

THE BANANA CRISIS: EU policy, differences within the WTO and their impact on the Caribbean.

This is an edited version of an interview on the evolution and current situation regarding the banana crisis, conducted with Miguel Ceara Hatton, (mceara@acs-aec.org), who is an expert in economic and political issues in the Wider Caribbean. Mr. Ceara-Hatton was Director of the Caribbean Centre for Economic Research (Centro de Investigación Económica para el Caribe –CIECA- in the Dominican Republic) for almost ten years, and at present is the director responsible for economic matters at the Association of Caribbean States. The opinions expressed in this interview are those of Mr. Ceara-Hatton only, and in no way commit the institution to which he is currently attached.

This interview was held in two parts, beginning on Sunday 21 March, and ending on Sunday 28 March 1999. For about seven hours, *Seguimiento* held a virtual discussion on this topic.

The interview had three objectives: first, to obtain a panorama of the European Union banana policy; second, to assess the current status (March 1999) of this matter at the WTO, and finally to discuss the impact on the Windward Islands (St. Lucia, Dominica, Grenada and St. Vincent and the Grenadines) of the EU's change in its banana policy.

***Seguimiento*: In recent weeks, international news channels have continued to comment on the dispute between the United States and the European Union on the banana issue. Could you give us a brief overview of how the European Union banana policy has evolved over the last few years?**

MCH. Thank you for this new interview, and for the opportunity to come into contact with the *Seguimiento* readership, which has been growing on a daily basis, thanks to CIECA's excellent work.

Given the limitations of time and space, it is difficult in an interview such as this to give an overview of the policy developments in this area. However, we will attempt to highlight the most important facts.

Before 1993, the banana market in the European Union was very divided, both in terms of supply and in terms of national import régimes.

On the one hand, there was a group of countries such as the United Kingdom, Italy, Portugal, Greece Spain and France, whose supply of bananas came from within the community and/or from the ACP (Africa, Caribbean, Pacific) countries who belonged to the Lomé Convention. These European countries exercised a restrictive trade policy towards third countries, that is, to bananas coming from the dollar area or Latin America. This was done by means of licensing, quantitative restrictions, or simply by imposing bans.

Furthermore, it was the countries of northern Europe, such as Germany, the Netherlands, Belgium, Denmark, Luxembourg and Ireland, which were supplied with bananas by Latin America, and they maintained a trade régime characterised by an absence of quantitative restrictions, and a 20% tariff, with the exception of Germany.

Generally speaking, it can be said that ACP bananas enjoyed complete tax exemption throughout the Member States of the European Union.

From June 1993, the market was organised under a common régime through regulation 404, which replaces the different national régimes, and divides the market into four segments by assigning quotas:

European or community bananas which used to come from Martinique, the Canary Islands, Madeira and Crete were assigned a quota of 854 thousand tons; ACP bananas, with a quota of 857 thousand tons and exempt from taxes; bananas from other countries, which were basically the dollar or Latin American area, with a tariff quota of 2.5 million tons, and paid 75 ECUs per ton, and finally, any import above these quantities had to pay a consolidated most favoured nation rate of 850 ECUs per ton in 1994. This rate will be reduced in 6 equal parts until it reaches 680 ECUs in the year 2,000.

Now, of the 2.5 million tons of bananas from third countries, some 90 thousand tons were distributed among non traditional ACP exporting countries, and covered quantities of bananas from traditional suppliers in excess of the assigned quota. No taxes were paid on these 90 thousand tons.

In summary, ACP countries enjoyed three types of quota preferences: first, the zero-rated 857 thousand tons; second, the non traditional ACP quantities entering freely within the framework of the tariff quota, while third countries would pay 75 ECUs per ton, and thirdly, imports outside the tariff quota would pay 1000 ECUs less than third countries.

Finally, the other major component of the banana trade régime was the import lincensing system granted through the so-called operators.

Seguimiento: Before you explain the licensing system, could you indicate which are the traditional ACP exporters, and how is the Dominican Republic considered?

