Marcelo Bucheli

Enforcing Business Contracts in South America: The United Fruit Company and Colombian Banana Planters in the Twentieth Century

In the first half of the twentieth century, the United Fruit Company, based in Boston, Massachusetts, created an impressive network that produced bananas in Colombia for distribution to the U.S. market. The company grew its own fruit but relied as well on local entrepreneurs. United Fruit imposed draconian contracts on the growers, forcing them to trade on terms that were very favorable to the company. These practices set the standards for other exporters operating in the country, even those based in Colombia.

In 1899, the towns in the region of Magdalena, located on the Colombian Caribbean shore, witnessed the arrival of the Boston-based American multinational corporation, United Fruit Company (now Chiquita). Its arrival represented the start of a process that changed Magdalena forever. Government neglect had made it one of Colombia's most economically backward regions, but it underwent dramatic changes with the arrival of United Fruit, which developed an infrastructure for producing bananas and exporting them to the United States. Over a short period, the sleepy towns of Magdalena became dynamic urban centers that attracted thousands of workers from all over the country. In a process that the novelist Gabriel García Márquez, who hailed from that region, called the "Leaf Storm," all remnants of the past were destroyed, and the region was propelled into the global economy.[1] The company

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[1] Several works of García Márquez were inspired by the operations of United Fruit in Colombia. The best examples are *One Hundred Years of Solitude* (New York, 1992) and *Leaf Storm* (New York, 1972).

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remained in Magdalena until 1942, when World War II interrupted its operations. It returned in 1947 and remained until 1963, when it moved to the region of Urabá, also on the Colombian Caribbean shore.

United Fruit was created in 1899 from a merger of the interests of the Bostonian entrepreneurs Minor C. Keith, Andrew Preston, and Lorenzo D. Baker. Keith already owned banana plantations in Colombia and the Caribbean, controlled a railway network in Central America, and dominated the banana market in the southeastern United States. Preston and Baker owned a steamship fleet, possessed lands in the Caribbean, and controlled the banana market in the U.S. Northeast. The impressive production and distribution network of this newly created company included plantations, hospitals, roads, railways, telegraph lines, housing facilities, and ports in the producing countries, a steamship fleet (the Great White Fleet, which eventually became the largest privately owned fleet in the world), and a distribution network in the United States.[2]

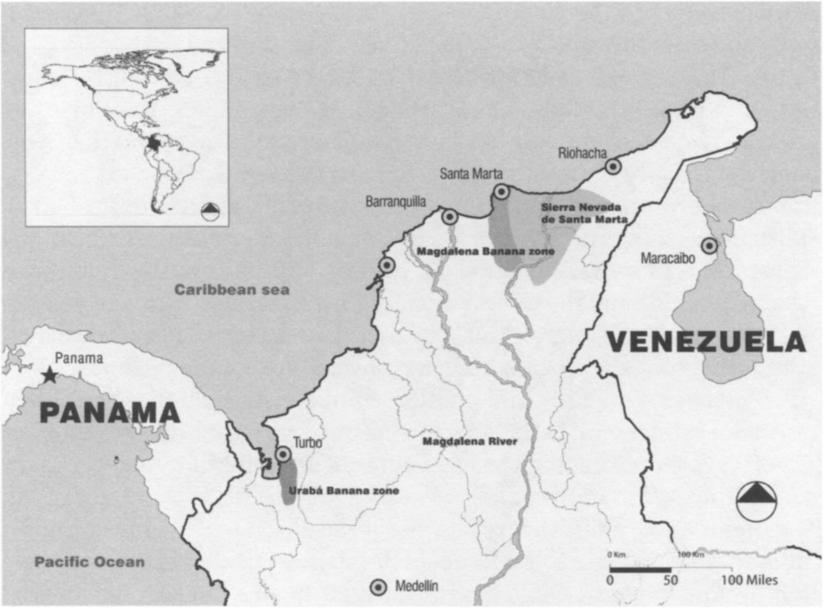
United Fruit has been considered the quintessential representative of American imperialism in Latin America, holding the local governments in its pocket, controlling the local economy of the host countries, and harshly exploiting the plantation workers.[3] This image has inspired several important Latin American literary works, as well as the pejorative term "Banana Republic," leading historians to focus almost exclusively upon the political and labor conflicts generated by United Fruit.[4] Generally, historians have ignored the role of the local planters who provided the company with the fruit. These planters are usually seen as a mere arm that facilitated United Fruit's exploitation of the local society. Paying attention to the actions of the local planters suggests a more complex interaction with the company, and thus sheds light on the economic and social dynamics between foreign capital and local labor struggles.

Studies of United Fruit in Colombia have focused on labor conflicts of the 1920s, culminating in the 1928 strike of the Magdalena banana

[2] According to Mira Wilkins, the process of vertical integration by United Fruit in the early twentieth century is a textbook case of a company that successfully followed the general growth trend of American multinational corporations during that period. See Mira Wilkins, *The Maturing of Multinational Enterprise* (Cambridge, Mass., 1974), 422–3.

[3] Some of the most representative works that take this viewpoint are Charles Kepner and Jay Soothill, *The Banana Empire* (New York, 1935); Oscar Zanetti and Alejandro García, *United Fruit Company: un caso de dominio imperialista en Cuba* (Havana, 1976); and Stephen Schlesinger and Stephen Kinzer, *Bitter Fruit: The Untold Story of the American Coup in Guatemala* (New York, 1983).

[4] In addition to García Márquez's works, we can mention Miguel Angel Asturias, *Green Pope* (New York, 1971) and the poem "United Fruit Company," included in Pablo Neruda, *Canto General* (Berkeley, 1991).



Banana-growing regions along the Colombian Caribbean. Whereas the Magdalena banana zone was created in the late nineteenth century, the Urabá banana zone did not exist before 1963, when United Fruit started its operations in the region.

workers.[5] In 1928, these workers interrupted operations, demanding better conditions and formalized labor contracts with United Fruit. The largest strike Colombia had ever witnessed came to a tragic end when the Colombian Army opened fire against a group of peaceful

[5] See Judith White, "The United Fruit Company in the Santa Marta Banana Zone (Colombia): Conflicts of the 20s" (B.A. thesis, Oxford University, 1971); Catherine LeGrand, "El conflicto de las bananeras," in *Nueva Historia de Colombia*, ed. Alvaro Tirado (Bogotá, 1986); Fernando Botero and Alvaro Guzmán, "El enclave agrícola en la Zona Bananera de Santa Marta," *Cuadernos Colombianos* 8 (1977). Although these studies mention local planters, they analyze them only for their role in labor conflicts, not as entrepreneurs. In general, the role of the multinationals' Latin American local providers as entrepreneurs has been neglected by the literature. This is partly because most studies on multinationals in the extractive sector have accepted the assumptions of dependency theory, which asserts that multinationals create economic enclaves that have few or no links to the rest of the national economy. It also assumes that the local elite is merely an extension of the multinationals' interests, with very limited influence on local economic development. Dependency theorists assume that once a multinational leaves the enclave, the local elite will be unable to keep the export business alive. Past studies assumed that this was the case with United Fruit in Magdalena. For a definition of an economic enclave according to dependency theory, see Manuel Castells, "Urbanización Dependiente en América Latina," in *Urbanización y Dependencia*, ed. Martha Schteingart (Buenos Aires, 1973). For a discussion of dependency theory's constraining effect on the development of business history as a discipline in Latin America, see Carlos Dávila

demonstrators in the city of Ciénaga on December 6, 1928. This event, now known as the *masacre de las bananeras*, inspired parts of Gabriel García Márquez's novel *One Hundred Years of Solitude* and became the main object of study for historians. In this conflict, local planters are taken into account only in direct relation to the strike, and they have been depicted both as early supporters of the strike because they saw it as a tool to weaken United Fruit. They have also been described as subsequent supporters of the multinational as they came to fear the masses. My study of the contractual relationship between the Colombian banana planters and the multinational shows that these local actors were not mere arms of United Fruit, but that they had agency and designed long-term strategies to gain higher stakes in the banana business.

By focusing on labor and political conflicts, most studies on foreign direct investment in Latin America have been based on Dependency Theory, which posits that the local elites of an underdeveloped country permit the exploitation of their country's labor force by foreign capital. The dominance of this theory has discouraged scholars from adopting a different perspective on the local elites' business behavior. An examination of how the local elites developed their businesses was considered either irrelevant or as possibly glorifying them. I undertook this study in order to gain an understanding of the logic that guided the behavior of these elites and thus to derive a fuller picture of the dynamics created by the arrival of foreign capital in Latin America.

Before World War II, the company produced bananas on its own farms and on the farms of its associate producers. However, after the war, the company gradually sold off its farms and came to rely more heavily on local producers. When the company moved to Urabá in 1963, it dealt solely with subcontractors, choosing to concentrate on marketing the fruit.[6] In the next sections I describe the types of contracts that

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and Rory Miller, *Business History in Latin America: The Experience of Seven Countries* (Liverpool, 1999); and María Inés Barbero, "Business History in Latin America: Issues and Debates," in *Business History around the World*, eds. Geoffrey Jones and Franco Amatori (Cambridge, U.K., 2003). Lawrence Grossman did a study of the subcontracting system in the banana sector created in the Windward Islands by the St. Vincent Banana Growers' Association after 1953. Grossman's study also reveals the power of this organization in limiting the local growers' independence. This case did not include United Fruit, which did not operate in those islands. See Lawrence Grossman, "The St. Vincent Banana Growers' Association, Contract Farming, and the Peasantry," in *Banana Wars: Power, Production, and History in the Americas*, eds. Steve Striffler and Mark Moberg (Durham, 2003); and Lawrence Grossman, *The Political Ecology of Bananas: Contract Farming, Peasants, and Agrarian Change in the Eastern Caribbean* (Chapel Hill, 1998).

