SOME ASPECTS OF THE BANANA INDUSTRY IN LATIN AMERICA

—by—

S. St. A. Clarke
Director,
U.N. Economic Commission for Latin America
(Caribbean Office)

Mr. Chairman, when I undertook to present this paper, I made it clear that I did not regard myself as fully informed about the Banana Industry in South and Central America. I did also say that it is a subject to which little attention has been given in the British Caribbean, so something ought to be done. You will therefore understand that such contribution as I can make is mainly introductory and exploratory. Having said that, I would now like to invite your attention to certain aspects of the Banana Industry in Latin America, which I think deserve special attention.

The first point which should be noted is that in Central and South America (taking all the countries together) the share of the domestic farmer in banana output is increasing. This I should mention, is due to two main factors : the rapid growth of production in Ecuador, and the recent policy of the fruit companies to expand the purchases they make on contract.

Secondly, several governments in the region have been taking a more direct interest in fluctuations in the banana trade, and in some cases, have taken positive steps to stabilise, and even to encourage production.

Thirdly, the shifting pattern of cultivation both within countries, and between countries (mainly associated with the operations of the big fruit companies) are becoming a less dominant feature because disease control is increasing, and because new varieties less susceptible to hazards are being introduced.

Fourthly, trade continues to be based on the old commercial links between exporters and importers.

And the fifth and final point, the countries of Central and South America do not receive preferential treatment in the market they supply. The implication of these points will become more obvious as I proceed.

Aspects Of Production In Latin American Countries

With production centred in the tropical countries, the banana industry is geared primarily for trade with temperate countries. This traditional pattern was established towards the end of the last century with supplies flowing from Central America to the United States. Panama was one of the first countries to develop a banana industry, and there has been regular trade between Panama and the U.S.A. since about 1866. Commercial shipments from Costa Rica to the U.S.A. were made as early as 1874. In Guatemala the banana industry can be traced back to 1907.

Production

In 1964, North, Central, and South America accounted for some 68% of the world's total banana production, estimated at some 23 million metric tons. Tables I and II give some idea of distribution of world production[1] and of main trends.

Table I. World Production of Bananas for Selected Years

	Production (000 Metric Tons)	
	1948/49-1952/53	1963/64
North and Central America	3,010	3,690
South America	5,150	11,860
Asia	4,590	5,620
Africa	710	1,100
Others (Europe, Oceania, Mainland China)	(440)	(630)
Total Production	13,900	22,900

Source : *F. A. O. Monthly Bulletins*

1 No estimates of cultivated areas are shown as figures are reported only for cultivation on plantations and for small producers registered for spraying services ; consequently, aggregated, they do not reflect the real position. The production figures suffer from the defects that in many cases they are built up from estimated yield per acre, in other cases from amounts offered for exports. Even the trade figures are not really suitable for rigorous analysis. Exports are at different times quoted in stems, count bunches, in weight with stems, or weight without stems. Import figures suffer from the same limitations as the export data, though to a lesser degree.

Table 2. Banana Production : Latin America, 1959-1965

(000 tons)

Country/Year	1959	1960	1961	1962	1963	1964	1965
Brazil	4,885	5,127	5,429	6,013	6,600	6,600	6,700
Colombia	590	650	550	508	580	590	590
Ecuador	1,898	2,075	2,050	2,115	2,320	1,800	2,000
Venezuela	—	688	567	677	874	1,456	1,203
Costa Rica	380	487	410	521	466	529	567
El Salvador	—	296	284	285	339	340	361
Guatemala	178	244	197	130	185	137	78
Honduras	833	832	959	921	885	920	1,242
Mexico	532	613	647	667	692	735	779
Panama	486	432	452	417	422	485	530
Dominican Republic	456	488	424	400	389	350	318
Jamaica	254	263	263	272	281	318	318
Windward Islands	—	—	(102)	(112)	(123)	(142)	(183)
Martinique	—	—	146	165	180	150	200
Guadeloupe	—	—	170	165	163	168	

Source : *Economic Research Service U .S. Department of Agriculture : "Indices of Agricultural Production for the 20 Latin American countries."*

FAO Monthly Bulletin of Agricultural Economics and Statistics.