MCH: The 12 traditional exporting countries are: Grenada, Dominica, St. Lucia, St. Vincent and the Grenadines, Jamaica, Belize, Suriname, Cameroon, Madagascar, Somalia and Ivory Coast. These 12 countries receive a quota of 857 thousand tons, distributed according to a very simple rule, that of historical averages for a certain product in the past.

The Dominican Republic is a non traditional ACP exporter, and it therefore has access to only the 90 thousand tons of the tariff quota, of which, they enjoy a quota of 55 thousand tons. However, in 1998 CEDOPEX reported that the Dominican Republic had exported some 62.9 thousand tons, that is, 7.9 above this amount; so, it can export 10% less or more than the 55 thousand tons.

Seguimiento: Are there any other non traditional ACP exporters?

MCH: Not of any importance. The Dominican Republic accounted for 61% of the 90 thousand tons, and the rest was shared among Belize, about 15 thousand tons, and Cameroon and Ivory Coast, both with 7,500 tons. This distribution represents almost 95% of the 90 thousand tons.

Seguimiento: Let us come back to the licensing régime. As far as we know, this has been at the heart of a debate in the WTO, because traditional ACP banana quotas have been granted a special waiver by the WTO, which expires in 2,000.

MCH: In fact, the Lome IV Convention expires on 29 February in the year 2,000, and the Lome IV Banana Protocol expires in 2002. The basic problem lay in the licensing régime, whereby a trader could import bananas into the community market. However, in addition to granting the right to import, it classified importers into two categories: the market of origin, if the bananas are from the ACP or Latin America, and second, according to their ties with the production or marketing process, that is, according to the risk and place they occupied in the chain from the producer to the wholesaler in Europe.

Thus, 70.5% of import quotas were granted to the category of operators importing bananas from third countries and non traditional ACP countries. These are the so-called “Category A” operators, and concern mainly Latin American bananas.

26% is granted to the category of operators established in the community or who have traditionally imported from the ACP. These are “Category B” operators, dealing with bananas from the Windward Islands.

Finally, 3.5% for the category of operators established in the community who started to import bananas from third countries from 01 January 1992. In other words, they market bananas separately from community and/or traditional ACP bananas, and these are called “Category C” operators.

Each category in turn is re-classified according to its risk on the production chain, that is, if it buys the bananas on the “green market”. These are importers linked to production processes and country of origin, to whom 57% of licenses are granted. Following these, were the importers taking the risk in dealing with customs. Basically, these were wholesalers who received 15% of licenses, and third, those who ripen - the “yellow market” (28% of licenses).

For the Windward Islands, the relevant operator is the category B, which is defined as one who marketed community bananas and/or traditional ACP bananas before 1992.

Let us look at one example. We will round off the figures to help us understand the system. Based on 26%, category B importers were entitled to import some 650 thousand tons, that is 26% of 2.5 million of the quota or the basic Latin American quota. In turn, the right to import depended on the social level (primary importer, secondary and ripener), so that of the 650 thousand tons, 57% were assigned to the shipper, 15% to the wholesaler and 28% to the ripener.

In conclusion, the Windward Islands were favoured in two ways: a) tax free quotas and b) a licensing system which allowed the importer to compensate for price differences with Latin American bananas.

The argument put forward by the European Union for this preferential treatment of ACP and Community bananas was that these bananas are produced under more adverse conditions, were more costly, and had lower yields and levels of productivity.

To get an idea of what this means, we calculated the average price of an imported ton using FAO figures, which gives us the quantities and the value of world imports by country for 1997. According to this calculation, the European Union pays 39% more than the world average for its banana imports, and 92% more than United States imports. In some countries of the European Union, the average price of imports is up to 80 and 60% above the world average.

Seguimiento: Can you elaborate on the problem of the licensing régime?

MCH: The main problem was in the marketing of bananas in Europe, since through this régime, an importer of traditional ACP bananas had access to the tariff quota for Latin American bananas, so that it combined imports from the ACP with those from Latin America. In this way, differences in prices and costs were pro-rated.

According to this perspective, there were claims that the system was discriminating in favour of European companies supplying the market, to the detriment of other importers. In fact, it was argued that about 80% of those who benefited from such licenses were of European origin.

