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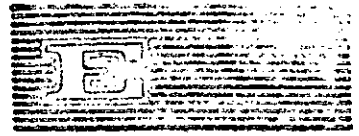

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TRANSNATIONAL CORPORATIONS IN THE BANANA INDUSTRY OF CENTRAL AMERICA

This paper has been prepared by experts and consultants of the Joint CEPAL/CTC Unit for the Interregional Expert Group Meeting on Bargaining Capacity and Distribution of Gains in Primary Export Commodities (Bangkok, 8-13 October 1979). The opinions expressed in it are those of the authors and do not necessarily reflect the views of CEPAL.

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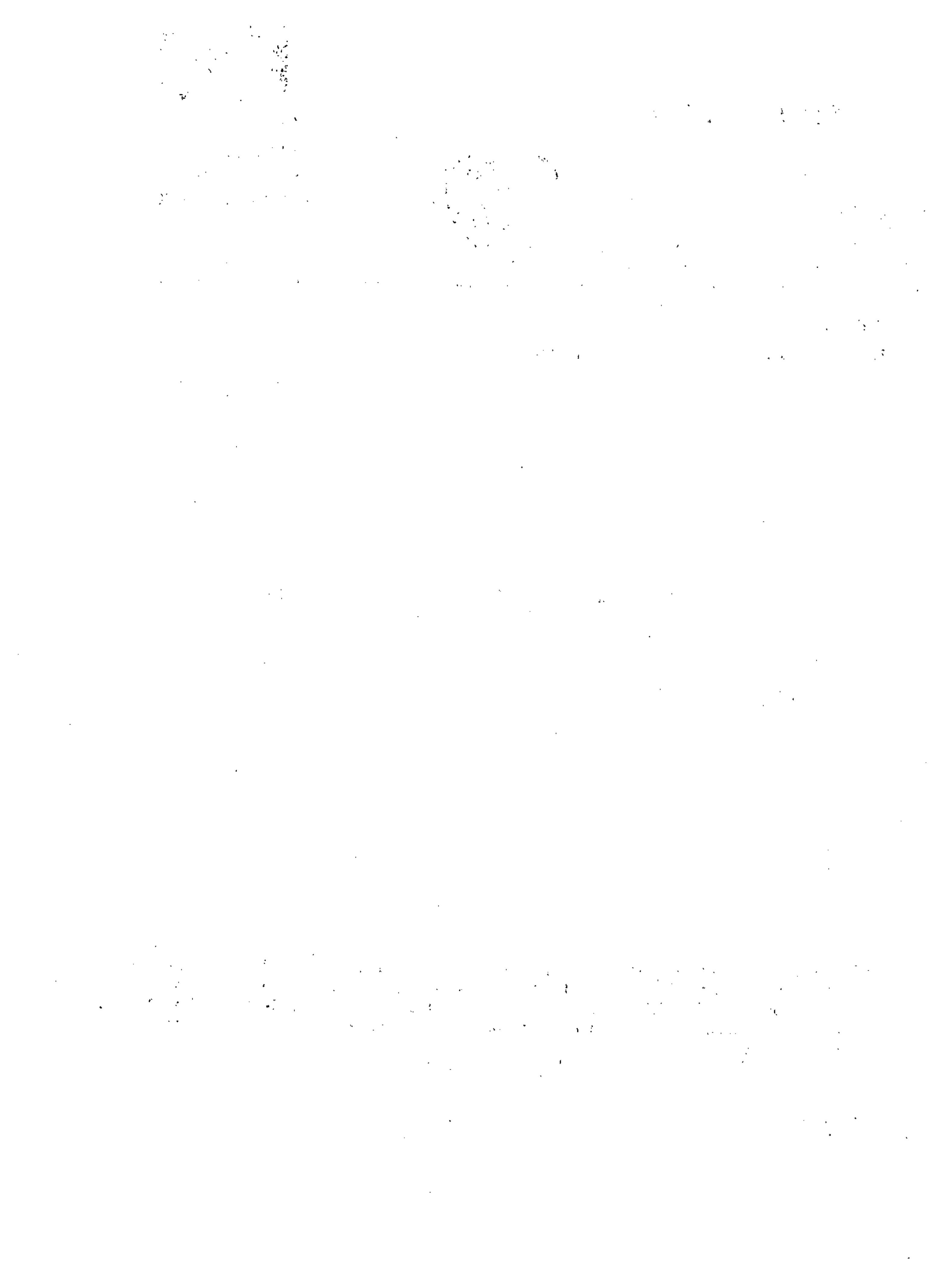

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/Introductory note

Introductory note

This paper contains the results of the research work conducted by the Joint CEPAL/CTC Unit concerning the activities of transnational corporations (TNCs) in the banana industry of Central American countries. Parts I and II review selected aspects of the international banana industry and give profiles of the main TNCs operating in Central America. Part III summarizes the evolution of the U. S. banana industry and its expansion in Central America. Finally, parts IV and V overview the banana industry and recent government policies in terms of the region as a whole and, in more detail, with regard to the particular policy changes in the mid 1970s in Costa Rica, Guatemala, Honduras and Panama.

In the parts III through V of the paper, an attempt has been made to underline some important aspects of the common research framework of the Interregional CEPAL/ECA/ESCAP Project, 1/ such as United Fruit original monopoly and vertical integration; increase in TNCs competition due to natural, technological and legal changes (in the United States) and different TNCs strategies confronting them; the factors of Central American countries dependence on TNCs dominated banana industry and of production and export diversification; government and public sector policies of the mid 1970s leading to a greater national control and redistribution of gains in the Central American banana industry and, finally, different TNCs counterstrategies in disinvestment, cutting of production and exports, political pressures, etc.

1/ See B. Widyono, Transnational Corporations in Export-oriented Primary Commodities: A Study of Relative Bargaining Positions and Gains, Joint CEPAL/CTC Unit, Working Paper N°6, August, 1977, and the new version prepared by the Joint ESCAP/CTC Unit in September 1973.

/For various

For various reasons, however—particularly lack of more detailed information and shortage of resources in the Unit—it has not been possible to analyse the new aspects of the Central American countries' bargaining capacity and resulting distribution of gains in a more coherent and systematic way, as would have been desirable according to the above mentioned common research framework. An exercise seeking to make a synthetic evaluation of the experience of some Latin American countries with the TNCs in the bauxite, tin and banana industries is currently being undertaken.

Parts I, II and V. 1. of this paper correspond to an earlier study by the Unit's consultants, Professors I. A. Litvak and C. J. Maule published by the Unit in 1977; Part III and section 2 of Part V are based on the research work undertaken by a former staff member of the Unit, D. Hoelscher, and Part IV of the paper corresponds to a report by the Unit's consultant G. Pavez. 1/ The paper as a whole has been edited by the Regional Adviser on TNCs, J. Kñakal.

Finally, while this paper was prepared solely for use by the Interregional Expert Group Meeting on Bargaining Capacity and Distribution of Gains in Export-Oriented Primary Commodities (Bangkok, 8-13 October 1979), critical comments and complementary information would be particularly welcomed from government officials, experts and academic circles of Central American and Caribbean countries in order to assist in the preparation of a definitive CEPAL study for the forthcoming Interregional Seminar of Government Representatives to be held next year in New York.

1/ See, Dr. I. A. Litvak and Dr. C. J. Maule, Transnational Corporations in the banana industry: with special reference to Central America and Panama, Division of Economic Development, Joint CEPAL/CTC Unit, Working Paper Nº 7, August, 1977 and Guillermo Pavez, La actividad bananera en el Istmo Centroamericano y las políticas recientes, Limitado, CEPAL/MEX/77/20/Rev. 1, June 1978.

/Part I

Part I

SELECTED ASPECTS OF THE BANANA INDUSTRY

1. Production process

The banana plant is a giant herb which grows year-round in various climatic regions from dry subtropical to wet tropical. Bananas require 50-60 inches of rainfall per annum and a mean temperature of 80°F. The plant is an annual which usually produces fruit for 5 to 20 years,1/ and sometimes longer.

The banana has an underground stem or rhizome from which roots, suckers and pseudostem grow. The blossom stem which produces the fruit emerges from the pseudostem. The suckers are capable of producing new pseudostems thereby renewing the productive cycle after the bunch of bananas has been harvested.

The size of banana groves and plantations varies widely from small independent land holdings of less than 25 acres to huge banana plantations of the transnational companies. These companies organize their operations by divisions which generally range in size from 10,000 to 30,000 acres. Each division is divided into unit farms of from 500 to 1,000 acres, each operated as a separate unit.2/

The process of cultivating bananas includes the following operations:3/

(1) clearing virgin forests
(2) plowing
(3) establishing an appropriate draining system
(4) contouring of sloping land
(5) planting, including seed selection and appropriate spacing

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1/ H.B. Arthur, J.P. Houck and G.L. Beckford, Tropical Agribusiness, Structures and Adjustments - Bananas, Division of Research, Graduate School of Business Administration, Harvard University, Boston, 1968, p. 47.

2/ Ibid., p. 53.

3/ Ibid., p. 50.

/(6) weed

(6) weed control by cutlassing, mulching, cover plants or chemicals

(7) pruning - i.e., selection of suckers to follow the parent plan and removal of those not selected

(8) irrigation and fertilization

(9) disease and pest control

This last operation requires elaboration. The major disease problems have been sigatoka or leaf stop disease which is controlled by manual or aerial spraying and Panama disease. Originally Panama disease was "controlled" either by abandonment of infected areas or by a technique known as flood following whereby banana lands were surrounded with dykes and flooded for periods varying from four months to one year.1/ These practices have been discontinued due to the shift away from the Gros Michel variety of banana to the disease resistant Cavendish variety in the early 1960s. Insect protection is provided by placing polyethylene bags over the growing bunch of fruit.

Harvesting involves cutting down the unripe bunch of bananas and then cutting down the pseudostem so that the productive cycle may begin again with a new sucker from the original rhizome. It takes approximately 9 months for the first bananas to be harvested and 3 months for each subsequent harvest.

Bunches of bananas are then transported from the fields to the boxing station. The fruit companies have installed cable conveyor systems from the field to the boxing stations to handle this operation. Upon arrival at the boxing station clusters of bananas are destemmed and placed in a washing tub. They are then weighed, graded, and selected for export.

Bananas chosen for export, after weighing and grading, are placed in corrugated cardboard boxes with plastic linings, which weigh 40 pounds when filled. The best grade bananas are marked with brand

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1/ S. May and G. Plaza, The United Fruit Company in Latin America, National Planning Association, Washington, D.C., 1958, p. 84.

/names, and

names, and the seconds are unmarked yet still shipped for export. Rejects are usually sold locally. Quality control is an important aspect of the entire process from the time the stem is cut until the clusters are packed.

The bananas are then transported from the boxing station to the shipping port in unrefrigerated box cars. Often the fruit companies own both the land transportation system - e.g., railway - and the shipping port and loading facilities. The bananas are then loaded on refrigerated ships or reefers. Some of the reefer boats are company-owned. However, there is a trend towards long-term leasing of reefer boats due to the rising price of boats, and the emergence of independent reefer tonnage pools which exhibit potentially greater flexibility than a company-owned fleet.1/ Spoilage can occur if there is a delay in loading from the box cars to the reefers.

In the importing country the bananas are unloaded and transferred to refrigerated trucks which transport the fruit to a ripening plant. In the United States the major importing firms sell the bananas to independent ripener-jobbers, produce and grocery wholesalers, and corporate grocery chains. In other countries the fruit companies perform their own ripening and further distribution. Any bananas which cannot be sold at dockside are called "rollers", which are placed on trucks and dispatched to an inland destination in the hope of a sale while the load is in transit.2/

The technology of ripening allows the ripener to advance or retard the speed of ripening by introducing or withholding ethylene gas from the ripening room and also by controlling temperature and humidity. Ripeners are therefore able to make short-run adjustments in the supply of bananas. Other functions performed by the ripener may include wrapping and price-marking of individual bunches, direct delivery to retailer's store or warehouses in refrigerated trucks, and sometimes the extension of short-term credit.

1/ UNCTAD (24 Dec. 1974) TD/B/C.1/162, The Marketing and Distribution System for Bananas, pages 45, 48.

2/ 65 per cent - 70 per cent of fresh fruit is shipped by truck in the United States.

/The final

The final handler of the bananas is the retailer who usually takes title to the bananas a few days before peak ripeness, thus shelf-life is usually three days.

The production flow of bananas from grower to United States consumer in the export market is shown by stages, in Figure 1, together with the main activities undertaken at each stage. The following points should be noted:

1. The number of arms-length transactions varies from two to four between grower and consumer. In the case of the transnationals which grow and ship to the United States and distribute through a chain grocery store, the first transaction takes place at dockside in the United States and the second at the retail level to the consumer. In the case of the Associate Producer which sells to the transnational in the producing country, the first transaction takes place in the producing country, the second at dockside to a ripener-jobber or a chain, the third to retail outlets and the fourth to the consumer in the case of the ripener-jobber, and the third to the consumer in the case of the chain.

2. In the case of independent producers, mainly in Ecuador and Colombia, shipments are made by independent shippers to the United States market.

3. The output of Associate Producers is inspected by the shipper while being boxed. Spot inspection of bananas is made at dockside in the United States.