In Table 1, the very rapid expansion in production, particularly in South America, stands out as also the tremendous continuing importance of Latin American production. But as Table 2 reveals, the overall expansion in output has been accompanied by some shifts in the relative levels of output of individual countries, e.g., the contraction in Guatemala contrasts with expansion in neighbouring countries.

There has been an underlying pattern of shifting cultivation[2]. Disease, particularly Panama disease, has been a major factor in production trends and shifting cultivation. Losses due to this disease are heavy and the attempts to control it (prolonged flood irrigation and rehabilitation of dry fallow areas by some form of crop rotation) have not been particularly successful. Apparently the only reliable answer to Panama disease is the use of disease resistant varieties. In the Central American countries, the old plantations have in the past been devastated by Panama disease, causing changes of location, and in recent years this disease (Panama) has become a growing menace in Colombia.

Leafspot disease *(Sigatoka)* is another major problem. The destruction it caused virtually brought banana exporting by Mexico to a halt; but a high measure of control is being achieved (e.g. in Panama) through the most modern spraying techniques employing aerially applied fungicides. Similarly in Colombia, *Sigatoka* is present, but is largely kept under control by aerial spraying.

Wind-blow-down is the third major factor in production. The Gros Michel, the popular variety, is extremely susceptible to blow-downs. For example, although Panama is not subject to hurricanes, losses from wind damage in 1962 reached 5 million stems compared with exports in that year of 6.5 million stems. In the Santa Maria area of Colombia, wind-blow-down is the greatest problem and every year leads to a loss of 2 to 3 million bunches (45-65,000 tons).

With the windstorm losses running so high, it is hardly surprising that the search for a wind-resistant or wind-tolerant type of banana should become a factor of top consideration in the banana-breeding programme of some fruit companies. So also is the search for a banana variety that is resistant to Panama disease and meets the required consumer acceptance standards of the North American market.

The answer seems to have been found in the Valery variety. After intensive field trials the Valery variety has proven that

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2 See the Country Notes in the Appendix.

it is resistant to both Panama disease and wind-storm damage, and also meets the consumer requirements. In terms of disease resistance the Valery equals the Lacatan; but the Valery also has the distinct advantage over the Lacatan and the Gros Michel in that it is a low-growing variety and suffers less wind damage.

Trade And The Role of Government

World banana exports in 1965 were some 5 million tons (10% increase over the previous year) due mainly to increased supplies from new plantings in Central America and Colombia, higher production in the Caribbean, lower import prices, and transition to box packaging which has allowed for: (a) fruit arriving at destination in better condition and (b) wider distribution.

The comparison of pre-war with post-war exports is made in Table 3. It reveals that countries in the Americas made up some 80% of exports in both periods. (Fuller details of exports are given in Table 4.) The banana trade is the mainstay of the economy in Ecuador, Honduras, Panama, the Windward Islands, and Martinique. It is the second most important source of foreign exchange in Costa Rica and Guatemala and contributes a significant share in Jamaica. By the mid-sixties the South and Central American countries were supplying on average, some 70% of world banana exports.

In addition to having the largest exporters of bananas, Latin America also has some countries that are importers; and if the U.N. definition of Latin America which includes all North America

Table 3. World Banana Exports, 1934/38 & 1958/62

	1934-38		1958-62	
	(000 tons)	(%)	(000 tons)	(%)
South America	417.0	17	1,424.4	36
Central America	1,173.3	47	1,227.8	31
Jamaica and Windward Islands	380.5	15	249.0	6
Guadeloupe & Martinique	62.2	3	242.6	6
Africa & Spain (Canary Is.)	270.7	11	713.5	18
Asia & Pacific	166.7	7	122.9	3
World Total	2,470.5	100	3,980.2	100

Source: *F. A. O. Monthly Bulletins.*

Table 4. Banana Exports — America's & Caribbean 1959-64

(000 tons)