[6] After divesting from Colombia in the 1950s, United Fruit followed the same process in Central America almost a decade later. The incentives to divest stemmed primarily from the growing power of labor unions and the nationalistic policies of local governments in the 1960s and 1970s. Shareholders and institutional investors began to view production operations as risky and encouraged management to sell off the company's "tropical assets." The

were imposed on local growers by United Fruit, their effects on the planters, how they evolved, and how they were enforced.[7]

United Fruit and the Magdalena Planters, 1899–1930

United Fruit's first three decades of operation in Colombia coincided with the period known as the "Conservative Hegemony," a relatively peaceful time of remarkable economic growth, led by coffee exports. After a destructive and bloody war between Liberals and Conservatives (the War of the Thousand Days, 1899–1902), the triumphant Conservative government, in its quest for national reconstruction and modernization, created generous incentives in order to promote direct foreign investment in the country. United Fruit benefited from this policy, gaining generous land concessions and tax breaks from a national government that was dominated by the business-friendly Conservatives. This relatively conflict-free period came to an end in 1928, when workers staged a strike, the largest even seen in Colombia, against United Fruit, which thus became one of the first companies to feel the impact of the new social conflicts created by the expansion of capitalism in the countryside.

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change was endorsed by the company's shareholders and by financial analyst firms, such as Moody's. The company continued its production operations in the Central American republics, which were ruled by more foreign-business-friendly governments in the form of dictatorships that repressed labor unionism. On the international divestiture process, see Marcelo Bucheli, "United Fruit Company in Latin America," in Striffler and Moberg, *Banana Wars*; Marcelo Bucheli, *Bananas and Business* (New York, forthcoming); and Wilkins, *The Maturing of Multinational Enterprise*, 423. For the divestiture process in Colombia, see Marcelo Bucheli, "United Fruit Company in Colombia: Impact of Labor Relations and Governmental Regulations on its Operations, 1948–1968," *Essays in Economic and Business History* 15 (1997): 65–84, and also *Bananas and Business*. Other studies on particular United Fruit divisions have discovered a similar trend. Steve Striffler has shown how labor activism pushed United Fruit into using a subcontracting system in Ecuador, shifting control of production to the locals in the 1960s. Philippe Bourgois and Aviva Chomsky also found that labor and political problems stimulated the company's divestiture in Costa Rica. See Philippe Bourgois, "One Hundred Years of United Fruit Company Letters," in Striffler and Moberg, *Banana Wars*; Aviva Chomsky, *West Indian Workers and the United Fruit Company in Costa Rica, 1870–1940* (Baton Rouge, 1996); and Steve Striffler, *In the Shadows of State and Capital: The United Fruit Company, Popular Struggle, and Agrarian Restructuring in Ecuador* (Durham, 2002).

[7] It would be possible to examine the contractual relationship between United Fruit and the Magdalenan and Urabense planters within the theoretical framework developed by the new institutional economics theory of contracts, as Alan Dye did in his study of the Cuban sugar industry. See Alan Dye, *Cuban Sugar in the Age of Mass Production: Technology and the Economics of the Sugar Central, 1899–1929* (Stanford, 1998). However, while I have analyzed information on the dynamics between the company and the planters, I have not utilized quantitative methods of analysis. James Robinson has made a remarkable contribution in building a mathematical model of the contractual relations of United Fruit in Magdalena and Urabá, which influenced my interpretation. See James Robinson, "Hold-up in the Tropics: United Fruit Company in Magdalena and Urabá, Colombia" (unpublished ms., 2001).

When Minor Keith arrived independently in Magdalena in the early 1890s to purchase some land, he found a region that had been decaying for almost a century. Keith created his own firm, the Colombian Land Company, a precursor to United Fruit. Magdalena was ruled by an impoverished aristocracy that was descended from the early Spanish conquerors and the French colonizers who arrived during the early years of Spanish rule. This upper-class group was scorned by the traditional elite in the city of Cartagena and the recently enriched merchant class in Barranquilla.[8]

When Keith merged his interests with Preston's and Baker's to create the United Fruit Company, the 12,500 acres that the Colombian Land Company had acquired in Riofrio (Magdalena) became part of the production network of the new, vertically integrated company.[9] Magdalena already had a railway system when United Fruit started its operations there. In 1881 the local government had given a railway concession to two local entrepreneurs, Julian De Mier and Roberto Joy.[10] This concession was transferred to a British company in 1886 and incorporated as the Santa Marta Railway Company. During the first years of the twentieth century, the concession was transferred to United Fruit, which expanded the railway to expedite transportation of the fruit from the banana farms, especially the produce of its own local providers.[11] These changes facilitated the vertical integration of United Fruit in Colombia. The company eventually operated its own plantations, but it also bought a large portion of the fruit that was shipped to the United States from local planters. By the 1920s the company was buying 57 percent of the bananas it exported from locals.[12]

Why Colombian Entrepreneurs Failed to Develop a Banana Export Business

Colombian entrepreneurs made several attempts to export bananas before the arrival of United Fruit. One local entrepreneur, José Manuel González, was the first to produce bananas commercially in the region in 1887, and he tried to export them in 1889. This initiative failed, however, because of the lack of fast, refrigerated ships: the fruit rotted by

[8] Cartagena and Barranquilla are the other two most important cities of the Colombian Caribbean. A complete history of the three cities can be found in Theodore Nichols, *Tres puertos de Colombia* (Bogotá, 1973).

[9] White, "The United Fruit Company," 12. The Riofrio area constitutes part of the main core of what is known as the Magdalena Banana Zone.

[10] Colombia is divided politically into separate regions called departments.

[11] Judith White, *La United Fruit Co. en Colombia: historia de una ignominia* (Medellín, 1978), 20.

[12] LeGrand, "El conflicto," 194.

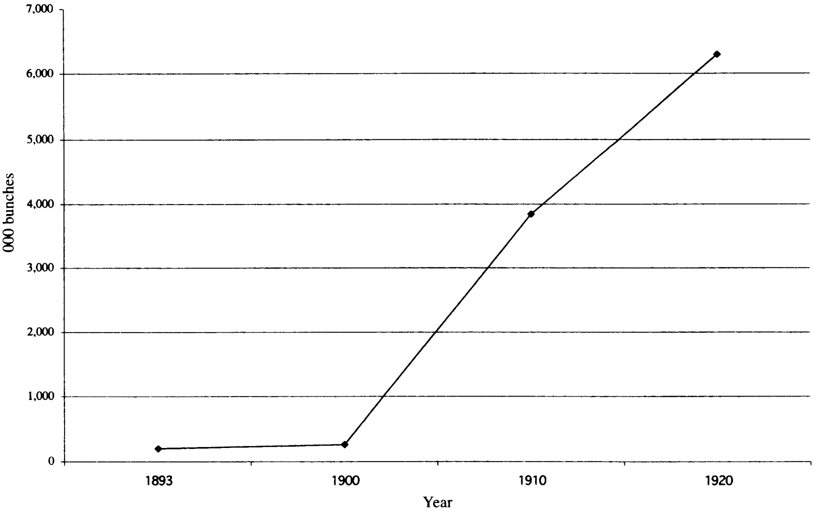


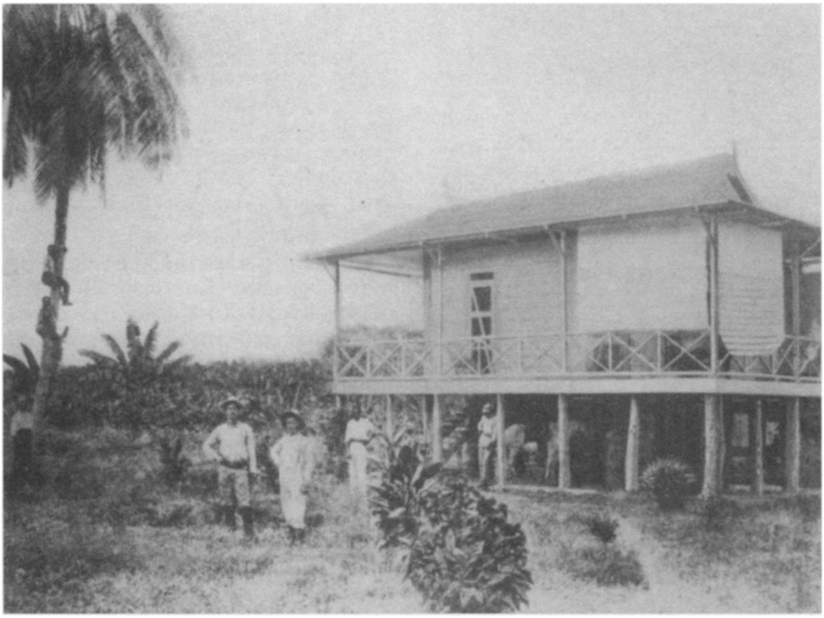
Figure 1. Colombian banana exports, 1893–1920, in bunches. United Fruit started its operations in Colombia in 1899, the year before the impressive growth of banana exports from this country. Before 1899 these exports had been made by local planters. Source: Eduardo Posada-Carb, *The Colombian Caribbean: A Regional History*, 1870–1950 (Oxford, 1996), 52.

the time it arrived in New York.[13] Other local entrepreneurs made similar attempts and met with the same results. In the early 1890s, two English immigrants, Mansel Carr, head of the Santa Marta Railway Company, and Laurence Bradbury, made the first regular shipments in partnership with the New Orleans firm J. Sanders.[14] Later, the Colombian Land Company took over the export business, with Carr and Bradbury as suppliers. Finally, the United Fruit Company, which was created in 1899, acquired Keith's Colombian Land Company and continued the deals he had struck with the locals.

