174TH STORY of Level 1 printed in FULL format.

The Cincinnati Enquirer

May 3, 1998, Sunday, FINAL EDITION

SECTION: NEWS (WIRE, PAGE 1), Pg. C15

LENGTH: 3469 words

HEADLINE: Chiquita SECRETS Revealed
Politics & History
U.S. helps Chiquita fight tariffs in Europe
The Cincinnati Enquirer subsequently published an apology in connection with this story. The apology appeared June 28, 1998. The text of the apology appears below.

BYLINE: CAMERON McWHIRTER AND MIKE GALLAGHER

SOURCE: The Cincinnati Enquirer

DATELINE: BRUSSELS, Belgium

BODY:

The busy produce section of the GB supermarket in Evere, a middle class neighborhood in Brussels, holds the key to understanding the bitter dispute between Chiquita and the 15-nation European Union (EU).

Chiquita - alone among America's giant banana companies - has waged an international five-year campaign to overturn the EU's banana trade restrictions. The restrictions are a complex system of tariffs and quotas that place limits on how many Central American bananas can be brought into Western Europe.

The reason for the campaign is simple: The amount of profit that Chiquita realizes for its bananas is greater in Europe than anywhere else in the world. And Chiquita dominates the European market.

In the Evere GB, a typical store in the European Union's capital, Chiquita bananas sold for 89 Belgian francs per kilogram on April 24, or about $ 1.10 a pound. The average American price is about 50 cents a pound (some U.S. stores sell bananas as low as 19 cents a pound). 20 francs less, or about 85 cents a pound. Shoppers - from elderly pensioners to teenagers- overwhelmingly reach for Chiquita.

Despite the higher price, Chiquita sells well, making up more than half of the 120,000 to 150,000 kilos sold every week by GB, Belgium's largest supermarket chain. Chiquita has dominated the European market for decades. Its brand recognition means the company's product commands a high price from the 250 million consumers who live in the European Union.

"The quality is not better," said Johan De Vos, GB's auditor responsible for purchasing bananas. "Other bananas have the same quality. It's only the name, only the name....In Belgium we can sell Chiquita for a high price."

Europe accounted for a majority of the company's net revenues in the 1980s. Although major setbacks in the past five years have sharply reduced profits, the continent still generates more net revenue for Chiquita than any other market.

At the beginning of this decade, Chiquita had hoped to turn Europe into an even greater financial engine by selling even more of its relatively expensive bananas there. The EU was consolidating its trade policies, and Eastern Europe was opening its markets after the fall of Communism.

As the leading banana exporter to a continent with almost twice as many consumers as the United States, Chiquita was brimming with optimism.

The company had seen sustained profits and growth ever since Cincinnati financier Carl Lindner took complete control in 1984, in great part due to growth of sales in Europe. Wall Street expected expanded operations there would swell Chiquita's profits even further.

"Our leadership in the European marketplace enables us to continue our growth in the high-potential markets of Eastern Europe, and to benefit from the transition to a single market economy in the European Community," Mr. Lindner and his son Keith, then president and chief operating officer, wrote to stockholders in the company's 1991 annual report.

But far from the predicted bonanza, the 1990s have been a financial disaster for the company.

Chiquita blames losses as far back as 1992 on the EU's banana trade protections first drafted that year and implemented in July 1993. The protections have blocked Chiquita from importing as many bananas as it wants into Europe from Central America. The EU also has placed tariffs on the bananas that Chiquita does bring in. The company claims to have lost more than $ 355 million since 1992, most of it as a direct result of the banana protections, according to Chiquita annual reports and the U.S. Trade Representative's Office, which has argued the company's cause since 1994.

The issue led the Clinton Administration to take Chiquita's case to the World Trade Organization (WTO), an international trade court in Geneva, which last year ordered Europe to alter its system.

But others, including former high-ranking Chiquita officials, say Chiquita's losses also are due to errant business decisions and poor planning by company officials. Still others argue that Chiquita, which has hired lobbyists and lawyers on both sides of the Atlantic to fight the European protections, may have won Pyrrhic victories in court rulings that will do little to help its bottom line in the near future.

Sinking in the 90s

In 1992, Chiquita reported losses of $ 221.7 million, a number that shocked Wall Street and sent Chiquita stock plummeting from the high forties into the teens. The company claimed that increased competition prior to the new protections led to much of that loss. In 1993, it reported losses of $ 51.8

million, and in 1994, $ 84.3 million. The company's stock continued to skid. In 1995, the company turned a profit of $ 27.9 million, mostly through selling assets and laying off workers, according to its own reports filed with the Securities and Exchange Commission (SEC).