	1959	1960	1961	1962	1963	1964
South America	**1,476.0**	**1,509.1**	**1,447.8**	**1,478.7**	**1,766.5**	**1,734.2**
Bolivia	—	—	—	—	—	0.6
Brazil	213.1	241.9	245.9	216.3	205.9	225.5
Chile	—	—	—	—	0.1	—
Colombia	203.3	190.7	205.6	147.1	202.6	171.6
Ecuador	1,051.7	1,065.0	985.3	1,100.0	1,340.0	1,320.0
Guyana	0.7	1.7	1.8	—	—	—
Paraguay	2.7	4.9	3.7	6.2	4.1	2.1
Peru	1.0	1.1	0.6	1.4	1.0	0.2
Surinam	0.1	0.1	1.1	1.7	2.3	1.8
Venezuela	3.3	3.4	3.8	4.9	9.5	11.4
North and Central America	**1,051.0**	**1,113.6**	**1,121.4**	**1,032.0**	**1,057.3**	**1,066.0**
Br. Honduras	0.1	0.1	0.3	0.3	0.3	0.4
Costa Rica	213.4	272.8	230.9	292.5	261.9	293.7
El Salvador	2.0	2.4	0.5	0.1	0.8	1.0
Guatemala	146.2	197.6	163.9	89.7	121.5	111.0
Honduras	359.6	363.1	430.4	378.4	343.6	349.0
Mexico	36.1	10.6	22.6	8.4	11.6	17.1
Nicaragua	2.1	3.7	1.3	11.4	18.7	27.2
Panama	291.5	263.3	271.5	251.2	297.9	266.6

Table 4. Banana Exports — America's & Caribbean 1959-64

(000 tons)

	1959	1960	1961	1962	1963	1964
Caribbean	**638.7**	**722.7**	**740.3**	**749.5**	**687.1**	**565.9**
Dominican Republic	102.1	181.6	170.2	172.8	119.8	69.1
Dominica	25.4	30.5	28.4	28.1	32.0	42.9
Grenada	13.9	12.0	12.0	12.5	14.6	11.6
Guadeloupe	116.5	115.2	122.4	118.1	108.6	54.8
Haiti	0.1	2.7	4.4	4.6	4.0	0.1
Jamaica	153.8	156.9	159.6	148.5	162.5	177.2
Martinique	131.4	126.2	137.8	151.3	117.0	86.0
Montserrat	0.1	0.1	0.1	0.3	—	—
St. Lucia	27.6	27.7	39.2	48.9	53.2	61.2
St. Vincent	24.5	23.0	21.1	22.1	25.6	—
Trinidad & Tobago	4.2	4.2	2.7	1.6	0.3	0.3
U. S. A.*	39.1	42.6	42.4	40.7	49.5	62.7

* *U. S. A. customs area, which includes Puerto Rico.*

Source : *FAO Yearbook, 1965*

Table 5. Banana Imports: The Americas, 1960-1964

(000 Tons)

	1959	1960	1961	1962	1963	1964
Argentina	205.5	191.3	211.8	176.3	163.2	183.2
Chile	29.8	42.5	17.2	25.8	63.8	28.0
Peru	1.0	2.4	4.4	8.1	10.8	5.3
Uruguay	12.3	23.8	30.8	19.3	24.9	30.0
Neth. Antilles	5.2	5.3	4.8	5.1	5.1	4.3
Canada	153.6	171.7	164.2	153.5	151.1	157.0
U. S. A.	1,704.6	1,950.9	1,886.0	1,615.2	1,667.0	1,744.1

Source : *FAO Annual Trade Book 1965*

is applied, it is the largest importing area.[3] The United States takes some 40% of total world imports, and has the highest level of per capita imports in the world (23 lb per capita). Argentina, the main importing country in South America, draws its supply from Brazil, with which it has a barter agreement.

Excepting in the cases of the Commonwealth Caribbean countries and the French territories, Latin American countries do not receive preferential treatment in the form of tariff protection, quotas, etc., in any import area. Generally, the role of Government in these countries (i.e. in the "non-preferred" producing countries) has not extended beyond encouragement of investment and trade. This contrasts with the situation in the Caribbean (which in the main supplies sheltered markets) where governments take the "middle road" in influencing production and provision of some services.

In some cases (e.g. Ecuador) the Government has provided credit assistance through national and private banks. In *Ecuador* much of the banana expansion has been financed by loans to producers from local banks out of funds granted by the Government for the specific purpose of promoting agricultural development. From 1950 to 1963 this amounted to $16m or roughly 17% of total loans granted for cultivation of agricultural products. The peak in a single year was $1.8m. in 1956. New private bank loans are largely confined to the exporters and intermediaries, and only on a decreased scale to growers.

