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Introduction

The basic premise of this paper is to apply Thomas A. Poynter's model of bargaining power determination[1] to the specific case of the United Fruit Company's (UFCO's) activities in Central America, with an emphasis on the historical development of the firm and its relations with the four countries affected by it: Costa Rica, Guatemala, Honduras, and Panama.[2]

The Model: Government-TNC Relations and Bargaining Power

Poynter's theory of bargaining power is actually a comprehensive model for determining the negotiating position of a multinational or transnational enterprise toward its host government. Utilizing various factors, Poynter constructs a flexible basis for corporate and national strengths and weaknesses that is applicable to virtually any case of government-TNC relations.

Three general determinants of bargaining power are outlined by Poynter: (1) The company's *core activities* are those that are essential to industrial success; in the case of UFCO, these would include marketing expertise, technological innovation, and capital access. (2) *Control* refers to which of the actors has relatively more authority over the skills and technology to be applied. As will be shown later, United Fruit has been the source of this factor throughout its life. (3) *Perceived versus actual power* is a very complex component of bargaining power. Essentially, host governments act according to their observations of the current state of affairs; Central America has been no different.

Beyond these broad categories, Poynter extends his factor model to specific corporate and national determinants of bargaining power. The principal corporate influences include: (1) *Operational and managerial complexity*, which is particularly prohibitive to an underdeveloped nation lacking in the expertise and capital resources to sustain a large and risky enterprise. (2) The *number of foreign nationals in senior subsidiary positions* has been difficult to determine in UFCO's corporate structure; however, characteristically the highest management positions are occupied by U.S.

personnel.[3] (3) *Vertical integration/sourcing* is a particularly pertinent factor in the case of UFCO because of the company's preoccupation in establishing completely integrated, independent enclave operations. We will examine this aspect further in detail, as it applies to the penetration phase. (4) *Exports*, according to Poynter, have a beneficial effect on a corporation's bargaining power; UFCO is no exception to this rule, as its exports are a large source of revenue for the Central American republics.

Among other determinants of corporate bargaining power, Poynter lists the following: (1) The corporation's *impact* on its host's economy; the focus here is on labor union strength and the quantity of individuals employed by the corporation. Poynter feels that these are the most important indicators of a company's impact on its host.[4] (2) The *strategic importance* of the TNC is also considered of benefit to its position. For UFCO, this seems to be a significant factor, since the banana industry is among the top three sources of earnings for Central America. (3) Closely related to the second element is *industry type*. Banana production has several characteristics that set it apart from other types of agribusiness. These will also be discussed in the penetration phase of UFCO's development.

With respect to national bargaining power, Poynter distinguishes between *political* and *nonpolitical* determinants. The latter consist of technology, resources, and market access and attractiveness. In the case of UFCO, we have found that none of these elements have had a significant impact on the hosts' bargaining power positions. Technology is generated internally by the company; the only natural resources necessary to production are land and labor, two readily available and easily acquired factors; and the principal market for bananas is external, not within Central America. As for the *political* influences on bargaining power, these are perhaps the strongest factors. Bilateral and multilateral relations between the United States and the countries of Central America have greatly affected the position of UFCO in that area. As we will see in the cases of Honduras and Guatemala, U.S. intervention in favor of a prominent corporation is not rare.[5] Closely tied to this is ideology. The location and strategic importance of Central America to the United States have led to numerous interventions over the years—military and economic—especially in the cases of socialist influences, as we will see in the Guatemalan case. Finally, political stability as a factor of bargaining power determination is very important in Central America. In the course of our investigation, we have found that those governments

that suffer from unstable regimes and social disorder are subject to more control by TNCs.[6]

In addition to Poynter's factors of bargaining power determination, two more should be added in the study of UFCO in Central America: foreign legislation, as seen in the effects of U.S. antitrust laws on UFCO's monopolistic position, and the historical development of the region as a part of the Third World. A more in-depth look at this aspect follows.

Central America: Historical and Geopolitical Implications

As underdeveloped countries, the Central American Republics historically have been subjected to economic, political, and military domination by outside forces, particularly the United States. In this paper, the objective is to focus on the economic and political forces at work in the region as they apply to TNC penetration.

Economically, the Central American Republics are essentially victims of the law of comparative advantage. These countries are traditional exporters of agricultural products due both to their rich volcanic soils and their lack of industrial capacity. At the same time, however, they are severely limited in the **types** of agricultural products they may provide for their principal market—the United States. The so-called Banana Republics or dessert economies cannot compete with their neighbor to the north: their primary exports are coffee, bananas, beef, coconut, pineapple, and sugar, not because that is all their lands will produce, but because that is all they can sell competitively in the world market.[7] Attempts at industrialization—such as those made through import substitution policies—have been hindered by U.S. trade and commercial policies that have in effect protected U.S. industries from Central American ones attempting to enter the market. A primary factor in this protectionism is the relative strength of U.S. corporate lobbies in determining trade policy. U.S. initiatives to provide markets for Central American produce, such as the Caribbean Basin Initiative, have consisted of purchasing only certain nontraditional exports or products unavailable in the United States while restricting any product that might compete with U.S. producers. In a similar vein, technical or monetary assistance for Central America's independent industrial development has been restricted to those areas that contribute to U.S. industry, such as maquiladoras providing cheap labor, rather than areas that would lead to independent, competitive production. Politically,

the countries of Central America are carefully, and quite effectively, manipulated by the United States, a course not likely to be altered in the near future because the region is simply too important to that country to permit its freedom in commercial or national security issues.

One of the most distinctive elements of U.S. attachment to and involvement with Central America is the role played by transnational corporations in the historical development of the region. A considerable part of the railway and communications systems and public utilities was provided by the first TNCs to be established in these countries: the banana companies of United Fruit and Standard Fruit. The construction and maintenance of such infrastructure could be accomplished only through large and intensive injections of capital—and mainly by foreign investors, considering the conditions of the countries described above.