4. Risk associated with the perishability of the produce once picked occurs under the following circumstances:

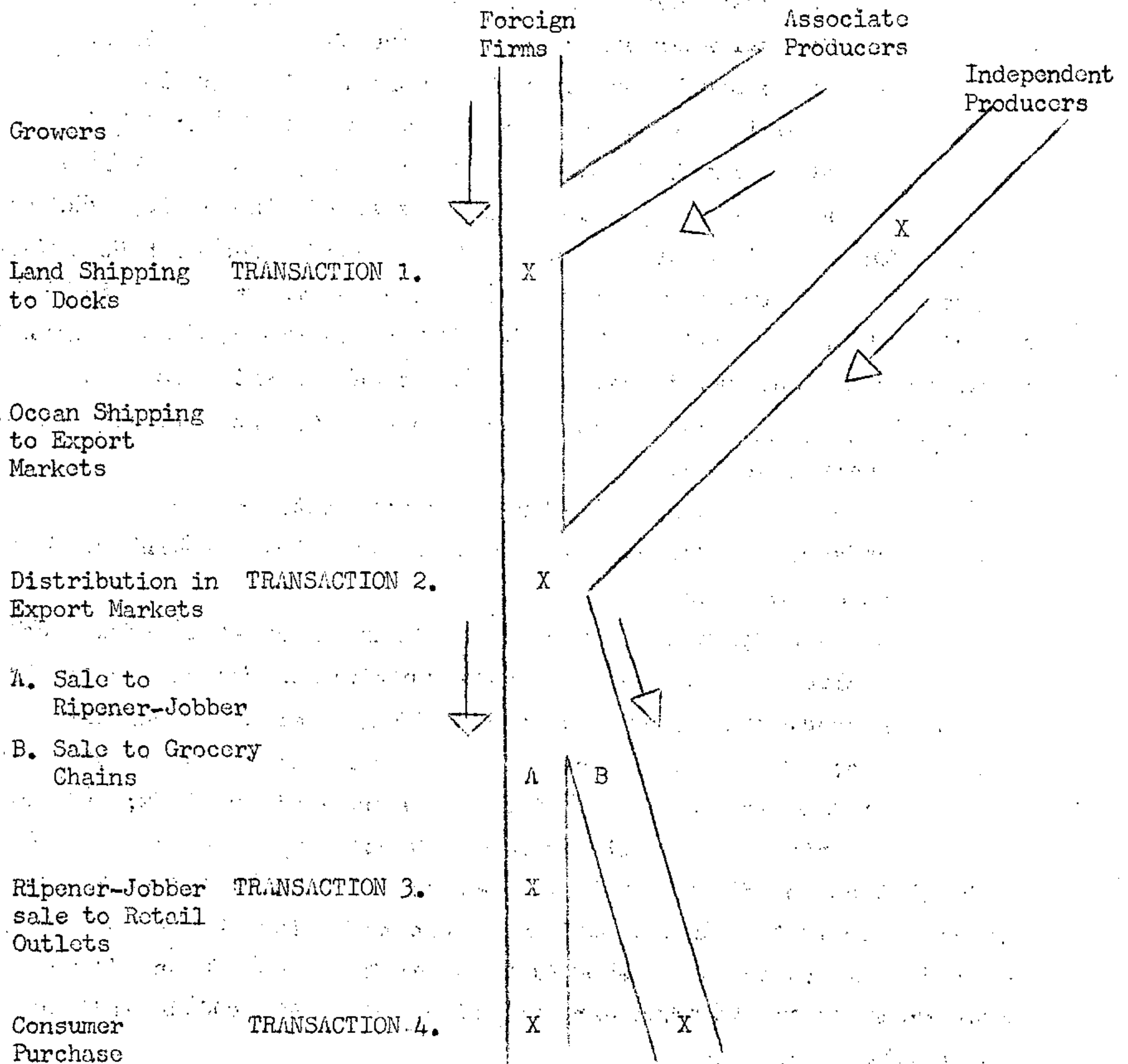
   (a) Delay in transporting bananas in unrefrigerated box-cars to dockside and delay in loading the reefers.

   (b) Malfunctioning of refrigeration system on reefers, e.g., a leaky hatch. Also bananas picked at two different locations and at different stages of maturation may activate the ripening process, if shipped in the same hold.

/Figure 1

Figure 1

BANANA PRODUCTION FLOW
GROWER TO CONSUMER
IN EXPORT (US) MARKET



/(c) Once

(c) Once bananas have arrived at dockside in the United States at the correct temperature and degree of maturity, the ripening process can be activated in ripening rooms whenever the ripeners decide to do so. After the ripening process is begun, using ethylene gas, there is a set time until the bananas rot; thus ripeners must get bananas into stores allowing for a shelf life of 2 to 3 days.

(d) An independent shipper attempting to ship from a Central American country, where the dock facilities are owned by one of the transnational companies, may find it difficult to obtain a berth to coincide with the arrival of the shipment at dockside. The risk of a rotten shipment is thus higher for independent shippers.

5. In the United States, the 1958 Consent Decree with United Brands prevented the importing companies from retaining title to the banana shipment once unloaded. The practice for Castle and Cooke and Del Monte is to sell at dockside. The independent shippers do the same. De facto, the Consent Decree appears to apply to all importers in the United States.

6. None of the banana reefers is under United States registry although some are United States owned. Registry is mainly Panamanian, Liberian and European.

A banana plantation requires a physical capital infrastructure which includes the following: a transportation system from field to packing shed, usually an overhead cable system; a packing shed operation; a transportation system from shed to dockside, usually a railway; dockside loading facilities; a box-making plant; machine shops; housing and facilities for workers; pumping stations for spray irrigation and fertilization. Some or all of this infrastructure may be owned by the plantation. Associated with the machinery and equipment is the requirement for servicing and maintenance, which is crucial for the uninterrupted flow of banana production from grower to consumer.

/Large scale

Large scale banana production requires a high level of fixed investments. For example, Castle and Cooke spent 11 million dollars to open up a new 9,000 acre plantation at Rio Frio, Costa Rica in 1970.1/ This investment would be higher in those countries which have a less developed infrastructure.

2. Production and Trade Statistics

Central America accounted for 13 per cent of world banana production in 1973 with Honduras and Costa Rica being the principal producers. Other major producers are Brazil with 21 per cent, Ecuador with 9 per cent and India with 8 per cent of world production. In total 58 per cent of banana production takes place in the Western Hemisphere - table 1.

There is a marked difference among countries with respect to yield per hectare, as table 2 illustrates. The enormous range of production yields per hectare, 4,571 in Panama to 32,500 in Costa Rica is due to a variety of factors - climatic and soil conditions, fertilization of soil, management skills and size of plantation. The high yield countries tend to experience favourable climatic conditions, are host to foreign companies which own/administer large banana plantations which are well fertilized and where bananas are grown intensively. On small farms, bananas are often grown interspersed with other crops, so that the yield per hectare is naturally less. Blowdowns and flooding resulting from hurricanes, and disease will often reduce yields in a particular region at certain times, so that yield variations have to be interpreted with care.

Central America accounted for 43.6 per cent of world banana exports by volume in 1973, compared to 13.3 per cent of world banana production. The other major exporting country was Ecuador with 21 per cent of world exports by volume and 17.3 per cent by value - table 3.

1/ Castle and Cooke Inc., Annual Report, 1970, p. 15.

/Table 1

Table 1

BANANA PRODUCTION BY COUNTRIES

(Thousands of metric tons)

	1971		1973	
	Amount	Percentage	Amount	Percentage
Central America				
Honduras	1 500	4.4	1 600	4.6
Costa Rica	1 250	3.7	1 300	3.7
Panama	1 013	3.0	960	2.7
Guatemala	495	1.5	520	1.5
Nicaragua	219	0.6	240	0.7
El Salvador	50	0.1	53	0.2
Belize	3	-	3	-
Subtotal	4 530	13.3	4 676	13.4
Rest of America	15 266	45.1	15 678	44.8
Asia	9 445	27.9	9 817	28.1
Africa	3 937	11.6	4 117	11.8
Europe	492	1.6	520	1.5
Oceania	170	0.5	170	0.4
Total	33 840	100.0	34 978	100.0
Included above are the following major producers outside Central America:				
Brazil			7 300	20.9
Ecuador			3 000	8.6
India			2 900	8.3
Burundi			1 520	4.3
Thailand			1 250	3.6
Philippines			1 180	3.4
Mexico			1 115	3.2

Source: Food and Agriculture Organization of the United Nations, Production Yearbook 1973, vol. 27, Rome, 1974, page 182.

/Table 2

Table 2

WORLD BANANA PRODUCTION YIELD PER HECTARE

	1973 KG/HA
Central America	
Honduras	30 189
Costa Rica	32 500
Panama	4 571
Guatemala	8 525
Nicaragua	6 000
El Salvador	5 699
Belize	5 600
Rest of America	18 953
Asia	10 883
Africa	10 102
Europe	28 415
Oceania	6 607

Source: Food and Agriculture Organization of the United Nations, Production Yearbook 1973, Vol. 27, Rome, 1974, p. 182.

/Table 3

Table 3

BANANA EXPORTS BY QUANTITY AND VALUE

	1973			
	Amount (metric tons)	Per-cent age	Value (millions of US$)	Per-cent age
Central America				
Honduras	999 400	15.1	94.9	15.0
Costa Rica	1 030 000	15.5	87.0	13.8
Panama	540 000	8.2	65.0	10.3
Guatemala	220 000	3.3	15.4	2.4
Nicaragua	105 000	1.6	10.0	1.6
El Salvador	-	-	-	-
Belize	-	-	-	-
Subtotal	2 894 400	43.7	272.3	43.1
Rest of America				
Ecuador	1 391 100	21.0	109.1	17.3
Colombia	240 000	3.6	17.0	2.7
Martinique	155 000	2.3	24.0	3.8
Jamaica	109 400	1.7	14.2	2.2
Others	612 400	9.3	82.3	13.0
Asia a/	777 800	11.7	65.4	10.3
Africa	419 900	6.3	43.8	6.9
Europe	25 100	0.4	3.9	0.7
Total	6 625 100	100.0	632.0	100.0

Source: Food and Agriculture Organization of the United Nations, Trade Yearbook 1973, Vol. 27, Rome, 1974, pp. 183-186.

a/ Of which:

	Amount (metric tons)	Value (millions of US$)
Philippines	465 800	27.8
China	250 000	32.1
Others	62 000	5.5

/Europe and

Europe and North America are the principal importing countries and together with Japan, accounted for over 92.5 per cent of world banana imports by volume and 94.4 per cent by value - table 4. It is interesting to note that, of the large importers, the United States is the only country in which its share of imported bananas by value is markedly less than its share of imported bananas by volume. Thus, the United States pays less per ton of bananas imported than do the other major importing countries. Part of the reason for this may be the reduced freight costs due to closer proximity to producing countries.

The destination of banana exports can be identified in detail for the United States market and in fact also for Canada, since the Canadian market is supplied mainly from re-exports from the United States. Bananas are imported into the United States from East Coast, South Coast, and West Coast ports. The imports by companies into the United States for 1972 and 1974 are shown in table 5. The origin of these imports by companies and countries is as follows:

Importing Company	Shipment from	United States Coast of entry (S=South, E=East, W=West)		
1. United Brands	Tela & Pto. Cortes, Honduras	S	E	
	Puerto Armuelles, Panama	S	E	W
	Golfito, Costa Rica	S	E	W
	Turbo, Colombia	S	E	
	Ecuador	S	E	W
	Almirante, Panama	S		
2. Castle and Cooke	La Ceiba-Sula, Honduras	S	E	
	Puerto Limas, Costa Rica	S	E	W
	Guayaquil-Bolivar, Ecuador	S	E	W
	Nicaragua			W
3. Del Monte	Costa Rica	S	E	
	Guatemala	S	E	
	Ecuador	S	E	
4. Pacific Fruit Co.	Guayaquil, Ecuador		E	
	Pto. Bolivar, Ecuador		E	
5. Parker Banana	Turbo, Colombia	S		
6. Banana Supply	Pto. Bolivar, Ecuador	S		
7. Sucre Banana	Pto. Bolivar, Ecuador		E	
8. Turbana Banana	Turbo, Colombia	S		
9. Imperial Banana	Guayaquil, Ecuador		E	

/Table 4

Table 4

BANANA IMPORTS BY QUANTITY AND VALUE

	1973			
	Amount (metric tons)	Percentage	Value (million of US$)	Percentage
The world				
Europe	2 682 000	42.9	541.1	56.7
North America	2 177 000	34.9	236.0	24.7
Asia	1 066 000	17.1	140.3	14.7
South America	202 000	3.2	20.3	2.1
Africa	87 000	1.5	13.2	1.5
Oceania	26 000	0.4	2.7	0.3
Total	6 240 000	100.0	953.6	100.0
Principal importers				
United States	1 954 000	31.3	197.5	20.7
Japan	931 000	14.9	122.7	12.9
Germany Federal Republic	676 000	10.8	123.6	13.0
France	481 000	7.7	123.6	13.0
Italy	350 000	5.6	60.1	6.3
United Kingdom	307 000	4.9	69.5	7.3
Canada	215 000	3.4	37.7	4.0
Netherlands	121 000	1.9	18.2	1.9
Belgium	94 000	1.5	15.6	1.6
Other Europe	653 000	10.5	130.5	13.7
Subtotal	5 782 000	92.5	836.8	94.4

Source: Food and Agriculture Organization of the United Nations, Trade Yearbook 1973, Vol. 27, Rome, 1974, pp. 179-182.

/Table 5

Table 5

UNITED STATES BANANA IMPORTS BY IMPORTING COMPANIES

Company	1972		1974	
	Number of boxes	Per-cent age	Number of boxes	Per-cent age
Castle and Cooke	38 030 791	36.89	43 799 816	40.69
United Fruit	46 116 464	44.73	39 293 492	36.50
Del Monte Banana Company	9 861 452	9.56	17 063 153	15.85
Pan American	3 508 508	3.40	2 591 137	2.41
Parker Banana	1 568 617	1.52	1 671 058	1.55
Banana Supply	1 293 698	1.28	1 288 273	1.20
Sucre Banana	702 023	0.68	337 296	0.31
Turbana Banana	1 531 858	1.48	1 100 806	1.02
Imperial Banana	285 866	0.27	284 921	0.26
C and S Imports	32 114	0.03	78 877	0.07
National Fruit	-	-	115 307	0.11
General Tropical	-	-	24 995	0.02
Others	159 003	0.15	-	-
Total	103 090 394	99.99	107 649 131	99.99

Source: National Banana Association,
604 American Bank Building,
New Orleans, Louisiana 70130

/It should

It should be noted that the three transnationals ship bananas to the United States from South America, mainly from Ecuador, and are the sole shippers from Central America, while the independent shippers, (whose share of shipments to the United States is about 10 per cent) ship only from Ecuador and Colombia. In the period January to April 1975, United States shipped 5 million boxes less than in the same period in 1974, Castle and Cooke 3.4 million boxes less and Del Monte 0.2 million boxes less, while the independents increased their shipments by 1.3 million boxes. Thus Ecuador and Colombia improved their export position due to the independents and probably by way of shipments by the three transnational firms, while the Central American countries experienced declining banana exports. Part of this results from Hurricane Fifi in Honduras, and part from reduced shipments in response to the banana export tax, especially by United Brands in Panama.

The position of Ecuador is crucial to any co-operative arrangements between banana producing-exporting countries. Ecuador, unlike the Central American countries, has little foreign investment in banana plantations and exports through about 30 Ecuadorean firms, five of which account for 80 per cent of total exports with two of these being the principal United States suppliers. In addition, foreign exchange earnings from Ecuadorean crude oil exceeded those for bananas for the first time in 1973, making Ecuador less dependent on bananas.1/ At the same time, unemployment is a severe problem in Ecuador, and emphasis on banana production and exports must remain because the oil industry does not provide a large number of unskilled jobs. Thus, until the oil revenues can be used to create employment opportunities in other sectors of the economy, no moves will be made to curtail banana production.

1/ C.M. Anderson, "Ecuador's Banana Production and Sales Receive Government Aid", Foreign Agriculture, United States Government Printing Office.

/3. Associate

3. Associate Producers

Associate Producers (APs) are national banana producers who are linked by some form of contractual arrangement to the transnational banana enterprises. A recent UNCTAD Report estimated banana acreage of APs related to each of the three transnationals for 1972-1973 (see table 6).

