Bananas, The WTO And Adjustment Initiatives In The Eastern Caribbean Central Bank Area

by
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The paper examines the socio-economic role of bananas in the countries comprising the unified currency area in the Eastern Caribbean. It discusses the viability of the industry in light of the recent WTO ruling that the banana regime contravened the WTO agreement in several aspects. The nature of the system of preferences for bananas is reviewed while the contribution of bananas to merchandise exports and real GDP, and its impact on land use are highlighted. The social dimensions of banana production are illustrated by its contribution to rural stability and informal sector activity. Finally, policy issues related to diversification, industry adjustment, social safety nets and competitiveness are reviewed.

1. Introduction

The production of bananas for export by the Windward Islands has been pursued over the last four decades largely because of the benefits derived from preferential marketing arrangements and agronomic advantages relative to other agricultural crops. The importance of the banana industry to the Windward Islands' economy is predicated on its contribution to GDP, merchandise export earnings, employment, income distribution, social and gender equity and land use.[1]

Recent developments in the international community have brought the industry under intense scrutiny and have led to a search for answers regarding its viability over the medium term. The general movement towards global trade liberalisation, under the auspices of the Uruguay Round of General Agreement on Tariffs and Trade (GATT) negotiations, and the consequent establishment of the World Trade Organisation (WTO), have raised major concerns regarding the legitimacy of preferential trade arrangements and practices, particularly in the case of the banana regime of the European Union (EU). The next section of the paper discusses the preferential trading regime and some of the recent rulings on bananas by the WTO panel. Section 3 gives an analysis of the contribution of bananas to the Eastern Caribbean Central Bank (ECCB) area. This is followed by an assessment of the social dimensions in section 4 and a discussion on policy issues in section 5.

[1] *The Windward Islands consist of Dominica, St Lucia, St Vincent and The Grenadines and Grenada. They form part of a wider monetary union of the Eastern Caribbean Central Bank Area comprised of eight countries. The Eastern Caribbean Dollar is pegged to the US dollar at 2.7:1 The monetary authority functions as a quasi currency board with 60.0 per cent foreign asset cover for all sight liabilities to protect the common pool of reserves.*

2. Preferential Trading Regime

Historically, Windward Island bananas have been exported to the United Kingdom (UK) under preferential arrangements codified in the banana protocol of the various Lomé Conventions. This protocol continued the preferential arrangements that existed between the UK and its former colonies. The Lomé Conventions were co-operation agreements between the then European Community (now EU) and African, Caribbean and Pacific (ACP) states. These Conventions were a derogation under the General Agreement on Tariffs and Trade (GATT) and in the past were noted and allowed, although not given formal sanction.

To lend consistency to the creation of a Single European Market (SEM) in 1992, the mechanism for granting preferential treatment to Windward Islands bananas had to be changed. The restructuring process led to the establishment of a new banana regime as promulgated in Regulation 404 of the European Commission which became operational on July 1, 1993. Under the new regime, a system of tariff quotas and licensing for the importation of bananas into the EU was established, which allowed Windward Island bananas continued preferential access on the UK market.

To protect the Windward Islands, the EU established an annual duty free quota for the importation of bananas from each of the islands (Nurse and Sandiford 1995). The duty free quota was just above the annual historical level of banana exports from each island. For amounts in excess of the quota, a tariff of European currency unit (ECU) 750.0 per tonne was levied. Initially, Latin American bananas were subject to a tariff quota of 2.0 million tonnes per year with a tariff of ECU750.0 per tonne. Exports in excess of the 2.0 million tonnes quota were levied a tariff of ECU850.0 per tonne. After much protest and with the expansion of the EU, the Latin American tariff quota was increased to 2.5 million tonnes per year, while the excess tariff was reduced to ECU750 per tonne.

The importation of all bananas required a license, and the Latin American tariff quota of 2.5 million tonnes was no exception. The EU devised a system for the distribution of the licenses for the 2.5 million tonnes, such that all producers will benefit from the economic rent that can be derived from the lower level of tariff within the tariff quota. The system allowed for the distribution of licenses according to categories of operators and levels of engagement in the banana business. Three categories of operators and levels of engagement were specified. Of importance to the Windward Islands was the category B operators who were entitled to 30.0 per cent of the licenses for the importation of the 2.5 million tonnes. A category B operator was defined as one who, prior to 1992, had marketed community (i.e., European) bananas and/or traditional ACP bananas.

