UNITED NATIONS

ECONOMIC
AND
SOCIAL COUNCIL

LIMITED
E/CEPAL/L.204
21 September 1979
ORIGINAL: ENGLISH

C E P A L

Economic Commission for Latin America

NEGOTIATING CAPACITY OF LATIN AMERICAN GOVERNMENTS VIS-A-VIS TRANSNATIONAL CORPORATIONS IN EXPORT ORIENTED PRIMARY COMMODITIES

(Summary and preliminary conclusions from the cases of bauxite in Caribbean, tin in Bolivia and banana in Central America)

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

79-9-2300

Table of Contents

Page

Introductory note

In July 1977, an aide memoire was signed between the executive secretaries of the Economic Commission for Latin America (ECLA) and the Economic and Social Commission for Asia and the Pacific (ESCAP) dealing with the possibilities for regional co-operation between the two commissions in the field of transnational corporations (TNCs).[1/] In the aide memoire, the executive secretaries agreed to launch an interregional project on transnational corporations in export-oriented primary commodities.[2/] Based on appropriate provisions made in the aide memoire, the Economic Commission for Africa (ECA) joined the project in early 1978.

It was agreed that the regional commissions concerned, together with the United Nations Centre on Transnational Corporations, co-operate in the conduct of in-depth case studies on the involvement of transnational corporations in export-oriented primary commodities in the developing countries. In order to provide a common focus, a general conceptual framework for the conduct of case studies was developed.[3/]

1/ Aide memoire between the executive secretaries of ECLA and ESCAP on "Interregional co-operation among regional commissions in the field of transnational corporations", (Geneva, 26 July 1977) (mimeographed).

2/ Ibid., paras. 6-9.

3/ See CEPAL/CTC Joint Unit, "Transnational corporations in export-oriented primary commodities: a study of relative bargaining positions and distribution of gains", Working Paper N°6 (Santiago, Chile, 30 August 1977) and a revised version published by the Joint CTC/ESCAP Unit in September 1978.

Simultaneously with the development of the common conceptual framework, three case studies of Latin American governments bargaining capacity vis-a-vis TNCs and resulting distribution of gains have been undertaken in the Joint CEPAL/CTC Unit: bauxite industry in the Caribbean countries, tin industry in Bolivia and banana industry in the Central American countries.[1/]

The objective of this paper is to summarize the case studies and draw preliminary conclusions for discussion in the Interregional Expert Group Meeting on Transnational Corporations in Primary Export Commodities (Bangkok, 8-15 October 1979).

Throughout the paper an attempt has been made to present the Latin American experience in terms of the above cited common research framework, underlining the outstanding aspects of similarity and diversity of cases under examination, the Latin American governments policy objectives in the internalization of commodity industries gains through processing and marketing, in the redistribution of the industry gains increasing government budget incomes through new fiscal policies and, finally, in increasing the sovereignity over developing countries natural resources through major national control of the industries, including nationalization of TNCs assets. The Latin American experience in the pursuance of these government policy objectives is being, at the same time, analysed within the context of the dynamic interplay of TNCs counter-strategies, trade-offs and new types and forms of co-operation with the developing producer countries governments and their public agencies and enterprises. Finally, an attempt is undertaken to evaluate the experience both positive and negative of horizontal co-operation among developing countries of the region including

---

1/ See, Transnational Corporations in the Bauxite Industry of Caribbean Countries, E/CEPAL/L.199, August 1979; Transnational Corporations in the Bauxite Industry of Caribbean Countries: Recent Development in Jamaica, E/CEPAL/L.201, September 1979; Transnational Corporations linkages with the tin industry in Bolivia, E/CEPAL/L.202, September 1979; Transnational Corporations in the Banana Industry of Central America, E/CEPAL/L.203, September 1979.

some tentative proposals for the follow-up activities of this Interregional Project and Joint CEPAL/CTC Unit participation in it.

This discussion paper was prepared by the Regional Adviser of the Joint CEPAL/CTC Unit Jan Kňakal. The general research framework and its application in the analysis and conclusions, owes itself basically to Anibal Pinto, Director of CEPAL Economic Developement Division and Benny Widyono, former staff member of the Joint CEPAL/CTC Unit, in charge of the Interregional Project and, presently Chief of the Joint ESCAP/CTC Unit. A number of other CEPAL experts and consultants participated directly in the elaboration and discussion of the different case studies and should be thanked for their work and valuable comments.[1/] Finally, the government of Canada through CIDA provided the necessary finance and sponsored the Canadian experts participating in the initial stage of the studies on TNCs activities in Latin American primary commodities. Notwithstanding the above acknowledgments, the opinions expressed in this paper are those of the author and do not necessarily reflect the views of CEPAL or the individuals mentioned above. Responsibility for any errors and omissions is solely that of the author.

1/ See the introductory notes of the Unit's papers cited above.

A. THE CASE OF BAUXITE INDUSTRY IN CARIBBEAN

1. TNCs in the prenegotiation (colonial) period of Caribbean countries

By the early 1970s, six large TNCs controlled three quarters of the world's aluminium producing capacity: three American-based, the Aluminium Company of America (ALCOA), Reynolds Metals Company and Kaiser Aluminium and Chemical Corporation; one Canadian, Aluminium Company of Canada (ALCAN); one French-based, Péchiney Compagnie de Produits Chimique et Electrométallurgiques (PUK), and a Swiss-based, Schweizerisches Aluminium A.G. (Alusuisse). All six are highly integrated producers, engaging in the bauxite mining, production of alumina, smelting of aluminium ingots and fabrication of aluminium products.

In very broad terms, three periods can be distinguished in the development of the industry in the Western Hemisphere market. From its conception to the forties, it was monopolized by U.S. ALCOA and its Canadian subsidiary ALCAN which were isolated from European imports through a series of cartel arrangements. In the second stage, between the outbreak of World War II and late 1950s increased greatly the demand for aluminium and the U.S. government anti-monopoly legislation led to increased competition among the established and newly entering firms, which led to a scramble for mining concessions in the Caribbean countries and, in some cases, to establishing of processing capacities there. Throughout the decade of 1950s the mining of bauxite in three Caribbean countries (Guyana, Jamaica and Suriname) increased more than three times and alumina plants were constructed. During the recent period of the 1960s and 1970s the Caribbean host countries involved more actively in the bauxite industry, particularly after gaining of independence with resulting development needs and programmes. TNCs reacted to rising costs of production and the risks evolving from new host governments policies with their own counter-strategies and greater co-operation among themselves. For example, Reynolds, Kaiser and Anaconda joined to form a new firm, ALPART, in Jamaica for the mining of bauxite; in Suriname, ALCOA and ALCAN joined with Billiton and Ornet to build an aluminium smelter and ALCOA joined there also with the French PUK in a joint venture. Such joint ventures reduced the sourcing competition and also spread the initial large investment cost and, perceived political risk among a number of TNCs.

The main objectives of the TNCs in the colonial period may be synthetisized in a following way:

(i) To secure rights of exploration and exploitation over as large an area and as long a time as possible and on exclusive, or monopoly terms in order to pre-empt effectively those resources, that is to block access to rival or potentially rival companies.

(ii) To insulate such arrangements to the maximum degree possible from the exercise of the existing local legislative power by the device of long-term contractual agreements and specifically providing for arbitration of disputes in the courts of the TNC home country or by international bodies outside the reach of the host country's jurisdiction.

(iii) To minimize the likelihood of disputes, under such contractual arrangements, by requiring the inclusion of provisions covering as many details as possible as to hiring policies, royalties, taxes or rather exemption from them, as well as from restrictions concerning foreign exchange transactions, etc.

(iv) In eventual renegotiation of agreements to yield on matters not affecting their control, such as increased local participation in middle level management, royalties and taxes to be paid to the government and higher level of bauxite processing (when it implied a reduction of production and transportation costs).

(v) In case of emerging risk to loose effective control in favour of the host country to transfer the sourcing of bauxite to other locations and divest its assets in the respective host country.

In the colonial period the TNCs had been able to extract considerable concessions from colonial administrations whose representatives defended the worldwide interests of industrialized countries and their companies rather than the development and diversification needs of the plantation-economies of Caribbean region. For example, the ALCOA's 1958 Brokopondo Project in Suriname including refining and hydroelectric complex enabling to produce aluminium, gave ALCOA exclusive rights for a 10 year period over an area up to 500 000 hectares (legal limit was 20 000 hectares). Similarly, a 75 year operating rights over a maximum of 20 000 hectares (legally limited to 40 years and 2 000 hectares), 45 years extension of existing mining

rights, concessions concerning taxes and costs of construction and exemption from import and export duties. The government had to bear all the costs of the infrastructural development, provide land for the construction of the smelter and hydroelectric plant.1/

Similarly in Guyana the ALCAN's project to construct a small alumina plant through the subsidiary Demerara Bauxite Company (DEMBA), received an outright tax holiday lasting five years and further concessions to keep it from paying any taxes at all until 1971. An example of political pressure presented the situation in 1952, when a new constitution was adopted and the government tried to alter the relationship between ALCAN and the country. Faced with the threat of conflict, the British Crown abrogated the new constitution and installed a care-taker government more favorable to TNCs.

