

The Future of the Banana Industry

by

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We have talked quite a lot on the subject of the implications of the World Trade Organisation (WTO) ruling on the economies of the Windward Islands, and the future of their banana industry. What we have so far failed to do is to come up with an agreed concrete alternative proposal for negotiations with both the European Union and the United States of America, that will continue to support an efficient industry.

We must realize that the world of trade and development is moving quickly to a system of open markets (liberalization) which will continue to result in increasing aggressive competitiveness.

The objective of all this is to put aside, once and for all, all forms of preferential or special treatment, whether the recipient country is poor, developing or less developed. This is a harsh reality, but we must deal with it. We have asked for competitiveness in the Telecommunications Industry. This is a good way to expand opportunities. But this has now become the norm for all other industries in world trade, no matter how small the country supply.

CARICOM and the OECS have participated actively in the free trade process. We cannot say we are not aware of all what is taking place and what are the demands. We must not pretend. It is the business of government to be well prepared; to plan and provide the resources to meet this challenge head on with an appropriate action plan and programmes. STABEX funds should be appropriately and prudently used for this purpose.

In CARICOM, we have implemented the Common External Tariff (CET), which reduces import tariffs to allow for increasing competition between foreign goods and locally produced ones. In the hemisphere of the Americas, we have signed the Free Trade Area of the Americas (FTAA) with its comprehensive declaration of Principles of Action Plan. On the world scene, we are party to the World Trade Organisation (WTO) and all it stands for. So we are in the swing of free trade (or freer trade) and open market competitiveness.

As the 20th century closes and the 21st century dawns, we are in a New Game called, in big words, Trade Liberalisation and Globalisation.

It means therefore that we have to adjust our economies quickly and in the process, change our ways of doing things. It is not business as usual. We as a nation - 21 years old, must commit ourselves to "Doing It", "Fixing It" and "Trying It." We should not be caught in the malaise of crying "foul" or giving "warnings". We must be proactive in Government and business. There is too much effort in putting out "fires of indifference". Our compulsion must be to produce a strategic game plan which presents new visions; provides answers; and quickens the pace of adjustment and readjustments as the world unfolds difficulties, and, at the same time, presents new opportunities. It is already late.

The World Trade Organisation has ruled against the Windward Islands Banana Industry and has officially approved United States Trade retaliation measures. We now need to fight it out in a positive and realistic way. Here is a constructive alternative proposal. It is an initiative which advocates a price support arrangement, to be financed by the banana trade import tariff regime.

I argue for a price support management because subsidies for provision of inputs, both capital and operating, are far less effective than those applied to farm prices. Input subsidies result in a misallocation of scarce resources. The price is a great motivating force for innovation and change. It rewards directly the efforts made in increasing productivity. This has been proven beyond doubt. The literature is full of experiences. On the other hand, input subsidies are costly and extremely wasteful. They put money in the hands of others, not the farmers. The supervision of input subsidies require the employment of a unwieldy beaucroacy of administrators and technocrats. It also promotes corruption in procurement of materials and services. Remember when prices are unprofitable, it is the best farmers, those who invest, who leave first.

Whatever needs to be done in the application of management and technology to effect innovation and change, as remunerative farm prices motivate farmers, can be channelled through an effective supervised credit programme. The support of a competent public sector extension service that is rewarded for performance is crucial.

So I now propose the framework for a *Price Support Arrangement Initiative*. It could work this way:

(i) The Banana Industry should commence restructuring into a producer company (shares and profits) and completed within a two year period. The objectives of this privatization process should be to:

- Reduce overheads;
- Improve efficiency in delivery of services;
- Focus on business management in procurement practices, in particular the buying of material inputs;

- Target specific production and marketing programmes such as irrigation investment, soil and water management on catchment basis, dedicated trucking service, contractual management and labour services, etc." and
- Diversification within the banana industry as well as within agriculture as a whole.

(ii) An average banana production cost up to packaging should be determined and established, using scientific methods and based on levels of efficiency, given prevailing conditions affecting agriculture.

(iii) A price support schedule should be developed which meets the average cost of production plus a 15% rate of return. The process would involve the "topping up" of the going market price to meet that target banana price support. Farm price supports are realities in the agriculture of developed countries such as U.S.A., Canada and France. So the proposal is not far fetched. It is not sacrilegious.

(iv) The financing of the farm price support arrangement should come from the tariffs imposed on banana imports by the European Union. Sufficient funds are available from that source and it is from the trade.

(v) The price support programme should be tied to production of high quality fruit for prime markets.

(vi) Farmers should be provided with appropriate incentives to diversify, utilizing the earning capacity provided by the farm price support, and facilitated by a competent agricultural extension service.

It is useful to point out that throughout the years, huge investments in agricultural diversification have gone through the "input route." Subsidies in planting material, land development, crop establishment and training, among others, were designed to motivate farmers. But the results have been minimal. The "input route" is undoubtedly the wrong one. We need to move through the "price route".

(vii) The price support management should be for a period of ten years; with evaluations in years three and seven. This is a sufficiently reasonable period to allow both public and private sectors to restructure their respective economies for open market competitiveness.

It may be argued that I am flogging a dead horse. But what do we do as a country facing such a threat. Currently there is no significant economic adjustment taking place. And the economy of Dominica is experiencing a tail-spin phenomenon. Economic survival is a necessity. Being already late, we have to be serious about expeditious economic adjustment. When this is solidly in place and succeeding, with

both public and private sectors busy at work, displacing a strong sense of team spirit, then we may have other views of the banana industry.

In the meantime, while we are still thinking and planning, it would do all of us well to fight hard to preserve the banana industry for some many more years.

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