Distr.
RESTRICTED
E/CEPAL/R.321
18 August 1982
ENGLISH
ORIGINAL: SPANISH

C E P A L
Economic Commission for Latin America

BARGAINING POSITION AND DISTRIBUTION OF GAINS IN THE BANANA INDUSTRY OF THE UNION OF BANANA EXPORTING COUNTRIES, ESPECIALLY HONDURAS AND PANAMA

82-6-1256

CONTENTS

INTRODUCTION

In July 1977, an aide-memoire was signed by the Executive Secretaries of the Economic Commission for Latin America (CEPAL) and the Economic and Social Commission for Asia and the Pacific (ESCAP) calling for interregional co-operation between the two Commissions in the field of transnational corporations. In that aide-memoire, the Executive Secretaries agreed to launch an interregional research project on the impact of transnational corporations on primary commodity exports from developing countries. Based on appropriate provisions incorporated into the understanding, the Economic Commission for Africa (ECA) joined the project in early 1978.

It was agreed at that time that the three regional Commissions, together with the United Nations Centre on Transnational Corporations in New York (UNCTC), would co-operate in the conduct of in-depth country case studies on the impact of transnational corporations on the export of primary commodities from selected developing countries. To provide a common focus for the country case studies, a general conceptual framework was written focusing on (i) factors determining the relative bargaining positions of host governments and transnational corporations and (ii) the resulting distribution of gains between the host country and the transnational corporation.1/

The conceptual framework for the case studies has been kept very broad in order to accommodate the multivaried conditions which exist among primary commodity export industries in different countries. It is therefore meant to apply to the various forms of transnational corporation involvement in such industries, from the traditional major direct equity investment by one or more transnational corporations in production, transformation and trade of primary commodities, to the newer forms of licensing agreements, joint-ventures, trilateral arrangements, production-sharing agreements and so forth. It is also meant to apply to negotiations and renegotiations associated with the nationalization of a foreign direct investment already operating in a host country.

1/ See, "Transnational corporations in export-oriented primary commodities: a study of relative bargaining positions and distribution of gains", CEPAL/CTC Joint Unit (Santiago, Chile, 30 August 1977) and the modified version "Transnational corporations in export oriented primary commodities: A general conceptual framework for case studies", Joint ESCAP/CTC Unit on Transnational Corporations, Working Paper No. 1, New York, September 1978.

The ultimate aim of the case studies carried out according to the conceptual framework, and indeed of the whole interregional project, is to provide host developing country governments with an input of objectively derived material with which they can evaluate existing TNCs involvement and agreements with them and realize their potential for increased bargaining capacity towards TNCs, as well as, ascertain the relative advantages and disadvantages of policy options at their disposal. To this end, an interregional expert group meeting was convened at ESCAP headquarters in Bangkok in October 1979 to review the case studies up to that point completed by the three regional Commissions. The meeting suggested the most important policy issues and further areas of research in the interregional project and the integration of the case studies from each region into global commodity and sectoral studies to be presented at an interregional seminar in New York (November 1982) on transnational corporations and primary commodity exports.2/

In addition, in its last three ordinary sessions (1975, 1977 and 1979) CEPAL adopted individual resolutions on co-operation among developing countries and among developing regions of different geographical areas.3/

Following the conceptual and institutional framework indicated above CEPAL, through its Joint Unit with the United Nations Centre on Transnational Corporations, has been concerned with this subject over the last few years. Case studies had been accomplished on TNCs involvement in seven commodities in the different countries of the region (bauxite in Jamaica, copper in Chile and Peru, tin in Bolivia, cotton in Mexico, bananas in Honduras and Panama, coffee in Colombia and sugar cane and its use for energy in Brazil), applying the common methodology of the interregional project and taking into account the specific problems and needs of the region and the selected countries.

The results of the studies on copper and tin had been presented to the seminar on Alternative Approaches to Negotiating with Foreign Investors and Transnational Corporations in the Copper and Tin Industry, organized by CEPAL in Santiago, Chile,

2/ See, "Report of the Interregional Expert Group Meeting on Transnational Corporations in Primary Export Commodities", Bangkok, 8-15 October 1979 (CTC/ESCAP/PEC/2) and UNDP, Proyecto de los Gobiernos de Bolivia, Brasil, Colombia, Chile, Honduras, Jamaica, México, Panamá y Perú, sobre el "Fortalecimiento del poder de negociación de los Gobiernos Huéspedes en sus tratos con las empresas transnacionales dedicadas a la exportación de productos básicos" (RLA/80/016/A/01/02).

3/ See CEPAL resolutions 363 (XVII) adopted in Guatemala and 387 (XVIII) adopted in La Paz.

9-12 December 1981, with the participation of high-level officials of the public and private sectors and representatives of foreign enterprises from Bolivia, Brazil, Chile and Pery 4/ and to the seminar on Policies and Negotiations with Transnational Corporations in the Mining and Metallurgical Industry of Bolivia, organized by the United Nations Centre on Transnational Corporations and CEPAL in co-operation with the Ministry of Mining and Metallurgy of Bolivia, in La Paz, 17-22 May 1982, with the participation of high-level officials of the public and private sectors of this industry. Finally, a similar seminar is envisaged for the export-oriented tropical products (banana, coffee, cotton and sugar cane) to take place in Panama in co-operation with the Union of Banana Exporting Countries (UPEB) and the Government of Panama.

In the forthcoming phase of the Interregional Project in CEPAL the commodity and sectoral studies, integrated for the three developing regions, will be accomplished for banana, sugar cane, tin and minerals.

This study contains an analysis of the bargaining position and distribution of gains in the banana industry of the Union of Banana Exporting Countries (UPEB),5/ with particular attention paid to the cases of Honduras and Panama. Chapter I contains a summary of certain aspects of the historical dimension of the structural and sociopolitical changes which took place in the industry during the second half of the 1970s and, in particular, the original strategies of the monopolistic transnational corporation (hereinafter TNC) United Fruits (United Brands since 1970) and of the new post-war strategies which gave rise to the oligopoly formed by United Fruit and Standard Fruit (Castle and Cooke since 1965) 6/ and Del Monte. On the basis of a historical analysis and the joint approach taken in the interregional project, as described above, an attempt will be made in chapter II to evaluate the bargaining capacity and distribution of gains between the three North American TNCs and the Central American countries at the beginning of the 1970s. The outlines presented of the strategies followed by the transnationals which dominate the banana industry serve

4/ See, Report of the Seminar quoted above (E/CEPAL/R.306, Restricted, February 1982).

5/ Established in September 1974 by Colombia, Costa Rica, Honduras, Guatemala and Panama, with the Dominican Republic, Nicaragua and Venezuela joining later (1976, 1979 and 1982, respectively). Hereinafter the expressions "Central America" and "UPEB" are used indiscriminately to refer primarily to the member countries of the organization which are located in the Central American Isthmus (i.e., including the Republic of Panama).

6/ Hereinafter the terms "United Fruit" or "United Brands" and "Standard Fruit" or "Castle and Cooke" are used indiscriminately.

as a frame of reference in appraising the subsequent changes in the balance of power between the two parties.7/ These changes are considered in the first part of the study (chapter III) in which consideration is given to the new export tax on bananas, the strengthening of the public sector and the creation and achievements of the organizations for co-operation and horizontal integration (UPEB and COMUNBANA (Multinational Banana Marketing Corporation)). Finally, in chapter IV, consideration is given to the bargaining position and distribution of gains between the TNCs and UPEB at the beginning of the 1980s, as a result of the application of new government policies as from 1974.8/ In the evaluation of the renegotiation between Panama and United Brands which took place in the first half of 1981, an attempt is made to prove some previously established hypotheses on the new factors in the negotiating position of the banana producing countries relating to the creation of UPEB. This final chapter also sets out some conclusions drawn from the study and alternatives for action by the UPEB countries and other exporters of tropical products of the region.9/

The study was prepared in the Joint CEPAL/CTC Unit on Transnational Corporations on the basis of a number of studies previously carried out by CEPAL, FAO, UNCTAD and other organizations and authors interested in the topic.10/ The critical mass of data for the study was, however, obtained thanks to the generous co-operation extended to the Unit by the UPEB secretariat, COMUNBANA, the National Banana Council of the Republic of Panama and COHBANA of Honduras.11/ In any case, the views expressed in this restricted document are, at this phase of the interregional project, the sole responsibility of the Unit and do not necessarily reflect those of the organizations referred to or CEPAL.

7/ See Outlines 1 and 2 on pp. 27 and 28.

8/ Year of the Declaration of Panama which resulted in the new policies, especially the tax policy, and the creation of UPEB. It has been possible to maintain the historical continuity of the analysis, and of the quantitative analysis in particular, only to the extent that sufficient statistical data has been made available.

9/ These alternatives were formulated in co-operation with the UPEB authorities within the integrated study on bananas (including the experiences of South-East Asia and the Pacific and Africa), for which the joint CEPAL/CTC Unit is responsible.

10/ See the selective bibliography contained in Annex 2 to this study.

11/ The Unit is particularly grateful to Dr. Carlos M. Zerón, Executive Director of UPEB, and to his predecessor, Mr. Abelardo Carles; Mr. Francisco Rodríguez, the General Manager of COMUNBANA; Mr. Euclides Díaz, Executive Secretary of the National Banana Council of Panama, and Mr. Juan R. Ramos, Marketing Manager of COHBANA, and his predecessor, Mr. Carlos M. Zacarías.

I. THE HISTORICAL DIMENSION OF THE NEGOTIATING POSITIONS OF THE TNCs AND THE COUNTRIES OF CENTRAL AMERICA AND THE DISTRIBUTION OF GAINS BETWEEN THEM

To understand the main changes in the bargaining positions of the transnational corporations and the countries of Central America and the distribution of gains between them in the second half of the 1970s, it is useful to consider some historical aspects of the situation which led up to the creation of UPEB and the banana policies inaugurated in 1974. To this end, here in the first part of the study we will attempt to summarize the strategies of the three biggest transnationals and describe the source of their bargaining power in Central America which resulted in a deep-seated imbalance in the distribution of gains of the industry.

1. United Brands: source of its bargaining power and initial growth strategies

The beginning of the expansion of the banana industry in Central America in the first half of this century and its position in the market of the western hemisphere are related to the establishment of the United Fruit Company (United Brands since the merger of the United Fruit with AMK in 1970). This banana transnational was the first to achieve full vertical integration of the industry, from the preparation of the land and cultivation of bananas to retail trade in the consumer centres. Its monopolistic position, the availability of capital for investment 12/ and efficient technology and administration were the factors which made it possible to evolve strategies adapted to the peculiarities of the industry -relatively high perishability of the fruit meaning that the period between harvest and consumption can be no longer than 4 to 5 weeks; high production and economic risks in view of the possibility of plant damage or destruction from disease, winds, hurricanes and floods; price fluctuations and the fact that banana can be replaced by other fruits to cope with price-demand elasticity in consumer markets.

On the other hand, the original United Fruit strategy in the banana industry to some extent represents an "historical model" of vertical integration and monopolistic domination of the industry which had to be combated later both by

12/ In the mid-1950s, the average cost of establishing a modern banana production unit covering some 20 thousand acres was US$ 20-25 million, or between US$ 1 000 and US$ 1 250 per acre planted in bananas (see The Marketing and Distribution System for Banana, (TD/B/C.1-162), 1978).

/the competing

the competing transnationals (Castle and Cooke and Standard Fruit (its banana division) and Del Monte) and by the producer countries desiring to achieve bigger gains for their economies.

(a) The origin and establishment of the monopoly

The Latin American banana exporting industry began about three decades prior to the establishment of United Fruit in 1899 through informal agreements between the plantation owners and the shipping companies of the United States which had surplus space in their vessels. The sale of bananas on the United States market turned out to be lucrative and by the end of the century more than 100 firms were exporting this commodity.

Like the majority of banana exporting companies, the United Fruit Co. began with a merger between the commercial interests and maritime-transport interests of the United States and production interests in Latin America. The Boston Food Company, the firm which gave rise to United Fruit, imported bananas using the surplus freight capacity in its schooners, which plied between Jamaica and Boston. Business was so good that the transnational corporation opened the first banana purchasing office in Jamaica in an attempt to ensure a more regular supply from the plantations. With the object of increasing supplies, the company expanded both production and its marketing activities in Jamaica, Cuba and Santo Domingo, opening more purchasing offices and establishing its own plantations. In the United States, the transnational corporations established banana ripening and marketing activities in cities in the interior, controlling the rail or truck transport from the Atlantic ports to the consumer centres.

Once the Boston Fruit Company was established in the Caribbean, it merged with a banana exporting company with headquarters in Costa Rica which also operated in Colombia, Panama and Nicaragua. This company not only had banana plantations but shipped bananas in its own steamers to New Orleans and other cities in the south of the United States. The merger resulted in the United Fruit Company which was incorporated in New Jersey in 1899 and would combine the old banana plantations in the Caribbean with the new ones in Central America. This led to the domination of the growing United States market in bananas and provided greater security for the transnational corporation in that the production risk was spread out over a number of Caribbean and Central American countries.

/During the

During the first half of the century, the TNC gained virtually full control over the banana industry of Central America and the maritime transport, ripening and marketing stages in the United States. According to the data available for 1961, United Fruit controlled some 147 000 hectares of farmland in the producing countries of Latin America (Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Jamaica, Panama, the Dominican Republic and others). Thirty-two per cent of this land was devoted to the cultivation of bananas, and 17% to other crops (sugar cane, cocoa and oil palm) while over half the land in the hands of the TNC was used for other purposes, mainly as a reserve, resulting in the under-utilization of farmland. In the same countries, the transnational also controlled over 1 700 kilometers of railways and electric tram systems in the production units (see table 1).

In 1950 the TNC also controlled 80% of retail banana sales in the United States while the remainder was divided between the Standard Fruit Company and small exporters. The latter, moreover, were highly dependent on the surplus banana production of United Fruit.

Let us now look at United Fruit's original strategies with regard to its "backward" linkages, or its supply lines in the typical case of Honduras.

(b) Entry into Honduras

The cultivation of bananas in Honduras began in the second half of the last century in the islands of the Bahía and other parts of the northern coast exploited by national growers. Towards the end of that century, foreign investors entered upon the scene and owing to advantageous concessions granted by the governments of that time and by developing transport, particularly rail transport, succeeded in gaining control not only over marketing but also over the transportation and cultivation of bananas in a relatively short period of time.

(i) Objectives and strategies 13/

In April 1911, when bananas already constituted about 40% of the total exports of Honduras, the CUYAMEL Fruit Company obtained a concession from the Government of that period for the cultivation of bananas and construction of a railway in the

13/ See Charles David Kepner and J. Henry Soothill, The Banana Empire, A Case Study of Economic Imperialism, Russell and Russell, Division of Atheneum House Incorporation, New York, 1967, and Franklin D. Parker, The Central American Republics, Royal Institute of International Affairs, Oxford University Press, 1971.

/Table 1

Table 1

UNITED FRUIT: LAND AND RAILWAY HOLDINGS IN 1961

Countries	Acres						Miles	
	Bananas a/	Sugar-cane	Cocoa	Oil palms	Grasslands, urban, etc.	Total	Railways b/	Tram-lines
Colombia					3 452	3 452		
Costa Rica	25 232		29 270	11 529	26 945	92 976	246.12	141.58
Dominican Republic	2 338				4 861	7 199	52.69	
Ecuador	4 634		502		8 052	13 188		60.31
Guatemala	23 691			651	29 881	54 223	181.06	16.86
Honduras	26 212			5 277	58 335	89 824	358.79	3.30
Jamaica	339	6 143			851	7 333	1.40	
Panama	32 987		5 464		31 682	70 133	230.78	8.85
Others	2 879		1 285	1 389	23 420	29 673		59.38
Total 1961	118 312	6 143	37 221	18 846	187 479	368 001	1 071.84	290.28
Total 1960	134 593	5 853	37 760	19 077	200 937	398 220	1 089.62	240.55

Source: United Fruit data.

a/ Includes leased land.

b/ Includes 27.88 miles in use but not owned.

/vicinity of

vicinity of the port of Tela on the country's northern coast. In May 1913, after this concession had been obtained, the Tela Railroad Company, a subsidiary of United Brands, was formed.

The objectives and purposes laid down in the concession made it easier for the TNC to establish bargaining power later in the Central American countries.

"(a) To engage in any or all of the businesses conducted by entrepreneurs engaged in shipping, by land and sea;14/ planters; farmers; traders; builders; contractors; importers and exporters; dock supervisors or any other business ... which may directly or indirectly increase the value of any of its rights or properties;

(b) To acquire, construct, possess, maintain and exploit railways, wharfs, bridges, viaducts, telegraph and telephone lines, telegraph stations and any other means of rapid communication in the Republic of Honduras;

(c) To lease or otherwise acquire movable or immovable goods, concessions, rights, exemptions or privileges created by the company which may directly or indirectly serve the purposes of the corporation;

(d) To sell, allocate and transfer or otherwise arrange to invest, trade and negotiate with regard to effects, objects and merchandise and real estate and movable goods of all kinds and description, and especially land, buildings, roads, railways, waterways, canals, warehouses, electric power infrastructure, ...

(e) The private property of the shareholder shall in no way be liable in respect of the payment of the corporation's debts."

Thus, back at the beginning of the century, the big power objectives of United Fruit were set forth. Its future competitors -Standard Fruit and Del Monte- for the most part clearly followed the objectives and strategies of the pioneer corporation, with a few modifications which will be considered below.15/

The basic condition of the contract between United Fruit and the government was that for each kilometer of railway constructed by the TNC, it would acquire the right to receive a certain amount of adjacent land, which would be given over to

---

14/ Our underlining.
15/ See chapter 2 in this part of the study.

/the cultivation

the cultivation of bananas.16/ In addition, authorization was given for the free use "of the wood, stones, lime, sand, etc., found on the vacated land or ejidades", and also "of the driving power of the water, of the natural rivers or streams in a 50-kilometer radius of the railway", and it was given the right to construct and use telegraph and telephone lines.

The terms of the contract between United Fruit and the government, which were laid down in a decree, gave the incentives for the expansion of the TNC by providing for true tax immunity, providing for the "construction of a wharf and railway in return for which the government concedes, for a period of 60 years, the importation free of customs duties and any kind of fiscal and municipal, maritime and land taxes established or which might be established, of machinery, carriages, tools, rails, rail ties and anything which may be necessary to equip, maintain, exploit and operate the wharf, train, its branch lines and the various appendages to which it will give rise".

An example of the imbalance in the bargaining power between the TNC and the Central American governments of the period is the tax renegotiation of 1932. At the beginning of that year, the government increased the tax on the use of river water for the irrigation of bananas from US$ 3 to US$ 10 per hectare a year, which represented, approximately, 2.5 US cents per bunch of bananas exported. The measure gave rise to furious protests from United Fruit, which threatened to raise the maritime transport and rail rates and lower the wage scale of its Honduran employees. In March 1932, the Congress adopted an amendment to article 48 of the law on the use of the country's water, stipulating that the tax would return to US$ 3 per hectare, or about 1 US cent per bunch of banana. In addition, it guaranteed the immunity of transnationals from any other tax, contribution or restriction, whether national or departmental, on the use of water for the next 25 years.

(ii) Social and political aspects

It goes without saying that the incipient economic power of United Fruit in the Central American countries also extended to the realm of social and political relations at both the domestic and the international levels. For example, the

16/ This substantial provision in the concession was met mainly through the dispossession (sometimes by force) of the native producers (see the bibliography referred to above).

/famous letter

famous letter of a high official of the TNC reveals (in rather crude terms) the political objectives of the transnationals in the Central American countries:17/

- To obtain implacable contracts in order to avoid competition from other firms and/or to overrule them and make them receptive to the rules laid down;

- To impose the commercial philosophy of the firm on the country and, in particular, to make use of its unscrupulous political leaders by offering them posts and titles;

- In general, all the corporation's strategies must strengthen its power and further its progress, impose its discipline and methods of work, but at the same time it must operate in such a way as not to expose its ambitions for dominance.

Finally, the ties between the mother country of the transnational and the "banana republic" of that day and age can be illustrated with a quotation from the statement made by President Theodore Roosevelt on 6 December 1904,18/ in which he said that the interests of his country and those of its neighbours to the south were really identical. They had great natural wealth, and if law and justice reigned within their boundaries, they would be certain to achieve prosperity. So long as they obeyed the basic laws of civilized society, they could rest assured that they would be treated courteously and sympathetically by the North Americans. The United States would only interfere as a last resort and then only if it were clear that their inability or lack of will to do justice in their country and abroad was in violation of the laws of the United States.

The turbulent political history of Central America in this century shows that the objectives referred to above are not confined to the realm of declared intentions. Since our study is focused on the economic aspects of bargaining power and on the relative costs and benefits, this parenthesis has been opened only to acknowledge the importance of their projection into the political sphere.

(iii) Economic domination

At the beginning of the 1970s, i.e., on the threshold of the profound changes in the banana policies of the Central American governments, the Honduran banana

---

17/ Letter from H.V. Rolston to Luis Melarra, Manager of the Company in San Pedro Sula, first published in the review Vanguardia of 20 October 1949 in San Pedro Sula, Cortés, Honduras, and reproduced in the Tegucigalpa newspaper El Guía on 26 May 1975. Only the political goals of the TNC revealed in it are summarized here.

18/ See C.D. Kepner and J.H. Soothill, op. cit.

industry and much of the economy of the country were dominated by two United States transnationals -United Brands and Castle and Cooke. The available data reproduced in table 2 shows that these companies' holdings included over 140 000 hectares of the country's farmlands, only a small proportion of which (about 10%) was devoted to the cultivation of bananas. Most of the land was held in reserve and was not cultivated at all. This was the result of the abandonment of plantations affected by plant diseases and also because the system of extensive irrigation required the inundation of large surfaces of unused land to prevent a surplus of water on the cultivated land.

The TNCs dominated the entire banana marketing sector, including the marketing of bananas from associated producers; the railways, manufacturing plants, etc., which increased their bargaining power and was the basis of a profound imbalance in the distribution of gains. In chapters II and III of this historical recital, we shall analyse these aspects in greater depth.

2. New TNC strategies in the postwar period

At the end of the 1950s, various factors were responsible for curtailing the monopoly of United Fruit in the banana market in the western hemisphere. These included the Panama disease, which affected the Central American plantations, and the various strategies of the transnational corporations to cope with the risks and reduce the costs of the industry; the anti-trust legislation and the efforts of the United States Government to increase the competition in the banana market and, finally, the fact that the peoples and governments of Central America were beginning to become aware of the unequal distribution of the gains derived from the production of bananas.

The reaction of the transnational corporations to these events varied considerably depending on their economic power, the position they held in the market and the approach taken in their individual strategies. There follows a discussion of the main changes which occurred in the years 1950 and 1960 which led to the establishment of an oligopolistic banana market dominated by (in addition to United Fruit, which previously had the monopoly) two newcomers to this industry -Standard Fruit (later Castle and Cooke) and Del Monte. We shall look first at the implications of the social pressure on the TNCs in the typical case of Honduras.

/Table 2

Table 2

HONDURAS: CONTROL OF THE COUNTRY'S ECONOMY BY UNITED BRANDS AND CASTLE AND COOKE AT THE BEGINNING OF THE 1970s

Indicator	Period	Unit	
1. United Brands			
Land holdings - total	1972	hectares	76 400
- Cultivation of bananas: holdings	1972	hectares	8 420
- Cultivation of bananas: associated producers	1972	hectares	2 968
- Railway holdings	1961	miles	359
- Ownership of industrial plants (crates, banana purée, oils, plastics)	1972	units	5
2. Castle and Cooke			
Land holdings - total	1972-1973	hectares	65 280
- Cultivation of bananas: holdings	1972-1973	hectares	6 092a/
- Cultivation of bananas: associated producers	1972-1973	hectares	2 790
Participation in industrial plants	1972		percentage of capital
- Butter and Atlantida soap			51
- Oil containers			59
- Carboard packing boxes			100
- Plastics			100
- Brewery			64
- Industrial containers			85
- National real estate company			54
3. Exports			
United Brands	1973	percentage of the country's total	46
Castle and Cooke	1973		54

Source: UNCTAD, The Marketing and Distribution System for Bananas (TC/B/C.1/162), 1968, pp. 22-25 and CEPAL, Transnational Corporations in the Banana Industry of Central America (E/CEPAL/L.203), 1979, pp. 78-79.

/(a) Reaction

(a) Reaction of the TNCs to the social pressure in Honduras 19/

At the beginning of the 1950s, the banana transnationals employed close to 35 000 people in Honduras, i.e., close to 5% of the economically active population and 20% of the country's wage earners. The initial expansion of the companies in the sparsely settled areas with an unhealthy climate forced them to hire workers in the Caribbean islands, Mexico and other parts of Central America, paying them wages which were sufficiently remunerative to attract a migratory flow. This led to the establishment of the elite of banana labourers, who, up to the 1950s, earned daily wages three times higher than workers in other rural areas. This relatively privileged position and the concentration of labourers on extensive banana plantations made it possible to create a labour organization in Honduras which was still very strong in 1954.

The establishment of the labour organizations in the two transnational corporations (CITRATERCO on the United Fruit plantations and SUFRAEFCO on those of Standard Fruit) was the result of a prolonged strike in 1954 which led to a substantial rise in wages (from 0.87 to 4.08 lempiras a day).20/ The transnationsl responded to this political pressure by reducing employment considerably -from 35 000 employees in 1953 to 15 000 in 1960- and the number of employees now stands at about 18 000. This reduction in the labour force was made possible by the abandonment of the plantations affected by diseases, the creation of the associate producers system and, primarily, by the substantial increase in the productivity of labour due to technological changes which will be analysed below.

These changes in strategy have also been furthered by the disputes between the companies and the peasants, who in the 1960s tried to occupy the reserve land to ensure their livelihood through the production of cereals, etc. The government of the period reacted to these occurrences by declaring the first land reform act in 1962 which primarily affected the unused land of the transnationals. A coup d'Etat paralysed the land reform, but in any case the companies felt the need to diversify their means of controlling the production of bananas, primarily through the system of associated producers.

19/ See Daniel Slutzky and Esther Alonso, Les transformations récentes de l'enclave bananière au Honduras, CETRAL (mimeographed document), 1979.

20/ One lempira = 50 United States cents.

/(b) Increase

(b) Increase in the productivity and profitability of the industry due to technological change

From the point of view of the transnationals, the social and political pressure on them was accompanied by greater liabilities in the banana trade and an increase in the cost of labour, a situation which was aggravated by the effects of the diseases to which the crops were subject and a reduction of the real prices of bananas on the world markets, particularly in the 1960s. The transnationals reacted by introducing the Cavendish, a new variety of banana, which not only was more resistant to the diseases but also made it possible to intensify production with a larger number of plants per hectare. In addition, the new system of packing in boxes helped to decrease the losses of produce. The results, in the case of Honduras, may be seen in table 3. Between the periods 1950-1954 and 1970-1974, production, expressed in number of boxes per hectare, increased 2.6 times over and labour productivity, 3.9 times over, which resulted in a cut in the number of persons employed per hectare from 1 544 to 1 036, i.e., by one-third. As for the strategies of the biggest competitors in the industry -United Brands and Standard Fruit-, they differed substantially, at least in the early stages of dealing with the growing liabilities of the banana trade.

United Fruit, with its large landholdings in Central America and control over transport and the United States' market (80% in 1950), was able to absorb the high costs generated by the disease more easily than its emerging competitor, Standard Fruit (9% of the market in 1950), or the local producers. The strategy initially followed by United Fruit was to continue using the same production techniques as before but to switch to new land periodically.

This approach, however, also made United Fruit less flexible than its competitors which were struggling to achieve greater participation in the market.

On the other hand, the competing transnational corporation, Standard Fruit, tried to strengthen its position on the market by using a new variety of banana which was resistant to Panama disease and yielded more fruit. This solution was attractive in that it did not entail the expense of moving the plantations to other land. The new variety was, however, highly delicate by comparison with those cultivated formerly and its use therefore entailed higher losses in maritime transport as well as rejection on the market due to the poor quality of the fruit.

/Table 3

Table 3

HONDURAS: INTENSITY IN PRODUCTIVITY OF THE BANANA INDUSTRY
(1950-1974)

Indicator	1950-1954	1960-1964 Annual averages	1970-1974
Boxes per hectare	849	1 151	2 208
Boxes per labourer	552	1 030	2 131
Labourer per hectare	1 544	1 137	1 036

Source: Daniel Slutzky and Esther Alonso, op. cit.

For this reason, the planting of new varieties of fruit also necessitated the use of a new technology for packing it: it was packed in boxes in the producing country instead of being shipped in bunches.

The success of the programme adopted by Standard Fruit in the market of the United States forced United Fruit to follow the same course later. By the mid-1960s, both banana corporations were using similar technologies; however, the initial advantage obtained by United Fruit was partly responsible for undercutting the monopoly position formerly maintained by United Fruit, whose participation in the market of the United States fell from 80% in 1950 to 45% in 1970.

The new technology used in packing the bananas also required investments in the construction of box factories. Both Standard Fruit and United Fruit had built their own box factories (cartoneras) in Honduras and Panama.

(c) The associate producers' programme

The introduction of the associate producers' programme changed the way in which the banana industry was organized. Actually it occurred as a reaction on the part of the transnationals to the criticisms of their power in the Central American countries and also as a means of transferring the production risks and social expenses to the producing country. In this connexion it should be noted that the labourers working in the banana enclaves enjoyed living conditions which were considerably better than those of other workers in the rural sector of Central America. The transnational corporations provided their labourers not only with

/higher wages

higher wages by comparison with the rest of the agricultural sector but also with housing, education and free medical attention which, although below the levels required in the industrialized countries, represented a considerable improvement over the conditions which prevailed outside the plantations. In addition, the ownership of services and ships by the companies greatly reduced the multiplier effect in the local economy. This aspect of the operation of the transnational corporations was very much in their favour in that it reduced the risk of labour unrest and ensured an enclave labour force which depended on the success of the operations of the firms.

Under the associate producers' programme, the transnational corporations sold or leased the banana plantations to local producers partially freeing themselves not only from the risk of production (diseases, natural disasters, market price fluctuations, etc.) but also from the social expenses described above. This strategy also made it possible to stand up against the anti-trust legislation of the United States Government (see the following part) and to deal with the criticisms levelled at the producer countries for permitting the foreign domination of their natural resources.

The associate producers were kept dependent on the transnational corporations in that the latter controlled the production inputs and services (technical assistance and credits) and through long-term contracts in which the TNCs set the purchase price of a given grade of banana. No quantity was specified, however, so that the foreign countries could decide how much to purchase and reduce their purchases in periods of surplus supply. Since they retained control over the marketing, transport and the United States' market, the local producers and third party companies could not purchase the surplus fruit and increase the competition.

In Honduras, the associate producers' system was begun in 1952 with the leasing of approximately 20 hectares of banana holdings to each of the "old faithful" workers chosen by the company. A token rent of 1 lempira a year was paid, but, on the other hand, the producer was under obligation to sell the fruit exclusively to the transnational for the price determined by it, giving it a discount of 30% on the purchase price to cover the development expenses of the plantation, relating to land preparation, irrigation, canals, and drainage, etc. On the other hand, the company took responsibility, with no cost whatsoever for the producer, for fumigating the plantations and transporting the fruit to the packing centres. The irrigation pumps and facilities, means of transport and centres where the fruit was packed remained in the hands of the transnational.

/As was

As was foreseen, a number of Central American countries opposed the transfer of the plantations of the transnational corporations to the national producers on grounds that the foreign companies themselves should go on bearing the risk inherent in the industry and providing social services for the labour force. The associate producers' system has, however, been applied to the TNCs in all the Central American countries in which the banana industry is dominated by the three North American TNCs. Towards the end of the 1970s, United Brands and Standard Fruit together controlled 85% of the area planted in bananas in Honduras, with 57% of the total planted under direct ownership and 28% in the hands of associate producers. The percentages relating to United Brands in Panama were 87% of the total, 67% owned directly and 20% in the hands of associate producers (see tables 26 and 29 below).

The final conclusion must be that the links of association between the national producers and the TNCs as described above constitute a kind of unilateral and virtually exclusive dependence of the former on the transnationals. Thus, there is no justification for calling them "independent producers" as they are often referred to in the literature and statistics on the subject. National producers become independent of the TNCs only if the State and the organizations directed or supported by it succeed in replacing or limiting the power of the TNCs in the industry's decisive ties with regard to technology, financing and marketing of bananas. We shall return to the bargaining power of both parties under this new type of contract later on in this study. We shall now look at the reaction of the TNCs to the anti-trust policy, which occasioned another important change in their new postwar strategy.

(d) Anti-trust legislation of the United States and the reaction of the transnational corporations

Another important well-spring of change in the banana industry, in addition to the new strategies of the transnational corporations which emerged in response to the production risks, was the anti-trust legislation and the efforts of the Government of the United States to limit the monopoly control of United Fruit over the marketing of bananas in that country. These gave rise to the signing of the Consent Decree of 1958, under which United Fruit was obligated to hand over to a new independent company 25% of its western hemisphere property in the form of plantations and facilities in the producing countries and the transportation and marketing of bananas in the United States. The banana transnational reacted by introducing its own strategies in both the producing countries of Central America and the domestic market of the United States.

/(i) In

(i) <u>In the producer countries</u>

As mentioned above, the Consent Decree required United Fruit to hand over to a new independent company approximately 25% of its operations in the western hemisphere. In 1967, after prolonged litigation, the company came up with a plan to transfer its Panama division, which was accepted by the Department of Justice of the United States. The Government of Panama, however, opposed the transfer, and United Fruit suggested as an alternative the sale of its possessions in Guatemala to Del Monte Fruit Corporation.