The TNCs capacity to conceal before the public authorities the real financial results of their operations also frustrated the possibilities of securing major budget income from further processing of bauxite. After Jamaica gained independence, in 1962, several alumina refining plants had been established and between 1966 and 1972 exports of this commodity increased almost three times. But the increased tax payments from bauxite activities did not materialize because the companies were able to record almost no profit from the new alumina plants by using, as in the case of bauxite, transfer pricing allowing the local plants to minimize their tax costs through artificially low "prices" accounted for alumina.

1/ For a detailed analysis of various agreements, see N. Girvan, "Making the Rules of the Game: Company-Country Agreements in the Bauxite Industry", Social and Economic Studies, December, 1971.

2. The role of bauxite industry in the economies of Guyana and Jamaica

In both, Jamaica and Guyana the mining sector has traditionally been the important activity in the countries GNP and employment particularly in Guyana. In the middle of 1970s, the share of bauxite and alumina in total exports reached about 70% in Jamaica and one third in Guyana. The multiplier effects of bauxite mining were limited to the backward linkages with other inputs, like water, energy, and timber, construction activities (including corresponding infrastructure in roads, ports and other transportation facilities) and, finally, the overall impact on balance of payments, governmental budget, wage and salaries level, etc. 1/

The persistent high level of dependence of Caribbean host countries on bauxite and alumina production and export accompanied by the low share of host economies in the overall benefits born by the industry development in the colonial period were among the main factors which eventually led to the gaining of political independence (in 1962 in Jamaica, 1966 in Guyana and 1975 in Suriname). The new nation-states used their bargaining power vis-à-vis the TNCs declaring the policy goals for the bauxite industry in a broader context of the development needs and strategies.

The host country policies, which reached beyond immediate revenue and foreign exchange considerations, are particularly significant in Guyana and Jamaica, whose governments are committed to achieve a greater measure of social justice through the transformation of their economies, and whose foreign exchange situation is very difficult. Although Suriname has followed policies similar

---

1/ Those in foreign-owned mining became usually a bench-mark for other economic sectors.

to those of Jamaica, the less developed economy and continuing close ties with the Netherlands (financial grants, soft loans and heavy out-migration resulting from Dutch social security policies) have insulated the country from major foreign exchange pressures and problems.

Each of the Caribbean Governments adopted somewhat different strategies vis-à-vis TNCs reflecting mainly variations in socioeconomic structures, ideological posture and international affiliation. Nevertheless, the strategies have been complementary, rather than rivalistic and mutually exclusive and reinforced their common bargaining power. The debate, for example, as to whether Jamaica's levy is more or less advantageous than Guyana's nationalization is not particularly useful in determining whether either of these governments had, at the time and in the given political and economic circumstances, any option more valuable than the one they chose to adopt. Furthermore, experience and knowledge gained by each of these countries have become available to each of the others, and indeed to other bauxite producing countries, whether by explicit mutual exchange of information (Jamaica) or by common informed observation of the results (IBA).

The bargaining situation in Caribbean thus approximated more closely the economic and political realities of the relative power of the parties involved. Nonetheless the companies retained oligopolistic advantages in their international control of the marketing of bauxite, alumina, and aluminium; in their near-monopoly on technology, including that required to develop alternate sources of aluminium from lower-grade bauxites and from non-bauxite materials; and in their access to large pools of consortia finance.

3. Fiscal and ownership participation policies of Jamaica

a) Bargaining capacity of Jamaica in the 1970s

One of the factors giving significant bargaining leverage to the government was the fact that four major TNCs operating in Jamaica (ALCOA, ALCAN, Reynolds and Kaiser), depended heavily on her bauxite resources (11%, 55%, 57% and 58% respectively). Due to lessening industry concentration, also Revere Copper and Brass and Anaconda Copper companies were operating in Jamaica by 1970. Owing to special characteristics of bauxite of different origin, the TNCs processing facilities using Jamaican inputs would have to be overhauled (which is a time and cost consuming processs), if diversifying to other resource origin.

Secondly, the low share of bauxite and alumina in the final price of aluminium made it possible to obtain increased revenue with only a slight impact on the global TNCs average costs and aluminium prices (the share of mining and drying of bauxite in the total aluminium cost had been only 7% and that added by alumina refining of 21%).

A third factor was the competitiveness of Jamaican bauxite being its cost lower than in Guyana, Guinea and Australia (by U.S.$ per ton 10, 9 and 33, respectively). After the introduction of the new levy, the cost of alumina per ton in Jamaica rose from US$ 23 to about 33 which was almost equal to the cost in Guyana and much less than in Australia, thus removing only part of the economic rents of the TNCs.

Fourth, the Jamaica Bauxite Commission formed in 1972 improved the information base of the government spending nearly two years examining operating and financial conditions within the industry and differences among the various TNCs. That period of pre-negotiation preparation and examination of the industry conditions faced by the government greatly improved its bargaining capacity breaking with traditional postures of political and phychological dependence inherited from the colonial area and removing largely the element of bluff from government TNC relations.

A fifth important factor was the formation of the International Bauxite Association (IBA), in 1974, by Jamaica, Suriname, Guinea, Guyana, Australia, Sierra Leone and Yugoslavia, joined later by the Dominican Republic, Haiti, Ghana and Indonesia. In 1975, the IBA countries accounted for 73% of total world bauxite production. One of the purposes of this association was to present a united front of all bauxite exporting countries to the TNCs. To the extent that they were successful, the foreign firms' diversification of bauxite sources would be neutralized. In the 1974-1975 period, such neutralization appeared to have been successful, particularly owing to the fact that the government of an important alternative source country—Australia—had recently adopted a pro-Third World attitude reflecting its concern about foreign control of its own natural resources.

Sixth, Jamaica faced, in 1970s, a more diversified world market for bauxite and alumina, characterized by entry of several new U.S. firms in the late 1960s and more rapidly increasing Japanese and European demand, even with occasional purchases by the Soviet Union and, projects of the government to enter at into joint ventures with other Caribbean and developing countries (see below).

Finally, the consequences of the 1973 oil crises resulted in a severe balance of payments constraints, which had been only partially offset by other exports, particularly of sugar. In this difficult situation, the development objectives of the government made increased tax revenue essential.

b) Renegotiation and new fiscal legislation in the bauxite industry of Jamaica in 1974

Prior to 1974, the TNCs had rarely paid more than U.S.$ 2 per ton of bauxite. The Jamaican government imposed a novel method of taxation—a production levy imposed on all bauxite produced (including that refined locally in alumina) and fixed as a percentage of the price of primary aluminium ingots in the U.S. market. The government's original requirement was to fix the levy at 8.5% for aluminium prices up to 35 cents per pound with escalation for prices higher than that level. The TNCs accepted the principal of the levy but encountered with an offer of 3.5% share. The negotiations broke down and the government legislated the new fiscal terms, setting the production levy at 7.5% for the financial year 1974-1975 which signified a yield of U.S.$ 12 per ton of bauxite or a sixfold increase.

The TNCs opposition to the new bauxite levy and claims against Jamaica at the International Centre for Setting Investment Disputes, were related with the sudden rise in the cost of energy and particularly with the fear of demonstration effect on other bauxite producing countries, which on final account proved to be fully justified.

The TNCs later adjusted to the increased bauxite tax passing it over to the consumer prices of aluminium and becoming in effect tax collectors for the government. They concentrated their counter-strategies in continuous shifting of bauxite activities to other producer countries and pressure on rebates of the tax rate which in real terms decreased from original 7.5% to 6.6% in 1978 and further possible rebates are presently negotiated with TNCs. The total tax yield was in 1978 U.S.$185 million, or slightly more than in 1974, due to price increase of aluminium and in spite of output setbacks (see below).

c) The ownership participation policy of Jamaica

In addition to the increased bauxite levy the Jamaican government acquired ownership participation in the operations of the aluminium companies operating in that country. The arrangement is one of non-controlling participation because management and marketing remain the exclusive responsability of the TNCs and the output of bauxite and alumina production is available to them for processing in the United States. The non-controlling participation, taken together with substantial tax yields create a mutuality of interest between the TNCs and the government, which guarantees secure bauxite supplies to the former and assures increased revenues to the later.

In the agreements, with Kaiser and Reynolds the bauxite land was bought at book value compensation and, in turn, the government guaranteed a 40 year supply of bauxite from it at a yearly rent corresponding to 7% of the purchase price. Furthermore, the government bought 51% of the mining operations assets and retained option to purchase also a share of the assets in alumina refining on the same terms, that is at book value. An additional important part of the package deal was that the TNCs dropped their claims against the new tax policy at ICSID, which put pressure on other protesting TNCs obliging them finally to drop also their own suits. The negotiating power of the government stemmed, in this case, from the fact that Kaiser and Reynolds were strongly dependent on Jamaica's bauxite (58% and 57% of their respective world production of bauxite).

In the agreements with ALCOA and ALCAN (which depended by 11% and 55% respectively on Jamaica's bauxite) the government acquired 6% of the assets of ALCOA and 7% of those of ALCAN, including all activities in mining and refining, and all their unused mineral properties.

The joint ventures with the TNCs provide the government with a share of the annual alumina production (110.000 tons).