The early efforts of the local growers to sell the fruit in the international market were not successful, because they lacked the capital to develop an international marketing system. Nor did they have a large fleet of fast boats or a distribution network in the consumer markets. As a result, the local entrepreneurs never managed to create a continuously operating banana-export business during the nineteenth century. A multinational enterprise with its own transportation system and marketing network was required for the export business to prosper. In fact, the banana-export sector of Magdalena really took off after United Fruit began its operations there in 1899, as Figure 1 demonstrates.

[13] Roberto Herrera and Rafael Romero, *La zona bananera del Magdalena: historia y léxico* (Bogotá, 1979), 6.

[14] White, "The United Fruit," 13–14; Herrera and Romero, *La zona bananera*, 6.



A United Fruit overseer's house in a banana plantation, 1925. Source: *UNIFRUITCO*, Sept. 1925, p. 62. Courtesy of *UNIFRUITCO* and the United Fruit Company.

Subcontracting versus Production

United Fruit did not begin as a direct producer in all its divisions. According to historian Victor Bulmer-Thomas, the first shipments from Central America were made under a subcontracting system that the company gradually abandoned because of difficulties in coordinating with the local planters, who had little incentive to invest in the unhealthy lowlands.[15] Although the locals built their own plantations, they were not able to coordinate their production with the company's demand for the fruit. Eventually, United Fruit controlled most of the produce it exported from Central America.

In Colombia United Fruit combined a vertical integration system with a subcontracting arrangement that attracted the participation of the local growers to an increasing degree. Local planters in Colombia produced from 20 percent to 30 percent of the fruit exported by United Fruit in 1910; by 1920 they were producing 50 percent; and by 1930,

[15] Victor Bulmer-Thomas, *The Political Economy of Central America since 1920* (Cambridge, U.K., 1987), 15–16, 35–7.

close to 80 percent.[16] In contrast, United Fruit controlled virtually all the production in Central America—as much as 90 percent—until the 1960s.[17] United Fruit's relatively low share of control in Colombia was unique among the places in which the company operated. Since the beginning of the twentieth century, Colombian planters have exercised more responsibility and exerted more influence on the banana economy than their Central American counterparts.

Gaining Monopsony Power in the Region

United Fruit could successfully subcontract production in Colombia because the company was able to write the purchase contracts with local providers in a way that assured it a monopsonistic advantage. The contracts left the locals little choice other than to continue to work with United Fruit once the contract period was over, and the documents contained clauses that strongly discouraged the creation of local export companies. Under this system, the local providers were obliged to sell all their produce to United Fruit, but United Fruit was not obliged to buy crops from them. The contracts guaranteed United Fruit protection from any unpredicted event, leaving the locals with all the risks. For the first four decades of the twentieth century, these contracts established that the fruit belonged to the company as soon as it was cut from the tree. If, however, the fruit happened to have any defect identified by the company's quality-control officials, ownership of the bananas reverted to the planter. Moreover, even if the company's officials approved and shipped the fruit but it was later rejected by U.S. health authorities for any reason, the fruit reverted to the Magdalena planter, who received no payment. The contracts also specified that the local planters could not sell any of their fruit, including produce rejected by United Fruit, to another company. If a local planter sold his or her property to someone else (women owned almost half of the property at that time), the seller was obliged to include a clause in the land-sale contract that committed the buyer to adhere to the terms of the company's purchase contract. In the event that the Colombian or the U.S. government enacted taxes on the banana trade, the locals had to bear the extra costs. Although the contracts gave a detailed description of the characteristics of the fruit the company considered acceptable for export, the company's officials reserved the right to reject any fruit,

[16] Eduardo Posada-Carbó, *The Colombian Caribbean: A Regional History, 1870–1950* (Oxford, 1996), 53–4.

[17] Frank Ellis, *Las transnacionales del banano en Centro América* (San José, 1983), 116, 129, 133, 138, 143, 145.

regardless of its quality. Finally, the company reserved the right to cancel any purchase contract with any local planter without indemnification in the event of political conflicts or for any other reason the company decided upon.[18]

All contracts, especially onerous ones like these, created incentives for the locals to cheat by trying to make deals with other banana export companies or looking for ways to flout the contracts and export the fruit themselves. In response, United Fruit established three potent enforcement mechanisms:

1. Timing. The contracts were issued on a staggered schedule, in order to avoid having a large number of planters "free," or uncontracted, at the same time. In this way they could never join forces to develop their own export business.
2. Third-party enforcement. When a local tried to export fruit that, by contract, could only be sold to United Fruit, the United States customs office and British courts enforced the contract by confiscating the fruit, both in the United States and in Great Britain.
3. Conditions placed on loans. The company gave loans to the local planters on condition that they turn over all their produce to United Fruit. The company had the advantage of being the only serious financial institution in the region. Cheating, therefore, carried stiff penalties: credit revocation and financial ruin.

For the entire period from 1900 to 1942, these three mechanisms assured United Fruit's monopsony in the region. Whenever a planter wanted to rebel or stop complying with the terms of the contract, the company used these mechanisms, always successfully, as I will describe in more detail in the next sections.

Contract Timing

United Fruit was aware that local planters would always be tempted to break away and create their own marketing firms. In order to tie them to United Fruit, the company created an elaborate schedule for obtaining local providers' signatures on contracts, thereby preventing them from joining forces and developing their own export business.

To carry out this strategy, the company made sure that no single contract expired on a date that coincided with the expiration of many

[18] This description is a summarized version of the information I gathered from dozens of contracts between United Fruit and different local growers from 1900 until the early 1940s. The contracts I consulted belong to the notary records of *Notaria Primera de Santa Marta*, Santa Marta, Magdalena, Colombia.

other producers' contracts. In this way, there was never a time when a large number of local producers were not under contract with United Fruit. Because the good was a perishable item, no producer could afford to wait until the others' contracts expired. The success of United Fruit's strategy was based on three key features of the banana business: First, the trees continued to produce, regardless of whether the fruit could be sold, which meant the planters could not easily stop production. Second, because bananas are highly perishable, they could not be stored. And third, the business required huge investments in the shipping and marketing of bananas. Thus, unless planters were able to coordinate their actions, they could not profitably end their relationship with United Fruit. So every time a producer's contract was due, he or she had no choice but to sign a new contract with United Fruit.[19]

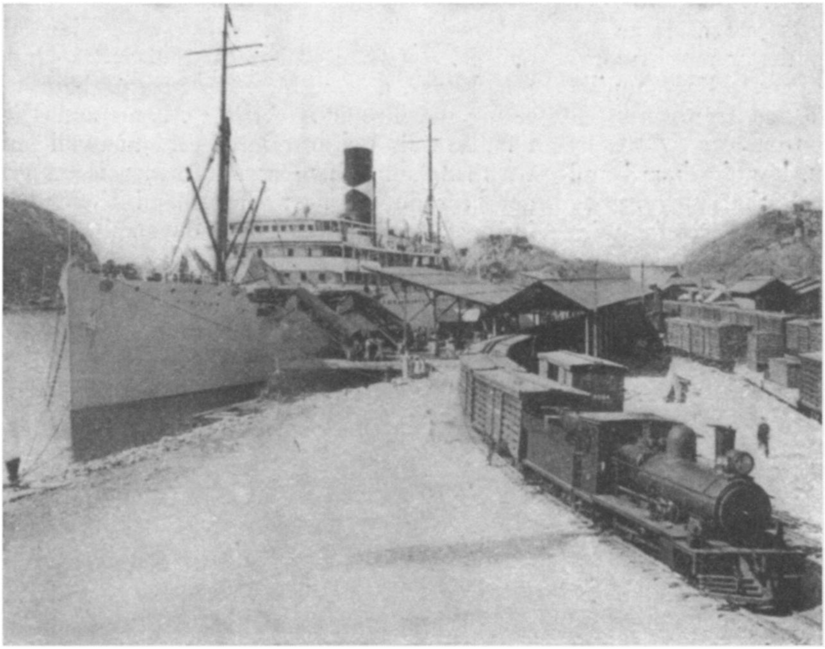
Using Foreign Courts to Enforce Contracts

Although the contracts stipulated that all the disputes between the company and the local growers should be settled in the courts of Santa Marta, Magdalena's capital city, the company relied on foreign courts to enforce its contracts. This happened, for instance, when local producers tried to break the company's power by attempting to sell to other foreign companies.

The first such attempt came in 1920, when United Fruit tried to increase the planters' obligations and decrease the price it paid for their fruit. The company's new local management introduced a clause to the contract, placing the responsibility for paying national or foreign taxes on the locals and obliging them to transfer the contracts when selling their property. The managers also sought a decrease in the price that had been established by the company. Local producers who decided not to accept the new conditions, led by Juan B. Calderón, a banana entrepreneur, president of the Ciénaga Municipal Council, and a long-time fierce opponent of United Fruit's power in the region, made a deal with Alejandro Angel & Compañía, a local firm, and the Atlantic Fruit Company, a U.S. company based in New Orleans. They exported their first shipment in September of 1920. This attempt to break United Fruit's dominance failed. As soon as the shipment arrived in New York, local customs officials seized the cargo, honoring the United Fruit representative's claim of a contract violation.[20]

[19] This information came from interviews with former planters; the contract dates are from notary records.