The latter was a diversified company which specialized in canned and other food. Although the Del Monte corporation stood to profit by extending its activities to new spheres of interest, its main motive in acquiring the banana operations of United Fruit in Guatemala was to block a previous purchase bid by that company. Del Monte also bought a small banana company in Costa Rica.

On purchasing the banana operations of the United Fruit in Guatemala in 1970, Del Monte became an important exporter of bananas and began to expand vertically to marketing activities in the United States, where, in 1975, its participation amounted to 17% of total banana sales (see table 5). Integration with distribution services was achieved by purchasing a number of air and road transport companies.

(ii) <u>In the market of the United States</u>

Under the new terms of operation in conformity with the principle of independence between the banana companies and the intermediaries, United Fruit employed two main strategies: the first consisted in establishing a close relationship between technical assistance and influence in the distribution of bananas, which was made easier by the strong existing links between the operations of off-loading the fruit dockside and marketing it in the retail sales centres. The second strategy, which complemented the first, was to use registered trade marks for high-quality bananas with the objective of winning the loyalty of the consumer.

The first strategy consisted in establishing relations of dependence with the intermediaries through technical studies, research, publicity and sales promotion and by providing free assistance in such activities as the construction and renovation of ripening rooms, staff training, the maintenance of warehouses and retail distribution and sales studies. This informal type of vertical integration enabled United Fruit to retain a considerable degree of control over the retail distribution and sale of bananas in the United States.

/Under the

Under the second strategy, in 1964 United Fruit introduced the "Chiquita" trade mark in an effort to differentiate its product from that of Standard Fruit and independent merchants. The transnational hoped that in this way it could ensure a stable market for its exported fruit and pass on the higher costs resulting from the new production technology to the consumer.

In the 1970s both strategies -technical assistance to the intermediaries and the differentiation of products in marketing ("Dole Fruit" in the case of the Standard Fruit) had become common, and they made less of a contribution to controlling the market. In any case they also helped to strengthen the oligopoly in the banana market by increasing the barriers erected against the entry of new competitors into the industry.

(e) Diversification of activities and markets

In the foregoing part of this historical recital, we draw attention to the strategies adopted by the transnationals to achieve the vertical integration of the industry, i.e., its domination from the banana plantations to retail trade in the United States. The banana transnationals, however, like their counterparts in other activities, have expanded horizontally over the past two decades, diversifying their activities in the markets. Among the specific reasons for this kind of expansion, we may mention the bigger competition which occurred when United Brands and Del Monte entered the Central American industry and the United States market, turning the former monopoly of United Brands into an oligopoly of three large banana transnationals. Other reasons are related to the risky nature of the banana business due to the occurrence of diseases on the plantations, natural disasters, price fluctuations on world markets, etc. Finally, and in institutional terms, the political pressure applied by governments in both the producer countries and the host country of the transnationals (the anti-trust legislation and measures) was also very influential. We shall go on to look at the horizontal expansion of the companies as reflected in some of the ways in which they diversify their sectoral activities in the producing countries and at the geographical diversification associated with the expansion into markets outside the United States.

(i) Producer countries

As indicated above, only some of the farmland owned by the transnationals was planted in bananas, with large areas held in reserve. In the interest of the TNCs themselves but also under pressure from local peasants and governments, some

/diversification was

diversification was being achieved by the introduction of new crops both for export and local consumption. These included cocoa, African palm for the production of food oil and grains and livestock, which were first introduced to feed the labourers employed by the TNC but were later also produced for the market outside the corporation's orbit. These products provided a base for the expansion of the food industry and in particular the vegetable-oils and margarine industry. As may be seen in table 4, only 28 of the total number of 74 establishments owned by the United States transnationals in Costa Rica, Guatemala, Honduras, Nicaragua and Panama belonged to the industries associated with bananas and other agricultural crops and only 10 to the vegetable-oils and margarine industry (5 of them in Honduras). As an import substitution measure, nine new plants for the production of cardboard boxes and plastics (half of them also in Honduras) have been established. Finally, in the field of services such as communications and information, maritime and air transport and banks and commerce, some 20 establishments served not only the banana industry but the rest of the economy as well. In particular, mention should be made here of the 11 maritime transport establishments in Panama which clearly originated in the tax and customs duty advantages offered by that country's free trade zone. It is also probable that the tariff advantages of the Central American Common Market constituted one more reason for this kind of expansion.

The diversification of the activities of the three transnationals does not mean that the enclave characteristic of the banana activity in Central America or the decisive importance of bananas in the economies of these countries and their links with the transnationals and their world strategies have changed.21/ On the contrary, the creation of new economic activities, primarily related to the banana and agricultural industry, increased the bargaining power of the transnationals both economically and socially (managers and technicians associated with the transnationals).

21/ It cannot be overlooked that although we are dealing in this study with banana transnationals, it actually relates to larger corporations in the food industry, only a small part of whose income is derived from the banana sector (see table 7).

/Table 4

Table 4

UPEB COUNTRIES: ESTABLISHMENTS OWNED BY THE THREE BANANA TNCs

(Number of establishments in 1976)

	Costa Rica	Guatemala	Honduras	Nicaragua	Panama	Total
1. By corporations						
United Brands	8	7	13	3	3	34
Del Monte	5	2	0	0	11	18
Standard Fruit	3	0	18	1	-	22
Total	16	9	31	4	14	74
2. By type of activity						
Bananas, other agricultural crops	8	5	13	1	1	28
Vegetable oils and margarine	2	2	5	1	-	10
Cold storage plants	-	-	1	-	-	1
Breweries	-	-	1	-	-	1
Cardboard boxes and plastics	1	1	5	1	1	9
Communications and information	2	1	1	1	1	6
Maritime and air transport	-	-	1	-	11	12
Banks and commerce	1	-	2	-	-	3
Steel	-	-	1	-	-	1
Unidentified	2	-	1	-	-	3
Total	16	9	31	4	14	74

Source: See Donald Cactillo, as referred to in Annex 2 (selected bibliography).

/Table 5

Table 5

WORLD BANANA MARKET AND ITS DOMINATION BY THE BIGGER TNCs

Indicator	Year	World a/	USA	Japan	Federal Republic of Germany	France	Italy
Imports (thousands of metric tons and % of world total)	1960	3 758	41	1	12	9	2
	1968	5 235	30	11	11	8	6
	1974	6 455	27	15	10	8	5
United Brands (%)	1950	75	80	...	...	...	...
	1970	31	45	11	10	12	45
	1975	28	36	14	10	15	43
Castle and Cooke (%)	1950	-	9	...	...	...	...
	1970	16	37	15	13	-	23
	1975	21	38	38	16	-	28
Del Monte (%)	1950	-	-	...	...	...	...
	1970	3	8	7	4	-	-
	1975	12	17	32	10	-	-
3 USA TNCs	1950	75	89	...	...	...	...
	1970	50	90	33	27	12	68
	1975	61	91	84	36	15	71
Noboa (Ecuador)	1950	-	...	...	...	...	...
	1970	5	...	40	8	-	10
	1975	11	...	9	6	-	15

Source: See Annex 1 (statistical annex).

a/ Excluding the socialist countries in so far as data on the participation of corporations is concerned.

/(ii) Consumer

(ii) Consumer markets

The geographical diversification of the sales of three United States transnationals in the period 1950-1975 is portrayed in table 5, in which we can see that in the period 1960-1974, over 70% of the increase in world banana imports is accounted for by the change in position of the largest consumers of this fruit which are now the United States, Japan, the Federal Republic of Germany, France and Italy (65% of the world market in 1974). While the participation of the United States declined during this period from 41% to 20%, that of Japan, in particular, rose from 1% to 15% and that of Italy, from 2% to 5%.

In the same table we see how this change in the composition of banana imports was projected in the expansion of the three transnationals into the leading markets and, in particular, those which changed the most in their relative position. First, in the market of the United States, the former monopoly of United Brands, reflected in its share of 80% in 1950, was replaced by the oligopolistic domination of this market, the United Brands and Castle and Cooke competitors accounting for 38% and Del Monte for 17% of the United States market in 1975 while the share of the former monopoly fell to 36%, i.e., smaller than the share of Castle and Cooke. In the emerging market of Japan, the three United States companies increased their joint share during the first five years of the 1970s from 33% to 84%, in accordance with the bigger growth rate of the two competitors of United Brands. Similarly, 43% of another expanding market -that of Italy- was dominated in 1975 by United Brands and 28% of it by Castle and Cooke, i.e., a combined share of 71%.

In the same table it may be seen that the biggest oligopolistic concentration of the three United States transnationals was reflected in the market of the United States itself, where they had a share of 90% in 1970, i.e., nearly twice the average world concentration, the concentration in the European market and that of Japan being much smaller.

In the latter country the situation changed radically in the first five years of the 1970s when the percentage of concentration became almost the same as that for the United States market.

/Another interesting

Another interesting feature is the emergence of independent corporations among the Latin American producers and, in particular the national private firm, Noboa, in Ecuador. In 1970, this firm controlled 5% of the world market, a share which more than doubled over the next five years when the firm attained a higher position in the markets of Japan, the Federal Republic of Germany and Italy. During the first five years of the 1970s, however, this national firm was displaced in the Japanese market by the three United States transnationals although it increased its share of the Italian market.

From the foregoing analysis it may be concluded that in the first half of the 1970s, i.e., prior to the big changes in the banana policy of the Central American countries, nearly two thirds of the world market was still dominated by the oligopoly composed of the three United States transnationals. On the other hand, the power of competition between them differred substantially, particularly in the United States market. The greater expansion of the European markets and the market of Japan was obviously related to the anti-trust measures of the United States government, which excluded the transnationals from retail trade. In Europe there were also independent enterprises, including some four European firms specializing in maritime transport and in the marketing of bananas.

Among the independent producers, the Ecuadorian firm Noboa stands out in that its role in the world market in the mid-1970s was comparable to that played by the United States corporation Del Monte. In any case, from the point of view of the bargaining power of the Central American producers, the changes referred to were responsible for the maintenance of the barriers against the entry of independent banana producers on the United States market and for the increase in their participation in the other leading world markets.

Finally, the diversification of the world banana markets and their increasing oligopolistic domination by the transnationals has also been accompanied by a diversification of sources of supply from the producing countries, also with the objectives of decreasing the risks inherent in the banana trade and increasing the power of the transnationals vis-à-vis the various producing countries. We shall return to this point in the following chapter.

II. BARGAINING CAPACITY AND DISTRIBUTION OF GAINS AT THE BEGINNING OF THE 1970s

The foregoing analysis provides us with a summary of the main factors in the bargaining capacity of the banana transnationals and the Central American producers and enables us to see the mutual distribution of gains at the beginning of the 1970s, i.e., prior to the dispute and renegotiation which took place in the middle of that decade.

1. Power of the TNCs

In Outlines 1 and 2 an attempt is made to sketch the main transnational strategies which throughout this century have constituted their power to control or own and hold property including intangibles in the various spheres in which they operate in both the Central American producing countries and the consumer market in the United States and the main strategic changes after the War. On the eve of the renegotiation, the vertical integration of the industry had been accomplished: the transnationals dominated the production and marketing of bananas in the Central American countries and the economic and social infrastructure related to this industry. The new post-war strategies did not diminish the power of the transnationals. The technological changes, the new associate producers system and the transfer of ownership within the oligopoly resulted in (for the companies primarily) a considerable increase in productivity and profitability of their activities with fewer of the liabilities attached to the nature of the banana trade and to the emerging and increasing political pressure exerted on the transnationals.

In the United States market, the former total monopoly held by United Brands was replaced by the oligopoly which included another two big transnationals in the food industry of that country and by new methods of maintaining indirect control over the transport, ripening process and retail trade of the fruit (to combat the anti-trust legislation and measures of the Government). Finally, the transnationals diversified their sales, managing to secure a high degree of control over new markets in Europe and Japan. This extension of the oligopolistic power in world terms increased the barriers against the entry of the independent Central American producers.

/OUTLINE 1

OUTLINE 1

BANANA TRANSNATIONALS: ORIGINAL STRATEGY FOR VERTICAL INTEGRATION AND OLIGOPOLISTIC DOMINATION OF THE INDUSTRY

Sphere of action	Property ownership or holding (including intangibles)
A. Producer countries	
1. Agricultural plantations (including non-banana plantations)	Cultivated land and reserves (including non-agricultural lands); Waterfront property; Irrigation systems; Buildings, workshops, warehouses, etc.; Production inputs (seeds, chemicals, tools and utensils, etc.); Means of transport on the plantation (including tramways, fumigation aircraft, cables, etc.).
2. Production and general infrastructure	
(a) Transport	Railways, including immovable property and movable equipment, etc.; Roads, highways and other land and waterways, including the motor force provided by them; canals; trains; bridges and viaducts, etc.; Wharfs, including the immovable property and loading equipment, relating to them.
(b) Communications	Stations, telephone switchboards and lines and wireless stations.
(c) Construction	Equipment and materials.
(d) Energy	Motor resources, transmission plants and lines.
(e) Social works	Dwellings, shops and warehouses, schools, medical centres and hospitals, etc.
3. Intangibles	Capital, technology, administration, concessions, exemption rights and privileges, etc.
B. Consumer country (USA)	
1. Transport and ripening	Maritime lines, insurance, wharfs and equipment; trucks and ripening rooms.
2. Commerce	Centres, wholesale and retail establishments and marketing equipment.
3. Intangibles	Capital, transport technology and administration, ripening and marketing including quality control and advertising.

/OUTLINE 2

OUTLINE 2

BANANA TRANSNATIONALS: NEW STRATEGIES FOR DIVERSIFYING ACTIVITIES IN REACTION TO POLITICAL AND PRESSURE (BARRIERS) AND PRESSURE FROM COMPETITORS

Field of action	Strategy changes
A. Producer countries	
1. Banana plantations	(a) Production technology (i) Introduction of a new more resistant and productive variety; (ii) Packing fruit in boxes (and importing or manufacturing such boxes); (b) Ownership and control (i) Associate producers: leasing or selling land; Technical assistance, sale of inputs and services, etc.; Captive marketing clauses; Transfer of social works to the public sector; (ii) TNC oligopoly: transfer in response to the antitrust legislation of the USA.
2. Banana exports	Geographical diversification of sources of supply.
3. Manufactures and other sectors	Horizontal growth; Food industry; Other manufactures and services.
B. Consumer countries	
1. United Brands in the USA	(a) Ownership and control (antitrust legislation) (i) Transfer of transport, ripening and trade facilities to independent intermediaries; (ii) Indirect control over them through technical assistance, trade marks and commercial advertising. (b) Horizontal growth in other industrial and commercial activities.
2. World marketing	(a) Diversification of ("non-traditional") consumer markets; (b) Horizontal growth of oligopoly of the three United States TNCs towards Europe and Japan (including marketing); (c) Sourcing and marketing zones.

/2. Bargaining

2. Bargaining capacity of the Central American countries

The integral power of the TNCs over the banana sector in Latin America is responsible for the lack of capacity on the part of the governments to bargain with the transnationals. The importance of this external unilateral link was of course greater in the countries whose economic development depended on a high degree of banana production and export. On the other hand, the share of the Central American producers in the world food market in general, and in supplying the three United States TNCs, in particular, represented a large potential in favour of their bargaining capacity. We shall now briefly consider each of these factors.

(a) Dependence of the banana sector

In spite of the diversification shown in the structure of exports from Central American countries since the 1960s, the economies of these countries, particularly those of Costa Rica, Honduras and Panama, remain very dependent on banana exports owing to the big share of banana production in the economy of these countries and the big rôle played by banana exports in their total exports.

In 1973, the banana exports of these three countries represented 5.9%, 10.4% and 4.3%, respectively, of the gross domestic product and 26.3%, 35.9% and 46.3%, respectively, of their exports (see table 6). In the case of Panama, the share of bananas in exports would be 56.3% if the value of petroleum derivatives were excluded from total exports. The same year (1973) the banana sector in those countries directly employed close to 53 000 people -a very large number for a single product. The labour employed in the banana industry in Costa Rica, Honduras and Panama represented, respectively, 3.8%, 2.6% and 2.1% of the economically active population and 10.4%, 4.7% and 7.1% of total farm employment.

This dependence of the Central American economies on a single export resulted in an imbalance in the bargaining power in favour of the transnationals which dominated the banana industry. Of course, the power imbalance also appeared in the social and political spheres where what were insultingly known as the "banana republics" of the period depended unilaterally on the transnationals and their host country.

/Table 6

Table 6

RELATIVE SHARE OF BANANA EXPORTS IN THE GROSS DOMESTIC PRODUCT AND IN THE TOTAL VALUE OF EXPORTS OF THE UPEB COUNTRIES (IN PERCENTAGES)

(Average for the period 1973 and 1977)

Countries	Share of banana exports in	
	Gross domestic product	Total value of exports
Colombia	0.3	2.4
Costa Rica	7.0	24.3
Guatemala	1.0	3.7
Honduras	8.2	23.1
Panama	3.3	42.0
Dominican Republic	0.05	0.24

Source: UPEB, on the basis of national data.

(b) Position in the world market

On the other hand, a potentially very important factor in bargaining capacity was present -the position of the Central American countries in the world banana market both in general terms and with regard to the supply of the individual transnationals. The first aspect is analyzed in table 7.

In the mid-1970s, Latin America dominated over half the world production of bananas and nearly three-fourths of their marketing at world level. Four Central American countries (Costa Rica, Guatemala, Honduras and Panama) accounted for 35% of world exports, other big exporters being Ecuador with 17% and Colombia with 4.5%.22/

22/ The significant difference between the world marketing and production shares in the case of the Central American countries is due to the fact that in these countries local consumption is much lower than in African and Asian countries.

/Table 7

Table 7

LATIN AMERICA: POSITION IN WORLD BANANA PRODUCTION AND EXPORTS, 1974-1976

Producer countries	Production in 1975		Export value, 1974-1976		
				Percentage share of	
	Thousands of tons	%	Millions of US$ (annual average)	World exports	Total exports of the country
World (excluding socialist countries)	34 209	100.0	788.2	100.0	...
Developed countries	639	2	55.0	7.0	...
Developing countries	33 570	98	733.2	93.0	...
Latin America	18 570	52	586.0	74.3	...
Costa Rica	1 121	3	129.6	16.4	25.6
Guatemala	520	2	18.6	2.4	2.9
Honduras	852	2	72.3	9.2	23.1
Panama	989	3	58.9	7.2	23.6
Total for four countries	3 482	10	279.4	35.4	...
Colombia	1 050	3	35.1	4.5	2.3
Ecuador	2 544	7	130.5	16.6	12.4
Africa and Middle East	4 010	11	54	6.8	...
Asia	12 950	36	93	11.8	...
Philippines	1 423	4	64.7	8.2	2.6

Source: CEPAL, on the basis of estimates made by the United Nations Centre for Transnational Corporations in *Transnational Corporations in Food and Beverage Processing* (ST/CTC/19), United Nations, New York, 1981.

/(c) Position

(c) Position in the supplying of the TNCs

It goes without saying that the dependence of the three United States banana transnationals on Latin America in general and the Central American countries in particular was greater than the share of those countries in world imports. In 1973, the banana trade conducted by United Brands, Castle and Cooke and Del Monte was almost totally dependent on fruit of Latin American origin (93%, 99% and 100%, respectively) (see table 8). For their part, the five countries which later on comprised UPEB (Colombia, Costa Rica, Guatemala, Honduras and Panama) were in the same year very important for the banana activities of those companies, supplying them with about 82%, in the case of United Brands, 73% in the case of Castle and Cooke, and 100% in the case of Del Monte. Honduras led, providing United Brands with 22% of its supplies and 49% of the supplies of Castle and Cooke. United Brands, on the other hand, depended on Panamanian bananas for one-third of its supplies. Apart from the five Central American countries which later formed the membership of UPEB, the most important exporting country was Ecuador, which provided 11% of the supplies of United Brands and 26% of those of Castle and Cooke.

To understand the economic import of the high share of the future UPEB countries in the supply of the three transnationals, let us look at the importance of the banana trade for their global objectives and strategies. As indicated above, these are important countries in the United States food industry of whose diversified activities bananas represent only one aspect. Actually, in 1973 the share of bananas in the total sales of United Brands was 24%, in those of Castle and Cooke, 29% and in those of Del Monte, 7% (and, moreover, pineapples are included in the latter case). On the other hand, the data available on the sectoral origin of the profits show that in the same year (1973) 40% of the total profits of United Brands were derived from the banana trade (or nearly twice the share of bananas in total sales). The analogous figure for Del Monte was 17% in respect of profits by comparison with 7% in respect of sales (including pineapples). As is clear from the same table (8), the rate of profitability of the banana trade in 1976, in comparison with sales was, in the case of United Brands, five times higher than that for other foods.

/Table 8

Table 8

THREE USA-BASED TNCs: IMPORTANCE OF THE LATIN AMERICAN BANANA PRODUCERS

Indicator	United Brands			Castle and Cooke			Del Monte		
	1970	1973	1976	1970	1973	1976	1970	1973	1975
1. Total sales (millions of dollars)	1 384	1 842	2 277	509a/	649	850	753a/	1 043a/	1 430a/
- Bananas (%)	27	24	28	29	29	30	3b/	7a/	12b/
- Other foods (%)	65	68	60	42	46	53	83	78	77
2. Total profits (millions of dollars)	...	58	56	...	71	88	62c/	90	124
- Bananas (%)	82	40	62	...	76	76	5b/	17b/	26b/
- Other foods (%)	...	41	16	...			83	78	77
3. Profits/sales (%)	...	3	2		11	10	...	9a/	9a/
- Bananas (%)		6	5	...	11	9	...	16a/b/	18a/b/
- Other foods (%)		2	1	...			...	9a/	8a/
4. Origin of bananas (%)									
- Colombia	8	3	13	...	-	...	...	-	...
- Costa Rica	19	20	...	...	12	...	...	46	...
- Guatemala	10	4	...	...	-	...	...	54	...
- Honduras	24	22	...	...	49	...	...	...	...
- Panama	36	33	...	...	-	...	...	...	...
- Total UPEB	97	82	72	...	73d/	...	...	100	...
- Ecuador	1	11	15	...	26	...	...	-	...
- Total Latin America	98	93	87	...	99	...	...	100	...
- Others e/	2	7	13	...	1	...	...	-	...

Source: UPEB, Estudio sobre empresas transnacionales, May 1977.

a/ Total earnings and their distribution.

b/ Including pineapples.

c/ 1971.

d/ Including Nicaragua - 12%.

e/ Philippines: 4% in 1973 and 9% in 1976.

/From the

From the preceding analysis some tentative conclusions may be drawn on the bargaining capacity of both parties in the mid-1970s. First of all, it seems obvious that while the transnationals dominated the banana industry in Central America, that industry was of great importance for the transnationals and their global profits. Of course although advantage should have been taken of this potential interdependence between the two parties as a real factor in the bargaining capacity of the Central American producing countries, there had first to be political will on the part of the governments to use it to promote greater gains for their economies and second the Latin American producing countries had to be as unified as possible in order to confront the transnationals with joint and mutually co-ordinated action.

On the other hand, from the point of view of the banana companies, the objective was to overcome or at least reduce the unilateral dependence on the Central American banana sector by identifying sources of supply in other geographical areas. As may also be observed in table 7, United Brands actually showed a tendency to diversify its sources of supply by buying fruit from Ecuador and other countries outside the region, in particular the Philippines. It was, however, difficult for the TNCs to cut or reduce substantially their links with the region because of the high investments made in this area, lower transport costs, traditional brand names, etc. These factors determined the attitude taken later by the transnationals and, in particular, by United Brands in its efforts to defend the positions it had established in Central America, resorting in particular to tactics aimed at dividing the producer countries in their political action and positions, particularly in producer countries of utmost importance, such as Honduras and Panama.

3. Distribution of gains

In view of the unequal bargaining capacity, the transnational corporations appropriated the majority of the gains derived from the industry. The links with the national economy and the tax income obtained by the recipient governments were relatively insignificant. It was only initially that the establishment of banana plantations resulted in some development of the countries' economic infrastructure, as reflected, for example, in the construction of railways and port installations. For that reason, the producer countries depended almost

/exclusively on

exclusively on fiscal measures to obtain greater gains from the operation of transnational enterprises in their economies.

In this part we shall be examining the small amount of data available for the period around the beginning of the 1970s, i.e., prior to the establishment of UPEB. At least, they serve to illustrate the unequal distribution of gains by showing the lack of impact had by taxes and other components of the value returned from exports, the margins of the final price of bananas and the constant decline in the real prices of this fruit.

(a) Taxation of the TNCs

Even since the end of the past century, the banana sector has been developed with a great deal of support from the governments, which conceded a wide range of privileges and exemptions to the TNCs. These privileges were granted in contracts entered into between the governments and the corporations which offered to further the development of the activity. The contracts were later raised to the category of laws for adoption by the legislative bodies of the respective countries. The contracts with the TNCs ran for long periods from 58 to 99 years (see table 9). Their operative part referred to an exemption which, from the taxation point of view, would be given to the banana sector both during the period of its development and when production and exportation were in full swing. Practically all the contracts entered into during the first decade of this century guarantee the banana sector exemption from any tax or contribution, whether national or municipal, already established or to be established, during the term of the respective contract. The only tax paid by the transnationals up to the end of the 1940s was an export tax paid at an infinitesimal rate of 1-2 cents per bunch of bananas exported. Consequently, in that period the tax instrument was employed only to stimulate the development of the banana sector and in no wise as a mechanism for transferring resources to the public sector.

In the postwar period and particularly towards the end of the 1940s, governments began to be concerned to tap some resources by applying the tax instrument to the banana sector. The obligation to pay some of the established taxes, such as the tax on profits, consular duties, import duties on some products, etc., began to be introduced in the contracts. There was still an express agreement concerning either the rate of the tax accepted when exemption from

Table 9

CENTRAL AMERICA: TAX POSITIONS OF THE CONTRACTS BETWEEN GOVERNMENTS AND BANANA COMPANIES PRIOR TO THE WAR AND CHANGES INTRODUCED LATER

Indicator	Costa Rica	Guatemala	Honduras	Panama
1. Company	United Fruit	United Fruit	Standard Fruit	United Fruit
2. Original date of the contract	1930	1924	1910	1927
3. Duration (years) a/	58	70	99	59
4. Export tax per hand (US cents)	1 (1910) 2 (1930)	1 (1924) 1.5 (1936) 2 (1949)	2.25 (1919)	1 (1927) 2 (1934)
5. Tax on profits (%)	15 (1949) 30 (1954)	30 (1956)	15 (1949) 30 (1955)	15 (1950) 30 (1958)
6. Import duties and other taxes	Total exemption	Total exemption	Total exemption	Total exemption
7. Foreign currency regulations	Local payments only	None	None	None

Source: Frank Ellis, Export Valuation and Intra-Firm Transfers in the Banana Export Industry in Central America, Institute of Development Studies, Sussex University, 24 February 1978.

a/ After subsequent extension.

/the general

the general rules applied or it was stipulated that the tax woul be paid on the basis of the general regulations and rates in effect at the time the contract was signed, it being understood, however, that they could not be increased during the time of the contract. On the other hand, up until the 1970s many of the tax incentives were maintained, some as a means of furthering the development of the banana sector and others as left overs from past decades, which it was not possible to get rid of entirely. It was, however, clear in that period that the governments were beginning to be interested in tapping resources from the activity by means of taxes.

In any case, until the new export tax was put into effect in 1974, the Central American governments tapped only a small part of the income which the TNCs derived from the banana sector. According to the estimates contained in table 10 and on the basis of data from United Brands itself, in the period 1970-1973 the public sector in Costa Rica, Guatemala, Honduras and Panama were syphoning off only about 3-4% of the sales income and 39-57% of the profits made by the banana industry in those four countries.

(b) Other components of the returns on banana exports

Apart from the taxes paid by the transnationals to the government, the local expenses of the companies comprise the largest part of the returns on banana exports. For the period under review here, we have no direct data on the local expenditure of the transnationals in the Central American countries nor on their payments to the exterior. Some approximate figures in this connexion are provided by the calculations which appear in table 11 for the case of Honduras in the period 1970-1974. In this table the respective values of banana exports conducted by the companies are compared with the returns to the economy of the country expressed in terms of the amount of foreign exchange which entered the country through the transnationals to cover their local expenses.23/ In the table it may be seen that during the first half of the 1970s, only 54% of the value of banana exports returned to the country to cover the local expenses of the

23/ Since there is a fixed rate of exchange between the Honduran lempira and the United States dollar (1 lempira = US$ 0.50) and there is no parallel exchange market in the country, the data of the Banco Central de Honduras can be considered to be relatively reliable for calculating this part of the returns.

/Table 10

Table 10

COSTA RICA, GUATEMALA, HONDURAS AND PANAMA: SHARE IN THE INCOME OF UNITED BRANDS (1970-1973)

Indicator	Unit	1970	1972	1973
1. Income from banana sales - total	Millions of US$	380	451	450
From the four countries a/	Millions of US$	338	401	355
	Percentage	89	89	79
2. Profits of the banana division	Millions of US$	...	35	26
From the four countries a/	Millions of US$	...	31	21
	Percentage	89	89	79
3. Payments made by the TNC to the governments of the four countries	Millions of US$	14	12	12
Compared with:				
Income from sales (= 100)		4	3	3
Profits (= 100)		...	39	57

Source: See table 8.

a/ Estimation on the basis of data from the TNC regarding the origin of the marketed fruit.

transnationals. This rate would be significantly lower if we had the data needed to adjust the external expenses of the transnationals, i.e., payments of dividends and interests, payments for technical services and administration and, finally, receipts through the import of inputs for the production and marketing of bananas. This input import data is particularly important because fertilizers, inputs for disease control, plastics and corrugated cardboard for the production of boxes are all imported from the host country of the transnationals.24/

The major share of the local expenses of the transnationals in Honduras in the period under review related to salaries and wages which represented, on average, about 37% of the total value of the exports. Secondly, the taxes paid to the tax office represented about 6% of the value of the exports. The remaining 2% related to other local expenses of the companies.

24/ See the study by Frank Ellis referred to in table 10.

/Table 11

Table 11

HONDURAS: ESTIMATED RETURNS ON BANANA EXPORTS BY THE TNCs (1970-1974)

Indicator	Unit	1970	1971	1972	1973	1974	1970-1974 Annual average
1. Banana exports							
(a) Volume	Millions of boxes	40.6	53.4	46.6	45.4	35.3	44.3
(b) Total value a/	Millions of dollars	71.3	92.0	81.9	80.2	79.7	81.0
(c) Unit value	Dollars/box	1.76	1.72	1.76	1.77	2.26	1.83
2. Returns b/	Millions of dollars	38.3	45.9	43.5	42.6	49.0	43.9
Export value = 100	Percentage	53.7	49.9	53.1	53.1	61.5	54.1
3. Distribution of returns							
(a) Taxes	Millions of dollars	4.9	3.6	4.9	5.3	6.3	5.0
Export value = 100	Percentage	6.9	3.9	6.0	6.6	7.9	6.2
(b) Salaries and wages	Millions of dollars	34.6	37.4	37.5	37.1	38.2	37.0
Export value = 100	Percentage	40.6	40.6	45.8	46.2	47.9	45.7

Source: CEPAL calculations on the basis of the study by Frank Ellis, Export Valuation and Intra-Firm Transfers in the Banana Export Industry in Central America, mimeo, Institute of Development Studies, February 1978.

a/ IMF data (International Financial Statistics), May 1976.

b/ Data from the Banco Central de Honduras, Departamento de Estudios Económicos.

The returns from the exports also showed a downward trend in the long term. This is apparent from another study by Frank Ellis according to which the share of salaries and wages in the total value of banana exports declined between the periods 1950-1954 and 1970-1973 from 54.7% to 37.1%.25/

(c) Margins of the final price of bananas

The distribution of gains from the banana industry between the producer countries and the transnational corporations may also be assessed in broader terms using the final, or retail, price of the fruit, rather than the value FOB of the exports, as a base. Table 12 gives a detailed estimation prepared by UNCTAD for 1971, which in its main headings corresponds to similar estimates made by UPEB (as will be seen in part II of this study).

According to these data, the retail price of a box of bananas of US$ 5.93 had the following margins: production cost, harvesting and transport to the packing plant, 11.5%; packing, transport to the port, unloading and other local expenses, 14.5%; maritime transport and insurance, 11.5%; offloading, handling, transport from the port of destination, tariffs and other expenses of the importer, 11.6%; ripening of the bananas, 19.0% and, finally, the share of the retail trade, 31.9%.

To compare these retail price margins of bananas with the taxes and other components of the value of exports FOB analysed above, it must be borne in mind that only about half of that value consisted in the local expenses of the transnationals. Consequently, they represented about 13% of the retail price or of the total income derived from the sale of the fruit to the consumer. In the light of the vertical integration of the banana industry, as analysed above, from the plantations to the retail dealer, it is clear that the larger share of the remainder of the final price -about 87%- goes to the transnational corporations. The share of approximately 13% which goes to the producer countries was, in 1971, nearly the same as the expenses of the importer from the time of unloading in the port of destination until the arrival of the bananas in the ripening plant (11.6%), i.e., much less than the amount paid to the ripener (19%) and less than half the retail trade margin (31.9%).

25/ See Frank Ellis, Study of Employment in the Banana Export Industry of Panama and Central America, Growth Employment Programme Research, International Labour Office, Geneva, 1977.

