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Executive brief

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Product differentiation

1. Background and key issues

Food and agricultural markets are increasingly segmented. While ACP countries are still heavily dependent on price-driven commodity markets, there are however opportunities to move towards serving specific market segments where consumer purchase decisions are made on the basis not of price, but of some perceived 'quality' attributes, with these 'quality' attributes generating a willingness on the part of consumers to pay more for the product.

Such quality attributes may take many forms, such as a geographical designation of origin (e.g. Parma ham), certification of some distinct quality (e.g. 'Authentic Caribbean Rum') or a trademark (e.g. Jamaican Blue Mountain coffee). They may relate to the production process (e.g. organic, sustainable, or animal welfare-focused production methods) or to attributes of the functioning of the supply chain (e.g. fair-trade). Whatever the basis for the 'quality' differentiation which sets products apart, the common feature is that consumers are willing to pay more, often substantially more, for such products. A further common feature of these types of product is that as income growth increases, so demand for these types of products grows faster than for undifferentiated products, where consumer purchase decisions are based solely on price. Put simply, in more affluent segments of society, as income increases people do not eat more, but rather they eat differently, favouring 'quality-differentiated' food and drink products.

In an era of accelerating preference erosion and increased competition not only on export markets but also on regional and domestic markets, quality-based

> *"Quality-based product differentiation is increasingly relevant to ACP food and agricultural producers"*

product differentiation can be seen as increasingly relevant to ACP food and agricultural producers. This is particularly the case in those sectors where product differentiation is moving out of niche markets and into the mainstream. It is particularly important in those ACP countries where their size makes the attainment of the economies of scale open to large advanced developing countries (e.g. Brazil, China, Thailand) impossible or extremely difficult to attain.

The process of differentiating products on quality grounds is already a key component of the EU common agricultural policy (CAP) reform process, since it assists EU producers in securing price premiums and sidestepping price competition from low-cost advanced developing country suppliers.

A wide variety of measures are being set in place under the CAP to facilitate the transition to the production of quality-differentiated and value-added food products. This includes:

- the provision of investment support under rural development programmes;
- market development and export promotion support, focused on quality-differentiated products;
- the development of a more systematic agricultural product quality policy and elaboration of associated labelling requirements and standards;
- the development of policies to strengthen the functioning of supply chains, to address unfair contractual practices stemming from asymmetries in bargaining power.

Many of these developments potentially hold lessons or carry implications for ACP producers seeking to pursue similar product differentiation strategies. This is particularly the case in the context of the growing engagement of multinational companies in certain differentiated product supply chains (e.g. fair-trade sugar supply chains), and the proliferation of private voluntary standards (PVS), which provide the gateway to major market components in the EU (e.g. the UK supermarket component of horticultural markets).

2. Latest developments

Developments in the EU regulatory framework

Most of the major developments in the EU regulatory framework for differentiated products took place in 2010 (for details, see *Agritrade* '*Executive Brief: Product differentiation*', 2011). In 2011/12, four main developments took place.

The first of these was the launch in July 2011 of the green paper on the future of promotion and information schemes for EU agricultural products (see *Agritrade* article 'Green paper on EU agriculture and food product promotion policy launched', 6 October 2011).

> *"The EC sees a specific role for itself in promoting exports of quality-differentiated products"*

This gave rise to a formal EC communication at the end of March 2012 (see *Agritrade* article 'EU promotional measures to have a greater external focus', 13 May 2012). The aim is to establish 'a more targeted and more ambitious strategy' focused on 'the quality, traditions and added value of European agricultural and food products'.

While product promotion is seen primarily as a role for the exporters and EU member states, the European Commission (EC) sees a specific role for itself in promoting exports of quality-differentiated products. Currently, promotion measures in non-EU markets account for 26% of total spending. Three areas of policy change were tabled in the green paper for discussion:

- the provision of assistance 'to help European farmers develop their marketing strategies', via 'studies of consumer habits, … information days, … interactive internet platforms' and access to 'infrastructure at European stands at international fairs';
- the promotion of joint initiatives by small and medium enterprises in order to 'reach a critical mass for trading in the external market';
- helping newcomers to export by supporting 'exploratory work' (e.g. 'trial campaigns or market studies').