The main effects of these agreements are:

(i) The companies have in the past, acquired much more surface lands than they needed for access to bauxite deposits and the extensive land belonging to them was frequently scattered all over the island. The purchase by the government of some 195,000 acres of lands will enable to rationalize land use as a precondition for sound agricultural development;

(ii) Although the Kaiser and Reynolds Agreements do not in any significant was affect operations of these two companies in Jamaica, they are mutually advantageous to both the Government and the Companies creating a common interest in maintaining production levels and securing the TNCs inputs. Moreover Jamaica's non-controlling interest of 51 per cent enables the Government to monitor and influence the TNCs operations by virtue of the presence of government appointees on the Board of Directors;

(iii) The acquisition price of the written down book value of assets is relatively low and the negotiated government rates of return of 15% (Kaiser) and 12% (Reynolds) are in excess of the cost of the borrowed capital at 8.5 per cent.

(iv) In the case of the ALCOA and ALCAN agreements, Jamaica also has no control in the JAMALCO and JAMALCAN joint ventures. However, the government will benefit by virtue of possession of its own alumina which will be sold to non-traditional markets. Furthermore, the Government has options on expansion of alumina capacity under the terms of the ALCOA Agreement.

d) New negotiations with TNCs in Jamaica

The upward movement in the Jamaican Levy, indexed to the strong increases in primary aluminium prices since 1974, has placed Jamaica into a precariously high—cost situation vis-a-vis the availability of bauxite and alumina to the TNCs from other sources. The average realized price of aluminium ingot, used to obtain Jamaica's statutory bauxite levy, has moved from U.S.$38.8 cents per pound in 1975 to 60,0 in 1979. The levy is set at U.S.$per ton 20.23 for 1979 or almost twice as much as in 1974 (U.S.$ 11.2).

For this reason, the Government abolished in May 1978 the discriminatory dual exchange rates introduced in April 1977 by which the TNCs were obliged to purchase Jamaican currency at a basic rate of J$1 = U.S.$1 while other purchasers operated at a devalued special rate of J$1.00 = U.S.$0.80. The objective of the dual exchange rate was to subsidise the import of essential goods for the population. While this scheme was justified in terms of social justice, the trade-off came in terms of an escalating reluctance of the TNCs to undertake necessary expenditures to maintain the alumina production levels.

In May 1979, the Minister of Finance of Jamaica announced that negotiations were to be opened with the bauxite companies with a view to increasing their incentives for increased production. He conceded that the country had been losing its share of the world market because the bauxite levy, in spite of its advantages, was established at a higher level than that of other countries. The talks concerning an adjustment of the levy are presently proceeding. It is understood that Jamaica is basically asking the foreign companies to expand bauxite production by 2 million tons, while maintaining current total levy yields—implying a corresponding reduction in the levy rate.

e) Overall effects of the new fiscal policy in Jamaica

Government revenues generated by the industry increased sixfold after the imposition of the bauxite production levy of 1974, from U.S.$ 29.9 million in 1973 to U.S.$ 178 million in 1974. Total budget yields from the levy and royalties were in 1974 U.S.$ 185.4 million increasing to 193.0 million in 1978 and reaching a total of 850 million throughout the five years (1974-1978). As a result, the share of the bauxite and alumina industry in government budget resources increased from 8.7 per cent in 1973 to 42.2% in 1974. 1/ After 1975, general taxation rates and tax yields rose, while the levy yield fell, reducing the industry's contribution to government recurrent revenues to 29% in 1975 and 23% in 1976. By 1977, bauxite production levels had partially recovered from the disaster year of 1976 (aluminium prices reached 51 cents per lb) and the industry contributed 33 per cent to the government's recurrent revenue. This ratio is likely to be marginally higher in 1978. Total returned value to Jamaica (including salaries, supplies, materials and other services) has increased from $ 120.5 million in 1973 to $ 383.1 million in 1978 and its share in total export value of bauxite and alumina reached 78% in 1978 as compared with 53% in 1973.

The returned value from the bauxite industry constitutes the single most important source of foreign exchange to Jamaica. Given the severe balance of payments problems, the dependence of the country on company decisions concerning local production levels places the government into a significantly weaker bargaining position that it enjoyed in 1974.

1/ This comparison is not formally correct, insofar the levy is not considered to be recurrent revenue, but an input into the Capital Development Fund of the country. Substantively, however, the levy is a source of earned fiscal revenue and is being used to finance also government's recurrent expenditure.

Two additional factors should be taken in account: the simultaneous increase in TNCs earnings and, on the other hand, of import prices. Taking the first factor, the aggregate net income of ALCOA, ALCAN, Reynolds and Kaiser increased from U.S.$ 569 million in 1974 to 865 million in 1978, or by slightly more than a half, as compared with the increase of levy and royalty paid to the Jamaican Government increasing in the same period from U.S.$ 185 to 193 million or by only 4%. This illustrates the fact that the foreign companies passed on the increased tax cost to the consumer prices reducing this way also the previous cost advantage of Jamaican bauxite vis-à-vis other producer countries.

The second important additional factor is the erosion of the gains from the bauxite and alumina industry due to quickly rising import prices. The returned value to Jamaica in 1978 is only by less than a half greater as it was in 1972—if account is taken of rising import prices. While it is obvious that this situation would have been immeasurably worse, were it not for the levy yield, the fact remains that current options available to the country with respect to its bauxite resources are severely circumscribed by the ability of the TNCs to obtain bauxite from other sources, and by the complex and close relations between them and international capital centers—markets—without whose finance Jamaica cannot develop and independent national industry.

4. The nationalization policy of Guyana

In the first period of political independence, the relationship between the Guyanese government and the TNCs, principally ALCAN was determined as much by political factors as by economic development needs. ALCAN recognizing the new political "climate" had agreed to build a local aluminium smelter using electricity generated from a new hydroelectric plant. In August, 1968, a United Nations sponsored report stated that the project was both economically and technically feasible. ALCAN claimed, however, that it had not been shown that aluminium could be produced at competitive world prices and rejected the construction of the smelter. The issue of the role of ALCAN's DEMBA in Guyana became one of the most important factors of the new nation state political consensus. The issue on which all political and social groupings agreed was the national control over ALCAN's DEMBA. The universality of this perception throughout the country determined the range of bargaining options for the government and became an important factor of its negotiating capacity and a tool of pressure in the negotiations with TNCs, as well.

The four main objectives publicly declared by the government included government's majority participation and operational control of DEMBA, compensation of the transfered assets based on officially declared book value, payments for the purchase of equity from future after-tax profits and entering in effect of the new agreement as of January 1, 1971.

In the formal negotiations ALCAN made a number of counter-proposals for the expansion of the calcined bauxite activities (bearing in mind Guyana's almost world monopoly control in this commodity), government finance of this expansion through a new joint venture company with 51 % participation in the ownership by ALCAN retaining the operational control in the hands of TNC. On February 23, 1971, the Government terminated negotiation with ALCAN and announced the decision to nationalize DEMBA and establish a public enterprise GUAYABAU.

The nationalization of DEMBA imposed by the government, corresponded to the political conditions of the country and was not negotiable. On the other hand, this was not the case of the terms of nationalization and, particularly, the amount and conditions of compensation and future linkages between the two

parties. Since Guyana needed both the TNCs support for the marketing of bauxite and private and public financial resources from industrialized countries for her development needs, the Guyanese government had to agree on a compensation formula acceptable to ALCAN. High amount and rigorous schedule of compensation payments and a denial of co-operation for the operation and marketing activities of the nationalized industry became the major counter-strategy of the TNC.

ALCAN tried also to get support from the Western Hemisphere home countries of TNCs. The United States government in fact expressed its disapproval of the Guyanese government compensation program by abstaining in a vote on a $5.4 million World Bank loan for the country. It was concerned not only with the future fate of U.S. company, Reynolds in Guyana (which had been nationalized later in 1975), but also wanted to give support to a "reasonable compensation formula" for nationalization, bearing in mind the demonstration effect of the Guyanese case for other developing countries.

In the final agreement between the government and ALCAN, signed in July, 1971, DEMBA's gross value of assets for the purpose of compensation was estimated at US$ 80 million as "medium" compromise between US$ 46 million, official book value, backed as a basis for compensation by the government, and US$ 114 million required by ALCAN as "commercial value" of the nationalized assets. Payment for the compensation was to be made out of government revenue funds, rather than out of future profits of the company (as required originally by the government).

An important conclusion emerging from the analysis of the conflict between Guyana and ALCAN is that short-term economic factors are in certain political conditions less important determinants of the process of negotiation. In order to understand the capacity to negotiate of both the government and the TNCs, it is necessary to evaluate all the factors of their actions - both economic and political. On the other hand, the endowment of exceptionally high grade ores suitable for the production of calcined refractory bauxite in which Guyana enjoys a near world monopoly enabled GUYABAU to survive the reduction in its production and the squeeze with respect to the rather unfavourable prices, at which it has been forced to sell its metal grade bauxite and alumina. Although Guyana's production of metal grade bauxite is

not large, and modest amounts have been sold to socialist countries, there is little doubt that ALCAN has indicated its displeasure with Guyana's course of action, by exercising its economic power over the market for bauxite and alumina.

5. Short-term economic impact of the new agreements and policies in Guyana and Jamaica

The examination of the economic impact of recent governmental policies and agreements with TNCs is difficult and necessarily tentative. First, if a new policy or agreement were to lead to an immediate reduction in economic benefits for the country, such reduction may well be accepted by the government as a short-term cost of obtaining more permanent political and economic goals, reflected in the nation's sovereignty over her main economic resource. Fundamental alterations in the industrial structure and the distribution of the means of production necessarily require a transition period. Secondly, the period of the mid 1970s was characterized by the beginning of the energy crisis and world economic recession with retraction in levels of international trade which had a negative impact on economic activity in Caribbean.