[20] White, "The United Fruit," 54; Kepner and Soothill, *Banana Empire*, 288.



Loading bananas at the Santa Marta wharf, 1925. Source: *UNIFRUITCO*, Oct. 1925, p. 190. Courtesy of *UNIFRUITCO* and the United Fruit Company.

A second attempt was made in 1930. After organizing some planters into the *Cooperativa Bananera Colombiana*, Calderón signed a contract with Robert Brinnings Company Limited of Liverpool. Although the British firm did not pay the prices it had initially promised, the locals nevertheless transported their first two shipments to England through Robert Brinnings in June and July of 1930 on the Leyland Line, a transportation company. When the third shipment was ready to depart, United Fruit protested that Leyland was transporting illegal fruit to England. Leyland refused to discuss the matter with United Fruit, referring the problem to Calderón. However, United Fruit would not negotiate with Calderón, rejecting his proposal that the company name an agent to check the shipment in the port and select the fruit that was theirs. The company proposed, instead, that future shipments be monitored by the Colombian government, and it detailed the procedures it wished to impose to ensure this oversight. However, its stipulations were rejected by the government-appointed commission as impractical.[21]

[21] Kepner and Soothill, *Banana Empire*, 288–9.

Instead, the Colombian government forced the company to settle the case in the British courts, which decided in favor of United Fruit. The judge imposed embargoes on the fruit imported by Robert Brinnings, which then decided to halt banana imports from Colombia. Its decision ended the local effort to break the contract system with United Fruit.[22]

United Fruit also prevented the locals from developing businesses with other companies by acquiring the competing firms. In 1929 the *Cooperativa de Productores Colombianos de Banano*, led by Calderón and Julio Charris (another local politician and entrepreneur), made business deals with United Fruit's main competitor, the Cuyamel Fruit Company.[23] Unfortunately for Charris and Calderón, Cuyamel was already engaged in a losing battle with United Fruit. The two had been waging a ferocious price and marketing war in the years prior to 1928, and United Fruit pulled out all the stops to eliminate this small but aggressive rival. In November 1929 United Fruit decided to put an end to a conflict that was damaging both sides by making an offer to Cuyamel's manager, Samuel Zemurray, to buy the company. Zemurray sold it for 300,000 shares of United Fruit, worth $31,500,000, and was named president of the company shortly afterward.[24] In this way, all the businesses signed up by Cuyamel before 1929 were transferred to United Fruit, destroying the cooperative's hopes for independence.

United Fruit as Banker

The lack of financial institutions was a major obstacle for the local entrepreneurs of Magdalena who were trying to develop their businesses in the early decades of the twentieth century, as they had no way to finance their operations. No formal banks existed in the cities of Santa Marta or Ciénaga; the closest ones were located in Barranquilla or Cartagena. The banks in these two cities, however, were not of much help to Magdalena's entrepreneurs, as they tended to give loans only to the two cities' small circle of elites.[25] Indeed Colombia did not have a decent national banking system during this period. Even the expansion of the banking system in the 1930s did not much affect the situation in secondary cities like Santa Marta or Ciénaga. In fact, when the central government, following the advice of the Kemmerer mission, established

[22] Ibid.; Herrera and Romero, *La zona bananera*, 10–11.

[23] LeGrand, "El conflicto," 198.

[24] Stacy May and Galo Plaza, *The United Fruit Company in Latin America* (Washington, D.C., 1958), 17.

[25] Adolfo Meisel and Eduardo Posada-Carbó, "Bancos y banqueros de Barranquilla," *Boletín Cultural y Bibliográfico de la Biblioteca Luis Angel Arango* 25, no. 17 (1988).

rules for the minimum capitalization of banks in the 1930s, it left small places like Ciénaga and Santa Marta without the option of creating their own banks.[26]

Thus, when United Fruit arrived in Magdalena, it became the only important financial institution in the region. The company gave loans to planters who were providing them with fruit. Typically, these loans were offered on condition that the planter sell his bananas exclusively to United Fruit. This was the only way for many planters to get enough capital to enter banana production. Even the historians Charles Kepner and Jay Soothill, who are critical of United Fruit's impact and domination in the area, admit that "the company devoted many millions of dollars at low and reasonable rates of interest to help those who otherwise would not have been able to use their lands for banana cultivation."[27]

Many of United Fruit's loans were guaranteed by the borrower's land. These loans were known as *pactos de retroventa* (mortgage loans). If the loan was not paid after a certain amount of time, the borrower was obliged to sell his or her land to United Fruit at the price stated in the pact.

Although the loans provided by United Fruit generated a credit system where none had existed before, some planters did not like the fact that United Fruit was a monopoly. In 1924 the municipal council of Ciénaga demanded that the national government establish an agricultural bank in the city to compete with United Fruit.[28] However, the government was slow to respond, and the proposal was taken seriously only after a series of natural disasters in 1927 destroyed dozens of farms and nearly bankrupted the planters. The Conservative governor of Magdalena, Juan Cormane, allied with the Ciénaga leader, Juan B. Calderón, to lobby the national government for help in creating a regional bank. Calderón organized a group of planters into the *Sociedad de Productores de Santa Marta y Ciénaga* (Society of Producers from Santa Marta and Ciénaga), which worked with the governor to convince the government to open a branch of the *Banco Agrícola Hipotecario* (Agricultural Mortgage Bank) in Magdalena. This achievement made

[26] The Kemmerer mission, led by economist Edwin Kemmerer, organized the country's first central bank. For a discussion of the evolution of the Colombian financial system, see Mauricio Mora, "Transformación del sistema bancario colombiano, 1924–1931," *Desarrollo y Sociedad*, no. 30 (1992).

[27] Kepner and Soothill, *Banana Empire*, 290. The amount of United Fruit loans was incredibly high by local standards. By 1921, the company had lent one million dollars to the local farmers. See White, "The United Fruit," 19. Studies suggest that the total amount of loans increased over time. According to Posada-Carbó, in 1931 the company was struggling to gain repayment for loans amounting to three million dollars, and by 1943 some growers still owed two million dollars. See Posada-Carbó, *The Colombian Caribbean*, 56.

[28] White, "The United Fruit Company," 55.

Cormane popular among the small producers of Ciénaga but unpopular among his fellow conservatives of the Santa Marta elite.[29]

The long-awaited arrival of a branch of the Banco Agrícola Hipotecario was a disappointment. The bank's conditions for issuing a loan were even more onerous than those imposed by United Fruit, and its interest rates were higher.[30] There were simply no incentives to shift to the new financial institution when United Fruit provided below-market interest rates. Additionally, their contracts tied many of the planters to United Fruit anyway, and, in fact, many were satisfied with the company's credit service. The stability they gained from doing business with United Fruit, the convenience of its technical assistance, and the punctuality of its payments were strong incentives for many risk-averse planters. Some used the profits and loans they received from the company for unproductive activities, including years of residence in Brussels, London, Paris, or the United States.

The use of borrowed money to finance extravagant lifestyles had occurred in Magdalena since 1910. As early as 1919, the company's vice president, after hearing some Santa Marta planters complain about the prices they were being paid, commented that United Fruit had suffered losses of $600,000 on loans to the "so-called gentlemen planters who blew the money living high in Colombia or at the Waldorf Hotel in New York."[31]

After United Fruit changed its policies in the post–World War II period, planters in Santa Marta and Ciénaga longed for the times of easy money when the company had operated in Magdalena. A former entrepreneur described how the arrangement worked:

> Getting a loan from United Fruit in those times [before WWII] was much easier than nowadays [the 1990s]. A lot of people did not do anything. They did not even have to go and pick up their checks. The company sent a messenger who brought the check to your place. . . . Sometimes we got loans to go to travel in Europe for a year. . . . United Fruit gave us the tickets for free. . . . [Under those conditions] why would you invest your profits?[32]

Since not all planters were opposed to the company's credit arrangements, a self-enforcing mechanism was created in the contracting system. Those who were not willing to develop their own businesses

[29] Ibid., 56–9.

[30] Adriana Corso, "El gravámen bananero: un caso de historia política en el Magdalena, 1925–1930" (M.A. thesis, Universidad del Norte, Barranquilla, Colombia, 1996), 63.

[31] Quoted by Posada-Carbó, *The Colombian Caribbean*, 56.

[32] Interview with Jose Rafael Dávila, a former entrepreneur and member of a landowning family in the banana zone. Santa Marta, June 1999. This view was shared by other landowners interviewed in the region.

could become wealthy by sticking to the company. Unfortunately, the available data do not permit us to calculate what percentage of planters supported Calderón and what percentage was satisfied with the current system.

Remnants of a prosperous past can still be seen in the Banana Zone. Downtown Ciénaga exhibits its glorious past behind the damaged facades of the 1920s and 1930s French-style mansions, now converted into liquor stores, restaurants, and even brothels. Locals still talk of the elegant parties held at these mansions, enlivened by European bands and unlimited amounts of champagne and whisky. Many did not even care for their farms, which were administered by United Fruit, but rather dedicated their time to the development of arts and literature or traveling abroad, while others enjoyed partying in Santa Marta. Some old *Cienagueros* still proudly display faded Belgian or French diplomas on the walls of living rooms, whose refined European furniture has not been refinished in decades.[33]

World War II and the Withdrawal of United Fruit

In the late 1930s and early 1940s the region of Magdalena suffered a major crisis. An epidemic of Sigatoka, a fungal disease infecting bananas, swept through the plantations, causing an emergency that forced the national government to intervene. In 1941 the national government signed a contract with United Fruit that committed the company to fight Sigatoka with government support. The outbreak of World War II, however, interrupted this program and United Fruit's other operations.[34] During the war, the company was forced to discontinue shipments because of the presence of German submarines in the Caribbean, and exports from Magdalena were halted. As a result, the region fell into a deep economic crisis, forcing both the workers and the planters to seek other economic activities.