In 1963, Government, taking regard of the increased competition in the banana trade and reduced returns to farmers, established the DNB (Direccion Nacional del Banano) as the executive and specialised organ to deal with problems related to the production and trade of bananas.

In *Colombia,* Consorcio banana company[4] makes medium term loans to producers at an interest rate of 9% to 10%, as well as interest-free short term loans (2 to 3 months). At Turbo, United Fruit under its new contract system grants loans for five-year periods, fixed at $693 per hectare at 9% interest.

In *Costa Rica* the Central Bank (in conjunction with Standard Fruit and Shipping Company) is rehabilitating cultivations at Puerto Limon. A number of government organisations and institutions are also actively co-operating in the project, and these include a technical co-ordinating committee created by the

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3 See Table 5

4 See Country Notes.

National Council of Production which will control all technical services, and the Planning Office of the Ministry of Crops and Livestock.

The picture in *Honduras* is that the Development Bank of Honduras is essentially interested in encouraging diversification, rather than financing expanded banana output through independent farmers.

The Government of the *Dominican Republic* created, in 1964, the Institutio Nacional para la Promocion del Guineo (Inaprogui) with financial aid provided through the Agricultural Bank, to assist small banana growers, give technical assistance, and to serve as marketing organisation on behalf of producers.

It is worth noting, too, some variations in taxation policies in the region. The banana industry in Ecuador is subject to rather high tax levies by the Government to create infrastructural improvements. In 1963, taxes on bananas accounted for 18% of total direct taxes collected in Ecuador. In 1964, all taxes levied on production, transportation and exportation of bananas were abolished and replaced by a single *ad valorem* tax equivalent to 21.4% of the f.o.b. value.

In contrast, the Government in the Dominican Republic has granted tax concessions to banana farmers, including subsidies on the cost of basic materials and farm requisites. All equipment and materials used for rehabilitation of banana plantations are exempt from taxation. Similarly the two companies hitherto operating in the country have not had to pay tax on imports of equipment and materials to be used in the banana industry, but have been liable to a tax of 15% on their net operating profits.

Some Aspects of Prices and Markets

Under the pressure of increased supplies banana prices have been irregular, and the main tendency since the mid 1950's has been for larger quantities to be sold at lower prices. This is true both for the free markets (U.S.A. and W. Germany) and the sheltered markets (U.K. and France). The declines in the free markets have been sharper, particularly in the U.S.A. The unweighted prices of Table 6 understate the position.

Average import prices have consistently been higher in the protected markets (UK and France). Jamaica and the Windward Islands as Commonwealth territories have special status in the U.K. market, which has a preferential tariff system. Non-Commonwealth suppliers face a duty of roughly 15% *ad valorem,* in addition to a quota system. The system of regulation of the

French market (in favour of Martinique and Guadeloupe) aims as far as possible at an orderly distribution of supplies over the year to maintain stable prices at a remunerative level to the producer ; so that although French imports rose rapidly (362,000 tons 1963 ; 353,000 tons 1964 ; 430,000 tons 1965) the price level did not change appreciably.

Table 6. Bananas : Average Import Prices, 1958-1965

(U.S. cents per kilogram)

Importer	1958	1960	1962	1963	1964	1965
UK (Jamaica Wholesale Price, London)	30.0	28.1	27.5	28.2	30.4	—
France (Gaudeloupe f.o.b. French ports)	23.6	20.1	19.6	22.5	23.5	22.7
Federal Republic of Germany (Ecuador f.o.b. Importer to Wholesaler Hamburg)	14.6	13.3	14.0	14.7	13.2	14.1
USA (Central & South America f.o.b. Importer to Wholesaler New York) (a)	16.3	14.3	13.3	12.6	—	—
(b)	–	–	–	16.8	17.0	

(a) bunches (b) cartons

Source : *FAO Commodity Review 1966.*

The French tariff now operates within the Common Market system. For rates see Table 7 below.

Table 7. Common Market Tariff System.

	General Rates	*Rates to Associated Countries*
	(% ad valorem)	
Belgium-Luxemburg	16.5%	9%
France	20.0%	11%
Germany	6.0%	Free
Italy	20.0%	Free
Netherlands	16.5%	9%

A special protocol of the Rome Treaty provided for a duty-free quota in West Germany based on 1956 imports. The Treaty also provides for a 20% *ad valorem* common external tariff, while the tariff to be applied to Associated countries is to be decreased gradually to zero.