The EC is also looking to broaden out both the range of sectors and actors eligible for support to include companies and chambers of commerce, with a limited opening up to brand-related promotion programmes where this also promotes broader generic quality-differentiated products.

The debate around the EU's programmes of support for the promotion of agricultural products has implications for the scope of EU support for similar programmes in favour of ACP producers.

The second main development was the conclusion on 15 February 2012 of a mutual recognition agreement between the EU and the US on organic certification. This is seen as facilitating trade between these areas by reducing the costs of importing certified organic products from each other. This brings the number of countries with which the EU has concluded such agreements to 11. The significance of this agreement, however, lies in the scale of the markets opened up to each other, with the EU and the US collectively accounting for 90% of global sales of officially certified organic products (see *Agritrade* article 'EU and US sign mutual recognition agreement for organic products', 11 March 2012).

The third development in the period was the publication of proposals to make certified EU organic producers automatically eligible for a 30% supplementary direct aid payment that is to be linked to 'greening [i.e. environmental] measures'. This could potentially provide a major boost to EU organic production and reduce market opportunities for ACP exporters in this key area of product differentiation (see *Agritrade* article 'EC proposals for the reform of the CAP leaked', 6 October 2011).

The fourth main development was the inclusion in the EC's communication of January 2012, 'Trade, growth and development', of references to the importance of private schemes such as fair-trade, ethical or organic labelling as a way of fostering sustainable and inclusive growth. Among the proposed areas of support highlighted in the EC communication were:

- helping small producers to differentiate their outputs, e.g. through geographical indications and fair-trade labelling;
- assisting developing countries in making better use of diaspora populations in Europe as marketing agents.

Developments in organic markets

Developments in consumption and production

While Europe and the US account for around 90% of the global market for organically certified products, organic sales have been growing strongly elsewhere. The organic market in China has increased fourfold in 5 years, with growth of 20% expected elsewhere in Asia in the next 3 years. Strong growth is also apparent in Brazil. However, while 'overall organic farming is practised in 160 countries', most production in Asia, Latin America and Africa is destined for the European and US markets. This being noted, a growing number of urban consumers in urban areas of West Africa are attracted to organic products because of a heightened awareness of food safety issues, notably issues of pesticide contamination (see *Agritrade* article 'African governments promoting coordinated approach to food safety issues', 2 May 2011).

The market for organic products around the world continues to grow despite the economic downturn, growing 8%

> *"The market for organic products around the world continues to grow despite the economic downturn"*

in 2010 to US$59 billion. This took the overall increase in sales since 2000 to 228%. Within the EU the demand trend varied from country to country: strong demand growth in Germany led to the gap between demand and supply growing, while in the EU overall demand contracted by 3.7% in 2011. The decline in UK sales was driven by supermarkets devoting less shelf space to organics and reducing investment in organic 'own brand' lines. This trend is unlikely to change in the short term, although consumers continue to favour dual-certified products (such as organic and fair-trade, or organic and local). Within this overall trend, some sectors did however see growth (organic lamb +16% and organic poultry +5.8%). This suggests a need for a highly disaggregated approach to identifying market opportunities for ACP exporters.

Demand for organic cotton continues to grow, driven by 'growing consumer interest in green products' and a 'significant expansion of existing organic cotton programs by brands and retailers'. In April 2011, supported by the French Development Agency, the Association of Cotton Producers in Africa (Aproca) launched an organic and fair-trade cotton initiative in West Africa, with the aim of boosting production while developing market demand (see *Agritrade* article 'Fair-trade cotton to boost cotton production in West and Central Africa', 5 July 2011).

The role of the ACP in organic trade

Bananas are the most important ACP organic product. In 2011, the Dominican Republic alone exported US$200 million in organic bananas, up from US$70 million in 2010 (see *Agritrade* article 'Growing competition in differentiated product markets', 6 October 2011). This focus on organic production can be seen in part as a policy response to the process of preference erosion that is taking place. Production of other organic fruit and vegetables for export is less developed in ACP countries, where it remains small even in major exporting zones such as East Africa. However, rapid growth is being experienced from this limited base.

> *"Potential for growth of ACP organic production is held back by the absence of clear government policies"*

The growth potential is held back by the absence of clear government policies in support of organic agriculture.