Such TNC "contributions," although beneficial to the countries being studied, have also had detrimental effects on their national economies and political lives. The historical dependence of Central America has been intensified and consolidated through the dependence on foreign capital and investors.[8] The formation of monopolies and oligopolies throughout the region has led to distortions within the individual economies and a futile competitive struggle between small national firms with little access to capital or financing and huge transnational conglomerates with virtually unlimited power. The most vivid example of this phenomenon is the experience of United Fruit in Central America.

The History of United Fruit: Bargaining Power Maximization

According to various authors on the subject, UFCO's activities in Central America can be characterized by three phases: penetration, consolidation, and expansion, which closely correspond to the political economies adopted by the national governments over time.[9] The first of these phases encompasses the period of UFCO's introduction as a banana company: 1899–1930. The second phase establishes UFCO's presence in the Central American economic framework as one of the principal TNCs and an "enclave producer";[10] it includes the internationally unstable years from 1930–1947, as well as the period of reconstruction from 1948–1969. The third phase incorporates UFCO into the new international order of the 1970s and 1980s, when financial difficulties begin to play an important role in the Central American economies and the issue of corruption within the governments and the TNCs becomes significant.

Together, these three phases of United Fruit's involvement in Central America provide a view of that company's importance in the development of the region and the continuing influence of TNCs in the political and economic spheres of these countries.

Phase 1: Penetration

The first phase, penetration, can be described as UFCO's introduction to banana production.[11] From its origin as a joint venture between Costa Rican entrepreneur and railroad builder Minor Keith and the Boston Fruit Company in 1899,[12] UFCO experienced rapid growth and vertical integration until 1930.[13]

This period witnessed UFCO's acquisition or purchase of the following enterprises: Boston Fruit Company's properties throughout Central America; Keith's lands and companies in the area (Tropical Trading and Transport Company in Costa Rica and Snyder Banana Company of Panama); several independent companies;[14] Hubbard Zemurray Company (Cuyamel Fruit Company) in Guatemala;[15] Tela Railroad Company and Truxillo Railroad Company in Honduras, the California-Guatemala Fruit Corporation; and Chiriqui Land Company in Panama. Corporate successes outside of the region included the acquisition of the British Elders and Fyffes Shipping Company and the establishment of the Northern Railway Company in the United States, which would later provide its construction services in Central America. In addition, UFCO purchased—and was conceded in exchange for its railroad construction contracts—great extensions of land in Guatemala, Honduras, and Costa Rica.[16]

The results of all these transactions were: (1) monopoly power in banana exports from Costa Rica, Guatemala, and Panama; (2) substantial control of the region's railway transport and communications networks; (3) global control of the world's banana market, especially the United States; and (4) the reduction of UFCO's numerous competitors to one: the Standard Fruit and Steamship Company. By 1930, UFCO held 1,409,148 hectares of land in Central America—corresponding to 4 percent of the region's land surface—of which only 76,553 were utilized for banana production.[17]

Over the course of three decades, UFCO's capital stock grew from $11.23 million to $215 million,[18] a large part of this attributable to its monopolistic expansion through successful investments in subsidiaries and holdings in other independent

firms. The company's participation in banana exports from the region was 82 percent in 1930, representing 100 percent of Costa Rican, Guatemalan, and Panamanian exports and 73 percent of those of Honduras. In relation to world banana production, UFCO was responsible for 60 percent of the total, and 47 percent came from these four countries.[19]

UFCO's bargaining power during this phase of penetration was based primarily on Central America's lack of capital and socioeconomic infrastructure. Most of the contracts signed between UFCO and the national governments included provisions for the construction of railroads, which were essential to UFCO's operations as well as beneficial to the countries in their desire to "open up" undeveloped areas to productive uses.[20] In some cases, the agreements involved not only permission to purchase or utilize national lands but actual concessions of thousands of acres in exchange for the construction and maintenance of railroads that also remained in the hands of UFCO.[21] Unfortunately for the Central American Republics, hundreds of miles of railroad in the region are located in isolated areas and have never been connected to population centers as means of national or international communication.

Another example of UFCO's influence in this area is its contribution to the banana industry itself. Although exports occurred before UFCO's introduction,[22] the firm managed to intensify and integrate all aspects of the process from plantation to embarkment and final marketing and distribution in the United States. A full description and discussion of banana production methods is impossible here, but it is important to indicate the unique features of the product under consideration: a highly perishable fruit requiring the utmost care and speed in transportation and delivery.[23]

The first exporters of bananas produced them in enormous quantities, having to dispose of over half the fruit due to spoilage and carelessness before it could arrive at its final destination. With the advent of refrigerated ships in 1903 and advanced packing techniques adopted over time, the idea of mass production and export became conceivable and indeed profitable for those with the investment capabilities to exploit it. UFCO happened to be the company willing to take the financial and political risks involved in just such an enterprise, and playing on Central America's need for investors, the company constructed its monopolistic base in the region through vertical integration in its production process. Directly related to the technological aspect of its bargaining power during this period was the company's capacity to market and distribute its product. UFCO's output in Central America was not

intended for the local markets, but for the United States.[24] Only a company with vast resources and previously established contacts could have taken advantage of the overwhelming demand for bananas at this time. In addition, UFCO utilized its own ships due to the Central American countries' lack of transport vessels. Within a decade of its birth, the company had tripled its output and was virtually a fully integrated producer.[25]