In both Guyana and Jamaica, the level of bauxite output fell in the post-negotiation period. Bauxite production in Guyana fell by 1.7% yearly between 1970 and 1977. As a result the long-term trend of diminishing share of the two Caribbean countries of the total IBA output had been accelerated (Guyana from 16% in 1960 to 11% in 1970 and further to 6% in 1977 and Jamaica with respective shares of 37% in 1960, 30% in 1970, 26% in 1973 and 18% in 1976). The data seem to suggest that the aluminium transnationals continued and even reinforced the strategy pursued since early 1960s, of diversification of their sources of bauxite in order to reduce their vulnerability to the political risk in the Caribbean countries. Furthermore, the internal economic and social problems of the newly independent states should be kept in mind, including the organization and management of a new and large public sector, wage and other social problems of the industry employees, etc.

The analysis of output and export problems in the negotiation and post-negotiation period seems to indicate that:

The decrease in bauxite and alumina exports in Guyana and Jamaica was obviously related—outside the internal problems of both countries—to the negative reaction and counter-strategies of TNCs in the negotiation and post negotiation period. This seems to be particularly true in the case of Canadian ALCAN, which shifted its input sourcing from the uncertain Caribbean markets to resources in countries of less political risk.

Second, the same conclusion does not seem to apply to the U.S. aluminium companies, which increased their imports of Guyanese metalic bauxite, maintained the sourcing of calcined bauxite of the same origin and their monopsonistic position in Jamaican bauxite market and, finally, expanded considerably their imports of alumina from Jamaica. These differences in TNCs reactions and strategies could have reflected, on the one hand, the above analyzed harshness of the conflict with ALCAN in Guyana and, on the other hand, competitive attitudes among the aluminium TNCs, trying some of them to fill the vacuum in developing countries markets deserted by companies in conflict.

Third, and most important, Guyana and Jamaica began to react to the TNCs traditional, and in time of conflict reinforced, strategy of resource diversification, with their own national efforts in market diversification. This has been corroborated by the sharp increase of the role of European and Japanese markets in the export reorientation of both Caribbean countries and relates obviously with potential capacities of more independent Latin American, other developing regions and socialist countries markets.

Finally, marketing strategies of bauxite exporting developing countries, aimed at decreasing the oligopolistic domination and resulting dependence on one or few TNCs and exploiting the inter-company competition, represent without any doubt one of the most important factors of their negotiating capacity vis-à-vis transnational corporations. For this reason they require a more detailed study in future research activities.

6. Co-operation among bauxite producer and other Latin American countries

a) International Bauxite Association

Co-operation among bauxite producer countries is an important condition for the success of host government policies vis-à-vis TNCs. In the case of increasing taxation it was necessary to react to the TNCs counter-strategies in shifting their short-term sourcing to less "radical" countries or threatening to do so. An examination of the taxes and levies imposed by the member countries of the International Bauxite Association suggests that they result in roughly similar landed costs at U.S. ports. Jamaica's bauxite levy is higher than that of Suriname and that of Guinea is approximately half the Jamaican because of differences in production and ocean transport costs. The International Bauxite Association has been a valuable instrument of contact and information among bauxite producing countries helping them to avoid the TNCs playing one producer country against the others.

b) Joint ventures in production of bauxite and alumina

Another important factor of increased bargaining capacity vis-à-vis TNCs through horizontal co-operation had been the endeavors of Jamaica and other Caribbean producer and Latin American consumer countries to establish joint ventures for the development of bauxite and alumina industry using jointly the availability of resources of bauxite, cheap energy, industrial skill of consumer countries with larger markets (Mexico, Venezuela) and avoiding the control of TNCs, not withstanding their investment and technical co-operation through "arm-length" contracts.

Several joint ventures had been under consideration: an alumina plant in Jamaica of a capacity from 600 000 to 900 000 tons, jointly owned by Jamaica, Mexico and Venezuela; an aluminium smelter in Mexico jointly owned with Jamaica (160.000 tons) and CARICOM aluminium smelter project to be located in Trinidad (200.000 tons) based on his natural gas, with alumina to

be supplied by Guyana and Jamaica. These projects are small in comparison with the scale of operations of TNCs in the world terms but for the countries of the region signify a large potential capacity of a greater use of their natural resources.

In the middle of 1979 none of these joint venture projects was on stream. The Government of Mexico withdrew in 1978 from all previous contractual agreements related to the JALUMEX smelting project. After several years of study and negotiations the decision whether or not to implement the CARICOM project still has not been taken. The co-operation between Jamaica and Venezuela is presently limited to long term sales contract for alumina. The reasons of these problems and delays in the important field of horizontal co-operation in joint investment and production development require more detailed analysis.

Among most important factors emerging from the negative experience of the Jamaica-Mexico joint venture seem to be the problems of developing countries in financing their shares of the venture. The same experience illustrates the position of TNCs in an adverse report on the escalation of costs of the Mexican smelter by ALCAN, the company which had been selected to construct the smelter although this TNC had previously found the Mexican smelter a feasible and economic project. In this context the role of international and regional finance organizations like the United Nations World Bank and Interamerican Development Bank with its project of risk-security fund for TNCs investing in Latin American's natural resources seems to be of highest priority.

c) Long term sales contracts and co-operation of Jamaica with Venezuela, Algeria, Hungary and Soviet Union

In August of 1977, Jamaica and Venezuela signed a seven year agreement whereby Jamaica undertakes to supply Venezuela with a total of one million tons of alumina with annual delivery of 150,000 tons for the first six years and final 100,000 tons in 1984. The agreement is currently being renegotiated, on terms comparable with prices offered by Venezuela's other alumina

suppliers—Metallgesselleschaft, Billiton and Phillips Brothers, acting as purchasing agents for the Venezuelan state company. Another cause of the uncertainty had been the uncooperative attitude by ALCAN which in the mid 1979 still not confirmed the "back-to-back" agreement with the government of Jamaica to produce and sell the alumina destined for Venezuela although the company has in 1979 close to 300,000 tons of idle alumina capacity. The Jamaica-Venezuela alumina sales arrangement is thus entirely dependent on ALCAN. Until the coming into effect of the Jamaican joint ventures with ALCOA and ALCAN which entitle the government to 110,000 of alumina ton per year, Jamaica has no alumina of its own and has to come to terms with the TNCs controlling the mining and refining capacity of the country. For this reason the Government of Jamaica has been exploring the possibilities of revitalizing the project related with the construction of a state-owned alumina refinery in South Manchester, with capacity of 600,000 tons, on the basis of long term sales contracts with Algeria, Hungary and Soviet Union.

In April of 1979 a governamental mission signed a long term agreement for a sale of 250,000 tons of alumina per year with the Soviet Union commencing approximately in 1984, the year in which the new alumina plant would come on stream. Additionally, previously negotiated long term agreements with Hungary and Algeria for the sale of 150,000 tons yearly to each of these two countries, also commencing in 1984 have been reconfirmed. Thus Jamaica would deliver, since 1984, some 550.000 tons of alumina per year to non-traditional markets, a volume almost corresponding to the projected capacity of the new alumina refining plant.

None of these agreements are as yet contractual. Algerian alumina requirements are contingent upon the construction of a 127,000 tons per year smelter to be fuelled by natural gas and constructed with Soviet Union

technology and credits at M'Sila, about 100 miles from Algiers. Hungarian long term alumina purchases relate to plans to expand that country's aluminium industry. Hungary's commitments to buy Jamaican alumina are contingent upon the agreement to utilize Hungarian technology, machinery and equipment for the construction of the new South Manchester plant which has to begin at the end of 1979. The plant with 600,000 tons capacity will be fully owned by Jamaica Bauxite Mining Ltd. on behalf of the Government of Jamaica. Aluterv-FKI of Hungary which did the feasibility study on the JAVEMEX project, are the designers and process engineers, and Hungarian export credit facilities amounting to $250 million have been arranged for the supply of equipment necessary for the project. In addition to suppliers credit for plant and equipment provided by Hungary, there is need to raise additional amount of some other $250 million of loans given the restricted capacity of Jamaica to borrow both domestically and abroad. As for the international capital market, the long term sales contracts to socialist countries are not normally accepted as collateral for the financing of mineral resource projects. However, there exists a possibility that Hungary, which has a expanding aluminium industry may be able to play a key role in providing the necessary bank financing.

In order to transport the alumina to Soviet Union's ports the Government of Jamaica has announced the expansion of its Merchant Marine in co-operation with the Government of Norway for acquiring new vessels. This would represent a further step in the forward linkage of the industry.

In addition to the long term agreements, two new short term sales of 200,000 tons of alumina per year were obtained by Jamaica from the Soviet Union and Hungary in April 1979. As in the case of the Venezuelan sales agreement, alumina will have to be obtained from the TNCs operating in Jamaica until the joint ventures with ALCOA and ALCAN come into force.

B. TIN INDUSTRY IN BOLIVIA AND LINKAGES WITH TNCs

The tin industry has a leading role in the economy of Bolivia. Its strategic importance for the economic and social development of the country is reflected in the share of total export and public budget incomes which had been in 1978 52% and 18% respectively. The industry participation in domestic National Product and employment has been 5% and 3.5% in the same year.