Once the war ended and the Caribbean trade was reestablished, the locals found themselves in a new relationship with the company. The clause in their contract stipulating that contracts could be canceled in the event of foreign war had been applied. For the first time in the century, a considerable number of locals were no longer contractually

[33] This description is based on my observations while doing field research in Magdalena. A good study of the cultural life of the Ciénaga elite during the times of the banana boom before World War II can be found in Catherine LeGrand, "Living in Macondo," in *Close Encounters of the Empire Kind: Writing the Cultural History of U.S.–Latin American Relations*, eds. Joseph Gilbert, Catherine LeGrand, and Ricardo Salvatore (Durham, 1998).

[34] Fernando Cepeda and Rodrigo Pardo, "La política exterior colombiana (1930–1946)," in *Nueva Historia de Colombia*, vol. 3, ed. Alvaro Tirado (Bogotá, 1989), 23.

bound to United Fruit, leaving them free to coordinate their efforts and capture economies of scale. They were now in a stronger position to challenge United Fruit.

During the period preceding World War II, not all the planters had thrown their money away on leisurely pursuits. Some second-generation planters used their gains to pursue sophisticated business courses in American and European universities.[35] This is especially remarkable when one considers that the first generation to witness the arrival of United Fruit had lived in a stagnant, poor society.[36] The second generation, which received its business education abroad, played an important role in the 1940s.

When World War II ended, a number of small independent traders came to the port of Santa Marta looking for bananas to sell in the American market. These people were not connected to any multinational corporations, and they conducted their businesses very informally. They did not sign contracts with the local providers but simply came to the port, bought fruit from whoever had it to sell, and paid either in cash or in goods such as whisky, American clothes, or imported foods.[37]

The presence of these small buyers and the prospect of receiving high prices for their produce in the United States and Europe during postwar reconstruction stimulated the local planters to grow bananas again. The first planters to sell their fruit to the new traders were those who had been most hard hit by the drop in exports during World War II. While growers with the capital to switch to other crops did so, others found themselves in such precarious financial situations that they were unable to make a change. They did, however, keep some of the ruined banana plantations, which eventually produced the first crops of the fruit once the war ended.[38]

The independent traders had a huge impact. In 1943, the region did not export a single banana; in 1944 it exported 422,561 bunches; and, in 1945, a record 1,381,874 bunches were exported.[39] Figure 2 shows

[35] Eduardo Posada-Carbó has described a group of planters who invested their profits in other businesses, such as beer, cattle, and trade, during the 1920s. Posada-Carbó, *The Colombian Caribbean*, 204.

[36] For a good study of the development of the city of Santa Marta before the banana boom, see Nichols, *Tres puertos*, 151–66.

[37] Interviews with Luis Riascos, Eduardo Solano, and Jose Manuel Dávila, all members of families involved in the banana export business. Riascos and Solano were exporters themselves. Santa Marta, July 1999.

[38] Interviews with Luis Riascos, Eduardo Solano, Jose Manuel Dávila, and Rafael Perez Dávila. Santa Marta, July 1999.

[39] Henry Arthur, James Houck, and George Beckford, *Tropical Agribusiness, Structures and Adjustments: Bananas* (Boston, 1968), 182. Although these authors only considered the imports of fruit to the United States, the data can be considered accurate because, by that year, 100 percent of the Colombian bananas went to the United States. See Jean-Paul Valles, *The World Market for Bananas* (New York, 1968), 208.

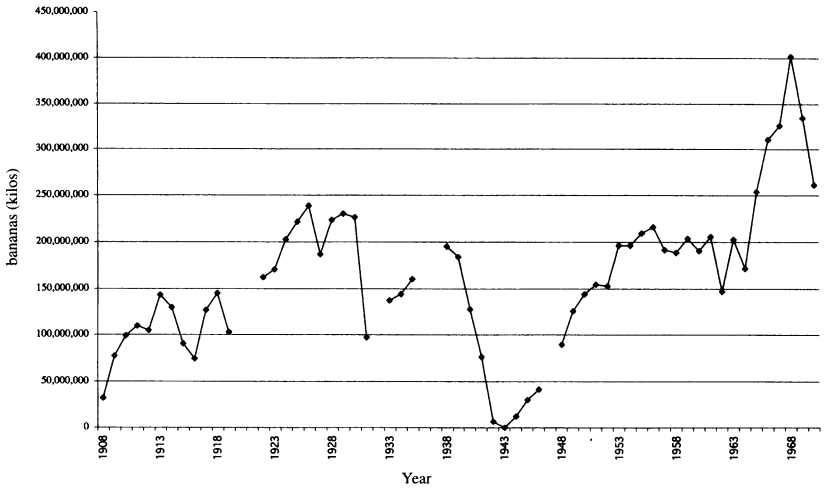


Figure 2. Colombian banana exports, 1908–1970. The banana-export sector faced three crises in this period: the first in World War I; the second during the Great Depression; and the third, and worst, during World War II, when United Fruit interrupted its operations in the country. The company returned to Colombia in 1947. Source: Colombia, *Anuario de Comercio Exterior*, Bogotá, various years.

the region's impressive recovery during these years. The enthusiasm generated by the revival of the banana exports led to the creation of a multitude of small, initially independent companies.

The informal chaos of the early postwar years changed when local producer Anacreonte González formed an association of Magdalena producers. His main goal was to open markets in countries that offered no competition from United Fruit. The country Gonzalez had in mind was Sweden, so he began negotiations with import companies in that country. After signing purchase contracts with these Swedish firms, Gonzalez's conglomerate—appropriately called *La Sueca* (the Swedish Company)—began exporting in 1946. Other producers followed his initiative and established their own export conglomerates, such as the *Consorcio Bananero* (which became one of the two most important local banana export companies), the *Compañía Comercial del Magdalena*, the *Compañía Agrícola del Magdalena*, and the *Compañía Bananera de Ciénaga*.[40]

By 1947 the Magdalena region had witnessed the emergence of an activity that in the prewar period seemed impossible: local banana export companies successfully doing businesses without interference from

[40] Herrera and Romero, *La zona bananera*, 12.

United Fruit. The locals were not tied to their earlier purchase contracts, and they had become associated with different conglomerates. While Gonzalez's conglomerate was operating in Sweden, others had signed contracts in the U.S. market or were negotiating with German import firms. In 1947, the Compañía Agrícola del Magdalena made its first shipment to Miami, using the West Indies Fruit Company for transport. Gonzalez's conglomerate offered services to its banana growers much like those United Fruit had provided earlier, such as assistance in plague control. In the first few years after United Fruit's return, La Sueca used plague-control methods that were more up-to-date even than those used by United Fruit, such as helicopter pesticide spraying—a novelty at that time.[41]

After the war, the enormous potential of the West German market stimulated the locals to create a conglomerate that unified the existing independent export companies. This conglomerate, called *Federación de Productores de Banano del Magdalena*, was established in 1952 under the leadership of the legendary José "Pepe" Vives (from Compañía Comercial del Magdalena) and Francisco Dávila (from Consorcio Bananero). The Federación was created with an initial capital investment of (Col.)$16,000, with each shareholder holding shares in proportion to the number of banana-producing hectares he or she owned.[42] Shortly after it was created, the Federación signed a contract with the German import firms Lutten & Sons and Afrikanische from Hamburg and began its first exports to Germany, selling the fruit at (Col.)$100 a ton.[43]

In order to discourage maverick producers from developing their own businesses, the founders of the Federación organized it as a growers' cooperative. In this way, all members would want the conglomerate to grow, and the incentives to cheat would be minimized.

When analyzing the profiles of the men who created this conglomerate, it is worth emphasizing that they did not conform to the stereotype of the backward absentee enclave landowner. This is remarkable, given the region's high levels of poverty and low rate of industrialization compared with the rest of the country. José Vives is a good example of a self-made entrepreneur in the Colombian Caribbean. Despite not

[41] Interview with Eduardo Solano and Luis Riascos, former banana entrepreneurs in Magdalena. Santa Marta, July 1999.

[42] Santa Marta Chamber of Commerce, articles of incorporation of the *Federación de Productores de Banano de Magdalena*, Santa Marta, 1952.

[43] The information about the prices charged by the Federación to its German buyers is from the following sources: Colombia, Superintendencia de Sociedades Anónimas, Consorcio Bananero, File 267: Deutsche Importeurgruppe Columbianischer Bananen, Declaración official, 30 June 1953; Richard Lehman to Francisco Dávila, letter dated 11 May 1953; A. van Hoboken & Zonen to Francisco Dávila, letter dated 14 May 1953.

being a member of a traditional, powerful family and lacking a formal education, Vives made a fortune with his own commercial, financial, and manufacturing businesses. These included agroindustrial enterprises and the *Banco Bananero del Magdalena*, an institution that financed the independent exporters. Francisco Dávila, Vives's partner, gave the company a touch of sophistication. His family, a traditional upper-class family of the region, had become wealthier through its connections with United Fruit's banana business. Dávila completed his undergraduate studies in France and earned an MBA at Stanford University.

The Federación began having problems after its first year, following a financial scandal, when Dávila and the group comprising the Consorcio Bananero left to form their own association. This created two conglomerates: the Federación, made up of a large number of small producers (led by Vives), and the Consorcio, which combined a small number of big producers (led by Dávila).