On the basis of the 30.0 per cent, category B operators were entitled to licenses to import 750,000 tonnes of the 2.5 million tonnes of Latin American tariff quota. The entitlement of a category B operator was dependent on the level of engagement and the number of levels in which it was engaged. The three levels were shipping/importing (primary importers), green wholesaling (secondary importers) and ripening (ripeners), which were assigned 57.0 per cent, 15.0 per cent and 28.0 per cent respectively of the 750,000 tonnes. At best, a category B operator could be engaged in all three levels.

Under the EU banana regime the Windward Island banana industry was afforded two levels of support - the duty free quota and the tariff quota imposed on Latin American bananas. There was also support through the licensing system which allowed the Windward Islands the possibility of sharing in the economic rent. Both prongs of support allowed the Windward Islands reasonable access to the UK market and indirectly granted a measure of price support since the market was essentially regulated.

The regime was challenged by the United States of America and a few Latin American countries. It was subsequently found by the WTO to be discriminatory and in violation of its rules. Specifically, the preliminary ruling found the following: (a) that the new banana regime violated Article I.1 which provides for equal treatment of like products imported from member countries; (b) the administration of license procedures was inconsistent with Article I.1. In particular, the operation of the operator category rules required that third country and non-traditional imports of amounts less than the quota had to satisfy more stringent rules as compared with ACP imports; (c) the administration of quotas and tariff quotas was in violation of Article XIII of GATT; (d) the "national treatment clause", which prescribes that imported products be treated no less favourably than domestic products, was at variance with Article III.4 of GATT; (e) the maintenance of a system of importation into the European Union, which allowed for two different sets of licensing procedures based on origin, was *ultra vires* to Article X:3(a) of GATT; and (f) the issuance of hurricane licenses was inconsistent with Article III:4 and Article I:1 since it afforded ACP producers advantages not enjoyed by non-ACP producers (Antoine, 1997). The final ruling which upheld the preliminary judgement could lead to the dismantling of some aspects of the preferential treatment to Windward Island bananas and could open an era of free trade in bananas on the European market.

There were two positive outcomes of the ruling. The first pertained to the panelists' acceptance of the validity of the Lomé preferences that are safeguarded by the waiver but not the intent of Protocol V which guaranteed the traditional market advantages of ACP suppliers. The second related to the fact that the panel has not specifically condemned the tariff quota level that is set at 2.2 million tonnes, although "dollar" fruit imports are currently at 2.5 million tonnes. The present system for the allocation of hurricane licenses provides income to the producers affected and minimises disruptions to the market. The decision on the illegality of this system will be a major blow to the Windwards since many of the countries lie in the hurricane zone. The most significant ruling to the Windward Island producers is that regarding category B licenses due to the potential loss in additional revenues derived from these, and the disincentive effect it would have on operators handling more expensive Windward Island fruit. The panel's opposition to the allocation of quotas in excess of pre-1991 best ever export levels to ACP suppliers is unlikely to have negative implications for the Windward Islands since present production levels are significantly less than pre-1991 levels.

A free trade regime for bananas could result in a decline in banana prices throughout the production and marketing chain. Such price reductions will affect the industry's viability and could have adverse macroeconomic implications for the economies of the four Windward Islands. Against this backdrop, the next section of the paper traces the economic importance of the banana industry to the Windward Islands, with a view to establishing the likely implications for these economies arising from a more liberalised trading regime.

3. The Economics of Bananas

Banana production dominates agricultural activity in the Commonwealth of Dominica and accounted for as much as 19.3 per cent of real GDP in 1986. This contribution has gradually declined over the years, levelling off at 16.8 per cent by 1997 (Table 1). The industry plays a much smaller role in both St Lucia and St Vincent and The Grenadines where banana production accounted for 3.2 per cent and 1.8 per cent of GDP respectively by the end of 1997 (Table 1). The relatively smaller contribution in St Lucia and St Vincent and The Grenadines suggests a more diversified agricultural base in these economies. In St Lucia in particular, the economy is more diversified relative to the other Windward Islands. In Grenada, banana contribution to real GDP is less than 0.5 per cent given the predominance of nutmeg and cocoa production. The relative decline in the contribution of bananas to GDP over the years, in part reflects adjustment within the industry due to unfavourable price movements and the effects of natural phenomena such as droughts and storms/ hurricanes. In addition, there has been an expansion in the role of services in these economies which has attracted labour away from the industry based on both wage and non wage factors in the non-agriculture sectors. Moreover, those farmers unable to meet the more stringent quality requirements have tended to exit the industry in more recent times.

