Chiquita Bananas[1]

Chiquita Brands, headquartered in Cincinnati, Ohio, is the world's largest banana company. Chiquita markets bananas under its familiar blue and yellow Chiquita label as well as other brands, such as Premium, Amigo, and Consul. The company also sells canned fruits, vegetables, and juices worldwide, marketing its products in over 60 countries on six continents. Chiquita has been one of the most successful companies to brand agricultural products. The Chiquita brand commands a price premium and represents quality bananas in the minds of consumers.

The company began in 1870 when Lorenzo Dow Baker purchased 160 bunches of bananas in Jamaica and resold them in the Unit ed States at a profit. He soon formed a partnership with Andrew Preston and the two men began the Boston Fruit Company. In 1899 the Boston Fruit Company merged with Minor Keith's railroad company to form the United Fruit Company. Over the years the United Fruit Company grew in size and importance, especially in Latin America, where the company was often influential in governmental affairs. In 1944 the Chiquita brand was created along with the now-familiar Miss Chiquita logo. By 1966 the company was exporting to Europe and in the following years continued to expand its global reach. In 1990 the United Fruit Company changed its name to Chiquita Brands International.

By 1999, one hundred years after the founding of the United Fruit Company, Chiquita was in serious financial trouble. Natural disasters, worldwide banana surpluses, and continuing difficulties with the European Union over import quotas had caused profits to fall and the stock price to tumble. An increasing debt burden was causing serious concern, and the company was seeking a turnaround in its strategic position.

The dispute between Chiquita and the European Union began in 1993 when the EU began granting preferential status to banana-producing former colonies in Africa, the Caribbean, and the Pacific Rim. The EU imposed quotas on imports of bananas from other points of origin, including countries in Latin America, where Chiquita mainly sourced its product. The EU expressed a concern that the economies of these former colonies would be greatly harmed if preferential treatment were not granted, and that many of these economies were very dependent on bananas as a source of foreign exchange. Initial GATT and subsequent WTO rulings found the EU practices to be violations of international trade agreements. As a result of the WTO rulings, the U.S. government asked permission to begin to impose punitive import tariffs on selected EU exports in order to compensate for the loss to American companies. Tariffs of $200 million were slapped on European imports. The EU responded with a proposal to revise its quota regime, however, the proposal fell short of satisfying Chiquita and Washington.

The EU, mindful of the financial difficulties facing Chiquita and the possible political ramifications that might result, responded that it was not the quotas that were causing for the company's troubles. The EU suggested that the company had been mismanaged and was using the EU quota regime as an excuse to conceal its weaknesses. The EU pointed out that another American fruit company, Dole Foods, supported the revised quota regime. The proposed EU quota revision would continue until the year 2006.

Others also blame Chiquita for its financial position, pointing out that the company incurred massive debt to expand its shipping operations and did not pay the debt

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Sources: Corporate Web page of Chiquita Brands International (www.chiquita.com); Web page of the World Trade Organization (www.wto.org); www.hoovers.com ; "Bankruptcy Filing Likely for a Former Top Banana." The Washington Times, January 17, 2001; A. Nolan, "Chiquita Struggles to Survive." Associated Pres, January 17, 2001; J. Bussey, "How the World's Top Banana Seller Went Splat." Miami Herald, January 21, 2001; "Struggling U.S. Firm Blames EU Banana Regime." Inter Press Service/English News Wire, January 22, 2001.

off when it was in a position to do so. Chiquita suffered more than Dole Foods and Fresh Del Monte when the EU trade policies went into effect because of its strong dependency on the European market. Dole and Fresh Del Monte diversified their product offerings and invested in African and Caribbean producers to reduce the negative impact of the changes. Some observers feel that Chiquita did not manage its operations effectively and did not plan for adverse environmental changes.

The stock price of Chiquita Brands International has fallen drastically since 1991. Share prices have dropped from a high of $50 a share to around $1 a share. The company points out that it has suffered a number of unforeseeable setbacks, including Hurricane Mitch, which destroyed its banana plantations in Honduras. Steven Warshaw, Chiquita president and chief operating officer, continues to blame the EU for most of the company's financial difficulties. "It is disheartening after years of suffering from the European Union's illegal banana import regime that Chiquita stockholders endure further hardship." says Warshaw.

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In 2001 Chiquita announced that it could not make payment on its debt obligations and that Chapter 11 bankruptcy was a possibility for the company. Chiquita was asking bondholders to exchange debt for equity in the company. If bondholders do not accept the agreement, Chiquita could be forced into bankruptcy.

Discussion Questions:

1. Who or what is to blame for Chiquita's recent financial difficulties?
2. What are the implications if Chiquita prevails and the EU is forced to reverse its quota regime? What are the implications if the EU refuses to change its quota policies?
3. Will the WTO and Chiquita be successful in forcing the EU to alter its import quota regime?