1. Nationalization of tin mining in 1952

In the initial period of Bolivian mining throughout the first quarter of this century TNCs did not expand in Bolivian tin mining as in other mineral producing countries of the region. The mining was initiated by Chilean and, on a lesser scale, British entrepreneurs with no direct relation with TNCs. Later in the 1920s the industry was dominated by a Bolivian national, Simón I. Patiño, who bought out most of the foreign capital invested in tin mining, and organized in 1924 the Patiño Mines and Enterprises Consolidated Inc., under the laws of Delaware, United States which progressively converted in a large-scale transnational tin mining corporation integrated from the exploitation of mines to the smelting and refining of tin and with mines in Bolivia, Malaysia and Nigeria, as well as main tin smelting plants of the world in Germany, United Kingdom, Malaysia, Nigeria and Australia. Moreover, in order to ensure the transport of ore exploited in Bolivia to smelters in the United Kingdom, he assumed control of the Compañía Sud Americana de Vapores.

During the first two decades of this century, tax revenue obtained from mining was very small, which permitted the building up of large personal fortunes while the State did not receive the proper income. It was in the mining entrepreneurs' interests that this state of affairs should not change; hence their gradually increasing participation in the country's politics. It was not until the beginning of the 1920s that a tax was imposed on mining profits, invested capital and exports. On the other hand, the Supreme Decree of June 1939

which established that foreign exchange obtained from mineral exports should be handed over to the Central Bank was derogated by the subsequent government in the same year.

The low price of tin during the Second World War and in the early post-war years, social disputes and the transnational expansion of the Patiño group on the basis of Bolivia's mining wealth continued to mobilize the country's public opinion increasingly against Patiño and the other two "tin barons" (Hochschild and Aramayo). The mining entrepreneurs even tried to impose their own presidential candidate in the 1951 elections. After the new Government of the Nationalist Revolutionary Movement assumed in April 1952 it nationalized the three large-scale mining groups by a decree of October that year. They represented together over 70% (Patiño Group over 44%) of the country's total production.

The nationalized mining groups failing in their legal attempt to embargo Bolivia's mining exports abroad took advantage of the fact that nearly all the tin concentrates would be arriving at the British Williams Harvey and Co. smelter, controlled by the Patiño group. They imposed on the Government of Bolivia a compulsory discount of 10% on the gross value of the ore smelted in this smelter. The discount was being retained as an advance on the compensation which the Bolivian Government would pay for the value of the nationalized mines. The total payments until August 1961 reached U.S.$ 20 million. The discounts ended with the introduction of the Triangular Plan for reconditioning the nationalized mines.

2. The post-nationalization problems and development of public enterprise COMIBOL

In 1952 the Bolivian Government created the Corporación Minera de Bolivia (COMIBOL) to run the nationalized mines. In the initial ten years period after nationalization the tin production in Bolivia declines from 32 000 tons in 1950

to 20.000 tons in 1960, or by 4.6% in yearly average, but then recovered in 1970 to 30 000 tons surpassing the prenationalization level in 1977. Bolivia retained this way its highly predominant position in the region (81.5% of the total) although the production of tin in Brazil (Rondonia) expanded from 1 300 tons in 1960 to 6 400 tons in 1977, reaching 16% of Latin American tin production.

The decline in tin production after the nationalization can be attributed to several main factors. In the first place, it was a continuation of the declining trend from the alltime peak Bolivian production reached during the Second World War, aggravated furthermore by the contraction in tin consumption during 1950s. Secondly, and due partly to a lack of exploration activities the quality of the ground mined deteriorated causing a decline in the tin content of the ore. Thirdly, there was an exodus of 170 of the 200 foreign engineers after nationalization. Serious management problems—common to all newly nationalized firms—had been aggravated by the fact that COMIBOL took over some 17 plants belonging to the three nationalized enterprises and being of varying size, quality of ore, obsoletness of equipment and infrastructure, profitability, etc. Finally, among external factors contributing to the decline in production were the marketing problems linked with TNCs domination, the termination of United States stockpile purchases around 1958, followed by the export controls imposed by the International Tin Council during 1958-1960.

The upturn of Bolivian tin industry in 1960s was facilitated by the improvement in the international climate in favour of developing countries. An expression of this was a Triangular Plan introduced in 1961 and involving the Governments of Bolivia, the United States, the Federal Republic of Germany and the Inter-American Development Bank. This plan covering the 1961-1971 period, envisaged the recapitalization of COMIBOL through external loans, the strengthening of management and a substantial reduction of surplus labour. The steady increase in production and productivity since 1961 was partly due to this

plan and made it possible to repay the external loans until 1976. At the same time, this plan contributed to the final settlement with nationalized TNCs and ended the compensation payments in 1961.

COMIBOL has been reaching continuous profit and increasing net income throughout the 1965-1975 period contributing importantly to the state budget. Total taxes paid by COMIBOL in 1974 amounted to Bolivian Peso 873 million in comparison with 37 million in 1965 and 387 and 221 millions paid in 1974 by medium and small mining enterprises respectively. The economic achievements of COMIBOL have been positively influenced by the substantial increase of world prices, but, on the other hand, it had to bear increasing costs caused by sharp inflationary process without any change in the exchange rate of U.S. currency which had been maintained since the devaluation of Bolivian Peso in 1972.

3. National development of tin smelting

At the time of nationalization in 1952, the bulk of Bolivian tin concentrates went to the Williams Harvey smelter in the United Kingdom owned by the group of Patiño (Consolidated Tin Smelters). In the pre-nationalization period Patiño had no interest in building a smelter in Bolivia declaring in the Annual Report of Patiño Mines and Enterprises Consolidated Inc. for 1938: "It is cheaper to smelt and refine tin in the plants of Williams Harvey and Co. in Bootle, near Liverpool, than anywhere else. Determining factor is the long and unequalled experience of Williams Harvey in the treatment of the complex Bolivian ores in which they have specialized for over 25 years".

In the 1960s the Government of Bolivia came to the conclusion that the country should build its own tin smelters, not only to earn additional foreign exchange from forward linkage operations but also to be less dependent on specific foreign smelters and by implication, foreign markets. In 1966 the State enterprise Empresa Nacional de Fundiciones, ENAF, was established obtaining a monopoly of producing and exporting of refined metal. Construction of a tin smelter began in that year and in January 1971, ENAF put on stream the refinery at Vinto,

with an initial capacity of 7,500 tons. The plant was constructed with German suppliers' credits by Kloekner Humbolt Deutch, a metal and engineering group which also constructed the refinery for the Indonesian Peltim smelter at Muntok.

In 1975, Bolivia was still highly depended on foreign smelters for refining its tin concentrates. Only one quarter ofthe total sales of concentrates had been processed in the national ENAF smelter in Vinto. The remainder was exported to different foreign smelters particularly in the U.S., United Kingdom, Spain and Brazil. The foreign smelters refining Bolivian tin concentrates were mainly large and integrated TNCs with world-wide marketing of tin metal: The Long Horn smelter pertaining to Wah-Chang Corporation and then sold to the Gulf Resources and Chemical Corporation (31% of the COMIBOL 1975 tin production); the Capper Pass and Son Ltd. in United Kingdom (24% of the COMIBOL tin output); and the German Berzelius Metallhutten Gesellschaft m.b.h. smelter in Duisburg, owned by the Metallgesellschaft A.G., smelting tin concentrates produced by medium-scale miners. Only small quantities of Bolivian concentrates have been smelted in Brasilian Volta Redonda smelter controlled by Consolidated Tin Smelters (Patiño).

Presently the tin smelter in Vinto which exported 16 000 tons in 1978 is being expanded to a capacity of 20 000 tons per year. While this smelter has been designed for the treatment of high grade tin, a new plant is being constructed at the same site for the treatment of low grade tin with a capacity of approximately 10 000 tons. Both the expansion of the existing smelter and the construction of the new one are being undertaken by Kloeckner Industries, the second one in conjunction with Paul Bergsoe of Denmark. 1/ Thus, by the beginning of 1980s

---

1/ There is discussion of the possibility of USSR Machino Export Enterprise participation in the construction of the second smelter. In this case the new smelter would provide an interesting example of joint venture; the State enterprise ENAF co-operating with private companies in Germany and Denmark, and with the USSR state enterprise (Mining Magazine, March 1977).

Bolivia will have a tin smelting capacity of some 30 000 tons, capable of smelting domestically all of its tin concentrates production.

The expansion of tin smelter's capacity throughout the 1970s made it possible to increase the output of tin metal from 700 tons in 1970 to 16 000 tons in 1978 accounting for more than a half of total production of tin in concentrates. About two thirds of ENAF's tin is supplied by COMIBOL and the rest by medium mines. The small mines supply little to ENAF due to low tin content of their concentrates.

During the initial years of its operations ENAF encountered with accounting losses similarly as COMIBOL owing partly to large overhead costs of the infrastructure built for the future capacity of the smelter. Another important reason was the inflationary process and freezing of the foreign exchange rate, since 1972, mentioned above in relation with COMIBOL.