Favourable movements in the terms of trade and preferential access by Windward Island bananas to the EU in the past enabled these economies to achieve robust growth rates in the 1980s. The buoyancy in the economies also facilitated higher levels of public sector investment in agricultural infrastructure. In particular, a number of feeder road projects were undertaken to enhance delivery of agricultural produce from the hinterland. The investment in infrastructure had significant multiplier effects on construction and related activities (Table 2).

Subsidies and transfers accruing to the industry and to banana growers relate to government support through various fiscal incentives. Despite the fact that the banana industry is essentially a private sector operation, it has in reality been afforded public good status. This is based on the level of government support to and intervention on behalf of the industry. Government intervention also transcends direct financial support. Guarantees for commercial bank loans and technical assistance through extension services are also provided. Considerable lobbying and diplomatic initiatives regarding trade related issues are also undertaken on behalf of the industry.

In addition to receiving fiscal incentives, most of the banana growers as a rule do not pay income taxes as their reported income is invariably below the taxable threshold. The use of multiple registration cards by grower households serves as a mechanism for circumvention of tax obligations.[2] Given the wide distribution of acreage under banana cultivation, it may be difficult to increase tax compliance even with the greatest of political will. The transfers derived from deferred taxes have facilitated grower investment in structures that have contributed to the improvement of the housing stock in these economies.

The importance of bananas to the Windward Island economies is significant when measured in terms of relative contribution to merchandise exports. In the mid 1980s banana revenues accounted for 62.3 per cent and 54.0 per cent of merchandise exports of St Lucia and the Commonwealth of Dominica respectively (Table 3). Although the dominance of banana export earnings has declined over time, these exports still remain important for Dominica, St Lucia and St Vincent and The Grenadines. Of the Windward Island economies, Grenada is the least reliant on banana exports. Total banana exports from the Windward Islands on average accounted for 26.9 per cent of all merchandise exports from the ECCB area over the period 1992-97.

The contribution of bananas in total foreign exchange flows into the ECCB area is low when services are factored into the analysis. Banana exports average 7.0 per cent of foreign exchange inflows from goods and services (Table 3). The increasing role of services in the economies has tended to mitigate some of the vulnerabilities of the ECCB currency area as a whole to external shocks to the banana industry.

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[2] *Farmers tend to use more than one family member to register membership in the Banana Growers Association.*

Foreign direct investment inflows, averaging 9.0 per cent of GDP for the ECCB area between 1986 to 1996, contributed to increased foreign exchange inflows into the sub-region. Foreign exchange inflows associated with services, foreign direct investment and long term public sector investment are likely to buttress the parity of the Eastern Caribbean (EC) dollar, in the event of declining banana revenue resulting from a more liberalised regime. However, an automatic contraction of these economies most exposed to external price shocks to bananas is expected, based on an anticipated fall in exports.

External sector imbalances are reflected in the fiscal accounts of these economies, given the nature of the monetary arrangement which imposes limitations on the level of government borrowing from the monetary authority. Temporary advances to government are limited to 5.0 per cent of its average annual recurrent revenue over the three preceding financial years; holdings of treasury bills are limited to 10.0 per cent of the estimated current revenue as determined by the ECCB for that year; and holdings of government securities other than treasury bills are limited to 15.0 per cent of currency issued and other demand liabilities. Depletion of reserves is therefore limited by the degree of access to credit from the monetary authority.