/Table 12

Table 12

ILLUSTRATIVE ESTIMATION OF THE MARGINS OF THE FINAL PRICE OF BANANAS ON THE WORLD MARKET (1971)

Margins corresponding to:	Distribution of the consumer price		
	Dollars/box a/	Percentage	
		Margins	Accumulated
A. Cost on delivery to packing plant	0.69	11.5	11.5
1. Production	0.62	10.3	...
2. Harvesting, transport, profits	0.07	1.3	...
B. Cost on delivery to ship (FOB)	1.54	14.5	26.0
1. Packing	0.43	7.3	...
2. Transport and freight	0.16	2.9	...
3. Taxes and other	0.27	4.3	...
C. Price port of destination (CIF)	2.23	11.5	37.5
Maritime transport and insurance	0.69	11.5	...
D. Price on delivery to railway (FOR)	2.92	11.6	49.1
1. Import duties	0.42	6.9	...
2. Unloading, handling and profits	0.28	4.7	...
E. Price of the ripening process	4.04	19.0	68.1
Ripening	1.12	19.0	...
F. Consumer price	5.93	31.9	100.0
Retail trade	1.89	31.9	...

Source: UNCTAD, The Marketing and Distribution System for Bananas (TD/B/C.1/162), 1974.

a/ 55.1 boxes = 1 metric ton.

(d) Real prices of bananas

The real income of the banana producing countries is clearly determined not only by the pattern of the distribution of gains between the transnationals and the local economies but also by the supply and demand balance in the main world markets and the prices which result from it. In tables 13 and 14, we can see that in the postwar period and particularly in the second half of the 1960s, both retail prices and the unit value of the exports declined sharply. For the four producing countries (Colombia, Costa Rica, Guatemala and Honduras), the unit values of banana exports in real terms declined by 17% at the beginning of the 1970s -29% by comparison with the levels reached at the beginning of the 1960s (see table 14).

/Table 13

Table 13

RETAIL PRICES OF BANANAS IN REAL TERMS (1950-1972)

Importing countries	Imports (millions of dollars)	Retail prices					
		Indexes (1960-1962 = 100)					Current 1972 prices (cents/kg)
		1950-1951	1960-1962	1964-1966	1970-1971	1972	
United States	190	127	100	95	73	71	25.5
Japan	147	-	-	100a/	50	37	28.8
Federal Republic of Germany	96	158	100	96	76	66	29.7
France	92	114	100	94	88	80	31.0
Italy	46	167	100	65	68	66	49.6
United Kingdom	53	-	100	85	77	81	29.4

Source: UNCTAD, *op. cit.*, on the basis of FAO and IMF, *International financial statistics supplement for consumer price indices*. The prices are deflected by the national consumer price index in each country.

a/ 1965 = 100.

/Table 14

Table 14

CENTRAL AMERICAN COUNTRIES: UNIT VALUE OF BANANA EXPORTS
(1960-1972)

Countries	Indexes (1960-1962 = 100)			
	Current prices		Deflected	
	1965-1967	1970-1972	1965-1967	1970-1972
Colombia	101	93	95	74
Costa Rica	104	89	98	71
Guatemala	94	89	89	71
Honduras	105	105	99	83
Panama a/	148	161	140	128

Source: UPEB calculations on the basis of:
FAO, Trade Yearbook, 1973, Rome.
IMF, International Financial Statistics, Vol. May 1978.
Contraloría General de la República, División de Estadística y Censos, Panama, August 1974.

a/ The increase observed in the indexes of unit value of exports of Panama is due to the fact that the unit value in the base period (1960-1962) was much lower than in the other countries, raising to the same level in 1964 and then increasing appreciably in the period 1965-1967.

The great imbalance in the distribution of the gains of the banana industry, various aspects of which are illustrated in the sections above, led to the mobilization of the social and political powers of the Central American countries and formed the basis of the political will of their governments to redistribute these gains in a manner favouring the producing countries. Up to the end of the first half of the 1970s, the sharp rise in world prices of petroleum aggravated the economic crisis through which the Central American countries were passing, dampening their hopes for an improvement in their deficit external balances and a decrease in their growing indebtedness with the commercial banks of the industrialized countries. On the other hand, the success of the petroleum exporting countries united under the banner of OPEC encouraged the Central American banana producers to follow their example. This came to fruition in 1974 in the Panama Agreement and the subsequent renegotiation of the terms of participation of the transnationals in the industry. These events and their results will be considered in the second part of this study.

III. POLICY CHANGES AND RENEGOTIATION WITH THE TRANSNATIONAL CORPORATIONS IN THE MID-1970s.

1. Description of the dispute between the governments and the transnational corporations in 1974

In the beginning of 1974, prior to the severe recession through which the banana sector passed as a result of the steady and progressive deterioration in the prices of the fruit on world markets, the increases in the prices of inputs and, in particular, the stupendous rise in the price of petroleum, a number of Central American governments decided to agree on some joint measures to increase the income they derived from this industry and also invited the governments of Colombia and Ecuador to join them in this venture. In implementing this decision and after many meetings at ministerial and technical level, the governments of Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Nicaragua and Panama signed the "Panamá Agreement" in Panama City on 8 March 1974. Under this agreement, the signatory countries undertook to increase the prices of banana exports FOB by an amount which fluctuated between US$ 0.40 and US$ 1 per 40-pound box. For these purposes, the Central American countries undertook to establish an export tax, and Colombia and Ecuador agreed to increase the sales price of the fruit. This agreement was ratified at a meeting of Central American Heads of State held in Tegucigalpa, Honduras, on 14 March.

Also in March 1974, Panama fixed the rate of the export tax at US$ 1 per box of bananas, and in April Costa Rica and Honduras adopted legislation setting the rate at US$ 0.60 26/ and US$ 0.50, respectively.

The second event of great importance for the new banana policies of the Latin American countries was the creation in September 1974 in Panama City of the Union of Banana Exporting Countries (UPEB), which was adhered to by Colombia, Costa Rica, Guatemala, Honduras and Panama with the Dominican Republic, Nicaragua, and Venezuela joining later (1976, 1981 and 1982 respectively). The new organization of the banana producing countries of Latin America represented the

---

26/ In the case of Costa Rica, this is an average rate estimated in application of the reglamentary decree which provided that the rate should depend on the international prices.

culmination of the efforts already made by the national producers' organizations (for example, the appeal launched by the National Chamber of Banana Producers of Costa Rica in 1970) and a number of governments in the subregion, in particular those of Costa Rica and Panama. On the other hand, the formal establishment of horizontal co-operation within this group of peripheral countries was decisive in helping them to stand up against the violent reaction of the transnationals to the new tax policies and to channel additional gains from the industry to their economies. Finally, in the second half of the 1970s, UPEB became an important centre through which the member countries could exchange their experiences, keep track of the results of their banana policies and adopt new initiatives, one of the most important ones being the creation of the Multinational Banana Marketing Corporation (COMUNBANA) in 1977 and the initiatives taken in respect of new tax policies in 1980.

The original reaction of the TNCs to the considerable increase in taxes and the creation of UPEB was to try to maintain the status-quo by using diverse tactics, such as the application of political pressure through publicity campaigns, attempting to indicate the government and labour organizations of the United States in the dispute, temporarily suspending banana exports in their branches in Costa Rica, Honduras and Panama,27/ attempting to pay off government officials and, above all, trying to disrupt the unity of action emerging in the banana producing countries of the region.28/ Under pressure from the TNCs, the initial rates per box of the new banana export tax were lowered, also in 1974, from US$ 1 to 35 cents in Panama, from 60 to 25 cents in Costa Rica, and from 50 to 25 cents in Honduras.

On the other hand, the changes introduced in the banana industry of Central America in the mid 1970s reflected the strengthening of the capacity of the producing countries to bargain with the transnational corporations by renegotiating the participation of the governments in the gains from the industry, and although this renegotiation did not achieve its original objectives, it increased those

27/ In 1974 banana exports declined by 20% in Panama, 5% in Costa Rica and 22% in Honduras (the effects of hurricane Fifi also accounted for the decline in the latter country).

28/ See the literature on the topic referred to in the bibliography annexed.

/countries' exchange

countries' exchange and budgetary incomes; they also led to the establishment of UPEB and, finally, to the creation and strengthening of the public sector which taxed the banana sector and supported the national producers, reducing their unilateral dependence on the transnational corporations. Each of these achievements is analysed below.

2. Banana export tax

The importance of the new policy introduced by the Central American countries in 1974 to tax the banana TNCs is not confined to an across-the-board increase in the income of the fiscal branches of the government. It reflects an important change in the terms of trade of the banana-producing and the banana-consuming countries and, in the bargaining capacity of the producing countries and the TNCs and the distribution of gains between them and, primarily (to condition the first two changes), a change in the horizontal co-operation among the Central American banana-producing countries. In this chapter we shall give more detailed consideration to the tax experience of the UPEB countries in the second half of the 1970s, beginning with an analysis of the confrontation of ideas and strategies between the two parties.

(a) Doctrine of the TNCs and the real results

To combat the political will and joint action of the governments which had united in UPEB, the transnationals hurled a number of arguments against the tax increase saying that its nature was such that it went beyond the banana industry and constituted a real doctrine in support of the *status quo* of the trade relations between exportable food consuming and producing countries.29/ There follows a summary of the main arguments adduced by the TNCs in 1974 and of the real results of the changes considered in the period which followed.

(i) Nature of the commodity and price elasticity

Argument of the TNCs

Bananas are not an essential commodity for the consumer countries in the way that petroleum, for example, is, and therefore the price increase resulting from the tax would result in a sharp decline in consumption levels. This argument

29/ See in this connexion, for example, the documentation published by the journal *Lotería*, Nos. 224-226, Panama City, December 1974.

/is based

is based upon the assumption that the price elasticity of bananas is greater than unity and that as a result when the tax is applied, the total income received by the exporting countries would decrease rather than rise since the loss of income due to the drop in consumption would be greater than the increase due to higher prices.

Results

Although it is true that the total volume of world imports fell between 1974 and 1976, when we consider the performance of the imports in detail, it becomes clear that the drop was due to a decline in the exportable supply and not to a decrease in the demand for imports.

In 1974 world imports fell by 69 700 metric tons from their 1973 level, i.e., by 1.1%. When their performance is observed month by month by origin, it may be seen that imports into the United States and the Federal Republic of Germany in the period May-December 1974 (the months immediately following the establishment of the tax) were to all intents and purposes the same as those in the same period in 1973 in spite of the fact that the increase in retail prices actually appeared in March and in spite of the stoppage of exports on the part of the TNCs, especially in Panama. Similarly, in 1975, the first year in which the tax was regularly applied, during which the import prices in the main markets increased by close to one-third, world imports showed a decrease of 58 000 tons, i.e., less than 1%, attributable exclusively to a reduction of 385 000 tons in the exportable supply of Guatemala, Honduras and other smaller producers. In 1976, although world imports did not increase, those of the traditional markets did, by over 2%; this increase was especially marked in the United States (10% in comparison with an average annual growth rate of 2% in the 1960s). In 1977 world imports increased by about 5%, which represents more than what is considered to be normal growth, but which can be explained precisely by increases in consumption, which were not possible the three preceding years because of a shortage of exportable supply.

Thus, in brief, the new export tax has not resulted in a reduction in levels of consumption. Between 1974 and 1976 the market did not grow owing to the reduction in the exportable supply because of natural phenomena. As may be seen in table 15, the per capita levels of consumption of the main markets in 1977, when prices were significantly higher than those recorded in 1973, are basically similar, or in many cases higher, than in 1973.

/Table 15

Table 15

PER CAPITA CONSUMPTION OF BANANAS IN THE MAIN MARKETS
IN THE PERIOD 1970-1977 (IN KG)

Year	Federal Republic of Germany	United States	France	United Kingdom
1970	8.5	7.9	8.6	5.9
1971	10.3	8.2	8.8	5.7
1972	10.8	8.2	9.8	5.5
1973	10.9	8.3	9.2	5.4
1974	9.5	8.5	9.1	5.4
1975	8.9	8.1	9.1	5.5
1976	9.0	8.8	8.6	5.6
1977	9.5	8.9	9.4	5.5

Source: UPEB. "El impuesto de ...", op.cit., p. 19.

It was logical that this should happen since, on the one hand, the weight of bananas in household budgets in the consumer countries is extremely low and, on the other hand, this was one of the few commodities which had played no role in the generalized process of inflation in the early 1970s. While banana prices at consumer levels had remained practically stable between 1970 and 1973, the prices of apples and oranges had experienced respective increases of 78% and 23% in the United States and of 97% and 55% in the Federal Republic of Germany and have continued this trend in this decade.

The foregoing analysis shows that the price elasticity of demand for bananas in traditional markets is significantly less than unity. Consequently, contrary to what the TNCs are saying, an increase in consumer prices results in a less than proportional reduction in the demand, with the end result being a net increase in total export earnings.

/(ii) Distribution

(ii) Distribution of the tax increase

Argument of the TNCs

It would not be possible to pass the tax on to all the consumers because of the resistance of the intermediaries (ripeners and wholesale dealers) and because the distributional margins move in a proportional rather than a linear or absolute basis.

Results

The analysis of the performance of banana prices in the different markets and at the various levels of the marketing process, shows that the TNCs passed the cost of the tax on to the consumers in the importing countries.

In the United States, which absorbed about 50% of the bananas exported by the UPEB countries, the wholesale and consumer import prices, which had remained stable during the two years prior to the establishment of the tax, began to increase appreciably as from March 1974, as may be seen in table 16. When the average prices in the first four months of 1974 (the months immediately preceding the establishment of the tax) are compared with those recorded in the same period in 1975, it is observed that in the latter period, the prices exceeded those in the former period by US$ 2.60 for every 40 pounds at the consumer level (i.e., by 42%), by US$ 1.83 at wholesale level (i.e., by 42%) and by US$ 1.61 at FOR level 30/ (i.e., 56%). The market of the Federal Republic of Germany performed similarly, although in this case the relative increase in the consumer prices was greater than that in the import prices. The foregoing facts clearly show that the increase in the price of banana imports due to the new tax was passed on to the consumer in a way which was more than proportional. In this way, the transnationals acted as "collectors" of the larger profit which the producer countries realized from the additional taxation of the industry by immediately transferring its costs to the consumers and in addition increasing their own profits -also at the expense of the banana consumers. We shall return to this point in the analysis of the effects of the new banana policies of the UPEB countries on the distribution of gains.

30/ Price of bananas conveyed by rail in the importing country.

/Table 16

Table 16

BANANA PRICES IN THE UNITED STATES AND THE FEDERAL REPUBLIC OF GERMANY (1974-1975)

(In dollars per 40 lb box)

	January-April 1974	January-April 1975	Variations	
			Absolute (dollars)	Relative (percentage)
United States				
FOR	2.87	4.48	1.61	56.1
Wholesale	4.37	6.20	1.83	-41.9
Retail	6.17	8.77	2.60	42.1
Federal Republic of Germany				
FOR	3.59	5.74	2.20	-61.3
Wholesale	5.19	8.41	3.22	62.0
Retail	7.77	13.19	5.42	69.8

Source: UPEB calculations on the basis of data from:
U.S. Department of Labor, Bureau of Labor Statistics, Monthly Report, Washington.
U.S. Department of Agriculture, Daily report, New York
Marktbericht, obst Gemuse - Sudfruchte, Bundesausgabe.A. ZAMPA Bonn, Daily report.

(iii) Competitiveness and unity of action of the producer countries

Argument of the TNCs

If a new tax on banana exports were applied in only a few countries, the comparative advantage of those which did not apply it, and primarily that of Ecuador, would increase to the detriment of those which did. Consequently, the countries which established the tax would lose markets and have to reduce their production and exports.

/This argument

This argument had the greatest operational value for the TNCs and served as a basis for their strategy to break the unity of action of the producing countries as reflected in their tax policies. After the adoption of the Declaration of Panama in March 1974, as mentioned above, the high representatives of the transnationals travelled continually between the Central American capitals trying to convince their governments that where tax increases were concerned, the country's industry would lose competitiveness to other banana producing countries, which would result in losses instead of gains for their economies.31/ Similar or greater pressure has been exerted on the labourers and the companies' associate producers and on public opinion, in general, as shown by the statement published by Standard Fruit in Honduras at the end of March 1974:

"It was also explained to the Head of State that we considered it to be our duty to tell him that the Honduran product would face greater competition on the market from the bananas we import from other countries and that it would also be less competitive with other fruits sold in the United States of America. For these reasons, which are based strictly on market conditions, we anticipate a suspension of the shipments from Honduras for some weeks, which will affect the number of jobs and the levels of the wages of all our employees".32/

Results

If a comparison is made between the share of the UPEB countries and that of Ecuador on the world market between 1974 and 1977, it is found that the UPEB countries increased their share from 40.7% to 44.7% while that of Ecuador, which did not adopt any measures to increase the sales price of its fruit, fell from 19.8% to 17.9%. This indicates that the countries which fixed the tax have not loss their competitiveness and that their production and export have not fallen off on that account but that, on the contrary, they have increased.

31/ See, for example, the memorandum from a high official of United Brands on meetings held consecutively with the Presidents and Ministers of Costa Rica, Honduras and Panama between March and August 1974 (Tribuna, op.cit., pp. 102-110).

32/ See the newspaper Tiempo, Tegucigalpa, 28 March 1974.

On the other hand, it must be recognized that the decline in the rates of the banana export tax from those originally proposed in the Declaration of Panama (see section 1 of this part) was due mainly to insufficient unity of action on the part of the signatory countries later on. In the case of Honduras, this is clearly shown in the statements made both by the transnational and by the Government of that time.

The manager of Tela Railroad Company, a subsidiary of United Brands in Honduras, stated on 5 August: "We have not thought of withdrawing from Honduras. We shall cross that bridge only when things reach an extreme... we have insisted from the beginning that if the tax were agreed to in all the countries, it would then be feasible to accept it. But, as we know, of the seven countries which were to establish UPEB, only three (Costa Rica, Honduras and Panama) have decided to impose the new tax on the fruit. The other four, including the biggest producer (Ecuador), have not put it into effect with the result that in the former countries, the fruit is at a disadvantage on the world market". For its part, on 23 August 1974, the Government of Honduras included the following in the preamble of the new decree on the export tax: "considering that decree No. 22 of 18 April 1974 was issued on the basis of the Panama Agreement entered into on 8 March 1974, under which its signatory countries agreed to take mutual action with respect to export prices of bananas with a view to putting order into the international market for their fruit and ensuring higher earnings for the producer countries. Considering that it has not been possible fully to achieve the purpose indicated because some signatory countries of the agreement referred to have not even adopted the measures required to put it into effect, which has resulted in conditions which are economically disadvantageous to Honduras and that because of the tax established, the Honduran product is not so competitive on the international market".33/

These public statements seem to indicate that the decisive factor in the bargaining capacity of the banana-producing countries of Central America was the maintenance of unity and joint action *vis-à-vis* the transnationals.

33/ See the newspaper *Tiempo*, Tegucigalpa, 6 and 24 August 1974.

/(iv) Effects

(iv) Effects on national producers

Argument of the TNCs

Because the companies would have to absorb part of the cost of the tax increase, their profits would be affected and they would be unable to increase the prices paid to their national producers correspondingly, which would have a negative effect on them.

Results

Naturally, since the TNCs passed on more than the total cost of the tax to the consumer (see item (ii) above), their profits could not have been affected. On the contrary, since the amount passed on was more than proportional to the tax, the corporations which intervened at the different levels of the marketing process increased their margins of profit.

Nor was the possibility of the independent producers' obtaining higher prices affected. The behaviour of the prices paid to the producer in the four countries which effected the tax indicate that ever since 1974 they have achieved much more significant increases in absolute and relative terms than those they obtained prior to the tax. While between 1967 and 1974 the prices paid to the producer remained virtually frozen, in spite of the big increases in the prices of the inputs used in production, after 1974 these prices have been adjusted year by year, and the increase accumulated in the last three years represents somewhat more than 60% of the current prices at the time the tax was established, the decisive role played by the national producers in this increase in profits was responsible for the strengthening of the public sector and its new functions in the production and marketing of bananas (see chapter 3 below).

(b) Development and importance of the tax

(i) In general terms

As indicated above, after the renegotiation with the TNCs in 1974, the rates of the banana export tax were set in dollars per 40-lb box, at 60 US cents in Costa Rica, 25 US cents in Honduras and 35 US cents in Panama. Guatemala also set the rate at 35 cents in 1975 (see table 17). During the following five years, the rates of the tax increased in the four countries as follows: Costa Rica, from 60 US cents to US$ 1 (May 1981); Guatemala, from 35 US cents to 50 US cents; Honduras, from 25 US cents to 50 US cents and Panama, from 35 US cents to 50 US cents. In November 1979 Nicaragua adopted the tax at a rate of 50 US cents.

/Table 17

Table 17

UPEB COUNTRIES: DEVELOPMENT OF THE RATES OF THE BANANA EXPORT TAX BY COUNTRY, 1974-1981

Country	Rates per 40-lb box (in dollars)	Date adopted
Costa Rica	1.00	1974 April
	0.60	1974 May
	0.45	1975
	0.80	1980 October
	1.00	1981 May
Guatemala	0.35	1975
	0.40	1976
	0.45	1977
	0.50	1978 onwards
Honduras	0.50	1974 April
	0.25	1974 September
	0.30	1975
	0.35	1976
	0.40	1977
	0.45	1978
	0.50	1979 onwards
Nicaragua	0.50	1979 November
Panama	1.00	1974 March
	0.35	1974 October
	0.40	1976
	0.60	1980

Source: UPEB and Secretariat of the National Banana Council.

/These increases

These increases mean that the rates originally demanded on the basis of the Panama Agreement have been reestablished in Costa Rica and Honduras (at least nominally). It is only in Panama that the 25% increase between 1974 and 1980 did not reestablish the original rate of 1 dollar.34/

The importance of this increase in the taxation of banana exports in the UPEB countries can be gauged on the basis of the fact that in the 1940s and 1950s there was an export tax of 2 US cents per bunch of bananas 35/ in Costa Rica, Guatemala, Honduras and Panama.

Although up to 1974 the income tax was more important, bringing in slightly more than 55% of the tax earnings on bananas in the different countries, since 1974 the most significant tax has been the export tax. In the period 1975-1978 the amount collected through this tax represented close to 93% of the total taxes paid by the sector in the four countries with the tax (see table 18). In Colombia the tax structure has remained relatively stable due to the fact that this country did not establish the export tax.

In recent years various exemptions from the export tax have been adopted in some of the countries to encourage the expansion of the crop in new areas (Costa Rica and Panama) or facilitate the recovery and re-establishment of low-yield areas or areas afflicted by natural disasters (Honduras). In any case, excesses in this direction might end by decreasing or nullifying the effects of the export tax.

Let us look now at the development of the tax and its legal implications, considering also the incentives and exemptions, in the various UPEB countries.

(ii) Costa Rica

In april 1974 Law 5515 establishing the tax of one dollar per box of 40 net pounds of bananas exported was promulgated. Some of the amount collected under this law was to go to the national producer.

In May 1974 Decrees 3720H and 3923H regulating Law 5515 were issued introducing a change in the amount of the tax by establishing certain credits based on the average price of the fruit to the ripening plant in the markets of

---

34/ The nogotiations in Panama in 1981 will be considered in part III of this study.

35/ An average bunch is equivalent to 1.25 40-pound boxes.

/Table 18

Table 18

RELATIVE AMOUNTS OF THE DIFFERENT TAXES PAID BY THE BANANA SECTOR IN THE UPEB COUNTRIES (1975-1978)

Tax/country	Percentage of tax earnings				
	Colombia	Costa Rica	Guatemala	Honduras	Panama (1980)
Export	-	94.1	98.1	90.8	88.9
Income a/	79.5	4.0	0.0	1.3	-
Territorial	5.3	1.9	1.9	-	5.5
Municipal	...	...	...	1.7	2.3
Import b/	...	...	...	3.8	...
Consular duties	...	...	...	2.4	...
Others	15.2	...	...	...	3.3
Total	100.0	100.0	100.0	100.0	100.0

Source: UPEB: "Continuación de un análisis sobre el impuesto a la exportación de banano", Panama City, March, 1979, p. 13. Secretariat of the National Banana Council of the Republic of Panama.

a/ The standard applied in the various countries are conceptually different in terms of the purpose of the tax, the basic levels of taxation, fiscal incentives, reinvestment, distribution and remission of profits.

b/ In all the countries the companies enjoy some kind of exemption with appreciable variations from country to country.

/destination (price

destination (price FOR). Under these regulations, the payment of the tax of one dollar per box was paid as follows: 25 US cents per box of 40 pounds net regardless of the sales price to the ripening plant. The remaining 15 US cents was charged to the parties concerned, deducting the following credits calculated on the basis of the average annual price charged to the ripening plant at the time the final payment of the tax is made: 75 cents per box when the price was US$ 4.50 or less and 75 cents less 50% of the amount in excess of US$ 4.50 paid by the ripening plant when it exceeded this level. It was estimated that, in view of the market prices at that time, the real average tax would be about 60 cents per box exported.

In April 1975 under decree 4780H, the manner in which the tax was collected was changed again and the structure now in force was established. Under this provision, 45 cents of the dollar tax levied per box is collected directly through the Central Bank and the remaining 55 cents is considered to be levied through the price paid to the producer.

Finally, on 3 April 1981, in Decree 12447H the tax structure was modified by setting a rate of 95 cents per 40-42 pound box which was to be paid to the Central Bank and 5 cents which would go to the Ministry of Economics, Industry and Commerce.

In respect of production incentives, in January 1981 Decree 7093HA established a Banana Promotion Plan, conceding the partial devolution of the export tax, as a fiscal incentive to the increase of productivity and the rehabilitation of estates, improvement of levels of efficiency and the expansion of the area planted in bananas.

Early in November of the same year this decree was repealed, and Decree 9297HA was issued establishing fiscal and credit incentives for the development of productivity, efficiency and the expansion of the area planted in banana. The fiscal incentives consist basically in the transfer to the producer of part of the export tax in the following cases:

- Up to 1 665 colones a year for every box over 1 305 boxes per hectare is transferred to the producer, on the basis of a sliding scale of between 1 300 and 2 000 boxes. This incentive is granted for six years from the date of the first payment of credit for rehabilitation.

/-Between 1 655

- Between 1 655 and 2 664 colones for each box over 2 000 boxes per hectare a year is transferred to the producer on the basis of a sliding scale of between 2 000 and 2 501 boxes and more per year. This incentive is granted for 6 years as of 10 January 1978.

- 2 562 colones per box of bananas exported from new areas is transferred to the producer during a period of 7 years counting from the date of the first export.

(iii) Honduras

In April 1974, the government then in power issued Decree 122 establishing the banana export tax at a rate of between 40 US cents and US$ 1 per 40-lb box. In the same month, the Head of State fixed the rate of the tax at 50 cents per box. The fiscal earnings derived from the application of the tax would go exclusively towards financing the National Development Plan. In August of the same year, in Decree 143, a new tax structure, which is still in force, was established, and progressive rates were set so that 50 cents a box would be collected as from 1979 (see table 17).

On the other hand, Decree 376 of September 1976 establishes incentives for investments made by natural or juridical persons, either national or foreign, in the rehabilitation of the banana areas affected by Hurricane Fifi or other natural disasters or in the increase of productivity in areas currently under cultivation. These amounted to as much as one lempira per box of bananas exported depending on the average annual prices in the ports of destination (FOR).

(iv) Panama

In March 1974 law 30 was adopted modifying paragraph 2 of article 585 of the fiscal code and establishing the amount of the tax at US$ 1 per 40-lb box of bananas exported. In January 1976 the rate was changed to 35 cents a box. The same month under the law-contracts entered into between Panama and the Chiriquí Land Company, this tariff was extended to the period between October 1974 and January 1976. In February 1976 this tariff was raised to 40 cents per box exported. Finally, in Law 9 of 14 March 1980, this tariff was increased to 60 cents.

/The incentives

The incentives for the expansion of the land planted in bananas are conceded in Law 5 of January 1976 on the contracts between the Government of Panama and the Chiriquí Land Company. Clause 18 (6) provides for a 8-year exemption from the export tax of bananas harvested in areas newly planted and replanted under plans or programmes previously approved by the Ministry of Agricultural Development. Laws 4 and 49 of 1977 extended this exemption to the State enterprises Pacific Banana Corporation (COBAPA) and Atlantic Banana Corporation (COBANA).

(c) Gains from the tax

The principal gains occurred in the field of the real prices of bananas and the terms of trade among the UPEB countries and the industrialized countries, which were virtually the sole consumers of bananas (95% of the total consumption); real foreign currency earnings and an increase in fiscal earnings. There follows a brief consideration of each of these gains.

(i) Real prices

The export tax enabled the producing countries to retain part of the income derived from the activity, which was passed on to the transnationals and to the consumers in the importing countries in the form of continually lower prices in real terms. After the constant stagnation or deterioration in the 1960s, a significant increase was achieved in terms of the unit values of exports, among other factors, as a result of the tax. In the five UPEB countries, the unit value of exports increased by between 90% and 200% (see table 19). This enabled them to recover some of the exchange price of their banana exports, which had been affected by the world inflation and especially by the fact that imported petrol had suddenly become so expensive. Panama constituted a notable exception to this, to which we shall return in part III of this study.

(ii) Foreign exchange earnings

Since the TNCs dominated the larger share of the production and all the exports of bananas in Costa Rica, Guatemala, Honduras and Panama, the returns to the Central American countries from those activities consisted solely in the foreign exchange the associate producers needed to meet their local expenses and make their purchases. For this reason, since there was no obligation to

/Table 19

Table 19

UPEB COUNTRIES: INDEXES OF THE UNIT VALUE OF EXPORTS
AND THE TERMS OF TRADE, 1974-1977

(1970 = 100)

Country	1965	1969	1974	1977	1969-1977 increase in %
1. Unit value					
Costa Rica	99.3	90.8	133.2	273.5	201
Guatemala	93.0	93.7	137.0	258.8	176
Honduras	97.6	94.2	157.4	244.5	160
Nicaragua	93.2	93.0	159.4	264.5	184
Panama	100.3	100.9	212.6	191.5	90
2. Terms of trade					
Costa Rica	107.6	92.3	76.6	116.8	26
Guatemala	110.8	100.2	69.2	98.7	-1.5
Honduras	125.3	104.0	96.6	110.8	6.5
Nicaragua	112.3	99.1	98.2	129.0	30
Panama	105.8	103.3	113.1	79.6	-33

Source: CEPAL, Statistical Yearbook of Latin America, 1979

/reincorporate a

reincorporate a minimum amount of foreign exchange per unit exported, 36/ the only way of ensuring that the foreign exchange resulting from the price increase actually returned to the country was through the tax mechanism.

These facts serve as the basis of an important hypothesis on the gains derived from the basic commodities bonanza which is not always taken into account in analysing the foreign trade of the peripheral countries: the rise in the world prices and unit values of exports of basic commodities and, ultimately in the terms of trade, favour the peripheral countries only if the national agents have the production and exports of these commodities in their power or if State policies and mechanisms exist for reintegrating the windfall profits of the TNCs (which may control production and exportation) into the economy of the peripheral countries. Obviously, the introduction of the banana export tax in the UPEB countries forced the transnationals not only to increase banana prices in the world markets and their price to the consumer in the industrialized countries but also to convert the increase in the TNC's taxes and windfall profits or at least the majority of that increase, into an increase in the amount returned to the economies in those countries. We shall now consider the magnitude of that increase expressed in the fiscal earnings of the governments.

(iii) Tax earnings

The increase in the amount returned from banana exports, in terms of fiscal earnings from the export tax on bananas is considered in table 20. In 1976, the year in which the new tax came into full effect in Costa Rica, Guatemala, Honduras and Panama, the fiscal sectors of those four UPEB countries received US$ 51.4 million from it, i.e., nearly 40 times what they had received in 1972. The total collected (including Nicaragua) rose to US$ 79.5 million in 1980, i.e., about 55% higher than the amount received in 1976, due to the increase in exports and in the interest rates (see subparagraph (b) (i) above).

(d) Importance of the tax for the producer countries and the horizontal co-operation among them

(i) Producer countries

In those countries which are highly dependent on a single export commodity, such as the Central American countries are on bananas, that product comes to have a high yield owing to the experience and technology incorporated into it over the

36/ As, for example, in the case of coffee in Colombia.

Table 20

UPEB COUNTRIES: FISCAL EARNINGS FROM THE BANANA EXPORT TAX (1972-1980)

(In millions of dollars)

Country / Year	1972	1974	1975	1976	1977	1978	1979	1980a/	Total
Costa Rica	0.3	8.1	22.5	24.2	23.9	24.7	23.9	26.3	153.6
Guatemala	0.3	...	0.4	6.2	6.1	6.8	5.9	9.7	35.1
Honduras	0.2	4.1	5.7	10.9	12.2	17.8	24.6	23.9	99.2
Nicaragua	-	-	-	-	-	-	0.5	3.0	3.5
Panama	0.5	13.2	15.9	10.1	9.8	13.8	12.4	16.6	91.8
Total	1.3	25.4	44.5	51.4	52.0	63.1	67.3	79.5	383.2

Source: For 1972, Litvak and Maule, op. cit., p. 79; for the period 1974-1980, UPEB, on the basis of information from governments.

a/ Preliminary data.

