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Executive brief

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Product differentiation

1. Background and key issues

The main aim of product differentiation strategies is to secure price premiums for specific categories of product.

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The main form of product differentiation is product branding, commonly supported by extensive advertising. However, over the past 20 years more generic categories of product differentiation have emerged, based on perceived attributes of particular types of products.

In the EU context this needs to be seen against the background of CAP reform and the establishment of a basis that can sustain and enhance the value of EU agro-food sector production in the face of moves towards agricultural trade liberalisation. It also needs to be seen against the background of rising disposable incomes and increasingly segmented food product markets. Beyond a certain income level, as consumers become more affluent they no longer eat more, but rather eat differently, as they become willing to pay more for products with particular attributes or characteristics. These 'quality' attributes may relate to aspects of the production process, attributes of the functioning of the supply chain, or may be linked to geographical origins or some other specific quality attribute.

In some sectors, demand for such quality-based differentiated products is moving from niche markets to mainstream markets. This, however, can cause problems for producers if the new quality standards become the industry norm, since this can erode or remove the price premiums which represent the main aim of product differentiation strategies.

In an ACP context, product differentiation needs to be seen in the context of the processes of preference erosion being faced on the traditional EU market, where price premiums enjoyed by ACP exporters have been undermined. It also needs to be seen in the context of rising disposable incomes on domestic ACP markets in regions of Africa and elsewhere in the developing world, which are creating new sources of demand for differentiated products. Quality-based product differentiation (e.g. Namibia's Nature's Reserve beef products and Authentic Caribbean Rum) can offer an important means of market repositioning for ACP producers, in response to preference erosion.

In a global context, product differentiation needs to be seen against the background of the emergence of global sourcing and the growing strength of the own-brand products of multiple retailers. This can be seen as undermining the benefits of traditional product branding, since consumers are increasingly aware that branded products and own-brand products may well be produced in the same factory to the same standards.

Within the EU, quality-based product differentiation is an important component of the reformed CAP and is becoming more multifaceted. For example, in 2012–13 initiatives were launched at national level to differentiate domestic production on quality grounds. These initiatives are in addition to the range of EU policy measures and support programmes set in place to differentiate EU products from imported products on quality grounds.

Many of these initiatives have implications for ACP producers' efforts to reposition their food and agricultural product on export markets.

The continued development of private standards further complicates the market for quality-differentiated products. In certain differentiated product market components such as fair trade, the growing role of multinational corporations in mainstreaming sales raises important questions in relation to the integrity of labelling schemes and the distribution of revenues along the supply chain in line with the expectations of consumers who buy fair-trade products.

2. Latest developments

EU policy debates and trends impacting on differentiated product markets

The growing value of geographical indications in the EU

As an integral part of the CAP reform process, the EU has developed a system of geographical indications of origin (GIs), as a vehicle for product differentiation, aimed at securing price premiums for EU producers.

> *"The EU has developed a system of geographical indications of origin as a vehicle for product differentiation"*

While this is well established in the wine sector through region-specific designations of origin (e.g. Champagne), more systematic legal protection is now being given to these product designations, including at the international level. In addition, the system is being applied to an increasing range of "agricultural products and foodstuffs".

In March 2013, the EU published an evaluation of the value of production of agricultural products and foodstuffs, wines and spirits in the EU that are protected by a GI (worth €54.3 billion in 2010), and more importantly the total value premium associated with the use of GIs. The evaluation estimated the "average value premium rate" for "agricultural products and foodstuffs" at 1.55. This means that GI-protected "agricultural products and foodstuffs" on average attracted a price one and a half times that for the same volume of non-GI protected products falling in the same category (e.g. hams). For wines and spirits these values were higher (2.75 and 2.57 respectively) (see *Agritrade* article 'French company seeks trademark rights for rooibos tea, as EU use of GIs expands', 12 May 2013).

This highlights the potential price premiums that can be gained from securing GI designation and actively promoting and marketing GI-designated products in premium market components.