In general, AP plantations are much smaller than the plantations of the TNCs. The APs have a contractual relationship with the TNCs whereby the TNCs supply the APs with technical and managerial advice, fertilizers, boxes and other inputs, and contract to purchase the bananas produced by the APs from an agreed upon acreage. The AP plantations are usually owned by nationals who may manage the farms or hire managers. These managers are often ex-employees of the TNCs.

However, this general picture is much more complex when individual cases are examined. In the case of Costa Rica, four foreign companies, Compañía Bananera de Costa Rica (United Brands), Standard Fruit (Castle and Cooke), BANDECO (Del Monte) and Compañía Bananera Atlántica (COBAL) export bananas from company-owned plantations and from APs - table 7. In 1974, dependency on APs varied enormously: United Brands' exports from APs were 5.4 per cent of the company's total Costa Rican exports for Castle and Cooke 45.8 per cent, Del Monte 68.7 per cent, and COBAL 95.6 per cent.

Apart from a 100 hectare farm used as an experimental station, COBAL, a German-owned firm, acts as a marketing and distribution organization - buying, transporting and marketing bananas in Germany. Of the four foreign firms in Costa Rica it makes the least direct contribution by way of linkage effects to the Costa Rican economy; it is unresponsive to host government pressures and has its APs totally dependent on it for marketing its bananas. At the same time, the company has minimum foreign ownership of assets in Costa Rica.

/Table 6

Table 6

ESTIMATE WORLD BANANA AREA BY COUNTRIES AND COMPANIES, AROUND 1972-1973

(Acres)

Countries	United Brands Company a/	Associate Producers	Standard Fruit Company	Associate Producers	Del Monte Company	Associate Producers	Other Company	Associate Producers	Grand total
Americas									
Guatemala	-	-	-	-	8 370	2 375	-	-	10 745
Nicaragua	-	-	-	4 500	-	-	-	-	4 500
Costa Rica	19 300	690	15 084	6 334	5 019	10 076		6 900	63 403
Panama	26 450	9 750	-	-	-	-	-	-	36 200
Honduras	21 050	7 420	15 230	6 975	-	-	-	-	50 675
Colombia	-	19 500	-	-	-	-		17 500	37 000
Ecuador	-	-	2 500	8 000	-	-		215 478	225 978
Surinam	-	4 575	-	-	-	-	-	-	4 575
Jamaica	-	-	-	-	-	-	-	9 000	9 000
Windward Island	-	-	-	-	-	-	-	7 300	7 300
Africa									
Ivory Coast								13 500	13 500
Somalia								12 500	12 500
Cameroon								5 300	5 300
Asia									
Philippines	-	9 000	-	11 855	2 530	9 700		11 380	44 465
Grand total	66 800	50 935	32 814	37 664	15 919	22 151		298 858	525 141
Company share (percentage)	22.4		13.5		7.2		56.9		100.0

Source: Data obtained by the UNCTAD Secretariat from various sources, (see UNCTAD, The Marketing and Distribution System for Bananas, TD/B/C.1/162, p. 24).

Note: Standard Fruit states that its owned acreage is misstated in this Table and did not exceed 26 000 acres.

a/ United Fruit Company is the banana division of United Brands.

/Table 7

Table 7

BANANA EXPORTS BY FOREIGN COMPANIES AND ASSOCIATE PRODUCERS FROM COSTA RICA

Company	1974		1975	
	Number of boxes a/	Percentage	Number of boxes a/b/	Percentage
Compañía Bananera de Costa Rica (United Brands)	14 107 900	94.6	12 020 000	93.2
Associate producers	800 000	5.4	880 000	6.8
Subtotal	14 907 900		12 900 000	
Standard Fruit Company (Castle and Cooke)	10 654 400	54.2	10 800 000	51.4
Associate producers	8 992 600	45.8	10 200 000	48.6
Subtotal	19 647 000		21 000 000	
BANDECO (Del Monte)	4 152 500	31.3	4 400 000	30.7
Associated producers	9 093 400	68.7	9 920 000	69.3
Subtotal	13 245 900		14 320 000	
Compañía Bananera Atlántica (COBAL)	235 700	4.4	220 000	3.5
Associated producers	5 133 700	95.6	6 000 000	96.5
Subtotal	5 369 400		6 220 000	
Total foreign companies	29 150 500	54.8	27 440 000	50.4
Total associated producers	24 019 700	45.2	27 000 000	49.6
Grand total	53 170 200		54 440 000	

Source: Government of Costa Rica.

Note: Total value at US$1.746/box. US$ 92.8. US$ 95.1.

a/ Boxes of 40 lbs. (18.14 KG).

b/ Estimated figures.

/Castle and

Castle and Cooke, through Standard Fruit, has the most legally complex relationship with its APs since in many cases it owns 20 per cent to 80 per cent of the APs' farms through a Costa Rican holding company. As a result, Castle and Cooke shares directly in the profitability of some of its APs' operations. This may present a conflict for the company in responding to host government policy measures (such as a set price for bananas to APs) in that its tax position for its wholly-owned plantations may differ from that of its partly-owned APs. The wholly-owned plantations usually operate under a concession agreement signed many years previously. On the other hand, Castle and Cooke can manipulate the profitability of its APs by altering the payments made by the APs to the company for managerial and technical services and materials supplied such as fertilizer. In some countries, APs have to pay duty on imported materials and the TNCs do not because of the terms of concession agreements.

In the case of United Brands, the APs are linked by a sales and service contract. As a result of these different contractual relationships, the foreign firm tends to respond differently to any given host government policy. The position and viability of APs are important in considering the policy options open to host governments.

In 1971, in Costa Rica, the government, the nationalized banks and the producers, (including the TNCs) became equal partners in a corporation known as Asbana. This company was formed because of problems experienced by independent producers, including APs, in managing their operations. These producers were often local entrepreneurs, living in the city (absentee owners) with little experience in banana production, and many of whom went bankrupt. Asbana now provides technical expertise and financial assistance to independent producers and owns 7,000 hectares of banana production lands.

In terms of sale of bananas, the APs usually have a contract with a TNC for the sale of all bananas grown on a specified acreage. On the basis of this contract, loans can be arranged with local financial institutions. Inspection of banana quality is one way in which the TNCs can control the supply from the APs.

/4. The

4. The distribution and marketing of bananas in the United States

Distribution is the term applied to the process of moving goods from producer to the ultimate customer. It is usually thought of in the physical sense. In marketing goods and services, however, much more than simple movement of physical objects is necessary. Knowledge of who has the correct items, credit, service, and technical information are a few of the ingredients which must also be provided. A channel of distribution may be defined as a sequence of marketing institutions, including middlemen, which facilitate transactions between producers and final users. The number of facilitating institutions can be very small when the producer sells directly to the user, or quite large, when several types of middlemen perform successive operations in the product's distribution. The first case is called a short channel, the second a long channel.

Each channel system is designed to provide certain specific services. Channel length or complexity depends on the number of services required, and the manner in which they will be accomplished. Over the years, specialists have developed within channels when certain services required greater attention than others.

The structure of economic intermediaries (marketing middlemen), is complex, because time-space-communications activity requirements must be designed to effect efficient interaction among different types of producing and consuming units. From the perspective of the producers of bananas, management of the distribution function involves the adjustment of the mix of product, spatial considerations, local promotion, final buyer price, and quality maintenance. Since major banana producers work through marketing middlemen, the management function also includes the design of control procedures to

insure compliance on the part of these middlemen with the corporate objectives and marketing strategies of the producers. Inasmuch as banana producers operate on an arms-length basis with their marketing middlemen, their instruments of control are designed to affect the behaviour of these middlemen. A major task facing the producer is to ensure that the individual middleman's marketing strategy for bananas is not in conflict with the overall strategy of the producer.

This management task is especially significant for banana producers because of past United States court actions which dissuade them from establishing corporate-owned distributive networks in the United States. Prior to the court actions which were directed against the United Fruit Company, the three main stages in the marketing of bananas in the United States - importing, ripening and handling, and retailing - were largely effected by the banana producers. However, the power of the banana producers at the time legal action was first initiated in 1954 was virtually synonymous with the power of the United Fruit Company. For example, between 1950 and 1955, United Fruit Company's United States market share of bananas ranged between 64 per cent and 80 per cent, with the remaining portion approximately evenly split between Standard Fruit and independent producers.

The foregoing United Fruit Company market share is somewhat understated because many of the independent producers were tied into the United Fruit Company network of operations. United Fruit Company had a near monopoly position over the production of bananas, and these so-called "independents" were to an important extent dependent on United Fruit Company for their supplies, drawn largely from United Fruit Company plantations and affiliates in Central and Latin America. Special sales deals were entered into, constraining the activities of many of the "independents" in the United States. In addition, for all intents and purposes, United Fruit Company has a near market monopoly

/of the

of the sale of bananas in the United States. To ensure that the activities of the ripener-jobbers, the marketing middlemen in the chain of distribution, conformed with the sales and marketing expectations of the United Fruit Company, this firm established two affiliate operations - Meloripe Company in Boston and Banana Selling Corporation in Mobile, Alabama.

Both companies were established before World War II as ripener-jobbing operations. In essence United Fruit Company integrated its operations forward into the distribution area. The rationale for this decision was ostensibly to help improve ripening and distribution methods on the part of the independent ripener-jobbers, by demonstrating their superior methods through corporate-owned facilities. On the other hand, the perceived rationale of non-company observers was that United Fruit Company, through Meloripe and the Banana Selling Corporation was holding "a sword over the heads of the hundreds of independent jobbers" to ensure that their pricing methods conformed to those of the Corporation. In effect United Fruit Company was saying that unless the sales activities of the independent jobbers conformed with the expectations/guidelines of United Fruit Company, the company might consider integrating fully into the marketing stage of ripening-distribution. Thus, the two company-owned ripening-jobbing facilities functioned as both a threat and policeman in the United Fruit Company distributive network. With these powers, United Fruit Company was the "channel captain" in the distribution and marketing of bananas. As channel captain, United Fruit Company gave directions to and made demands on other channel members, namely the independent ripener-jobbers. It dictated prices, trade discounts, credit terms, amount of advertising and service, and sales and promotion effort.

United Fruit Company's marketing powers in both factor and product markets came under attack in 1954, leading to the implementation of the consent decree signed in 1958, giving the company 12 years in which to satisfy the terms of the decree. An examination of the terms of the decree is a pre-requisite to understanding the current distribution-marketing arrangements employed by the three TNC banana producers in the United States.

/<u>The United</u>

The United Fruit Company and the 1958 Consent Decree

In 1954 the United States Department of Justice filed a civil antitrust suit against the United Fruit Company under Sections 1 and 2 of the Sherman Act and Section 73 of the Wilson Tariff Act. It was alleged that the United Fruit Company "contracted, combined, and conspired to restrain interstate and foreign trade in bananas and had individually attempted to and had monopolized such trade over a number of years".1/ In 1956, an amended complaint was filed and in 1958 the Justice Department and United Fruit Company agreed to a "Consent Decree" which required that United Fruit Company divest itself of any ownership of International Railways of Central America; that United Fruit Company liquidate its subsidiary, Banana Selling Corporation, which had been engaged in jobbing operations in Mobile, Alabama; and that United Fruit Company submit a plan by June 30, 1966 to turn over to a new company operating independently of any United Fruit Company control, land and purchasing arrangements, and integrated facilities for shipping to and distribution in the United States of nine million stems (16 million boxes) of bananas annually. The Consent Decree also enjoined United Fruit Company from engaging in several activities. These included:

(1) engaging in jobbing operations

(2) maintaining exclusive sales contracts with jobbers or exclusive purchasing contracts with independent banana suppliers for longer than five years without any escape clause

(3) acquiring proprietorship, ownership or control of any of its competitors or of any substantial part of their business assets

(4) entering into collusive agreements with competitors, or using coercive tactics against them

(5) attempting to control the resale price policies of jobbers or other wholesalers

1/ Arthur et al, op. cit., p. 195.

/(6) obtaining

(6) obtaining preclusive treatment from common carriers.

(7) requiring its customers to employ specified transport media

(8) refusing to sell in specified markets to any purchaser at its regular terms of sale such bananas as it might have after supplying the needs of regular customers

(9) tying up refrigerated space on vessels, other than through bareboat, time or voyage charters, in a manner that prevents competitors from obtaining space needed for their shipments.1/

In agreeing to the Consent Decree, United Fruit Company did not admit any violation of the antitrust laws and the Decree may not be used as evidence in any present or future litigation.2/

Implementation of the Consent Decree

United Fruit Company liquidated its jobbing operation, the Banana Selling Corporation, shortly after the consent decree. Meloripe was disposed of in 1955 because it was ostensibly an unprofitable operation. By the end of January 1962 all stock in the International Railways of Central America had been sold.3/

In 1965 the United Fruit Company came to the conclusion that since 1958 there had been substantial and significant changes in the banana industry which would justify a request for modification of the Consent Decree. After a period of consideration the Justice Department turned down the request and United Fruit Company agreed to file a plan for the required divestiture by June 30, 1967.4/

1/ May and Plaza, op. cit., pp. 252-253.

2/ Arthur et al, op. cit., p. 195.

3/ Ibid., p. 195.

4/ Ibid., p. 195.

/A plan

A plan was submitted in 1967 whereby United Fruit Company organized a Delaware Corporation (Sovereign Fruit Company) to which it proposed to transfer its western Panama division at Puerto Armuelles, ships and other specified assets, to make provisions for terminals in the United States and to provide it with personnel and working capital. United retained the right to sell Sovereign to a third party.1/

The plan presented by United Fruit Company was agreed to by the Justice Department and the Court but the Government of Panama indicated that it would not agree with the divestiture of the property in the manner proposed.2/ As a result of this development, United Fruit Company proposed to the Justice Department the divestiture of banana properties in Guatemala. In 1970 United Fruit Company signed a letter of intent for the sale of these properties to Del Monte Corporation.3/

Del Monte took advantage of the Consent Decree in another way in 1968. In that year United Fruit Company acquired more than 700,000 shares of Del Monte stock. Del Monte suspected that United Fruit Company might be preparing for a takeover bid. To block this possibility Del Monte purchased West Indies Fruit Company, a small Costa Rican banana producer and distributor.4/ Since the Consent Decree had enjoined United Fruit Company from acquiring ownership or control of any of its competitors, the takeover of Del Monte would become a violation of the Consent Decree. Once Del Monte became established in the banana business it became a prime candidate for the purchase of United Fruit Company's Guatemala divison.

1/ Securities and Exchange Commission, Form 8-K for United Brands Company, July 1974, p. 39.

2/ Ibid., p. 39.

3/ United Brands Company, Annual Report, 1970, p. 34.

4/ "At War with Chiquita Banana", Business Week, June 16, 1973, p. 54.