/years. The

years. The gains derived from the increase in the yield are, however, passed on to the consumers in the industrialized countries and are converted into profits for the TNCs which control the production and export of bananas. This naturally results in the deterioration of the real unit value of foreign exchange earnings (amount returned) and in the terms of trade with the industrialized countries. In addition, the profitability of the transnational industry puts pressure on the value of the land in the peripheral countries, pushing out other crops, including those which are essential for supplying domestic consumption but are of lower yield.

In such cases, the export tax is applied for the purpose of retaining in the peripheral country part of the gain from the high yield attained and preventing the progressive deterioration of the prices on the international market and also as a means of inducing and facilitating the diversification and the development of other economic sectors which through lack of developed technology, have very high production costs and are therefore less competitive.

The export tax is particularly important in ensuring that when prices on the international market are extraordinarily high (a "price bonanza"), they do not benefit a small group of individuals or enterprises exclusively without benefiting the country as a whole. The tax is therefore especially necessary in the case of integrated transnational corporations which control the production and marketing of commodities, since in such cases the gains from the price increases do not even reach the producer country.

Over a short period, the taxes are reflected in costs which are added to the other production costs, having a repercussion on the sales prices and, in the medium or long term, modifying competition at international level. The tax system is therefore a basic element in the co-ordination of the commodity policies of a number of countries.

(ii) <u>Horizontal co-operation through UPEB</u>

As mentioned above, in the case of UPEB the countries have used this instrument for the purpose of securing a more remunerative price and cutting down on the transfer abroad of the gains derived from the increased productivity, making certain that the competitive position of the countries is not affected.

/One way

One way of ensuring that the taxes do not have a negative effect on the capacity of some of the producer countries to compete is to harmonize the use of the tax instrument. Harmonization or co-ordination cannot be dissociated from the objectives of national policies, but it has proved possible to achieve a certain amount of similarity among the fiscal regulations of the countries to keep distortions from occurring.

The basic objective of regional co-ordination of the tax system must be to facilitate the use of the tax instrument with the following considerations taken into account:

- This is the most important tax, from both the fiscal and the economic point of view;

- This is the tax in respect of which co-ordination can most easily be achieved since it relates specifically to one economic activity and is not so tightly bound to global fiscal policies;

- This is the tax which has the largest and most rapid economic impact on market conditions and therefore the one which is most suitable for the management of policies to protect basic commodities;

- It is easy to administer and supervise.

As was shown in item (c) above, in the UPEB countries there are frequently differences in the way of viewing in the taxable subject, the material objective of the tax, the tax base, exemptions and incentives, etc., -all of them factors which determine the nature and the amount of the tax and, ultimately, the actual tax rates.

The conceptual structures must be harmonized before the nominal rates are co-ordinated since it would be of no use to apply uniform rates with different tax bases. Moreover, differences in conceptual structure make it difficult to compare the magnitude and impact of the tax actually imposed by the countries. Obviously, the tax rates must not necessarily be the same in all countries (see table 17). The They will depend on the markets of destination of the fruit from each country, the international prices obtained on the basis of the quality structure, freight rates and production costs.37/

37/ We shall return to this important consideration in the final chapter of this part.

/3. Strengthening

3. Strengthening of public sector

During the course of the confrontation and negotiations between the governments and the TNCs on the new banana export tax, both sides resorted to the threat of breaking the ties between transnationals and the domestic banana industry. The governments proposed the possibility of nationalizing the property of the TNCs in the territories of their countries, and the transnationals in turn threatened to extend their repressive tactics, from the temporary interruption of exports to a gradual disinvestment in the "less competitive" countries and transfer of their activities to other suppliers with lower costs and tax risks.38/

In the end, the break between the TNCs and the banana industry of the UPEB countries did not occur. On the one hand, the governments realized that they already lacked the necessary capacity to assume the responsibility and face the risks of this activity in all its technological, administrative, financial and, particularly, marketing aspects in the consumer markets dominated by the transnational oligopoly. The companies in turn estimated the sizeable investments in the Central American isthmus and the "impossible" cost implied in the reallocation of their normal supply to potential markets in other producer countries. In order to weigh the margin of present value of an investment in a hypothetical reallocation of this type, the three United States TNCs had to take into account their 70 to 100% dependency on the bananas produced by UPEB and the not always quantifiable relationships of socio-economic power established over half a century in Central America. These factors in turn, in the second half of the 1970s, led to greater flexibility on the part of the transnationals not only in accepting higher costs and prices of bananas for the benefit of the producer countries (resulting from the new tax policy) but also important changes in the social structure of the industry in favour of the domestic producers and the public sector.

The private, co-operative, State or mixed producers' associations, whose origin goes back in some countries to the period before the creation of UPEB, became particularly important. This is the case of AUGURA in Colombia and ASBANA

38/ See point 2 (a), (iii) above.

in Costa Rica, established in 1966 and 1971, respectively. After the confrontation with the TNCs in regard to the new tax policy and the creation of the UPEB in 1974, the Governments of Honduras and Panama established two public organizations within the Central American banana industry; COHBANA (1975) and the National Banana Council in Panama (1977). The importance of these two government organizations is that they not only channel and provide technical and financial assistance to the domestic producer, thus achieving greater independence with respect to the TNCs, but also participate directly in productive and commercial activities, playing a guiding role in the design and implementation of national banana policies and co-ordinating and integrating with other producer countries through UPEB. Finally, their existence allows the governments to develop and channel policies which go beyond the actual structure of the banana industry and take the place of the previous, private profit motive of the transnational monopoly in substantial areas of national and subregional development towards self-sufficiency, such as transport and communications, energy, other related industries, the domestic and international market, etc. Below we examine, in greater detail, the activities and results of the public sector in Honduras and Panama.

(a) The case of COHBANA in Honduras

In September 1975, the Government of Honduras, through Decree 243, derogated all the concessions held by the banana companies and, between 1975 and 1976, transferred a considerable part of its property in agricultural land to the State, as well as its wharves and railway installations. However, in both cases the direct ownership was replaced by rental arrangements, and the companies were able to recover by renting all the land they needed to operate the industries. However, all the land held in reserve by the transnational corporations (see table 2), but not dedicated to the direct cultivation of bananas, was transferred to the Government to be used in agricultural production.

An important step in the design and implementation of new banana policies was the establishment of the Honduran Banana Corporation (COHBANA) on 21 October 1975.

(i) Objectives and organization

Decree Law No. 270, by which COHBANA was created, establishes as the principal aim of the latter "to promote the most favourable conditions for the

/development of

development of the banana activity and to obtain a growing domestic participation in the production, international transport and marketing of bananas. As a result, the Corporation will formulate the State banana policy and will carry it out in the field of its competence"; in addition, its Constitutive Law establishes the following powers for the institution: (a) to promote a growing participation by Honduras in the production, international transport and marketing of bananas and other aspects related to the banana activity; (b) to adopt the necessary measures to establish and maintain remunerative prices for the sale of bananas produced in the country; (c) to promote the organization of the international banana market and the achievement of greater economic independence in all phases of banana negotiations; and (d) to formulate the policy guidelines necessary for the achievement of the objectives of the Corporation and to implement them in the field of its competence.

To comply with the stipulated objectives and powers, the State body is charged with a series of functions, at both national and international levels, as follows: determination of the ways and means to market bananas according to the situation of the international markets and to establish reference prices for the purchase and sale of bananas; to buy, transport, distribute and market bananas and derivative products, inputs and other materials used in banana-related activities; to support the beneficiaries of the Agrarian Reform, rural associations, co-operative and other national producers involved in banana-related activities; to participate in the organization, merging or transformation of enterprises which produce bananas or products derived from bananas; in the financial field, to underwrite, purchase, negotiate or invest in all types of stocks, interests or bonds of national, foreign or multinational corporations related to the production, transport or marketing of bananas or products derived from bananas or those directly related to the banana activity; to contract loans within or outside the country, make temporary investments in liquid assets, endorse or guarantee credits conceded to companies related to the banana activity and promote the establishment of special funds, either national or international, for the contracting of insurance to take care of situations resulting from natural disasters which may affect the banana industry; finally, to promote, develop and participate in the industrialization

/and transformation

and transformation of the banana industry and in research and technological development related to the banana activity and, at the international level, to represent the country in the Union of Banana Exporting Countries (UPEB), the Multinational Banana Marketing Corporation (COMUNBANA), etc.

In administrative terms, COHBANA is an autonomous government body with its own capital. Its executive management is under the responsibility of a Board of Directors composed of five government representatives, two workers' representatives, one representative of the independent producers and one representative from the co-operatives, rural associations and other beneficiaries of the Agrarian Reform Law.

The administrative functions are the responsibility of the President and Executive Vice-president, who are appointed directly by the Executive Power. Four departments report to the President and Executive Vice-president (Public Relations, Finance, Development and Marketing), as well as various special units which are in charge of carrying out specific tasks related to the objectives outlined by the Board of Directors of the Corporation.

The COHBANA organization has become a bridge between the Government and the banana sector. The institution maintains a permanent relationship both with the foreign corporations established in the country and with the national producers, to which it also offers its support. Its status as executive body for the banana policy allows it to work closely with the other State agencies in charge of development work in order to undertake joint actions, provide information on the subject, and other related tasks.

By virtue of its objectives and powers, COHBANA is the government body charged with the design and implementation of the new banana policy in its broad content. The interest of the Corporation in the implementation of the new policy has become clear in its first months of operation, when it has succeeded in co-ordinating the negotiations for the recovery of the wharves and railroad networks which were in the hands of the transnational companies established in the country. Since then, COHBANA has strengthened its efforts to support the national banana sector through providing financial and administrative assistance to different rural groups and Honduran companies dedicated to banana-related activities.

/Discussed below

Discussed below are the main achievements of COHBANA in the five-year period since its establishment in 1975 in the areas of development of production, marketing, financing and technological progress.

(ii) Development of production

COHBANA has made an intensive effort to support the producers with technical, financial and administrative assistance. The Corporation has concentrated its activities on rehabilitating areas which were previously cultivated but then abandoned by the TNCs, and which have been awarded to rural groups or are the property of independent producers.

The technical assistance begins with the planning and implementation of the infrastructure works necessary for the productive complex. Once in operation, qualified personnel of COHBANA continue to lend their help in matters relating to agricultural practices, quality control and other activities of the production process. Along with this technical support, COHBANA offers both the channelling of financial resources necessary to materialize the works and the administration of the projects.

The rehabilitation of Isleta. In the production field, the first major effort of COHBANA was intended to rehabilitate the Isleta banana sector, destroyed by hurricane Fifi in 1974 and abandoned by the Standard Fruit Company. In February 1976, the Corporation assumed the responsibility of reinstalling the irrigation systems, repairing the containing walls, roads and railways, putting the packing houses back into operation and providing the Isleta Rural Association (EACI), composed of some 1 200 farm families, with all the assistance required for its strengthening and development. The Isleta project takes in an area of some 2 000 hectares in the fertile land of the Aguán Valley, and with COHBANA's contribution of some US$ 9.2 million, it has increased banana exports in the period 1977-1980 from 3.9 to 4.9 million boxes, or by 25% (see table 21). In 1979, the Corporation carried on negotiations with Standard Fruit to obtain higher prices for the Isleta fruit, achieving an increase of 30 cents per box of fruit. With the same foreign corporation it negotiated and signed a contract for fumigation, transport and stowage of EACI fruit.

/Table 21

Table 21

HONDURAS: PUBLIC SECTOR PROJECTS - COHBANA (1977-1980)

Indicator	Unit	1977	1978	1979	1980	1980/1977
1. Exports						
Isleta (EACI)	Thousands of boxes	3 917	5 165	5 373	4 903	125.2
COBAHSA	"	187	407	553	540	288.8
Finca Tres Limitada	"	-	-	121	504	...
Experimental area (Santa Inés)	"	-	-	-	231	...
Total	"	4 104	5 573	6 047	6 178	150.5
Country's share in total	%	...	14.1	12.3	12.9	...
2. Total value of exports	Millions of dollars	6.0	6.5	8.1	11.8	196.7
3. Export taxes	"	1.8	2.6	2.9	3.0	166.7

Source: COHBANA, Memorias Anuales, 1979 and 1980.

/Sula Valley

Sula Valley projects. COHBANA lends support to the Honduran Banana Company, S.A. (COBAHSA) and has accomplished the rehabilitation of the sector known as "Finca Tres Limitada", farmed by the agricultural co-operative of this name.

COBAHSA, a 290-hectare plantation, has received aid since the beginning of 1977, when it was in financial difficulty and COHBANA formed a joint corporation with it with a 64% share in the capital of the company. Its exportable production, which in that year was 187 thousand boxes, rose to 540 thousand boxes in 1980, or 2.9 times as much. In the social area, duplex houses were constructed, improving the standard of living of the workers and their families. This first step in the housing project required an investment of US$ 400 000. The project, once completed, will consist of 75 homes and will be able to house about 150 families. The planned expansion of the fields to some 200 hectares, and the construction of infrastructure works (including irrigation, packing houses and transport system) will make it possible to increase exports by some 600 thousand boxes of bananas.

The "La Tres Limitada" co-operative agricultural project, involving 112 rural families in the El Progreso, Yoro jurisdiction, was begun in the mid-1977s with a credit from COHBANA of US$ 1.5 million. The development of 325 hectares of banana fields made it possible to export a half million boxes in 1980, with a planned future increase to 800 thousand boxes. One factor which contributed to this co-operative's high production level was the introduction, as in COBAHSA, of the wind-resistant, high-yield Gran Nain variety.

Banana exports of COHBANA-supported projects increased from 4.1 to 6.2 million boxes -or by approximately 50%- in 1967-1980. As a result, by the late 1970s, about 13% of all banana exports of Honduras were outside the transnationals' unilateral control of banana production (see table 21). The value of these exports doubled during the same period, reaching US$ 11.8 million in 1980. At the same time, export taxes collected by the State in 1980 totalled US$ 3 million, a two-thirds increase over the year 1977.

New COHBANA projects in the coming years should cover 2.7 thousand more hectares at a cost of approximately US$ 24 million. This would result in an additional increase of some 2 million boxes of banana exports. This future development of COHBANA-sponsored producers, making them independent from the TNCs -at least as far as production is concerned- means that the areas they have under

/cultivation would

cultivation would nearly double (reaching 2.68 thousand hectares in 1969; (see table 22) and their share in the total area under banana cultivation would approach one-third. We will return to this subject when examining the structure and dependence of the TNCs in the banana industry in the early 1980s.

(iii) External and domestic marketing

All bananas commercially produced for export in Honduras are either marketed directly or through the TELA Railroad (United Brands) and Standard Fruit and their commercial subsidiaries (Bananera Antillana and Chiquita International Trading Company). This concentration of marketing power allows these companies to impose their own contractual conditions and to pay the domestic producers relatively low prices. To alleviate this situation and in accordance with the sales contracts in effect, COHBANA has taken on the responsibility of marketing the fruit produced by the projects it assists. To this end, COHBANA has signed contracts with Bananera Antillana, S.A. and Chiquita International Trading Company, acting as a marketing agent between the transnationals and the domestic producers. COHBANA's assistance as a negotiator has produced substantial benefits both in prices and in sales conditions for the producers, in sharp contrast to the traditional norms established for the purchase and sale of bananas.

COHBANA's participation in the annual negotiations with the transnationals had a positive effect on the increase of FOB prices, which rose on average from US$ 1.70 in 1978 to US$ 2.00 in 1979 and to US$ 2.26 in 1980 or, in other words, by 18% and 13% respectively.

COHBANA has also attempted to improve the various terms of sale previously imposed unilaterally by the transnationals. One such condition, for example, is a deduction for stowage, which in some cases reduces the FOB price paid to the producer by 20 cents per box, while in other cases it totals only 7 cents. In this regard it negotiated a change with United Brands in the system of prices paid to the producers, by which the use of FOB prices (i.e., including all costs up to the time the product is placed in the ship's hold) was replaced by the price of the fruit upon delivery to the Company's packing house. Under this latter system, the producer avoids paying for the risk of transport and for stowage of the bananas in the ship through deductions controlled by the Company.

/Table 22

Table 22

HONDURAS: NEW COHBANA DEVELOPMENT PROJECTS IN THE 1980s

Project	Area (hectares)	Cost (millions of dollars)	Projected exports (thousands of boxes)
Finca Paujil (COBAHSA)	280	2.3	720
CASMUL (San Manuel)	200	1.3	...
Kele-Kele and Manacalito (Ulna River)	2 000	18.5a/	1 200
Aguán Valley	200	1.5	...
Total	2 680	23.6	1 820

Source: See table 21.

a/ Credit from World Bank for the first stage of the project amounts to US$ 3.7 million.

/COHBANA's efforts

COHBANA's efforts to raise the prices paid by the banana companies have not only benefited the producers participating in its projects, who accounted for 13% of the country's total exports in 1980 (see table 22), but has also benefited domestic growers as a whole, since they have been able to demand higher prices based on the contractual advantages obtained by COHBANA from the TNCs. A case in point is the Isleta Association, whose annual marketing contract negotiations were handled by COHBANA.

In order to strengthen the bargaining power of member producers vis-à-vis the TNC's,39/ COHBANA is working jointly with the National Association of Independent Banana Growers in regard to negotiations desgined to adjust banana prices to take into account the cost of inputs and other factors affecting the banana industry. Despite the foregoing, consideration is being given to the search for new alternatives in the international market which could allow greater domestic participation in exports and which would provide higher incomes to producers, and thus to the country's economy.

To this end, the Marketing Management of COHBANA, which was established in 1978, in co-operation with the support of international organizations such as FAO, and, in particular, UPEB, is carrying out studies on world banana markets and on the possibility of the direct sale of bananas to non-traditional markets, thereby reducing unilateral dependence on the transnationals and the United States market. The United States market and Canada together absorb 70% of total banana exports. European markets account for only 29%, while an insignificant 1% goes

---

39/ Among the international marketing firms which may enter into direct banana sale contracts are: in Europe: T. Port, Hamburg, Germany; Atlanta Handelsgesellschaft Harder & Company, Bremen, Germany; Arien Vooren B.V., Bevermijk, Holland; Arie Voore, Holland, Sabotex Limited, London; S. Skourtopoulos and Co., Greece; Ignacio Martínez Moreno, Murcia, Spain; Viuda de Juan Ortega López, Málaga; Spain; VOCE, Zagreb, Praska and Slovenija Sadje, Yugoslavia. In Latin America: Comercializadora Multinacional del Banano, S.A., Panama City, Panama; Banana Development Corporation of Costa Rica, S.A., San José, Costa Rica; CONGERICA, Curaçao y E. Bril & Co., Montevideo, Uruguay. In the United States and Canada: Paradise Tropical Fruit Corp., Miami, Florida; Parker Banana Company, Tampa, Florida; Quality Banana Company, Houston, Texas; Sergio Dieguez, Houston, Texas; Bischoff August Inc., New Jersey; Jelowa Company, N.V., Pasadena, California; Globe Impex Inc., Glendale, California and Magma Importex Co., Ottawa, Ontario. In the Arab countries: Alexandria Export and Import Office, Alexandria, Egypt; Al Amer Trading Establishment, Dubai, U.A.E.; Al Harbi Trading Foodstuff and refrigerating Col., Harbi, Dubai.

/to new

to new markets, such as the Arab countries. There is a possibility of direct sales of bananas to various European markets, as well as to independent marketing firms in the United States. Logically, it could be of great importance to Honduras to combine its marketing efforts with those of the joint enterprise of the UPEB or COMUNBANA countries, which is still limited to marketing the fruit coming from Panama and, recently, from Costa Rica and the Dominican Republic.

Along with its assistance in external marketing, COHBANA has moved into the domestic market which has traditionally lacked high-quality bananas. The project in question is designed to provide national producers with a high income by marketing selected bananas of excellent quality not bought by the TNCs and to supply domestic consumers with scientifically processed bananas. The fruit is processed in COHBANA ripening sheds located in Tegucigalpa and San Pedro Sula. In 1979 new processing units were installed in both cities in order to augment the project's capacity and thus to allow expansion of the project area to outlying cities around the capital.

In 1980 more than 1 300 000 pounds were sold, and COHBANA programmes had an income of US$ 125 000. Markets were expanded to include cities such as Puerto Cortés, Tela and La Ceiba, while coverage of Tegucigalpa, San Pedro Sula and Choluteca was maintained. In addition, arrangements were begun for the acquisition and installation of a new ripening facility in Tegucigalpa in order to satisfy demand.

(iv) Financing

In addition to loans extended to the projects noted in point (ii) above, COHBANA provides financial assistance to a considerable number of independent producers and co-operatives. It uses its own resources as well as funds from external sources for this purpose. COHBANA has also established a trust fund in order to support productive units such as the co-operatives. Ulúa Limitada, Guanchías y Agua Blanca Sur, Compañía Agrícola y Ganadera de Sula, S.A. (CAGSSA) and the fields established in the areas of Santiago and El Higuerito, as well as other producers. In overall terms, COHBANA has channelled loans totalling the considerable sum of US$ 8.5 million to the banana sector. This represents a significant contribution to the growth of the industry in terms of greater independence from the TNCs.

/Internal sources

Internal sources of financing for the activities of COHBANA are, in particular, income received from technical assistance which is equivalent to 5.5-6% of the value of exports at FOB prices, income from sales to the domestic market and financial assistance from the State. Among the external sources are international organizations such as the World Bank, and credits obtained from private international banks. The recent increase in interest rates on the world financial markets and COHBANA's 2% commission on loans to producers raised the real cost of credit to the sizeable margin of 20 to 22% of the loan value. This obviously increases the cost to the independent producers, and makes it necessary for them to obtain higher income by putting pressure on the transnationals to pay higher prices.

Since the State's income from the tax on banana exports (established by Decree No. 143 of August 1974), which amounted to the considerable sum of US$ 24 million in 1980, and is earmarked in the Government's budget for other areas of the national economy, COHBANA is seeking additional sources of funds. Among the various possibilities, consideration is being given to replacing the planned increase in the export tax, of 50 cents per box of bananas exported, by an Export Permit. The fee paid by the transnationals for this permit would directly increase the resources of COHBANA.

(v) Technological research

In the Aguán Valley, Isleta's region, COHBANA has 125 hectares of experimental fields known as Santa Inés, planted with the Gran Nain variety. Specialized COHBANA personnel are studying ways to develop new irrigation techniques, disease control, fertilization, drainage and flood-control methods as well as to produce improved seed for use in other areas selected for banana cultivation. The Santa Inés project also provides a considerable volume of fruit for export (231 000 boxes in 1980).

In addition, a research project is being undertaken which is designed to obtain agroindustrial products by making use of the large number of bananas not of export quality. Currently, approximately 20% of bananas produced are not exported because they do not meet the standards of the international market, but could be used for industrial purposes. In co-operation with international organizations (World Bank, UPEB and the European Economic Community), COHBANA is carrying out studies on agroindustrial uses for these waste bananas. Specifically, this would involve the production of meals, animal feeds, alcohol and vinegar, dried bananas (raisins) and preserves, etc. In co-operation with UPEB and other international organizations, methods of using waste bananas are being sought which would help resolve the country's serious food and energy shortages.

(b) The case of Panama's public sector

(i) The historical background of the State's leading role

An examination of the evolution of the public sector in Panama's banana industry reveals two different stages. The dividing line between the two can be placed in mid-1974, with the agreements which later led to the land sales contracts, leasing and operations of the Chiriquí Land Company (United Brands).

A central event during the first stage, when the transnationals exercised complete control over the management of banana-related activities, occurred in 1971 when the Government of Panama put three domestic entrepreneurs, with the help of MII and the Corporación de Desarrollo Integral de Bocas del Toro, in charge of organizing the company which would later come to be known as the public company Corporación Bananera del Atlántico (COBANA).

In the second stage, which began in 1974, the Government redefined the national banana policy, placing emphasis on the State's leading role in the achievement of the following overall objectives and prospects:40/

- to assume control of national production, export and pricing policies, thus freeing the country from its dependence on United Brands and putting an end to the prevailing colonial enclave in the banana industry;

- to acquire ownership of Chiriquí Land Company's means of production in Panama so that the profits can be retained and reinvested for the benefit of the country;

- to assume control of banana transport and marketing activities and to conclude transport and marketing service contracts with the individuals or companies offering the best terms and conditions, since the State has its own banana transport and marketing organization as well as the necessary infrastructure at ports of destination;

40/ For greater detail see the Memoria of the Ministry of Commerce and Industry, 1973-1974, Panama, 1975, p. 180.

- management, administration and control of banana-related activities should be in Panamanian hands;

- until Panama can assume control of banana production, transport and marketing the State will, through tax measures, correct the unjust distribution of wealth arising from this activity.

In 1974 the Government employed a prominent Panamanian expert who had worked for the Chiriquí Land Co. to begin setting up the company which would later become the second public enterprise, Corporación Bananera del Pacífico (COBAPA) and to create the National Banana Department as a centre for the study and design of a banana policy. In brief, it was in 1974 that the means of government intervention in the orientation and regulation of banana-related activities was established, as was its direct involvement in the production, transport and marketing of the bananas produced by the two State companies then being formed. The succeeding years were a time of growth, accumulation of experience and legal formalization of the institutional model.

Between 1974 and 1976, the National Banana Department, along with the Government, was of decisive importance in the negotiations and decisions leading to the new contracts with the Chiriquí Land Company, which laid the legal and material foundations for the State's direct involvement in the banana industry.

(ii) Contracts between the Government and United Brands

In the agreement signed in December 1974 between the Government of Panama and United Brands, the corporation was required to sell to the State all its banana holdings in the country, and it was stipulated that the company was to allow the Government, beginning on 1 January 1975, free use of the land not planted with bananas.

Following are the principal characteristics of the three contracts finally signed by the Government and the company in January 1976:

- Contract No. 1. United Brands transferred by sale all its land in Panama, with a total surface area of 42 000 hectares, at a cash price of US$ 151 000, in book value. The sale was limited to land; the other assets for banana exploitation were considered improvements on land owned by the Panamanian State, so that in order to continue its activities of exploitation of bananas in the country, the company had to sign a rental contract for the land with the Government.

/- Contract No. 2.

- Contract No. 2. The Government rented to United Brands 15 700 hectares (or more than one-third) of the land bought by it, for an annual rent of US$ 1 million, for a period of five years, with the possibility of extending the contract for successive one-year periods if the two parties agreed. The rest of the land sold (27 000 hectares approximately) remained in the hands of the State.

- Contract No. 3. The terms of operation of the company were changed in accordance with new regulations, through which the contracts were annulled which had governed the banana enclave in Panama for a period of 80 years. The contract contained the following specific clauses:

- United Brands will have the right to use the State wharves Almirante and Puerto Armuelles for an annual rent of US$ 50 000 per wharf;

- the company will pay the sum of US$ 500 000 per year for the operation and priority use of the State railroads in the provinces of Chiriquí and Bocas del Toro;

- payments of the municipal taxes now in effect will continue, and an additional annual tax of US$ 200 000 is established for the benefit of the municipalities of Barú and Changuinola;

- the income tax (which had remained at 30% of net income since 1950) is unfrozen, and the rate is increased to 50% of the net income of the company;

- a tax of US$ 0.35 per box is established on banana exports, which the Government may unilaterally change;

- United Brands agrees to provide the remaining boxes of banana necessary to fulfil the trade agreements made by the State company Corporación Bananera del Pacífico (COBAPA) when its production is insufficient. The State company will return to United Brands the boxes provided at the end of each year of this "deal".41/

- United Brands grants to the Government the option of buying all the assets related to the exploitation of bananas, once the land rental contract has expired.

41/ This contract clause was the subject of a confrontation and renegotiation between both parties in 1981 (see part III of the study).

/As can

As can be observed in the previous summary of the three contracts, the latter authorize the nationalization and State ownership of the agricultural lands, railroads and wharves previously belonging to the transnational corporation. However, these means of production remained under the dominion and usufruct of the transnational corporation with the commitment to pay the agreed rents to the State during each year of force of the contract. Thus, in this phase Panama had not yet become free of dependence on United Brands, which continued to dominate the greater and decisive part of the industry, but it did establish bases for its national control by strengthening the public sector and its direct participation in banana-related activities and increasing national benefits through the payment of rent by the transnational for the national productive assets. The latter, in effect, represents an increase in the returned value of this industry to the economy of the country, in addition to the fiscal income proceeding from the new tax policy.

We will now look in greater detail at the institutional aspects of the public sector in Panama.

(iii) Institutional and economic aspects of the economic sector

The public sector is made up of the following organizations: the National Banana Council (CNB), established by Law 48 of 2 December 1977 and its General Secretariat, which until the establishment of the latter was the National Banana Department; the Banana Corporation of the Atlantic (COBANA), established by Law 49 of 2 December 1977 and the Banana Corporation of the Pacific (COBAPA), established by Law 4 of 27 January 1977.

The National Banana Council is a public entity composed of nine members, including the Minister of Agricultural Development, who is the chairman; the Minister of Commerce and Industry, the General Manager of the National Bank of Panama and the members of the Boards of Directors of the State companies COBAPA and COBANA. It meets every 6 weeks, approximately. Its work supports a Secretariat composed of a Secretary-General, an economist and an architect in charge of a special programme called "Programme for the transformation of banana areas" (PROTAB).

/The Council's

The Council's main objective is the establishment and implementation of national banana policies and the higher management of the State companies COBAPA and COBANA and, in particular, to co-ordinate the actions being carried out in banana-related activities by the State and private entities, to adopt the programme and budget of the two State companies and supervise their operation, technical efficiency, administration and socio-economic profitability and to establish, to this end, the necessary incentives; the Council also supervises and negotiates with the United Brands company and the independent producers (14 fields in the province of Chiriquí and seven in Bocas del Toro). The Secretary of the Council represents Panama in international organizations, such as UPEB and COMUNBANA and maintains relations with other similar bodies in other countries such as ASBANA in Costa Rica, COHBANA in Honduras and BANANIC in Nicaragua.

The purpose of the two State companies, COBAPA and COBANA, is to cultivate, produce, process, industrialize and market bananas and other agricultural and cattle-related products. They have the power to exercise rights and contract obligations, to buy and sell, to contract loans, to mortage, to barter, to rent personal property and real estate, to construct, to contract personnel, and to plan and implement agricultural and industrial development programmes, as well as technical and administrative programmes, in accordance with the Law and Statutes. The State is responsible for its obligations.

Both corporations are subject to the payment of taxes on income, banana exports, educational insurance and the Property Transfer Tax. They are exempt from export taxes on fruits harvested in newly planted or replanted areas.

Each corporation has a Board of Directors made up of the Manager of the corporation, a citizen appointed by the Government; and a Representative of the workers. The Manager of each corporation is appointed by the Government and is in charge of administrative and technical management.

The workers in the corporation participate in the net profits in proportion to the hours they have actually worked and in accordance with the terms and the percentage which is to be distributed in accordance with the provisions of the Statutes.

/In the

In the second half of the 1970s the evolution of COBAPA and COBANA in their productive and administrative aspects made it possible to establish national groups of executive personnel with a growing capacity for such responsibilities. However, the levels of efficiency and profitability were not satisfactory nor did they reach the same levels as those of the United Brands subsidiary, Chiriquí. Table 23 shows that by the end of the 1970s the State sector accounted for 10.5% of the total surface area cultivated with bananas, but that its share in the country's exports was only 6.5%, corresponding inversely to that of the TNC (87.3% and 93.5%, respectively). It was not easy to train the national executive personnel, in spite of the formative influence and work patterns which the transnational applied and the State companies reproduced, as far as possible or suitable. However, the increase in profitability was not the main objective of this initial stage, but rather expansion of the lands assigned to the corporations, and the establishment of an organization and groups of executive employees, supervisors, administrators, foremen and skilled workers which were a factor of major importance in the national capacity for self-sustained development.

(iv) Reorganization in the early 1980s 42/

The establishment of the National Banana Council in 1977 was intended to provide closer co-ordination between the higher level, which was in charge of defining national banana policy, and the two State companies (COBAPA and COBANA) which supervised the production, processing and marketing of bananas. Nevertheless, this organization in practice was weak, in that there was no higher management responsible to the Council for the operation of the two corporations, with an effective mandate over the two managers of the latter. There remained, thus, a certain ambiguity in the line of authority, which left an excessive margin of discretion to the managements of the two companies in regard to matters and decisions which should be analysed, authorized and followed up by the Council in its capacity as top governmental organization in the banana industry.

42/ See Consejo Nacional del Banano de la República de Panamá, "Política Bananera Nacional", Panama City, January 1981, p. 5.

/Table 23

Table 23

PANAMA: IMPORTANCE OF THE STATE BANANA ENTERPRISES

Indicator	State enterprises (COBAPA and COBANA)	United Brands a/	Country total
1. Surface area cultivated in bananas in 1981:			
Thousands of hectares	1.7	13.7	15.7 b/
Percentage	10.5	87.3	100.0
2. Banana exports in 1980:			
Millions of boxes	1.8	25.8	27.6
Percentage	6.5	93.5	100.0

Source: National Banana Council.

a/ Including products associated with transnational corporations.
b/ Including the Association of Banana Farmers and Workers (EMBACHI), with 300 hectares of banana cultivation.

The experience gained in the technical and administrative management of the two public companies indicates that it is advantageous to integrate into one common institutional structure the National Banana Council and the two State companies COBAPA and COBANA, keeping the latter as operating divisions exclusively. The main advantages are of an economic and administrative efficiency nature: the responsibilities of the council are better defined, in its dual role as the body in charge of formulating and implementing national banana policy and as the highest administrative authority for the State's banana plantations; better use is made of technical and administrative personnel and the advisory assistance of UPEB and COMUNBANA; conditions are created for an adequate assessment of the operations and administration of the two companies by the National Banana Council with the establishment of the post of General Manager, who is responsible to the Council and has a mandate and jurisdiction over both divisions; a state of institutional expansion is consolidated which makes it possible to take on greater responsibilities in the future.

