DOLLAR ZONE FALLOUT OF THE EU'S SINGLE MARKET IN BANANAS: THE CASE OF COSTA RICA

Dr. James Wiley
Department of Economics and Geography
Hofstra University
Hempstead, New York 11550-1090

ABSTRACT: In 1993, the European Union adopted a banana importation plan limiting the purchase of the fruit from Latin American producers. This paper focuses on the effects of this policy in Costa Rica, the world's second banana exporter. It considers the spatial dimensions of macroeconomic impacts of the EU decision at the national level and its more local outcomes at the cantonal level.

INTRODUCTION

On July 1, 1993, the European Union (EU) initiated its Single Market program governing banana importation as part of its larger plan to achieve a common trade policy among the twelve member states with regard to non-member countries. Several thousand goods and services are now subject to Community-wide import regulations, replacing a mix of previous arrangements that reflected historical trading patterns of the members.

The banana is just one among many affected products but achievement of its Single Market, through Council Regulation 404/93, has proven very controversial. This controversy stems from the unique nature of the banana industry - its historical domination by North American multinationals (MNCs) in Latin America (referred to as the "dollar zone" in Community documents) - and the complex series of internal and external relationships that the EU seeks to maintain. The banana illustrates the difficulty of attempting to implement the Single Market concept without creating undesirable external effects.

The new policy reduces the quantity of bananas that may enter the EU from *third countries*, the terminology for non-member states who are not among the Africa-Caribbean-Pacific (ACP) group. The latter includes more than 60 nations that maintain special trade relationships with the Community through the Lomé Convention. The new EU policy protects Community production in such locales as Spain's Canary Islands, allows 857,000 metric tons of ACP bananas to enter duty-free, and establishes an annual tariff-quota that limits the importation of *third country* bananas to just over two million metric tons, a quantity more than 16% lower than average import for the early 1990s. In most years, 98-99% of *third country* bananas imported by EU members come from Latin America. Within that region, just five countries export the fruit to Europe in large quantities, furthering the spatial concentration of any negative impacts created by the plan.

This paper focuses on the outcomes of the EU policy in Costa Rica, the world's second largest exporter of the fruit. It begins with a brief overview of the country's banana industry in the period prior to the new policy as a basis for comparison to the post-1993 situation. It then explores impacts of the EU decision at two scales. Macro-level outcomes are considered at the national scale; local effects are analyzed at the cantonal level. In its conclusion, the paper evaluates these developments in view of the historical geographic backdrop of world banana commerce.

THE COSTA RICAN BANANA INDUSTRY PRIOR TO 1993

While usually reputed to have been the original "banana republic," any use of that phrase to describe Costa Rica and its banana industry in recent decades would surely mask many degrees of complexity. Although the progeny of the United Fruit Company continue to function and wield influence there, the days of monopoly control have passed and the company's subsidiaries now share the stage with other MNCs, a growing number of domestic producers, and an increasingly strong national government. This combination has enabled the country to derive greater benefits from banana exports than had been the case during the industry's earlier, monopolistic period.

Historically, banana zones constituted a periphery within the global periphery. Their remoteness provided the isolation vital to the development of enclave economies under foreign domination. In Costa Rica, this isolation diminished substantially during the past three decades with infrastructural improvements linking the coasts to the country's Central Valley, its cultural hearth and still home to most of the populace. Nonetheless, the distinct environment and culture of the banana zone remains *un otro mundo*, another world, to the average Costa Rican.

The zone itself is not a static geographic entity. It has migrated on several occasions, from the Atlantic (Caribbean) side of the central cordillera to the Pacific side and back. This occurred in response to changing conditions, including plant diseases, soil exhaustion, and labor problems. Currently, the zone is concentrated on the Atlantic side, the source of some 98% of the country's banana exports. It underwent rapid expansion during the past five years in anticipation of thus far unmaterialized market expansion in both Eastern and Western Europe. Six large transnationals (TNCs) have major operations in Costa Rica while several others are either developing them or now purchase bananas from the sizeable number of national growers.

One of the major developments in recent decades has been the rapid growth of Costa Rica's domestic production sector. By 1992, the country's "independent" producers grew more than 45% of the total bananas exported on an area that constituted 44% of Costa Rican banana lands, some 16,930 hectares. Their yield actually surpassed that of the MNCs in 1992 (CORBANA, 1993b). The domestic sector has clearly become important to the country's banana industry, though it is not without controversy.