/However in

However in 1971, the government of Guatemala refused to consent to the transfer of the Guatemalan properties to Del Monte. The government indicated that it would only approve a transfer to a Guatemalan national or juridic person. United Fruit reported that negotiations with Del Monte were terminated.1/ In the meantime, Del Monte entered into a contract with United Fruit to purchase 4 million boxes of bananas from United's Guatemalan plantations.2/

United Fruit Company reported that "certain Guatemalan nationals have indicated an interest in acquiring the properties and discussions are being had with the Justice Department to develop a plan on how to proceed further with any possible transfer of the Company's Guatemalan properties".3/ In the end the Guatemalan government backed down. In December 1972 United sold its Guatemalan properties to Del Monte for 20.5 million dollars and the sale constituted sufficient divestment as required under the Consent Decree.

With respect to the list of activities from which United is enjoined from performing, the company has stated that these restrictions do not have any material effect on United's operations in general and do not conflict with its methods of conducting its business. Furthermore, the Consent Decree does not contain any provision that seeks to regulate United's operation of its properties and facilities outside the United States or which otherwise materially affects its foreign operations.4/

1/ United Brands Company, Annual Report, 1971, p. 39.

2/ Business Week, June 16, 1973, p. 55.

3/ United Brands Company, Annual Report, 1971, p. 39.

4/ Securities and Exchange Commission, Form 8-K for United Brands Company, July 1974, p. 39.

/Market Structure

Market Structure and Competition

In 1975 the United States banana importing market is dominated by three large United States TNCs, namely, United Brands, Castle and Cooke, and Del Monte. The emergence of Del Monte in recent years can be attributed directly to the effects of the "Consent" decree. Table 8 provides a breakdown of the United States market share of the three banana producers. Two key observations can be made with respect to this data. First, United Brand's share of the United States market fell significantly from the pre-consent decree days of 80 per cent to 36.4 per cent in 1974. Second, in 1973, United Brands was displaced by Castle and Cooke as the leading supplier of bananas in the United States market. The rather significant shift in United States market shares between the three TNCs deserves some explanation.

The period 1970-1972 was one of oversupply in the United States banana market. United Brands' production in Panama increased sharply after replanting and the company's total exports increased by 12 per cent between 1970 and 1971. United Brands' market share remained stable at about 45 per cent until a severe windstorm hit the Honduran plantations in May 1973. This disaster coincided with the sale of United Brands' Guatemalan division in December 1972, and resulted in a 10 per cent drop in United Brands' share of the United States market in 1973. Castle and Cooke and Del Monte both increased their market shares with Castle and Cooke taking over from United Brands as the largest banana importer in the United States. In 1973, Castle and Cooke supplied 43.4 per cent of American consumption compared to 34.7 per cent for United Brands.

United Brands remains the leading banana exporter in the world despite its losses in the United States market. Table 9 shows the company's dominant position between 1970-1972. During that period United Brands was the largest banana importer in Canada, Switzerland, Denmark, Sweden, Belgium, Italy, Norway, Netherlands, West Germany, Poland, and the United Kingdom.

/Table 8

Table 8

UNITED STATES MARKET SHARE FOR MAJOR BANANA PRODUCERS

(Percentages)

Country	United Fruit/ United Brands	Standard Fruit/ Castle and Cooke	Del Monte	Independ ents
1950	80.0	8.9		11.1
1965	51.5	31.4	3.8	13.3
1966	56.4	31.2	3.1	9.3
1967	57.4	30.1	2.0	10.5
1968	55.7	33.3	1.7	9.3
1969	52.3	35.8	4.4	7.5
1970	46.2	36.6	8.5	8.7
1971	46.8	36.6	8.6	8.0
1972	44.5	37.2	9.6	8.7
1973	34.7	43.4	13.1	8.8
1974 a/	36.6	40.8	15.7	6.9

Source: Arthur, Houck and Beckford, Tropical Agribusiness Structures and Adjustments, Harvard, University, Boston. 1968, p. 156; and Castle and Cooke, Inc. (Data presented in OAS Executive Secretariat for Economic and Social Affairs, "Sectoral Study of Transnational Enterprises in Latin America: The Banana Industry").

a/ Estimated figures.

/Table 9

Table 9

SHARES OF TRANSNATIONAL AND OTHER LARGE CORPORATIONS IN THE BANANA IMPORT TRADE OF SELECTED COUNTRIES, 1970-1972

(Percentages)

Country	Total imports in 1970-1972 (thousands of tons)	Transnational corporations: United Brands	Standard Fruit	Del Monte	Sub total a/	Other importers	Total
Canada	205	65.0	30.0	5.0	100.0	-	100.0
United States	1 900	36.0	42.0	12.0	90.0	10.0	100.0
Switzerland	63	81.0	6.0	2.0	89.0	11.0	100.0
Denmark	39	47.0	17.0	19.0	83.0	17.0	100.0
Sweden	75	57.0	16.0	6.0	79.0	21.0	100.0
Belgium	84	47.0	25.0	6.0	78.0	22.0	100.0
Italy	300	45.0	31.0	2.0	78.0	22.0	100.0
Norway	38	54.0	17.0	3.0	74.0	26.0	100.0
Netherlands	100	41.0	21.0	10.0	72.0	28.0	100.0
Germany Federal Republic	606	42.0	18.0	10.0	70.0	30.0	100.0
Poland	9	70.0	-	-	70.0	30.0	100.0
Japan	965	12.0	18.0	17.0	47.0	53.0	100.0
United Kingdom	322	40.0	-	-	40.0	60.0	100.0
France	464	14.0	-	-	14.0	86.0	100.0
Germany Democractic Republic	40	-	-	-	-	100.0	100.0
New Zealand	24	-	-	-	-	100.0	100.0
Total	5 234	33.0	25.0	10.0	68.0	32.0	100.0

Source: FAO, Trade Yearbook; trade sources. Reproduced from UNCTAD, The Marketing and Distribution System for Bananas, TD/B/C.1/162.

a/ Includes sales to affiliated enterprises and import and wholesale firms in consuming countries.

/Branding and

Branding and Product Differentiation

Producers place names on their goods which are typically identified as their brands. There are many sound marketing reasons for branding one's products. Through the route of identification, brand names can be effectively employed for sales promotion purposes. For example, it is much easier to advertise a product which has an identifiable brand name. If the product is successful and develops a market following, the brand name serves to protect the firm's markets. Brand identity and loyalty by customers generates customer goodwill, and thus strengthens the manufacturer's marketing relationship with his marketing middlemen.

The strength of a firm's brand name is a key factor in determining the producer's power over his "independent" marketing middlemen in the distribution system. High acceptance of a product by customers allows the manufacturer to be the "channel captain" and thereby gain control over the product's distribution strategy. Success taken to an extreme might result in the brand name being used as the generic term for the product, e.g., "Chiquita" = bananas. Success in this instance could theoretically result in a situation where "independent" middlemen would believe that their commercial survival was dependent on their ability to obtain distribution rights in sufficient quantities of preferred brands.

Product differentiation is usually a key component in a producer's marketing strategy designed to create and promote differences between his product and those of his competitors. The difference may be real or imagined; the purpose, however, is to convince the intended customer that the "differences" are significant. These differences may be explained in terms of the physical characteristics of the product, in its packaging, in its brand name, or in the way in which it is promoted.

Branding and product differentiation strategies in the United States banana market were first introduced in 1964. Until that year it was impossible for the consumer to differentiate between

the bananas of the various fruit companies. In 1964 John M. Fox, who had taken over the position of President of United Fruit Company, initiated a programme to differentiate United Fruit Company's bananas from those of other producers.1/ This was achieved by sorting out top grade bananas in the tropics and attaching blue adhesive brand labels to them. Branding of bananas was accompanied by an extensive advertising programme in the United States for "Chiquita" brand bananas, which claimed that boxing and the reduced handling which it entailed resulted in better quality fruit for the consumer.

Initially the strategy of product differentiation by branding appears to have been successful. It is difficult to determine whether branding increased United Fruit Company's market share in the banana industry because several other considerations were important during this period (e.g., impact of Consent Decree). However, Chiquita brand bananas did command a price premium over unbranded bananas of 1/2 to 2 cents per pound depending on the market area and time of year.2/ Furthermore, some observers believe that the branding and advertising programme had had the effect of maintaining the total demand for bananas. In terms of creating brand awareness the programme was extremely effective in that over 80 per cent of the people polled by a market research firm indicated that they were aware of the Chiquita brand.3/

Since branding was absent prior to 1964 and prices were not relatively active for good quality bananas, it might be argued that United Fruit Company's product differentiation strategy was a defensive one; namely, to combat Castle and Cooke's increasing penetration of the United States market, and to build product strength which could be used to exercise greater marketing influence over the ripener-jobber by stimulating demand for Chiquita bananas at the

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1/ <u>Business Week</u>, 8 July 1967, p. 92.

2/ Arthur <u>et al</u>, <u>op.cit.</u>, p. 44.

3/ <u>Ibid.</u>, p. 43.

/retail level.

retail level. There can be little doubt that United Fruit Company was pursuing a 'pull' rather than a 'push' strategy, i.e., to pull their brand into the retail store through the consumer by way of massive consumer advertising, as distinct from pushing the brand into the retail store by offering the ripener-jobbers a higher margin and other incentives.

It was not until about 1970 that Castle and Cooke initiated a major brand promotion programme. During the latter part of the 1960s, Castle and Cooke pursued a push, trade-oriented approach (i.e., directing their marketing efforts at the ripener-jobbers).

One major ingredient of the trade-oriented approach was the technical assistance extended by Castle and Cooke to its customers, especially food chains. In the mid-1960s food chains were shifting their dependence from the old line banana jobbers, and Castle and Cooke was quick to assist them in establishing efficient ripening facilities. Another area of profitable assistance was Castle and Cooke's success in producing heavier boxes for its bananas which resulted in less bruising in transit as well as in a better grade of product.1/ One reason for this technical approach was explained in terms of Castle and Cooke's market penetration which was not broad enough to support a national advertising campaign.

In 1971, Castle and Cooke decided to launch a national campaign to promote the "Dole" banana. It had all the earmarks of a major brand promotion campaign. Prior to that time, Castle and Cooke used the "Cabana" brand for its bananas, introduced first in Western North America in April of 1969.2/ The Cabana brand was dropped in favour of the "Dole" banana brand in January of 1972 which had the support of the largest advertising and promotion effort in the history of Standard Fruit. The advertising and promotion budget exceeded 5 million dollars and the company's merchandising force was increased by 75 per cent in 1972 over the 1971 contingent.

1/ *Business Week*, 16 June 1973, p. 54.

2/ *Advertising Age*, 14 April 1969, p. 73.

/While it

While it would be difficult to measure the exact impact of Castle and Cooke's promotional campaign on its sale of Dole bananas, it would be equally dangerous to underestimate the beneficial impact of the marketing goodwill transferred from the brand Dole to the sale of bananas, and the favourable impact it had on the perception of ripener-jobbers familiar with the Dole brand and the corporate marketing strength of Castle and Cooke.

Undoubtedly, the brand promotion campaign of Dole was aimed at having Castle and Cooke replace the marketing leadership of United Brands. It did this in 1973. One aspect of the United Brands leadership was evidenced by the fact that industry pricing standards were usually quoted as "'Chiquita' less 20 cents" or some other figure. This type of price quotation is no longer universal in the United States banana industry.

Del Monte, on the other hand, has yet to introduce a major national campaign. Its position in 1975 is not unlike that of Castle and Cooke prior to its first national promotional campaign. It lacked a broad enough market base to justify an investment in such a promotional strategy. Del Monte's major banana market is primarily concentrated in the Eastern and South Eastern part of the United States. However, because of the high acceptance and recognition of the Del Monte food brand, numerous requests are being made by ripener-jobbers for the Del Monte banana in areas not currently serviced by the company.1/

Per capita decline in consumption

Per capita consumption of bananas has steadily declined since 1950 - from 24.4 pounds per head in 1950 to 18.3 pounds per head in 1973.2/ The following reasons have been suggested to explain this secular decline: developments in food processing technology; the

1/ Business Week, 16 June 1973, p. 54.

2/ Jacques Nusbaumer, The World Banana Economy: Prospects for Change 1974-1980, IBRD, Commodity Paper, Nº 15, Washington, February 1974, Appendix, Table 2.

/availability of

availability of larger and more complete supermarkets resulting in less frequent shopping trips by housewives; the growing amount of home refrigerator and freezer capacity and the belief that bananas may be more fattening than other fruits.1/

Brand promotion is being used to counteract the decline in per capita consumption of bananas in the United States. Of the three firms, Castle and Cooke appears to be the most active in this area in 1975. For example, Castle and Cooke is trying to capitalize on the marketing opportunities offered as a result of the increasing interest shown by United States consumers for low cost and healthy foods. Castle and Cooke is currently promoting bananas as an inexpensive and nutritional snack. The company's advertisements state that bananas are 100 per cent natural and low in calories.

This campaign is also being aimed at the ripener-jobbers to sensitize them to the new marketing opportunities to be exploited by stressing the nutritional and cost features of the product.

The brand promotion and product differentiation strategies vary only slightly between the three banana producing companies. One major difference, however, should be highlighted. In the case of United Brands, the brand "Chiquita" applies to bananas only, while the Dole (Castle and Cooke) and Del Monte brands apply to many of the other products merchandised by the two companies. Nonetheless, the producers have two common objectives for their banana brand promotion programmes: first, to stimulate and increase per capita consumption of bananas, and second to promote quality control at both the producing and ripening stages of production. At the producing stage, producers can use the brand standard as a quality level for refusing sub-standard bananas, and in the ripening stage the producer can use the brand promotion quality image as a vehicle for pressuring the ripener-jobbers to adhere to certain service standards (i.e., the ripening process).

1/ J.P. Valles, The World Market for Bananas, 1964-1972, New York, F.A. Praeger Publishers, 1968, p. 73.

/Ripener-jobbers

Ripener-jobbers

There are essentially three types of ripener-jobbers who function as marketing intermediaries in the sale of bananas in the United States. They are as follows: (a) largely banana ripener-jobbers; (b) full line produce ripener-jobbers; and (c) chain ripener-processors. The significance of each type of jobber as customers of the TNCs has changed in recent years. Since the mid-1960s supermarket chains have been increasingly investing in their own ripening facilities. The reasons for this trend are explained in terms of the chain's belief that by doing their own ripening they are ensuring a higher quality banana, as well as doing it cheaper than the traditional ripener-jobber.

The traditional ripener-jobbers have also been undergoing certain organizational changes. Banana jobbers who are successful today are larger, many of them are diversifying their product line into the general area of fresh produce, they tend to use their own transport vehicles, handle competing banana lines, and act as "fillers" for the chain ripener processors. The market share enjoyed by the different types of banana ripener-jobbers varies according to geographical region. For example, the exclusive banana ripener-jobber is a more dominant middleman in California than in Louisiana.