This constraint was highlighted at the July 2011 joint African Union/AU–EU organic farming workshop. Here the importance of mainstreaming organic policies into national agricultural policies was emphasised, pointing to the experience in East Africa which showed that farmers could increase the intensity of production and produce surpluses for the local market using organic farming methods. Significantly, the EU organic market was seen as being attractive primarily for commercial producers in familiar products where an established export trade exists.

The issue of government support for the organic sector was taken up in March 2012 by the Ghanaian Coalition for the Advance of Organic Farming, which called for the establishment of an official certification system and support for the provision for organic inputs, extension services and technical support (see *Agritrade* article 'Calls for more support to the organic sectors in Ghana', 15 April 2012).

Despite these constraints, individual producer groups in ACP countries are identifying and exploiting the growing demand for organic products. Thus we find Samoan producers exporting dried organic bananas to New Zealand (see *Agritrade* article 'Organic export markets under development for Samoan producers', 20 November 2011), while Fijian producers are exploring a range of market opportunities for organic papaya exports. While many such initiatives tend to have their origins in work led by non-governmental organisations (NGOs), over time commercial operators in established export products have begun to explore organic market opportunities.

Coinciding with the July 2011 joint AU–EU workshop, a €15-million microfinance fund was established. The fund, known as the European Solidarity Financing Fund for Africa (FEFISOL), was set up to provide local currency loans to micro-financing institutions and producer organisations across Africa, to improve the quality, scale and range of organic and fair-trade products (see *Agritrade* article 'Loan financing facility announced for African fair-trade and organic small businesses', 6 September 2011).

Growing competition on organic markets

Growing demand for organic products is stimulating a dynamic response beyond the ACP. In countries concluding free-trade area (FTA) agreements with the EU, producers are increasingly investing in targeting EU organic markets (see *Agritrade* articles 'Organic markets increasingly targeted by Latin American exporters', 10 June 2011 and 'Growing competition in differentiated product markets', 6 October 2011). Mutual recognition of organic standards is already in place with countries like India (see *Agritrade* article 'Indian government prepares to capitalise on new EU preferences', 15 April 2012), while such agreements are actively sought by countries such as Peru. This gives added urgency to the need for legally binding organic standards in ACP countries and for the conclusion of mutual recognition agreements with the EU.

Developments in the fair-trade market

Overview of fair-trade market developments

There are now some 6,000 fair-trade products on offer across the globe being sold in 25 countries, with some 900 fair-trade projects under implementation worldwide (21% of these in Africa).

> *"Increasingly fair-trade products are also certified organic – this dual certification applies to two-thirds of fair-trade products"*

Increasingly fair-trade products are also certified organic, with this dual certification applying to two-thirds of fair-trade products.

Overall, fair-trade products account for a very small share of trade, for example only around 1% of global salesof cocoa, tea and coffee are fair-trade certified. However, for certain products in certain markets the share of fair trade is significant. Sales of fair-trade bananas now account for 25% of banana sales by UK supermarkets, while fair-trade-branded sugar now accounts for 'a third of the entire sugar market' in the UK (rising to 50% in the coming years) (see *Agritrade* article 'Fair-trade market growing but new issues are emerging in some sectors', 7 May 2012).

While previously 'fair trade' was seen as a western concept, it is spreading. In June 2011, Kraft Foods announced the launch of a fair-trade Dairy Milk chocolate bar on the South African market. This represents the fair-trade product's first appearance on the African continent. The product uses entirely Africa-sourced inputs, and has effected a fourfold increase in Ghana's sales of fairly traded cocoa beans (up from 5,000 tonnes to 20,000 tonnes).

The recognition that there was an appetite for fair-trade products among emerging market consumers was heralded as a breakthrough. According to the Fairtrade Labelling Organisation (FLO), demand for fair-trade cocoa is set to grow dramatically to 200,000 tonnes by 2020. This is closely linked to large manufacturers positioning themselves to play a role in fair-trade markets (see *Agritrade* article 'Kraft Foods announces launch of fair-trade Cadbury chocolate bar in South Africa', 9 August 2011).

