

**HOW WILL FREE TRADE IMPACT ON NET GLOBAL WELFARE?
AN ANALYSIS OF THE EU'S BANANA MARKET STRUCTURE**

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ABSTRACT

This paper estimates the welfare effects of implementing free trade in bananas in the European Union, using a partial equilibrium model. While remaining within the neo-classical framework, it critically reviews the findings of earlier works and suggests that banana retail prices are likely to be set on a *cost plus* basis, and not through perfect competition as has been commonly suggested in the literature. Using cost plus retail pricing the welfare effects of a move to free trade are estimated in both the pre-SEM period and since the implementation of the SEM. It is argued that while implementing free trade could increase global welfare, it is unlikely that operators in the market will reduce prices sufficiently, for such global welfare gains to be realised.

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