The reliance on one major export crop subjects the economies to trade dependence and vulnerability to external shocks and natural disasters. Shifts in the terms of trade, due primarily to nominal exchange rate movements, also affected the profitability of the industry. In 1980, when the terms of trade were most favourable, the EC/£ nominal exchange rate was 6.3. However, with the nominal depreciation of the Pound Sterling in 1992 to EC$4.02, the terms of trade worsened and prices fell sharply, resulting in financial pressures on the banana industry. As a result of this "price-cost" squeeze, the Banana Growers Associations (BGAs) decumulated reserves and borrowed from indigenous commercial banks in order to provide price support to farmers. The debt accumulated by the BGAs continues to affect the viability of these institutions.[3]

The cultivation of bananas utilises approximately 27.2 per cent of all agricultural land in the Windward Islands. The use of agricultural land for banana production ranges from a high of 40.5 per cent in St Vincent and The Grenadines to a low of 3.7 per cent in Grenada. The industry employs approximately 56,428 persons in the Windwards but with the ancillary economic activity resulting from banana production, the number could be higher. With the "price cost" squeeze of the 1990s the number of active farmers has declined from 24,840 in 1991 to 17,965 in 1996, suggesting considerable adjustment within the industry (WINCROP). Over 50.0 per cent of farms are less than 10 acres and account for approximately 19.1 per cent of production. In contrast, holdings greater than 50 acres

[3] *The Banana Growers Associations also received substantial British aid for hurricane rehabilitation in the early 1980s, volcanic eruption rehabilitation on St Vincent and The Grenadines, emergency fertiliser assistance after the second oil shock in 1979 and for the Banana Development Programme and Banana Industry Support Scheme.*

account for 3.5 per cent of all farms and contribute approximately 20.9 per cent to total production (Nurse and Sandiford, 1995).

Many of the smaller farms are located on hilly terrain where access is difficult and production encroaches on watershed areas. The clearing of these lands, where soils are shallow, has led to soil erosion and deforestation. Other environmental drawbacks associated with production relate to the disposal of plastic sleeving and nematicides. The recently implemented Certified Growers Programme established a contract between growers and the BGAs which included conditionalities governing the disposal of agro chemicals.[4]

During the 1970s growth in output averaged 12.0 per cent annually. This growth was based on increased use of intermediate inputs. However, the growth in factor productivity over the period was uneven as the move towards boxing of bananas resulted in the increased rejection of fruit. The adjustment to the new technique and its attendant learning costs impaired efficiency within the industry. The increased use of inputs compensated for the variability in productivity in the earlier period and contributed to an average output growth of 15.3 per cent per annum during the period 1981-87 (Antoine and Francis, 1997). Higher output prices in the mid-1980s stimulated the expansion in banana production. This expansion was, however, accompanied by higher labour costs and a deterioration in fruit quality.

The growth in factor productivity during 1988-94 averaged 2.5 per cent. This growth was based on a faster rate of decline in input use relative to the fall in the growth rate of aggregate output, and may suggest that the industry has attempted to combine inputs more efficiently. Additional efficiency gains can be achieved with the closing of inland buying depots, the implementation of premium pricing for fruit of specific quality and the wider introduction of a Certified Growers Programme.

Labour costs account for approximately 57.0 per cent of total industry costs and have been associated with the introduction of central boxing in the 1970s, the field-pack system in the 1980s and the min-wet and cluster pack in the 1990s (op cit.). These activities were highly labour intensive and required the hiring of additional off-farm labour. If the industry is to become more efficient then it would be necessary to address input costs and introduce measures to increase productivity. Given the high dependence on imported inputs, lower export prices ensuing from a more liberalised trading regime would engender another “price-cost” squeeze and a reduction in factor productivity

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[4] *The Certified Grower Programme is a contractual arrangement among more productive farmers and the banana associations involving the adoption of technological packages covering husbandry and packing of fruit for export. Fruit in excess of certain quality ratings receive a price premium.*

within the industry. This will affect the profitability of production, the operations of the BGAs and employment. The sourcing of inputs at lower costs is imperative during the transition period.