The sales value for GI-protected "agricultural products and foodstuffs" is growing faster than for wines and spirits, with over €1 billion of such products being exported in 2010. By 1 January 2010, some 867 EU "agricultural products and foodstuffs" enjoyed GI protection, with a further 285 applications pending by the end of February 2013. Yet "agricultural products and foodstuffs" still accounted for less than 30% of the total value of GI-protected product sales by EU producers.

While GIs are potentially of interest to ACP exporters in securing price premiums, this requires the establishment of national legal frameworks for GI protection. This can be costly if only a limited number of products are affected (rather than the thousands in the case of the EU) and may not be warranted if other similar but cheaper systems of protection for quality-differentiated products are available. However, securing effective protection under alternative mechanisms (e.g. trademark protection) can also be expensive, with this needing to be assessed on a case-by-case basis. Difficult choices therefore face ACP governments in deciding how best to defend ACP trade and intellectual property interests.

Efforts by a French company in 2012–13 to register rooibos as a trademark highlighted the legal and regulatory constraints in ACP countries in securing trade and intellectual property interests. Since its foundation in 2005, the Rooibos Council of South Africa has been exploring possible GI protection, but found that "South African law did not cater for geographical indications", while "EU rules demand that a geographical indication be protected domestically before the EU accepts it." As a consequence, the Rooibos Council of South Africa is registering rooibos as a collective trademark, in the hope that this will be sufficient to secure GI protection on the EU market (see *Agritrade* article 'Legal and regulatory constraints on GI protection illustrated', 3 June 2013).

Conversely, Jamaican Blue Mountain coffee producers have traditionally used trademark protection regimes but have more recently "taken steps to register Jamaica Blue Mountain Coffee as a GI with the Jamaica Intellectual Property Office".

Developments in the EU's regulatory and trade framework for organic products

Since 1 July 2012, imports of listed products – that are certified by named certification agencies and imported from specific listed countries where equivalency of certification is recognised by the EU – no longer require import authorisation. Equivalency agreements can potentially both reduce the costs of certification for organic exports to the EU and simplify the process of importing into the EU, thereby giving a competitive edge to countries attaining equivalency status (see *Agritrade* article 'New EU organic labelling requirements and equivalency regulations enter into effect', 6 August 2012).

A growing number of third-country governments have concluded or are seeking equivalency agreements with the EU for organic products. In June 2012, China, a potentially a major exporter of organic products, signed an agreement with the EU to "open negotiations on a mutual recognition agreement in the field of organic food products" (see *Agritrade* article 'Discussions initiated with China on mutual organic standards and cooperation', 9 July 2012).

In certain sectors (e.g. bananas, where Peru is seeking an organic equivalency agreement), this could carry implications for ACP exporters seeking to target the same organic market components.

July 2012 saw the entry into force of a new EU-wide organic logo regulation, which aims to create more transparency on packaged certified organic products. The new EU-wide standard provides the background to moves to tighten national controls on organic certification bodies, in order to eliminate fraudulent labelling of organic products (notably in Germany). However, these moves also need to be seen against the background of emerging concerns that imported organic products are undermining the wider environmental benefits of localised organic production.

On 15 January 2013, the EC launched a public consultation on the future of its organic products regime looking at:

- simplification;
- the impact of the EU organic logo; and
- how to ensure that internationally traded organic products are effectively monitored and verified.

These consultations will feed into EC "proposals for a renewed political and legal framework for organic agriculture in Europe", scheduled for the end of 2013 (see *Agritrade* article 'EU launches public consultation on organic production', 24 February 2013).

EU regulatory developments for fair-trade products

In May 2012, the European Court of Justice confirmed that "considerations of an environmental or social nature" may form part of public procurement tenders.

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Tenders must specify the underlying criteria to be met and not simply specify a label that meets those criteria. The ruling is seen as opening up major new markets for fair-trade producers, since accessing public procurement markets can be an important means of raising consumer awareness of fair-trade products (see *Agritrade* article 'New opportunities for fair-trade producers', 2 July 2012).