/The objectives

The objectives of the new institution include the important aim of promoting the implementation of plans and programmes for the transformation and integral development of the banana-growing areas and promoting the economic and social improvement of the workers and families in those areas which have been the object of the national banana policy since 1978 (Programme for the Transformation of Banana-Growing Areas, PROTAB).

The legal nature of the new Corporación Bananera de Panamá is that of a Public Right corporation, which may take on the functions of governmental promotion and regulation of national banana-related activities, as well as those of a State company which directly exploits banana plantations. In their practical operation, the activities of promotion, developments and regulation will be supported by a Programme-Budget for Development, clearly separated from the budgets for operations, purchases, sales and financing of the cultivation, production, processing, industrialization and banana-marketing activities. This set-up is a second stage in the institutional evolution of the Panamanian State in regard to banana-related activities, which remains flexible in order to deal with the foreseeable changes in the 1980s.

(c) <u>The public sector in Colombia, Costa Rica and Nicaragua</u>

In Colombia, the Government is present in the banana industry through the Ministry of Agriculture and the organization for the promotion of exports, PROEXPO. It has been providing financial support for the establishment and maintenance of plantations through the Agricultural Financing Fund (Law 5a., 1973) of the Bank of the Republic. There have also been incentives to export products other than coffee through the Tax Allowance Certificate (CAT), in which the banana industry is included.

On the side of the union organizations connected with banana-related activities, the Association of Banana Growers and Cultivators of Urabá (AUGURA) has been active since 1963, in advising its affiliates in the fields of finance, agriculture, administration and bargaining. This organization also has the merit of having established Uniban, S.A., in 1968 as a national alternative for banana marketing. Uniban, by the end of the 1970s, accounted for about 40% of the country's total banana exports (see table 24).

/Table 24

Table 24

COLOMBIA: PARTICIPATION OF THE VARIOUS EXPORTING COMPANIES IN BANANA MARKETING, 1974-1978

(Thousands of tons and percentage)

Company	1974	1977	1978
Total exports	314.3	438.9	573.5
Uniban (AUGURA)	36.8	42.7	39.0
Frutera de Sevilla (United Brands)	56.3	47.1	42.0
Standard Fruit	6.9	10.2	19.0

Source: UPEB.

In Costa Rica the National Banana Growers' Association (ASBANA) organized the national producers under the sponsorship of the Government, which makes the necessary contributions against funds accrued from taxes on banana exports. ASBANA is in charge of diversifying agriculture and providing technical assistance to national producers, in order to reduce the control of the transnational corporations. ASBANA is a corporation in which the Government and the commercial banks of the national banking system participate equally.

ASBANA has solved many of the problems of the independent producers, preventing them from going bankrupt and administrating the fields through a trust contract which includes accounting, auditing and technical assistance services. ASBANA is connected with the National Chamber of Banana Growers, with the TNCs and with the Agro-Industrial Diversification Programmes, the Ministry of Agriculture, the Central Bank and the University of Costa Rica.

In Nicaragua, as a result of the interruption of operations by United Brands in the late 1960s, the National Development Institute (INFONAC), a State economic development agency, took over -for a short time and not very successfully- the export of bananas produced by the private growers of the Chinandega region.

/In the

In the early 1970s an agreement was reached with Standard Fruit, a subsidiary of Castle and Cooke, which began to operate under a system of association with the national producers, taking over the total exportation of Nicaraguan bananas. Finally, it should be noted that recent measures adopted by the National Reconstruction Government of Nicaragua in regard to foreign trade, particularly the transfer to the State of the exports of various agricultural products, the establishment of an agency at the ministerial level to govern foreign trade policy in respect of commodities, including bananas, and the creation of State companies for specialized exports, introduced new factors which, although they have not yet modified the current banana marketing system in Nicaragua, are undoubtedly having an impact on banana-related activities.

As indicated at the beginning of this chapter, the public and semi-public organizations in the banana-related activities of the Central American countries and Colombia, although they have different origins and other slight differences, form a solid basis for their common policies through UPEB and COMUNBANA. We will now take a look at the objectives and achievements of these two organizations for co-operation among the banana-producing countries of Latin America.

4. Union of banana exporting countries (UPEB)

In the 1960s, some banana exporting countries began to express interest in organizing a common front to regulate the market of this fruit and ensure remunerative prices for it. These intentions materialized in the First Ministerial Meeting of Banana-Producing Latin American countries, held in March 1974 in Panama, with the participation of Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Nicaragua and Panama. On that occasion the Panama Agreement was adopted in which it was decided: to increase the FOB price of bananas through an export tax or equivalent measures; to establish an organization of banana exporting countries and take steps to link this organization to most of the banana exporting nations. In the same month, March 1974, the Heads of State of Costa Rica, Honduras, Nicaragua and Panama, meeting in Tegucigalpa, expressed their decided support for this agreement, and in 1974-1975 Costa Rica, Honduras, Guatemala and Panama applied a banana export tax and the Colombian Government implemented measures to increase the export price of the fruit.

/In September

In September 1974, Costa Rica, Colombia, Honduras, Guatemala and Panama, in the capital of the latter country, signed the "Constitutive Agreement of the Union of Banana Exporting Countries", which entered into force in February 1976, when the First Conference of UPEB Ministers was held and the First Meeting of the Council named as Executive Director the former Colombia Minister Hernán Vallejo Mejía. That same February, the Dominican Republic became a member of the Organization. Nicaragua joined UPEB in 1979, and Venezuela joined in 1982, thus increasing to eight the number of member countries of the Organization.

The Seventh Meeting of UPEB Ministers of the Economy, in early 1976, feeling that a large part of the income from banana exports is generated in the foreign marketing and transport stage and is thus controlled by transnational corporations, decided to create a multinational corporation of the member countries, responsible for marketing and transporting the fruit and other products related to the agricultural activity of the member countries. In March 1977 representatives of Colombia, Costa Rica, Honduras and Panama formed the Multinational Banana Marketing Corporation, S.A. (COMUNBANA, S.A.). This multinational enterprise is conceived as the executive instrument of UPEB's marketing policies. Any member of UPEB may join.

(a) <u>Objectives of UPEB</u>

UPEB's mission is to promote the adoption of policies and actions to strengthen and lend stability to banana-related activities. In particular, its objectives are:

- to establish and defend remunerative and fair prices in the sale of bananas produced and exported by the member countries;
- to promote the adoption of common policies and design machinery for their execution, with the aim of procuring a rational production, export, transport, marketing and price of bananas from the member countries;
- to guarantee fair wages and prices for workers and consumers;
- to undertake actions to increase consumption and open new markets;
- to maintain a balance between supply and demand at the world-wide level;
- to increase the productivity of crops and obtain maximum benefit from the plant, fruit and their derivatives;

/ - to promote

- to promote research, diversification in banana-growing zones and programmes of common benefit, including those dedicated to cultivation, processing, industrialization, transport, marketing or distribution of bananas;

- to stimulate collaboration and dialogue among the exporting and importing countries.

(b) Organization

The bodies in charge of guiding, administering and controlling UPEB are the following: Conference of Ministers, Council, Board of Directors and Internal Auditors.

The Conference of Ministers outlines the general policies which should be followed by the organization to comply with the aims embodied in its statutes. It has the last word in matters of special importance, such as those related to the financial contributions to be made by member countries, the decisions which affect the supply and demand of the fruit, modifications in the Agreement, the appointment of the Executive Director and the acceptance of new members.

The Council executes the general policies and strategies indicated by the Conference of Ministers. It is incumbent on it to guide and direct the Organization; to adopt, within the guidelines established by the Conference of Ministers, the agreements made with third parties and other organizations; to appoint the outside auditor; to adopt the annual report and the financial statements presented by the Executive Director. The Council has been conceived, thus, as an eminently technical body. It is made up of a permanent delegate from each country, who should have enough experience and knowledge to guide, in the best possible manner, the national banana interests he represents, as well as those of the region.

The voting systems of UPEB have been designed with a view to its timely and efficient operation, without excessive constraints, but also bearing in mind that an inter-governmental organization can only subsist in so far as the countries, independently of their participation in the activity in question, feel well served and protected with regard to their interests. For example, when a member country feels it has been seriously affected -although consensus is always sought- by a decision of the Council related to the regulation of supply and demand, the regulation of banana prices, or contributions to the Organization, it may appeal

/to the

to the Conference of Ministers to revoke this decision. In such cases the Conference must act unanimously, and while such unanimity is reached in one direction or the other (either ratification or repeal), the countries which voted affirmatively on the decision in the Council may put it into effect with respect to themselves, but it cannot be considered obligatory for the other countries until the Conference of Ministers has adopted it.

The Executive Director of UPEB is the highest administrative staff member and the legal representative of the Organization, responsible for implementing the policies established by the Council, within the framework of the Constitutive Agreement and the guidelines established by the Conference of Ministers. His principal responsibility is to study the social, economic, financial and commercial problems affecting the activity in the member countries and to propose solutions to resolve them; to observe and efficiently carry out the mandates of the Council and the Conference of Ministers; to heed the judgements of the governments of the member countries and tenaciously seek consensus among them with respect to strategies, decisions and specific programmes of work. The accounting records of UPEB and the exactness and validity of the operations recorded in them are subject to the supervision and control of an outside auditor appointed by the Council.

The technical unit of UPEB is in charge of following the world banana market: the prices, supply and demand of the fruit in both past and present, and their possible future behaviour. It also studies new markets, maritime transport, costs of production, inputs and other aspects related to the banana activity. Moreover, it is responsible for guiding, supervising and evaluating the co-ordinated actions of bodies in UPEB countries dedicated to agricultural and industrial research on bananas, plantains and diversified products from banana growing regions, as well as the organization and operation of a documentation centre on bananas and plantains.

The headquarters of the Union is in Panama City. The instruments of ratification of the Agreement on the part of the member countries are deposited in the State Department of this country.

/The expenditures

The expenditures necessary for the operation of UPEB are defrayed by the member countries through annual contributions as follows: 25% of the annual budget of expenditures is distributed among the countries equally; and 75% of the remainder is distributed in proportion to the votes held by each country in the Council, which are directly related to the quantity of bananas they have exported in the past three years.

(c) Achievements and importance of horizontal co-operation

In the seven years since the creation of UPEB, important achievements have been made in the harmonization of banana policies, marketing, technical assistance and permanent contacts among the member countries of UPEB.

In the field of technical assistance it has helped various member countries control and detect plant diseases, particularly Sigatoka Negra; agro-industrial projects have been developed in co-operation with EEC in Costa Rica, Honduras and Guatemala aimed at the utilization of the surpluses of banana production in human and animal food (dehydrated baby food, animal nutrition subproducts, etc.) and a very important research project is underway for the purpose of obtaining alcohol from waste bananas.

The Monthly Reports of the UPEB and other studies and reports prepared by its Technical Unit and the Information and Documentation Centre have become an important means of communication among the UPEB countries and as other banana producers, and of following banana policies, the situation of the world market and the progress and results of negotiations with TNCs. In particular, the analysis of banana costs, prices and export taxes prepared the technical basis necessary for the new policy decisions and renegotiations with the TNCs at the beginning of the 1980s.43/ Finally, UPEB represented its members in important international meetings, organized meetings between national producers of the subregion and co-operated with the State, private and mixed organizations involved in the banana-related activities of their member countries (see point 3 above). It co-operated with and received support from various international organizations such as UNDP, UNCTAD, FAO and CEPAL of the United Nations, OAS, IDB, GEPLACEA, EEC, etc.

43/ See the cases of Panama and Honduras analysed in part III of this study.

/In addition,

In addition, since its inception UPEB has not adopted any joint measure with respect to fixing the price of bananas or limiting their production, matters which are being discussed within the framework of an international agreement and in the Intergovernmental Group on Bananas in which Ecuador, a country which has not yet joined UPEB, is actively participating.44/

5. Multinational Banana Marketing Corporation (COMUNBANA)

Throughout the previous analysis it has been shown that the various steps in the process of production and exporting of bananas are controlled by the TNCs, and as a result the export prices established by them, seeking to raise their own profits to the maximum, mean that the relative share of the producer countries in the benefits and income generated by the activity have always been kept at relatively low levels. As a result, the Latin American banana producing and exporting countries will be able to achieve an adequate degree of participation in the banana-related activity and make the latter an economic force which will meet the needs of their growth and development process only in so far as they manage to modify the current marketing structure and increase their share in the benefits generated. For this purpose they must correct the serious imbalance caused by the almost total exclusion of the producer countries from the marketing phase. As long as this does not occur, a large part of the benefits derived from the progress made in production will be absorbed by those who manage the fruit market, or they will be transferred to the consumers.

UPEB is, in accordance with the objectives established in its Constitutive Agreement, called upon to promote the marketing of bananas and their derivatives and to undertake and co-ordinate action to expand markets and promote consumption. The accomplishment of these objectives has great priority, since only in this way can the producer countries replace the current situation of almost total dependency, in an activity of great significance for each of them, by a growing and dynamic participation.

44/ See part III.1 of this study.

In addition, the UPEB member countries not only should initiate the efforts necessary for their participation in the banana industry to be broader and more dynamic but also should open new markets, increasing their fruit sales in those markets where per capita consumption is still very low. For these purposes, the framework of UPEB as an intergovernmental organization -and COMUNBANA, as a mixed enterprise in which the governments of the member countries are present- are the best mechanism for penetrating the non-traditional markets, as well as those of the socialist countries, which have an appreciable capacity for potential consumption.

Once the appropriateness of intervening in the marketing of bananas as a means to modify the current market structures of this product has been established, the question arises of whether this intervention can be carried out by one single enterprise with the participation of various countries or, on the contrary, whether various national enterprises should be considered. In this respect, the complexity and characteristics of the market, the high perishability of the fruit and the requirements for its handling and transport, lead to the conclusion that an enterprise which groups various producer countries has more chances for success for the following reasons:

- it ensures the buyers with an adequate and timely supply of appropriate quality. If the marketing enterprise depends on one single supply region, it will be exposed to climate and health contingencies and their effects on the level of production, which would hinder the fulfilment of the commitments made;

- it is able to reach the minimal volumes needed to justify the high costs of shipping operations. Otherwise, the shipping companies would prefer to make agreements with the transnationals, which have high volumes of cargo;

- it heightens the bargaining capacity with respect to buyers, shipping companies and banana-related TNCs. The experience shows that contract terms, both with respect to transport and to the sale of fruit, will be more favourable for an enterprise which markets large volumes and has the support of various countries. One the other hand, in view of the control the transnational corporations have over the traditional markets and the fact that the new enterprise would not be in a position to expose itself at first to the risks implied by competing in these markets, it is reasonable to believe that the

/latter should

latter should initiate operations in the so-called "new markets". These markets, characterized by a low per capita consumption of bananas, and in the case of the socialist countries by there being no free competition, but on the contrary with markets generally subject to governmental agreements, offer special conditions for the multinational marketing enterprise, not only for the potential of the market itself but also for the greater bargaining capacity and political power it derives from the support of the governments of the UPEB member countries. In these markets a multinational corporation has a much greater bargaining capacity than a private or governmental national corporation, or even a transnational.

- finally, it facilitates the initial financing of the project, not only because of the smaller quantity of resources contributed by each country individually but also because of the reduction in the risk of investment itself. Although the plan of a banana marketing enterprise is not highly capital intensive, given the low level of investment required and the high rotation of resources, the investment is much more feasible and rational for various countries than for one country alone.

These considerations led four of the UPEB member countries, Colombia, Costa Rica, Honduras and Panama, to establish their own mechanism in March 1977, independent of the TNCs, for the marketing of the fruit: COMUNBANA, which represents the first concrete, joint effort by a group of nations within the complex of international banana marketing.

(a) Objectives

The Corporation's principal social objective is the export of bananas produced in the UPEB member countries and of products derived from them, as well as the export of any raw material or product resulting from the programmes for diversification of banana growing zones in these countries. It may also market any raw material, article or equipment used in the production, preservation, processing or transport of the raw material including the goods acquired in the external markets to make viable or to facilitate its exporting activity. This last objective, which has not yet been achieved, could acquire great importance in so far as the banana production of the public sector and of other national producers currently dependent on the technology and inputs dominated by the TNCs is expanded.

/In pursuing

In pursuing its corporate objectives, the corporation may carry out any activity related to this purpose, including the following:

- with or without the participation of other agencies, conduct campaigns to promote the consumption of bananas;

- acquire stock or shares in corporations or enterprises engaged in the production, processing, transformation, industrialization, marketing, transport, export, ripening and distribution of bananas or of any of the other commodities it markets and, if appropriate, promote the creation of such corporations or enterprises;

- directly or through contracts with specialized enterprises, engaged in the transport of bananas or any of the other commodities mentioned;

- provide technical or financial assistance to growers of bananas or of other commodities included in diversification programmes carried out in banana-growing areas and set up and maintain communications services in order to allow for the efficient conduct of business;

- in co-ordination with UPEB, keep up-to-date statistics regarding the production, prices, export and consumption of bananas and of other commodities or goods it markets, in order to keep adequately informed regarding markets and trends.

(b) Capital stock

COMUNBANA has an authorized capital of 10 million dollars, consisting of 6 000 class A shares and 4 000 class B shares, each with a nominal value of 1 000 dollars. Class A shares may only be purchased by States members of UPEB and enterprises or entities in member countries in which the State owns more than 50% of the voting capital or in which the State has, either by law or by statute, retained the decision-making power. Class B shares may only be purchased by individuals who are banana producers in countries members of UPEB co-operatives, associated enterprises and labour or entrepreneurial groupings and private corporations, enterprises or entities more than 50% of whose capital is directly or indirectly in the hands of nationals of the country concerned.

/The first

The first subscription of shares consisted of the following: Panama (200 class A shares), Colombia (200 class A shares, through the Fondo de Promoción de Exportaciones, PROEXPO), Costa Rica (250 class A shares, through ASBANA) and Honduras (200 class A shares, through COHBANA).

The Dominican Republic joined COMUNBANA in February 1980 through the La Cruz de Manzanillo government project, administered by the Instituto Agrario Dominicano.

(c) Organization

The following bodies are responsible for the management and administration of COMUNBANA; the General Shareholders Assembly, the Board of Directors, the Standing Committee of Directors, the General Management and the Comptroller.

The General Shareholders Assembly is responsible for the overall management and general supervision of the corporation. Some of its main functions are: to authorize increases or reductions in the capital stock; to regulate the issuance and placement of shares; to decide on any dissolution or merger of the corporation; to distribute profits liquidated during each period and to set up special reserves and funds; to amend the by-laws of the corporation; and to appoint the members of the Board of Directors and the Comptroller.

The Board of Directors is responsible for managing and guiding the corporation's activities. It appoints and removes the General Manager, decides on the organizational structure of the corporation, adopts programmes aimed at promoting consumption of the commodities being marketed or to be marketed; studies and approves contracts, agreements and other acts which involve committing the property or interests of the corporation and authorizes the General Manager to enter into such contracts or agreements. The Board of Directors has the following officers: the Chairman, two Vice-Chairmen, the Secretary and the Treasurer.

The General Manager performs, inter alia, the following functions: he submits to the Board of Directors the yearly or longer-term investment plans, strategies for buying and selling, and campaigns to promote the consumption of commodities being marketed; on behalf of the corporation, he signs acts and contracts concerned with the fulfilment of the goals and objectives of the

/corporation; and

corporation; and he proposes to the Board of Directors the adoption of policies, criteria, procedures, systems and techniques aimed at guaranteeing an efficient administration and fulfilling the goals and objectives of the corporation.

(d) Achievements and problems during the initital period (1978-1981)

(i) Volume of commercial operations

During its first three years of operation, between 1978 and 1981, COMUNBANA increased its exports from one million to 3.8 million boxes; in 1981, it entered the United States market for the first time and diversified its sources of supply by including Costa Rica and the Dominican Republic (see table 25). The Dominican Republic joined COMUNBANA in 1981 through the Cruz de Manzanillo state project. The corporation introduced its own brand name "Doña Sonia", and purchased two refrigerator ships from Yugoslavia, its main market.

Table 25

COMUNBANA: BANANA EXPORTS BY COUNTRY OF ORIGIN AND DESTINATION (1978-1981)

	Thousands of boxes			
	1978	1979	1980	1981a/
Total exports	1 019.6	408.6	1 204.9	3 814.5
1. By country of origin				
Panama	1 019.6	408.6	1 204.9	2 760.9
Costa Rica	-	-	-	153.6
Dominican Republic	-	-	-	900.0
2. By country of destination				
Yugoslavia	889.7	271.1	1 154.9	2 403.3
Greece	110.7	135.6	-	-
Italy	-	-	50.0	511.2
United States	-	-	-	900.0
Others b/	19.2	2.0	-	-

Source: COMUNBANA.

a/ Estimated.
b/ Hungary and Switzerland.

/It was

It was also able to distribute profits among the participating countries. Despite these initial successes in growth, however, this first joint marketing enterprise of banana-producing countries still had a very small share of the world market, mainly because of its limited sources of supply and the barriers to its entry into traditional markets, which are almost exclusively controlled by the transnationals.

In order to appreciate how low COMUNBANA's sales still are, it should be noted that they amount to only about 1% of world imports and 2% of total exports of UPEB countries. This marginal share of world sales seems to indicate that, even allowing for the fact that world markets are largely controlled by the TNCs,45/ the member countries of UPEB and COMUNBANA have still not translated into concrete action the political will and objectives which led to the creation of these organizations for horizontal co-operation and integration.

(ii) Sources of supply

Naturally, the greatest potential sources of supply for COMUNBANA are those which are not involved in transnational marketing, i.e., independent national producers and, in particular, the public sector. Indeed, until 1980 the two Panamanian state enterprises, COBAPA and COBANA, were the sole suppliers of COMUNBANA; they were joined, in 1981, by similar entities in the Dominican Republic and Costa Rica. Moreover, it does not seem realistic, at least over the short or medium term, to consider the possibility of large private national enterprises, such as Noboa in Ecuador or UNIBAN in Colombia, participating in or even joining COMUNBANA. The decisive factor preventing this does not appear, in these two cases, to be a political-institutional one: Ecuador has not yet joined UPEB (it only participates as an observer), while Colombia is a founding member both of UPEB and of COMUNBANA. Considering the great importance of the political will of the governments, reflected in the fact they have joined the regional integration organization, it is to be assumed that the interests of the large private national enterprises are based on the profit motives inherent in their nature. Thus, it

45/ See again table 5.

/should be

should be noted that in the late 1970s, Noboa and UNIBAN had a 9% and a 3% share, respectively, of the world market; in other words, they held the fourth and fifth places, following United Brands, Castle and Cooke and Del Monte (whose shares were 29%, 19% and 12% respectively).46/ It seems obvious that the necessary conditions for a hypothetical integration or merger of COMUNBANA and the major Latin American banana enterprises, i.e., an equilibrium of competitive power and common interests and objectives, do not exist. This of course should not preclude a priori the possibility of establishing regional complementarity and co-operation with regard to matters of common interest, such as seeking economies, improving the efficiency of shipping and transport operations and avoiding damaging commercial confrontations.47/

It should be remembered that any substantial expansion of COMUNBANA's sources of supply would appear to depend mainly and, at least over the short and medium term during the 1980s, on the strengthening of the public sector in the UPEB countries and particularly on this sector's having the capacity to substitute for the TNCs in the area of technological, financial and commercial links with small and medium-sized national producers, so as to offer them better prices and incomes than those they now obtain from their association with the TNCs. One of the most likely possibilities would be to seek an agreement with Nicaragua, where the government and the public sector recently became directly responsible for marketing agricultural commodities.48/

(iii) Markets

Obviously, COMUNBANA's capacity to expand towards the world markets will depend to a large extent on its sources of supply, described above. In addition, and despite the fact its commercial operations are marginal, COMUNBANA has had to deal with the barriers and adverse strategies of the TNCs, which were quite aware of the potential capacity of a multinational marketing firm whose member countries supply more than half the fruit marketed in the world and which could in future challenge their oligopolistic power in this industry.

46/ World market, excluding the socialist countries (see table 3 in the Statistical Annex).

47/ See the replies by Dr. Vallejo Mejía, former Minister of Agriculture of Colombia and former Executive Director of UPEB, to the questions posed by the newspaper La Estrella de Panamá, 9 July 1981. (Taken from Informe Mensual de la UPEB, August 1981.)

48/ As noted above, Nicaragua joined the UPEB in 1979 although it is not yet a member of COMUNBANA. Its exports to North America, dominated by Standard Fruit, have in recent years been of the order of 6 to 7 million boxes.

Realizing that its competitiveness was limited, COMUNBANA concentrated, from its beginning in 1978, on exporting to non-traditional markets in southeastern Europe, which were independent of the transnational oligopoly, in the expectation of entering into intergovernmental agreements and expanding to the socialist countries of eastern Europe.49/ These expectations did not fully materialize for reasons the analysis of which goes beyond the scope of this study.50/ In fact, up to 1980, COMUNBANA's only major market has been Yugoslavia; it does some business, more as a result of circumstances, in other European markets (Greece, Hungary, Switzerland, Italy -see again table 25). Its main and continuing link with Yugoslavia led to an increase in sales, for the period 1970-1981, from 890 to 2 403 boxes, i.e., 2.7 times. In addition, a five-year contract has been signed which ensures banana sales to this market in payment for two refrigerated ships supplied to COMUNBANA with bank credit. These may well be the first units in a banana transport fleet, similar to Ecuador's and to the one UNIBAN in Colombia is beginning to put in operation.

In 1981, COMUNBANA entered the United States market for the first time, with shipments totalling approximately 900 000 boxes. At the same time, its sales to Italy increased to 511 000 boxes, i.e., 10 times the amount shipped the year before.

Its entry into the United States market, although marginal in terms of magnitude, was fraught with problems, such as "accidents" during the shipping and unloading of the fruit and, in particular, a "dumping" of prices (which were reduced for "promotional" reasons by the established merchants) in the markets of the western United States where COMUNBANA's fruit was sold. The resulting losses damaged not only COMUNBANA, but also the Colombian firm UNIBAN, and created unnecessary friction between the two Latin American enterprises.51/

49/ See the note of the Executive Director of the UPEB in the Monthly Report of the Organization, No. 7, June 1978.

50/ UNIBAN does export bananas to several socialist countries of Europe.

51/ According to the newspaper Estrella de Panamá, of 9 July 1981, and conversations of the author with COMUNBANA authorities.

/(iv) Political

(iv) Political importance

It seems obvious that the great importance of COMUNBANA to the integration of the UPEB countries lies not only in the prospects, from the economic standpoint, for obtaining greater benefits from the international marketing of bananas, but also in the fact that it provides an extremely important tool for consolidating the political cohesion of the countries of the Central American isthmus and their links with the adjacent countries of northern South America, i.e., Colombia, Ecuador and Venezuela. Its importance becomes even more evident when one considers the well-known problems of political co-operation and economic integration in the Central American Common Market in defending the common interests of the subregion vis-à-vis the industrialized countries. In the framework of the North-South dialogue and the common struggle of the countries of the periphery for the New Economic Order, it represents, after OPEC, a second and most important attempt at achieving political cohesion among countries producing basic export commodities. For these reasons, the current relative weakness of COMUNBANA's negotiating power and consequently of UPEB should encourage rather than prevent a more complex and in-depth analysis of different ways of strengthening it.52/

Let us conclude with the brief assessment made by the first Director of COMUNBANA, the distinguished Colombian economist Dr. H. Vallejo Mejía:

> "Having worked for a long time in the public sector, I am accustomed to seeing things done and then disappearing shortly afterwards. This discontinuity and erratic nature is what makes our countries progress so slowly. In the case of COMUNBANA, I do not want to think that the governments that founded it will give up their determination to create together an enterprise that would be in a position truly to compete with the banana transnationals. National efforts are important and complement this objective, but they are not in a position to achieve it ... The enterprise has moved forward gradually. If we had more decisive support from Colombia, Costa Rica, Guatemala and Honduras, it could have gone much further. I am sure that with that support many North American and European importers and distributors would be very open to it. But those UPEB countries have proven to be too timid and have preferred to follow the easy path of achieving some minor advantages in exchange from their own weakness. The producers have to realize that this weakness conditions, subjects and nilifies them."53/

52/ This paragraph presents, for discussion, certain ideas that will be more fully developed in the last part (IV) of the study.

53/ See La Estrella de Panamá, 9 July 1981.

IV. CONCLUSIONS: NEGOTIATING CAPACITY AND DISTRIBUTION OF BENEFITS IN THE EARLY 1980s AND RENEGOTIATION IN PANAMA

The changes in banana policies and renegotiations between the UPEB countries and the TNCs from 1974 on, which have been analysed in the previous chapter, led to a new correlation between the negotiating capacities of the two parties at the beginning of the 1980s. Despite the steps backward and certain conjunctural and partial problems, this represents an important step towards introducing the New International Economic Order in relations between the industrialized centre, with its TNCs, and a subregion of the periphery that is still highly dependent on exports of tropical commodities. On the other hand, the persistence and even deepening of the world economic recession, with the resulting disequilibria between the supply of and the demand for primary commodities, as well as constant inflation, have eroded a large part of the additional benefits gained by the UPEB countries as a result of the new policies and the renegotiations with the TNCs, particularly in the area of taxation.

The conflict between the Government of Panama and United Brands and the renegotiation in 1981 of the increase in the export tax and the links of the TNC with the public sector and COMUNBANA were characteristic of this new disequilibrium, as well as of the alternatives and limits to its solution.

In this final chapter of the study, an analysis is made of the situation, at the beginning of the 1980s, with regard to the negotiating capacity and distribution of benefits between UPEB and the TNCs, with particular emphasis on the cases of Honduras and Panama, and, finally, the renegotiation conducted in Panama in 1981.

1. Negotiating capacity

(a) General scenario

Outline 3 summarizes the main changes that have occurred in the balance between the negotiating capacity of the UPEB countries and that of the TNCs as a result of the application of new banana policies and renegotiations with the TNCs from 1974 up till the end of the 1970s. If we compare the situation at the beginning of the 1970s 54/ with the situation ten years later, and summarize the analysis made in chapter III above, we may conclude, in general terms, that the negotiating capacity of the UPEB countries *vis-à-vis* the TNCs has been strengthened by:

54/ See part II(a) and (b) above, and, in particular, outlines 1 and 2.

OUTLINE 3

CHANGES IN THE BALANCE OF NEGOTIATING CAPACITY OF UPEB COUNTRIES AND TNCs DURING THE 1970s a/

Factor of UPEB's negotiating capacity	Characteristics of the change in the balance
1. Control of the industry and infrastructure	(a) Decline in TNC ownership of agricultural and reserve lands and of productive and general infrastructure in favour of national producers and the State; (b) Continued control of the industry by TNCs through the system of "associate" producers, the leasing of lands and public works (especially in Panama) and the oligopoly of international transport and marketing; b/ (c) Establishment of producers independent of TNCs and of producer associations (Honduras) and public enterprises (Panama).
2. Role of the State and of the public and/or co-operative sector c/	Creation of specialized organizations in charge of: (a) Formulating and enforcing banana policies, particularly as regards taxation, techniques and co-operation in UPEB; (b) Intervening in the production and marketing of bananas through technical co-operation (COHBANA in Honduras) and directly through public enterprises (COPABA and COBANA in Panama).
3. Horizontal co-operation c/	Establishment, consolidation and expansion of UPEB (recent entry of Nicaragua and Venezuela) and of its capabilities with regard to co-operation and technical and commercial integration (COMUNBANA), taxation, with international organizations, etc.

/Factor of

Factor of UPEB's negotiating capacity	Characteristics of the change in the balance
4. Domestic and external importance of the industry	(a) Short-term relative dependency on the banana industry continues (except in Panama-income from the Canal); (b) Despite the diversification of TNCs, the importance of UPEB on the world market and the supply and accumulation of the TNCs continued.

a/ See outlines 1 and 2 on pages 27 and 28. The comparative situations of Honduras and Panama are particularly worth noting.

b/ With the exceptions, still marginal, of marketing through UNIBAN in Colombia and COMUNBANA, in connexion with some UPEB countries.

c/ Non-existent or marginal in the early 1970s.

(i) Increased ownership of banana plantations and of the corresponding infrastructure by national producers and/or the State;

(ii) A much more sophisticated knowledge on the part of the governments with regard to the development of the banana industry and of the activities, results and effects of TNCs that control it, provided by new governmental organizations such as COHBANA in Honduras, the Consejo Nacional de Banano in Panama and especially UPEB, as the body designed to integrate common interests.55/

(iii) On the basis of the above, clear progress was made in the preparation, formulation, issuance and enforcement of governmental policies, as well as in negotiations with the TNCs, particularly with regard to taxation and technological, commercial and financial links with national producers and the public sector;

(iv) Direct State intervention in banana production, technology and marketing and in financing of industry-related activities in order to reduce the continuing dependency of national producers on the TNCs, essentially by developing two alternative and complementary policies: firstly, to strengthen the negotiating capacity of local producers associated with the TNCs so as to offer them, eventually, the opportunity to become truly independent from the TNCs and to associate themselves with the public sector, mostly through co-operatives (as in Honduras); secondly, to establish State enterprises for the production and marketing of bananas which would gradually become free of dependency on the TNCs, in order to strengthen the national capacity for self-sustained development and for protecting the national interests in cases of emergency that might arise, as a result of confrontations with the TNCs (as in Panama);56/

(v) Finally, the establishment of UPEB in 1974 and its consolidation and expansion, with the subsequent entry of Nicaragua and Venezuela and the participation of Ecuador as an observer, provide the necessary political-institutional base for integrating the national interests and objectives of the different UPEB countries in a common and co-ordinated position and action (particularly as regards taxation

---

55/ As indicated in the introduction to this study, most of our information and analysis is taken from sources provided by the Governments of Honduras and Panama, through COHBANA and the Consejo Nacional de Banano, and by the Secretariat of UPEB, who generously provided CEPAL with the knowledge and background information which serve as the basis for political alternatives and negotiations by the UPEB Governments with TNCs in the 1980s.