Turning to Poynter's list of bargaining power determinants, we find that the banana division had as its core activity the production and export of fruit. The subsidiary was in complete control of its operations, from planting and harvesting to shipment and distribution. There was very little discrepancy in this first phase between perceived and actual power, mainly because the countries recognized their incapacity to develop independently of foreign capital. The need for special transport systems and refrigeration was at the height of technological complexity. Practically all decision making was in the hands of foreign nationals. Vertical integration was thorough and highly centralized under company control. The size of the subsidiary was reflected in its use of regional economies of scale and its ability to purchase or dispose of any competitors.[26] And the very type of industry lent UFCO strength due to the growing demand for a unique product and the limitations surrounding its cultivation (climate, temperature, proper drainage, special soil types, susceptibility to diseases, etc.) that increased the risks involved in the company's operations. UFCO's bargaining power from 1899–1930 can be described only as indomitable, a fact substantiated by one of Poynter's own observations. According to his investigations, newly entering, large, and strategically important subsidiaries are typically subjected to more host government intervention.[27] However, in the case of UFCO, all three of these factors, in spite of their applicability to the company's position, were outweighed by Central America's dependence on external capital and the need for infrastructural, as well as industrial, development.

Phase 2: Consolidation

The consolidation phase takes place from 1931–1969 and consists of two stages: a period of economic hardship for both UFCO and Central America that extends from the Great Depression through the end of World War II and imposes severe limitations on the company's operations and expansion; and a period from 1947–1969, characterized both by the promotion of import substitution policies that allowed

UFCO's horizontal integration and by export diversification strategies that strengthened UFCO through banana exports but were accompanied by popular movements and government reaction against TNC exploitation of natural resources. The primary determinants of UFCO's bargaining power during the second phase are therefore political and of external origin, in contrast to the company's internally generated power in its first thirty years.

This phase is referred to as consolidation because it represents UFCO's decision-making processes in the face of grave obstacles. UFCO's ability to overcome increasing political risk and preserve its bargaining power position in Central America during this period is reflected in its continuance as an oligopolistic force in the region and its adaptation from enclave production to agribusiness.

Economic Hardship (1931–1946)

Decreased imports from the United States because of the international recession and reduced output due to the spread of a harmful fungus known as Panama disease led to drastically diminished income for UFCO in the 1930s. The latter destroyed large expanses of land dedicated to banana production and eventually forced UFCO to relocate its primary facilities from the Atlantic to the Pacific coast.[28] Despite these complications, however, the company displayed its adaptability by purchasing more lands not affected by Panama disease and acquiring companies along the Pacific coast, such as the Pirris Farm and Trading Company in Costa Rica and the Compañía Agricola in Guatemala.[29] Government agreements permitted UFCO to expand its railroads and land holdings in these new areas, thus contributing to the company's recovery.[30] Meanwhile, railroads and communication networks were left behind as subsistence agriculture reclaimed the abandoned territory on the Atlantic coast.[31] With the onset of WWII came another period of slow growth and decreased exports.[32]

Throughout this period, however, UFCO managed to maintain its average annual net earnings at $26.5 million,[33] and between 1939 and 1945 the average dividend paid was $3.60 per share, the lowest occurring in 1943: $2.25 per share.[34] These economic successes were due to UFCO's export of strategic materials such as hemp, rather than bananas.[35] By 1947, however, the company had resumed expansive activities in the banana sector, with the following contributions to the region's GDPs: Costa Rica, 16.5 percent; Guatemala, 22.7 percent; and Honduras, 38.7

percent. Of the countries' total exports, bananas represented 46 percent, 42 percent, and 78 percent, respectively.[36]

Political Economies and Corporate Flexibility (1947–1969)

This period exhibits the most dramatic changes in UFCO's relations with the countries of Central America. Import substitution policies since the 1930s had failed to achieve many positive effects on these economies because of their lack of internal development resources. And foreign direct investment during the late 1940s and early 1950s was dominated by fruit companies as they enhanced their infrastructures with new techniques of preventing disease.[37]

Other U.S.-based companies entered the region at this time to avoid large tariffs imposed on imports. As a result, we see an increasing dependence on TNCs in the region.[38] This is particularly true of UFCO, which continued to enhance its enclaves with schools, telephone systems, electric plants, and sanitation services, in effect transforming its divisions into isolated, self-sufficient societies that were more a part of the parent company than of the host country.[39] At the same time, these enclaves remained the principal source of income for Central America, causing these countries to push for revision of contracts they had signed in the 1920s that had exempted UFCO from taxes on the company's imports and permitted unrestricted repatriation of earnings. In 1949, taxes on these earnings were imposed at 15 percent in addition to the existing export tax of about two cents per stem. By 1958, all three countries had doubled the earnings tax to 30 percent and obtained UFCO's agreement to deliver many of its infrastructure works into government hands.[40]

UFCO's loss of bargaining power at this time was exacerbated by U.S. antitrust legislation that forced the company to change its form of operations[41] and by individual countries' political retaliation for UFCO's failure to fulfill its contractual obligations.[42] In addition, 1954 witnessed serious popular reactions to UFCO's presence in the region. The two most cited are the general strike by Honduran plantation laborers and political response to the company's involvement in a CIA plot to overthrow President Arbenz of Guatemala.[43]

The results of these political interactions between the countries of Central America and UFCO were the change from monopoly to oligopoly power in the banana industry, and an overall weakening of UFCO as a consequence of its own actions.