The impact of fair-trade products

There is considerable debate about the impact of fair-trade production. A review of fair-trade bananas by the Institute of Development Studies highlighted the important role played by fair trade in:

- building strong collective enterprises;
- securing decent returns for producers;
- balancing 'the dominance of multinational companies and supermarkets in the banana sector'.
- The review found that fair trade helped smallholder producers to:
- improve production;
- access premium markets;
- accumulate capital for reinvestment;
- more directly export products, thereby securing a greater share of the overall value generated by the banana trade.

These economic benefits come on top of social and environmental benefits derived from fair-trade premium payments.

However, while net incomes from fair-trade bananas were higher than for conventional bananas from 2006, it was noted that this gap has narrowed as fair-trade banana producers have faced increased costs. It was nevertheless maintained that in certain countries, such as the Windward Islands and the Dominican Republic, 'fair-trade has played a significant role in sustaining or developing the [banana] sector' (see *Agritrade* article 'Review of the impact of fair-trade bananas', 25 March 2012).

Overall, the success of fair-trade bananas in breaking out of a niche market into the mainstream has raised questions about whether benefits can be sustained against strong pressure to reduce costs. Wider work by the Overseas Development Institute (ODI) on ethical labelling has highlighted the importance of clear labelling of ethical products, to ensure that consumers are not misled over who along the supply chain benefits from the price premium paid by the consumer. On occasions, it was noted, the costs of compliance with ethical standards can exceed the financial benefits derived by the producer from compliance with these standards.

> *"Fair-trade bananas have succeeded in breaking out of a niche market into the mainstream – but can the benefits be sustained against strong pressure to reduce costs?"*

There are also criticisms of the fair-trade movement, notably that it holds back 'diversification and mechanisation', creates 'low-profit, labour-intensive agrarian ghettos', and results in only a tiny proportion' of the consumer price premium reaching producers.

Issues faced in expanding fair-trade sugar sales

Expanding fair-trade sugar sales is likely to be an important issue in ACP–EU fair-trade sugar supply chains, as minimum price guarantees for ACP sugar are eliminated from 1 October 2012 as part of the CAP reform process, and market forces determine prices. With large multinational companies playing a major role throughout fair-trade sugar supply chains, potentially the role of the market in price determination is likely to be severely constrained. In this context, close attention will need to be paid to the fair-trade premium, as well as to the basis for determining the price for sugar cane delivered by fair-trade farmers.

This is complicated by the changes to the EU sugar import regime, and also by the multiple uses to which sugar cane is now put. Increasingly sugar cane is being used to produce not only sugar and molasses, but also electricity, ethanol and alcohol. Often the revenue from the sale of these new products is not part of the common revenue pool divided between growers and millers (the exception to this is Mauritius). This takes on added significance, as the balance of the specific product mix desired by the mill will influence the varieties of seed-cane distributed to smallholder farmers.

In this context, the fair-trade premium paid by consumers may simply compensate in part for lower prices being paid to smallholder farmers for their sugar cane, as the prices would remain based solely on revenues from sugar and molasses and not the whole range of income streams generated from the sugar cane delivered by smallholder farmers (both fair-trade and non fair-trade) to the mill.

This issue is particularly acutely felt in Malawi and Zambia, where a single corporate family dominates the sugar sector from cane production through to the marketing of refined sugar products. However, it is also likely to be an issue in countries such as Swaziland, where in September 2011 it was announced that fair-trade certification for the growing number of smallholder sugar cane farmers was being sought (see *Agritrade* article 'Swazi sugar to secure fair-trade certification' 25 October 2011).

Developments in quality-based product differentiation in ACP countries

Developments in ACP quality-differentiated product exports

Quality-based product differentiation represents an important vehicle for ACP producers to maintain their market position in the face of preference erosion, as well as a vehicle for securing premium prices in volatile commodity markets. However, this is not automatic. Analytical work by ODI has shown that some ethical labels can leave producers worse off, since the costs of compliance are borne by producers without any guarantees of improved prices. To secure additional value from product differentiation, careful attention needs to be paid to the design and implementation of product differentiation strategies and enhanced marketing strategies.

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Namibia, for example, needed to address a number of challenges to its beef export trade:

- the erosion of the value of beef trade preferences;
- the rising costs of sanitary and phytosanitary (SPS) compliance and verification;
- an expansion of EU imports from highly competitive third-country suppliers.