Developments in New Zealand – where the Commerce Commission has argued that self-certification schemes such as Dole's 'ethical choice' label risk misleading consumers and is therefore in breach of the New Zealand Fair Trade Act – highlight regulatory challenges not yet addressed by the EU in the fair-trade sector.

Developments in the main differentiation product market components

Organic product markets

There continues to be a significant shortfall in the domestic production of organic products in the EU, with demand expanding far more rapidly than domestic supply.

> *"There is a significant shortfall in domestic production of organic products in the EU"*

This is particularly the case in Germany, which has been less affected by the economic downturn. This creates potential market opportunities for ACP exporters of organic products.

However, growing competition on EU organic markets is faced from advanced developing countries under new free-trade area (FTA) agreements. This raises questions as to the long-term benefits for ACP exporters of organic certification targeted at the EU market, since increased imports from non-ACP sources could erode the price premiums currently enjoyed, while the costs of compliance and certification will remain.

Any large-scale moves by ACP producers into organic production for EU markets therefore needs to be subject to careful market assessment and the adoption of measures to reduce, wherever possible, the costs of accessing EU organic markets.

Looking beyond the EU, the market for organic products worldwide is growing strongly. While 90% of demand for certified organic products comes from the US and EU, there is strong growth in the Brazilian market, while Chinese demand has increased fourfold in 5 years, and a 20% growth is expected elsewhere in Asia in the next 3 years.

> *"The market for organic products worldwide is growing strongly"*

At an international conference in Zambia in May 2012, it was argued that major benefits could be gained from an expansion of certified organic production in Africa, and calls were made for an African Organic Action Plan (see *Agritrade* article 'Organic requirements becoming stricter', 18 June 2012).

However, as incomes rise and consumption patterns change, there is a growing demand for organic products within Africa. Serving these local markets often involves lower costs, since systems of self-certification are being established. In the East African Community (EAC), for example, organic farmers in Kenya, Uganda and Tanzania commonly operate under Participatory Guarantee Systems (PGS), based on East African Organic Products Standard requirements and using an internal peer group review process to ensure compliance (see *Agritrade* article 'Report highlights expansion of organic production for local markets in the EAC', 13 June 2013).

Moves towards increased organic production are not only under way in Africa, but also in the Pacific and the Caribbean, with certified organic production being seen as a means of accessing premium-priced market components (see *Agritrade* article 'Going organic seen as way forward in Vanuatu', 18 May 2013).

However, securing price premiums that will bring net benefits to producers through organic certification (or other forms of product differentiation) is by no means automatic.

> *"Securing price premiums that bring net benefits to producers through organic certification is not automatic"*

As in other areas of product differentiation, securing price premiums and net benefits requires a multiplicity of complementary actions, not just the securing of certification.

A noticeable trend in recent years has been towards 'dual certification' of organic/fair-trade products. For example, between 2009/10 and 2010/11 the volume of dual-certified bananas grew by 35% and the percentage of fair-trade bananas also certified as organic increased from 25 to 39% of total fair-trade banana sales. This is seen as a means of reconsolidating price premiums and net benefits for producers.

Fair-trade product markets

Despite the current economic difficulties faced in major OECD markets, retail sales of fair-trade-certified products showed remarkable resilience, increasing 2% in 2011, to total sales of US$6.6 billion. A growing range of fair-trade products are now on offer (see *Agritrade* article 'Continued expansion in fair-trade sales despite economic downturn', 28 April 2013).

Plans have been launched to further increase retail sales in the largest market for fair-trade products, the UK, based largely on the expansion of the use of fair-trade raw materials in value-added products (see *Agritrade* article 'Fairtrade launches strategy to expand sales to £2 billion', 26 May 2013). However, close attention will need to be paid to the distribution of the costs and benefits of fair-trade certification along the supply chain resulting from this strategy.