This was reflected in the company's withdrawal from several areas in the late 1950s and early 1960s.[44]

Concurrently, Central America's bargaining power during the 1960s can be said to have grown partly through the formation of the Central American Common Market (CACM), which combined the economies' efforts to industrialize and improve their terms of trade in relation to the rest of the world. A rusticated version of the import substitution model, CACM's dealings met with little success in the manufacturing area because of the unequal distribution of benefits among the countries involved and the strength of pressure groups promoting traditional export-led growth.[45]

By the end of the 1960s, UFCO had adapted its operations to these new developments and was an active participant in the now more diversified economies of the area, purchasing portions of its bananas from local associate producers and investing capital in other industries.[46] Only one additional company had joined UFCO and Standard Fruit as a major producer of bananas: Del Monte.[47] And in 1968 the percentage of export income provided by bananas was still considerable: in Costa Rica, 25 percent; Guatemala, 6.1 percent; and Honduras, 42.6 percent.[48]

An analysis of UFCO's bargaining power during this time period shows that many factors have remained constant since 1900, in spite of political, social, and economic transformations within the area. Thus, we can state that UFCO's core activities, as well as its control of such activities, have experienced little alteration. The nationalization of some infrastructure has reduced UFCO's influence over some aspects of its operations, but the actual technological skills and access to capital have remained in the hands of the individual subsidiaries and divisions.[49]

One factor that has definitely changed since 1947 is the power of UFCO as perceived by the four countries. The nations of Central America have adopted more independent stances over the years, attempting to reduce or diversify their dependence on the United States. In particular, Costa Rica and Honduras have exhibited their newfound bargaining positions in the area of banana production, the first by initiating laws to permit other TNC's entry,[50] and the second through a general strike, which was supported by the government as a "patriotic stand." In spite of such accomplishments, however, UFCO was permitted to retain its control in these areas and to continue its process of consolidation, confirming that the company's actual power still outweighed any perception of certain weaknesses in its organization.

In reference to corporate determinants of bargaining power, UFCO still exhibits its superiority in handling the complexity of banana production. Although the level of skills required for actual banana production is relatively simple, the process of protecting the plantations and transporting the bananas to their point of sale is still beyond the capacity of an underdeveloped country. In addition, the managerial complexity of UFCO's operations is relatively high, involving decisions regarding contingency plans in times of misfortune due to natural disasters (floods, hurricanes) and disease, relations with unstable governments, and the coordination of operations located in diverse areas (the preservation of economies of scale). As far as vertical integration and export dependence are concerned, these two factors of bargaining power continued in UFCO's favor. Contract revisions between Central American governments and UFCO in the 1950s provided for additional taxation of the company's earnings and a one-cent increase per stem of bananas exported; however, the original provisions for exemptions on imports for the company's use remained. Even though some of the railroads constructed by UFCO were nationalized during this period, the agreements made gave UFCO excessive privileges in the price of transporting its product and the amount of compensation it was paid. In addition, UFCO's participation in regional exports was still very great in 1969, thus preserving dependence on this transnational for export income.[51]

Perhaps the most significant factor determining UFCO's bargaining power here is the size of its subsidiaries and their impact on local economies. According to Poynter, the number of employees a firm has defines its bargaining position more than the quantity of its sales or assets.[52] This idea is certainly applicable in Honduras, where over seventeen thousand[53] employees of UFCO went on strike in 1954, bringing about a general labor stoppage.[54] Despite its labor-intensive methods, however, UFCO has not been subject to the amount of government intervention one would expect according to Poynter's observations. This could be due, in part, to UFCO's impact on the Honduran economy and the latter's incapacity to control the activities of such a large corporation.

Closely related to the size and impact factors is UFCO's strategic importance to Costa Rica, Guatemala, and Honduras. Poynter defines strategically important industries as those affecting the political and economic development of the host nation.[55] According to this definition, UFCO would have little strategic importance for Central America, due to its external market and its focus on consumer goods;

however, considering the countries' reliance on traditional, export-led growth policies, it could be argued that UFCO has a significant role in the economic development of Central America. The Guatemalan case of 1954 illustrates UFCO's effect on one country's political development, and thought must be given to the overall part played by Central America in the national security interests of the United States. Given these factors, UFCO's bargaining power position is a strong one, and its strategic importance very great. Poynter would anticipate a high degree of host intervention in such an enterprise, but that has still not materialized due to more critical elements, such as the monopoly power of UFCO and the externally oriented nature of the industry.

In contrast to the penetration phase, consolidation brought significant changes for the Central American Republics in the exercise of their national bargaining power, particularly with relation to political factors. More demands were made by governments and unions during this time, and many of these were met, indicating UFCO's large investments in the area and the difficulties and costs associated with pulling out.[56]

Intergovernmental relations moved in favor of UFCO in Guatemala, where, partly due to intense lobbying by that company, a U.S.-administered intervention led to the overthrow of a "threatening" socialist government.[57] Similarly, in Honduras ideology had a significant role in the success of the 1954 strike. At first, the Honduran government attempted to quell the workers' movement, believing it had been instigated by communist union leaders. After the removal of the supposed troublemakers, however, the government supported the new leadership, which was immediately backed by the U.S. CIO. In contrast to these two cases, Costa Rica`s bargaining power was strengthened by that country's political stability.[58] UFCO's willingness to make many concessions in this country may have been due to the unsteadiness existent in the rest of Central America.

Overall, from 1947–1969, UFCO experienced some significant changes in its relations with the governments of Central America and in its share of regional banana production. However, in spite of all the political and economic fluctuations from the Great Depression until 1969, once all the factors are taken into consideration, UFCO managed to retain the greater part of its bargaining power in the region.

Phase 3: Expansion

This final phase of UFCO's development covers the period from 1969 to the present and describes the company's insertion into the new international division of labor.[59] In contrast to the tendency toward entry barrier relaxations and oligopolistic power that dominated phase 2, the international and regional environment of the 1970s and 1980s changed again in the direction of fewer, larger companies, as well as their expansion to other types of industry. Financial matters predominate over production to maintain bargaining power in a time of increasing market globalization, as can be seen in UFCO's absorption by United Brands (UB) in 1969 and that company's subsequent acquisition by the American Finance Corporation. This expansionist behavior occurs also in response to union consolidation, Central American integration, and the imposition of further taxes by the national governments.