The Return of United Fruit to Colombia

The return of United Fruit and the rise of the local banana companies coincided with the beginning of one of the most chaotic periods in Colombian history: *la Violencia*. Officially, la Violencia began in 1948, with the assassination of the Liberal leader Jorge E. Gaitán, and ended in 1958, when Liberals and Conservatives agreed to share power after years of bloody bipartisan violence. Although it was a national conflict, la Violencia was waged mainly in the country's interior, not in the Caribbean region. Thus banana exports were not affected significantly. In fact, the manager of United Fruit's Colombian division reported to his superiors in Boston that Gaitán's death and the ensuing riots did not affect the banana zone, and he continued to report business as usual.[44]

When United Fruit returned to Colombia after World War II, it had to adapt to the fact that new marketing companies were operating in Magdalena. According to the former executives of Federación and Consorcio, the company did not raise too many objections to these newcomers, electing instead simply to look for new partners in order to expand the business. United Fruit even offered to share its ships with the Federación in order to reduce export costs, an offer that the Federación rejected. At this time the multinational was lobbying the national government to make changes to the banana-export legislation that would not have benefited the independent producers.[45] Instead of

[44] United Fruit Company–CFS, *Monthly Report, Monthly Letter*, Honiball to Sisto, Mar. 1948.

[45] Colombia, Superintendencia de Sociedades Anónimas, Consorcio Bananero, File 267: Minute of the delegates of the Second Banana Congress in Santa Marta (no date), 5.

trying to eliminate the local export firms, United Fruit decided to try coexistence; by 1955 local companies were exporting 58 percent of the fruit, while United Fruit was exporting the remaining 42 percent. In comparison, United Fruit dominated 90 percent of the Central American market during this period.[46]

When United Fruit restarted operations, it gave new loans to growers who wanted to get into the business and to some of its former suppliers. Although the conditions imposed by these loans were similar to those of the pre–World War II period, the company now also offered technical assistance. Nevertheless, some local planters preferred to work for United Fruit, rather than for the local export companies, because a big multinational with decades of experience and a solid international network was more reliable than the smaller, newer, more experimental Colombian firms.[47]

How could United Fruit continue writing the same kind of contracts at a time when it was not the fruit-purchasing monopsony it had once been? The answer is that the local companies offered basically the same contract terms.[48] In fact, when asked how the local marketing corporations wrote their first purchasing contracts, one company's founding father said, "We just took the United Fruit contracts and copied them."[49]

Previous studies have pointed to the United Fruit contracts as clear evidence of imperialistic exploitation of the local resources.[50] These studies, however, did not cover the period in which the locals were exporters too. An examination of the postwar period and of the local corporations operating during that time reveals that the locals patterned their behavior on the multinational and followed its logic. It is thus hard to argue that the exploitation of local resources was carried out solely by the multinational corporation operating in the region. However, the fact remains that company established the patterns that were later copied by the local companies.

United Fruit's Divestiture Process

In the 1950s United Fruit gradually began to sell its assets in Magdalena and came to rely more heavily on its local providers by

[46] May and Plaza, *The United Fruit Company*, 76.

[47] Interview with Rafael Correa Diaz-Granados, former provider to United Fruit in the postwar period, Ciénaga, Magdalena, July 1999.

[48] Notaría Primera de Santa Marta: contracts between the local planters and United Fruit, Federación, and Consorcio Bananero.

[49] Interview with Rafael Pérez Dávila, banana entrepreneur, Santa Marta, Magdalena, July 1999.

[50] See White, "The United Fruit Company," and LeGrand, "El conflicto."

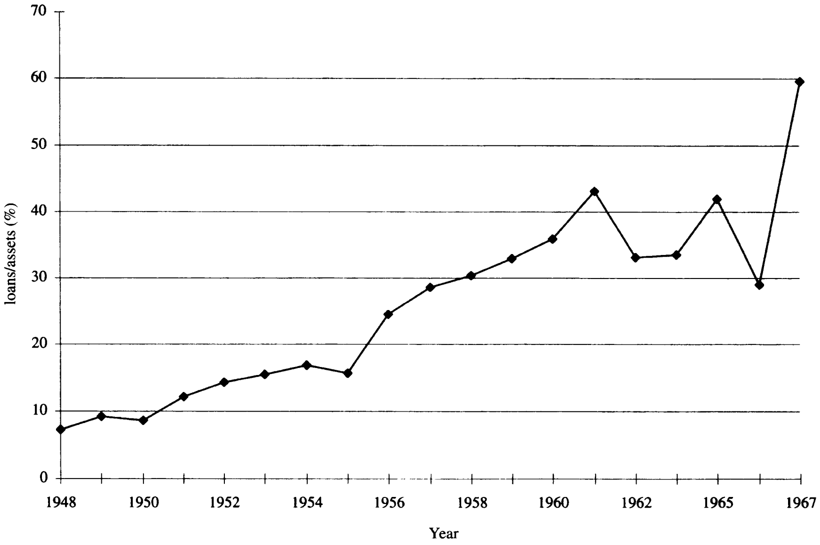


Figure 3. United Fruit loans to the local planters as a percentage of its total assets in Colombia. In the post–World War II period, United Fruit increased its role as a marketing company in the region by relying increasingly on the fruit produced by its local providers, who financed their production activities with United Fruit loans. Source: United Fruit Company Archives, Colombia Division: Analysis of Banana Operations, various years.

increasing the amount of loans to planters as a percentage of its total assets, as Figure 3 shows. At the same time, it began to conduct research on the feasibility of developing a banana-export industry in the region of Urabá.[51] The company took these steps both because the labor unions were increasing their demands in the second half of the 1950s and because new uncertainties in the Colombian legislation during the 1960s raised the possibility that its holdings would be expropriated by the government.[52]

In the early 1960s, the company began its operations in Urabá, shipping its first exports in 1964. The company had shut down its production activities in Magdalena in 1960 but continued to purchase from its associate producers there while increasing investments in Urabá. The manager signed a contract with José Vives, who became the company's representative and main provider in Magdalena. Not only did the company get rid of its lands in Magdalena; it also transferred to the locals the costs of disease control, harvesting and pick-up, transportation,

[51] United Fruit Company–CFS, Land Investigations in Turbo (various reports).
[52] For a detailed study of this process, see Bucheli, *Bananas and Business*.

loading, and bagging.[53] In 1963 the company's manager in Magdalena reported a decrease of $40,600 in disease-control costs, a decrease of $241,200 in harvesting costs, and a decrease of $44,900 in bagging costs, all due to this modification.[54] United Fruit concentrated its efforts in Urabá, where it established a subcontracting system with entrepreneurs in the city of Medellín. By 1964, independent producers were exporting 47 percent of the fruit in Magdalena.[55] In 1965, when its operations in Urabá had taken off, the company pulled out of Magdalena without notice and handed over its suppliers to Vives's Federación. From that point on, all exports from Magdalena were produced by the local planters. Exports from Urabá, operating through Colombian companies, increased dramatically in an impressively short period of time.

Once the company decided to leave Magdalena, it faced the problem of planters defaulting on their company loans. Some of the locals reverted to behaving as they had in 1943, when the war forced the company to leave the region. The American consul in Barranquilla reported that in the early 1940s local planters owed a total of two million U.S. dollars to United Fruit, which the company had little hope of recovering.[56] When the company withdrew from Magdalena again in the 1960s, it faced a similar problem, as the Magdalena planters owed the company a debt of $5,150,000.[57] Vives accepted the transfer of purchase contracts from United Fruit but did not buy the debts, because he considered them to be unrecoverable.

Not only did the company have problems recouping its loans; it also had to deal with buyers who defaulted on their payments after agreeing to purchase some of the company's assets. In addition, it became difficult to sell other assets at an acceptable price. The company's manager, in his report to the headquarters in Boston, summarized the difficulties involved in trying to leave the region profitably.[58]

The country's political situation made it an opportune time for United Fruit to appeal to the Colombian government for help in solving

[53] After transferring these responsibilities to the locals, the company placed its associate producers in the same category as the Federación had done, revealing the distance it was putting between itself and the local planters. United Fruit Company–CFS, *Monthly Report, Monthly Letter*, McMillan to Walwood, 8 Mar. 1963.

[54] United Fruit Company–CFS, Form 840 comments, Mar. 1963, "Actual Performance 1963 versus Original Budget for 1963." A similar trend continued for the rest of the year, according to the Form 840 comments for the months of April, May, and June of 1963.

[55] The calculation was based on data taken from Arthur, Houck, and Beckford, *Tropical Agribusiness*, 55.

[56] Posada-Carbó, *The Colombian Caribbean*, 56.

[57] United Fruit Company–CFS, *Monthly Report*, "Summary of Amounts due from Banana Producers as of December 31, 1964."