Regardless of the type of jobber, the TNCs pursue a marketing policy of working as closely as possible with all jobbers to ensure that their ripening, distribution, and sales activities conform closely to the producers' marketing strategies. The fact that the jobber takes title to the product at dockside, and that the producer is precluded from performing the ripening-jobbing functions in the United States makes this task all the more important and delicate.

/Sales techniques

Sales techniques

United Brands, Castle and Cooke and Del Monte have sales offices located throughout the United States and in Canada. Sales and technical personnel of the TNCs perform the following activities:1/

(1) Assess the requirements and sales potential of individual customers.

(2) Provide merchandising and display materials and advice.

(3) Arrange special promotional events.

(4) Provide advice and technical assistance on new banana ripening equipment, handling, storage and merchandising.

These services are complementary to the major function of selling bananas, maintaining customer satisfaction and building a regular repeat trade.2/

The following casette illustrates some of these points by highlighting how one of the producers merchandises its bananas.

"The Del Monte Banana Company"

The company is headquartered in Miami, Florida. Most of its bananas are harvested, washed, inspected, cut into clusters, branded with a Del Monte shield and boxed in strong, fibre-board cartons in Costa Rica and Guatemala. Del Monte's fleet of eight "reefer" ships handles the transportation of its bananas from Central America docking at five Gulf and East Coast ports - Galveston, Mobile, Tampa, Charleston, and Wilmington, Delaware. Through these ports, the company supplies its hundreds of customers, largely chain stores, groups of independent grocers and banana wholesalers (ripener-jobbers). Customers' refrigerated trucks pick up orders at the docks. The transfer from ship to the truck is managed by Del Monte sales and terminal personnel.

1/ Arthur et al, op.cit., p. 34.

2/ Ibid., p. 34.

/Typically, the

Typically, the fruit is sold by telephone days prior to the arrival of the ships. Since bananas are a perishable commodity, the company must sell its output before it leaves the ship. Thus, anticipating market demand and available supply becomes a key challenge for the company's marketing organization. Each Thursday, the marketing staff analyzes the market for the coming week, taking into account last week's movement, the next week's expected arrivals and competitive pricing. On Friday morning, Del Monte Banana Company's sales force, both in Miami and its six regional offices - New York, Jacksonville, Mobile, Tampa, Galveston and Winnipeg (Canada) - take to the telephones. All day long the market is in a state of flux as the banana companies vie with one another for the customers' business. Usually by the end of the day, most of the next week's shipments are sold. The telephone calls continue daily until all the fruit is sold. The Miami office co-ordinates the sales effort, and accounts for a substantial portion of the company's weekly sales. To help increase the sales of bananas, the company offers a wide range of in-store promotional materials, and the company's technical representatives regularly conduct seminars on proper processing, handling, and merchandising techniques for ripening room and store personnel.

A prime concern of all three TNCs is to develop close technical and sales relationships with their ripener-jobbers. Since the producers are obliged to operate on an arms-length basis with their United States customers, part of their marketing strategy has been designed to develop a dependency relationship with their jobbers. In brief, the producers are keen to have the jobber rely on their corporate infra-structure (engineering, market research, advertising and sales promotion support) for assistance. In this way, the jobber becomes an extension of the producer's marketing organization, thus allowing the producer to exercise control over his ripening and sales activities. For example, United Brands' "Chiquita" customer services provides the following assistance to its customers:

/1. Free

1. Free Engineering and Consulting
2. Ripening Assistance and Training
3. Warehouse Surveys
4. Transportation Information
5. Retail Seminars
6. Back Room and Shelf Storage Surveys
7. Banana Display Information
8. Retail Literature and Banana Ripening Manual.

For example, in the area of "Engineering Assistance", United Brands has a large staff of engineers based in the following cities: New York, Chicago, New Orleans, Los Angeles and Montreal. Each office has at least one or two trained engineers ready to provide assistance at no cost to the ripener-jobber in such areas as building a new ripening room, renovating an old facility, training new personnel, warehouse, distribution and retail surveys or dealing with his customers' in-store handling problems.

In the 1974 Annual Report of Castle and Cooke, Inc., management offered the following explanation of its corporate philosophy with reference to food products, including bananas:

> "Vertical Integration is a key ingredient in Castle and Cooke's corporate strategy for profit stability and long-term growth. It is one of the Company's major operational strengths, particularly in our widespread food activities.
>
> The concept of Vertical Integration can be defined as having management control over as much of an operation's activity as possible - from growing the raw product through sale to the customer. The concept can be divided into four major components - source, processing, distribution and marketing.

> Within Castle and Cooke's food activities, the degree of integration varies from product to product. It is greatest in the Company's pineapple, banana and mushroom operations. With each of these, we grow our raw product, process and pack it, and handle the distribution and marketing.
>
> ... In the distribution component, the Company operates a chain of strategically-located distribution centers across the United States to assure customer availability of processed products. For bananas, we operate a fleet or chartered ships to carry the product to market at the peak of quality.
>
> For fresh foods - pineapple and mushrooms in addition to bananas - our marketing organization stresses assistance to the grocer in extending quality shelf life. This helps to maximize his profit as well as ours."

Although ripener-jobbers function as independent marketing middlemen, the "independence" of the non-chain ripeners is one of degree determined in large measure on their size, product diversity, corporate strength, and above all on the importance of their banana sales. It appears that all three TNCs are promoting a vertical marketing relationship with their middlemen, and that their programme of assistance is designed to develop an administered relationship in the vertical marketing system, since the consent decreee prevents them from engaging in company-owned or long-term contractual vertical marketing arrangements.

/5. Banana

5. Banana prices

Average monthly data on the retail, wholesale and import prices of bananas in the United States are available for the period January 1970 to April 1975.1/ Figure 2 at the end of this section shows the trend of these prices over the period and figure 3 charts the trend of gross wholesale margins between retail and wholesale prices (R-W), retail and import prices (R-M) and wholesale and import prices (W-M).

Upon examination of price movements it is possible to separate the period into two sub-periods: January 1970 to March 1974 and April 1974 to April 1975. The division between the two sub-periods, April 1, 1974, coincides with the implementation of a banana export tax by Costa Rica, Panama, Honduras and Colombia.

Table 10 reports the mean values of the various price series and also the standard deviation from the mean, a measure of variability. The ratio of the standard deviation to the mean provides a measure of the relative variability of different time series of prices.

The following observations may be drawn from table 10.

1) The mean value of the import price has risen from 2.88 dollars per box in the pre-tax period (January 1970-March 1974) to 3.84 dollars per box in the post-tax period (April 1974-April 1975). The import price in April 1975 was 5.05 dollars per box.

2) The mean value of the wholesale price in the pre-tax period was 4.18 dollars per box. Data on wholesale prices are only available up to August 1975 when the price was 5.36 dollars per box. As a result we have not calculated the mean post-tax wholesale price.

3) The mean value of the retail price has risen from 6.31 dollars per box in the pre-tax period to 7.86 dollars per box in the post-tax period. The retail price in April 1975 was 9.74 dollars per box.

4) The variability of both import and retail prices as measured by the ratio of the standard deviation to the mean increased in the post-tax period. Therefore, banana prices have been not only higher but also more variable since the export tax.

1/ At the time of writing.

/Table 10

Table 10

UNITED STATES BANANA PRICES AND MARGINS: MEANS AND VARIABILITY

($ per 40 lb. box)

	Time period	
	January 1970- March 1974	April 1974- April 1975
Mean Import Price ($\bar{M}$)	2.88	3.84
Standard Deviation (S_M)	.32	.62
Ration $S_M/\bar{M}$	.111	.161
Mean Wholesale Price ($\bar{W}$)	4.18	
Standard Deviation (S_W)	.42	...
Ratio $S_W/\bar{W}$	.100	
Mean Retail Price ($\bar{R}$)	6.31	7.86
Standard Deviation (S_R)	.41	1.11
Ratio $S_R/\bar{R}$	.067	.141
Mean Gross Wholesale Margin ($\bar{W}-\bar{M}$)	1.28	
Standard Deviation (S_{W-M})	.28	...
Ratio $S_{W-M}/(\bar{W}-\bar{M})$	.219	
Mean Gross Retail Margin ($\bar{R}-\bar{W}$)	2.13	
Standard Deviation (S_{R-W})	.28	...
Ratio $S_{R-W}/(\bar{R}-\bar{W})$	.131	
Mean Gross Margin Between Retail and Import Price ($\bar{R}-\bar{M}$)	3.41	4.02
Standard Deviation (S_{R-M})	.24	.75
Ratio $S_{R-M}/(\bar{R}-\bar{M})$	.070	.187

Source: United States Department of Agriculture.

/5) The

5) The mean value of the gross wholesale margin (W-M) in the pre-tax period was 1.28 dollars per box. The gross wholesale margin in the most recent month available, August 1974, was 1.57 dollars per box.

6) The mean value of the gross retail margin (R-W) in the pre-tax period was 2.13 dollars per box. The gross retail margin in August 1974 was 2.21 dollars per box.

7) The mean value of the gross margin between the retail price and the import price (R-M) has risen from 3.41 dollars per box in the pre-tax period to 4.02 dollars per box in the post-tax period. The gross margin between the retail price and the import price in April 1975 was 4.69 dollars per box.

8) In the pre-tax period the gross wholesale margin exhibited (W-M) greater variability (as measured by the ratio of the standard deviation to the mean) than the gross retail margin. Also the gross retail margin exhibited greater variability than the gross margin between the retail price and the import price. Taken together these observations suggest that while the gross margin between the retail and import price exhibited relatively small fluctuations in the pre-tax period, the shares of the wholesaler and the retailer tended to be more variable and varied in opposite directions from one another.

9) To verify the above statement the correlation coefficient between the gross wholesale margin (W-M) and the gross retail margin (R-W) was calculated. The result was r = -.7126, indicating a strong negative correlation between the two series.

The implication of this negative correlation is as follows. The gross margin between the retail price and the import price was relatively stable in the pre-tax period. This gross margin (R-M) was divided between the wholesaler's margin (W-M) and the retailer's margin (R-W). In periods of excess demand the wholesaler's margin generally rose sharply while the retailer's margin declined, leaving only a small change in the gross margin between retail and import prices (R-M). In periods of excess supply the wholesaler's margin generally fell whereas the retailer's margin would rise, once again leaving the (R-M)

/margin almost

margin almost unchanged. Therefore, in the pre-tax period wholesalers appear to have taken a larger share of the (R-M) margin in periods of excess demand.

This observation is consistent with the belief which prevailed in the banana marketing industry that consumers would exhibit resistance (to purchase) at certain price levels. In shortage periods, therefore, retailers would absorb the higher wholesale prices by taking lower profits rather than passing the full increase along to consumers. In periods of oversupply, when wholesale prices dropped, retailers would maintain their prices and enjoy a greater profit.

The Relationship Between Price and Volume

Monthly data are available on the volume of United States banana imports from the National Banana Association of New Orleans. Table 11 reports import volumes for selected months and calculates the value of these volumes at import, wholesale and retail prices.

To calculate arc elasticities, observations for two distinctive periods are required. The periods chosen should be similar in all respects other than the price and volume of bananas. Following is a summary of elasticities calculated for several pairs of months in 1974 and 1975.

Period 1	Period 2	Import Price Elasticity	Retail Price Elasticity
Dec. 73	Dec. 74	.02	.03
Jan. 74	Jan. 75	.69	.92
Feb. 74	Feb. 75	.83	1.38
Mar. 74	Mar. 75	.58	.73
Apr. 74	Apr. 75	.24	.25

There is a significant variation in the elasticity values over these pairs of months. A crude average of the import price elasticity is .47 and the average retail price elasticity is .66.

A better estimate of the elasticities is gained from using a longer time period. Instead of comparing two one month intervals, the data available allows one to compare two five month intervals:

/Table 11

Table 11

UNITED STATES BANANA PRICES, IMPORT VOLUMES, AND VALUE

Month	Import volume	Import price (M)	Wholesale price (W)	Retail price (R)	Import value	Wholesale value	Retail value	Retail value - import value
	Million of boxes	Dollars per box			Million of dollars			
December 1972	7.57	2.72	3.96	6.04	20.59	29.98	45.72	25.13
December 1973	8.40	2.83	...	6.24	23.77	...	52.42	28.65
January 1974	9.48	3.07	4.50	6.64	29.10	42.66	62.94	33.84
February 1974	10.14	2.94	4.29	6.60	29.81	43.50	66.92	37.11
March 1974	10.85	2.60	4.24	5.68	28.21	46.00	61.63	33.42
April 1974	8.83	2.89	4.43	5.75	25.52	39.12	50.77	25.25
December 1974	8.38	3.17	...	6.80	26.56	...	56.98	30.42
January 1975	8.25	3.75	...	7.72	30.94	...	63.69	32.75
February 1975	7.30	4.37	...	8.36	31.90	...	61.02	29.12
March 1975	7.68	4.77	...	9.16	36.63	...	70.35	33.72
April 1975	7.76	5.05	...	9.74	39.19	...	75.58	36.39

Source: United States Bureau of Labour Statistics and National Banana Association.

/December 1973-

December 1973-April 1974 and December 1974-April 1975. Using these two periods we calculated the following:1/

Import Price Elasticity .50

Retail Price Elasticity .62

Other studies of the price elasticity of bananas have proceeded by specifying an equation to estimate the price of bananas with the quantity of bananas as an independent variable. Then the coefficient of the quantity variable is the reciprocal of the elasticity. Arthur et al estimated such an equation.

According to this calculation both import and retail prices are inelastic, i.e., at the range of output under consideration an increase in the import price will result in an increase in the value of banana imports and an increase in the retail price will result in an increase in the retail value of bananas.

1/ All elasticity estimates are arc elasticities calculated by the following formulae:

$$N_M = \frac{Q_2 - Q_1}{\frac{Q_1 - Q_2}{2}} \qquad \frac{M_2 - M_1}{\frac{M_1 - M_2}{2}}$$

$$N_R = \frac{Q_2 - Q_1}{\frac{Q_1 - Q_2}{2}} \qquad \frac{R_2 - R_1}{\frac{R_1 - R_2}{2}}$$

The arc elasticities calculated for the period December 1973- April 1974 to December 1974-April 1975 use these two formulae. Prices are a weighted average of the four monthly prices in each period, weighted by the volume sold in the month in question. Quantities are the sums over the five month period.

where Q_1 = quantity in the first period

M_1 = import price in the first period

R_1 = retail price in the first period

N = arc elasticity

Note also that adjustments have not been made for income changes or changes in the price of competing fruits.

Comparable import and retail price elasticities for 12 pairs of months, June 1973-May 1974 and June 1974-May 1975 are 0.27 and 0.25.