In 1969 UFCO merged with the AMK Corporation to create United Brands, an enterprise then comprising seventeen large firms with thirty-one affiliates in seventeen countries, including the United States.[60] With this merger began a series of financial undertakings that would serve to sustain UB's position in Central America. Among these were the purchase of equity in other fruit companies, including Del Monte and Standard Fruit; the acquisition of more subsidiaries, not necessarily involved in banana production, such as Polymer and Numar;[61] and intense manipulative and coercive efforts aimed at controlling or determining political decisions that would have serious implications for the company's future.

In 1972 , UB sold its Guatemalan division, Bananera, to Del Monte, which became a principal third competitor of UFCO and Standard Fruit. This decision was a result of an antitrust suit brought against UFCO by the U.S. Justice Department, which cited the company's violations of the 1890 Sherman Antitrust Act and the Wilson Tariff Act and condemned its monopoly of the banana industry.[62] In spite of the sacrifice of UB's properties in Guatemala, the company's transactions in Costa Rica and Honduras were intensified through the increased use of associate producers, the introduction of new varieties of bananas, and the restoration and return to productive use of Atlantic coastal lands.[63]

In 1974, the Panama Accord[64] was signed, after which Honduras, Panama, and Costa Rica announced a $1 tax on each box of bananas exported from their countries.[65] The affected TNCs reacted strongly in a process known as the "Banana War,"[66] which involved drastically reducing export volumes, cutting off salary

negotiations with union officials, and offering bribes to prominent government personnel. In addition to these measures, UB engaged in intense lobbying efforts to persuade the individual congresses that these taxes would only result in reduced consumption of bananas due to price and demand inelasticity.[67]

Despite initial steadfastness, the Central American republics conceded, within months, by lowering the tax to $.25–.35 per box and negotiating payments with the companies.[68] Later in 1974, the Unión de Países Exportadores de Banano (UPEB) was created, inspired by the success of OPEC and with a membership of five countries: Colombia, Costa Rica, Guatemala, Honduras, and Panama.[69] UPEB was to be the forum for defending its members' interests against the TNCs' financial prowess and to establish fair and stable prices for bananas. Despite its weaknesses,[70] UPEB managed to decrease UB's bargaining power in the region to some extent, but its efforts were complicated by Hurricane Fifi, which destroyed hundreds of hectares of plantations in Honduras, along with their infrastructure.[71] The reconstruction and utilization of these lands could be accomplished only with large capital investments, for which the countries were forced to depend on UB and Standard Fruit.

In addition to the instability created by the hurricane and UPEB's competition, a public outcry against UB arose in 1975 when it was discovered that the president of Honduras had accepted bribes from that company in exchange for tax reductions.[72] Partly as an outcome of these dealings, Honduras nationalized UB's railroad network in 1976, in exchange for $1, and the company was given full right of usage for eight years, during which time it was responsible for the maintenance of the railroad and all related equipment.[73] The year before, Costa Rica had negotiated UB's participation in an Atlantic development project, País, to incorporate small, independent banana producers into its sphere of operations under the supervision and coordination of ASBANA, the Costa Rican National Banana Association.[74] In Panama, the government managed to nationalize all of UB's lands in exchange for $151,000; however, the company was to continue its operations as usual, with only a few conditions.[75]

Regardless of the concessions made by UB during this period, the company's operations experienced expansion. In 1976, Compañía Bananera del Atlantico (COBAL) of the Afrikanische Frucht Compagnie Laeisz, was purchased by UB, thus eliminating another competitor and the only independent producer in Costa Rica. Another example of the company's continuing strength occurred when, in 1977,

under the auspices of UPEB, the Compañía Comercializadora Multinacional de Banano, S.A. (COMUNBANA) was created.[76] Although COMUNBANA is looked upon as a successful challenge to the oligopoly forces of the fruit companies, it is limited by the demand from its particular markets (small and relatively poor) and by the voluntary nature of its product sources (associate producers are given the option of selling to one of the oligopolies or to COMUNBANA, the latter having less capital and offering fewer incentives).[77] Further relief for UB has been found through successful pressures aimed at the Central American governments to lower export taxes. Under the pretense of damages suffered through natural disasters, UB convinced the Panamanian government to reduce its per box tax by $.20 for three years. Honduras lowered its tax by $.10 and followed that measure with an export incentive schedule that reduced the tax to $.05 per box if more than fifty-two million boxes were exported. In Costa Rica a similar course was followed, beginning in 1983 with a reduction from $.95 per box to $.70 per box and ending in 1986 at $.15 per box.[78] Subsequent attempts by UPEB to reestablish the $1 per box tax were quickly crushed by the companies.

The bargaining power of UB in the 1970s and 1980s is seen in its continuation as the world's principal banana producer. The company's efforts at market diversification have reduced its percentage of U.S. banana imports to about 30 percent—still the primary importer for that country—while considerably increasing its share in the West German, French, and Japanese markets.[79] Nevertheless, labor disputes were a prominent characteristic during these same years, due to the reduction of real salaries, and defensive company responses included mass dismissals of laborers, technical changes, more efficient methods of production, and the abandonment of unproductive lands, as well as a decrease in the reliance on associate producers and the diversion of lands to alternative uses, such as African palm oil extraction.[80]

In addition to regional efforts of UPEB and national actions to improve their positions against TNC domination, international organizations entered the process of integration and negotiation in 1985, with the involvement of UNCTAD IV in establishing a program for regional price stability and development.[81]

Applying Poynter's model to phase 3, we find a deterioration in the bargaining power position of United Brands; however, the strengths manifested by Central America are very limited in scope, and still present is the consciousness of UB's superior management and marketing skills.