[58] United Fruit Company—CFS, *Monthly Report, Monthly Letter*, Bosy to Mason, May 1967; Bosy to Chagnot, June 1967.

its problems with the planters. At this time, most Latin American countries had joined President Kennedy's development initiative, known as the Alliance for Progress, which was created to counter the popularity of the Cuban revolution among Latin Americans. One of the goals of the Alliance was promoting agrarian reforms in Latin America in order to reduce inequality in the countryside and make the rural sector more efficient. As a result, the Colombian government created an agency called the National Institute for Agrarian Reform *(Instituto Colombiano para la Reforma Agraria*, or Incora). Since negotiations with the local planters were proving unsuccessful, United Fruit began to look for alternatives to its plan for withdrawing from Magdalena that would not result in the loss of more money. Therefore, in 1967, the company began negotiations with Incora, attempting to persuade the institute to cover its debts and buy the remaining United Fruit assets.[59] The company's manager reported that Incora probably represented the best alternative, even though it was not likely to pay the prices the company wanted.[60] Incora was the second government entity to be given property by United Fruit following the company's withdrawal from Magdalena; the Colombian Social Security Institute (*Instituto Colombiano de Seguro Social*, or ICSS) had already received its hospital facilities. Negotiations with Incora took longer than expected, continuing until April 1968, when a preliminary agreement was signed. By this date, United Fruit still had not gotten rid of its remaining property because a prospective buyer had canceled the deal at the last minute, leaving the company with no choice but to do business with Incora.[61] Under the terms of the agreement reached by the two parties, Incora would cover the outstanding balances of loans to planters' current accounts, and sale of the farms.[62] The company manager reported, with obvious joy, that this outcome exceeded his hopes. Once the agreement was signed in late 1969, United Fruit's manager reported a dramatic reduction in costs from the previous year, which he attributed to the transfer of obligations to Incora.[63]

Had it not been for Incora, United Fruit would have lost the money owed by the local planters, as it was unable to enforce its loan contracts. Incora assumed all responsibility for the loans, but interviews with former planters revealed that it was unable to recover payments from

[59] United Fruit Company–CFS, *Monthly Report, Monthly Letter*, Bosy to Ronan, July and Oct. 1967.

[60] United Fruit Company–CFS, *Monthly Report*, Management Comments, Dec. 1967.

[61] United Fruit Company–CFS, *Monthly Report, Monthly Letter*, Bosy to Ronan, Feb. 1968.

[62] Ibid.

[63] Ibid., Lascano to Mullin, Dec. 1969.

many of them. Once United Fruit became established in Urabá, it created mechanisms to prevent a recurrence of this kind of problem.

After United Fruit left Magdalena, Federación and Consorcio took over the banana-export business. However, both companies eventually failed, due to climatic hazards and weak lobbying power in Bogotá. In the early 1960s, United Fruit's biggest competitor, Standard Fruit Company, changed the kind of bananas it was producing from Gros Michel to Valery. The Gros Michel bananas had proved susceptible to disease, and its trees were vulnerable to hurricanes. Valery bananas were more resistant to disease, the shorter height of their trees made them less vulnerable to strong winds, and they proved to be more productive. While Central American producers began to replace Gros Michel with Valery in the late 1950s, Colombian planters continued to produce Gros Michel. In the mid-1960s, aware that demand for Valery was increasing, the Magdalena planters applied for a permit to import Valery seeds. The proposal was rejected several times by the Colombian government, which at this time was creating obstacles to imports as part of its policy of promoting industrialization. In order to gain an exemption from the import policy, a region needed a strong lobby, which Magdalena did not have. In a desperate attempt to rescue their region from bankruptcy, the planters imported the seeds illegally. This action, however, was not only too late; it also was taken just after several hurricanes had destroyed the plantations. In a last attempt to rescue their companies, the Magdalena planters applied to the national government for a recently established export subsidy (*Plan Vallejo*), but this application was also rejected. By contrast, around the same time, the Urabá planters received full government support to replace Gros Michel with Valery, which allowed them to survive under the new market conditions. By 1970, both Consorcio and Federación had been liquidated.[64]

Doing Businesses with Urban Industrialists in Urabá

From the beginning, United Fruit never had its own production farms in the region of Urabá, but instead used a subcontracting system. The company functioned as a financial institution, technical advisor, and marketing operation. It provided the locals with the loans they needed to "adapt" the jungle of Urabá to banana production, as long as

[64] Interview with Eduardo Solano, last manager of the Consorcio, and Luis Riascos. Santa Marta, July 1999; Colombia, Superintendencia de Sociedades, Consorcio Bananero, Memorando de la Comision de Bananeros para Enrique Blair, Ministro de Agricultura, Bogotá, 3 Aug. 1967; Consorcio Bananero, Asamblea de Accionistas, Minute no. 4, Santa Marta, 10 Sept. 1966; Consorcio Bananero, Asamblea de Accionistas, Minute no. 6, Santa Marta, 30 Mar. 1967, 5. Interview with former Magdalena congressman Rafael Perez Dávila, Santa Marta, 30 Mar. 1999.

they agreed to sell the produce back to the company. To avoid the problems with recovering loan payments it had faced in Magdalena, United Fruit decided to use financial intermediaries. Rather than giving the loans directly to the planters, as it had done in Magdalena, the company used a Colombian bank that depended on capital transferred from a United Fruit account at the First National Bank of Boston. As a further enforcement measure, the company arranged banana-purchase contracts with its debtors.

Despite the apparent efficiency of this arrangement, United Fruit could not prevent the growers from becoming independent exporters. A conflict with the company led some of the locals, who had grown and profited from doing business with United Fruit, to create their own export companies, aided in part by government support.

Differences between Magdalena and Urabá

The business elite in Urabá was very different from the entrepreneurs of Magdalena. Urabá had only recently been colonized. Since most of its inhabitants had arrived in the 1960s, it lacked the established urban centers or traditional elites that existed in Santa Marta or Ciénaga in Magdalena. Whereas the Magdalena families involved in the banana business had settled there before the arrival of United Fruit, the Urabense entrepreneurs came from the industrial city of Medellín and were as much outsiders as United Fruit itself. The elite of Magdalena had a tradition of working in the agrarian sector, and some had built their wealth in other agricultural activities before the banana boom. In contrast, the people of Urabá had made their careers as urban professionals in the Medellín industrial sector and did not belong to the landowner class.[65] Medellín is the capital city of the province of Antioquia, the most powerful and prosperous province in Colombia, so its industrial entrepreneurial class had already developed important and sophisticated enterprises long before going into the banana business. Magdalena was nearly the opposite. Finally, while Magdalena is a weak and poor department, Antioquia today is one of the nation's richest, and it has traditionally had a strong lobby in Bogotá. These advantages worked to the benefit of the Urabense planters when they came into conflict with United Fruit.

[65] This difference emerged during my interviews with the entrepreneurs when I asked about their backgrounds and the backgrounds of others involved in the business. The studies by LeGrand, "El conflicto," Botero and Guzmán, "El enclave," and White, "The United Fruit Company," describe the social origins of the Magdalena elite. Clara I. García, *Urabá: Región, actores y conflicto, 1960–1990* (Medellín, 1996), describes the origins of the Urabense planters.

During la Violencia, Urabá was one of the most turbulent places in the country, but by 1953 the Colombian government had militarized the region, defeating the Liberal guerrillas operating in the area.[66] By the time United Fruit started its operations there, this isolated region was living through a period of relative peace, which was broken in the late 1970s and 1980s with the arrival of the left-wing guerrillas, the drug Mafia, the right-wing paramilitary, and the arms smugglers.[67]

Creating the Urabense Planters' Society

United Fruit used a different system to finance its Urabense providers than the one it had used in Magdalena. Their first 100,000 hectares were financed through the *Corporación Financiera Colombiana de Desarrollo Industrial.*[68] The procedures worked as follows: The First National Bank of Boston transferred United Fruit funds to the Corporación in Colombia, and when a planter wanted credit to create a plantation, he or she had to apply for the loan from the Corporación. The Corporación loaned $693 per hectare, charging an interest rate of 9 percent that was to be paid in full after the first six years of operation.[69] To be eligible, the planter had to buy the land and prepare it for planting before applying for the loan. The Corporación required both a feasibility evaluation of the plantation by United Fruit experts and a purchase contract between the planter and the company. The Corporación did not give a loan unless the planter had a contract with United Fruit. The company committed itself to giving technical assistance, fertilizers, and control measures against Sigatoka; the cost of these services was discounted from the purchase price of the bananas. Since United Fruit only purchased fruit from growers who had submitted to their experts' evaluation and had received Corporación approval, it made no sense for locals to seek loans elsewhere.[70]

In its first two years, the Corporación loaned a total of (U.S.)$6 million, while United Fruit invested (U.S.)$4.5 million in the develop-

[66] Mary Roldán, *A sangre y fuego: La Violencia en Antioquia, Colombia, 1946–1953* (Bogotá, 2003), 217–82.

[67] A good study of Urabá in the 1960s can be found in James Parsons, *Urabá: Salida de Antioquia al mar* (Bogotá, 1979).

[68] García, *Urabá*, 38.

[69] Val Kamalprija, *Descriptive Survey of the Colombian Banana Market Structure for Export* (Bogotá, 1967), 90–1.

[70] I based this description on interviews with Aurelio Correa, former president of the Corporación Financiera de Desarrollo Industrial, Bogotá, June 1998; Andrés Restrepo, pioneer entrepreneur of Urabá, Bogotá, July 1999; Eliseo Restrepo, pioneer entrepreneur in Urabá, June 1998; and Irving Bernal, pioneer entrepreneur in Urabá, July 1999. Also see, Kamalprija, *Descriptive Survey*, 91, and García, *Urabá*, 38.

ment of the first 20,000 acres for local production. The company did not have to invest in infrastructure development, and it was up to the farmer to clear and plant the fields with the support of the Corporación's five-year loan.[71] Thus, the company never vertically integrated its operations in Urabá, and it owned no infrastructure other than the transportation facilities in the local canals.

By establishing the dynamic of having the Corporación act as an intermediary, United Fruit minimized the kinds of problems it had faced in Magdalena. First, the system enabled the company to avoid giving unqualified loans, as the applications were evaluated by the Corporación. Second, by placing a local agent in charge of the loans, the company was able to minimize opportunistic defaults by the planters in the event that the company left the area, as occurred in Magdalena.