4. Social Dimensions

Although difficult to quantify, the banana industry has improved the distribution of income in the economies. The weekly frequency in the receipt of banana income is another advantage. Although the income may not be high, such frequency assists in cash flow management by farmers and others involved in the industry. In the absence of other major forms of economic activity, banana production is the lifeblood of rural communities in the Windward Islands. The system of production has also engendered stability in rural communities through the sharing of labour ("lend hand" or "coup de main") not only in the production and harvesting of bananas but also with the construction of homes. Other informal types of credit such as "sou sou" have emerged in rural communities to circumvent the complexities of securing credit from commercial banks.[5] These informal credit arrangements have increasingly been formalised through the establishment of a number of non-bank financial institutions which serve to mobilise small savings and provide revolving credit to rural communities. In some instances credit unions are the major providers of basic banking services to these communities.

The skewed distribution of land has resulted in the prevalence of farms below 5 acres. With increased pressures resulting from periodic "price-cost" squeezes in the industry, some growers on smaller holdings have had to rely on alternative sources of income (Thomson, 1987; Barrow, 1992). With the difficulty in accessing land, there has been emigration from farm households. These economies have benefited from inflows of remittances from family members who have emigrated to North America and, to a lesser extent, the United Kingdom.[6] Revenue from banana exports has been used to finance or supplement the tertiary education of household members, resulting in an improvement in human capital in these economies.

The migration of males has also contributed to an increase in the number of households headed by females. Although banana production is still dominated by males, the contribution of female labour is very important. In many instances females dominate the "hucksters" intra-island trade in bananas and other agricultural produce. The "huckster" trade has resulted in the establishment

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[5] *Typically this form of credit device has been run at offices, villages, and social organisations. It contains a fixed number of members who contribute an equal sum of money on a regular basis for a fixed period of time. They then rotate turns in collecting the pot, which is simply the accumulated sum of money contributed by the entire group.*

[6] *Workers' remittances to the Windward Islands during 1990-95 averaged 4.5 per cent of GDP, while those for the ECCB Monetary Union averaged 4.7 per cent over the same period.*

of an active informal economy among the Windward Islands and Martinique, Guadeloupe, Barbados, and Trinidad and Tobago and, to a lesser extent, the Leeward Islands.

5. Policy Issues

The central issue facing the banana industry is that of increasing productivity and competitiveness. Diversification has long been promoted as the vehicle for the structural transformation of the industry at both the rural and urban levels. In the rural setting, this may involve a replacement of a proportion of existing acreage by alternative production systems or agricultural enterprises. Associated with this transformation are the technological packages needed to enhance productivity. The implementation of a Certified Growers Programme is laudable in that it enshrines industry standards within the framework of a contract, which engenders a strong measure of accountability. Farmer education, however, is critical to the success of the transformation, given the need to meet new market requirements for fruit. The action plan being pursued by the Windward Islands Development and Exporting Company (WIBDECO), based on the recommendations of the Cargill Technical Services (CTS) report, takes cognisance of these issues and has a strong chance of success, given the monitoring of the implementation process by Deloitte and Touche.[7] The provision of technical assistance by the European Union and Fyffes is complementary to the industry's transformation.[8]

Five large UK supermarkets which account for 75.0 per cent of the retail market have been willing to purchase Windward Islands fruit once certain standards are met.[9] These include reliability and timeliness in supplies that are of a high quality, i.e. quality scores that are consistently above 80.0 percentage units within specification (PUWS). This is particularly relevant given that the Windward Islands have the worst record in the trade for supplying quality fruit. Although additional packaging requirements for the various supermarkets will present initial teething problems, given the need for grower assimilation of the new standards, there are also a number of advantages. The ability of the supermarkets to exercise market power will drive a wedge between wholesale and retail prices; Windward Island growers can take advantage of this price differential given traditional

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[7] *In 1994 Cargill Technical Services (CTS), a UK consulting firm was contracted by the Overseas Development Administration to conduct an assessment of the industry. Deloitte and Touche were also contracted by the EU to supervise the implementation of the action plan, as debt relief to the banana associations is conditional on progress made in implementation of the plan.*

[8] *Fyffes is an Irish conglomerate that controls 33.0 per cent of the UK wholesale market for bananas in the UK.*

[9] *The supermarkets that control 75.0 per cent of the U.K. retail market for bananas are Asda, Safeway, Tesco, Sainsbury and Summerfield.*

preferences for Windward Island fruit.[10] A retail market based on product differentiation will enable Windward Islands fruit to compete on perceived product attributes.