As in the case of COMIBOL's mining operations, it is important to realize that forward linkage corresponding to ENAF smelting is important not only for gains in a narrow sense (profits), but particularly for internalization of incomes originated in the tin industry. In this manner, the retained value is definitely enhanced by increasing the local value added, even if accounting-wise the smelter suffers losses. Of course, this assertion does not deny the importance of public enterprise efforts to decrease production and other costs contributing thus more to the country's development. In addition, the smelting of tin domestically may lead in the future to further forward linkage development such as fabrication of tin based products. Finally, local smelting would increase the negotiating capacity of the government vis-a-vis tin TNCs and their still strong marketing power.

4. TNCs control over marketing of Bolivian tin

The present problems of tin marketing in Bolivia are largely associated with the low grade and not easily marketable tin concentrates proceeding mainly from small mines. Their sales are limited to the foreign refineries specializing

in low grade processing, such as the Texas smelter in the United States. Any lasting improvement in the market position of the Bolivian tin industry depends on the completion of the new low grade smelter at Vinto.

The state owned mining bank Banco Minero (BAMIN), was established as the principal credit, marketing and technical assistance institution, including provision of equipment and current inputs, for the private and especially small mines. BAMIN mainly undertakes spot sales for relatively small individual shipments to the low grade smelters in Europe and through international trading firms acting as principals and thus excluding mineral suppliers from decisions over timing and destination of sales.

The international trading firms which are most active in Bolivia are: Phillip Brothers, C. Tennat and Sons, Metal Traders and Sud Americana de Minerales y Metales, all important traders in the LME. Phillip Brothers has also exclusive marketing of the tin concentrates from mines pertaining previously to Grace and Co. which represent approximately one half of private Medium Scale Mines production. The marketing of Bolivian tin is thus still largely controlled by the powerful traders which dominate the LME.

The actual distribution of gains at the market level, depends primarily on two factors: first, the process of price formation in international markets and the bargaining power of governments in those markets, and second, the negotiations regarding the many discount clauses which can increase or reduce actual gains, given international prices. Although COMIBOL, ENAF and BAMIN combined have a sales volume large enough to exert a powerful bargaining position in the international markets, the government has to strengthen a co-ordinated marketing approach and the knowledge about international minerals and freight markets and particularly the forward price movements on the London Metal Exchange. In this sense a rather positive factor is that the tin sales are geographically diversified corresponding in 1975 to western european countries 41%, United States 24%, Latin American countries 10% and socialist countries 13% of the total export volume.

5. Some aspects for interregional co-operation

The tin industry in developing producer countries shows some important common characteristics which underline the opportunity of broader horizontal co-operation in this field.

First, the developing countries accounted in 1977 for more than three quarters of the world production corresponding to Asia 52%, Latin America 18% and Africa 6%. On the other hand their share in the world consumption of tin was only 7%.

Second, six developing countries (Bolivia, Indonesia, Malaysia, Nigeria, Thailand and Zaire) accounted for 84% of world production of tin concentrates and almost 70% of the world production of tin metal in the first half of 1970s (as compared with 91% and 41% respectively in the first half of 1950s). The increasing proportion of tin smelted in developing countries is a reflection of their improving bargaining position.

Third, three largest tin enterprises in the world are controlled by the governments of developing countries (P.T. Timah of Indonesia, COMIBOL of Bolivia and Pernas of Malaysia) accounting together for almost one third of world production.

Finally, the main common problem of the developing producer countries is the domination of international tin market by industrialized consumer countries, particularly through the markets at London and New York and the U.S. strategic stockpile operations. The international Tin Agreement has only marginally reduced the inestability of prices and producer incomes. It has endured while other agreements have failed, in part because it has lacked effective power (in the face of the United States strategic stockpile) to make critical price decisions which otherwise would have intensified producer-consumer conflicts.

C. THE CASE OF BANANA INDUSTRY IN CENTRAL AMERICA

1. The role of banana industry in the economies of Central America

The Central American countries, as banana producers and exporters, may be divided into two groups: first, Guatemala and Nicaragua (particularly the latter) in which this activity is not of great importance in terms of its share in the gross national product (GNP), exports and employment generated; and, secondly, Honduras, Costa Rica and Panama where the situation is markedly different.

In 1975, banana exports of Nicaragua and Guatemala were 1% and below of the GNP and less than 5% of total exports of goods. On the other hand, external sales of bananas by Costa Rica, Honduras and Panama represented 7%, 4% and 3%, respectively, of the GNP, and 28%, 16% (22% in 1978) and 22% of total exports. The share of Costa Rica, Honduras and Panama of world exports of banana were in the same year, 16%, 6% and 8%, respectively.

In terms of employment, in Guatemala and Nicaragua the proportion of persons employed in the banana industry in relation to the economically active population was 0.3% only, in comparison with a high share of agriculture, 57% and 69%, respectively. In Costa Rica, Honduras and Panama the proportions of banana industry were 4%, 3% and 2%, respectively and much higher in agricultural employment (36%, 57% and 29%).

Finally, it should be noted that the dependence of all the Central American countries on banana industry has gradually diminished in relation to the past, as a result of diversification of production and exports. This increased their capacity in the formulation and management of a banana policy and negotiations with TNCs in comparison with 1950s, when banana exports in Central America represented between 50% and 70% of the total exports of goods. On the other

hand, in spite of the lesser dependence on a single export commodity, in Costa Rica, Honduras and Panama the banana industry continues to play a crucial role in generating foreign exchange and absorbing significant levels of employment.

The oligopolistic power exercised by TNCs in the banana industry of the Central American countries was moderated by the emergence of national producers even if they were generally associated with these corporations. Secondly, some countries of the region have established government bodies which have promoted important changes in connexion not only with production but also with the domestic transport, shipment and, to a lesser extent, packing of bananas.

2. Participation of TNCs and national producers in banana production and exports

In 1976, the TNCs still dominated directly 55% of all the banana land and 64% of the total commodity exports in above analysed five Central American countries. The majority of national producers (with the exception of Honduras) was associated with TNCs with all resulting forms of dependence.

The Associate Producer Program appeared to be a significant change in the operation strategy of TNCs in the region. They segmented this way the local market increasing the number of negotiable transactions between producing and purchasing banana for export. This way the banana TNCs disengaged themselves not only from the production risk but also from the social overhead in favour of their labour (education and health care, free housing, etc.).

This strategy enabled the TNCs to spread the production risk (disease, natural disasters, market price fluctuations, etc.) over a great number of

local producers. At the same time it reacted to the U.S. Government antimonopolistic legislation and host countries criticism of their natural resources' foreign domination, as well.

The dependence of associate producers on TNCs had been maintained by the control of production inputs and services and through long-term contracts in which the price but not quantity, was fixed for delivery of a specific grade of banana allowing the TNCs to determine total purchases and squeeze them in periods of over-supply. Control over the U.S. retail market guaranteed that local producers and third companies would not be able to purchase the excess fruit and increase competition. In periods of under-supply, the companies absorbed larger quasi-rents rather than sharing them with the producers. For this reason several Central American countries opposed the turning over of TNCs plantations to national producers arguing that the foreign companies themselves should continue bearing the inherent risk of the industry and providing the social services to the labour force.

Greater involvement of Central American Governments in the banana industry has been progressively creating a countervailing power against the local producers dependence on TNCs.

3. Role of the public sector

Between the banana harvest and shipment there are several stages in which national producers have started to participate more actively and principally through the public or semi-public sector. In Costa Rica and Panama, national institutions participate in the supervision of packing of banana. The boxes and other materials are supplied by TNCs under agreements negotiated directly with the government bodies in Panama, and with public enterprise ASBANA in Costa Rica.

TNCs no longer control the domestic transport of the fruit. In Guatemala, Honduras and Panama the railways were nationalized and the TNCs have to pay for banana transport under the system of contract tariffs or fix rents. As a result of the nationalization of all the main terminals of the region and government sponsored expansion of ports banana shipments are currently under public control.

As to the marketing efforts had been made to export banana outside the TNCs' sphere of action but have not yielded the expected results. The attempts have been suspended after incurring in financial losses. At present only Panama is operating a national enterprise, the Corporación Bananera del Pacífico (COBAPA) which markets small quantities of bananas directly under a system in which one of the TNCs participates. Other marketing attempts, like that of Nicaragua, frustrated owing to financial losses related with low scale of production and shipments. After two years of losses, INFONAC transfered the shipments back to Standard Fruit.

In another Central American country, the enterprise concerned with independently promoting production established contacts with marketing enterprises in the United States and Canada, but the negotiations never materialized owing to the failure to solve the problem of maritime transport, since none of the parties was willing to be responsible for this stage.

In short, the whole banana production of Central America, except for small quantities sold by Panamian COBAPA, continues to be marketed by transnational corporations, from which they obtain the major share of the income generated by this industry.

4. The new fiscal policy and TNCs reactions

a) Union of Banana Exporting countries (UPEB)

The chain of events which eventually led to the signing of the Unión de Países Exportadores de Banana (UPEB) agreement and new fiscal policies of Latin American countries were initiated in 1970 by a private group, the National Chamber of Banana Growers of Costa Rica. Following the urgings of independent producers of Costa Rica, Guatemala and Honduras, the governments of these countries, particularly Costa Rica and Panama, took over leadership of the movement for a Union of Banana Exporting Countries. After many preliminary meetings among the representatives of Central American countries,and Ecuador and Colombia, signed the Constitutive Agreement of UPEB had been signed on September 1974 by the governments of Colombia, Costa Rica, Guatemala, Honduras and Panama. Dominican Republic acceded to the organization in February of 1976.

