per annum and, depending on certain countries 63%, for instance to Hungary, Poland, the Czech Republic and Slovakia.

About this matter a negotiation process shall be installed specially in order to determine the volume the EU accessing quota will be increased due to the aforementioned countries access, as well as the tariff level to be established in such market beginning on January 1st, 2006.