56/ See part III.1 above.

of the TNCs and, subsequently, the international marketing of bananas through COMUNBANA). The national capacity of the UPEB countries is also strengthened by its services in the areas of information and technical co-operation.

We may venture to say that the same political will that led the Central American governments, in 1974, to take joint measures to redistribute for the benefit of their peoples the income from the industry and to set up a common front to protect their interests through UPEB, can now, at the beginning of the 1980s, rely on the collective self-confidence of the subregion, which is certainly more important than would appear from the 60% share of the UPEB countries, taken together, in the world banana market controlled by the oligopoly of the three TNCs.

In assessing the importance of the progress made by the UPEB countries in improving their national and collective negotiating capacity, we must not neglect to consider the continuing power of the TNCs in the region, which is maintained mainly in the following ways:

(i) Control over most of the banana plantations and the infrastructure required for their operation, through:

- direct ownership (plantations and productive infrastructure allowing for new investments and maintenance, irrigation, fumigation, etc.);
- new leasing arrangements with the State (lands, railways, docks, etc.);
- continuation of the dependency of associate producers with regard to technical assistance, financing and marketing of the fruit.

(ii) Maritime transport, international marketing and control and/or monopolistic access to distribution networks and local marketing of bananas on consumer markets in the industrialized countries (inasmuch as COMUNBANA's participation on the world market is still marginal).

(iii) The diversification and flexibility of the strategy of the three major United States TNCs, which allows them a wide range within which to manoeuver among the different banana markets; among the sectors of the food industry and of other activities they control, between the expansion of the United States domestic market and the external market and, also -as regards the previous options- between a "hard and inflexible" position with regard to the proposals and policies of banana-producing countries and/or a "co-operative" attitude based on a better

/balance between

balance between the negotiating powers of the two parties for the purpose of sharing with them any eventual increase (or reduction) in the benefits of the industry.57/

In concluding this summary of the balance in the negotiating capacity of UPEB and the TNCs, we must not neglect to mention that it will also depend, during the 1980s, on factors extraneous to the UPEB banana industry and even to the world power of the United States TNCs. On the first level, it is mainly a question of the political and economic framework of the development of the subregion in general 58/ and how diversified the economy and the external income are, i.e., the extent of the subregion's dependency on bananas. On the second level, that of the factors that are exogenous to UPEB and the three TNCs, there will be the development of the political/economic situation of the world in general and the outcome of the "North-South dialogue" in particular, the degree of solidarity among countries of the periphery, the solutions to the current crisis of demand for primary commodities and its effect on the region and on UPEB, etc. Obviously, here more than elsewhere, the trends are long-term ones, although there may often be sudden and unforeseen changes.

We will now analyse in greater detail some of the main aspects 59/ of the aforementioned change in the balance of the negotiating capacity of UPEB and the TNCs at the beginning of the 1980s, with particular attention being given to the cases of Honduras and Panama.

57/ In the so-called "non-zero game", both parties involved in the negotiating game end up with greater (or lesser) benefits than before (for example, participating jointly in an investment), as opposed to the "zero game", which means that an increase of benefits to one of the parties is equivalent to an equal reduction of benefits to the other party, resulting in a zero balance. This important subject will be discussed at a later stage in the Interregional Project, when three alternative treatments of the TNCs will be considered: "confrontation", "neo-liberal theory of automatic adjustment" and "negotiated co-operation with balanced self-confidence".

58/ Here there are obvious phenomena, such as the domestic and external crisis and conflicts of the subregion, the revolution in Nicaragua, the revindication of the Panana Canal by Panama, the struggle for democracy, the stagnation of progress in the Central American Common Market, etc., the analysis of which goes beyond the scope of this study. Nevertheless, against this background, the importance of UPEB as the subregional centre where important common interests may be brought together and protected from outside influences is evident.

59/ Insofar as adequate and comparable data are available.

(b) The case of Honduras

Against the background of the entire history of the banana industry up to the mid-1970s, the most noteworthy change has been the establishment of the public sector -COHBANA- which at present exercises its influence through various forms of technical assistance,60/ its ownership of 15% of the total area planted in bananas and its share of from 12 to 14% of total exports of the fruit (see tables 26 and 27).

The public sector also manages about half the railways (with the other half being leased to the transnationals), more than one-fifth of the communications systems, around 12% of technical assistance to private producers and only between 5 and 6% of the cable systems, roads, packing companies, highways, bridges and drainage systems connected with the industry (see table 28). COHBANA's negotiating capacity may also be explained by its "demonstration effect" on the producers associated with the transnationals, as it offers them more advantageous production and marketing alternatives.

In broader terms, we would also have to take into account the agricultural use of lands previously held "in reserve" by the transnationals and transferred through the agrarian reform to the national producers (the area of which is estimated at around 30 000 hectares).

On the other hand, the same data on the participation of the public sector show that the industry is still controlled by the two transnational enterprises. Tela Railroad Co., a subsidiary of United Brands, and Standard Fruit Co., a subsidiary of Castle and Cooke, hold direct ownership of 57.5% of the area planted in bananas, which produces between 61 and 67% of the total exports of the country. This share increases to 82-83% when national producers associated with foreign enterprises are included.

The power of the transnationals is based not only on their ownership of land planted in bananas but also, and particularly, on their absolute predominance in the field of technology and inputs. The high level of the technologies used allows for unit costs of production that are considerably lower than those of the other producers. Their overwhelming advantage in financing and infrastructure (particularly irrigation systems and fumigation services, including a monopoly in the preparation of mixes used, transport system, electrical supply, seed supply, banana-packing firms,

60/ See part III.3(a), above.

/Table 26

Table 26

HONDURAS: SOCIAL COMPOSITION OF TENANCY OF BANANA LANDS

(1979, thousands of hectares and percentage of total)

	Thousands of hectares	Percentage
1. Total TNCs	10.36	57.5
(a) Tela Railroad (United Brands)	7.05	39.1
(b) Standard Fruit (Castle and Cooke)	3.35	18.4
2. National producers, total	7.65	42.5
Dependent on:		
(a) Total TNCs	4.97	27.6
(i) Tela Railroad	3.45	19.1
(ii) Standard Fruit	1.52	8.5
(b) COHBANA	2.68	14.9
3. Total area	18.01	100.0

Source: COHBANA.

/Table 27

Table 27

HONDURAS: ORIGIN OF TNC BANANA EXPORTS (1978-1980)

Producer	Thousands of boxes (40 pounds each)			Percentage of total		
	1978	1979	1980	1978	1979	1980
1. Transnational corporations						
(a) Tela Railroad (United Brands)	15 983	19 054	16 692	40.4	38.6	34.9
(b) Standard Fruit	10 400	11 408	12 414	26.3	23.1	26.0
Total TCNs	26 383	30 462	29 106	66.7	61.7	60.9
2. National producers associated with:						
(a) Tela Railroad	3 604	6 645	5 539	9.1	13.5	11.6
(b) Standard Fruit	2 843	4 113	4 378	7.2	8.3	9.2
Total associated producers	6 447	10 758	9 917	16.3	21.8	20.8
3. CAGSSA a/	1 122	2 076	2 573	2.8	4.2	5.4
4. COHBANA b/	5 573	6 047	6 177	14.1	12.3	12.9
Total exports	39 525	49 343	47 773	100.0	100.0	100.0
By:						
1. Tela Railroad c/	20 709	27 775	24 804	52.4	56.3	51.9
2. Standard Fruit d/	18 816	21 568	22 969	47.6	43.7	48.1

Source: COHBANA, *Memorias Anuales*, 1979 and 1980.

a/ Compañía Agrícola y Ganadera de Sula, Sociedad Anónima, markets its production through Tela Railroad Co.

b/ COHBANA exports the fruit grown on its projects mostly through Standard Fruit Co. (90% in 1979).

c/ 1(a) + 2(a) + 3.

d/ 1(b) + 2(b) + 4.

/Table 28

Table 28

HONDURAS: TNC CONTROL OF BANANA PRODUCTION (1979)

(In percentage of total for the industry)

Item	Transnational enterprises			National producers	Public sector COHBANA
	Tela Railroad	Standard Fruit	Total		
1. Technical assistance	57	31	88	-	12
2. Inputs	65	35	100	-	-
3. Infrastructure					
(a) Maintenance and irrigation systems	35	12	47	53	-
(b) Dikes	23	-	23	77	-
(c) Administration of electrical system	53	12	65	35	-
(d) Communication systems	62	15	77	-	23
(e) Buildings, shops, warehouses	6	-	6	94	
(f) Cables, roads, packing houses	35	24	59	36	5
(g) Highways, bridges, drainage systems	6	-	6	88	6
(h) Railway management	25	25	50	-	50a/

Source: COHBANA estimates, 1979.

a/ Ferrocarriles Nacionales de Honduras.

/control of

control of port facilities within State docks, production of boxes for packing the bananas, etc.) and their complete control over international marketing leave national producers no alternative but to grow bananas under the guidance and control of the two transnationals that are the sole buyers of the fruit. Naturally, this situation significantly limits COHBANA's sphere of action and affects the scope of government policies.

The obvious policy option is to strengthen the public enterprise COHBANA and make it more efficient. To this end, in early 1982 discussions were held on measures aimed at restructuring COHBANA -giving private producers and banana-growing co-operatives greater participation on its Board of Directors and strengthening it with additional funds from an increased banana export.61/ In the public controversy that arose in this regard, the liquidation of COHBANA was also suggested in connexion with a study evaluating its activities that was being carried out by a United States enterprise at the request of the Government of Honduras. The latter alternative -if carried out- would obviously restore the negotiating power of the TNCs to the status existing before the new banana policies were implemented; hence, "the United States transnationals Standard Fruit and United Brands are delighted and welcome the news that COHBANA is to be closed down".62/ The Executive Directorate of UPEB was also decidedly opposed to the liquidation of COHBANA and expressed its view as follows: "During the early years of UPEB, the resistance of the transnationals was very strong and the companies are still determined to weaken the structures created in each country to orient banana policies ... COHBANA is a bastion in the elimination of the colonialism of the banana transnationals".63/

(c) The case of Panama

As we noted at the beginning of this chapter, in Panama the State has direct control, through the public enterprises COBAPA and COBANA, over a considerable segment of the production and international marketing of bananas, the latter being carried out through COMUNBANA.64/ At the beginning of the 1980s, it held 10.5% 65/

61/ See part 3 of this chapter.

62/ Statement by the former Executive Chairman of COHBANA, Lic. Jorge O. Casco, to the newspaper La Tribuna of Tegucigalpa, 10 February 1982. Reproduced in Informe Mensual de la UPEB, No. 47, February 1982, from which the information contained in this paragraph is taken.

63/ Statement by Dr. Carlos M. Zerón, Executive Director of UPEB and former Minister of Economy of Honduras, ibid., pp. 31-32.

64/ See part III.3(b) and 5 above.

65/ An additional 2% was owned by the Empresa Asociativa Campesina.

of the total area planted in bananas and 6-8% of the country's global exports (see tables 29 and 30). The differences between its shares of the banana lands and of international sales (with the former being greater than the latter), as well as the fluctuations in its export position, are characteristic of the problem of the relatively low productivity and efficiency of the State sector as compared with the TNCs.

In the early 1980s, the transnational Chiriquí Land Co., a subsidiary of United Brands, controlled 87% of the banana lands and 92-94% of the global exports of the country. Of these percentages, around one-fifth of the total for the nation was represented by national producers who were dependent on the transnational corporation.

Contrary to the case of Honduras, the public organization called Consejo Nacional del Bananao did not provide direct support and technical assistance to national producers. On the other hand, the nationalization of agricultural lands, railways and docks, through the 1974 contracts with United Brands, 66/ established State ownership of these capital goods which are basic to the banana industry. As they are leased to United Brands, they are under the control of this transnational, which in turn undertakes to pay the State the agreed amount for the lease. Thus, the benefits of the industry to the country are increased (as will be seen in part 2 of this chapter).

(d) Control over the production and marketing of bananas in UPEB

(i) Production

Table 31 shows an analysis of available UPEB estimates regarding control over lands planted in bananas in the countries belonging to UPEB in the late 1970s. 67/

If we look first at the power of the three United States TNCs with regard to banana production, we will note that in Costa Rica and Guatemala the transnationals were the sole owners of the banana plantations, whereas in the cases of Honduras and Panama, described above, they controlled around 85% of the area planted in bananas, sharing control over production with the national producers supported by COHBANA, in the case of Honduras, and with the State enterprises, in the case of Panama

66/ See again part III 3. (b) (ii) above.

67/ These estimates only describe in approximate terms the order of control of the industry by the transnationals and by national actors. In absolute terms, they differ from the official data of FAO, particularly as regards total area cultivated.

/Table 29

Table 29

PANAMA: SOCIAL COMPOSITION OF TENANCY OF BANANA LANDS (1981)

	Thousands of hectares	Percentage
Pacific	8.8	100.0
Chiriquí Land Co. (United Brands)	5.1	57.3
Associated producers	2.3	26.2
COBAPA	1.1	12.6
Empresa Asociativa Campesina a/	0.3	3.9
Atlantic	6.9	100.0
Chiriquí Land Co.	5.5	80.3
Associated producers	0.8	11.8
COHBANA	0.6	7.9
Total	15.7	100.0
Chiriquí Land Co.	10.6	67.4
Associated producers	3.1	19.9
State enterprises	1.7	10.5
Empresa Asociativa Campesina a/	0.3	2.2

Source: Consejo Nacional del Banano.

a/ Project supported by the World Bank

/Table 30

Table 30

PANAMA: CONTROL OVER BANANA EXPORTS (1975-1980)

Sector	Millions of boxes				Percentage		
	1975	1978	1979	1980	1975	1978	1980
Pacific	14.1	20.3	15.6	11.1	51.1	56.8	40.2
Chiriquí Land Co. (United Brands)	10.8	12.9	10.1	6.1	39.1	38.0	22.1
Associated producers	3.1	4.5	4.4	4.2	11.3	13.2	15.2
COBAPA	0.2	2.9	1.1	0.8	0.7	5.6	2.9
Atlantic	13.5	14.7	15.3	16.5	48.9	43.2	59.8
Chiriquí Land Co.	11.7	12.3	12.5	14.1	42.4	36.1	51.1
Associated producers	1.2	1.6	1.8	1.4	4.3	4.7	5.1
COBANA	0.6	0.8	1.0	1.0	2.2	2.4	3.6
Total	27.6	35.0	30.9	27.6	100.0	100.0	100.0
Chiriquí Land Co.	22.5	25.2	22.6	20.2	81.5	74.1	73.2
Associated producers	4.3	6.1	6.2	5.6	15.6	17.9	20.3
State enterprises a/	0.8	3.7	2.1	1.8	2.9	8.0	6.5

Source: Consejo Nacional del Banano.

a/ Exported through COMUNBANA.

/Table 31

Table 31

UPEB COUNTRIES: BREAKDOWN OF TENANCY OF BANANAS LANDS (1979)

Sector	Colombia	Costa Rica	Guatemala	Honduras	Nicaragua	Panama a/	Dominican Republic	Total
1. Thousands of hectares								
(a) United Brands	-	9.0	-	10.5	-	13.7	-	33.2
(i) Own	-	6.4	-	7.0	-	10.6	-	24.0
(ii) Associated producers	-	2.6	-	3.5	-	3.1	-	9.2
(b) Standard Fruit	-	9.3	-	4.8	-	-	-	14.1
(i) Own	-	4.6	-	3.3	-	-	-	7.9
(ii) Associated producers	-	4.7	-	1.5	-	-	-	6.2
(c) Del Monte	-	6.8	5.7	-	-	-	-	12.5
(i) Own	-	3.8	4.0	-	-	-	-	7.8
(ii) Associated producers	-	3.0	1.7	-	-	-	-	4.7
(d) 3 TNCs - total	-	25.1	5.7	15.3	-	13.7	-	59.8
(i) Own	-	14.8	4.0	10.3	-	10.6	-	39.7
(ii) Associated producers	-	10.3	1.7	5.0	-	3.1	-	20.1
(e) Independent producers b/	20.9	-	-	2.7	2.6	2.0	1.2	29.4
(i) Private	20.9	-	-	2.7	2.6	0.3	-	26.5
(ii) State enterprises	-	-	-	-	-	1.7	1.2	2.9
(f) Total area	20.9	25.1	5.7	18.0	2.6	15.7	1.2	89.2
2. Percentage of total								
(a) United Brands	-	35.9	-	58.3	-	87.3	-	37.2
(b) Standard Fruit	-	37.0	-	26.7	-	-	-	15.8
(c) Del Monte	-	27.1	100.0	-	-	-	-	14.0
(d) 3 TNCs - total	-	100.0	100.0	85.0	-	87.3	-	67.0
(i) Own	-	59.0	70.2	57.2	-	67.5	-	44.5
(ii) Associated producers	-	41.0	29.8	27.8	-	19.8	-	22.5
(e) Independent producers	100.0	-	-	15.0	100.0	12.7	100.0	33.0
(i) Private	100.0	-	-	15.0	100.0	1.9	-	29.7
(ii) State enterprises	-	-	-	-	-	10.8	100.0	3.3

Source: CEPAL, on the basis of estimates provided by COHBANA (Honduras), Consejo del Banano (Panama) and UPEB.
a/ 1981.
b/ Independent of the TNCs, supported by the State.

/(see table

(see table 31). At the other end of the scale were Colombia, Nicaragua and the Dominican Republic, where banana production was in the hands of national producers. If we disregard, for the time being, this wide heterogeneity in the national situations of UPEB countries, we can say that about two-thirds of total banana production has been under the direct control of the United States transnationals.

In the four countries where over 90% of banana production was in the hands of the TNCs (Costa Rica, Guatemala, Honduras and Panama), two important aspects are worth noting: first, United Brands -despite the growth of its competitors, Standard Fruit (Castle and Cooke) and Del Monte, and United States anti-trust legislation-continued into the early 1980s to be the most powerful transnational in Central America. It controlled a larger share of the land planted in bananas than its two competitors together (37% and 30%, respectively, of the UPEB total). Indeed, United Brands was the only TNC in Panama, shared power with Standard Fruit in Honduras (58% and 27% of total banana lands in the country) and with Standard Fruit and Del Monte in Costa Rica (36%, 37% and 27% in that order). On the other hand, in Guatemala the industry was dominated by Del Monte.68/

A second important aspect of the control exercised by the TNCs in the four countries analysed consists of their use of the system of associated producers. It is estimated that at the beginning of the 1980s, approximately one-third of the total area under TNC control in UPEB countries was being exploited under this system. Again, the situation was different in the different countries and companies. The associated producers had a greater relative importance in Costa Rica, where banana production, as mentioned before, was dominated by the oligopoly of the three major TNCs. Perhaps out of a spirit of competition, Standard Fruit and Del Monte maintained in Costa Rica practically the same area of banana lands "in association" with national producers as they operated under the system of direct ownership. On the other hand, United Brands maintained in that country a ratio of approximately 2:1 between direct ownership and association with national producers. In Honduras, both United Brands and its competitor Standard Fruit used the associated producer system in one-third of the area under their control, sharing it also with COHBANA, as mentioned above.69/ Finally, in Guatemala and Panama, where one TNC had

68/ It should be remembered that in Guatemala, Del Monte acquired the banana plantations in 1970 by purchasing them from United Brands, in compliance with United States anti-trust regulations (see part I.2(b) above).

69/ See point (a) in this chapter.

/a monopoly

a monopoly (Del Monte and United Brands, respectively), the associated producers were relatively less important than in Costa Rica and Honduras (see again table 31). The above comparison seems to indicate that the use of the associated producer system is related to the degree of competition between the TNCs.

(ii) Marketing

The estimates of control over the external marketing of bananas in UPEB countries shown in table 32 confirm in a global way the fact, already noted in the cases of Honduras and Panama, that the TNCs had much more power in this area than in that of production. In effect, in addition to the case of Honduras analysed above in Costa Rica, Guatemala and Nicaragua, banana exports at the end of the 1970s were entirely under the control of the three TNCs. In addition to the case, discussed above, of the State enterprises in Panama, the situation was also different in Colombia, where the union of private national producers, UNIBAN, controlled almost 40% of all the country's exports.

(e) Economic diversification and alternatives for multisectoral co-operation

During the 1980s, and even more so in the long run, the negotiating capacity of the UPEB countries will depend on the degree of economic diversification they achieve, i.e., on the countries' reducing their dependency on the banana industry. Also, horizontal co-operation within UPEB is relatively more important, in strictly economic terms,70/ for countries whose economic development is largely based on income from this industry and vice versa.

As shown in table 33, at the beginning of the 1980s, bananas still had considerable weight in the economies of Honduras, Costa Rica and Panama,71/ accounting for 25%, 20% and 18% of total exports, in that order. Nevertheless, in the case of the first two countries, coffee was equally or more important (representing 25% of total exports, in both cases) and in the case of Panama, refined oil was equally or more important (representing one-fourth of total exports). The situation in Guatemala and Colombia was different, as bananas accounted for only 5% and 2% of overall exports, and even more so in Nicaragua and the Dominican Republic, where the banana industry was entirely marginal.

70/ Without underestimating the important historical ties that united the countries of the subregion.

71/ In Panama, moreover, the significance of State income from the Canal reduced the share of the banana tax to only 2% of current income.

/Table 32

Table 32

UPEB COUNTRIES: CONTROL OVER BANANA EXPORTS DURING THE 1970s

(In percentage of the total for the country)

Country	Year	United Brands	Standard Fruit	Del Monte	Independent
Colombia	1974	56.3	6.9	-	36.8a/
	1978	42.0	19.0	-	39.0a/
Costa Rica	1966	62.8	37.2	-	-
	1970	41.4	35.6	14.4	8.6b/
	1975	25.8	39.2	26.5	8.5b/
	1977	32.2	40.1	27.7	-
Guatemala	1979	-	-	100.0	-
Honduras	1978	52.4	47.6	-	-
	1980	51.9	48.1	-	-
Nicaragua	1967	100.0	-	-	-
	1970	-	-	-	100.0c/
	1972	-	100.0	-	-
	1978	-	100.0	-	-
Panama	1975	97.1	-	-	2.9d/
	1980	93.5	-	-	6.5d/

Source: CEPAL, on the basis of data provided by UPEB, COHBANA (Honduras) and Consejo Nacional del Banano (Panama).

a/ Unión de Bananeros de Urabá S.A. (UNIBAN).
b/ Compañía Bananera Atlántica.
c/ Instituto de Fomento Nacional.
d/ COBAPA and COBANA through COMUNBANA.

/Table 33

Table 33

UPEB COUNTRIES: COMPOSITION OF EXPORTS AND DEPENDENCY ON BANANAS (1980)

Country	Total millions of dollars	Bananas as % of total	Other basic commodities	% of total	Manufactures as % of total	
					1960	1978
Colombia	3 924	2	Coffee	60.5	1.5	15.0
			Fuels	6.1		
			Sugar	4.1		
			Cotton	2.2		
Costa Rica	906	19.9	Coffee	25.0	0.1	28.7
			Meat	6.2		
			Sugar	4.5		
Guatemala	1 547	5.0	Coffee	30.0	3.0	...
			Cotton	10.7		
			Sugar	4.4		
Honduras	806	25.1	Coffee	25.3	2.2	11.0
			Meat	7.5		
			Wood	4.4		
Nicaragua	450	...	Coffee	36.8	5.6	17.0
			Meat	13.0		
			Cotton	6.7		
Panama	335	18.3	Refined oil	24.6	0.4	11.8
			Sugar	15.9		
			Shrimp	12.8		
Dominican Republic	962	...	Sugar	32.5	2.5	21.1
			Gold and silver	26.9		
			Coffee and cocoa	9.7		
			Ferronickel	8.8		
(Ecuador) a/	2 433	7.8	Oil	53.4	1.6	2.5
			Coffee and cocoa	6.5		

Source: International Financial Statistics, February 1981; CEPAL, on the basis of oficial information.
a/ Observer in UPEB.

/In Colombia,

In Colombia, Guatemala and Nicaragua the main basic export commodity was coffee, which represented 60%, 30% and 37% of total exports, in that order. In the Dominican Republic, the main export commodity was sugar, which accounted for 33% of total exports. Finally, Ecuador, which is an observer in UPEB, depends mainly on oil exports, which account for 53%, with bananas representing only 8% of exports.

Clearly, diversification and increased self-sufficiency in the UPEB economies will be related, over the longer term, with industrialization in general and with integration and mutual industrial co-operation in particular. During the 1960s and the first half of the 1970s, significant industrial progress has been made in the UPEB countries, particularly in Costa Rica, the Dominican Republic, Nicaragua and Colombia, where in 1980 exports of manufactures ranked higher than bananas (see table 33). Consequently, the objective of finding viable solutions to the current crisis in the Central American Common Market and moving ahead once more in intra-regional trade,72/ is vital to the negotiating capacity of the UPEB countries during the 1980s and more so over the longer term. In this context, the development of economic co-operation between Central America and the Andean Pact countries and particularly with those of the neighbouring tropical areas such as Colombia, Venezuela and Ecuador,73/ as well as eventual co-operation with Mexico and Brazil, could in future take on a strategic importance which would obviously overshadow the role of the banana industry integrated through UPEB.

The negotiating capacity of UPEB and of COMUNBANA could be strengthened and the unity of economic interests of member countries enhanced by expanding the scope of the business activities carried out by these organizations, currently limited to bananas, adding co-operation in connexion with other tropical commodities the international marketing of which is controlled by the TNCs.74/ For example, in 1980, coffee, cocoa, sugar cane and cotton accounted for the following shares of global exports: Colombia, 67%; Costa Rica, 30%; Guatemala, 45%; Honduras, 25%;

72/ See CEPAL, "Integración y cooperación regionales en los años ochenta", Estudios e Informes de la CEPAL, No. 8, 1982.

73/ UPEB countries, in the following categories: founding member (Colombia), recently joined (in 1982, Venezuela) and observer (Ecuador).

74/ There is some indication of this possibility in the objectives stated by member countries in the by-laws of COMUNBANA: "... export of any raw material or commodity resulting from diversification programmes in banana-producing areas..." (article 3) and "... export of any other commodity of member countries..." (article 4).

Nicaragua, 44%; Panama, 16%, and Dominican Republic, 42%. The aggregate shares of the five tropical export commodities, including bananas, were 69% for Colombia, 50% each for Costa Rica, Guatemala and Honduras, and 34% for Panama (see again table 33)

It seems obvious that if the governments of the UPEB countries are to prepare and consider as ambitious an alternative as the one outlined in the above paragraph, a detailed study would have to be made of both the domestic and the external situations with regard to tropical commodities in each country of the organization, as well as of the possible functions that might be carried out by UPEB and COMUNBANA in an expanded integration of this type (for example, from the exchange of informatio to joint measures in external marketing).

Within the framework of this study, we will now analyse the real and potential capability of UPEB in the major banana markets of the world.

(f) Position in the world banana markets and segments dominated by TNCs

(i) Major markets and the TNCs

The seven major banana markets analysed in table 34 are characterized by a relatively high consumption of this fruit. In 1978, these markets accounted for 80% of total demand in the industrialized market-economy countries 75/ as follows: United States, 34%; Japan, 13%; Federal Republic of Germany, 10%; France, 8%; Italy, 6%; United Kingdom, 5%, and Canada, 4% of the total. During the period 1964-1978, the greatest dynamism has been shown by the Japanese and Italian markets, whose shares of the total for the industrialized countries rose from 6% to 13% and from 4% to 6%, respectively, with the traditional markets showing reductions in corresponding proportions (see indicators A.1 and 2 in table 34).

As we mentioned above, during the 1970s there was a substantial increase in control over the world banana market by the oligopoly of the three United States TNCs, United Brands, Castle and Cooke, and Del Monte (from 50% in 1970 to 60% in 1978). The greatest concentration, in 1978, was in the United States and Canadian markets, with 90% and 100%, respectively; 76/ followed by Japan, 76%; Italy, 68%; Federal Republic of Germany, 41% and France, 15% (all in terms of the share of the three TNCs in total imports -see indicator A.3).

75/ In the same year, the share of the socialist countries in the world banana market was 5% and the share of the developing countries was 8%, i.e., the share for both groups was lower than, for example, that of the Federal Republic of Germany (9% of the world total).

76/ Data available only for the year 1973.

Table 34

UPEB, ECUADOR AND THE PHILIPPINES AT THE BEGINNING OF THE 1980s: POSITION ON THE MAJOR WORLD BANANA MARKETS AND SEGMENTS CONTROLLED BY THE TCNs

Indicator	Unit	Period	United States	Japan	Federal Republic of Germany	France	Italy	United Kingdom	Canada	Total: Seven countries	Total: Industrialized countries a/
A. Market characteristics											
1. Annual per capita consumption	Kg	1970	7.9		8.5	8.6	...	5.9	...	...	...
		1979	9.6		10.0	8.2	...	5.4	...	...	...
2. Share in world imports	%	1964	37.2	6.2	12.8	10.0	4.0	8.7	3.8	82.7	100.0
	%	1974	30.0	16.3	11.1	8.4	5.9	5.1	3.7	80.5	100.0
	%	1978	33.7	13.3	10.2	8.2	5.7	5.1	3.9	80.1	100.0
3. Segments of the market controlled by TCNs	%	1971	91 b/	33	27	12	68	41	100	...	50 b/
Total		1978	90 c/	76	41	15	68	39	...	...	60
(a) United Brands	%	1971	45 b/	11	10	12	45	41	65	...	31
	%	1978	35 c/	19	10	15	32	39	...	...	29
(b) Castle and Cooke	%	1971	37 b/	15	13	-	23	-	30	...	16
	%	1978	38 c/	27	26	-	25	-	...	...	19
(c) Del Monte	%	1971	8 b/	7	4	-	-	-	5	...	3
	%	1978	17 c/	30	5	-	11	-	...	...	12
B. Position of UPEB											
1. Total exports in millions of boxes	Boxes	1980	92.1	-	25.2	6.6	9.8	7.4	9.6	150.7	176.4
2. Destination of exports	%	1980	52	-	14	4	6	4	5	85	100
3. Position on the markets	%	1980	77	-	86	27	64	42	71	69	61
Segment controlled by: d/											
(a) United Brands	%	1980	30	-	21	27	30	42	46	...	29
(b) Castle and Cooke	%	1980	32	-	55	-	24	-	21	...	20
(c) Del Monte	%	1980	15	-	10	-	10	-	4	...	12
C. Position of Ecuador											
1. Total exports, millions of boxes	Boxes	1980	26.0	-	4.2	2.3	2.6	1.5	3.7	40.3	44.8
2. Destination of exports	%	1980	58	-	9	5	6	3	8	89	100
3. Position on the markets	%	1980	22	-	14	9	17	8	27	16	15
(a) Noboa e/	%	1980	...	-	...	...	3	...	...	...	1
(b) Combined with UPEB	%	1980	99	-	100	36	67	50	98	85	77
D. Position of the Philippines											
1. Total exports, millions of boxes	Boxes	1980	-	35.0	-	0.3	0.5	-	-	35.8	35.8
2. Destination of exports	%	1980	-	98	-	1	1	-	-	100	100
3. Position on the markets	%	1980	-	88	-	1	3	-	-	14	12
Three TNCs f/	%	1980	-	67	-	...	...	-	-	...	...

Source: See tables in the Statistical Annex.

a/ Not including the socialist countries.

b/ 1970.

c/ 1977.

d/ Based on the assumption that all UPEB exports are controlled by the three United States TNCs and applying to the UPEB quota in each market the 1978 distribution of the segments belonging to each of the three TNCs in the respective markets (see indicator A.3). For example, the UPEB share of 77% in the United States market is distributed among United Brands, Castle and Cooke, and Del Monte in proportions of 39%, 42% and 19%, respectively, which represent the shares of each TNC within the overall oligopoly in the United States market. Also, it should be borne in mind that at the end of 1970, the independent UPEB enterprises, UNIBAN of Colombia and COMUNBANA, had shares of approximately 3% and 1% on the world banana market.

e/ In 1978, the Ecuadorian enterprise Noboa had a share of 9% on the world market and of 17% on the Italian market.

f/ See note d/ above.

Of the three transnationals, Del Monte grew at the fastest rate worldwide during the period 1971-1978 (with its share increasing from 3% to 12%), it was followed by Castle and Cooke (from 16% to 19%), whereas the segment controlled by United Brands dropped from 31% to 29%, although it retained its leading position on the world market. In 1978, United Brands was strongest in the markets of the United Kingdom, where it controlled 39% of total banana imports; the United States, with 35%, and Italy, with 32%. During the same year, Castle and Cooke controlled a greater share of the United States market than United Brands, as its share was 38%; its next most important markets were Japan, 27%; Federal Republic of Germany, 26%, and Italy, 25%.