This controversy stems from the origins of the national sector in the 1950s when the MNCs were experiencing a period of difficulty resulting from Panama disease and crop damage from storms. Several reduced their direct involvement in production by fostering the establishment of "independent" growers who would sell their crops to the MNCs. This form of contract farming later spread to other commodities within the fresh food and vegetable (FFV) industry (Friedland 1994). Transportation and marketing functions remained under MNC control, however, creating a dependency situation among the ostensibly "independent" national producers. The contract arrangement was desirable for the TNCs as it reduced their risks (crop failure, diseases, labor problems, etc.) while allowing them to continue to handle those aspects of the operation in which the vast majority of the profits were reaped.

MACRO-LEVEL EFFECTS OF THE SINGLE MARKET IN COSTA RICA

The macro-level impacts of the new policy are being felt in many parts of the world. The changes wrought by Regulation 404/93 affect the actions of import companies in Europe, producers in

ACP countries, MNCs, independent producers in exporting states, and the governments of all the countries involved. The policy, with its advantageous provisions for EU and ACP producers, may alter both the production and trading patterns of banana geography.

Several impacts are already evident in Costa Rica. These include its relationships with other Latin American exporters and with ACP states, its public sector finances, its trade balance and income realized by its banana-producing sectors, employment, the nature of competition among MNCs within the country, relationships between MNCS and independent producers, and the overall well-being of the domestic sector. Each is briefly analyzed below.

One feature of Regulation 404/93, as it was initially written, is responsible for many of the changes, although it was not the focus of media coverage on the issue. This has to do with the two million ton tariff quota for *third country* and ACP production above the protected level. The two million tons, during the first year of the program, was not broken down into individual country quotas. The only quantification involved was the allocation by category of *import company* within Europe. This caused vocal opposition from Latin America, led by Costa Rica, because it gave power to the companies that were able to obtain import licenses while providing little security for individual countries.

This led to problems between Costa Rica and some of its Latin American neighbors, particularly Ecuador and Guatemala, and undermined Latin American unity on the issue in general even as Costa Rica challenged the EU within the framework of GATT. It raised the level of competition among the major exporters as each sought to secure the largest share possible of the two million tons. With no individual country quotas to protect one's share of a smaller pie, countries began to compete through their appeal (i.e. costs, as below) to the multinational producers and import companies. The individual efforts of some countries, notably Ecuador, to gain advantage within the quota by striking alliances with import companies holding the coveted licenses further damaged relations among them. This contributed to the region's widely reported failure to maintain a unified front behind Costa Rican-led efforts to confront the new regulations (La Nación, January 21, 1994; and La República, January 27 and 28, 1994).

Costa Rica's relations with the ACP group have also suffered, especially with the Caribbean members. This was nowhere more obvious than in the March 1994 voting for a new Secretary-General of the Organization of American States (OAS). Costa Rica's then foreign-minister Bernhard Niehaus pursued a candidacy for the post in an effort to break the stranglehold that the larger American states had exercised over the position. In early January, 1994 Niehaus had verbal commitments from an absolute majority of the membership, including virtually all of the smaller countries, among them the ACP banana exporters. Following the Costa Rica-led GATT challenge, this support dissipated and the ACP group defected to the US-backed candidate, Colombia's Cesar Gaviria. This is a reflection of the more directly competitive situation that exists between the two blocks of peripheral states. Latin American and ACP exporting countries now see themselves as "us against them" with regard to trade with the EU (The Courier, No. 140, July-August, 1993; Financial Times, June 3, 1993).

In the financial realm, Costa Rica's public sector has already been affected by Council Regulation 404/93. An immediate impact resulted from a reduction in the export tax per 18.14 kilogram box mandated by Decree No. 22335-H-MAG, issued on August 1, 1993. This lowered the tax from US$0.50 to just US$0.30 to attempt to maintain the country's competitiveness relative to other Latin American exporters. This reduction applies to all banana exports, not just those destined for the EU, multiplying its impact. Costa Rica, like many of its neighbors, had first instituted the tax in the 1970s. It is the primary public sector benefit derived from the industry and its decline threatens to return the country to the conditions of an earlier age when few government revenues were realized from the banana trade.