/The retail

The retail price appears to have been slightly less inelastic than the import price over the period studied. This fact has an important implication which is illustrated by the column in table 11 which reports retail minus import value. As banana prices have increased between 1974 and 1975 the difference between the retail and import value has remained about the same. The total retail value minus import value for the first four months of 1975 was 131.99 million dollars compared to 129.62 million dollars for the first four months of 1974. Therefore, the increase in the gross margin between retail and import prices was offset proportionally by the decrease in import volume. This implies that wholesalers and retailers have not enjoyed any increase in their gross revenues as a result of the price increases. An increase may have accrued to the importing companies.

Castle & Cooke Estimate of Volume - Price Relationship

In early 1974 when the Latin American banana producing countries were discussing the formation of a Producers' Association and the implementation of export taxes, Castle & Cooke, Inc., prepared a statement entitled "United States' Banana Volume - Price Relationship 1973-1974". The purposes of the statement were to investigate "the volume-price relationship of bananas in the United States market" and to investigate "the effect on the cost of the product of both the proposed 1.00 dollar per box tax and that of diminishing volume as price must be raised to cover costs".

The statement claims that:

> "To achieve (import) prices of 5.15 dollars, 5.40 dollars, 5.76 dollars and 6.90 dollars, it is our considered opinion that the average weekly volumes would have to be limited to 1,350,000; 1,200,000; 1,000,000 and 770,000 and assumes no tax-free fruit available. These numbers would produce annual volumes of 70,000,000; 62,000,000; 52,000,000 and 40,000,000 compared to the 104,900,000 forty pound boxes imported in 1973, or a volume reduction of 33, 41, 50 and 62 per cent."

From these estimates it is possible to calculate the import price elasticity which Castle & Cooke, Inc. implied.

/Import Price

Import Price Range (US$/box)	Import Price Elasticity
2.99* - 5.15	0.75
5.15 - 5.40	2.48
5.40 - 5.76	2.82
5.76 - 6.90	1.44

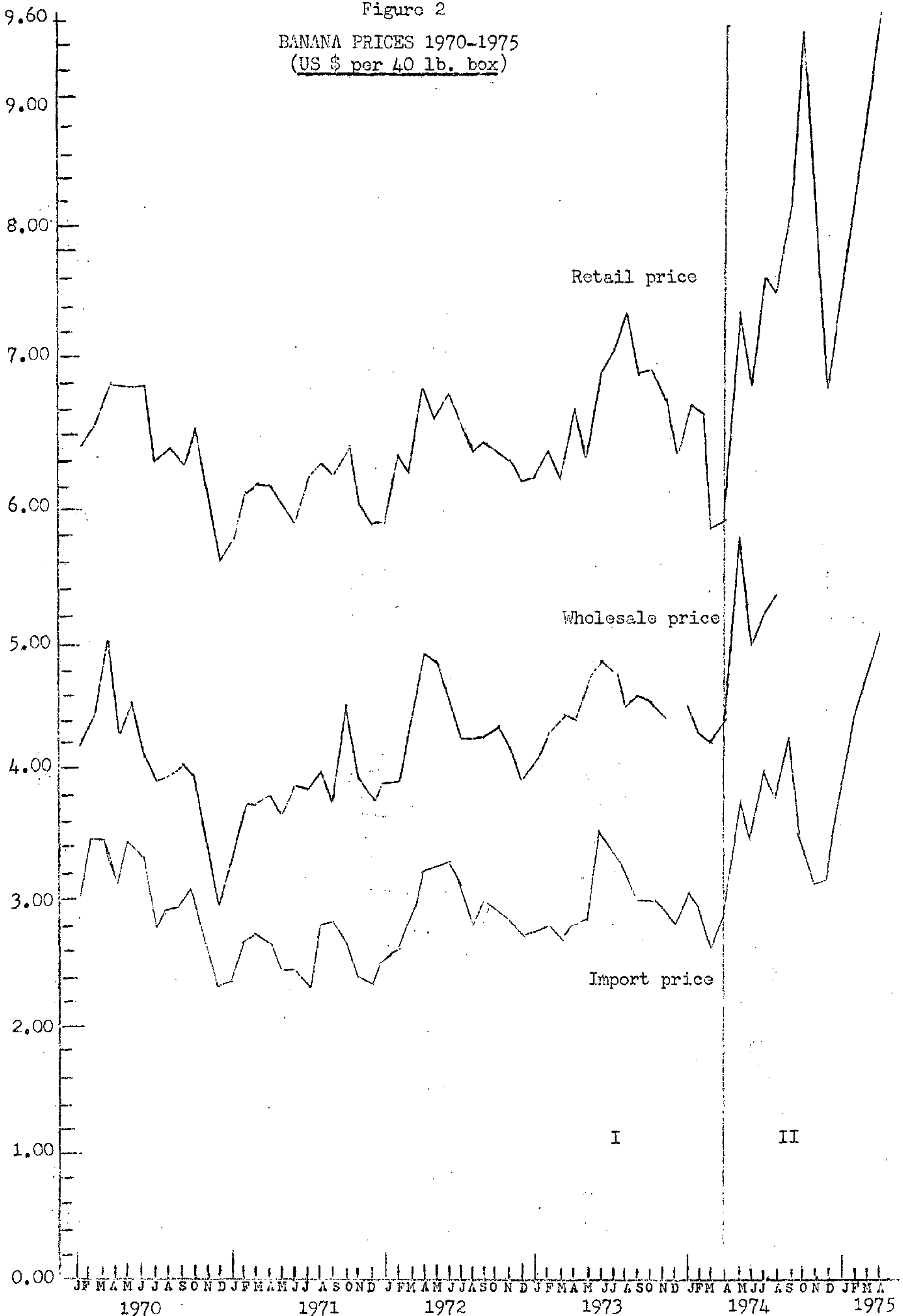
* US$ 2.99 was the average import price in 1973.

Over the first price range, 2.99-5.15 dollars, Castle & Cooke implies an import price elasticity estimate of 0.75. This compares to the actual import price elasticity calculated earlier of 0.54, which was measured over a price range of 2.60-5.05 dollars. Over each of the three higher price ranges postulated by Castle & Cooke, the company estimates that import demand is price elastic. However, it should be noted that the import prices used as examples by Castle & Cooke are substantially higher than those which existed between January 1974 and April 1975. Only in April 1975 did import prices exceed 5.00 dollars per box. At that time the import price was 5.05 dollars and the weekly volume averaged approximately 1,900,000 boxes. Castle & Cooke Inc. forecast that an import price of 5.15 dollars per box would require that imports be limited to 1,350,000 boxes per week. In summary, the company's estimates of the import price elasticity seems to be biased upward. Not only was the company's estimate over the 2.99-5.55 dollar price range higher than the actual import price elasticity calculated over a similar price range, but also their estimate of the import volume consistent with an import price of 5.15 dollars appears to be too low.

/Figure 2

Figure 2

BANANA PRICES 1970-1975
(US $ per 40 lb. box)



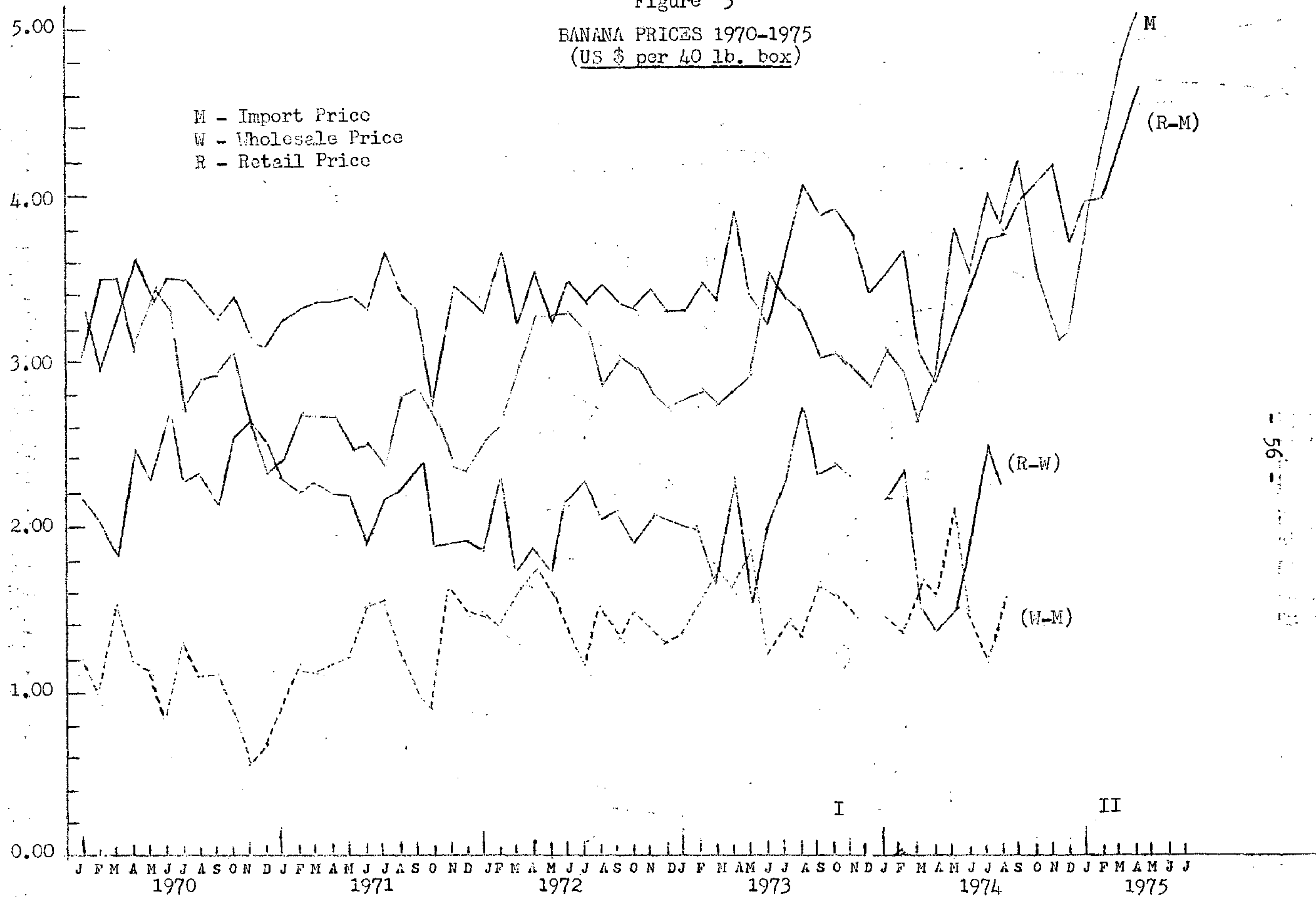


Figure 3
BANANA PRICES 1970-1975
(US $ per 40 lb. box)
M - Import Price
W - Wholesale Price
R - Retail Price
5.00
4.00
3.00
2.00
1.00
0.00
M
(R-M)
(R-W)
(W-M)
I
II
J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J
1970
1971
1972
1973
1974
1975

Part II

PROFILES OF TRANSNATIONAL CORPORATIONS OPERATING IN CENTRAL AMERICA AND PANAMA

1. United Brands

United Brands Company is a diversified food company which was formed in 1970 by the merger of AMK Corporation and the United Fruit Company. United Brands (U.B.) had sales of almost two billion dollars in 1973 of which bananas accounted for about 23 per cent, (see table 12). In 1973 U.B. was also involved in meat packing (63 per cent of sales), petrochemicals (7 per cent of sales) and several other operations including food services, floriculture, lettuce growing, communications and transportation services.

The United Fruit Company (UFC) was incorporated in New Jersey in 1899. The history of the company from its inception until 1958 is available in May and Plaza's book, The United Fruit Company in Latin America. At the close of the 1950s UFC was experiencing difficulties on its banana plantations due to Panama disease.1/ UFC attempted to control Panama disease by a flood-fallowing technique and by simply abandoning stricken areas. The cost of replanting Gros Michel bananas by 1960 was approximately US$ 18 million per year.2/ Largely due to Panama disease UFC profits steadily declined during the 1950s, as follows, on page 59:

1/ S. May and G. Plaza, The United Fruit Company in Latin America, National Planning Assoc., Washington, D.C., 1958, p.84.

2/ H.B. Arthur, J.P. Houck, G.L. Beckford, Tropical Agribusiness Structures and Adjustments - Bananas, Harvard University, Boston, 1968, p. 150.

/Table 12

Table 12

UNITED BRANDS COMPANY

(Sales in million of US$)

Revenues by product	1970	1971	1972	1973	1974
Bananas and related products	379.6	397.6	450.7	450.0	549.4
Food processing and services	66.6	149.8	68.3	67.6	103.5
United States agriculture and floriculture	29.6	42.6	42.5	48.4	51.[illegible]
Other	9.0	11.8	13.2	17.3	27.6
Meat packing and related products	898.9	847.1	1 012.2	1 258.4	1 289.0
Foster Grant Company	-	-	-	140.6	-
Total	1 383.7	1 448.9	1 586.9	1 982.3	2 020.5

Source: Annual Reports of the Company.

/Year

Year	Sales (US$ m)	Profits (US$ m)	Equity (US$ m)	Profit Margin (%)	Return on Equity (%)
1950	312	65.7	307	21.1	21.4
1952	373	37.7	323	10.1	11.7
1954	323	31.5	343	9.8	9.2
1956	344	30.3	355	8.8	8.5
1957	342	31.4	358	9.2	8.8
1958	324	22.7	356	7.0	6.4
1959	312	12.1	354	3.9	3.4
1960	304	2.2	291	0.7	0.8

Source: Moodies Industrial Manual, 1968.

UFC experienced a change in management in 1959 when Mr. Thomas E. Sunderland became President, Chief Executive Officer and a member of the Board of Directors. Sunderland developed a strategy designed to turn around the operations of UFC. In addition to the poor performance of UFC, Mr. Sunderland had to deal with a 1958 Federal Consent Decree which required, among other things, that UFC divest itself of a sizeable portion of its banana operations by June 30, 1966.

Turnaround at United Fruit Company, 1968-1969

Sunderland made several crucial organizational and operational changes which revolutionized the banana industry. First, he reorganized the management structure of UFC.1/ Previously there had been very little co-ordination among the operations of various divisions within the company. Sunderland consolidated management headquarters in Boston and created a Management Committee composed of executives from each of UFC's divisions. Then realizing that UFC lacked the required top executive manpower Sunderland attracted John M. Fox, president of the Minute Maid Corporation where Fox had pioneered in marketing frozen orange juice, and Herbert C. Cornuelle, president of the Dole Corporation, a large pineapple producer which was taken over by Castle and Cooke, Inc., in 1961. Fox became Executive Vice-President and Cornuelle was named Vice-President.

1/ Business Week, July 8, 1967, pp. 90-94.

/Sunderland, Fox

Sunderland, Fox and Cornuelle then proceeded to implement some of Sunderland's ideas about reorganizing banana operations.