"Close attention needs to be paid to the distribution of the costs and benefits of fair-trade certification along the supply chain"

In an era of rising input costs it is perfectly possible to see an expansion in the value of retail sales of fair-trade products, while the net benefits received by producers decline. Getting to grips with this issue is important if the integrity of fair-trade labelled products in the consumer consciousness is to be maintained.

This is particularly important in view of the decision of a major UK retailer to shift to selling bananas from the Canary Islands as part of its efforts to reduce its carbon footprint, which suggests growing competition among different types of quality-differentiated products for consumer spending.

As in the organic sector, sales of fair-trade products in emerging markets (including South Africa and Kenya) are growing strongly.

However, as acknowledged at the Africa Fairtrade Convention in November 2012, "despite agro-food systems like Fairtrade, most African producers still receive the lowest earnings in the whole chain due to lack of access to decent public infrastructure, financial resources and up-to-date market prices." According to the general manager of the Oromia Coffee Farmers Cooperative Union, "it is not a lack of natural resources but the formulation of trading mechanisms that makes us poorer and poorer" (see *Agritrade* article 'African fair-trade producers highlight need to strengthen their position in supply chains', 4 January 2013).

It was argued that the fair-trade movement will need increasingly to focus on identifying solutions to the unequal functioning of mainstream trading mechanisms. This would appear to be particularly the case in view of the growing role of multinational companies in fair-trade supply chains

Large multinational companies are increasingly involved in the processing and handling of fair-trade products for their own commercial reasons. The purchase of a majority shareholding in Belize Sugar Industries (BSI) by American Sugar Refiners (ASR) is illustrative in this regard. Securing direct access to 6,000 Fairtrade-certified independent growers is providing a secure supply of Fairtrade-certified sugar to the ASR subsidiary Tate & Lyle Sugars (TLS) (see *Agritrade* article 'Fair-trade component key factor in BSI acquisition by ASR', 2 December 2012).

In the face of growing competition on the UK market in 2008, TLS decided to convert its entire direct consumption sugar range to fair-trade sugar, while in October 2012 TLS announced a new partnership with the food ingredients buyer and distributor IMCD Benelux, aimed at supplying the growing demand of European manufacturers for fair-trade-certified sugar. Increasing fair-trade sugar sales thus forms an integral part of a corporate market repositioning strategy.

This kind of development can pose challenges for the fair-trade movement, particularly in a context of intra-corporate trading relationships which reduce the transparency of basic price formation.

Similar issues arise along the fair-trade supply chains from Malawi and Zambia, given the indirect corporate involvement of Associated British Foods at all stages of the supply chain, from the estate and millers, through the trading company, to European refiners/marketers.

Issues related to the internal process of price formation and basic returns to sugar cane farmers per tonne of sugar cane delivered to millers, are likely to take on greater economic significance than the simple question of the fair-trade premium.

The entry of discount retailers such as Lidl and Aldi into fair-trade retail sales also raises challenges, since this can serve to greatly intensify price competition on fair-trade markets, to the detriment of producers.

The impact of supermarket policies on overall price levels is already apparent in the UK market for bananas, where supermarket 'price wars' have led to a depressing of the general price level for bananas, which has in turn acted as a drag on fair-trade banana prices (see *Agritrade* article 'Divergent trends in US and EU banana markets amid evolving supply chains', 24 June 2012).

This issue was taken up in June 2012 in a petition to the EC from a coalition of consumer organisations which called for the proposed EU code of practice governing retailer relations with suppliers to be extended to overseas suppliers (see *Agritrade* article 'Sustainability concerns go mainstream in Dutch fruit and vegetable sector', 29 July 2012).

In October 2012, calls emerged for greater traceability in the use of fair-trade inputs in value-added food products. Media reports maintained that fair-trade-labelled chocolate bars "[might] contain no sustainable cocoa, as beans become mixed" during shipment and processing. Currently there is no requirement on manufacturers to maintain fair-trade produced cocoa separately from conventional cocoa, with companies simply buying the right to use the fair-trade labels for a specific volume of product, while the certifying agency guarantees that an equivalent volume is sourced from farms that comply with its standards. The use of actual fairly traded raw materials in individual chocolate bars labelled as such is not required.