How great will this loss be? A projected decline in exports of 16,351,869 boxes (CORBANA 1993a) leaves a total of 83,696,514 boxes to which the US$0.30 tax is applied. This indicates an annual export tax revenue loss of nearly US$25 million, representing a decline of more than 54% from 1992 revenues of $45,678,875 (Corbana, 1993b). An additional loss of more than US$1.6 million will result from the decline in tariffs applied to imported inputs used in the banana industry, estimated at US$0.10 per box (Zúñiga 1994). A total public sector revenue loss of more than $26,500,000 can be expected, substantial in a country whose 1993 government receipts, according to the Treasury Ministry, were approximately $760,000,000 (Contabilidad Nacional, 1993).

Costa Rica's "independent" producers have also felt the pinch. Their incomes are affected by an FOB export price reduction from US$5.29 to US$5.00 per box, authorized by Decree No. 22334-MAG-MEIC on July 16, 1993. This, too, was done for competitiveness reasons. The loss in foreign exchange earnings from this decision could reach $110,773,376, a decline of more than 23% from the 1992 non-tax earnings of $476,413,112 (CORBANA 1993b). While a sizeable portion of this loss will be absorbed by the MNCs operating in Costa Rica, much of it will be borne by the country's domestic production sector, pushing many independents beyond the brink of viability (see below). Their marginal existence is indicated by the fact that their production costs, estimated at US$5.00 per box in January, 1994 by ANAPROBAN, the National Association of Banana Producers, now equals the new FOB price.

The country also stands to become a battleground among an increasing number of competing TNCs, providing both challenges and opportunities. The North American MNCs that created the region's banana industry, its web of subsidiary companies, and most of its infrastructure now face greater competition from European TNCs and from companies holding import licenses in the EU. Some of these companies have entered into the production phase of the industry, developing plantations of their own. The UK's Geest, Ltd. is already cultivating 3000 hectares in Costa Rica and both Jamaica Brands and Fyffes now operate there. The rapid changes currently experienced by the country's banana industry have created an air of instability that threaten its health, at least in the short-term.

The reduction in total banana exports brought about by the EU policy decreases the quantity of bananas that each dollar zone MNC can bring into the Community. This threatens the national sector as the MNCs will first protect their own production and, therefore, lower the amounts they purchase from independents. Although the previously negotiated contracts with domestic growers remain in effect, they often include clauses that allow the MNCs to reject fruit based on quality standards. This has occurred with greater regularity since July, 1993 and, with the lower FOB price, is pushing many independents to the margins of viability. Thus, the risk aversion aspects of contract farming are increasingly exemplified by the MNCs in Costa Rica's banana industry.

Despite the hardships involved for both Costa Rican banana sectors, it is the domestic growers who are more vulnerable to the new circumstances driving the industry. Their margin for error is far smaller than that of the MNCs and their credit problems further complicate the situation. Much of the recent expansion in the independent sector was financed through debt accumulation in false anticipation of expanded markets in Eastern Europe and the EU. The fact that these debts accrued in *colones* exacerbates their weight, as interest rates average 35% on such loans. Agricultural credit is always a critical issue for small- and medium-scale producers; in this case, it conspires with the EU policy to serve as one of the major determinants of survivability. Should market conditions not improve, it is expected that the most indebted producers, rather than the least efficient, will be the first to fail. The strain is already visible, as many national producers seek to defer any cash outlays possible. By early 1994, most were already several months behind in their "social payments," the costs above salary that employers are obligated to pay into the country's social services networks (Solano, Umaña, and Zúñiga, all 1994). ANAPROBAN led efforts to obtain government action on debt relief, port charges, and lower tariffs on imported inputs. This aid was slow in coming as the government focused on fighting Regulation 404/93 rather than deal with its repercussions. It was not until April, 1994 that it agreed to the "dollarization" of the producers' debts, reducing interest rates to 10%. In summary, there are substantial fears that the the domestic production sector is in danger of collapse.

THE CANTONS OF THE BANANA ZONE

When Costa Ricans refer to their country's "banana zone," they are actually describing just nine of the 81 cantons that are the major political sub-divisions of the nation's seven provinces. This spatial concentration, typical of the banana zones in many tropical countries, is even more pronounced in Costa Rica where, currently, about 98% of the production for export comes from the seven Atlantic cantons among the nine, including all six in the province of Limón. The health of such a spatially focused major industry becomes a critical factor in the socioeconomic well-being of the regions where it operates.