In response, the country adopted a strategy to increasingly differentiate Namibian beef on quality grounds and to progressively move up the value chain, by getting closer to and serving the needs of the final retailer. Several official and private standards are now being met, including benchmarks for production, packaging, storage and distribution of safe food, animal welfare, corporate social responsibility and ethical labour policies.

In addition, Namibian exporters are establishing direct relationships with premium retailers such as the Coop in Denmark and Sweden, the ASDA supermarket in the UK, Norgesgruppen wholesale and retail corporation in Norway and, within the Southern African region, Woolworths in South Africa. The latter relationship has proved particularly helpful in broadening the marketing opportunities for beef products produced north of the veterinary control fence (see *Agritrade* article 'Challenging times ahead for the Namibian beef processing sector', 8 April 2012).

This strategy has enabled the principal exporting company to maintain a strong financial performance, despite a decrease in the number of cattle processed (arising from intensified competition for weaner cattle from the South African feedlot industry). In 2011/12, there was an 18% increase in the price per kg received by Namibian beef producers, yielding the highest beef price to date. Namibian producers received 'about N$24 million [€2.29m] above the equivalent South African producer price'. While high global beef prices helped, the specific results obtained were a result of the strategic positioning of Namibian products across a variety of international markets.

Whereas previously cattle would be processed, stored and sold in bulk, now when cattle are slaughtered it is already known which specific cuts are destined for which specific clients. This enables the company to maximise revenues from every meat cut produced. This is further supported by the development of premium brands, such as 'Natures Reserve', which helps to position the Namibian product internationally (see *Agritrade* article 'Quality differentiation pays off for Namibian beef farmers', 23 April 2012).

This customer-focused approach to the production of quality beef cuts has enabled movement 'further down the value chain toward the retail end'. By producing products ready for the retailer's shelves, intermediaries in the supply chain have been removed, enabling a considerably higher proportion of the final sale price to be retained by the cattle producer.

However, the evolving market situation requires constant innovation in terms of securing strategic partners for the marketing of premium products and other beef cuts, as well as a constant review of mechanisms to reduce average processing costs and thereby maximise producer revenues (see *Agritrade* article 'EU import quota for high quality beef to be increased', 19 February 2012).

This Namibian approach, in what at first sight appears a homogenous commodity such as beef, mirrors the experience in the Caribbean rum sector, which has been moving over a number of years to production of high-quality, locally bottled and branded rums under the generic 'Authentic Caribbean Rum' regional umbrella. November 2011 saw the formal launch of the Rum Expansion Programme in Barbados, aimed at the further development of high-quality, high-value rum exports, since at present only 15 to 20% of exports fall into this category. This builds on the EU-supported Integrated Development Programme for the Caribbean Rum Sector, which was explicitly created to assist with the global repositioning of the Caribbean rum sector in the face of preference erosion.

In the Caribbean rum sector, public sector pump-priming support played an important role in getting the programme under way to restructure the sector through product differentiation. In the case of the Namibian beef sector, by contrast, this process has been almost exclusively financed and led by the private sector. The role of public authorities was restricted to the vital area of ensuring effective SPS and food safety regulation, compliance and verification systems.

ACP producers are also engaged in a range of initiatives to secure premium prices within bulk commodity supply chains. For example, Jamaican producers of fine-flavoured cocoa have been seeking to exploit the growing trend towards high-quality chocolate consumption, by direct marketing of their cocoa to manufacturers of premium chocolate brands. As in the case of Namibian beef, this involves getting closer to the end consumer and setting in place measures to ensure consistent compliance with end user technical specifications. This can require technical assistance and training, as well as reform of marketing arrangements to shorten the supply chain (see *Agritrade* article 'Jamaican cocoa farmers seeking to improve returns by direct marketing', 10 June 2011).

"ACP producers are engaged in a range of initiatives to secure premium prices within bulk commodity supply chains"

In 2011, the Jamaica Cocoa Farmers' Association (JCFA) argued that if it is allowed to sell its cocoa directly to the US company Hershey, it can secure higher prices 'comfortably above the current market price'. JCFA is exploring similar relationships with buyers in Asia, Europe and North America to obtain 'the highest value for our cocoa', by building 'lasting commercial relationships through fair pricing of our cocoa'. Competition between buyers is seen as an important element of any marketing strategy aimed at maximising producer revenues from the marketing of fine-flavoured cocoa. In the longer term, JCFA also has aspirations to establish a viable 'value-added cocoa processing facility'.