Immediate cost-cutting policies included the consolidation of accounting activities, shutdown of marginal plantations and better co-ordination of cutting to ensure that banana boats would sail only with a full load. Plans were developed to dispose of assets which were no longer required for UFC's activities.

But the company's major problem was Panama disease. Over the period 1950-1960 when Panama disease seriously infected the Central American plantations, Ecuador became the largest source of U.S. imports of bananas. Ecuador's market share rose from 12.5 per cent in 1950 to 35.0 per cent by 1956 and to 44.6 per cent in 1960. Ecuadorian bananas were cheap and plentiful but suffered from variable quality and the longer distance to the U.S. market compared with Central American fruit. Several banana industry specialists advocated that UFC purchase its entire market requirements from Ecuador thereby eliminating the financial drain caused by Panama disease.1/ However, UFC's investments in banana plantations and infrastructure, mainly in Central America, amounted to US$ 335 million in 1955 which was equivalent to 75 per cent of UFC's total fixed assets.2/ In addition to the size of UFC's investment in Central America, other factors to be considered included the proximity of the Central American plantations which reduced transit time and eliminated canal tolls, and the competitive advantage of owning several geographically separate plantations so that plant disease, blowdowns, labour problems or political upheavals in one area would not seriously affect UFC's ability to meet market demand. As a result, Mr. Sunderland favoured continuing production in Central America and reducing UFC purchases of Ecuadorian fruit.3/ However, this was only possible if

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1/ Arthur, Houck, Beckford, op.cit., p. 148.

2/ May and Plaza, op.cit., p. 108.

3/ Arthur, Houck, Beckford, op.cit., p. 148.

/Panama disease

Panama disease could be controlled. The Standard Fruit and Steamship Company, which due to smaller landholdings than UFC was unable to simply abandon disease-stricken plantations, was forced to switch from the Gros Michel variety of banana to the Giant Cavendish, a disease resistant strain. UFC was reluctant to make this switch because the Giant Cavendish was more fragile and perishable and often arrived at the U.S. market in damaged condition.

The problem was solved in 1960 when the company's research department discovered the Valery variety of banana which was a disease resistant plant of the Cavendish type. Other advantages of the Valery included less risk of blowdown due to the plant's lower height, high quality and high yields. However, like the Giant Cavendish, the Valery is fragile and easily bruised when shipped on the stem. Mr. Sunderland decided to shift completely from the Gros Michel to the Valery and to begin destemming and boxing the fruit at the plantation.1/ The destemming operation had previously been performed by the ripener-jobber. The fruit companies thereby took over an operation which they could not perform in the United States due to the 1958 Consent Decree. Furthermore, destemming and rejection of poor quality bananas in the tropics reduced weight and shipping costs. Boxing in the tropics with relatively low priced labour also made brand labelling of bananas an attractive prospect.

Until 1964, it was impossible for the consumer to differentiate between the bananas of the various fruit companies. In that year John M. Fox, who had taken over the position of President of UFC, initiated a programme to differentiate UFC's bananas from those of other producers.2/ This was achieved by sorting out top grade bananas in the tropics and attaching blue adhesive brand labels to them.

1/ Ibid., pp. 149-151.

2/ Business Week, July 8, 1967, p. 92.

/Branding of

Branding of bananas was accompanied by an extensive advertising programme in the United States for "Chiquita" brand bananas, which claimed that boxing and the reduced handling which it entailed resulted in better quality fruit for the consumer.

The combined effect of these several programmes initiated by Sunderland, Fox and Cornuelle was to improve dramatically the revenues and profitability of UFC in the period 1961-1968 over the levels recorded in 1960, as shown by the following:

Year	Sales (US$ m)	Profit (US$ m)	Equity (US$ m)	Profit Margin (%)	Return on Equity (%)
1961	311	8.0	295	2.6	2.7
1962	320	10.7	299	3.3	3.6
1963	330	(0.5)	283	(0.2)	(0.2)
1964	333	3.0	271	0.9	1.1
1965	399	15.1	274	3.8	5.5
1966	440	25.0	285	5.7	8.8
1967	489	32.1	313	6.6	10.3
1968	510	31.7	334	6.2	9.5

Source: Moodies Industrial Manual, 1968.

AMK Corporation and the Takeover of the United Fruit Co.

The turnaround of the United Fruit Company attracted the attention of Mr. Eli M. Black, President of the rapidly growing AMK Corporation. UFC had not only increased its profitability, it had also accumulated US$ 100 million in cash and marketable securities. UFC's net worth was about US$ 350 million, the company had no long-term debt, and the price earnings ratio of 13 was considered low by financial analysts.1/ This combination attracted the attention of several acquisition-seeking firms.

1/ "How United Fruit was Plucked", Business Week, February 22, 1969, p. 122.

/AMK Corporation

AMK Corporation had originally been a producer of cardboard caps for glass milk bottles. Eli Black took over control of the Company in the early sixties and, after a period of reorganization and acquisitions, AMK had become a machinery manufacturer with sales of about US$ 40 million per year. In 1967 AMK acquired John Morrell & Co., an asset-rich meat-packing company which was experiencing operating difficulties and low profits. Morrell was twenty times larger than AMK, having annual gross revenues of US$ 800 million annually. <u>Fortune</u> magazine reported:

> "After that coup, an operating man would have immediately turned his attention to tightening up Morrell, and fitting it into the parent structure. But not Black. He leaves problems like that to others. In fact, he was just weighing the takeover of Great American Holding Corp., an insurance complex when the United Fruit deal was brought to his attention."1/

Black's usual practice was to confer with the management of the company he hoped to acquire before purchasing any of the company's stock. However, in the case of UFC, it was rumoured that another company was about to make a tender offer, so Black made a single purchase from a New York brokerage firm of 733,200 shares of UFC stock at US$ 56 which was US$ 4 above the market price.2/ Next, he purchased an additional 7,100 shares on the open market and increased his holdings to 9 per cent of UFC's shares. Shortly thereafter Black dined with John M. Fox who had become chairman and chief executive officer of UFC. Black expressed his admiration for Fox's feat of turning UFC around. However, Fox's initial reaction was to oppose the AMK takeover bid. Fox began to seek other potential buyers for UFC including Dillingham Corp., a Hawaiian

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1/ "United Fruit's Shotgun Marriage", <u>Fortune</u>, April 1969, p. 133.

2/ <u>Ibid</u>., p. 134.

/based construction

based construction and real estate firm which Herbert Cornuelle, UFC president, had become familiar with when he was president of Dole Corp., and Textron, Inc., a New England based conglomerate. Textron proposed a 2 for 1 share offer but this was voted down by Textron shareholders who felt that the offer was too high.

Another firm, Zapata-Norness, Inc., of Houston approached Fox the day after Black's purchase of 9 per cent. Dillingham eventually dropped out and it became apparent that either AMK or Zapata was going to win control of UFC. Zapata demanded that it have a majority on UFC's board whereas AMK asked only for minority representation. Eventually Fox gave in to Black and AMK, dismissing Zapata's offer as not being in the best interest of the shareholders. Fox also came around to agree with Black that AMK and UFC would do well together. He said: "UFC will bring operating experience and the ability to turn things around to this new company and AMK will bring the ability to use assets. Operating men do not have the time to do financial things that Eli Black can do".1/ Following the takeover Fox became vice-chairman of AMK and Cornuelle became president and chief executive officer of UFC.

AMK had won the takeover battle but to do so it had to outbid its rivals and ended up paying a very high price to gain control of UFC. Before Black's original purchase of US$ 56 a share UFC had been trading at US$ 52. As other firms entered the auction and revealed their intentions to acquire UFC the share price began to rise and eventually hit US$ 88.2/ As a result AMK paid much more for UFC than the book value of the company's assets - US$ 252.9 million more, to be precise. One business periodical noted that this was "an incredibly high value to attach to the reputation, trademarks and patents of a company that even in a good year when there were no hurricanes had difficulty earning a decent return on its assets".3/

1/ Business Week, February 22, 1969, p. 122.

2/ Fortune, April 1969, p. 191.

3/ Forbes, April 15, 1973, p. 44.

/In 1970

In 1970 the Accounting Principles Board issued a new ruling, APB Opinion 17, which states that a company must write off over a period of 40 years any over-payment in the acquisition of a business - sometimes called intangible "goodwill". Under this ruling AMK would have had to amortize US$ 252.9 million over 40 years which would result in a drain on earnings of about US$ 6 million per year. Fortunately for AMK, however UFC was acquired prior to APB Opinion 17 and therefore the US$ 252.9 million is not being written off at all.

In June, 1970, Eli Black merged AMK and UFC in order to form a new company, United Brands (UB). Just prior to the merger the Federal Trade Commission announced that it intended to institute proceedings against AMK to compel it to divest itself of its 83 per cent interest in UFC, and against UFC to divest itself of interests in the domestic fresh produce business, primarily iceberg lettuce.1/ Following the merger, Eli Black became Chairman of the Board and Chief Executive Officer of UB, John M. Fox was named President of both UB and the UFC division, and Herbert Cornuelle departed from the banana division and went to Dillingham Corp., Mr. J.A. Taylor became senior Vice-President of the banana division of UFC.

In 1969 a hurricane hit the company's banana plantations in Panama and Honduras. Extraordinary losses due to hurricane and flood damage amounted to US$ 10.6 million in 1969, US$ 8.6 million in 1970 and US$ 1.0 million in 1971.2/

During 1970, United Brands signed a letter of intent to sell its Guatemalan banana operations to Del Monte Corporation to comply with the 1958 Consent Decree.3/ However, negotiations with Del Monte were terminated in 1971 when the government of Guatemala refused to consent to the sale. Government officials indicated that for any such

1/ "Bold Start for AMK and United Fruit", Business Week, July 4, 1970, p. 22.

2/ United Brands Company, Annual Reports, 1970, 1971.

3/ United Brands Company, Annual Reports, 1970, 1971, 1972.

/sale to

sale to be acceptable it would have to be to a Guatemalan national. According to the UB annual report for 1971, certain Guatemalan nationals were interested in acquiring the properties and discussions on the matter with the Justice Department were underway. In the meantime, UB entered into a contract with Del Monte to sell four million boxes of bananas to the latter over the period June 1971 to December 1972. Negotiations apparently were reopened in 1972 and on December 15, 1972 the Guatemalan properties were sold to Del Monte for US$ 20.5 million.1/

Several management changes were made at UB in the early 1970s. In 1971, J.M. Fox who had been president of the banana group resigned. In the Who's Who in America - 1972-1973, Fox was listed as a director and consultant at UB. However, his name was absent from the list of directors in the 1972 Annual Report. The departure of Fox completed the exodus of all of the top management personnel of the sixties. Sunderland, Fox and Cornuelle, the three banana operations and marketing experts were gone.

United Brands' performance over the period 1969-1973 is shown as follows:

Year	Sales (US$ m)	Profit (US$ m)	Equity (US$ m)	Profit Margin (%)	Return on Equity (%)
1969	1 189	28.7	513	2.4	5.6
1970	1 384	(2.1)	505	(0.2)	(0.4)
1971	1 374	(24.0)	478	(1.7)	(5.0)
1972	1 587	17.7	494	1.1	3.6
1973	1 982	25.4	517	1.3	4.9

1/ Moodies Industrial Manual, 1974, p. 28.

/The banana

The banana group of UB showed the following results:

Year	Sales (US$ m)	Profit (US$ m)	Equity (US$ m)	Profit Margin (%)	Return on Equity (%)
1969	555	28.7	355	5.2	8.0
1970	380	27.4*	N.A.	7.2	N.A.
1971	398	11.2*	N.A.	2.8	N.A.
1972	451	34.7*	N.A.	7.7	N.A.
1973	450	26.3*	N.A.	5.8	N.A.
1974	N.A.	(7.5)	N.A.		N.A.

*/ Income from Operations before unallocated corporate overhead and extraordinary items.

These figures indicate that the banana group at UB has been profitable relative to the other divisions of the company. Substantial extraordinary losses were experienced during this period partly due to hurricane and flood damage and a fleet replacement programme.1/ In 1974, the banana group made a loss of US$ 7.5 million.

During the 1969-1973 period the company's sources of banana supplies for export underwent some important changes as shown in tables 13 and 14. Honduras' production was relatively low in 1970 due to the effects of Hurricane Francelia which struck in September 1969. Both Panama and Honduras suffered severe flooding in 1970. These disasters cut UFC's banana production during the season when demand was at its peak. By the time production was restored, competition had made serious inroads into UFC's share of the North American market during the first half of the year. Plantations returned to near full production in the second half, but this only added to a market glut. The results were lower banana prices and greatly reduced revenue and profit contribution for the year.2/

1/ United Brands Company, Annual Reports, 1970, 1971.

2/ Ibid., 1970, p. 7.

Table 13

ORIGIN OF UNITED BRANDS' SUPPLIES FOR EXPORT

(Million boxes)

	1969	1970	1971	1972	1973	1974
Panama						
Produced	20.2	23.7	24.7	24.6	23.3	17.7
Purchased	10.4	7.9	7.9	6.9	5.2	4.4
	30.6	31.6	32.6	31.5	28.5	22.1
Honduras						
Produced	17.7	14.9	22.7	19.7	13.8	15.1
Purchased	7.0	6.2	6.9	5.9	5.2	4.4
	24.7	21.1	29.6	25.6	19.0	19.5
Costa Rica						
Produced	14.8	16.7	17.8	17.7	16.4	14.2
Purchased	-	-	-	1.0	.8	-
	14.8	16.7	17.8	18.7	17.2	14.2
Guatemala						
Produced	7.2	7.9	8.9	10.8	-	-
Purchased	1.2	.9	1.9	1.0	3.4	2.7
	8.4	8.8	10.8	11.8	3.4	2.7
Subtotal	78.5	78.2	90.8	87.6	68.1	58.5
Other	14.4	9.7	7.9	10.7	18.1	30.1
Total	92.9	87.9	98.7	98.3	86.2	88.6

Source: United Brands.

/Table14

Table 14

ORIGIN OF UNITED BRANDS' SUPPLIES FOR EXPORT

(Percentage)

	1969	1970	1971	1972	1973	1974
Panama						
Produced	22	27	25	25	27	20
Purchased	12	9	8	7	6	5
	34	36	33	32	33	25
Honduras						
Produced	19	17	23	20	16	17
Purchased	8	7	7	6	6	5
	27	24	30	26	22	22
Costa Rica						
Produced	16	19	18	18	19	16
Purchased	-	-	-	1	1	-
	16	19	18	19	20	16
Guatemala						
Produced	8	9	9	11	-	-
Purchased	1	1	2	1	4	3
	9	10	11	12	4	3
Ecuador	-	1	2	4	11	13
Colombia	12	8	3	2	3	11
Philippines	-	-	1	2	4	7
Other - purchased	2	2	2	3	3	3
	100	100	100	100	100	100
Breakdown by ownership:						
Company production	67	72	75	74	62	53
Associate production	33	27	23	22	23	31
Other purchases	0	1	2	4	15	16

Source: United Brands.