Seguimiento: We now understand there was a segmented market, where part was supplied by bananas from within the community itself. There was also the part corresponding to traditional ACP countries, and then the rest, some 2.5 million tons, which was basically supplied by the Latin Americans, and we understand that there was a licensing régime involving a transfer of resources for the importer. Which countries had access to this quota?

MCH: You did not mention other imports above these quantities which paid a duty of more than 600 ECUs.

Of the 2.5 million tons, which was really 2.553 million, about 50% was sent to the countries of the Banana Framework Agreement (BFA), then we have the 90 thousand tons from non traditional ACP exporters, which should represent between 4 and 5%, and finally "Other countries" had access to about 45% of the market. These others included countries such as Ecuador, Panama and "other" "historical" exporters to the 15 member European Union.

Seguimiento: Two questions so that we don't forget. One, continuing with the figures, how much do Europe's world imports represent? And second, you mention the Banana Framework Agreement (BFA). Could you explain what this agreement entails?

MCH: According to FAO figures, the average annual total world imports for the 1996-1997 biennium was 13.4 million tons, with a value of US\$6.8 billions.

The European Union of 15 represents 36% of world imports, which is 50% of the US dollar value of annual imports for the same period.

The United States is the second largest importer in the world, with 28% of tonnage, representing 20% of the value of world imports. Finally Japan imports 6% of this tonnage, which is 6% of the value imported. All in all, these three importers represent 71% by quantity, and 77% by value.

As for the BFA, the history is very interesting. Immediately after the entry into force of Regulation 404, which I mentioned earlier, Guatemala, Costa Rica, Nicaragua, Colombia and Venezuela submitted a complaint to the GATT. The European Union responded with a proposal which provided for an arrangement in 1994 with four of the five complainant countries. Guatemala did not accept the proposal.

That EU proposal was to increase the quota, and reduce the import duty from 100 to 75 ECUs per ton. This agreement was signed with Costa Rica, which received 23% of the total tariff quota; Colombia, which received 21%, Nicaragua 3% and Venezuela 2%. This Agreement was called the Banana Framework Agreement, and if these figures are added up, you will see that they amount to almost 50%. In other words, these four countries had guaranteed access to 50% of the 2.553 million tons of the tariff quota.

Seguimiento: What is the relationship between the banana marketing régime and the WTO?

MCH: Before we examine the banana issue with the WTO, we should begin by clearly pointing out two circumstances. First, the Lome Convention enjoys a WTO waiver until 29 February in the year 2000, and, as I indicated earlier, the Banana Protocol remains in effect until 2002.

Second, the complaint against the Community on two different occasions before the Dispute Settlement Body of the GATT, and later before the World Trade Organisation.

On the first point, there is not much to be said, except that in September 1998, negotiations for the post Lome phase were begun, and I don't think it would be wise to comment on this, because negotiations are taking place, and with great intensity.

The other point concerns the complaints made. The first was made by a group of countries, and led to the Banana Framework Agreement, which I mentioned earlier. The second was a claim made by the United States, Ecuador, Guatemala, Honduras and Mexico in February 1996, requesting a review of Regulation 404 within the WTO, in accordance with the dispute settlement procedure.

The claim was made initially at consultations held in March 1996, without a satisfactory outcome, and in April of that year, the same countries asked for a Special Group to be set up to examine this issue. In May 1996, the Dispute Settlement Body set up a Special Working Group, which determined in May 1997, that the EU banana import régime should be modified because it was not adapted to GATT and GATS rules. This decision was appealed in June 1997 but ratified in September of that year.

The European Union was then obliged to modify the régime, and it did so in the following manner...

Seguimiento: Excuse me, Miguel, before you continue, there is something we would like to clarify concerning the arguments made by the in making their claims. We do not understand how the United States as a non producer of bananas could make a claim against the European Union.

MCH: The arguments presented by both sides, and the conclusions of the Group appear in the Report of the Special Working Group. Although in the 443 pages of the report there are different references to this subject, I will comment only on paragraphs 2.22 to 2.24.