The Schism of Urabá

By the mid-1960s the local planters and United Fruit had established strong ties with each other. Although the local planters had incurred debts in order to develop their purchasing relationship with United Fruit, the multinational had wisely created an intermediary for the loan repayment and had many other subsidiaries in Central America that were providing it with fruit for the international market. This scenario appeared to be extremely favorable for United Fruit, which expected to gain the upper hand when it came time to renew the purchase contracts.

In 1968 changing conditions on United Fruit's Central American plantations made the company rethink its relationship with the Urabense growers. That year, United Fruit had to recover the losses incurred by the Panama Disease in Central America. In the new purchase contracts with Urabense growers, the company offered only half the price it had previously paid for their fruit.[72]

However, achieving this drastic reduction in the purchase price did not turn out to be easy for United Fruit. Although United Fruit was the only marketing company, the locals united and rejected its proposal. The company refused to budge on its offer, so the locals decided in 1968 to continue the business independently. In that same year, they established their own marketing company under the name *Unión de Bananeros de Urabá* (Uniban) and simultaneously formed the *Asociacion de*

[71] Arthur, Houck, and Beckford, *Tropical Agribusiness*, 65.

[72] For a chronology of the events of this period, see Turbana, *A History of Turbana and Uniban and Banana Growing in Colombia* (Medellín, n.d.), and Uniban, *Informe sobre Uniban* (Medellín, 1980). I also used the interviews quoted in footnote 70.

Ganaderos y Productores de Banano de Urabá (Augura). While Uniban dealt with the production and export business, Augura acted as a lobbying organization for the banana growers' interests at the national and the international levels.

After the schism, United Fruit ceased providing transportation facilities or technical assistance to the planters. To overcome this problem, the locals contacted American fruit-import firms and, in 1969, established their own marketing company in Miami, called Turbana. Their effort was so successful that the next year, in 1970, Uniban was exporting 45 percent of Urabense shipments.[73]

Once they decided to continue the business on their own, the locals came into conflict with United Fruit over the use of the canals. Urabá's topography does not permit the existence of a port, so United Fruit had transformed the existing rivers into canals that connected the plantations to the sea. The fruit was first loaded onto boats in the canal and then transported to sea, where it was loaded onto larger ships. The company claimed ownership of the canals it had built and refused to permit Uniban to use them. Augura protested to President Carlos Lleras, who personally intervened and forced United Fruit to grant Uniban access to the canals. The government also helped the Urabense planters by offering subsidies for their fruit under Plan Vallejo. These two successes reveal the power of Augura's lobby compared with Magdalena's.[74]

Government help did not stop here. In the early 1970s the central government gave subsidized loans to Uniban, which enabled the company to continue its vertical integration, a process that was already underway. In 1971 the government agency *Instituto de Fomento Industrial* (Institute for Industrial Development, or IFI) gave Uniban a loan to build its own maritime transportation equipment, and in 1973 the Colombian president himself, Misael Pastrana, inaugurated the company's shipyard.[75] Later, in 1979 the Urabense growers also managed to get a 7 percent subsidy for exports from the national government.[76]

Urabá had the infrastructure it needed for developing Valery, even during the period when it was exporting Gros Michel. Among its features were an "air wire" system that moved the banana bunches from the workers on the plantation directly to the packaging plant with

[73] United Nations Food and Agriculture Organization, *The World Banana Economy* (Rome, 1971), 19. Uniban continued increasing its participation, exporting 56 percent of the fruit in 1971, and 58 percent in 1973. See United Nations Food and Agriculture Organization, *The World Banana Economy, 1970–1984* (Rome, 1986), 15.

[74] A United Nations report highlighted Uniban's favorable position, which was due to its ability to use the depots and water transportation facilities of United Fruit. See United Nations–FAO, *The World Banana Economy* (1986), 15.

[75] Uniban, *Informe sobre Uniban* (Medellin, 1980), 12.

[76] Uniban, *Informes y Balance 1979*, 5.

minimal damage, cardboard factories, and plastics manufacturers. The factories, which were built by Colombian firms from Medellín, changed the region's landscape dramatically in a very short time. A formal calculation of the linkages between the banana industry and other sectors has yet to be made. However, the very existence of an industrial complex of several factories covering kilometers of territory bordering the jungle—built, owned, and managed by locals—suggests that the agricultural export industry does not necessarily reinforce underdevelopment, as some studies have suggested.[77]

The growth and maturation of the Colombian marketing companies paralleled the development of one of the worst political conflicts in the country, particularly in the region of Urabá. The conflict between the left-wing guerrillas of the Colombian Revolutionary Armed Forces (FARC), the People's Liberation Army (EPL), the right-wing paramilitary, the drug Mafia, and the government made it virtually impossible for the Medellín entrepreneurs to run their farms efficiently. When United Fruit opened the first plantations in the 1960s, Urabá was a peaceful region. However, by the 1980s Urabá had become the main entry for illegal arms traffic. Whichever armed group controlled this region would control this profitable market, a strategically important factor in a country that has endured continual regional warfare since the 1940s. Urabá fell into an insane spiral of violence, in which farm managers were kidnapped or murdered by the guerrillas, union leaders were attacked by the paramilitary, and workers were killed by all sides.[78] The banana companies attributed their poor performance during the 1980s to the violence, the numerous strikes, and the destruction inflicted on the banana plantations.[79] The situation reached such a critical point that, by the mid-1980s, Uniban began buying lands in the more peaceful Banana Zone of Magdalena. During this period, United Fruit (now called United Brands, its name from 1970 to 1989) was not a target of the political violence, partly because it kept a very low profile and left all the labor problems for its local providers to resolve.

In 1982 United Fruit decided to concentrate on its Central American divisions and sold its Colombian operations to the local planters. The company eventually returned in 1989, following a policy of expanding its operations in anticipation of a larger European market after the creation of the European Union and the end of communism in Eastern

[77] In 1998 I visited the industrial complex of Urabá and interviewed dozens of managers, technicians, and employees at all levels and at every stage of the production process. For the classic studies that suggest this kind of cause–consequence dynamic, see Castells, "Urbanización dependiente en América Latina," in Schteingart, *Urbanización y Dependencia*.

[78] For a more detailed description of the war in Urabá, see García, *Urabá*.

[79] Luis Eduardo Sierra, El cultivo del banano: producción y comercio (Medellín, 1993), 19.

Europe. Its optimism proved to be misplaced, and the company (under its new name of Chiquita) had to file for bankruptcy.[80] In February 2004, the company left Colombia and moved to Africa, drawn by the continent's lower production costs.

Conclusion

Historical studies of multinational corporations in Latin America have largely neglected the role of these companies' local providers. The image of local capitalists as merely forming an arm of foreign corporations and thereby facilitating the exploitation of their countries, a view that is prevalent in studies of economic imperialism, has resulted in historians' ignoring the providers' agency and overlooking their role in shaping the export economies of their countries. By examining the nature of the contractual relationship, including its enforcement provisions, between local providers and foreign multinationals, we gain a better understanding of the impact of foreign direct investment in underdeveloped countries and the reaction of local societies to this influx of capital.

Before World War II, the relationship between United Fruit and Colombian planters seems to have fit the classical enclave model, whereby a local absentee landowner elite benefited from the rents paid by United Fruit and spent those gains unproductively. Some planters tried to challenge the company's overwhelming power but were unsuccessful. The terms of the company's contracts, and the way these contracts were enforced, made it extremely difficult for locals to develop their own banana-export business. Additionally, the lack of capital in the region made it even more difficult for them to act on their own. However, after World War II, locals managed to break United Fruit's absolute control over marketing and created their own export companies. Magdalena represents a particular case, because locals there took advantage of the interruption of the company's activities in the region during World War II and began to launch exports independently.

The Urabense story played out very differently from the events that took place in Magdalena. First, the company never produced fruit directly in Urabá, relying instead on local providers. Second, the planters in Urabá who signed contracts with United Fruit came from the Medellín industrial sector and were linked to the powerful *Antioqueño* lobby in Bogotá. Third, Urabá was a frontier region, in which all the actors (the multinational, local planters, and workers) were newcomers. Between 1963 and 1968, United Fruit created a financial mechanism that protected

[80] For a detailed description of this process, see Bucheli, *Bananas and Business*.

it from the impact of defaults by its providers. They achieved this by enlisting a local financial institution as an intermediary, instead of lending to planters directly. The company learned from its experience in Magdalena, where many of the locals never repaid the company after it left the region. During this period, the business developed smoothly, with no major conflicts between the company and its providers. However, when the company attempted to increase its purchase price in 1968, the locals refused to sign the contract under the new terms and went on to create their own export company, Uniban. This initiative was successful in part because it was backed by the Colombian government, the kind of support that was never offered to the Magdalena growers, even in the late 1960s and early 1970s, when their industry was at high risk.

The local banana export companies in Magdalena or Urabá would not have existed without United Fruit's investment. The local planters were highly dependent on the multinational to export their fruit during the launching stage of the industry in both regions. United Fruit took advantage of this situation to write purchase contracts that were extremely favorable to itself, and it used a variety of mechanisms to enforce them. However, as soon as the locals had the opportunity, they developed their own export industry paralleling that of United Fruit. The success these companies were able to achieve after breaking their ties with United Fruit depended on the amount of political pressure they could exert and their level of influence within the national government. The importance of these factors underlines the necessity of considering the host country's politics in any analysis of contractual relationships between a multinational corporation and its local providers.