The sources of banana imports in the ECM in 1963 are given in Table 8 below :

Table 8. Proportional contribution of Banana Exporting Countries to E.C.M. Imports, 1963
(Percentage)

Exporter	E.C.M.	W. Germany	France	Italy	Belg-Lux.	Neth.
Ecuador	22.6	45.0	0.9	—	41.6	16.3
Colombia	17.5	29.7	0.4	—	32.9	48.4
Central America	10.7	21.0	—	—	9.7	19.5
Guadeloupe and Martinique	17.7	—	54.5	2.5	—	1.2
Africa	29.7	4.3	43.9	92.9	12.9	0.3
Others	1.8	–	0.3	4.6	2.9	14.3
All	100.0	100.0	100.0	100.0	100.0	100.0

(In 1963, U.K. drew 76% of its supplies from Jamaica and the Windward Islands, 0.9% from Brazil and 23.1% from Africa and 'Others'.)

In Tables 9 and 10 available information on price formation is indicated. Central American production and distribution are completely integrated so the farm-gate price was deducted from the f.o.b. level. The data shows that the free market exporters are low cost suppliers ; that farm-gate prices are higher for the sheltered suppliers ; that shipping and insurance costs are higher from the Caribbean, than for imports into Western Europe from South America ; that retail prices are double the import price with profit margins in the importing country amounting to one-quarter of retail prices. One interesting feature is the high cost of the box, which is almost as much as the net price received by the farmer.

Table 9. Banana Price Formation: Farm gate to CIF 1964/1965

($ U.S. per metric ton)

Elements of cost	Ecuador to N. York	Ecuador to Hamburg	Colombia to Hamburg	Dominican Republic to N. York	Central America to N. York	Jamaica to N. York	Martinique to Martinique	
Farm-gate Price	30	30	n.a.	20	20-30	47		90
Box Packing	6	6	n.a.	1				
Carton	22	22	n.a.	20				
Transport to Wharf	3	3	n.a.	12	59	47		42
Taxes	11	11	n.a.	3				
Stevedoring	4	4	n.a.	4				16
Exporters Overhead and Margin	4	4	n.a.					
F.O.B. Cost	80	80	70	60	79-89	94		148
Ocean freight and Insurance	32	50	46	36	25	54		69
C. I. F. Cost	112	130	116	96	104-114	148		217
Unloading and Misc. expenses	11	14	14	14	11	10		22
Importers Landed Cost	123	144	130	110	115-125	158		239
Importers Selling Price	140	164	140	140	140	175		263

Source: *F.A.O. (initial attempt to illustrate comparative cost and price patterns).*

Table 10. Banana Price Formation : CIF to Retail, West Germany, France and United Kingdom, 1963.
(U.S. Dollars)

	West Germany			France			United Kingdom		
	Price per Kg	% of CIF Price	% of Retail Price	Price per Kg	% of CIF Price	% of Retail Price	Price per Kg	% of CIF Price	% of Retail Price
CIF Price	0.15	100	44	0.21	100	51	.148	100	38
Duties and Taxes	0.02	13	6	0.01	5	3			
Cost of Imports up to Ripening Storage	0.02	13	6	0.04	19	10	.138	39	36
Ripening costs	0.05	33	15	0.05	24	12			
Wholesale Price	$0.24	159	71	$0.31	148	76	.286	193	74
Profit margin (Wholesale & Retail)	0.10	66	29	0.10	47	24	.100	68	26
Retail Price	$0.34	225%	100%	$0.41	195%	100%	$.386	216%	100%

Source : *West Germany and France — La Marche de Cafe, du Cacao, et des Bananas dans les pays de le CEE, 1963. U.K. — FAO Papers.*

A study of GATT in 1963 showed that the price paid to growers represented about 15% to 12% of the retail price in the importing country. Packing, transportation to port and handling accounted for another 5%. This means that the f.o.b. price represents between 20% and 25% of the retail price. Insurance and freight charges varied in a range roughly between 10% and 20% of the retail value. Altogether import duties, taxes, storage and ripening costs, distribution expenses and profits represented between 55% and 70% of the retail price.

Some Comments And Projections

The questions of access to markets and recent developments in import policies have increasingly become the focus of attention, and the divergence of views on market access and on organisation of import markets is becoming clearer. There are several points of view corresponding to the traditional market relationship.