The European Union alleged that the interests of companies such as Chiquita and Dole Foods did not amount to a legal interest for the United States to raise the matter in the framework of the GATT. The GATT referred to the treatment of products, not companies or their affiliates. It also pointed out that the United States has never exported to the European Union.

For its part, the United States argued that it had an interest in seeing the European Union honour GATT and WTO rules. It stated that two US fruit-producing companies, Chiquita and Dole Foods, and I quote, “had played a key role for many decades in developing the European banana market. Although these bananas were grown mainly in Latin America, US companies were seriously affected by the manner in which the European Community was handing out opportunities to participate in the market on a basis which bore no relation to previous banana imports (...) or the productive capacity of third countries”.

Another argument was that Hawaii and Puerto Rico, which are part of the customs territory of the USA, are banana producers, and Hawaiian producers had expressed concern because after Resolution 404/93 was implemented, banana prices on the open market were dropping.

The point of the discussion was to determine whether the United States had a legally recognised interest as required to invoke action by the Dispute Settlement Body.

The conclusions of the Special Working Group can be found in paragraphs 7.43 to 7.52. The Special Working Group determined that it is not a requirement to have a legally protected interest, and that it is sufficient for a country to claim that GATT rules have been violated to invoke the DSB.

The judges are even clearer when they say; “There is no need to show that there has been an effect on trade. The GATT rules have been interpreted in the sense that they protect “opportunities for competition” and not effective trade flows”.

It was therefore sufficient for one member in the trade in goods and services to have potential interest, or an interest in seeing the rights and obligations resulting from WTO agreements determined, in order to invoke the WTO dispute settlement procedure.

Seguimiento: This interpretation means that any country can initiate a dispute settlement procedure if it thinks that its potential interests are affected, or a third party is not obeying GATT and WTO rules.

MCH: As indicated in the Report of the Special Banana Group, and from this particular experience, the response is yes.

Seguimiento: Did Mexico, use the same arguments as the United States?

MCH: Not exactly. Mexico's arguments were different.

Like the United States, Mexico has never been an exporter of bananas to the European Union. Mexico's arguments appear in paragraph 2.27 of the Report of the Special Group. Briefly, these are:

- 1) Mexico occupies the eighth place in world banana production.
- 2) Mexico's total exports had exceeded 250,000 tons in 1992 and 1993, and had barely fallen below 200,000 tons in 1994.
- 3) Bananas are now Mexico's leading fruit export.
- 4) It was estimated that 50,000 persons were working directly in banana production in the tropical areas of Mexico, in addition to direct employment generated directly by the transport and marketing of bananas.
- 5) The Soconusco region in Chiapas State was the leading banana export region in Mexico, (it was well known that Chiapas was one of the poorest states in the country).
- 6) Bananas accounted for the only activity at the Francisco I. Madero port, the only port in Chiapas.
- 7) International trade in bananas was of vital importance for recovering investments in banana producing areas.

In terms of services, Mexico maintained that its legal interest in participating in the procedure is not based on the market quota of its service providers, but on the fact that, in any case, one important banana distribution company, Del Monte, was Mexican-owned.

Furthermore, in other documents, Mexico stated that the establishment of quotas for the BFA had produced a glut, because it had left out Ecuador, affecting the world price, and thus affecting them. In short, the Mexicans argued that they own Del Monte, and that they are indirectly affected by prices and the fact that they are large producers, particularly in one of the poorest areas.

Seguimiento: Let us go back to the changes introduced by the European Union.

MCH: On 25 September 1997 the WTO Dispute Settlement Body adopted the report of the of the Special Group and the Appeal Body, and by means of an arbitration ruling, the European Union was given a prudential timeframe of 15 months to change its marketing régime, which expired on 01 January 1999.

During this time, the Europeans made two changes in the Banana Trade and Import Régime, in Regulation 1637/98 on 20 July 1998 and Regulation 2362/98 of 28 October 1998.

What are the new elements in these resolutions? First, they maintain the 857 thousand zero-rated tons for the traditional ACP countries, but they do not distribute this according to countries.