Successful pursuit of this strategy will require JCFA to both expand the volumes of cocoa it markets and ensure consistent quality standards that meet the end users' requirements (see *Agritrade* article 'More dynamic marketing key to growth in Jamaica cocoa sector', 19 February 2012).

A similar approach is being adopted among producers of Jamaican Blue Mountain (JBM) coffee, following the difficulties faced in recent years on traditional Japanese markets. This involves developing a closer supply relationship with the coffee house chain Starbucks, which has more than tripled its purchases of JBM coffee since 2010 (although still only 15.4 tonnes). JBM coffee producers are being encouraged to sign up to Starbucks' programme CAFE Practices ('Coffee and Farmer Equity Practices'), a set of buying guidelines designed 'to ensure that coffee is grown in a responsible way' (see *Agritrade* article 'Corporate support for sustainable high-quality coffee production in Jamaica', 30 April 2012).

Under the programme, significantly enhanced pricing and contractual terms are provided to 'preferred suppliers' who attain a 60% rating under the standards, with 'strategic suppliers' (those who attain an 80% score) also receiving a premium of US$0.05/lb. Starbucks also pays prescribed fair-trade premiums, as well as a premium for organic coffee, and an investment fund has been established under the programme to offer concrete support to farmers operating under the CAFE Practices programme. The aim is to secure all of Starbucks coffee from strategic and preferred suppliers by 2015.

When JBM coffee producers sign up to the Starbucks programme, this will bring the number of ACP countries where coffee producers operate under the programme up to nine (Ethiopia, Kenya, Tanzania, Rwanda, Burundi, Zambia, Papua New Guinea, Timor-Leste, and then Jamaica). The principal difference between the Starbucks scheme and other Cocoa Partnership Initiative arrangements is the enhanced pricing arrangements. While the Starbucks scheme does not provide a guaranteed price, as is the case under fair-trade arrangements, the company reports that its average prices are substantially above the industry average (+37% in 2006).

A further sector where ACP suppliers are seeking to capitalise on quality-based product differentiation is in sustainable palm oil production. New Britain Palm Oil (NBPOL), the main palm oil producer in Papua New Guinea, has adopted a major focus on sustainable palm oil production and maintains that 'demand for fully traceable and certified sustainable palm oil, together with speciality fats and margarines, is growing', as food manufacturers 'continue to bring forward their commitments to using traceable and certified sustainable palm oil products'. The operations of NBPOL are fully vertically integrated, with palm oil shipped directly to a new processing facility in Liverpool and contracts being concluded directly with end customers in the EU. Available reports suggest that NBPOL is able to manufacture and supply segregated, traceable and certified palm oil to its end users (see *Agritrade* article 'Policy challenges related to the take-up of sustainable palm oil production', 7 January 2012).

Potentially sustainable palm oil production could carry significant economic benefits for PNG, with a research report suggesting that 'palm oil smallholders on a two hectare plot receive an annual income … almost double the country's minimum wage' and almost 10 times the income earned from cocoa production (see *Agritrade* article 'Palm oil prospects looking good in Papua New Guinea', 10 June 2011).

Establishing regulatory frameworks to promote local market development

Across a range of areas where product differentiation is possible, the absence of local regulatory frameworks holds back the development of production to serve these markets. While this is most acute in the organic sector, regulatory issues also need to be addressed in other areas as well (see *Agritrade* article 'Report highlights potential for developing organic market in African countries', 25 December 2010). This is particularly important, as significant developments in terms of access to key distribution channels are taking place in quality-differentiated product markets across Africa.

> *"Significant developments in terms of access to key distribution channels are taking place in quality-differentiated product markets across Africa"*

According to a recent audit in South Africa of the suppliers of the South African Woolworths supermarket chain, 'some 37% of the retailer's fresh produce is now grown on farms respecting the standards of the company's initiative 'Farming for the Future'. These standards focus on maintaining healthy soil, which requires less irrigation and fewer chemical interventions, and is less subject to soil erosion.

In West Africa, meanwhile, consumer surveys indicate that food safety concerns are driving a growing consumer interest in quality-verified food products.