The seven Atlantic banana-producing cantons of Costa Rica typify the banana zones of many countries in their lack of economic diversity. They are distant from the national core region and until recent decades, experienced less effective penetration by the state. They are culturally different from that core, including most of the country's black minority (descendants of workers brought in to build the first railroads), several small indigenous groups, and large numbers of Nicaraguans, often undocumented, many of whom work on the banana plantations. This blend of factors means that worker displacement resulting from the reduced banana exports caused by Regulation 404/93 will occur in a situation where few job alternatives exist. The structured nature of the industry and the vast spaces occupied by the plantations further complicate matters because those who are released lose more than a job. Their housing and utilities are normally part of their remuneration package, along with health care and other benefits which, in Costa Rica, are extensive compared to those in many developing countries.

Employment in commercial tropical agriculture is hard, physical work disdained by people, such as Costa Rica's modern middle class, having alternative means of sustenance. Banana plantation jobs certainly match this profile, but for those lacking options, bananas offer advantages over other possibilities in the agricultural sector. Despite the controversial legacy of the industry, it does provide year-round work at higher wages for most its employees than do the frequently seasonal alternatives available with other crops. In Costa Rica, full-time banana workers' salaries are 24% above national norms for agriculture, in addition to the benefit package noted above. Despite numerous technological advances, the industry remains labor-intensive. From plantation preparation to packing, the need for workers is nearly constant as the harvest continues throughout the year.

The nine banana-exporting cantons manifest several attributes that reflect their predominantly agricultural profiles. Their social development indicators in such categories as illiteracy, nutrition standards, and social insurance coverage are below national norms according to several studies. With regard to illiteracy, eight of the nine cantons have rates ranging from 10.9% to 22%, comparing unfavorably to the national average of 6.95%, one of Latin America's lowest. The exception, Limón, has a sizeable port city that increases the urban nature of the cantonal population (Instituto de Fomento y Asesoría Munícipal 1992).

In other studies, the UICN (1992) provides data indicating poorer housing quality standards for the seven Atlantic cantons, and substantially lower rates of social insurance coverage for three of the seven. An index created by Ramírez and Barahona (1991) produced low social development values for eight of the nine cantons. Ramírez (1991) illustrates poorer nutrition, education, and housing levels for the eight rural cantons. While banana workers are not always the cause of these low indicators, their addition to the ranks of the unemployed in so concentrated an area will prove to be a very difficult burden to absorb.

How many Costa Ricans will lose their jobs as a result of Council Regulation 404/93? Using CORBANA's (1993a) projection of a 5% decline in the country's share of Latin America's reduced banana exports to the EU, a direct job loss of 6,822 posts is anticipated. This is based upon a 6822 hectare decrease in cultivated area calculated at one worker per hectare, the industry's average in Costa Rica. While this number appears small, at five persons per family, it means that nearly 35,000 people will be directly displaced by the EU policy. This is more than one percent of the national population, almost all of them residing in the country's least developed districts. These figures exclude any reductions in employment indirectly related to the banana industry that may also occur. The dearth of options available in the nine cantons will likely produce an increase in rural-to-urban migration, with most of that directed toward San José and its environs.

In summary, it is at the cantonal level where the impact of Council Regulation 404/93 will most be felt. The banana zones offer few labor-intensive alternatives sufficient to absorb people displaced by the declining demand for Costa Rican bananas caused by restricted access to the EU market.

CONCLUSIONS

The EU and its Single Market in bananas are yielding several impacts in Costa Rica. The country faces a readjustment process if it is to confront the new realities driving one of its most important industries. Despite efforts at diversification motivated by the 1980s debt crisis, the banana remained its leading earner of foreign exchange in 1993. Growth in non-traditional exports and tourism will soften the blow of Regulation 404/93 at the national level but traditional crops remain important to the national economy.

It will be the cantonal level, however, where the effects of Council Regulation 404/93 will be more deeply felt and where diversification has thus far had little impact. Efforts are under way; experimental projects involving shrimp, fisheries, and new crops already exist but most lack the labor intensity of bananas. While they may replace lost foreign exchange earnings, they are unlikely to do the same for lost jobs.

The situation faced by Costa Rica can be seen as indicative of the onset of a new stage in the banana industry's development worldwide, one that promises to alter the balance among its TNCs, creating greater space for European-based companies to function within the *dollar zone* while impelling the North American MNCs to move into the several ACP states having room for expansion of banana cultivation. In the process, the companies involved will likely alter, once again, the geography of commercial banana production, with an overall contraction of the industry in Latin America and a substantial loss of jobs within the banana zones.