Second, in dealing with third countries, they maintain the 2 million, 553 thousand tons, distributed as follows: 26.7% to Ecuador, 25.61% to Costa Rica, 23.03% to Colombia and 15.76% to Panama and 9.43% to others not specified. These proportions correspond to traditional levels of supply.

Third, they modify the previous complicated licensing system and establish two types of operators: traditional and new. Traditional operators are those who imported a minimum quantity of bananas from third countries or ACP countries between 1994 and 1996. This minimum quantity is 100 tons during one of these years. They also establish that they can import 92% of the quota assigned to third countries, from the dollar area or Latin America and from the ACP.

The new or recent operators are those importers of fruits and fresh vegetables who have brought in imports of a declared value equivalent to or above 400 thousand ECUs during one of the three years immediately preceding the year for which registration is applied for.

Seguimiento: Aren't Panama and Ecuador complainants?

MCH: In fact both countries have made complaints, but they have always sold bananas to the European Union. I think it would be useful if we look at the figures to clarify the point that countries in the dollar area were prevented from exporting to the European Union.

Ecuador exported 651 thousand tons to the European Union in 1993, 674 thousand in 1996, and 728 thousand in 1997. In the 95-97 triennium, it accounted for 28.3% of European Union imports. Ecuador's position is that it can export more.

Panama exported 569 thousand tons in 1993 and 353 thousand in 1997. For the 95-97 triennium it accounted for 15%.

Finally, Costa Rica and Colombia, which were part of the BFA, exported 552 thousand and 574 in 1997. In the 95-97 triennium, these represented 24.1% and 23.9% respectively.

Seguimiento: Then the complainants can export to the European Union. This is interesting... but let us return to the facts. After the European Union made its proposals that you have just described, what was the reaction of the complainant countries?

The United States and other countries indicated that the new régime for the import, sale and distribution of bananas was not consistent with the recommendations of the Dispute Settlement Body of the WTO.

Seguimiento: What happens then?

MCH: There is an established procedure in the "Dispute Settlement Understanding"(DSU), which is part of the Final Act of the Uruguay Round. No one can act unilaterally where punitive actions are concerned.

For this, there must be a report by the Dispute Settlement Body, known as the DSB, indicating that the new European Régime is not adapted to the previously established recommendations. Article 21, paragraph 5 is very explicit on this, and Ecuador has followed the procedure, requesting a decision from the Special Group which originally dealt with this matter, to determine whether the measures executed by the EU were compatible with the WTO. This request was submitted in December, I think it was in the middle of that month. The panel was set up on 12 January and it is

to issue its resolution on 12 April, 90 days after its constitution.

The position of the United States has been different. They understand that this procedure will lead to an unending road, and therefore they requested authorisation from the WTO to impose sanctions on the European Union, invoking article 22, paragraph 2.

Seguimiento: What does the article say?

MCH: First, it makes reference to article 21 paragraph 3 of the Dispute Settlement Understanding (DSU), which establishes a means of determining the best time frame in which a country must apply the recommendations of a Special Group or the Appeal Body...

Seguimiento: Let me see if we understand. Article 21 paragraph 3 establishes the manner and the time within which a country must apply the recommendations of the Special Group and the Appeal Body, then since this timeframe was applied, the United States applies unilateral sanctions. Is this what is taking place now?

MCH: Not exactly. The legal discussion is based on two articles – art. 21 paragraph 5, which indicates a procedure in the case where a country does not agree with the manner in which a recommendation by any of the organs of the Dispute Settlement Body is applied, and article 22 paragraph 2 dealing with “Compensation and the suspension of concessions” which is invoked by the United States.

What does this last article say? If 20 days after expiry of the prudential period, which in this case was the result of an arbitration ruling, binding for 15 months, and which expired on 01 January 1999, there has been no agreement on satisfactory compensation, then, and I quote “any party which has had recourse to the dispute settlement procedure may request authorisation from the DSU to suspend the application of concessions or other obligations resulting from the agreements undertaken to the Member affected”.

So, what the United States did was to ask the Dispute Settlement Body for authorisation to suspend concessions, which involves applying a 100% penalty to a set of products, which would allow it to make about 520 million dollars, which is the estimated value for this country of accumulated losses, since the European Union still has not adjusted its banana trade régime to GATT rules. This measure would be applied from 03 March 1999. This is the United States interpretation.