As a result of its incorporation into UB, the core activities of UFCO were substantially diversified over the course of the last two decades, including investments in plastics companies, food processing, and palm oil enterprises.[82] However, bananas still account for five times the profit of other food sales by that company, and UB still holds the number one position in world banana trade, with 28.7 percent of the market.[83]

In terms of control, UB still determines the path and process of its operations, as well as the skills to be applied. In equity control, the company underwent substantial concentration in 1984 when Carl H. Linder acquired the shares of UB's two largest stockholders, increasing his personal holdings to 55.9 percent.[84]

The factor of perceived versus actual power is also significant for this period, due to the unstable relationships between UB and the individual governments of Central America. In imposing the $1 per box tax in 1974, the countries were under the impression that their positions were very strong and that UB would succumb to their will. As it turned out, the fruit company won the Banana War, suffering only a minor monetary setback in terms of its overall revenues. As in phase 2, the actual power of the banana companies, due to their employment of thousands of laborers and their importance as a source of revenue and capital for the region, was greater than what the governments perceived.

Vertical integration is another area that displays UB's continued strength in the area. Although most of its "Great White" shipping fleet has been liquidated, UB still owns Balboa Shipping in Panama and Elders and Fyffes.[85] Most of its ocean transport is accomplished through time-chartering with large reefer companies, which save UB the capital expenditures required to maintain a private fleet.[86] As for its railroad networks, UB has handed most of these over to the Central American governments, with the assurance of generous concessions in company usage. Nevertheless, UB's Tela Railroad Company of Honduras was the largest firm in that country in 1982, with sales of $114.3 million.[87] This relaxation of UB's vertical integration has occurred only in the transport sector, however. The associate producer program has not experienced growth,[88] and all marketing activities are controlled by UB.

As far as export importance is concerned, UB's role in export revenues for Central America has already been established.[89] The potential for such income continues to be far greater than the actual collections, as is reflected in the fact that only 11.5

percent of the total value of bananas produced in the region remains in the countries.[90]

The monetary significance of these export revenues is one of the primary factors determining UB's strategic importance in Central America. As a source of funds for economic development, UB is well situated. But perhaps even greater influence exists in the political sector of its operations. As a major U.S. TNC, UB represents ideological and political stances taken by that country. The company's mere presence in Central America has justified U.S. intervention in those countries for the purpose of preserving stability and protecting U.S. national security in the past.[91] Close ties between the U.S.-based Congress of Industrial Organizations (CIO) and labor unions in the banana industry are another aspect of this political importance of UB.

Related to this factor is the continued employment of thousands of Central American workers by UB. The impact of this determinant of corporate bargaining power was felt when five thousand employees lost their jobs due to the shutdown of Golfito and a 30 percent cut in Panamanian banana production.[92]

In summary, it could be said with some certainty that United Brand's bargaining power position has been challenged by the host governments during the expansion phase, and that Central America's defiance of TNC authority is likely to continue during the 1990s. However, considering the financial crisis that has plagued these countries for the last two decades and the historical potency of United Brands as a highly diversified oligopoly, it is doubtful that any successful attempts at nationalization—or even large-scale taxation—will occur in the near future.

Conclusion: Stalemate or Continued TNC Leverage?

This paper has attempted to demonstrate the bargaining power position of United Fruit Company (United Brands) in Central America, based on the factors of analysis provided in Poynter's model of intervention prediction. It is clear from the information set forth here that UB has been a powerful force in the historical development of Central America—politically as well as economically. The principal thread of UB's effectiveness has been woven from many factors: its organizational formation as a monopolistic/oligopolistic enterprise; its access to large quantities of capital for investments in the banana industry; its employment of a large percentage of the region's labor force; the support it receives from the U.S. government; and the relative weaknesses inherent in Central America, as characterized by the continuing

state of underdevelopment and geopolitical importance attributed to the region. Virtually all of Poynter's determinants are present here.

Over the years, UFCO's actions in Central America have become more sophisticated and subtle; as the company has matured, so have its relations with its host governments, confirming Poynter's hypothesis that, with time, the latter tend to gain some advantages in their respective positions.[93] Unfortunately for Central America, it seems that the present situation has brought those countries to a standstill in terms of their relations with UB. Rather than achieving the upper hand, they have merely equilibrated their power to that of the TNCs, and further leverage to their benefit seems unlikely to occur. The two sides in this dispute are faced with no-win circumstances at the moment: UB has too much capital at stake to risk pulling its operations out of a highly unstable but also quite profitable area, while the individual governments are confronting financial difficulties that will not permit them to risk an unemployment crisis or the loss of substantial revenues that would result from intervention. One point remains in UB's favor, however, and that will probably never change: Central America, due to its geographical location, is subject to U.S. domination today as it was at the turn of the century. The forms in which such domination manifests itself may have become more subtle, but the dependence continues and is sustained by powerful lobbies and U.S. foreign and trade policies that greatly favor UB's power in the isthmus. In Poynter's terminology, the corporate determinants of bargaining power have become more consolidated as a whole, although the company's operations have diversified into other nontraditional products. At the same time, the nonpolitical and political determinants of national bargaining power have remained relatively stable, failing to develop in favor of the Central American countries primarily because of the region's political and economic dependence on its neighbor to the north.

