

# Business Europe: The Banana Boat and the Rock Candy Mountain

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You wouldn't want to be Steven G. Warshaw right now.

The chief operating officer of Chiquita Brands International announced last Tuesday that the company is on the verge of filing for bankruptcy protection. He blamed the eight-year banana war with the European Union.

For the last decade, Chiquita has been buffeted by a combination of politically ambitious EU Trade commissioners, restive bondholders and angry activists who want American-style unions in the banana plantations. Add to this a currency mismatch (Chiquita buys bananas in dollars and sells them in euros, which requires costly hedging), high oil prices, bad weather, and, oh yeah, the company is at the center of the nastiest, longest, biggest trade war in recent memory. "How many times can Chiquita be unlucky? It turned out to be quite a few times," Mr. Warshaw admits.

Like a banana boat captain hit by a hurricane, Chiquita tends to blame forces beyond its control. Still, it is worth examining how Chiquita came to grief, how it might get out -- and how its competitors managed to steer around the storm.

First of all, the good ship Chiquita took on a lot of debt in the late 1980s -- to plant more banana trees and build more ships. Then, in 1993, the S.S. Chiquita hit a reef. Chiquita had a 40% market share in Europe and earned roughly half of its profits there. Banana prices were generally 50% higher in Europe than in America, even though transportation costs, a big price driver in this business, were only 15% higher, according to the estimates of one New York-based analyst.

Europe was the world's biggest, sweetest banana market, and Chiquita had the best slice. Then Brussels got into the act. The European Commission wanted to replace a national patchwork of trade barriers with an EU-wide policy. But which one? Spain, France and the U.K. had an import-quota scheme that essentially excluded American producers in favor of their former colonies. Belgium and Luxembourg had a flat-rate tariff system. Germany was the lone free-trader with neither tariffs nor quotas. The former-colonial powers argued that their old colonies had to be protected. While African and Caribbean plantations may be old and less competitive, their former subjects would lose out in an open market, they argued. There were visions of economic collapse and desperate refugees streaming to Europe.

While the EU was debating a quota policy, the crew of the S.S. Chiquita were asleep in their bunks. When they awoke, the EU was rewriting the rules, effectively slashing their market share by half, to 20%.

Then came denial and insider moves. Much of industry refused to believe that the EU was about to enact a quota scheme to favor former colonies. Meanwhile, banana producers in the former colonies flooded the EU market in early 1993. Banana prices plunged. Chiquita cut back shipments to stem losses. By July 1993, the quota system was in place, based on each firm's market share at the time.

It might have helped if Chiquita, and other American fruit producers, had had lobbyists in Brussels at the time, but they didn't. American firms "were not grasping fully that the EU would impact their business," concedes Vincent Van Dijk, a Chiquita lobbyist. But Chiquita blames the EU's secretive deliberations. "We weren't part of the process," said Mr. Warshaw. "For a good deal of the time, we didn't even know that there was a process."

Chiquita spent the next eight years trying to return to the status quo ante. The company ran to the U.S. Trade Representative. Chiquita's chairman and chief executive, Carl H. Lindner, gave generously to politicians. The U.S. appealed to the World Trade Organization, which ruled against the EU in March 1997. The EU didn't relent. So the U.S. won the right, under world trade rules, to levy punitive tariffs. The Clinton administration persuaded Congress to enact a "carousel" of prohibitive duties in 1999. "We're not crusaders for world trade justice. We just want Europe's illegal trade activities to stop hurting our business," Mr. Warshaw said.

The EU's response has been to restate its policy using different language. Last fall, the EU proposed a "first come, first served" two-tier plan that still favors former colonies.

So we come to last week's bankruptcy call. Chiquita has lost a total of \$1.5 billion since the EU changed its rules in 1993, the World Trade Organization found. Its share price fell to just over \$1 last week from \$5 in Jan. 2000. Chiquita stopped \$87 million worth of payments to its bondholders, who are owed a total of \$862 million. Chiquita's gross revenues last year were \$2.55 billion, which produced negative earnings. Maybe that is not a high debt-revenue ratio for a mature commodity business, as analysts say, but it doesn't make investors sleep any better. Still the company may not be out of cards yet.

Chiquita may be hoping a dramatic bankruptcy declaration will get the attention of the new Bush administration to press its case in Europe. Chiquita's former-vice president for corporate affairs, Joseph Hagen, a one-time Bush administration official, left Chiquita to become the new president's deputy chief of staff, a company spokesman confirmed to the Journal Friday. But while this may reveal that eight years of bailing water at Chiquita is enough to drive top managers back into politics, there's certainly no guarantee that this will help Chiquita's case.

While Chiquita was fighting a political war, its rivals bought shares in African banana operations and thus EU import licenses. Dole Food Co. now has an almost equal market share in Europe to Chiquita. Plus, Dole has side-stepped the currency mismatch -- it buys African bananas in local currencies pegged to the euro. And rivals are better diversified. Chiquita may have the moral high ground, but competitors has done better with a different strategy -- and probably paid fewer fees to political fixers.

Mr. Warshaw contends that Chiquita did all it could. Rivals outbid them for the few African properties available, he says, and Chiquita was forced to sell off its non-banana operations just to

stay afloat. Exiting the banana business was a non-starter. "What is the brand without bananas?" he asks. And selling -- at a price that creditors and shareholders would accept -- proved impossible, despite extensive discussions with several players.

The one possible way out for Chiquita is a policy that would benefit European consumers, but which none of the combatants favors -- free trade. Europeans, who are on average becoming older, wealthier and more health conscious, could consume more bananas. A freer market would be a larger one, with greater demand, greater supply and lower prices. And it was a proven success when Germany tried it from the 1950s to 1992. In a growing market, the EU's former colonial producers may find there is plenty of room for them as well. But, even in the last-minute negotiations between the EU and the U.S., no one dared suggest something so logical.

And so the banana war is on the verge of claiming its first casualty.

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