Seguimiento: Two questions: when was this request made by the United States, and which products would be affected?

MCH: The document no. WT/DS27/43 was deposited on 14 January 1999. The list includes 17 eight-digit products from the harmonised System, and these include pork, ham, cheese, goat’s milk, bath salts, coats and other products.

Seguimiento: How have the Europeans responded thus far?

MCH: On 03 February the European Union requested arbitration to determine: first, whether the

measures implemented on 01 January 1999 satisfy the recommendations of the Dispute Settlement Body. Second, it is indicated that the United States violated the principles and procedures of Article 22, paragraph 3, which establishes criteria for penalising the sectors, and third, they are questioning that the amount of the penalty does not correspond to the amount of the loss, as established in article 22 paragraph 6 of the Dispute Settlement Understanding (DSU).

Seguimiento: Miguel, I repeat my earlier question. Is this a problem of legal interpretation of different articles of the Dispute Settlement Understanding? Is this the problem?

MCH: Undoubtedly there is a problem of interpretation of the articles, so the legal structure of the WTO has a small gap which must be plugged. That is, the safety and foreseeability of the multilateral trade system is in jeopardy, and if this does not work, the entire system will go into crisis.

Seguimiento: We have talked about the evolution of the European Union banana policy, and about the current situation where the WTO is concerned. There is still one final point which is important to us. What will be the impact of a change in the European banana policy in the Windward Islands? What are the foreseeable scenarios?

MCH: Let us look at three possible scenarios. First, the Special Group which is evaluating the changes introduced by the European Union on 01 January 1999, and must issue a report on 12 April 1999, (five days before the Summit of the Association of Caribbean States), indicates that the changes satisfy the recommendations of the WTO Dispute Settlement Body. In this case the new régime will be maintained but work will necessarily have to be done on restructuring foreign exchange income in the Windward Islands.

Second, the European Union must again modify the banana marketing régime, knowing it will affect the economies of the Windward Islands and therefore, the United States and the European Union decide to give financial and technological support to the changes and structural and productive adjustments in these islands, helping to identify alternatives.

The third scenario would be that they change the banana trade régime in Europe and the Windward Islands seek solutions on their own.

I think that from among these three scenarios, the future of the Windward Islands will move on. With no change, the present banana production régime in the Windwards is doomed. The important thing is to try to gain time to find new alternatives or modify the production régime, lowering costs and improving quality.

Let us now look at the size of the problem. According to FAO statistics, in 1997 banana production was some 58 million tons.

CARICOM countries generated about 0.82% of world production in 1997, that is, about 477 thousand tons. The Windwards represent 0.35% of world production, or 220 thousand tons.

According to the FAO, international trade in bananas was 13.9 million tons of exports and 13.4

million tons of imports. The Windward Islands exported about 195 thousand tons, which represents 1.4% of world exports, but this volume of exports has also been systematically reduced. In 1990 they were exporting 277 thousand tons.

The Windward Islands represent 3.8% of imports from the European Union. As one can appreciate, the importance on a world scale of the Windward Islands is completely marginal.

However, in terms of the countries, and according to the Eastern Caribbean Central Bank (ECCB), bananas provide 16.4% of Dominica's GDP, 5% for St. Lucia, and about 4% for St. Vincent and the Grenadines. Finally, for Grenada, the importance of bananas is much more modest at around 0.5% of GDP.

According to the ECCB, in the 1997 publication, "The Economic and Social Contribution of the banana industry in the OECS", although the figures are for 1995, banana exports as a percentage of the exports of goods represented 41.4% in St. Lucia, 39.8% in St. Vincent and the Grenadines, 36.5% in Dominica, and 7.4% in Grenada.

The average for the entire group is 26.1%, that is, the relationship between banana exports and total exports.

Seguimiento: Do you know what they represent in terms of exports of goods and services?