The banana companies seemed to have been unconcerned about the early meetings of Central American governments leading to UPEB establishment. However when they announced plans to increase minimum prices and impose export taxes, the TNCs took action. For example, Castle and Cooke officials visited several Central American capitals to advise government officials not to impose the taxes. The President of Castle and Cooke also called upon the United States government to request that no taxes be imposed. Also, it has been reported that this company urged Ecuador not to impose a tax and not to participate further in discussions concerning the formation of a UPEB "cartel". In fact, Ecuador attended the preparatory meetings for UPEB establishment only as an observer and did not join the organization which has been used by the TNCs for splitting the unity of UPEB countries through threats of shifting the banana production to that country.

The absence of Ecuador in UPEB led also to shift efforts towards securing higher prices and export limitations to the Intergovernmental Group on Bananas

of the FAO, a group in which Ecuador actively participates. Within the Intergovernmental Group, there exists a Sub-Group of Exporters which includes not only the Central and South American exporters but also those in the Caribbean, Africa and Phillipines. On the other hand, UPEB has not taken any united action with respect to either banana pricing or output limitation since its inception. Its force has been principally in the joint evaluation and analysis of the banana industry and interchange of information and ideas for action among the member countries.

b) The new fiscal policy, TNCs counterstrategy and redistribution of gains

The changes in the Central American banana industry in the mid 1970s reflected reinforcement of the bargaining capacity of host countries vis-à-vis TNCs through: (i) the establishment of regional producer organization UPEB defending member countries interests; (ii) renegotiation of the Governments share in the industry gains which although not achieving the original goals—increased substantially their foreign exchange and budgetary incomes and; (iii) creation or reinforcement of public sector organizations participating in, and controlling of, the banana activity and supporting the local associate producers diminishing this way their former unilateral dependence on TNCs.

The decision taken by Panama, Costa Rica, and Honduras in April 1974 to link the creation of UPEB with the immediate introduction of a U.S.$1.00 per box tax on all banana exports would have caused an increase in the government revenues of those three countries of the order of U.S.$ 130 million, and increase in the export cost of bananas to the TNCs of the order of 60% and if passed on to consumers on a strictly cent-for-cent basis, an increase in the retail price of bananas of 2.5 cents per pound that is in the United States market from 16 to 18.5 cents per pound or by 15.6%.

The counter-strategies of TNCs included curtailment and stoppage of banana exports in Costa Rica, Honduras and Panama, destruction of bananas and allegations of company pay-offs of government officials. In addition, Standard Fruit and other companies were involved in the decision taken by the U.S. Longshorement to boycott all imports and exports of those countries imposing the export tax.

The initial levels of tax were lowered successively in Honduras (to a scale going from 25 cents per box in 1974 to 50 cents per box in 1979); in Costa Rica (to 25 cents per box in 1974, later raised to 40 cents per box in 1976). Subsequently, Guatemala also imposed the tax on a scale rising from 35 cents per box in 1975 to 50 cents per box in 1978.

The reasons given by the TNCs for the unacceptability of the tax were principally that bananas were not, like oil, an essential commodity in the consuming countries, and that consequently the price increase implied by the tax would result in a disastrous fall in consumption levels assumming that the price elasticity of bananas at retail was greater than unity. The second principal argument was that the introduction of the tax would result in other countries not imposing it, principally Ecuador, gaining considerable comparative advantage and upsetting the competitive balance of the world banana market. Finally, the TNCs alleged that it was not possible to pass the tax on to consumers on a cent-by-cent basis due to resistance on the part of the buyers (ripeners and wholesalers), and due to the fact that distributional margins would move on a proportional rather than a linear basis, thus raising consumer prices by considerably more than the increase of the tax.

All of these predictions proved more or less incorrect, although the foreign companies did obtain a reduction in the level of the tax. There was reduction of consumption in 1975, partially caused by the sudden

increase of the retail price of bananas, but also related to the economic recession of that year. In addition retail prices increased by considerably more than the reduced level of the tax eventually determined: from 16 to around 24 cents per pound in the United States. At the same time, and similarly to the case of the oil companies after the introduction of the OPEC export tax in January of 1974, the companies made far higher profits on bananas in 1975 than they had done in the preceding five years.

The price elasticity of demand for bananas is evidently considerably less than unity because consumption in the year 1976 has recovered in all major importing countries to above pre-1974 levels; thus resuming the small but steady growth in consumption experienced over the last two decades. Finally, in spite of the non-accession of Ecuador to the UPEB, and in spite of the fact that that country did not raise an export tax (and on the contrary encouraged the companies to establish new long term contracts), in 1976 there has been a remarkable increase of market participation by the countries of the UPEB in the banana world market.

In spite of the fact that the tax rates originally established were reduced, the tax yield increase for Costa Rica, Guatemala, Honduras and Panama has been significant. In 1973, tax payments on exports of bananas in these countries represented about U.S.$ 2 million, while 38 and 54 million had been collected in 1975 and 1976 respectively, which for the latter year meant an additional increase of 17.7% over the FOB value of banana exports.

D. PRELIMINARY CONCLUSIONS 1/

1. Similarity and diversity of the three cases under examination

The cases of three export oriented primary commodities summarized above—bauxite in Caribbean, tin in Bolivia and banana in Central America—demonstrate in global terms increased bargaining capacity and more equal distribution of industry gains throughout the 1970s, in favour of Latin American host governments. Nevertheless, meaningfull conclusions for developing countries policy alternatives vis-à-vis TNCs should take in account not only the similarity of governments common experience but their historical diversity, as well. The outstanding aspects of this similarity/diversity of bargaining situations seem to be related with the following issues:

a) Commodity nature, its role in national economies and TNCs domination

The industry and market nature of minerals—bauxite and tin—in comparison with perishable fruit—banana—is obviously different in a sense that the first ones and, particularly tin given its relatively high price per unit, are object of the stockpile and even speculation strategies of TNCs and developed consumer countries (see the striking divergence between the U.S. strategic stockpile and ITC market power in tin), meanwhile banana require short-term (maximum 6 weeks) integrated operation since the harvest to the consumers tables. The commodity nature determines also broader alternatives for producer countries internalized forward linkage in the case of minerals than in that of banana industry where given the limitation of end uses and further processing of the fruit, the producer countries forward linkage

1/ Subject to discussion with government officials and experts in Bolivia and Jamaica and in the Interregional Expert Meeting at Bangkok.

extension would require to overcome the barriers of entry in the industrialized countries and TNCs dominated shipping, ripening and trading of bananas.

The outstanding common feature of the post-war development of Latin America, including the three areas under examination, is their progress in industrialization and export diversification (including oil and different agricultural and mineral commodities) which practically eliminated the previous mono-product external dependance as typified by the Central American "banana republiques" of the pre-war period.

Nevertheless, the bargaining capacity of Guyana, Jamaica, Bolivia, Costa Rica, Honduras and Panama, vis-a-vis TNCs was in the 1970s still highly determined by their foreign exchange and government incomes resulting from bauxite, alumina, tin and banana industries. On the other hand, this same important role of primary commodities in the external balance of payments and the host countries social and economic progress influenced the political willingness of Latin American governments to increase the national sovereignty over natural resources exploited and/or highly dominated by some ten TNCs vertically and world-wide integrated in the aluminium, tin and banana industries (ALCOA, Reynolds, Kaiser, ALCAN, Pechiney and Alusuisse in bauxite industry, Patiño group in tin industry and United Brands, Castle and Cooke and Del Monte in banana industry).

b) International setting

The general changes of the international climate characterized by the post-war process of political liberalization and decolonization, developing countries demands of New International Economic Order and their higher leverage in international organizations (reflected, for example, in the UNCTAD Integrated Programme for Commodities), the multipolarization of the world economy and OPEC countries success in improving their terms of trade, had

without any doubt an important positive impact on the bargaining capacity of Latin American countries whose governments and intelectual leaders (like Dr. R.Prebisch) played an important role in their shaping. However, taking in account the absence of international agreements in bauxite and banana and the continuing low market power of ITA reserves (in comparison with U.S. strategic stockpile), it may be supposed that the particular international factors influencing in the 1970s the Latin American governments bargaining capacity in the industries under study, had been mainly the world economic recession and inflation (leading, on the one hand to commodities price increase, particularly of tin but, on the other one, to balance of payments constraints due to "imported inflation" and lack of concessionary finance), second and, in a clearly positive sense, the diversification of the region's export markets with increased sourcing of raw materials by european countries (including the centrally planned ones of Eastern Europe) and, third the emerging and potential capacity of horizontal co-operation among developing countries themselves. These new linkages with market places relatively independent from TNCs world-wide vertical integration do not necessarily exclude the latter ones from their oligopoly market position, as will be seen below.

c) Internal political setting

Recognizing the importance of "objectively given" and more long term factors of host countries bargaining capacity, like - commodity nature, its role in the producer country's economy, world-wide TNCs sourcing and market oligopoly and changing international climate—one should accept that the specific historical situation of a given developing country—in all its political, ideological, social-economic, cultural and international aspects—is definitely determinant in its attitudes and actions towards TNCs. Only this premise

can explain why Bolivia and Indonesia nationalized the tin industry in about 1950, or long before the New International Economic Order demands and OPEC countries breakthrough, why Guyana prefered bauxite industry nationalization instead of Jamaica's fiscal policies or, the continued Central American countries dependence on the three U.S. banana TNCs. Obviously, the objective of the Interregional Project on Primary Commodities is not to give preference to any of the political alternatives taken by the developing host countries governments, but to contribute to the interchange of experience from different policy-alternatives implications and effects. This will be tried below in evaluating the specific Latin American experience.