This issue of traceability arises not only for fair-trade labelling but also for inputs labelled as sustainably produced, and is likely to take on growing significance in the coming years. Demands for stricter traceability may come to carry cost implications that impact negatively on the net revenue position of primary producers.

The emergence of private labels and certification schemes that are not independently verified is further compounding the challenges faced in fair-trade market components, since many of these new schemes offer no price guarantees to producers.

Meanwhile, many efforts have been launched to promote fair-trade production and marketing. These range from the launch of the Fairtrade Access Fund in March 2012 and the launch of the €85-million Africa Agriculture Trade Investment Fund by the German development bank KfW, to the announcement in August 2012 of an additional allocation of NZ$4.56 million (some €2.73m) to Fairtrade ANZ (Australia and New Zealand) "to help unlock the export potential of smallholder farms in Pacific agriculture" (see *Agritrade* article 'New funding for promotion of fair-trade production in the Pacific', 8 October 2012).

This expansion of funding may help assist not only in expanding fair-trade production in ACP countries but also in repositioning ACP fair-trade producers in the face of evolving market trends, which in some markets is seeing an erosion of the price differential between fair-trade-certified and non-fair-trade-certified products (e.g. the UK fair-trade banana market).

Sustainability product markets

A number of major developments in sustainability certification took place in 2012–13.

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In June 2012, "all major supermarkets, trading companies and NGOs in the Netherlands" signed a covenant that committed themselves to ensuring that "all fresh fruits and vegetables in Dutch supermarkets are sustainably produced" by 2020 (30% by 2014 and 50% by 2015). The covenant covers virtually the entire fruit and vegetable sector (90% of retail volume). The definition of sustainability under the programme is based on existing standards (such as Rainforest Alliance and Fairtrade) (see *Agritrade* article 'Sustainability concerns go mainstream in Dutch fruit and vegetable sector', 29 July 2012).

While considerably expanding demand for sustainably certified fruit and vegetable products, this Sustainable Trade Initiative-coordinated programme could prove to be a double-edged sword for some ACP producers, posing a range of new challenges.

The first challenge relates to the ability of ACP suppliers to meet expanding market demand for sustainably produced fruit and vegetables. With non-ACP governments supporting an expansion of fruit and vegetable exports to the EU under newly concluded or pending FTA agreements, ACP suppliers may find themselves facing increasingly tough competition.

The second challenge arises where sustainability certification becomes the industry norm, without the costs of such certification being equitably distributed across the supply chain. This could lead first to ACP suppliers facing increased costs in order to supply the EU market, and second to a downward pressure on prices as a result of increased competition among retailers applying the same sustainability standards.

June 2012 also saw the launch of the Irish Food Board Bord Bia's 'Origin Green' labelling scheme of sustainable business practices. The aim of the scheme is to increase consumer demand for sustainably produced food through clear labelling that allows consumers to make informed choices. According to press reports, "an international targeted communication programme is already under way to build awareness of Origin Green and Ireland as a source of sustainably produced foods" (see *Agritrade* article 'Irish Food Board introduces new quality labelling scheme', 16 December 2012).

The emergence of national sustainability labelling schemes, such as Bord Bia's 'Origin Green', seeks to tap into growing consumer concerns over the environmental impact of the production processes through which food and drink is delivered to their tables. The scheme is explicitly designed to differentiate Irish food and drink products from other, third-country products.

This has led to warnings of a rise of eco-protectionism. Speaking at the Third African Accreditation Cooperation General Assembly in September

2012, South Africa's Trade and Industry Minister warned against emerging "eco-protectionism" which operates "under the guise of addressing climate change concerns". While particular concerns were expressed over the possible "imposition of border adjustment taxes on imports produced with greater carbon emissions than similar products produced domestically", developments in 2012 suggest that this could be more immediately felt through labelling claims under various schemes, or corporate initiatives designed to differentiate their own specific products from generic versions of the same products on environmental grounds (see *Agritrade* article 'Sustainable palm oil set for expansion if challenges can be overcome', 9 December 2012). This raises labelling and regulatory issues.