MCH: The ECCB study reports this figure and mentions that on average in 1995, it was 6.6% of the export of goods and services for the four islands, and this is a drop from about 14% in the mid eighties. This reflects the rapid growth of tourism, and the diversification of these economies.

Seguimiento: How do these figures compare with other countries of Latin America, for instance Ecuador?

MCH: In responding I will use statistics from the FAO and the Central bank of Ecuador.

Let us see. Ecuador is the world's second largest banana producer, with an average of 6.6 million tons per annum in the biennium 96-97, and exported about 4.2 million tons during those years, generating US\$1.15 million.

If we compare this with Dominica, using the same source, that is the FAO; we see that total production was 44.5 thousand tons, annual average for the biennium, which represents 0.67% of Ecuador's production. In other words, Dominica produces two-thirds of 1% of what Ecuador produces and exported only an average annual amount of 38.7 thousand tons for the biennium, which represents 0.91% of what Ecuador exports.

In terms of foreign exchange income, 17 million US dollars were generated.

However, if we analyse the importance of bananas in each of these two economies, one observes that bananas provide 16.% of GDP in Dominica, while in Ecuador it is barely 3% of GDP. This means that the specific weight, the effect of bananas in Dominica is 5.3 times more than the

importance of bananas in Ecuador.

Thus, the despair and powerlessness felt by that country at the eventual end of banana activities.

By doing the same exercise, we can see that the importance of bananas in St. Lucia and St. Vincent and the Grenadines is greater than in Ecuador, and most certainly greater than for suppliers from the dollar area.

Seguimiento: What options are there? How do you see possibilities for diversification and improving agricultural techniques?

MCH: I think that all possible efforts to diversify the economies and improve cultivation techniques of the Windward Islands must be made. However, I think that there is a myth regarding the real possibilities of these economies because there is no awareness of the size of these countries, or of their resources, or what is involved in a process of restructuring foreign exchange income or diversifying exports in the magnitude required under these circumstances.

We cannot discard people from one day to the next, and the experience of the Dominican Republic in this regard is the most eloquent of all. I am certain that the Dominican Republic has achieved the greatest level of restructuring of foreign exchange earnings in the shortest time of any country in Latin America and the Caribbean.

In the space of one decade, it dismantled the sugar industry. From earning 60% of foreign exchange, sugar was reduced to earning less than 4%, and total foreign exchange earnings were increased 5 or 6 fold. However, the Dominican Republic is over 60 times the size of Dominica, and its population 100 times larger, so there were more resources available for making such changes. How were these changes brought about? There was a high social cost to be paid, in addition to a deterioration in the distribution of wealth, a crisis of governance, forced emigration, a heightening of the institutional crisis, further deterioration of public facilities, and so on. Solutions have been found for many of these problems, but the population is still burdened with many of them.

What would happen in the Windward Islands? Dominica, for example, is an extremely mountainous island, with two peaks. The higher peak is Morne Diablotin, which is 1400 metres

Marginal note: How do you obtain up-to-date information on bananas? How can our readers obtain such information?

MCH: I obtain this information from the newspapers, electronic mailing lists, where I receive an abundance of information and which contains the most up-to-date information on this and other matters of commercial, economic and political interest.

But the most important information can be found on the INTERNET, by visiting different homepages such as the WTO, (www.wto.org), and there, one can find the Report of the Special Group issued on 22 May 1997, reference no. WT/DS27/R/ECU. This document is 448 pages long, and is essential to an understanding of the problem, because it contains the positions of all the actors involved. Another key document is the one issued by the Appeal Body, dated 09 September 1997. This is a shorter document. It has 178 pages, and is numbered WT/DS27/AB/R. Then, there are the different "arbitration rulings", and other very short documents one or two pages in length, stating country positions. The most up to date ones are in English, and in Spanish they appear one or two months later.

Then, I recommend that you visit the Web Page of the Caribbean Banana Export Association at <http://www.cbea.org>. Of course, there is the FAO (www.fao.org), for statistics. Ecuador has an interesting page at www.sica.gov.ec and a lot of information. Unfortunately, the best times to search for documents and to download is late at night or early in the morning, when the lines are not congested...

high, and the other is 1100 to 1200 metres high. The country is 750 sq km, with 148 km of coastline, and barely 74 thousand inhabitants. This country does not even have beaches, because it has two high elevations with hardly any base, so the coastline has small cliffs. They are therefore trying to develop ecotourism, but there is no airport for large aircraft to land. A hurricane with an average diameter of 300 –400km can easily wipe out this entire country, which has already occurred.