In 1996, the company was again in the red, with losses of $ 27.7 million.

For 1997, the company eked out a net profit of $ 300,000, but because of payments to owners of preferred stock, the per share result for the year was a loss of 29 cents. Net sales dropped slightly also, to $ 2,433,726,000 in 1997 from $ 2,435,248,000 in 1996. On April 22, the company announced its first quarter profit this year was $ 41.1 million, down $ 2.2 million from the previous year.

Chiquita's stock closed Friday at $ 14.25 per share.

The stock is trading roughly for what it was worth in 1987, while the overall stock market has seen one of the largest growth periods in its history.

Analysts have little good to say about the company's performance.

"You tend to crawl before you walk, and you tend to walk before you run," said John McMillan, industry analyst for Prudential Investments in New York. " There's no doubt that Chiquita is still in a hospital bed."

Tim Ramey, industry analyst for Deutsche Morgan Greenfell in New York and long a critic of Chiquita, told the Enquirer recently that "Chiquita has been a disaster of management...They have an amazing ability to shoot themselves in the foot."

No one argues that Chiquita has been losing lots of money. What they argue about is how the company has been losing it.

Chiquita traces its problems to the creation of the European Union banana protections. The EU Council of Ministers, the main law making body of the EU, ended years of internal debate in 1993 by reaching a compromise on how the EU would collectively import bananas.

Some countries in the EU advocated free trade of bananas. Other countries advocated a system to protect banana trade for developing countries that were former colonies. These nations were dependent on the banana trade for economic survival but could not produce bananas that successfully competed with production from larger corporate farms in Latin America.

Prior to the EU policy, many individual countries had provided these protections for their former colonies.

The two sides battled to a compromise. Regulation 404, as it was called, guaranteed a certain section of the European market was reserved for these poorer nations, mostly in the Caribbean and Africa.

Under the system, Central and South American countries, where Chiquita grew most of its bananas, had heavier tariffs imposed on all their bananas and a limit to how much they could import to Europe. The system also created a complex array of import "licenses" that favored European importers.

An important provision was that these protections would last for 10 years, and then an open market on bananas would go into effect throughout the EU. The changes still left Chiquita as Europe's largest banana importer, but it restricted the amount that the company imported and imposed higher tariffs on bananas that it brought in from Latin America.

Chiquita issued statements through its attorneys that "the EU banana import regime challenged by Chiquita is illegal and an unfair trade practice. Chiquita was right to oppose it."

Poor business decisions?

Opponents of Chiquita on the trade issue, politicians and former Chiquita employees argue that Chiquita made unsound business decisions and now it wants developing world banana growers to pay for them by cutting out European protections.

They point to the huge capital investments that Chiquita made in the early 1990s in anticipation of an Eastern European banana boom that never happened.

In 1990, the company reported to the SEC that it had a long-term debt of $ 494.1 million. In 1991, the figure jumped to $ 1.23 billion - an increase of more than 135 percent in one year. The next year it climbed to $ 1.41 billion. Since then, the company's long-term debt has remained more than $ 1 billion. For 1997, the company reported its long-term debt at approximately $ 1.1 billion.

Much of this money was used to buy and lease ships and expand plantations in Central America in anticipation of a huge growth in European sales, according to Clyde Stephens, who retired as chief of Chiquita's Banana Research division in 1991 after working for the company for decades.

"I thought this was crazy," Mr. Stephens said. "But I was ordered from the top to go along with it....And they went ahead and just spent untold millions of dollars in expansion. Pretty soon the whole damn thing blew up on them. Now to this day, they are stuck with a lot of these properties they bought that they never should have bought.

"They invested heavily in ships because they said, 'Hey, we're going to Europe and we're going to break that European market wide open. And we're going to Eastern Europe. Those bankrupt countries are going to be in the money.' And the Soviet Union. It was a gross mistake, and they're paying for those mistakes right now," he added.

Eastern Europe has opened up to banana imports, with sales moderately increasing, according to the U.N. Food and Agriculture Organization. But many Eastern European consumers don't have enough money to afford bananas as a steady part of their diet.