In the face of the many different sustainability standards in existence, the Sustainability Initiative of South Africa (SIZA) launched an initiative in October 2012 to replace multiple standards and audits with a single audit process aimed at reducing costs of certification and improving the net benefits to primary producers gained from producing sustainably certified products. This independent verification scheme is being piloted in the fruit industry and is based on mutual recognition of audits among international and local retailers (see *Agritrade* article 'South Africa establishes single ethical trade standard', 4 January 2013).

Meanwhile, efforts are under way in Kenya to promote increased environmental certification of crops such as fruit and vegetables, cut flowers, cotton, tea, cocoa and coffee, in response to emerging market trends. Many of these Kenyan initiatives are taking place at the sector level: for example, the Kenya Tea Development Authority has achieved Rainforest Alliance certification for 42 out of its 65 tea factories (see *Agritrade* article 'Green farming seen as a way forward for Kenyan agriculture', 23 September 2012).

These African initiatives need to be seen against the background of sector-wide initiatives such as those of the Netherlands Sustainable Trade Initiative on fruit and vegetable sourcing, and major multinational companies setting targets for the procurement and use of sustainably certified raw materials.

A particularly noticeable trend in 2012–13 was corporate commitments to increase their sourcing of sustainably certified cocoa and palm oil. In terms of cocoa, major companies such as Hershey, Ferrero and Mars (but not yet Nestlé, which remains a key target for campaigners) have made a commitment to source 100% of their cocoa from sustainably certified sources by 2020, while companies like Barry Callebaut are committed to extending their sourcing of sustainably produced cocoa. These initiatives are implemented both unilaterally, and collectively under the auspices of the World Cocoa Foundation. Similar corporate commitments are being made as regards sourcing of sustainably certified palm oil.

However, as pointed out in a study published in March 2012 by the International Institute for Environment and Development, to participate in these sustainability certification schemes, farmers "must absorb the lion's share of the costs of certification (both direct costs such as fees, and indirect ones, such as the costs of establishing the structures needed to meet traceability requirements)". While such costs have traditionally been seen as a way of obtaining premium prices, the question arises: what happens to the price premium when sustainability certification becomes the industry norm? (See *Agritrade* article 'Certification useful, but benefits "less poor farmers"', 10 June 2012) This is an increasingly critical challenge under sustainability certification schemes.

Differentiation initiatives based on product quality

While GIs, fair-trade, organic and sustainability labelling schemes are the largest components of the differentiated product market, they are not the only vehicles for product differentiation open to ACP producers.

In the Caribbean rum sector, a regional quality label ('Authentic Caribbean Rum') has been developed to support the transition from bulk rum exports to branded, quality-differentiated, bottled rum exports. This EU-supported programme has seen substantial progress in the development of high-value bottled rum exports that target particular premium-priced rum market components.

In 2012, however, it became apparent that US tax concessions were financing a major expansion of rum production in Puerto Rico and the US Virgin Islands (equivalent to 80% of annual US rum consumption), which posed a direct threat to Caribbean ACP sales of bulk rum, a market component that is highly price sensitive and which remains central to overall revenues of the Caribbean rum sector. A very real danger is seen to exist of subsidised rum production from the US Caribbean territories undermining the broader production base on which the development of premium-brand, quality-differentiated bottled rums has been developed in Caribbean ACP countries.

This highlights how sector-specific product differentiation strategies in ACP countries can only go so far in enhancing the competitive position of ACP producers, compared to the financial implications of public subsidy programmes in OECD countries.

"Sector-specific product differentiation strategies in ACP countries can only go so far in enhancing the competitive position of ACP producers"

In Namibia, in the face of the erosion of the value of EU beef sector trade preferences, the main Namibian beef exporter has been pursuing a strategy of quality-based product differentiation that enables substantial movement up the value chain. This strategy involves marketing individual high-quality meat cuts under the 'Natures Reserve' label to specific markets, in line with the requirements of the final retailer.