St. Vincent and the Grenadines has an area of 389 sq. km, and a population of 112 thousand inhabitants. It can develop its tourism further, but it is threatened every year by hurricanes, and continues to have very few resources.

St. Lucia has slightly greater possibilities for diversification, and it is doing this. Its agricultural sector is more developed, and there is greater tourism activity, but it cannot move at the pace at which changes and WTO recommendations are taking place. This country is 617sq. km in size, and has 148 thousand inhabitants.

These three countries are extremely vulnerable to natural disasters, and these islands are good examples of the vulnerability of small economies, and for them, the major problem is adaptability to change in the face of the tremendous scarcity of resources.

Although these islands have a high per capita income, and the banana industry has allowed them to achieve a more equitable distribution of income, among other factors, they have very little ability to adapt to change, and this is the true concept of the vulnerability of small economies, not a comparison of statistical indicators such as was done by certain organisations in the hemisphere. This is what leads us to make the absurd and stupid statements that St. Lucia, for example, which has a higher per capita income than Colombia, would be a less vulnerable country.

Into the bargain, American Airlines has demanded that many of these islands pay an annual subsidy of one million dollars per island to be able to continue travelling from Miami to Puerto Rico. This is an indication of the extreme vulnerability of these islands.

Seguimiento: Let us assume the worst case scenario. What would be the impact of changes in the European Union's trade policy on the Windward Islands?

MCH: If there is no incentive to market traditional ACP bananas, these countries will see a large percentage of their GDP disappear in a flash, with major social and political repercussions.

What would happen if bananas disappear? They will have to look for profitable crops which can be adapted to the mountainside, such as in Dominica, and one does not have to be very smart to realise that at the pace things are going, all the signs are pointing towards illicit activity. For instance in St. Vincent, farmers asked the government to legalise the growing of marijuana.

In this line of thinking, and in light of the rapid pace of change and the absence of clear alternatives, we are facing the growing risk of illicit activities. If this occurs, the question would be, What would it cost to control such activity? What would be the cost of having mafias installing themselves in the region?

How much would have to be invested in coastguards to maintain the security of the region? What would be the cost of rehabilitation in the consumer country? What would happen to tourism? What would happen to security costs for aircraft and boats moving through the region?

In conclusion, the subject of bananas is not simply one of trade, the WTO, and legal technicalities. It also concerns the safety of the region.

Seguimiento: ... Miguel, thank you very much. We have run out of time, and space.

28 March 1999 Port of Spain/Santo Domingo.

Marginal note (MCH): After this interview was completed, edited and published in Spanish, a new element was added on 07 April 1999. The results of two arbitration processes were issued separately. One arbitration process was requested by Ecuador, to determine whether the measures taken by the European Union on 01 January 1999 satisfied the recommendations of the Dispute Settlement Body. The other was requested by the European Union to determine whether the level of sanctions sought by the United States should be maintained.

The first process indicated that the licensing and quota system of the banana trade and import régime is not compatible with the rules of international trade. The report of the arbitration commission does not criticise the protection enjoyed by ACP countries, but the terms under which it has been constituted. In fact, this document proposes other methods of favouring the ACP countries, but it stands firm on its rejection of the current régime. The United States has to ask the WTO Dispute Settlement Body for a special meeting, at which it will request authorisation to impose trade sanctions on the European Union. These sanctions came into effect on 03 March, in the hope that they would be retroactively imposed, if the WTO eventually ruled in their favour.

In the second process, it was stated that US sanctions should be reduced from 520 to 191.4 million dollars.

This is the third time that the Dispute Settlement Body has made a pronouncement against the banana marketing régime, in a war which involves the two largest trading powers in the world, who are not banana producers, and which has been instigated at the request of two transnationals, Dole and Chiquita.