First, there is a view of importing countries which impose quantitative controls and grant special tariff or other preferences to certain areas. They consider that these systems are aimed at ensuring regularity of supply at prices which they think provide a remunerative return to producers and at the same time are fair to consumers.

They stress that the organisation of their markets facilitates a steady expansion of per caput consumption, which in fact, has risen substantially in recent years, and which has brought an increase in the income of producers.

They say the quantitative controls are aimed at ensuring adequate supplies throughout the year in accordance with requirements. These importing countries also stress that there are other ways of stimulating consumption than by lowering prices, e.g., by improvements of the presentation of the product and the more effective distribution.

The second point of view from exporting countries which supply those regulating markets, broadly supports these viewpoints. They emphasise that the system enables their countries to plan on sure foreign exchange earnings and enable their farmers to obtain fair and remunerative returns. Some also consider the opportunities for export crops alternative to bananas as limited and in many instances they think that special physical and social factors prevent them from competing with the large scale production of Latin America.

On the other side is the point of view of the South and Central American exporting countries. They take the view that the greatest expansion in consumption over a longer period has taken place in countries with liberal access conditions, where consumers enjoy the benefits of active competition among suppliers. And they consider that although price fluctuations cause serious problems from time to time for exporters, lower prices facilitate expansion of consumption and establish a wider permanent demand for bananas.

They argue that the demand at the new level continued to a larger extent even when prices rose as a result of supply changes, and so provided the dynamics for permanent expansion of consumption.

Generally, they feel that all barriers to trade which raise the prices to consumers and discriminate against producers (quantitative controls, customs duties, distribution taxes, etc.) are detrimental to the growth of consumption and that the removal of such barriers would be to the long term benefits of all producing countries. These exporting countries have stressed the economic and social difficulties which they face as a result of the existence of trade obstacles.

Some importing countries which adopt an open market policy, or which advocate non-discriminatory and free access to all markets are sympathetic to the Latin American view. They contend that per caput consumption was highest in countries in which restrictions did not exist. Furthermore, some of the largest increases in per caput consumption have been secured in countries in which restrictions on imports or customs duties had been progressively relaxed.

South and Central American producers have been particularly concerned with the adverse effect which the full imposition of the common external tariff might have on their exports to the European Common Market, and they still hope that the E.E.C might be able to eliminate this tariff. The E.E.C. view is that producing countries would have to await the results of the Kennedy round of negotiations in the G.A.T.T.

Regarding production programmes and longer term outlook for production and consumption, the situation can be summarised in this way. The general view is that supplies available for export are even now considerably larger than the quantities currently exported (and the small table given on Ecuador in the paper demonstrates the high element of waste). This view also considers that availabilities in 1970 could be very much higher than

the current estimate of 6.8m. tons. Also, some steps have already been taken by some producers to limit expansion because of concern about demand prospects, and the underlying situation is that production could be rapidly increased if new market opportunities are available. Consequently, the predominant Latin American view is that the possibilities for an imbalance in the overall supply-demand picture exists, and the important need is for measures to be taken to increase consumption.

The targets for planting and production suggest that if planned plantings are realised and, given generally moderate yields, that world supplies available for export could be in 1970 more than 50 per cent greater than in 1965. Some calculations indicate a compound growth rate of roughly 7½% per annum, which is considerably higher than the 5% of the 1955-65 period. (Some projections for the countries of this region are shown in Table 11.)

Table 11. Estimated Export Availabilities from the Americas and Caribbean 1970

	1964 Exports (000 tons)	1970 Est. Export Availability (000 tons)	Increase over 1964 (%)
South America	**1,492**	**1,800**	**+ 24**
Colombia	172	400	+132
Ecuador	1,320	1,400	+ 6
Central America	**1,066**	**1,845**	**+ 73**
Panama	267	420	+ 58
Costa Rica	294	500	+ 70
Guatemala	111	200	+ 80
Honduras	349	650	+ 86
Nicaragua	45	75	+ 66
Caribbean	**(780)**	**1,320**	**—**
Dominican Republic	190	250	+ 32
Jamaica	177	300	+ 69
Windward Islands	150	300	+100
Martinique	151	270	+ 80
Guadeloupe	118	200	+ 70