This has enabled the company to increase average producer prices, despite a decline in the volume of cattle being slaughtered from commercial beef farmers. Internally supported efforts have been launched to increase the off-take of cattle from herds grazed on communally held land, in order to sustain the volume of throughput of meat processing plans at commercially viable levels (see *Agritrade* article 'Meatco's strategy for moving up the value chain', 2 December 2012).

At the beginning of 2013, however, it became apparent that developments in the application of EU sanitary and phytosanitary (SPS) requirements were likely to substantially reduce the pool of cattle from which carcasses for processing for export to the EU could be drawn. The provisions of a new internal Namibian directive, drawn up to give effect to EU rules that were modified in 2011, now require cattle to have been south of Namibia's veterinary control fence for 90 days prior to slaughter, and to have been kept separate from non-EU-compliant cattle for 40 days prior to slaughter.

These new requirements are seen as "simply impossible" for communal area cattle farmers to meet, since communal farmers cannot afford to rear, market and transport EU-compliant cattle separately from non-EU-compliant cattle (see *Agritrade* article 'Commercial implications of EU SPS requirements hinder development of smallholder beef supplies in Namibia', 4 May 2013).

The effect of the new EU rules is to reduce the pool of cattle from which quality-differentiated beef cuts for export to the EU can be drawn. While the Namibian government is reportedly planning to approach the EC "to exempt parts of the country from the 40-day residency requirement", developments at the beginning of 2013 highlight how changes in the application of SPS requirements can undermine the production base on which the development of quality-differentiated products has been founded.

Jamaican exporters of premium-branded coffee are also facing problems. Following a sustained economic recession in Japan, Jamaican Blue Mountain coffee producers found themselves seeking out new markets in order to sustain the price premiums that Blue Mountain coffee had traditionally enjoyed. This included targeting new markets in the United States, the UK and China. While successes were enjoyed in the US (see *Agritrade* article 'Corporate support for sustainable high-quality coffee production in Jamaica', 30 April 2012) and the UK markets (see *Agritrade* article 'Jamaican Blue Mountain coffee breaks into UK market with Harvey Nichols contract', 24 June 2012), in December 2012 it was announced the agreement concluded with the Chinese importing company would be terminated, with new marketing partners being sought.

According to press reports, problems had been faced in relation to trademark protection, with practices being introduced that undermined the quality of products marketed under the Jamaican Blue Mountain and High Mountain Supreme labels. This experience highlights the difficulties faced in sustaining quality-based product differentiation in markets where regulatory enforcement of standards and respect for quality labels are underdeveloped.

3. Implications for the ACP

Taking account of increased competition under EU FTAs

New EU FTAs potentially increase competition on specific differentiated product markets of export interest to ACP countries (e.g. organic banana exports from the Dominican Republic). Identifying in which country/product combinations competition will increase requires an analysis of current exports, planned investments and the tariff provisions of the new agreements. Where increased competition is likely to impact on prices received, it may be necessary to modify product differentiation strategies. This may require prioritising the negotiation of an equivalency agreement (taking into account the cost associated with upgrading certification and control systems to EU-equivalent standards), shifting to dual certification or even market diversification.

Staying on top of administrative requirements for organic certification

Stricter regulation of organic certification agencies highlights the importance of ACP suppliers of staying on top of all aspects of regulatory developments, since not meeting administrative requirements can have as great an impact on trade as not meeting the underlying organic production standards. There would appear to be a need for strengthening information flows to ACP producers to ensure that no ACP organic producer is caught out by evolving requirements.

A growing emphasis on local organic products also suggests a need for ACP organic producers to pursue dual organic–fair-trade certification, in order to remain attractive to EU consumers and hence continue to enjoy the possibility of securing price premiums. If Africa's organic potential is to be fully exploited, emerging consumer trends in major markets such as those in the EU will need to be closely monitored.