Notes

1. As explained in *Multinational Enterprises & Government Intervention.*
2. Panama is included in the definition of Central America as a means of simplifying this study and due to UFCO's influence in the development of that country.
3. Poynter suggests that the employment of more foreign nationals decreases a corporation's risk of intervention at first and later increases it. It is this writer's opinion that this factor is rather insignificant in the case of UFCO, due to its enclave status and its monopolistic tendencies.
4. These two elements have opposing effects, according to Poynter, and for UFCO their combined influence has been very dynamic as a determinant of bargaining power.
5. Although Poynter supports the idea that home governments can have a strong impact on a corporation's bargaining power, he explains that this aspect is a difficult one to document. However, in the case of Central America, history has shown that national security interests and political and ideological influences prevail in U.S. foreign policy toward the region.
6. Costa Rica represents the opposing view: a traditionally stable country, it has managed to attain the most beneficial sacrifices on the part of UFCO, often using one TNC against another to improve its national position.
7. Ffrench Davis, p. 302.
8. Foreign direct investment has been the region's principal source of capital, and one way of encouraging investors has been the limited number of requirements for establishing ventures in the area. The obvious result of this lack of government supervision and control mechanisms is the formation of large, powerful transnational companies: oligopolies.
9. For examples, see Castillo Rivas, Ellis, and López Pérez. Castillo Rivas and Ellis both explain two phases of the company's expansion through 1976. López adds a third phase from 1974–1984.
10. "Enclave" here refers to UFCO's establishment of isolated facilities with their own infrastructure, basically independent of the host country.
11. An important point to note here is that UFCO was not the first company to become involved in such an enterprise in Central America. In fact, the formation of its monopolistic and later oligopolistic power has as a foundation the acquisition of many preexisting companies, both U.S.-based and of independent or national ownership.
12. For a complete description of the transactions involved in establishing United Fruit, consult May and Plaza, pp. 5–6.
13. This included the establishment of research facilities, the preparation of lands, plantation, harvest, transport networks (including railroad construction and purchase and shipping services provided by company fleets), and marketing and distribution from company headquarters in the United States. Such a procedure required far more capital than any of the countries had access to internally. See Martner, p. 475.
14. Oteri Salvatore; Bluefields Steamship Co.; Orr & Laubenheimer Co., Ltd.; McConnell Camors Co., Ltd.; Camors-Weinberger Banana Co., Ltd.; and John C. Woods Co. See Ellis, p. 43.
15. Up to this time, Cuyamel was UFCO's principal competitor in the banana industry. The purchase of this company was one of UFCO's most significant conquests in its monopoly formation.
16. See Ellis, pp. 43–45.
17. Ibid., p. 47. Vast land holdings ensured room for crop rotation as soils were depleted or in cases of flooding or disease.
18. May and Plaza, p. 7.
19. Ellis, p. 51.
20. Ibid., p. 65.
21. Consult Ellis, p. 44, for concessions made by Honduras and Guatemala. According to May and Plaza (p. 10), 175,000 of the 400,000 acres owned by UFCO in Honduras were concessions in exchange for railroad construction. Other incentives for UFCO included exemptions from port duties and taxes.
22. Primarily through Keith's companies in Costa Rica and Panama. Prior to bananas, coffee was the main export crop in Central America. It remains the largest source of export revenue for the region.

23. This time constraint is twenty-one to twenty-five days from harvest to consumption, according to May and Plaza, p. 36.
24. Hymer develops this idea, explaining that the product market in this case is an extension of the center's (U.S.'s) internal market, rather than the host's market.
25. Ellis, p. 49.
26. By 1930 the only remaining competitor was the Standard Fruit and Steamship Corporation (Ellis, p. 45).
27. Poynter, p. 55.
28. May and Plaza, pp. 143–144.
29. Ellis, p. 54–55.
30. By 1934 UFCO held 1,448,496 hectares, of which fewer than 50,000 were dedicated to banana production. This number is down from the 76,553 cited earlier because of abandonment of many areas, but the total holdings increased by 39,348 hectares (Ellis, p. 57).
31. Bulmer-Thomas, p. 76. These lands were not sold, but were retained by UFCO for possible future use.
32. At one time UFCO's operations suffered severely as the U.S. Navy requisitioned the company's shipping fleet, and rationing virtually cut off purchases of needed insecticides and fuel (Ellis, p. 59).
33. Ellis, p. 71.
34. Bulmer-Thomas, p. 350.
35. Arthur, Houck, and Beckford, pp. 139–159.
36. Ellis, p. 71.
37. The most popular of these was flood fallow, which consisted of submerging the infected lands in water for three to six months, during which time other lands would be utilized. See Bulmer-Thomas, p. 107. May and Plaza (p. 93) explain how Panama Disease contributed to large-scale, centralized operations because of the large expenditures and "advanced engineering practices required to combat it." Research on new methods of crop protection is carried out at high costs to UFCO—over $1 million in 1958.
38. Furtado, p. 155. Central America failed to achieve self-propelled growth and development due to its historical lack of internal capital; however, import substitution policies did reduce reliance on other countries for needed products by focusing the region's economic dependence on TNCs.
39. Ellis, p. 109.
40. Bulmer-Thomas, p. 109.
41. Ellis, p. 130; Bulmer-Thomas, p. 152. The 1958 ruling held that UFCO must "establish an independent rival by 1966."
42. An interesting case is examined by Ellis (p.118), in which Costa Rica introduced a law dropping virtually all barriers to entry for banana producers. Standard Fruit's response was immediate, and two other companies soon followed: The West Indies Fruit Company and Afrikanische Frucht Compagnie Laeisz (p.123). This is also noted by Bulmer-Thomas, p. 152.
43. Bulmer-Thomas, pp. 109, 141. The origin of the Guatemalan case was Arbenz's attempts at agrarian reform, which included the confiscation (with compensation) of many large, uncultivated land holdings. Since UFCO had undervalued its lands for tax purposes, its compensation was considered inadequate, and thus began a successful lobbying campaign to encourage U.S. intervention in the country. In Honduras, UFCO was forced to recognize the Tela Railroad Company's trade union, thereby opening the door to protective legislation.
44. The Quepos division in Costa Rica was shut down in 1957 and Tiquisate in Guatemala followed in 1964 (Ellis, pp. 116, 128).
45. For a complete analysis of CACM, consult Bulmer-Thomas, pp. 177–199. Panama was not included in the Common Market.
46. Such contractual obligations had, by this time, become less costly to UFCO than maintaining its own production facilities in some areas. Most of the risks were transferred to the "independent" producers, while the earnings were accrued by UFCO.
47. Del Monte's entry into banana production was spurred by the same laws that helped Standard Fruit expand in Costa Rica. The two companies noted earlier, West Indies Fruit Company and

Afrikanische Frucht Compagnie Laeisz, would be subsequently absorbed by Del Monte and UFCO in 1967 and 1976, respectively (Ellis, p. 123).