One of the implications of the new standards is the reduction of factor productivity due to the wastage in the assembly of the various packages. Joint sourcing of inputs will have to be explored to gain price savings in bulk purchasing. If growth in productivity is not achieved, then the viability of the industry cannot be sustained in a more liberalised trading environment. An expansion in intra island trade in bananas can be explored to market fruit not meeting UK requirements. The implementation of the Certified Growers Programme would also result in a rationalisation of the industry. Alternative forms of employment will have to be pursued, through diversification, for those exiting the industry.

The pursuit of special contracts with the supermarkets in a more liberalised trading environment suggests that the volume of exports may fall over time. This is because of the special packaging arrangements which require a set configuration of bananas based on both numbers and size. This will have implications for shipping costs as there will be a need for the industry to explore opportunities for the export of other agricultural products along with bananas.

More fundamental to the future of the industry is the role of government in the transformation process. Although EU stabilisation of exports (STABEX) funds will be used to write-off some of the debts of the BGAs, the debt overhang will have to be serviced.[11] One government has agreed in principle to write-off the entire debt of the local BGA with a view to complete "privatisation" of the industry. This approach is by no means universal among the governments of the Windward Islands. In the event that the industry faces another "price-cost" squeeze from increased competition it is unclear whether Windward Island governments would finance the required adjustment. There is a case for conditionalities, based on compliance with selected financial and management performance criteria, to be attached to the write-off of the BGA debts. These conditionalities may serve to minimise the degree of "moral hazard" arising from the fact that management of the BGAs is not fully accountable for the accumulation of debts by the associations. The operating procedures of the BGAs will have to be responsive to changing market conditions. This is particularly so in light of the high cost of price subsidies to growers and the experiences with the mismanagement of inputs.

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[10] *Windward Islands fruit is thought to be tastier than dollar fruit. These attributes and "fair trade" arguments are being used to differentiate the product.*

[11] *STABEX funds are an export stabilisation scheme under the Lomé Convention to provide assistance to banana growers from ACP countries. These funds can be used in times of production losses due to natural disaster or for the rehabilitation and diversification of the industry.*

The degree of exposure by the governments in providing future assistance to the banana industry is underscored by the 50.0 per cent equity that both they and the BGAs hold in WIBDECO. The governments of the Windward Islands guaranteed the loan of £20.0m which financed WIBDECO's equity in the Fyffes/WIBDECO joint venture. The loan was financed by Allied Irish Banks PLC.[12] The WTO ruling regarding operator licenses and hurricane licenses will have implications for the future profitability of WIBDECO's operations. The position of WIBDECO in the market can be strengthened since it markets Windward Island fruit. With the decoupling of licenses from the production and sourcing of bananas, the licenses could be used to source from third-country producers [Antoine, 1997]. The sourcing of cheaper high quality fruit from third-country producers relative to Windward Islands can improve the company's profitability. Similar advantages accrue when there are production shortfalls due to hurricanes. Unfilled portions of the license could also be auctioned to other importers [op. cit]. WIBDECO can also benefit by competing in the auction for licenses from the EU Pool. In the event that ACP licenses are placed in the general pool, increased competition for these licenses by other importers can be detrimental to the company in the absence of other safeguards.

Finally, regarding the adjustment within the industry and the provision of a safety net, the Inter-American Institute for Cooperation on Agriculture (IICA) has proposed a programme that appears to have promise. This would be based on EU and ACP governments designing a voluntary acreage reduction programme (ARP) which mirrors the prospective licensing programme that may emerge under a modified banana regime. Under this programme, growers would exit the industry voluntarily in exchange for a compensation package. The voluntary aspects obviate the need for value judgements between efficient and inefficient farmers. The package would consist of two parts - adjustment assistance and access to an investment fund. The investment fund would be based on diversification assistance payments and access to a financing facility using strict criteria. The financing facility would be subject to technical assistance in project preparation, implementation and management through the development banks, extension service and National Development Foundations (Antoine, 1997).