The third TNC, Del Monte, grew mainly in the dynamic markets of Japan and Italy where in 1978 it controlled 30% and 11% of total imports and, in the United States itself, 17%. Finally, it should be noted in connexion with the analysis made below of the position of Ecuador on the world market, 77/ that the elimination of Ecuador (and its national enterprise Noboa) from the Japanese market during the 1970s was due precisely to the extremely rapid expansion of the three United States transnationals in that market (where their combined shares rose from 33% in 1971 to 76% in 1978), as a result of the marketing of bananas from the Philippines.

(ii) Position of UPEB on the world market and approach to its relationship with the TNCs

As will be noted in part B of table 34, 85% of the total of 176 million boxes exported by the UPEB countries in 1980 went to the six markets analysed above, as follows: 78/ United States, 52%; Federal Republic of Germany, 14%; Italy, 6%; Canada, 5%, and France and United Kingdom, 4% each.

On the other hand, in the early 1980s, UPEB played a decisive role in supplying the world with bananas, as it accounted for 61% of world imports 79/ and 69% of imports of the seven major markets taken together. 80/ UPEB had an even better share of some of these markets, particularly those of the Federal Republic of Germany, where it accounted for 86% of imports; the United States, 77%, and Canada, 71%. It also held a good position in Italy, 64%; the United Kingdom, 42%, and France, 27%.

77/ See point (g) (i) below.
78/ Only six, because Japan was supplied by the Philippines.
79/ Not including socialist and the developing countries.
80/ Including potential demand in Japan.

/The position

The position of UPEB on the major world markets, mentioned in the above paragraph in the conventional terms used to evaluate external trade, obviously does not reflect its real negotiating capacity. This is due to the fact, mentioned above,81/ that virtually all external marketing of bananas from UPEB countries is controlled by the three United States TNCs. Therefore, if we leave out the well-known exceptions, which are relatively marginal,82/ we may venture to say that the position of UPEB in the various markets, described above, actually represents the position of the three large transnationals.

On this assumption, indicators B.3 (a) - (c) in table 34 show estimates, for each consumer market, of the percentage of total imports from UPEB countries that reflects international sales by each TNC on the consumer market concerned. The method used to make these estimates was that of projecting the correlation of the segments controlled by the respective TNCs in the global market of the consumer country onto that part of the market that represents imports from the UPEB countries (see indicators A.3 (a) - (c)).83/ The methodology used has the virtue of indicating -although in tentative and approximate terms- which TNCs are most dependent, in the different markets, upon supplies from the UPEB countries. It also provides a basis for updating estimates of the total segments of the three TNCs (see indicator A.3). Let us now look at some of the results of this exercise.

(iii) TNC segments of markets supplied by UPEB countries

At the beginning of the 1980s, TNC predominance in the German market, the second most important one for UPEB, more than doubled compared with estimates available for 1978. The 86% dependency of the German market on UPEB in 1980 was mostly accounted for by marketing through the transnational Castle and Cooke, which controlled 55% of the German market supplied by UPEB; it was followed by United Brands, 21%, and Del Monte, 10%.84/ As regards the share of the different UPEB countries in the total supply for the German market (see table 35, indicator C), the highest places were held by Panama, 27% of total imports for the German market;

81/ See table 32 in part 1 (d) of this chapter.

82/ COMUNBANA and UNIBAN, of Colombia, which together control only about 4% of the world banana market.

83/ The application of this method should give more accurate results for the markets where UPEB accounts for a high share of total banana imports (Federal Republic of Germany, United States, Canada and Italy). For an explanation of this method, see the forthcoming integrated study on bananas.

84/ TNC control of the German market was obviously greater than that indicated by these statistics, since the supply of bananas from Ecuador is also controlled by the TNCs.

/Table 35

Table 39

UPEB COUNTRIES: POSITION IN THE MAJOR WORLD BANANA MARKETS (1980)

Country: Market \ Origin	UPEB: Colombia	UPEB: Costa Rica	UPEB: Guatemala	UPEB: Honduras	UPEB: Nicaragua	UPEB: Panama	UPEB: Dominican Republic	UPEB: Total	Ecuador	Philip-pines	Total a/
A. Thousands of boxes (18.4 kg)											
1. North America	11 886	26 850	12 293	37 684	5 944	6 564	467	101 688	29 651	-	132 741
United States	10 658	24 042	11 959	33 649	5 411	5 910	467	92 096	25 982	-	119 193
Canada	1 228	2 808	334	4 035	533	654	-	9 592	3 669	-	13 548
2. Europe	19 877	20 217	3 499	12 863	-	18 214	1	74 671	15 074	753	117 714
Federal Republic of Germany	3 867	7 012	352	6 058	-	7 948	-	25 237	4 161	-	29 409
France	3 391	2 227	663	226	-	140	-	6 647	2 263	293	24 584
Italy	2 726	4 043	1 419	570	-	1 033	-	9 791	2 633	460	15 377
United Kingdom	4 856	1 200	156	383	-	833	1	7 429	1 474	-	17 771
3. Japan	-	-	-	-	-	-	-	-	60	35 002	39 621
4. Total	31 763	47 067	15 792	50 547	5 944	24 778	468	176 359	44 785	35 755	290 076
B. Distribution of exports (%) b/											
United States	37	51	76	67	91	24	100	52	58	-	41
Canada	4	6	2	8	9	3	-	5	8	-	5
Federal Republic of Germany	12	15	2	12	-	32	-	14	9	-	10
France	11	5	4	0.5	-	1	-	4	5	1	8
Italy	9	9	9	1	-	4	-	6	6	1	5
United Kingdom	15	3	1	1	-	3	-	4	3	-	6
Japan	-	-	-	-	-	-	-	-	-	98	14
C. Distribution of imports (%) c/											
United States	9	20	10	28	5	9	-	77	22	-	100
Canada	9	21	2	30	4	5	-	71	27	-	100
Federal Republic of Germany	13	24	1	21	-	27	-	86	14	-	100
France	14	9	3	1	-	1	-	27	9	1	100
Italy	18	26	9	4	-	7	-	64	17	3	100
United Kingdom	27	7	1	2	-	5	-	42	8	-	100
Japan	-	-	-	-	-	-	-	-	-	88	100
North America, Europe and Japan											100
Total	11	16	6	17	2	9	-	61	15	12	100

Source: CEPAL, on the basis of UPEB, "El mercado bananero en 1980", Informe Especial, 1981.

a/ Including other exporting countries, particularly the "preferential" ones, former colonies of France, Italy and the United Kingdom, which accounted for 46% of total imports of the three countries.

b/ Total exports from the area of origin = 100. c/ Total imports from the market area = 100.

/Costa Rica,

Costa Rica, 24%, and Honduras, 21%. It should be remembered, in this regard, that Castle and Cooke (Standard Fruit) to a large extent controlled exports from Costa Rica and Honduras; United Brands, those from each of the three countries indicated, and Del Monte, those from Costa Rica.85/

The market that was second most dependent upon supplies from UPEB was that of the United States, which accounted for 77% of the demand for bananas in 1980. This share was distributed among the three TNCs as follows: United Brands and Castle and Cooke had equal shares of the market, around 30% each, and Del Monte held 15% (see again table 34, indicator B.3). The positions of the different UPEB countries on the United States market were as follows: Honduras, 28% (marketing dominated by United Brands and Castle and Cooke); Costa Rica, 20% (all three TNCs); Colombia and Guatemala, around 10% each (United Brands, the independent national firm UNIBAN, and Castle and Cooke, in the case of Colombia, and Del Monte, with a monopoly in Guatemala -see table 35, indicator B and table 32 above).

As regards the order of importance of UPEB and the three TNCs that controlled the marketing of bananas, the above were followed by: Canada, 71% of total imports; Italy, 64%; United Kingdom, 42%, and France, 27%. In the latter two markets, the TNC position, with regard to supplies from UPEB countries, was stronger in 1980 than is shown by the 1978 estimates for the total market. Within the oligopoly of the three TNCs, United Brands had larger segments of the Canadian market, 46%, than the 21% and 4% held by Castle and Cooke and Del Monte.86/ In the United Kingdom, with a 42% share, it was the only one within the world oligopoly of the three TNCs, and the same situation was noted in France, where 27% of the national market was controlled by United Brands; finally, in the dynamic Italian market, with 30% of total demand, it shared control with Castle and Cooke, 24%, and Del Monte, 10%.

Finally, as regards the various UPEB countries, Colombia's main customer was the United Kingdom, where it supplied 27% of total demand (United Brands), and the Italian and French markets, 14% and 13% respectively (in Italy, the three TNCs; in France, only United Brands, with some participation of UNIBAN in both).

85/ See again table 32.

86/ The original estimate of TNC shares of the Canadian market was for 1971 (see table 34, indicator B.3).

Costa Rica played a more important role in supplying the United Kingdom market, 26%, than those -described above- of the Federal Republic of Germany, Canada and the United States (24%, 21% and 20% respectively). It should be recalled that United Brands held 42% of the market in the United Kingdom, whereas each of the three TNCs in the oligopoly had a share in the other three countries.

Guatemala, with 9%, was the third most important supplier of the Italian market (after Costa Rica and Colombia), obviously because of the position in that market of the only United States marketing firm, Del Monte.

Honduras, Nicaragua and Panama concentrated exports and were major suppliers of the markets of the United States, Federal Republic of Germany and Canada, described above.

Nevertheless, it is worth mentioning the potential negotiating capacity of Panama, where the marketing of bananas is controlled by the only TNC, United Brands, and where the two State enterprises and COMUNBANA are beginning to have some power. Not only is Panama the major supplier of the Federal Republic of Germany, where it accounts for 27% of total demand, it also accounts to a large extent for the position of the TNC United Brands on the Italian and United Kingdom markets (7% and 5%, respectively, of total demand on those markets). The relative interdependence of United Brands and Panama obviously explains to a large extent the seriousness of the conflicts between transnational and national powers that occurred both at the beginning of the UPEB era in 1974 and as recently as 1981.87/

(g) Position of Ecuador and the Philippines and the alternative of greater unity and co-operation with UPEB

(i) The case of Ecuador

In the early 1980s, Ecuador lost its first place among world banana exporters, mainly because of its production crisis and its loss of the important Japanese market. In 1980, its share in the world market was 15%, compared with 61% of the aggregate share of UPEB countries and lower than that of the major UPEB exporters, Honduras and Costa Rica, which in the same year accounted for 17% and 16%, respectively, of world imports (see again tables 34 and 35).

As mentioned above, in 1974 the TNCs tried to prevent the creation of UPEB and the introduction of the new banana export tax by threatening to transfer a

87/ See part 3 of this chapter.

/major portion

major portion of their activities and banana supplies from the Central American countries to Ecuador.88/ It is interesting to evaluate the treatment granted to Ecuador by the TNCs, expressed at a recent international seminar held by UPEB, and summarized as follows:89/

"The soil conditions in Ecuador are very well suited for banana growing. However, its distance from the United States market put it at a relative disadvantage vis-à-vis the Central American countries. That is why United Fruit and Standard Fruit decided in favour of Guatemala, Honduras, Costa Rica and Panama when it came to investing in plantations, railways, ports and handling and packing facilities.

"With the appearance of the 'Panama disease', which destroyed a large part of the Central American plantations, the TNCs transferred part of their purchases to Ecuador; however, realizing that control of 'Panama disease' was a matter of time, they were careful not to make investments in that country, but rather to motivate private producers by offering an attractive price for the fruit. The Government of Ecuador made heavy investments in infrastructure and many farmers left their former crops to devote themselves to growing bananas. As soon as the 'Panama disease' was controlled in Central America, the transnationals substantially reduced their banana purchases in Ecuador, creating tremendous socio-political problems for that country, which has only been able to deal with them at great sacrifice and thanks to the initiative of distinguished Ecuadorian entrepreneurs.

"Ecuador managed to open up a market in Japan, but as soon as it grew, the transnationals established themselves in the Philippines and, thanks to economies in transport and binational trade agreements between the Philippines and Japan, pushed Ecuador out of the market. Ecuador subsequently tried to open up a market in the socialist countries which traditionally have not dealt much in bananas, but there again the Ecuadorian national enterprises also found themselves faced with competition from the TNCs and a sustained price war.

88/ See part III.2 (iii) above.

89/ See the lecture by Lic. Fernando Manfredo, former Minister of Commerce and Industry and currently Deputy Administrator for the Panama Canal area, at the international seminar on banana marketing, held on 7 October 1981 in Panama, with the participation of seven member countries of UPEB, Ecuador, Suriname and the United States. The seminar was also attended by UNCTAD, FAO, the World Bank, SELA, OAS and COMUNBANA (Informe Especial de la UPEB, December 1981).

/"The transnationals

"The transnationals still purchase fruit in Ecuador, but they only do so to make up for shortages in their supply when the demand is excessive or when their Central American sources have been cut down because of natural disasters, strikes or confrontations with the governments (especially when the time draws near for negotiating a contract with a given country)."

Going back to table 34, we may note that Ecuadorian banana exports were concentrated, at the beginning of the 1980s, in the markets of the United States, 58% of the total exported by Ecuador; Federal Republic of Germany, 9%; Canada, 8%, and France and Italy, around 5% each. Ecuador had strong positions in the markets of Canada, the United States, Italy,90/ and the Federal Republic of Germany, where it supplied 27%, 22%, 17% and 14%, respectively, of the total supply of bananas (see table 34, indicator C.1-3).

(ii) The importance of Ecuador eventually joining UPEB

The importance of unifying and integrating the banana policies of Ecuador and the UPEB countries may be illustrated by their combined position in the main banana markets of the world:

- Taken together, they account for virtually all the supply of the fruit in the United States, the Federal Republic of Germany and Canada, countries which represent almost half the world demand (see table 34, indicator C.3 (b)).

- Moreover, they are highly competitive in other large markets, such as those of Italy, where they cover 67% of total demand; the United Kingdom, 50%, and France, 36%.

- In brief, the major banana markets of the world obtain 85% of their banana imports from the UPEB countries and Ecuador.

The above data on the potential integrated negotiating capacity of the Latin American countries in the banana markets of North America and Europe clearly show the future alternatives of unity, co-operation and integration within the framework of an expanded UPEB:

- To negotiate with the TNCs that control to a large extent the production and world marketing of bananas agreements that would lead to a more balanced distribution of the benefits of the industry;

90/ Where the national enterprise Noboa had a large share.

/- With increased

- With increased exchange of information, national experiences and mutual technical co-operation,91/ it would be possible to strengthen national industries and the support of independent producers according to the particular situation of each country;

- To co-ordinate on the world market the activities of independent banana marketing firms in the region, such as COMUNBANA, UNIBAN, Noboa and others;

- To negotiate with the governments of the consumer countries in the fora of FAO and UNCTAD an International Banana Agreement that would regulate the world market for the fruit and guarantee profitable prices for the producer countries;

- Finally, with the recent entry of Venezuela into UPEB and with the co-operation established with Mexico,92/ it would be possible to expand the alternatives for integration to other economic sectors outside the banana industry.93/

Considering this potential for increased co-operation and integration among the banana-producing countries of Latin America, it was only natural that at the VIII Conference of Ministers of UPEB, held in Panama City, Panama, on 23 January 1982, the governments should have agreed to "invite Ecuador, the foremost world exporter of the fruit, to join the Organization with a view to strengthening the exporter front which promotes the adoption of common policies, the integration of the economies of its members and to establishing and protecting profitable banana prices".94/

(iii) The case of the Philippines 95/

The argument advanced in the preceding section may be extended to the Philippines, where the banana industry is controlled by the same three United States TNCs. The Philippines is almost the sole supplier of the Japanese market, which ranks second in importance after the United States market.

91/ This is already underway, with the participation of Ecuador, in connexion with important aspects such as the struggle against banana diseases, etc.

92/ In August 1980, Mexico and Venezuela signed, in San José, Costa Rica, the Energy Co-operation Agreement aimed at helping the countries of Central America and the Caribbean.

93/ See part 1 (e) of this chapter.

94/ UPEB resolution CM/VIII/2, published in its Informe Mensual, No. 47, January February 1982.

95/ See the study made by the ESCAP/UNCTC Joint Unit on TNCs "Transnational Corporations and the Philippine Banana Export Industry", in TNCs and Primary Commodity Exports from Asia and the Pacific, United Nations, ESCAP/UNCTC Publications, Series B, No. 1, Bangkok, December 1981, and the forthcoming integrated study on the subject.

In 1980, the Philippines' 12% share in total imports of the industrialized market economy countries made it the fourth banana exporter in the world, after Honduras, 17%; Costa Rica, 16%; and Ecuador, 15% (see again table 34). With its comparative advantage arising from economy in transport and tariff agreements with Japan, virtually all Philippines banana exports go to the Japanese market (98% in 1980), with the small remainder being divided between France and Italy.96/ In 1980, the Philippines supplied 88% of total demand in the Japanese market.

As we have mentioned above, the three TNCs that control the bulk of exports from the Philippines to Japan eliminated Ecuador and its national enterprise Noboa from the Japanese market. It is obvious, therefore, that the monopsony control of the Japanese subsidiaries of the three TNCs over the Philippine producers makes it difficult, if not impossible, for the Government of this banana-producing country to undertake policies of redistribution aimed at achieving greater benefits for its economy. In this framework, moreover, there is always the risk of competition from Latin American bananas marketed by the same TNCs. Thus the Philippines has the alternative, probably the only one, of co-ordinating its policies and eventually joining UPEB. The potential importance of expanding horizontal co-operation in this manner is derived from the fact that at the present time UPEB, Ecuador and the Philippines taken together cover 88% of the total demand of the industrialized countries.

2. Distribution of benefits

In chapter III of this study (part 2 (c)), we analysed the additional benefits in terms of foreign exchange and fiscal income accruing to the UPEB countries as a result of the introduction of the new tax on banana exports. In addition, particularly in the case of Panama, we discussed in part 3 of the same chapter some effects of the expansion and strengthening of the public sector. In this chapter we will discuss the final conclusions to be reached as a result of the new UPEB banana policy and its projections on the basic situation during the 1980s; we will now analyse the changes that have taken place in the distribution of benefits in terms of value returned from banana exports. We will concentrate

---

96/ In world-wide terms, a significant part of Philippine exports is absorbed by the "non-traditional" markets of the Middle East (around 13.5 million boxes in 1979 -see the ESCAP study quoted above).

once again on the cases of Honduras and Panama and on the disequilibrium in the distribution of benefits that became more pronounced in the late 1970s and led, in 1982, to another renegotiation with United Brands.97/

(a) The case of Honduras

In the distribution of benefits between the transnational corporations operating in Honduras, i.e., United Brands (Tela Railroad) and Standard Fruit, the most significant effect on the economy of the country has been that produced by the introduction of the new export tax in 1974. Compared with the negligible income received by the Government from the banana industry before the introduction of the new tax (an average of 4 million dollars per year for the period 1971-1972), the state income from the export tax levied on the two transnationals amounted to between 18 and 24 million dollars per year in the period 1978-1980, i.e., 5 to 6 times more than during the years 1971-1972.

In the absence of data on the economic results of the two transnationals for the second half of 1970, the impact of this redistribution of benefits may be estimated on the basis of approximate figures (see table 36). If we apply to the volumes of banana exports made by the transnationals the FOB prices negotiated by COHBANA for the years 1978-1980 for producers associated with its projects, we will note that the value of these exports for the three-year period analysed above was between 18 and 25 million dollars per year. When we project the taxes paid by the TNCs onto this export income, we reach the conclusion that they returned to the State around one-fourth of the value of their exports.98/ This would be the order of magnitude of the increase in the value returned from exports as a result of the new tax policy.99/

The result will be different if we try to estimate the share of the producer and of the national economy in terms of final income, i.e., retail prices. This exercise is shown in table 37, which is based on COHBANA estimates based on average costs of the Empresa Asociativa Campesina de Isleta (EACI) for the period 1979-1980 and on a previous estimate by FAO.

97/ See part 3 of this chapter.

98/ Naturally, the portion of the tax corresponding to exportable production of national producers, both associated with the transnationals and with COHBANA, was transferred by the foreign enterprises to the latter.

99/ As will be noted in part (b) below, this proportion is lower and is declining in the case of Panama.

/Table 36

Table 36

HONDURAS: FOB VALUE OF TOTAL BANANA EXPORTS MADE BY THE TNCs AND EXPORT TAX PAYMENTS (1978-1980)

	1978	1979	1980	Annual increment 1979/1978	Annual increment 1980/1979
1. Volume (thousands of boxes)					
Tela Railroad a/	20 709	27 775	24 804	34.1	-10.7
Standard Fruit	18 816	21 568	22 969	14.6	6.5
Total	39 525	49 343	47 773	24.8	-3.2
2. FOB price (in US$/box)					
Tela Railroad	1.70	2.00	2.22	17.6	11.1
Standard Fruit	1.70	2.00	2.30	17.6	15.0
Average	1.70	2.00	2.26	17.6	13.0
3. Value (in millions of dollars)					
Tela Railroad	35.2	55.5	55.1	57.7	-0.7
Standard Fruit	32.0	43.1	52.8	34.7	22.5
Total	67.2	98.6	107.9	46.7	8.5
4. Tax (in US$/box)	0.45	0.50	0.50	11.1	-
5. Taxes paid					
(a) Millions of dollars					
Tela Railroad	9.3	13.9	12.4	49.5	-10.8
Standard Fruit	8.5	10.8	11.5	27.1	6.5
Total	17.8	24.7	23.9	38.8	-3.2
(b) Percentage of FOB value					
Tela Railroad	26.4	25.0	22.5	...	...
Standard Fruit	26.6	25.0	21.8	...	...
Average	26.5	25.0	22.1	...	...

Source: See table 27 and FOB prices negotiated by COHBANA annually for producers associated with its projects.

a/ Belongs to United Brands.

Table 37

Table 37

HONDURAS: PRODUCER'S SHARE OF FINAL PRICE FOR BANANAS

(In dollars per 41.5-pounds-net box on the United States market in 1980)

Item	Dollars	Percentages on the basis of (=100)	
		Final price	FOB price
1. Cost of production	2.20	15.7	63.0
(a) Production	1.10	7.8	31.5
(b) Box	0.83	5.9	23.8
(c) Administration and finance	0.27	1.9	7.7
2. Cost of marketing a/	1.08	7.7	30.9
(a) Railway	0.23	1.6	6.6
(b) Docks and stevedoring	0.12	0.9	3.4
(c) Customs	0.03	0.2	0.9
(d) Taxes	0.51	3.6	14.6
(e) Technical assistance - COHBANA	0.19	1.3	5.5
3. Producer's gross profits	0.21	1.5	6.0
FOB price (1+2+3) b/	3.49	24.9	100.0
+ Freight and maritime insurance	2.24	16.0	64.2
CIF price c/	5.73	40.9	164.2
+ Unloading from ship and loading on railway	0.89	6.3	25.5
FOR price d/	6.62	47.2	189.7
+ Ripening	2.72	19.4	77.9
+ Retail trade	4.68	33.4	134.1
Final price (retail)	14.02	100.0	401.7

Source: COHBANA estimates based on average costs of the Empresa Asociativa Campesina de Isleta (EACI) for the period 1979-1980 (items 1-3) and FAO, "Examen de los aspectos económicos de la producción, el comercio y la distribución de banano", (CCP:BA 80/4, March 1980, items B-D).

a/ By COHBANA on the basis of yearly contracts with Standard Fruit (Bananera Antillana).

b/ Price received by the seller (COHBANA) for the fruit; covers costs up to the placing of bananas in the holds on the ship.

c/ Obtained by adding to the FOB price the costs for insurance of goods and maritime freight, i.e., includes all costs of handling the fruit up until the time it is placed at the port of destination but still remaining in the holds of the ship.

d/ Obtained by adding to the CIF price the costs of unloading from the ship at the dock of destination and loading the fruit, at the same time, on a railway car.

/The first

The first thing that will be noted is the fact that the producer only receives around 8% of the retail price and less than one-third of the FOB price. The same FOB price, i.e., the value of the fruit at the time it is put in the holds on the ship, is only one-fourth of the final price paid by the consumer. As we have noted above (II.3 (c)) of this study, the bulk of final prices is represented by the ripening process -one-fifth- and the retail trade -one-third.

From the standpoint of the value returned to the national economy, we may add to production costs those for administration and financing (although to a large extent they are borne by the transnationals) and the income received by the State from its own operations,100/ the leasing of railways and docks at State ports and other payments made by the transnationals for taxes and customs, adding, finally, the gross profit margin for the product. Bearing in mind that the boxes used for packing the bananas are produced by the transnationals from imported paperboard and that they also import the bulk of other production inputs, we reach the conclusion that the value returned to the national economy would only amount to 15% of final income from banana sales to consumers.

A similar conclusion was reached in the UPEB estimates, according to which in the period 1969-1980, the countries members of the organization increased their share in the final price of bananas by only a negligible amount, from 13% to 14%. On the other hand, the share for freight and insurance paid by foreign enterpises,101/ rose over the same period from 7% to 16%, to the detriment of the jobber-ripeners in consumer countries whose share in the final price dropped from 32% to 22% (see table 38).

The meagre change in the share of the final price received by producer countries seems to confirm our previous conclusion that the TNCs transfer the cost of the banana export tax, introduced in 1974 by UPEB, entirely to the consumer through higher retail prices for the fruit, without allowing for an increase in the producer country's share of the final price.102/ On the other hand, the increase in oil prices does seem to have had an effect in increasing the share for freight and insurance, to the detriment of the jobber-ripener.

100/ For example, local sales of bananas, income from technical assistance to national producers, etc.

101/ Not necessarily the banana TNCs but also other TNCs in the maritime transport and finance sectors.

102/ See part III.2 (a) (ii) above.

Table 38

UPEB COUNTRIES: SHARE IN THE FINAL PRICE OF BANANAS

(In percentages)

Item	1969	1980
Producer countries	12.7	14.2
Foreign companies	87.3	85.8
Freight and insurance	7.0	15.9
Jobber-ripener	31.9	21.5
Retailers	36.3	35.2
Others	12.1	13.2

Source: UPEB.

(b) The case of Panama

Available data on payments to the Government and on local salaries and wages for the period 1976-1978 by the monopoly TNC in Panama, United Brands, made it possible to analyse the behaviour of the value returned from banana exports in Panama (see table 39).103/

Although there are no comparative data for the period prior to the introduction of the new banana policies in Panama (the export tax in 1974 and the transfer and lease contracts in 1976), we may estimate their impact on the value returned. In terms of the new banana export tax and the leasing of land, railways and docks (expropriated by the State in 1976), United Brands paid Panama, in 1976, 10.9 and 1.6 million dollars respectively, i.e., 19% and 3% of the total value (FOB) of Panamanian banana exports for the year. The total contribution of 12.5 million dollars, i.e., 22% of the value of exports, may be considered an increase in the value returned to the economy of the country as a result of the new UPEB policies and the Panamanian Government's negotiations with the TNC.

103/ As we have said before, the main inputs and production technology are imported by the TNCs. On the other hand, we may assume that other local payments made by the TNCs, for example, for services, do not affect the major trends we are discussing.

/Table 39

Table 39

PANAMA: MAIN COMPONENTS OF VALUE RETURNED FROM BANANA EXPORTS BY UNITED BRANDS a/ (1976-1980)

	Thousands of dollars			Percentage		
	1976	1978	1980 (estimated)	1976	1978	1980 (estimated)
1. Exports, FOB value b/	58 100	83 702	111 211	100.0	100.0	100.0
2. Payments to the Government - total (a+b)	13 581	15 351	16 374	23.4	18.3	14.7
(a) Taxes - total	11 981	13 751	14 774	20.6	16.4	13.3
(i) banana export tax	10 918	12 726	13 133	18.8	15.2	11.8
(ii) income tax	1 059	523	-	1.8	0.6	-
(iii) others c/	4	502	1 641	-	0.6	1.5
(b) Total leases	1 600	1 600	1 600	2.8	1.9	1.4
(i) land	1 000	1 000	1 000	1.7	1.2	0.9
(ii) railways	500	500	500	0.9	0.6	0.4
(iii) docks	100	100	100	0.2	0.1	0.1
3. Salaries and wages (local, including benefits)	23 600	33 993	30 233	40.6	40.6	27.2
(a) Salaries and wages	23 600	30 600	24 000	40.6	36.6	21.6
(b) Social benefits d/	...	3 393	6 233	...	4.1	5.6
4. Value returned (2+3)	37 181	49 344	46 607	64.0	58.9	41.9

Source: Affidavits stating income, company reports.
a/ Chiriquí Land Co.
b/ Including purchases form associated producers.
c/ Property taxes, municipal taxes, licences, etc.
d/ Social security, education benefits, workmen's compensation, etc.

/In other

In other words, if these changes had not been introduced, the value returned 104/ in 1976 would have been 25 instead of 27 million dollars, i.e., 42% instead of 64% of the total value of exports.105/ Now, considering only the payments made to the Government (that is, excluding the local salary-and-wage components), we may note that these increased, in 1976, from 1.1 to 13.6 million dollars as a result of the new banana policies, with the share of the value returned to the State from banana exports rising from 2% to 23%.

Finally, it will be noted that the value returned for the five-year period 1976-1980 shows a downward trend as regards the percentage of total exports it represents. Indeed, although the value returned increased, in absolute terms, from 37.2 to 46.6 million dollars, its share of TNC income from exports declined from 64% in 1976 to 42% in 1980. The decline was due mainly to a decline in the share of local salaries and wages, from 41% to 27% (in 1978-1980) and of the export tax payments, the percentage of which dropped from 19% to 12%, despite the increase in absolute terms. This latter aspect will be analysed in greater detail for all UPEB countries in the following section.

(c) New disequilibrium in the distribution of benefits at the end of the 1970s

Having analysed the benefits the banana export taxes generated for UPEB countries, we must now see whether the tax rates in force at the beginning of the 1980s are adequate or whether, on the contrary, the export tax should be increased and if so, how much. We will now try to obtain valid replies to this question on the basis of the analyses made by the Executive Secretariat of UPEB and the Consejo del Banano of the Republic of Panama.106/

(i) The benefits of the tax and world inflation

The real value of a tax based on a fixed amount per unit exported, such as the banana export tax, is affected by changes in the value of currencies and by the effects of world and local inflation.

If, for example, we apply a deflation factor of 10% per year to the fixed rate of US$ 0.40 per box of bananas, established in early 1976 in Panama, we may

104/ Including its other components, the income and other taxes and local salaries and wages.

105/ It should be borne in mind that according to the estimate for the case of Honduras, in part (a) above, the difference was higher than 25% and only in terms of the export tax.

106/ See the bibliography in annex 2 and the surveys of authorities of the two organizations conducted in Panama City in July 1981.

/estimate that

estimate that its real value in 1980 was only US$ 0.23 approximately. Thus, the total income of the UPEB countries from the export tax, some 80 million dollars in 1980, represented a real value (expressed in 1976 dollars) of only 46 million dollars.

Moreover, it is quite clear that world inflation also affects the costs, income and profits both of national producers and of the TNCs operating in the industry.107/ Therefore, the Secretariat and the governmental organizations of UPEB have undertaken a more thorough analysis that takes into account the development both of production, marketing and transport costs and of prices.108/

(ii) The methodology of UPEB

The purpose pursued by the UPEB countries in applying the banana export tax has been, essentially, to increase their share of the benefits of this industry without damaging or enhancing the competitiveness of any individual country. Consequently, any comparative study of the fiscal burdens on the TNCs resulting from this measure must be made in close connexion with the taxpaying capacity of the industry in each country. In evaluating the taxes in force we must bear in mind, in addition to the indicator for taxes paid per unit exported, the costs of production, the sales prices of the fruit in the markets of destination and the costs of transport, insurance, etc. In other words, the tax must be viewed in relation with the difference between the sales price (equivalent to the international price) and the total costs of production.

Such an analysis will make it possible to establish whether in some cases the banana industry in a given country might be subject to a tax that is low in relation with its capacity to pay, thus creating distortions that would enhance its competitiveness, or, on the other hand, whether the fiscal burden might be relatively high and thus damage its competitiveness.

107/ According to a recent estimate, the average impact on the value of a box of bananas of the increased price of oil -reflected in costs for irrigation, fumigation, fertilizers, maritime transport, etc.- in 1979 was US$ 0.60, approximately (see Nake M. Kaulany, The Impact of OPEC Price Increases on the Banana Industry, Inter-American Economic Affairs, vol. 33, No. 13, Winter 1979).

108/ At any rate, there is the alternative of linking the banana export tax not only to the volume of the transaction, as is the case at present, but also to the prices of the fruit. We will turn to the possible advantages and disadvantages of this taxation method at a later stage.

With the methodology of analysis defined in this way, we have tried to establish in each country:109/

- the cost or FOB value per unit exported, including the producer's margin of profit;

- the average FOB price derived from the price on the international market (FOR). This means taking into account the proportion of exports to each market of destination, the average price for the grade of the fruit in each one, the average value of freight, insurance and other costs incurred in placing the fruit on that market;

- the total value paid for taxes in each country, per unit exported.

A thorough evaluation of the fiscal burden borne by the TNCs should cover all taxes paid, including indirect taxes. However, the following evaluation has been limited to the export and income taxes of the TNCs because they amount, for example, to 98% of the total tax burden in Costa Rica and Guatemala and 92% in Honduras.110/ The other taxes were included in the costs of production. Only in the case of Panama were payments for the leasing of lands and municipal taxes taken into account.