The belief that Chiquita caused its own financial problems is also widely held by banana producers in the former colonies. These competitors say they stand to lose their market share if the banana regulations are overturned.

"Chiquita has made some errors when the common market was created," said

Mbarga Atangana, European representative of the Association of Cameroon Banana Producers. "They want now that all the growers in the ACP (African-Caribbean-Pacific) countries pay for their mistakes."

Economic studies done Europe show that Chiquita made mistakes in not preparing for the creation of the European protection system, while other American companies did.

Dole, by strategically purchasing banana plantations in EU-protected countries like Cameroon, has been able to acquire chunks of Chiquita's market share. A 1995 report by auditors Arthur D. Little, who were hired by supporters of the European banana restrictions, said that Chiquita's market share in Europe had dropped from 25 percent in 1991 to 18.5 percent. Almost all of that decrease had been lost to Dole.

Since the new banana restrictions, Chiquita has bought some plantations in the Ivory Coast and other places where banana imports have low tariffs to Europe.

Chiquita did not provide specific numbers on its European market share. The EU "has severely attacked and cut into Chiquita's market position.

There is no doubt about it. Whereas Dole was very pragmatic," said Jeroen Douglas, project officer for Bananas for Solidaridad, a Dutch Christian group that aids development in poorer countries.

Dole, Chiquita's largest competitor, refused to comment for this series.

But analysts like Mr. Ramey of Deutsche Morgan Grenfell point to Dole's relative success in the stock market in recent years, with profits up.

As of April 21, Dole's stock was trading at more than $ 45 per share.

Accounting for a stock split in 1995, the stock has increased more than 77 percent since 1990, according to Bloomberg News. Meanwhile, Chiquita stock was trading at about $ 14 per share on April 21. At the close of 1990, the stock was trading at $ 32 per share, a decrease in value of 56.25 percent, according to Bloomberg News. Chiquita has not had a stock-split since 1988.

"Dole has said, 'We can't do a whole lot to fix the political solution,' " Mr. Ramey said. "Instead, they said, 'Let's just adapt to the situation.'... Meanwhile, Chiquita continues to stagnate while they are fixated on this WTO (World Trade Organization) decision."

Chiquita fights

Chiquita was the only major banana producer to fight against the EU banana restrictions. And it has fought fiercely, marshaling top lobbyists in Brussels, Washington, D.C., and elsewhere. It has hired top lawyers in Washington, D.C. to petition the Clinton administration and Congress to fight the EU protections.

Meanwhile, a coalition of European human rights activists, small importers and others have banned together to counter Chiquita's efforts. Since 1994, the White House has been a strong supporter of Chiquita's position, successfully arguing its points at the World Trade Organization (WTO).

In 1996, the White House won a WTO ruling and the EU's appeal of that ruling ordering the EU to change its system to be less restrictive.

The White House position is simple at this point: Europe has to change the system. Ralph Ives, deputy assistant U.S. Trade Representative and the Clinton administration's point man on the banana issue, said the administration doesn't care whether the changes help Chiquita or not, just as long as they are consistent with principles of international free trade.

"Our line for the last four years has been we just want the EU to adopt a system that is consistent with the International rules of trade," he said.

"So we haven't been wedded to any particular system....This is hurting Latin America. It's hurting growth in bananas. It's hurting our companies. So just abide by the rules."

Politics and money

But Chiquita's competitors think the Clinton administration's aggressive pursuit of this issue is a direct result of Mr. Lindner's healthy contributions to the Democratic party.

Tim Cuniff, Del Monte's director of marketing for North America, said Chiquita is trying to cover its own financial mistakes by blaming it on the European restrictions.

"Lindner paid a ton of money supporting presidential campaigns, and he thought that he was going to get some type of favors," he said. "Now he's got to start calling in some marks to show that he was doing right by his shareholders."

European supporters of the banana protections also see political contributions as the driving force behind the White House efforts.

"The government of the United States has itself invested a lot of time, people and money to this conflict when there is no domestic export to the European Union so this is, from our point of view, a little bit strange," said Alvaro Gonzalez de Cossio, Brussels delegate for ASPROCAN, the association for banana plantations on the Canary Islands. "You can see that the lobbyists there have worked very well for the big company, for Chiquita."

Changes coming

Politics aside, the EU must change its system or face severe trade sanctions under the WTO ruling. The EU has stated that it plans to change the system, but just how it will comply is uncertain.