/Table 8

Table 8 shows that UB's share of the United States market fell from 55.7 per cent to 46.2 per cent between 1968 and 1970. The period 1970-1972 was one of oversupply in the United States banana market. United Brands' production in Honduras increased sharply after replanting and the company's total exports increased by 12 per cent between 1970 and 1971. United Brands' market share remained stable at about 45 per cent until a severe windstorm hit the Honduran plantations in May 1973. This disaster coincided with the sale of United Brands' Guatemalan division in December 1972, and resulted in a 10 per cent drop in UB's share of the United States market in 1973. Castle & Cooke and Del Monte both increased their market share with Castle & Cooke taking over from UB as the largest banana importer in the United States.

United Brands remains the leading banana exporter in the world despite its losses in the United States market. Table 9 notes the company's dominant position in the 1970-1972 period. During that period, UB was the largest banana importer in Canada, Switzerland, Denmark, Sweden, Belgium, Italy, Norway, Netherlands, West Germany, Poland and the United Kingdom.

As indicated by UB's financial statements, the company has not achieved a respectable net profit margin in recent years. Over the period 1970-1974, the period since the AMK-UFC merger, UB has experienced a total net loss of US$ 26.6 million. The company's total revenues over the period amounted to US$ 8.3 billion. Nineteen seventy-three was the company's best year when it earned a net income of US$ 25.4 million on revenues of US$ 1.98 billion. However, UB would have suffered a net loss in 1973 in the absence of a complex financial manoeuvre implemented by Eli Black. In November 1972, the Accounting Principles Board issued a new ruling, APB Opinion 26, which stated that as of January 1, 1973 any difference in principal arising from any early extinguishment of debt must be flowed through current earnings in one year.1/

1/ "The Numbers Game", Forbes, April 15, 1973, p. 42.

/United Brands

United Brands had 5 1/2 per cent convertible subordinated debentures with face value of US$ 125 million which were scheduled to come due in 1994. The actual market value of these bonds, which had US$ 100 face value, was about US$ 61 in late 1972. Black decided to renegotiate this debt in the following fashion. For every US$ 100 in face value on the old bonds, UB would give US$ 9 in cash and US$ 60 in face value on a new 9 1/8 per cent bond which would come due in 1998. From the point of view of the bondholders, this offer was attractive because the interest payments on the new bond (9 1/8 per cent on US$ 60) would be the same as they were on the old bond (5 1/2 per cent on US$ 100) whereas the current value of the new cash and bond package (US$ 60 + US$ 9) would be higher than the market value of the old bonds (US$ 61).1/

From UB's point of view, the swap appeared attractive because it would add to current pre-tax earnings and reduce the company's debt by US$ 50 million as well. How much would the renegotiation add to pre-tax earnings? The amount would be US$ 50 million (the difference in principal arising from the early extinguishment of debt) less the cash paid to the bondholders (about US$ 11.2 million). That left US$ 38.8 million to be added to pre-tax earnings, the exact amount added as an extraordinary gain in the company's 1973 financial statements.2/

Black appeared to have created US$ 39 million by a bond renegotiation. However, critics pointed out that this gain was simply an accounting adjustment. But because of APB Opinion 26, Black was able to record a pre-tax gain of US$ 39 million, all in 1973. This manoeuvre lifted UB from yet another year of losses to a net income of US$ 25.4 million after taxes.

1/ *Ibid.*, p. 42.

2/ United Brands, Annual Report, 1973, p. 33.

/By early

By early 1974, UB's Honduran plantations had returned to full production after a severe blowdown in May 1973. This increased production, together with increased imports by Del Monte and Castle & Cooke, created a state of oversupply and depressed prices in the banana markets.1/ In March 1974, seven Latin American nations (Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Nicaragua and Panama) signed the "Panama Agreement" whereby they agreed in principle to implement an export tax of United States 2.5 c/lb effective April 1, 1974. However, on April 1, 1974 the following taxes were imposed: Colombia - 40 c/box, Honduras - 50c/box, Costa Rica and Panama - US$ 1.00/box. The other signatories - Ecuador, Nicaragua, and Guatemala - did not impose a tax.2/

In Honduras the tax was reduced to 25c/box after protest from the fruit companies. However, the Honduran tax calls for annual increments of 5c/box until the tax reaches 50c/box in 1979. In Panama, the export tax was dropped to 35c/box effective October 21, 1974.

Confrontations between the fruit companies and the exporting nations were referred to as the "Banana War" by the press. John Taylor, President of UB's banana operations said that the company's current operating contracts specifically protected the company from having to pay export taxes.3/

United Brands began to accrue funds under protest to pay the export taxes in Panama. The company offered to pay the Panamanian government in guaranteed certificates rather than cash but the government refused to accept the certificates. As a result, UB refused to pay the tax. The government then confiscated US$ 3.9 million

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1/ Ibid., p. 5.

2/ Jacques Nusbaumer, The World Banana Economy: Prospects for Change 1974 - 1980, IBRD., Commodity Paper Nº 15, Washington, D.C., February 1975, p. 14.

3/ "United Brands Says it Fears Panama Would Seize Boats", New York Times, August 5, 1974, p. 35.

/which UB

which UB had deposited in escrow at the National Bank of Panama and which UB originally intended to use to pay the export tax. The company responded by halting export shipments from Panama.1/ Company officials instructed their banana boats not to put in to Panama harbours for fear the government would seize the boats. The Minister of Industry, and Commerce, Fernando Manfredo stated that negotiations over payment of the tax would not begin until UB continued exporting. The tax being imposed at the time was US$ 1.00/box.

Eli Black reiterated the company's position that the export taxes violated the provisions of existing agreements. He said that UB recognized Panama's need for additional revenues and was prepared to negotiate a reasonable formula. However, he demanded that tax negotiations must be resumed before export shipments would be continued. Furthermore, he stated that UB had not offered to sell its banana operations to Panama.

Government officials in Panama said that the country would carry its confrontation with UB to "the bitter end". The government denied that it had illegally confiscated UB funds and stated that a contract signed by United Fruit Company and Panama in 1927 calls for the company to pay export taxes after 1957 as the law deems necessary.2/

The government decided to purchase the properties of the Chiriqui Land Co., UB's Panamanian subsidiary, as soon as the company resumed shipments. A national citizens front in support of the banana workers and the government held its first meeting on August 5, 1974. A programme was organized to mobilize private and State aid to nearly 2,000 banana workers and their families affected by the company's suspension of banana exports. Food and medical supplies were trucked and flown to the plantations.3/

1/ "United Brands says Panama Fund Removal led to Shipment Halt", Wall Street Journal, August 12, 1974, p. 10.

2/ "Panama to continue Fruit Company Fight", Latin American Digest, October 1974, p. 18.

3/ "Panama Taking Steps to Buy Subsidiary", The Journal of Commerce, August 6, 1974.

/Eventually tax

Eventually tax negotiations resumed and the export tax was lowered from US$ 1.00 to 35c/box. Banana shipments resumed early in September after a six-week stoppage. By autumn, the fruit companies has also managed to have the export taxes in Honduras and Costa Rica lowered, to 35c/box.1/ Ecuador remained unwilling to join other banana-producing countries in imposing higher export taxes.

In late September, Hurricane Fifi hit in Honduras.2/ At the UB plantation in the Sula Valley, 24,000 out of 28,000 acres were destroyed.3/ A large quantity of boxed bananas stored in warehouses was also destroyed. The banana crop was not insured. United Brands' pier remained operable but there was damage to the railway and other facilities which were insured. Originally, there was some fear that UB and Standard Fruit might abandon Honduras due to the combined impact of the hurricane and the export tax. However, a UB official, Mr. Lacombe, said that UB's investment in Honduras was close to US$ 100 million and the company would not leave.

On October 11, 1974, UB announced that the dividend on preferred shares would be postposed due to losses from the Honduran hurricane and the export taxes.4/ On November 12, UB made its third quarter financial report. The company announced that revenues for the quarter had increased from US$ 496 million in the third quarter of 1973 to US$ 524 million. However, the company suffered a net loss of US$ 47.2 million in the third quarter resulting in a US$ 40.2 million loss for the first nine months of 1974. The loss due to Hurricane Fifi was US$ 20 million net of insurance, and banana taxes for the third quarter amounted to US$ 11 million.5/

1/ "Panama is resuming Banana Shipments", New York Times, September 7, 1974, p. 15.

2/ "United Brands says Hurricane Damage to Cut Net", Wall Street Journal, September 24, 1974, p. 19.

3/ "Honduras likely to need Two Years to Recoup Losses", New York Times, September 27, 1974, p. 17.

4/ New York Times, October 11, 1974, p. 37.

5/ "United Brands Reports Net Loss for Quarter", New York Times, November 12, 1974, p. 61.

/The third

The third quarter loss at UB placed the company in financial difficulty. Working capital had decreased 17 per cent from US$ 200.1 million at the end of 1973 to US$ 165 million late in 1974.1/ United Brands decided to cancel dividend payments for the fourth quarter of 1974. Eli Black saw the necessity of selling off some of the company's assets. Reluctantly, he decided to sell Foster Grant Co. - a petrochemical subsidiary which UB had acquired in the latter part of 1972 and which Black had referred to as "the crown jewel of our company".2/ Foster Grant had contributed only 7 per cent to total revenues in 1973 but accounted for almost 24 per cent of the income. However, UB's banks were pressuring the company to sell something because UB was running low on the cash it needed to keep up payment on loans.3/

The sale of Foster Grant to the German company, Hoechst, was announced on December 20. For tax purposes, the details of the sale had to be and were completed by the end of December, 1974.4/ In what economist Eliot Janeway called "a striking financial success",5/ Black negotiated the sale of Foster Grant for US$ 70 million having paid US$ 49 million in 1972.6/

On January 1, 1975, the government of Panama took over 30,000 acres of uncultivated land formerly held by the Chiriqui Land Company. This was the first step in the transfer of Chiriqui's assets to the government which would be completed in 3-4 years, and would give the

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1/ "United Brands trades More Assets for Cash", Business Week, January 13, 1975, pp. 35-36.

2/ Ibid., p. 35.

3/ "Suicide of Big Executive: Stress of Corporate Life", New York Times, February 14, 1975, p. 1.

4/ "Was Eli Black's Death Caused by the Tensions of Conflicting Worlds", Wall Street Journal, February 14, 1975, p. 1.

5/ New York Times, February 14, 1975, p. 1.

6/ Business Week, January 13, 1975, p. 35.

/government total

government total ownership of UB's plantations. However, there was disagreement over the value of Chiriqui's assets. The company valued them at US$ 100 million while the government said that their book value was US$ 44 million.1/

On February 4, 1975, Eli Black committed suicide by jumping out the window of his New York office.2/ Company officials said that he was "under great strain because of business pressures". Edward Gelsthorpe, the chief operating officer of UB, said that under Black's leadership "the company was on its way to overcoming its several crises". The business pressures were said to be attributable to the sale of Foster Grant and to Black's agreement at the end of December to negotiate the sale of UB's Panama holdings.

At the end of March 1975, UB announced its financial results for 1974. The company's sales increased 9.8 per cent from US$ 1.84 billion in 1973 to US$ 2.02 billion in 1974. However, UB experienced a loss of US$ 71.3 million from continuing operations and a net loss of US$ 43.6 million after extraordinary items. Banana operations resulted in a loss of US$ 6.6 million in the fourth quarter of 1974 and banana export taxes amounted to US$ 2.8 million. In addition, the company took out of production about 3,000 acres of marginal banana land resulting in a fourth quarter charge of about US$ 2 million.3/

Following Black's death, J.E. Goldman was named temporary head of the Executive Committee and a new Management Committee.4/

In March, the board hired a New York executive-search company to find it a new Chief Executive.5/ This company presented seven

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1/ Facts on File, March 1, 1975, p. 168.

2/ "44 Story Plunge Kills Head of United Brands", New York Times, February 4, 1975, p. 1.

3/ "United Brands Posts Big Loss from Operations", Wall Street Journal, March 28, 1975, p. 20.

4/ New York Times, February 11, 1975, p. 55.

5/ "United Brands Co. Elects Booth President and Chief, and Fisher Acting Chairman", Wall Street Journal, May 13, 1975, p.3.

/candidates from

candidates from which the board of directors unanimously endorsed Mr. Wallace W. Booth as the new Chief Executive on May 13. Booth had been senior Vice-President and a member of the board and Executive Committee of Rockwell International Corp. He has a reputation for being a very strong financial manager.

The board of UB also announced that Mr. Max M. Fisher had been named acting chairman while Mr. Booth became familiar with the company. Mr. Fisher is described as a multimillionaire independent investor who was elected to the board on April 2. Also in April, a New York financier, Seymour Milstein, purchased 4 per cent of UB's common stock and won a board seat.

On May 7, the European Economic Community charged UB with anti-trust violations in the European market. The EEC charged that UB had broken Common Market rules by favouring some banana wholesalers over others in Denmark and Ireland.1/

On May 21, Costa Rican foreign minister Gonzalo Facio charged that Standard Fruit, United Brands and Del Monte conspired against Central American banana producing states to keep them from raising export taxes.2/ The foreign minister said that he had heard unconfirmed reports that the three companies had established a US$ 5 million secret fund to destabilize UBEC member countries that had recommended export taxes. All three companies denied the accusation.

The following tables 15, 16 and 17 provide some further data from various sources on UB's holdings in Central America, UB's employment, and taxes paid by UB in Central America.

1/ "United Brands Accused by Europeans", New York Times, May 7, 1975, p. 63.

2/ "Costa Rica Accuses Castle & Cooke Unit, Del Monte, United Brands of Conspiracy", Wall Street Journal, May 21, 1975, p. 6.

/Table 15

Table 15

UNITED BRANDS IN CENTRAL AMERICA AND PANAMA
(as of April 1972)

	Guatemala	Honduras	Panama	Nicaragua	Costa Rica	Colombia
Land (acres)	68 000a/	191 000	107 000	--	228 000	900
Corrugated Box Plant		x	x		x	
Food Oil Plant		x		x	x	
Plastics Plant		x	x		x	
Banana Puree Plant		x	x			
Palm Oil Plant		x			2	

Source: New York Times, April 24, 1975, p. 1.

a/ Sold to Del Monte in December 1972.

Table 16

BANANA INDUSTRY
(Employment: United Brands)

	Panama	Costa Rica	Honduras	Guatemala
1970	13 625	10 196	14 863	4 827
1971	12 538	8 107	14 543	4 675
1972	10 621	8 158	12 943	4 507
1973	9 693	7 985	12 894	71

Source: OAS Executive Secretariat for Economic and Social Affairs, "Sectoral Study of Transnational Enterprises in Latin America: The Banana Industry", 1974, p. 53.

/Table 17