

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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POLICY

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Banana Prices Plunge, Government of Ecuador Agrees to Subsidize Producers

Report Categories:

Fresh Fruit

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Report Highlights:

Ecuador's banana sales have dropped more than 50 percent due a drop in worldwide demand, mainly in North Africa and the Middle East, combined with overproduction in Ecuador and favorable weather conditions across all major banana exporting countries. Ecuador is planning to decrease its foreign banana sales between 30 and 40 percent in the coming weeks as the Government of Ecuador (GOE) has accepted a request from producers to start a purchasing program of excess supply.

GENERAL INFORMATION:

Ecuador's banana sales have dropped more than 50 percent due a drop in worldwide demand, mainly in North Africa and the Middle East, combined with overproduction in Ecuador and favorable weather conditions in major banana exporting countries. Ecuador is planning to decrease its foreign banana sales between 30 and 40 percent in the coming weeks as the Government of Ecuador (GOE) has accepted a request from producers to start a domestic purchasing program of excess supply. On August 18, 2011, Ecuador's Agriculture Minister Stanley Vera signed a decree declaring Ecuador's banana sector to be in a state of emergency which will expire in 5 weeks. In the meantime, the GOE has committed to taking immediate steps to mitigate the effect of the crisis.

SUBSIDIES TO SMALL PRODUCERS FROM ECUADOR'S MINISTRY OF AGRICULTURE, LIVESTOCK, ACQUACULTURE AND FISHERIES (MAGAP)

One of those steps is a MAGAP Resolution signed on August 24, 2011, which allows the GOE to purchase bunches of bananas at \$2 each from producers. A total of \$15 million will be used will be used for the program, with the resources coming from a 0.7 percent tax applied to fruit exports. Exporters lament that this money will not be used for valuable investments but will instead be going to short-term emergency relief. MAGAP has agreed to buy the equivalent of at least 1 million boxes per week during a period of up to five weeks. There is no confidence in the GOE's ability to carry out the program.

MAGAP's National Development Bank will be responsible for processing payments to producers. The Resolution determines that bananas will not be bought in boxes but in bunches. Bananas will then be sold domestically for human and animal consumption or other purposes. The beneficiaries of the program will be small producers with up to 25 hectares of banana crops. Large producers or exporters will not benefit from the program.

SMALL PRODUCERS AFFECTED

Producers are concerned that Minister Vera has suggested, in addition to domestic purchases, a revision to the price of the box of bananas which would be lower than the current mandatory minimum price of \$5.50 per 43 pound box and a crop substitution program. Producers have been affected by not being able to sell their fruit for 6 to 10 weeks. Many of them have reportedly gone broke. Small producers associations estimate that between 3,000 and 3,500 members have been affected. They insist that crop substitution under these circumstances, in which capital and resources are scarce due to the price crisis, is not an option.

EXPORTERS' POINT OF VIEW

Exporters have stated that a drop in worldwide demand and overproduction in Ecuador have resulted in the current crisis. Exporters would like the GOE's set minimum price per box to be dropped well below \$5 to account for the current low prices. They would also like the GOE require the informal (not registered) small-scale producers to formalize their operations larger producers have done. Large producers and exporters have stated that they are at a disadvantage with respect to informal small producers.

Small producers, who are either unable or unwilling to contractually provide bananas, can receive much more than the government rate of \$5.50 when selling on the "illegal" market during the peak season. However, when prices fall the same producers protest and request assistance. Informal producers often do not register their workers with Ecuador's social security system, pay the proper costs and taxes, or use appropriate chemicals and fertilizers. Exporters complain that the GOE has been reluctant to make demands of such producers. Exporters have emphasized that the GOE must do something about the informal sector and lower the minimum price based on the current drop to guarantee that Ecuadorian bananas remain competitive in the global market.

Exporters have also requested to the Executive, the resumption of negotiations with the European Union, in an effort to compete under similar circumstances with other banana-exporting nations that have finalized free trade agreements with the EU.

EFFECTS OF THE CRISIS

It is estimated that there are roughly 10,000 banana producers in Ecuador but over 300,000 people with associations to the industry in sectors such as cardboard and plastics, transportation, and fertilizers. While the current crisis is expected to be short lived and the market will probably improve by the first week in October, the ripple effect to other industries is a reason for concern.

Ecuador is the world's top banana exporter. Banana production from Ecuador accounts for 30 percent of world exports. Ecuador exports bananas and plantains to over 50 countries every year. The main destinations for banana exports are the EU, the United States and Russia, accounting for more than 80 percent of sales on average. The Russian market has become particularly important in the last few years.

The banana sector represented almost 61 percent of Ecuador's agricultural GDP (\$1.9 billion) in 2009 and has consistently been Ecuador's major exporting product after petroleum. Investments in production have reached an estimated \$4 billion between area planted, infrastructure, packing facilities, and ports. All major U.S. banana producing and trading companies are present in Ecuador.