2. Internalization of industry gains through forward linkage in commodities processing and marketing

The securing of a greater degree of primary commodities processing within the developing producer countries on terms which ensure that their economies get a larger share of the "value added" through incomes from the TNCs, joint venture or wholly owned national processing facilities conformed an important policy goal of Latin American governments. The three cases under examination represent different features of governments and TNCs strategies: meanwhile in Bolivia Patiño always prefered for "economic reasons" to maintain the dependence on his own Williams Harvey smelter in the United Kingdom, the aluminium TNCs in Caribbean—under the pressure of increased competition for bauxite resources—started alumina refining, particularly in Jamaica, just in the colonial period and frequently through joint ventures among themselves. The gains accrued by them resulted not only from decreasing production and transportation cost, but the onerous contract conditions imposed on host countries, as well. For example, even after Jamaica gained independence

and promoted the establishment of alumina plants (increasing alumina exports 3 times between 1966 and 1972) the increased government incomes through tax payments did not materialize because of the TNCs capacity to record almost no profit from the new alumina plants by using, as in the case of bauxite, artificially low transfer prices.

The improved bargaining capacity of Bolivia in the 1970s is reflected by the fact that by 1980 almost all tin concentrates produced in the country will be smelted locally in public enterprise ENAF new plants terminating thus the previous dependence on foreign smelters and diminishing the dependence on TNC dominated marketing of the metal. Similar development is under way in Jamaica in co-operation with socialist countries, as will be seen below. Contrary to the experience in tin and bauxite, the Central American banana industry shows the only modest progress in forward linkage integration through the local packing of bananas and related construction of plants for boxes production, a result of TNCs strategies reacting to the effects of Panama disease with new varieties of banana and their shipping in boxes.

In all three cases major barriers of entry for the developing producer countries and their public agencies and enterprises were found in the field of commodities marketing where the TNCs dominate the distribution mainly through metal markets (tin), control of final fabrication (aluminium products) and strong influence on transport, ripening and retail trade of banana.

3. Increased government incomes through new fiscal policies

The new levy on bauxite production (including that refined in alumina) and increased export tax on banana imposed in 1974 by the governments of Jamaica and the Central American countries: Costa Rica, Honduras and Panama, later Guatemala, signified important increases in government budget incomes and in spite of

strong TNCs reactions and counterstrategies and resulting trade-offs with the governments, proved a significant shift in the balance of negotiating power between the two parties. Some outstanding aspects of both cases are:

a) Jamaica's six fold increase of the bauxite levy, fixed as a percentage of the price of aluminium ingot in the U.S. market, brought an increase of total returned value from the industry by a half between 1972 and 1976 (in real terms or, taking in account the rising import prices) contributing the industry in the last year a third of total government budget resources (9% in 1973). The tax yield increase in Costa Rica, Guatemala, Honduras and Panama was from U.S.$2 million in 1973 to 54 million in 1976.

b) In both cases the initial TNCs counter-strategies included restriction and even stoppage or destruction (banana) of production and exports from the conflictive countries trying to shift the commodity sourcing to other areas, political pressures on host and home countries and recurrence to international bodies outside the host country jurisdiction.

c) On host countries side, important factors were the relatively high dependence of TNCs on host countries supplies for the U.S. market and the technical and financial difficulties of a more radical and short term sourcing shift, the low share of producer countries in the final prices of aluminium and bananas making it possible to pass over the increased tax cost to the consumers without reducing the demand, the important information and co-operation factors given by the prenegotiation preparatives of the Jamaica Bauxite Commission and IBA and UPEB activities and, in the case of bauxite and alumina, the diversified world market.

d) Finally, in both cases the initial legal imposition of increased taxes and the strong reactions by TNCs have been followed by renegotiations where both sides had to retrocede from their initial bargaining positions: the

governments decreasing the original tax rates goals [but retaining a substantial income increase, as shown in point a) above] and the TNCs becoming tax collectors for the governments and being in principle both sides jointly interested in the industry progress.

4. Increasing control of the industry by host countries governments and the role of the public sector

The nationalization of the tin industry in Bolivia, in 1951, and of the bauxite industry in Guyana in 1972 and, the non-controlling ownership participation policy and joint ventures with TNCs of the mid 1970s in Jamaica, as well as the increase in the role of the public sector in all three cases, represent different approaches and aspects of major sovereignty of developing countries over their natural resources and greater government control of commodity industries. Their outstanding aspects may be synthesized in following way:

a) Jamaica's ownership participation policy (acquisition of TNCs land and using part of them for agricultural development, 51% share in mining operations of Kaiser and Reynolds and 6% and 7% share, respectively, of all assets—including alumina plants—of ALCOA and ALCAN establishing joint ventures and government share in alumina shipments) was in a certain sense a culmination of the previous difficult negotiations on the bauxite levy and did not signify a greater conflict with TNCs.

b) On the other hand, the nationalizations in Bolivia and Guyana led to stronger reactions and counterstrategies from TNCs affecting their operational control of the industry (commodity shipments decrease and boycott, imposed compensation discounts on Bolivian tin processed in Patiño's smelter, home governments pressure and higher than "book value" compensation formula in Guyana, etc.). In both cases prevailed political factors (of different

origin and nature, as underlined above) which conformed the host countries people unity against the TNCs presence in the country.

c) In both countries the nationalization of TNCs assets represented only a first step in the long term realization of national sovereignty principle over natural resources through the development of an independent public sector. The short-term production and financial losses of the newly established public enterprises had been aggravated by the above enumerated TNCs counterstrategies, exodus of qualified personnel, management, marketing and labour problems, etc. In the 1970s, however, the public enterprises conformed in both countries an important factor of a long-term perspective of selfsustained social and economic development embodied in governments strategies and plans. The recognization of this new situation by industrialized countries and TNCs had been reflected, for example, in the Triangular Plan (1961-1971) with U.S., Federal Germany and Inter-American Development Bank co-operation in the consolidation of Bolivian tin industry. Similarly U.S. aluminium TNCs tried to fill the vacuum created in Guyana after the (nationalization) conflict with Canadian ALCAN. Perspectively, the concentrated negotiating capacity of the public sector allows for broader development of new types of linkages with TNCs.

d) Finally, the public sector in Bolivian tin industry and Central American banana industry played an important role in technical and marketing assistance to national medium-and small-scale producers counterwailing thus their previous full dependence on TNCs.

5. External market diversification and horizontal co-operation

The market diversification in general and, long term alumina sales contracts of Jamaica with "non-traditional" buyers - Venezuela, Algeria, Hungary and Soviet Union, in particular, conformed an important bargaining capacity factor of the developing producer countries countervailing the resource diversification

strategy of TNCs. The long term sales contracts of Jamaica totalling yearly some 550,000 tons of alumina since 1984 are a base for the construction of a new alumina plant in South Manchester owned by the public enterprise Jamaica Bauxite Mining Limited and, with technical and financial co-operation of Hungary and for the expansion of its Merchant Marine in co-operation with the Government of Norway. On the other hand, the short-term alumina sales agreeements with Venezuela, Hungary and Soviet Union depend on the TNCs willingness to increase production from their idle capacities and on the coming on stream of the joint ventures with ALCOA and ALCAN allowing for the Jamaican Government share in alumina shipments. This dependence conformes in short term, a stronger bargaining capacity of aluminium TNCs in their negotiation with the Government of the bauxite levy rebates, as mentioned above.

An important factor of horizontal co-operation among the developing producer countries had been their associations IBA and UPEB which in spite of the lack of market power in production and prices regulation, helped to the unity of the developing countries governments in their policies and strategies vis-à-vis TNCs.

Contrary to this positive experience had been the fate of several joint venture projects including Jamaica and other CARICOM countries, Mexico and Venezuela,for the development of bauxite and alumina industry and aiming at the joint use of bauxite resources, cheap energy and industrial skill of developing countries with large consumer market.

In the middle of 1979 none of these joint venture projects was on stream. The reasons of these problems and delays in the important field of horizontal co-operation in joint investment and production development require more detailed analysis.

Among most important factors emerging from the negative experience of the Jamaica-Mexico joint venture seem to be the problems of developing countries in

financing their shares of the venture. In this context the role of international and regional finance organization like the United Nations World Bank and Interamerican Development Bank with its project of risk-security fund for TNCs investing in Latin American's natural resources, seems to be of highest priority.

× × ×

Future projects alternatives of Joint CEPAL/CTC Unit in the Interregional Project on TNCs in Primary Commodities

a) Before the New York Interregional Seminar in 1980

Profundization and further analytic elaboration of the three cases in base of the results of the Bangkok Expert Meeting and particularly in:

- Public enterprise investment and marketing linkages with TNCs in the tin industry, in terms of a long term development perspective of Bolivia;
- Joint Ventures among developing countries in the bauxite industry: the experience of Caribbean countries and, particularly, Jamaica.

b) New commodity case studies 1/

- TNCs in the copper industry in Peru and Chile;
- TNCs in iron ore industry;

as to agricultural products:

- TNCs in the sugar cane industry and the coffee industry of Latin America.

1/ Depending on the availability of additional budget resources.