Finally, the concept of "taxpaying capacity" represents the difference between the equivalent FOB selling price (i.e., calculated from the international prices at the different ports of destination) and the FOB value paid to the producer, i.e., the cost of a box of bananas placed on the ship at the port of origin plus the producer's profit. In other words, this difference may be considered the gross profit of the transnational marketer of the fruit resulting from the application of "transfer prices" paid by the TNC to the associated producer or entered by the TNC in its books as "FOB value" of the production of its own plantations. These transfer prices are obviously lower than the equivalent FOB selling prices corresponding to international FOR prices minus maritime freight and insurance costs, as well as the cost of unloading and

---

109/ See also the definitions in the footnotes to table 40.
110/ See table 18 above.

/Table 40

Table 40

UPEB COUNTRIES: FISCAL BURDEN AND TAXPAYING CAPACITY OF THE TNCs (1977-1980)

(In dollars per 40 lb or 18.4 kg box)

Indicator	Year	Colombia	Costa Rica	Guatemala	Honduras	Nicaragua	Panama	5 countries a/
1. Equivalent FOB selling price b/	1977	2.82	2.95	2.91	3.18	...	3.34	3.0
	1980	5.01	4.99	4.73	5.22	4.77	5.71	5.1
Index: 1977 = 100	1980	177.7	169.2	162.5	164.2	...	171.0	170.0
2. FOB value paid to the producer c/	1977	2.31	2.28	2.21	2.26	...	2.26	2.3
	1980	3.22	3.50	2.95	2.73	2.83	2.90	3.1
Index: 1977 = 100	1980	139.4	153.5	133.5	120.8	...	128.3	134.8
3. Taxpaying capacity (1-2)	1977	0.51	0.67	0.70	0.92	...	1.08	0.7
	1980	1.79	1.49	1.78	2.49	1.94	2.81	2.0
Index: 1977 = 100	1980	350.1	222.4	254.3	270.7	...	260.2	285.7
4. Fiscal burden d/	1977	0.12e/	0.49	0.44	0.32	-	0.34	0.3
	1980	0.13e/	1.83	0.55	0.52	0.50f/	0.60	0.5
Index: 1977 = 100	1980	108.3	169.4	125.0	162.5	-	176.5	166.7
5. Difference in favour of TNCs (3-4) g/								
(a) In dollars	1977	0.39	0.18	0.26	0.60	-	0.74	0.4
	1980	1.66	0.66	1.23	1.97	1.44	2.21	1.5
Index: 1977 = 100	1980	425.6	366.7	473.1	328.3	-	298.6	375.0
(b) In percentage ($\frac{5.a}{3}$ x 100)	1977	76.4	26.9	37.1	65.2	-	68.5	57.1
	1980	92.7	44.3	69.1	79.1	79.2	78.6	75.0

Source: CEPAL, on the basis of data from UPEB and Consejo Nacional de Banano of Panama.

a/ Weighted average for the volume of exports in 1980 (except Nicaragua).

b/ This price was estimated taking into account: (i) the average FOB price for each brand in the main international markets; (ii) the proportion of total exports and of each brand and grade for market of destination; (iii) the estimate of freight and insurance costs for each combination of ports of loading and unloading, and (iv) the estimate of the cost of unloading and handling of bananas at each port of destination and the average margin of profit for the exporter.

c/ These estimates were made following a common methodology for all the countries and taking as a basis the costs of national producers, and including in them the margin of profit. Bearing in mind the well-known greater efficiency of the TNC plantations, these costs may be considered to be overestimated.

d/ Information supplied by government offices of the different countries.

e/ UPEB estimate.

f/ In force as of October 1979.

g/ In the original UPEB methodology, this concept is used in a reciprocal sense, i.e., as a difference and a share of the fiscal burden compared with the pattern of the taxpaying capacity.

/handling the

handling the bananas at the port of destination, deducting also the average of margin of profit of the exporter.111/

When we define in this way the taxpaying capacity or the gross profits of the TNC originating -but not materializing- in the banana-producing country, we may deduct from it the actual tax applied by the government of the host country, thus obtaining the difference or net profit in favour of the trasnational.112/ Now, in order to evaluate whether it is appropriate to increase the banana export tax as a result of applying the UPEB methodology explained above, we must make two additional observations: firstly, the estimate of the TNC's taxpaying capacity may be considered to be quite "conservative" and probably is underestimated, in view of the fact that FOB value paid to the producer, or the transfer price, is derived from the unit cost incurred by the national producers (private producers or public enterprises) in each UPEB country which is usually higher, for well-known reasons, than that of the plantations belonging to the TNCs; secondly, the estimates of the different items in the methodology are based on data and estimates from different sources (company books, fiscal statistics, international quotations broken down by object, place and time, etc.) and they therefore cannot be considered accurate and comparable among countries.

111/ That is:

$$P_{fob} = P_{for} - (F + S + DM + U_e)$$
$$P_{fob} > P_t$$
$$CC = P_{fob} - P_t$$

When P_{fob} : equivalent sales price of bananas placed on the ship at the port of origin;

P_{for} : international price of bananas placed on railway car at the port of destination;

F : maritime freight;

S : maritime insurance;

DM : cost of unloading and handling bananas at the port of destination;

U_e : average profit of exporter;

P_t : transfer price corresponding to FOB value paid to the producer;

CC : taxpaying capacity of the TNC corresponding to gross profit before payment of taxes in the banana-producing country.

112/ That is:

$$UN = CC - CF$$
$$UN_t = (UN : CC) \times 100$$

When UN : net profit of the TNC resulting from the application of transfer prices of bananas;

CF : tax levied by the host government which includes export and income taxes (plus payments for the leasing of lands in the case of Panama);

UN_t : net profit rate of the TNC applied to its taxpaying capacity.

/On the

On the other hand, if the same tmethodology and sources of information are used over a given period of time, the changes and trends in the behaviour of the different variables of the model examined may be considered reliable -and important as regards policy decisions taken by the governments.

Let us now look at the result of applying the UPEB methodology for its member countries during the period 1977-1980.

(iii) Worsening of the distribution of benefits

Table 40 shows an analysis for the final four years of the 1970s of the trends in the variables mentioned above, measured always in terms of dollars per box of bananas. Let us look first at the general trend expressed in average values for five UPEB countries.113/ The first conclusion to be reached is that the equivalent FOB selling price of a box of bananas increased, over the period examined, at a rate double that of the "transfer" price, i.e., the price received by the producer of the fruit. Indeed, the first increase was from 3.0 to 5.1 dollar (70%) and the second was from 2.3 to 3.1 dollars (35%). Consequently, the gross profit or taxpaying capacity of the TNCs showed an average increase of almost three times, from 0.7 to 2.0 dollars. Now, the fiscal burden -which essentially determines the distribution of benefits between the State and the company- lagged behind the substantial growth of the taxpaying capacity of the TNCs, leaving an increasing part of the profits to the TNCs. In effect, during the period examined, the average fiscal burden rose only from 0.3 to 0.5 dollars, allowing for an increase in the portion of profits going to the transnationals of from 0.4 to 1.5 dollars per box, i.e., from 57% of taxpaying capacity in 1977 to 75% in 1980. Evidently, the average share of the governments of the five UPEB countries suffered a relative drop in reciprocal terms, i.e., from 43% to 25% during the same period.

Turning to the individual situations of the five countries and taking into account the difficulties in obtaining information for purposes of making accurate comparisons, we may reach the following conclusions (see table 40):

113/ Weighted averages for Colombia, Costa Rica, Guatemala, Honduras and Panama. It should be noted, once again, that the data only express the order of changes.

/- The

- The trend towards a worsening of the distribution of benefits between the State and the TNCs in the late 1970s, analysed above in general terms, is projected for each of the five countries examined and is found to range around the global averages, but always in the same direction;

- In terms of the change in the final analytical variable, i.e., the rate of growth of the part of the taxpaying capacity free of the fiscal burden (of the TNC) may be broken down grosso modo as follows: Colombia and Guatemala (4.2 and 4.7 times during the four-year period); Costa Rica, 3.7 times; and Honduras and Panama, 3.3 and 3.0 times;

- In the latter two cases, Honduras and Panama, there seems to be a greater possibility of renegotiating the export tax rates with the TNCs. In Honduras, the taxpaying capacity free of the tax increased during the period under consideration from 0.60 to 1.96 dollars per box of bananas and in Panama, from 0.74 to 2.21 dollars. Consequently, an increase in the export tax of the order of US$ 0.40-US$ 0.50 per box (to reach, at least in nominal terms, the original goal of one dollar per box) 114/ would still leave the TNCs with greater profits than at the beginning of the period. The high degree of disequilibrium noted again in the distribution of benefits between the State of Panama and United Brands led to a renegotiation of the export tax rate between the Government and the TNC in early 1981. In Honduras, the need for a similar measure has been discussed.

Before going into this matter at the end of this chapter, we should add a comment with regard to methodology. Throughout this study of the negotiating capacity and distribution of benefits between the UPEB countries and the TNCs, we have tried to bring together the key elements for evaluating the dynamism of the various links with the TNCs and outline a scheme for an information system that would enable the governments to choose the policy alternatives that are most important for their development and at the same time are viable in the light of the interests of the TNCs. Obviously, what we have achieved in this regard and particularly in the analysis of the UPEB position in the segments of the world

---

114/ See the original objectives of the 1974 Panama Agreement (part III/1 of this study).

/market that

market that are controlled by the three TNCs and of the dynamism of the value returned and the taxpaying capacity 115/ has been possible thanks to the work done previously by the Secretariat of UPEB and the relevant government organizations of Honduras and Panama. On the other hand, these same analyses have brought to light several important shortcomings as regards the coverage of the information required; the accuracy, mutual links and comparability of the data; follow-up over longer periods, etc. Hence, the development of a system of socio-economic information in UPEB and the determination of its sources of data, both by the governments and by the corporations would provide a most useful tool for the policies of its member countries and for efficient enforcement.116/

3. Renegotiation of Panama with United Brands in 1981

During the first half of 1981, there was in Panama a confrontation and a renegotiation between the Government and the monopoly TNC in that country, United Brands and its subsidiary Chiriquí Land Co. The conflict was concentrated on two crucial aspects analysed throughout this study: the redistribution of benefits between the two parties through an increase in the export tax and the sovereign right of the country to develop its own production and external marketing of bananas through the public enterprises COBAPA and COBANA, in co-operation with the UPEB marketing enterprise, COMUNBANA. As in the case of the confrontation in 1974, in the course of this controversy there was a combination of unilateral actions and reactions on both sides (for example, the obstruction of banana shipments, a "publicity war" to exercise pressure through public opinion, polemical speeches and letters from high officials on both sides, the threat of nationalization and, on the other side, support for the TNC on the part of "independent producers" linked with the transnational, etc.) and, finally, pragmatic negotiations on the "package" of controversies. The latter led in July 1981 to an agreement which provided for both an increase in the tax and a reconsideration of the mutual links between the public sector and the TNC.

115/ See especially outline 3 on page 102 and tables 34, 35, 39 and 40 above.
116/ This suggestion will be included, together with others of a substantial nature, in the final part of the study on policy alternatives to be prepared and discussed together with UPEB.

/In this

In this final part of our study, we do not intend to go into the details of the confrontation and negotiations between the Government and the TNC, but rather to stress certain aspects related with the above analysis of the negotiating capacity and distribution of benefits in the early 1980s.

(a) Programme and preparation of the public sector

Just prior to the renegotiation with United Brands, the Consejo Nacional del Banano defined the Government's banana policy.117/ Among the objectives pertaining to the TNC and the public sector, it stressed the following:

"As its first objective, the Republic of Panama intends at least to maintain, or to increase if possible, its percentage share in the world banana market... The second objective is to obtain for the product the best possible price on the world markets... Nevertheless, it is hardly useful to the national interests for Panamanian production to be sold at the best possible price and for it to earn the largest income possible, if the bulk of this income remains outside the country. Therefore, there is a third fundamental objective, which is to ensure that the largest possible percentage of the income received from sales of Panamanian bananas comes to Panama, is incorporated into the national economy and is converted into capital for the development of the country.

"The Chiriquí Land Company, a subsidiary of the United States corporation United Brands Co., represents the model of production which has for over 80 years had the capital, technology, management and marketing techniques to enable it to utilize the natural resources and labour force of the country to develop the banana business. This operation has generated great profits, which have amply compensated the factors of production contributed by the company and inadequately compensated the factors of production contributed by the country. The ratio improved notably after 1974, when the Government established an export tax and recovered ownership of the lands for the use of which it has since then charged an annual lease. At the

117/ See, Consejo Nacional del Banano de la República de Panamá, Política Bananera Nacional, Panama City, January 1981.

/present time,

present time, the relations between the Government and the enterprise are governed by the contracts signed in 1976, which provide the legal framework within which a good relationship between the parties can and should exist.

"The two public enterprises also provide the State with a tool for guaranteeing the growth of the banana industry with or without the participation of other production models; and they represent, finally, a sort of emergency resource which can in the midst of a crisis be responsible for managing the national production, thus preventing any decision taken outside our boundaries from paralysing an industry that is strategically important to the country... The national Government is interested in exploring schemes and relations of association which will enable it, at a moderate risk, to participate in the administration, transport, marketing, production of inputs and even in the ripening and distribution of any fruit obtained from new areas that might be incorporated into production.

"The Government feels that a joint effort by the countries concerned provides the best way to participate successfully in a market as competitive and difficult as the banana market. However, in the case of the enterprise created for this purpose, the Comercializadora Multinacional del Banano (COMUNBANA), it has not yet been possible to assess the results of the model, since only Panama has participated by contributing fruit, which is the basis on which the scheme is to operate... The national Government hopes that as other member countries are able to provide fruit, the enterprise will take on the dimension it should have and be viewed as a real marketing alternative for the producers of the area, the role originally conceived for it.

"At the present stage in our history, when our countries are still in the process of achieving greater participation in the first phase of the banana industry, which is production, it may seem unrealistic to think that some day the terms might be reversed and that banana-related business inside the boundaries of the consumer countries will be accessible to capital and initiatives of individuals or national entities of the producer countries. However, the Government considers this to be a legitimate and

/desirable prospect

desirable prospect and holds the view that in future Panamanian capital, public or private, could well participate, in the purchasing countries, in the ripening and distribution to wholesalers of bananas produced by the Republic of Panama".

And, finally,

"The Government considers that any objective would be difficult to attain, as it would also be difficult to carry out the policy lines noted herein, if the producer countries did not agree on the basic aspects and co-ordinate their efforts. That is why Panama supports the Unión de Países Exportadores de Banano (UPEB), an organization promoted by six governments in 1974 for the purpose precisely of co-ordinating action to strengthen the industry and gradually to change the structure of the banana business in favour of national interests".

In addition to defining the national banana policy for the 1980s, the Consejo del Banano prepared, in co-operation with UPEB, an extensive evaluation of banana policies and their results for the period 1974-1980,118/ together with proposals for new policy measures.

(b) Increase of the export tax

On the basis of the analysis of the disequilibrium in the distribution of benefits between the TNC and the State, observed again at the end on the 1970s,119/ the Government approved and sent to the Consejo de Legislación a proposed law which provided for an increase in the export tax of US$ 0.20 per box of bananas (i.e., US$ 0.60 to US$ 0.80). The proposed law was based on clause 20 of the 1976 contract between Panama and the United States, which stipulated:

"Banana exports shall be subject to a tax, as established by law. The rate of the tax may be modified by law considering changes in circumstances in the international market and other economic conditions of THE COMPANY. Before issuing the relevant law, THE NATION shall grant to THE COMPANY a reasonable time within which to present its considerations. The tax shall be paid monthly during the first 20 days of the following month."

118/ See part 2 of this chapter.
119/ See part 2 (c) (iii) of this chapter.

/The above

The above analysis of the development of the taxpaying capacity of the TNC for the period 1977-1980 showed that the circumstances in the international market and the characteristics of the banana industry in Panama allowed for the export tax rate to be increased without damaging the economic conditions of the company or jeopardizing its competitiveness (see again table 40 above). In addition, it was borne in mind that Costa Rica had raised the tax rate to US$ 0.80 in October 1980 and was considering another US$ 0.20 increase for April 1981, and that Honduras was considering a US$ 0.10 increase. Finally, it was considered that in the event the TNC took a defiant and intransigent attitude as in 1974, the Republic of Panama, which now had two State enterprises engaged in the production of bananas and belonged to a marketing association along with other UPEB governments, was in a better position than in 1974 to deal with the emergency.

As was to be expected, the TNC strongly protested against the tax increase, both to the Consejo Nacional de Legislación and in the subsequent negotiations. Its main arguments were similar to those adduced when the banana export tax was introduced in 1974:120/

- The increase in the tax represented a threat to the competitiveness of Panamanian bananas on the world markets, especially since Colombia, Ecuador and the Dominican Republic did not tax exports. To support this argument, the TNC presented data that were completely different from those prepared by the Consejo Nacional del Banano, consequently, it showed a negative taxpaying capacity in 1980 and negligible profits for the previous years;

- The TNC's contribution to the State of Panama should be conceived not only in terms of taxes but also costs for payment of leases on lands, docks and railways, as well as social insurance, education benefits, etc., of its employees (thus, the contribution to the State in 1980 was 60% higher than the contribution represented by the export tax);121/

120/ See part III 2 (a) of this study.

121/ This approach by the TNC, which was new compared with the "doctrine" of 1974, could be used in future by UPEB governments to negotiate with the TNCs the development of the value returned from banana exports (see the note on methodology at the end of part 2 (c) (iii).

/-Finally, the

- Finally, the TNC threatened that "abrupt (underlining ours) increases in the level of the export tax are not helpful in planning a long-term investment strategy" and proposed that the decision on a tax increase should be postponed.

In the strenuous negotiations that ensured between the two parties, a compromise was finally reached which obviously provided mutual advantages: the tax rate would be increased by US$ 0.10 from July 1981 (instead of US$ 0.20, as originally required by the Government), but the rate would again be increased by another US$ 0.10 in July 1982 and there would be a third increase, in the same amount, in January 1983, when the tax would amount to US$ 0.90 per box of bananas as compared with US$ 0.60 in 1980. This was obviously advantageous to the Government of Panama because it meant, according to estimates made by the Consejo Nacional del Banano, an additional benefit for the State of some 22 million dollars for the period 1981-1983. This additional amount represents almost half the amount collected for the same purpose during the three preceding years (in 1978-1980 fiscal income for this tax was 43 million dollars; see table 20 above). On the other hand, the arrangement was also acceptable to the TNC because it gave it a wider margin for manoeuvering in 1980, considered a deficit year, and, moreover, it ensured stable rules for the following years.

(c) Links between the TNC and the public enterprises

As indicated above, the conflict and the negotiations in this area took place simultaneously and were part of a "package" with the matter analysed in the previous section, regarding the tax increase. But contrary to the latter case, the controversy on the mutual rights and duties of the two sectors not only involved the immediate distribution of benefits between the parties but also concerned important aspects of the country's sovereignty in terms of the New International Economic Order, i.e., the right of the Nation to produce and market bananas internationally.

In the above analysis of the public sector in Panama, we stressed its economic dependency on the TNC.122/ This was evident in 1981 in two regards that are important to the operation and development of the public enterprises COBAPA and COBANA, as well as of the UPEB marketing enterprise, COMUNBANA:

122/ See part III (b) above.

/Firstly, the

Firstly, the production of the two public enterprises was not sufficient, throughout the year, to meet their commitments with COMUNBANA. To overcome this problem, the 1976 contract with the TNC stipulated that the TNC should provide the additional amount of boxes of bananas required to meet the commercial contracts with COMUNBANA, whenever national production was temporarily inadequate. The public sector then returns to the TNC, before the end of the year, a cash amount to cover the bananas supplied by the transnational. Thus, a quasi-system of barter is established between United Brands and COBAPA.123/ In early April 1982, when the conflict arose, COBAPA owed the TNC 458 000 boxes of bananas (compared with 20 million boxes exported by the TNC and 1.2 million exported by COMUNBANA in 1980).

Secondly, the public sector also depended on the TNC from the standpoint of production.

On the same date, COBAPA and COBANA owed the TNC almost 900 000 dollars for materials and services.

Evidently, this strategic dependency of the public sector of Panama and of COMUNBANA on the TNC made it easy for the TNC to use certain important tools to exert pressure in the case of the conflict with the Government. These were indeed used after the Consejo Nacional del Banano prepared the proposed law on the increase in the export tax. A letter sent by the Manager of the Chiriquí Land Company to the Minister for Agricultural Development, dated 3 April 1981, pointed out, inter alia;

> "In planning our future relations, I feel I must bring these figures (on the aforementioned debts) to your attention, with the request that the aforementioned accounts, especially those for boxes of the fruit, should be paid before another shipment for COBAPA is processed... At the present time, the excessive amount of boxes for which COBAPA is in debt to Chiriquí Land Company is seriously harming it, as a result of which, to my regret, I find it necessary to ask that you instruct COBAPA to bring

---

123/ The only public enterprise which existed in 1976 was COBAPA. COBANA was established later, in 1978.

/its balance

its balance to zero... In the Atlantic sector, our relations with COBANA have involved the sale and purchase of the fruit produced by that entity. I wish to make it clear that Chiriquí Land Company is not obligated to carry out the exchange of fruit with COBANA, which, as a matter of fact, did not exist as a state enterprise in 1976, when the contracts with the Nation were signed. COBANA has sold and Chiriquí Land Company has paid in cash, and promptly, all COBANA's fruit."124/

According to the public reply by the Minister for Agricultural Development,125/ the TNC's delay in shipping public sector bananas meant, in February and March 1981 alone, a loss of 170 000 dollars, not counting the damage caused in the external market. Without going into detail on the public controversy that arose, it is worthwhile to quote part of the Government's reply to the TNC's "boycott" of the public enterprise COBANA:126/

"... Chiriquí Land Company, wishes to build up for itself a set of arguments on presumed banana debts of COBAPA and, to this end, refuses to receive in exchange the bananas which COBAPA, through purchase or through arrangements with COBANA (another state enterprise) is able to deliver to Chiriquí Land Company to wipe out any final "debt" for boxes of bananas at the end of the calendar year... COBAPA has been selling its banana production to COMUNBANA, a fact which is well known to the public. Chiriquí Land Company is also well aware of this, as it is of the fact that COMUNBANA has contracts with Yugoslavia, a country to which it has sent bananas for six years from Puerto Armuelles. But this effort by the governments of several banana-growing countries to prevent the earnings produced by the labour and the land utilized in the international sale of bananas from being appropriated exclusively by the banana transnationals could hardly be welcomed by these transnationals, and Chiriquí Land Company has been engaged in a stubborn struggle to make COMUNBANA fail and thus

---

124/ See the newspaper La Prensa de Panamá, 7 April 1981.

125/ See La Estrella de Panamá, 9 April 1981.

126/ The TNC exports bananas through the Atlantic port, Almirante, which has direct access to the United States market, with savings in freight costs of US$ 0.50 per box of bananas in comparison with the Pacific port, Armuelles (COBAPA).

/to achieve

to achieve the liquidation of COBAPA. Such a failure would not only mean the failure of one or more enterprises recently entering the banana business, but would also mean the failure of Colombia, of Costa Rica, of Honduras, of the Dominican Republic, of Nicaragua and, above all, of the Republic of Panama, the headquarters of COBAPA and of COMUNBANA. As the concessionaire of the railways and banana docks, which belong to the Panamanian State in Chiriquí and Bocas del Toro, Chiriquí Land Company has not missed a single opportunity to stand in the way, in every possible manner, of the banana shipments made by COMUNBANA, acting as the marketing enterprise for COBAPA, causing serious economic losses and the loss of commercial prestige for these two enterprises."127/

Faced with the repeated refusal of the TNC to provide fruit to the public sector, the Government closed the dock at Puerto Armuelles to prevent the transnational's ships from sailing and discussed the possibility of nationalizing the banana industry. The latter extreme measure obviously was not in the real interest of either of the two parties to the controversy.128/ Therefore, in the second part of the "package" negotiated (together with the tax increase), an agreement was reached with the TNC on 9 July 1981, concerning "the exchange of bananas in development and interpretation of clause 7 of contract No. 3 of 8 January 1976". In this agreement, the TNC expressly recognizes the public enterprise COBANA and establishes precise rules regarding the exchange of bananas between the TNC and the two public enterprises, with a calendar of shipment out of both the Pacific and the Atlantic ports, as well as the terms for delivery and payment of materials and services provided by the TNC to the public sector. On the other hand, the same rules confirm the unilateral dependence of the public sector on the TNC through a real control of its shipments and standard clauses "when available and not required for its operations" (as regards the supply of materials and inputs) and "provided it does not affect the commitments of Chiriquí Land Company with its markets as a result of very frequent shipments by these corporations" (the state enterprises).

127/ Ibid.

128/ See the statements made by the President of Panama, Dr. A. Royo, La Estrella de Panamá, 27 February and 10 April 1981.

/(d) Some

(d) Some conclusions from the renegotiation in Panama

As a result of the renegotiation between the Government of Panama and United Brands (with its subsidiary Chiriquí Land Company) in 1981, we may again stress some conclusions previously stated in this study:

- The negotiating capacity that enabled Panama to achieve a better distribution of benefits of the banana industry by increasing the tax to be paid by the TNC and the TNC's recognition of the sovereign right of the public sector to export bananas as convenient for the country were due to several direct factors: the strategic importance of Panama in supplying the segments of the world banana market that are controlled by the TNC and the strengthening and experience gained by the public sector of the country, as well as by the horizontal co-operation and integration organizations, UPEB and COMUNBANA, which in turn allowed for an adequate assessment to be made of the negotiating situation, the definition of a banana policy for the 1980s and the successful negotiation with the TNC;

- On the other hand, the relative weakness of the two state enterprises of Panama and of COMUNBANA has been confirmed, as has their vulnerability vis-à-vis the TNC's power in the area of technology and international marketing;

- The above experience seems also to point towards the advisability of strengthening the public sector of Panama,129/ through additional investments and improved administrative efficiency, as well as of taking advantage of the possibilities for strengthening UPEB and COMUNBANA through a higher degree of integration among the countries exporting tropical commodities in the region.130/

129/ See part III.3.(b) above.
130/ See part I of this chapter, especially sections (e) and (g).

Annex 1

WORLD BANANA MARKET AND OLIGOPOLY OF THE TNCs

Table 1

MAJOR BANANA MARKETS OF THE WORLD (1952-1978)

Country a/	Share in world imports (%)					
	1952	1960	1964	1968	1974	1978
World imports (thousands of tons)	-	3 758	4 104	5 235	6 455	6 934
United States	55.8	41.0	33.6	30.0	27.0	29.4
Japan	0.4	1.1	5.6	11.5	14.7	11.6
Federal Republic of Germany	...	12.0	11.6	10.8	10.0	8.9
France	...	9.4	9.0	8.2	7.6	7.2
Italy	1.1	2.3	3.7	5.8	5.3	5.0
United Kingdom	-	9.3	7.9	6.8	4.6	4.5
Spain and Portugal	6.1	5.5	5.6	6.3	7.0	5.0
Canada	4.2	4.5	3.4	3.5	3.3	3.4
Netherlands	...	1.6	1.7	1.8	1.8	1.9
Developed countries	...	...	90.4	...	90.1	87.3
Developing countries	...	...	8.3	...	7.0	8.1
Socialist countries	...	...	1.2	...	2.9	4.6
Four major importers	80.0	71.7	62.1	60.5	59.3	57.1

Source: FAO Trade Yearbook; "Bananas, Supply, Demand and Trade Projections to 1985", FAO, December 1978 (ESC: PROJ/78/16), Rome.

a/ In order of highest volume of imports in 1978.

Table 2

PER CAPITA CONSUMPTION (IMPORTS) OF BANANAS IN THE MAJOR MARKETS (1970-1979)

(In kg)

Year	Federal Republic of Germany	United States	France	United Kingdom
1970	8.5	7.9	8.6	5.9
1971	10.3	8.2	8.8	5.7
1972	10.8	8.2	9.8	5.5
1973	10.9	9.3	9.2	5.4
1974	9.5	8.5	9.1	5.4
1975	8.9	8.1	9.1	5.5
1976	9.0	8.8	8.6	5.5
1977	9.6	8.8	9.4	5.3
1978	10.2	9.3	9.3	5.5
1979	10.0	9.6	8.2	5.4

Source: Various UPEB and FAO reports.

Table 3

SHARE OF MAJOR ENTERPRISES IN THE WORLD BANANA MARKET (1950-1978)

(In percentage of world imports) a/

Year	United Brands (United States)	Castle and Cooke (United States)	Del Monte (United States)	Noboa (Ecuador)	Uniban (Colombia)	Degree of concentration	
						Three firms	Four firms
1950	75.0	-	-	-	-	...	...
1966	33.8	12.3	1.1	-	-	47.0	...
1970	31.2	15.7	3.2	5.0	-	50.0	55.0
1973	28.0	22.0	8.0	8.5	1.9	58.0	66.5
1975	28.0	21.0	12.0	10.8	2.4	61.0	71.8
1978	29.0	19.0	12.0	9.0	3.0	60.0	69.0

Source: COMIMFO, *Major Banana Exporters 1963-1973* (Boston: United Brands Company, 1974); FAO, Rome, 1980, *op. cit.*, (CCP: BA/4).

a/ Not including the socialist countries.

Table 4

SHARE OF MAJOR TNCs IN THE UNITED STATES BANANA MARKET (1950-1977)

(In percentage of total imports of the country)

Year	United Brands	Castle and Cooke	Del Monte	Total three TNCs
1950	80.0	8.9	-	90.0
1966	55.9	31.2	3.2	90.3
1970	45.4	36.9	8.3	90.6
1973	34.6	43.4	13.1	91.1
1975	36.0	38.0	17.0	91.0
1977	35.0	38.0	17.0	90.0

Source: Review of the Economic Aspects of Production, Trade and Distribution of Bananas, FAO, August 1978, (CCP:BA/WP/78.5); Sectoral Study of Transnational Corporations in Latin America: the Banana Industry, Harvard University, December 1974.

Table 5

SHARE OF MAJOR CORPORATIONS IN THE MARKETS OF CANADA, FEDERAL REPUBLIC OF GERMANY, FRANCE, ITALY, UNITED KINGDOM AND JAPAN (1971-1978)

(In percentage of total imports of the country)

Country	PARENT COMPANY											
	United Brands			Castle and Cooke			Del Monte			Noboa (Ecuador)		
	1971	1975	1978	1971	1975	1978	1971	1975	1978	1971	1975	1978
Federal Republic of Germany	10	10	10	13	16	26	4	10	5	8	6 a/	...
France	12	15	15	-	-	-	-	-	-	-	-	-
United Kingdom	41	42	39	-	-	-	-	-	-	-	-	-
Italy	45	43	32	23	28	25	-	-	11	10	15	17
Canada	65	...	...	30	...	...	5	...	...	...	...	...
Japan	11	14	19	15	38	27	7	32	30	40	9	...

Source: Review of the economic aspects of production, trade and distribution of bananas, FAO, 1978, Rome, 1980, (CCP:BA/WP/78.5; CCP:BA 80/4), Etudes EEC, Brussels 1963.

a/ 1973.

Annex 2

BIBLIOGRAPHY

Castillo, Donald, Tres modelos de penetración de empresas transnacionales en Centroamérica, doctoral dissertation in economic sciences, Universidad Autónoma de Barcelona, November 1979.

Centre Recherche sur l'Amerique Latine et le Tiers Monde, CETRAL, Les Transformations récentes de l'enclave bananiêre au Honduras, Daniél Slutzky, Esther Alonso, CSUCA-UNAH; Cahier de Recherche No. 8 série 1, Paris, 1979.

Consejo Nacional del Banano de la República de Panamá, Secretaría General, Nota de presentación, texto y justificación del proyecto de ley que crea la Corporación Bananera de Panamá, March 1981, Panama (also several other working papers).

Corporación Hondureña del Banano, COHBANA, Lic. Carlos M. Zacarías and Lic. Mauricio Mejía, La corporación hondureña del banano y su participación en la aplicación de la nueva política bananera del Estado, July 1980, Tegucigalpa, D.C. (also several other working papers).

Ellis, F., Export Valuation and Intra-firm Transfers in the Banana Industry in Central America, Institute of Development Studies, Sussex University, 1978.

________ A Study of Employment in the Banana Export Industry of Panama and Central America, ILO, Working Paper, No. 1, 1977.

Mayo S. and Plaza, G., The United Fruit Company in Latin America, New York, National Planning Corporation, 1958.

Revista Lotería (La guerra del banano), Nos. 224, 225, 226, October, November, December 1974.

Unión de Países Exportadores de Banano, UPEB, Panama, Informe mensual, several issues 1978-1982; Estudio sobre transnacionales, May 1977; La actividad bananera y los costos de exportación en los países miembros de la UPEB, May 1976; El impuesto a la exportación de banano: una evaluación después de cuatro años de vigencia, 1978; Actualización impuesto a la exportación y precio de salida del banano, November 1980 (also several other working papers).

Valades, Edmundo, Los contratos del diablo, Editores Asociados S.A., Mexico, October 1975.

United Nations documents:

United Nations Centre on Transnational Corporations, Transnational Corporations in Food and Beverage Processing, ST/CTC/19, New York, 1981.

UNCTAD, The Marketing and Distribution System for Bananas, TD/B/C.1/162, 24 December 1974, Geneva.

CEPAL, TNCs in the Banana Industry: with Special Reference to Central America, Joint CEPAL/CTC Unit, Working Paper No. 7, August 1977.

CEPAL, La actividad bananera en el istmo centroamericano y las políticas recientes, CEPAL/MEX/77/20, November 1977.

CEPAL, Transnational Corporations in the Banana Industry of Central America, Joint CEPAL/CTC Unit, E/CEPAL/L.203, September 1979.