48. Ellis, p. 405.

49. In fact, one could substantiate UFCO's position as having improved due to its ability to battle Panama Disease through greater research expenditures and advanced engineering activities that could not be undertaken by the individual countries because of their capital-intensive nature.

50. One could say that Costa Rica was playing on oligopolistic competition to better its position. This idea is further developed by Hymer.

51. UFCO's position may even have improved due to the new earnings taxes imposed in the 1950s, which made the countries still more reliant on company exports as a source of national revenue.

52. Poynter, p. 51.

53. Ellis, p. 408.

54. UFCO's position in the Honduran economy continued to be of great importance after this event, but the company would pursue more capital-intensive production techniques in the future in order to decrease its dependence on local labor. This is in line with Poynter's observations (p. 51).

55. Poynter, p. 51.

56. Ibid., pp. 57–66.

57. For a complete study of Guatemalan-UFCO relations in 1954, consult Schlesinger and Kinzer (1982).

58. Costa Rica's dismantlement of its armed forces in 1948 opened the door to a well-rooted democratic system in which negotiation rather than force was the norm.

59. Furtado, p.155

60. In addition to its activities in the fruit industry, UB was also involved in meat packing and food processing. For more information, consult Castillo Rivas, p.44; Casson, p.326; and Barry and Preusch, p. 149.

61. Barry and Preusch, p. 345.

62. Ellis, pp. 105, 130–131; Casson, pp. 325–326.

63. Ellis, pp. 125–126, 134.

64. This agreement, approved by the political leaders of Costa Rica, Honduras, Panama, Guatemala, Nicaragua, Colombia, and Ecuador, provided for an increased export tax and an organization to express the combined interests and demands of the banana-exporting countries. See López Pérez, p. 39.

65. Bulmer-Thomas, p. 203; Vallejo Mejía, p. 124. This was equivalent to 50 percent of the shipping price or $.025 per pound.

66. Ellis, p. 336; López Pérez, p. 42; Vallejo Mejía, p. 125.

67. Litvak and Maule, pp. 47–56.

68. During this time there was much discussion regarding nationalization of some operations of the fruit companies, and Costa Rica went so far as to draw up legislation on expropriation procedures, but each of the countries recognized its limitations in commercial control of such large enterprises (Ellis, p. 337).

69. Vallejo Mejía, p. 95; Ellis, pp. 337–388. Nicaragua, the Dominican Republic, and Venezuela have since joined.

70. Ecuador refused to become a member, and the Central American members were unable to provide an alternative to TNC control of the banana industry within their borders.

71. Ellis, p. 350. UB subsequently refused to replant 1,900 hectares that had been destroyed by the hurricane.

72. This incident held grave consequences for UB's public image, as was obviously perceived by the company president, who committed suicide (López Pérez, p. 45).

73. Ellis, pp. 351–352.

74. Ibid., p. 348.

75. One million dollars in annual rent was to be paid to Panama, and another million dollars was required to cover port costs, railroad usage, and municipal taxes (López Pérez, p. 44; Ellis, p. 349).

76. This organization was to coordinate banana sales only to nontraditional markets, in order to avoid competition with the TNCs. Among the targets of COMUNBANA were Eastern Europe, North Africa, and the Middle East (Ellis, p. 355).

77. López Pérez, pp. 81–83.

78. Ibid., pp. 48–49. The UPEB calculated savings to the fruit companies at $50 million in 1985.

79. Ibid., p. 97.

80. The most significant of these reactions was UB's withdrawal from banana production in Golfito, Costa Rica, in 1985. Several reasons for UB's exit are given by López Pérez (pp. 129–140), including an extensive strike, which eventually resulted in irreconcilable differences between UB and Costa Rica.

81. Vallejo Mejía, pp. 158, 164–166; López Pérez, pp. 177, 185–200. U.S. opposition to the Convenio Internacional sobre el Banano has effectively diminished UPEB's authority in accomplishing its objectives.

82. See Barry and Preusch, p. 345, for a complete list of UB's subsidiaries in Central America.

83. Feldman, pp. 120–121, and Barry and Preusch, p. 152.

84. It has been suggested that Linder's motive was the sale of two UB subsidiaries, John Morrell & Co. meat packers and Tropical Radio Telegraph, and the closure of Golfito in Costa Rica (Casson, p. 340; López Pérez, p. 134).

85. Casson, pp. 330–331; Barry and Preusch, p. 346.

86. Casson, p. 331.

87. Feldman, p. 122.

88. López Pérez, pp. 118–119. UB's utilization of associate producers has been slight compared to Standard Fruit and particularly Del Monte. The principal areas of growth in such activities are located in Costa Rica and due to pressure from that government.

89. Feldman (pp. 122–123) offers some more recent statistics: of the total $285,258,000 in banana exports from Honduras in 1986, approximately 60 percent came from UB. And in export tax revenues, Costa Rica has benefited most with a total of $338.6 million collected from 1974–1984.

90. López Pérez, p. 34. Also of interest is the decline in tax revenues as a result of negotiations in the 1980s. This can be observed from the table in Feldman, p.123.

91. Schlesinger offers a very detailed account of the involvement of members of the State Department in the overthrow of Arbenz in 1954, and of their connections to United Fruit Company in *Bitter Fruit*.

92. Barry and Preusch, p. 152. Reductions in the labor force have been a phenomenon of the 1970s and 1980s as improved techniques and greater worker organization have been implemented (López Pérez, p. 31).

93. Poynter, p. 103.

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