6. Conclusion

The relative contribution of bananas to the economies of the Windward Islands has declined in recent times due to adjustment within the industry. However, the industry remains important to the economies of Dominica, St Lucia and St Vincent and The Grenadines. This adjustment has

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[12] *The loans were secured by the assets of the joint venture and guaranteed by the governments of the Windward Islands. The basis for each island's guarantee was related to historical exports based on a three year average. St Lucia £9.56m, St Vincent and The Grenadines £5.36m, Dominica £4.57 and Grenada £0.48m.*

arisen because of price shocks, uncertainty pertaining to the banana regime and the increased role of services in these economies. Despite the decline in the contribution of banana within these economies, its social contribution remains significant from the standpoint of income distribution, social equity and rural stability. Changes to the banana regime arising from the recent ruling by the WTO will have socio-economic implications for growers within the industry. Possibilities exist for the Windward Islands to negotiate with the EU through a coordinated ACP framework for an acreage reduction programme. This programme could feature a social safety net and a diversification component to facilitate voluntary exit from the industry and the development of alternative enterprises.

The governments of the Windward Islands will need to examine the question of conditionalities attached to the write-off of BGA debts given the need for greater accountability in the management of the associations. Given the risks associated with default on the BGAs' liabilities, the governments need to minimise their exposure to these contingent liabilities. While the WTO ruling will have implications for the industry, opportunities exist for competition at the retail level by means of a differentiated product market. WIBDECO can also benefit from the decoupling of licenses from production and sourcing, through either the sale of licenses or the sourcing of cheaper fruit from third countries.

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Table 1
Contribution of Banana to Real GDP
(%)

Country	1985	1990	1991	1992	1993	1994	1995	1996	1997
Dominica	22.2	21.0	20.3	20.1	19.7	18.2	16.0	17.3	16.8
St Lucia	8.5	10.3	6.3	8.2	7.1	5.3	5.7	4.9	3.2
St Vincent and The Grenadines	4.9	10.9	7.0	9.9	6.1	1.7	3.7	2.9	1.8

Table 2
Distribution of External Loans for Agricultural Related Projects
(Percentage of External Debt)

Dominica						
Projects Sector	**1988**	**1990**	**1991**	**1992**	**1993**	**1994**
Agriculture	19.5	16.5	17.0	16.1	16.2	16.2
Multi-Sector Multi Sector	41.0	35.5	34.3	34.9	34.7	34.3
Roads and Bridges	12.8	11.3	9.9	8.8	8.4	8.4
Grenada						
	1988	**1990**	**1991**	**1992**	**1993**	**1994**
Agriculture	9.6	9.5	11.7	11.7	11.7	11.3
Multi-Sector	22.6	33.6	30.5	32.0	33.1	33.5
Roads and Bridges	17.4	17.6	17.6	19.2	19.9	19.4
St Lucia						
	1988	**1990**	**1991**	**1992**	**1993**	**1994**
Agriculture	4.3	2.8	2.9	2.5	2.1	1.9
Multi-Sector	6.5	14.4	14.3	13.6	13.6	14.0
Roads and Bridges	9.7	6.1	5.2	4.2	5.7	6.0
St Vincent and The Grenadines						
	1988	**1990**	**1991**	**1992**	**1993**	**1994**
Agriculture	7.0	7.5	7.9	7.5	7.6	7.4
Multi-Sector	3.7	10.2	12.7	12.5	12.8	13.3
Roads and Bridges	7.6	6.9	5.9	6.7	10.7	12.5

Table 3
Banana Exports as a Percentage of Merchandise Exports

Country	1986	1990	1991	1992	1993	1994	1995	1996	1997
Dominica	54.0	52.8	53.7	55.3	50.0	44.3	36.5	32.2	30.0
Grenada	12.8	13.2	13.6	12.4	7.9	9.1	8.7	2.9	--
St Lucia	62.3	52.8	48.0	53.8	41.3	42.9	41.4	58.6	45.1
St Vincent and The Grenadines	27.3	48.1	49.6	47.5	40.2	30.2	39.8	39.3	29.8
Windward Islands[1]	32.4	39.3	33.1	36.2	28.7	26.9	26.1	24.9	18.7
Windward Islands[2]	13.8	13.3	10.9	11.4	7.8	6.2	6.6	6.1	4.1

[1] Denotes Windward Islands banana exports as a percentage of ECCB area export of goods.

[2] Denotes Windward Islands banana exports as a percentage of ECCB area export of goods and services