Mr. Gonzalez of ASPROCAN said that if the EU proposes changes that his farmers don't like, the organization will work to block ratification in the European Council. Under the current representation, Spain, Portugal, France and the United Kingdom would have a blocking minority in the council.

"It doesn't matter if the council has done something that makes the Americans and Chiquita very happy," he said. "If we don't like it, there will be a major political problem."

Banana trade experts say the contentious nature of the dispute means that Chiquita is unlikely to prevail anytime soon, if ever. Phillippe Binard, delegate general of the European Community Banana Trade Association, an organization that represents Chiquita and other large producers, as well as smaller banana producers, said Chiquita's victories at the WTO may mean little to Chiquita's bottom line.

"These political battles will go on for the next two or three years," he said. "But it's not surprising. The system has been seriously challenged from the very beginning, but it has not stopped us from operating within the limits that have been put on us from the beginning...The (Banana protection) regime will not disappear, this is for sure."

In January, the EU Council announced a proposal that kept its system intact but altered the way its licenses were given out.

Mr. Ives at the White House said the Clinton Administration was not satisfied with the EU proposal and would continue to fight for "full compliance" before the WTO.

"It would be very naive to assume that the WTO decision will be a meaningful help to anybody in the near to medium term," said Mr. Ramey at C.J. Lawrence. "It (the WTO-EU negotiation) is going to be marathon foot-dragging. "

What is the European Union?

The European Union is a group of 15 nations, most of them in Western Europe, committed to political, economic and monetary union. In coming years, more countries are expected to join. The goal is to become a United States of Europe, with no trade barriers or economic restrictions between the member states.

After World War II, countries in Europe began to talk about reducing political and economic barriers to reduce the chances of another world war. In 1992, the nations involved (then only 12 countries) signed the Maastricht Treaty, which recognized the formal union with a government headquartered in Brussels. It also committed the member states to full economic integration with a single currency by 1999.

The fifteen members states are: France, Germany, the United Kingdom, Italy, Spain, Sweden, Finland, Denmark, the Netherlands, Belgium, Austria, Portugal, Ireland, Greece and Luxembourg.

The EU government operates through executive commission with a rotating president and a council, whose members are appointed by the states, as well as a European Parliament, whose members are elected directly by the people of Europe.

While the goal of the EU is unity, the process of getting to that unity has often been divisive, with individual countries balking at certain policies. Such was the case with the current banana trade policy.

The Cincinnati Enquirer, May 3, 1998

Value of Chiquita stock

Year-end close and close on Friday, May 1, 1998

CHART

Source: Chiquita Brands International, Inc.
Text of apology to Chiquita

Starting on May 3, 1998, the Enquirer published a series of articles regarding Chiquita Brands International. Many of the conclusions in these articles were based upon the contents of voice mail messages of employees of Chiquita. At the time, the Enquirer believed that the series' accusations against Chiquita were based upon what was thought to be factual information obtained in an ethical and lawful manner. Specifically, the Enquirer asserted that the voice mails were provided by "a high ranking Chiquita executive with authority over the Chiquita voice mail system."

The Enquirer has now become convinced that the above representations, accusations and conclusions are untrue and created a false and misleading impression of Chiquita's business practices. We have withdrawn the articles from continued display on the Enquirer's Internet web site and renounce the series of articles.

Information provided to the Enquirer makes it clear that not only was there never a person at Chiquita with authority to provide privileged, confidential and proprietary information, but the facts now indicate that an Enquirer employee was involved in the theft of this information in violation of the law.

The employee involved, lead reporter Mike Gallagher, has retained counsel and will not comment on his news gathering techniques. Despite his assurances to his editors prior to publication that he obtained his information in an ethical and lawful manner, we can no longer trust his word and have taken disciplinary action against him for violations of Enquirer standards. The Enquirer will continue to investigate whether others involved in the Chiquita articles also engaged in similar misconduct.

We want to send a strong message that deception and unlawful conduct has no place in legitimate news reporting at the Enquirer.

We apologize to Chiquita and its employees for this unethical and unlawful conduct and for the untrue conclusions in the Chiquita series of articles.

THE CINCINNATI ENQUIRER

Harry M. Whipple, publisher

Lawrence K. Beaupre, editor

GRAPHIC: "The (European banana protection), in essence, was a deeply restrictive quota... that blatantly expropriated market share from U.S.banana marketing companies " - Chiquita official complaint to the White House

TYPE: Special Section