These developments in West Africa, as well as those in South Africa, highlight how product differentiation on quality grounds is not just confined to developed country markets. There are growing markets in ACP countries for quality-differentiated products, which can command premium prices. These locally available market opportunities need to be identified and exploited as an integral part of efforts to shift the basis of engagement of ACP production with the global economy.

The opportunities range from compliance with local retailer standards serving quality-differentiated components of the local market to the targeting of local markets for organic production and fair-trade production. However, establishing legally binding standards is essential for market development and the delivery of premium prices to producers of quality-differentiated products.

3. Implications for the ACP

Establishing clear and consistent policies for organic and fair-trade products

Recent initiatives to promote the development of fair-trade and organic production could be greatly enhanced if clear and consistent government policies for the promotion of both organic and fair-trade forms of agricultural production were set in place in ACP countries. In the organic sector this needs to include the establishment of legally binding national or regional organic standards, consistent with broader international market opportunities. Such standards are essential to both developing local market potential and reducing the costs of international exports.

This is an area of policy initiative that should be accorded a high priority in ACP countries where production structures are capable of benefiting from such product differentiation (i.e. where the financial benefits gained exceed the costs of compliance and certification, with this requiring careful assessment, since it is not always automatically the case).

This needs to be complemented by programmes of support to:

- the development of producer organisations and group certification for both organic and fair-trade producers;
- the establishment of local certification companies, including the establishment of EU-recognised certifiers, with this in the longer term laying the foundations for moving towards mutual recognition with the EU.

In some regions this may be most cost-effectively pursued through regional-level programmes.

Supporting transition processes

It is not only at the policy level that active policy initiatives may be required. The EU experience and that of the Caribbean rum programme highlight the important role that public sector pump-priming funds can play in stimulating the development of quality-differentiated production and marketing strategies. This is potentially an important area for national programmes, as well as increased 'aid for trade' support. This would be consistent with the priority areas identified in the EC's 'Trade, growth and development' communication.

Redefining the role of commodity boards and industry regulators

Helping producers to get closer to their end consumers, in order to be able to better meet evolving technical requirements, can be seen as central to securing price premiums for quality-differentiated forms of production.

Since not all quality certification schemes automatically bring net benefits to primary producers, assisting producer organisations in finding their way around the many quality-differentiation schemes available potentially represents an important area for public policy support.

It is apparent also that increased attention needs to be paid to strengthening the functioning of specific quality-differentiated product supply chains, to enhance the position of primary producers and avoid any abuse of unequal power relationships along the supply chain.

This cluster of issues potentially constitutes a new agenda for action for ACP commodity boards and industry regulators in an era of privatisation and liberalisation, if product differentiation strategies are to be effectively pursued.

Collaborating with the EU on product differentiation initiatives

The EC's 'Trade, growth and development' communication of January 2012 recognised the importance of product differentiation for developing countries. There is a growing need to build comprehensive development dimensions into evolving EU policies on agricultural product quality (including the labelling and promotion dimensions), SPS and food safety standards (the foundations for market access), and the strengthening of the functioning of supply chains.

Central to this should be a strengthening of dialogue processes with ACP governments around these issues (and an intensification of targeted 'aid for trade' support). This would be consistent with the EU's policy commitment on policy coherence for development.

This could extend to a joint ACP–EU initiative to promote mutual recognition of verification exercises across different PVS and between public and private standards.

Policy developments around sustainability questions

Recent discussions suggest that the development of sustainable palm oil production is reaching a critical juncture, with public policy decisions potentially playing an important role. In terms of ACP–EU trade relations, two important issues arise:

- the possible use of tariffs to favour imports of certified sustainable palm oil;
- the development and application of quality standards that favour the use of certified sustainable palm oil for use in food products. This could be modelled on the sustainability criteria applied under the Renewable Energy Directive, which deals with the use of oil crops in biofuel production.

Policy developments in these areas could stimulate the uptake of the available sustainably certified palm oil, prompt an expansion of sustainably produced supplies and promote a shift towards systems of certification that progressively eliminate 'unacceptable' sources of supply.

Governments of ACP countries that produce sustainable palm oil could consider encouraging such an evolution of EU policies.

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About this update

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CTA

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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