A damaging aspect of this new stage may stem from the reassertion of international capital that it entails. This is exemplifed by the threat, indicated in the Costa Rican situation, to the emerging national sectors. Their niche in the industry, always dependent on the MNCs, is now under duress and they face a strong possibility of failure. Increased coordination and professionalization of their efforts to create transport and marketing linkages independent of the MNCs are necessary if they are to withstand the challenges of this new stage but such a trend runs counter to the vertically integrated nature of banana commerce.

The early indications are that this new phase will serve only to reinforce the pre-eminence of international capital that has long characterized the industry. Exporting states that had begun to lay claim to greater financial benefits from the industry are now reduced to less productive, reactive stances. With this trend, the banana may not differ substantially from the current globalization trends affecting other FFV and primary sector commodities industries within the world economy, leaving Costa Rica with even less than the rather limited control it now has over its economy.

REFERENCES

ACP-EEC Convention of Lomé (Lomé IV). Signed December 15, 1989. Lomé, Togo.

Commission of the European Communities. 1993a. "Council Regulation (EEC) No. 404/93 of 13 February, 1993 on the common organization of the market in bananas." Official Journal of the European Communities, Brussels, February 25, 1993.

. 1993b. "Commission Regulation (EEC) No. 1442/93 of 10 June, 1993 laying down detailed rules for the application of the arrangements for importing bananas into the Community." Official Journal of the European Communities, Brussels, June 12, 1993.

. 1991. "The Community's Banana Market in the run-up to 1993." Section for Agriculture and Fisheries, Brussels.

Contabilidad Nacional (1993). Cuadro 1: *Gobierno Central, Ingresos de Presupuesto Ordinario.* San José, Costa Rica: Ministerio de Hacienda, September 30, 1993.

Corporación Bananera Nacional (CORBABA). 1993a. *Repercusiones Para Costa Rica de la Aplicación de Cuotas en el Mercado Bananero de la C.E.* San José, Costa Rica: CORBANA.

. 1993b. Informe Anual de Estadísticas de Exportación de Banano, 1992. San José, Costa Rica: CORBANA, Sección de Estadística.

The Courier: Africa - Caribbean - Pacific - European Community. *Bananas: The real issue is the survival of our country.* No. 140, July-August, 1993. Brussels, Belgium: Commission of the European Communities.

DOLLAR ZONE FALLOUT

Decreto No. 22334-MAG-MEIC (July 16, 1993). San José, Costa Rica: Poder Ejecutivo.

Decreto No. 22335-H-MAG (August 1, 1993). San José, Costa Rica: Poder Ejecutivo.

Financial Times. June 3, 1993. *Caribbean banana producers attack GATT challenge.*

Friedland, William. 1994. *The Global Fresh Fruit and Vegetable System: An Industrial Organizational Analysis.* The Global Restructuring of Agro-Food Systems; Philip McMichael, editor. Ithaca, NY: Cornell University Press.

Instituto de Fomento y Asesoría Munícipal. 1992. Cantones de Costa Rica: Datos Básicos. San José, Costa Rica: Departamento de Planificación.

La Nación. *Aplazada reunión bananera.* January 21, 1994. San José, Costa Rica.

La República. *Continúa la discordia entre países productores de banano.* January 28, 1994. San José, Costa Rica.

. *Alianza de Ecuador, Panamá, Guatemala, Honduras, y México. Costa Rica al márgen de negociación bananera.* January 27, 1994. San José, Costa Rica.

Ramírez Rodríguez, Edwin. 1991. Pobreza Rural en Costa Rica: Análisis Comparativo a Nivel Cantonal, 1973-1984. San José, Costa Rica: MIDEPLAN.

Ramírez Rodríguez, Edwin; and Manuel Barahona Montero. 1991. *Costa Rica: Zonas de Mayor y Menor Desarrollo Relativo.* San José, Costa Rica: MIDEPLAN.

Solano, Father Claudio; Director of the Caja Costarricense de Seguridad Social. Personal communication, January, 1994.

Umaña, Luís, Secretary General, ANAPROBAN. Personal communication, January, 1994.

UICN/IUCN. 1992. Diagnóstico del Impacto Socioambiental de la Expansión Bananera en Sarapaquí, Tortugero, y Talamanca, Costa Rica. San José, Costa Rica: UICN.

Zúñiga, Martín; Economic Analyst, CORBANA. Personal communication, January, 1994.