Engaging with the EU review of the regulatory framework for organic products

From an ACP perspective, the pending EC proposals for a renewed political and legal framework for organic agriculture could usefully take up issues such as:

- addressing problems under the EU's import regime for organic products, including the market effects of the introduction of a new, obligatory EU organic logo;
- the difficulties faced by individual ACP governments in negotiating equivalency agreements with the EU on organic standards; and
- the scope for a pan-ACP programme of support to the negotiations of equivalency agreement, designed to reduce the administrative costs incurred by ACP exporters seeking to serve EU organic markets.

Strengthening domestic policy frameworks for product differentiation

Clearer and more consistent ACP government policies on the promotion of organic forms of agricultural production, fair-trade and sustainability certification, and GI registration and trademark protection would appear to be necessary.

> *"Clearer and more consistent ACP government policies on the promotion of organic forms of agricultural production, fair-trade and sustainability certification, and GI registration appear to be necessary"*

In some instances (under fair-trade and sustainability certification schemes) this may need to extend to public sector support for the establishment of traceability schemes. However, the relative importance to be accorded to policy development in these various areas will need to be carefully assessed in the light of the relative costs and benefits at the individual country level.

Benefits could be gained from a sharing of policy and operational experience in these various areas across the ACP, particularly as this relates to strengthening the functioning of supply chains, so that price premiums paid by consumers actually benefit primary producers.

Strengthening the functioning of ACP–EU fair-trade supply chains

Problems with the operation of conventional trading mechanisms, alongside the erosion of price differentials between fair-trade and conventional products, suggests a need for increased efforts to strengthen the position of primary producers within fair-trade supply chains, particularly in terms of price negotiations. This issue is beginning to receive increased attention within the fair-trade movement.

In addition, complaints from European farmers' organisations over alleged abuses of market power by multiple retailers sit uneasily with the growing role of supermarkets in developing fair-trade sales.

Extending the proposed EC code of practice governing relationships between multiple retailers and their suppliers to overseas suppliers – with specific provisions dealing with revenue sharing commitments to primary producers of fair-trade products – could well play a role in maintaining producer revenues and the integrity of the fair-trade labels.

Preparing for the generalised application of sustainability standards

Moves towards the conversion of entire supply chains to sustainability

> *"The conversion of entire supply chains to sustainability certification would require a concerted response from ACP policy makers"*

certification would appear to require a concerted response from ACP policy makers at two main levels. The first is supporting ACP producer organisations in engaging with sustainable trade initiatives to ensure that issues of economic sustainability are adequately addressed, while the second is the extension of government support to ACP producers enabling them to better serve sustainability-certified market components in the EU.

Ensuring an "openness" in national sustainability certification schemes

If the use of national sustainability labelling schemes becomes widespread in the EU (such as the Bord Bia 'Origin Green' scheme), then ACP governments will need to pay close attention to ensuring that such labelling schemes are open to all producers that meet the requisite standards, regardless of their country of origin. Any restrictions of access to only national producers could serve to relegate imported products to lower quality (and lower priced) market components.

Strengthening the EU regulatory framework for ethical and sustainability claims

The recent discussions in New Zealand over Dole's self-certification of its 'ethical choice' bananas highlights the importance of having a clear regulatory framework for the ethical, environmental and sustainability labelling claims made by food manufacturers, in order to ensure consumers can make informed choices.

Greater EU regulation would appear to be needed to ensure that consumers can properly judge the labelling claims made, whether these relate to ethical standards (fair trade), specific environmental concerns, sustainability claims or even implicit health related claims.

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About this update

This brief was updated in September 2013 to reflect developments since July 2012. Other publications in this series and additional resources on ACP–EU agriculture and fisheries trade issues can be found online at http:// .cta.int/

The Technical Centre for Agricultural and Rural Cooperation (CTA) is a joint ACP—EU institution active in agricultural and rural development in African, Caribbean and Pacific (ACP) countries. Its mission is to advance food and nutritional security, increase prosperity and encourage sound natural resource management.

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