Interview

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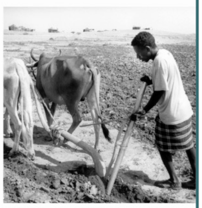
Production and trade adjustment in the ACP: The experience of the Caribbean rum sector

An interview with Vaughn Renwick, West Indies Rum and Spirits Producers' Association, the Caribbean



Vaughn Renwick is the CEO of the West Indies Rum and Spirits Producers' Association (WIRSPA), and was responsible for the implementation of the Integrated Programme for the Development of the Caribbean Rum Sector. He was formerly Executive Director of the Caribbean Export Development Agency, with experience from working with the CARICOM and Organisation of Eastern Caribbean States (OECS) Secretariats, and the Government of Grenada.

In this interview with *Agritrade*, Mr Renwick talks about the liberalisation of the European Union rum market, how Caribbean producers adapted to the changes, and about the roles played by regional governments and the European Commission in that process. He gives his assessment of the progress made by the industry to date, and of its challenges for the future.

Q: What changes in the Common Agricultural Policy (CAP) or developments regarding access to the European Union (EU) required your industry to undertake production and trade adjustments?

The roots of the Caribbean rum programme lay in the EU's decision to liberalise access to the EU rum market under a bilateral EU-US trade deal. The decision was part of a much wider process of horse-trading between the EU and US across a range of issues. However it seriously eroded the value of traditional Caribbean rum sector preferences, so Caribbean governments and the rum industry sought to secure EU recognition of the negative effects that the so-called 'zero for zero' agreement would have on the rum sector.

EU ministers and officials quickly understood the implications of the EU-US deal for the Caribbean rum industry, and as early as March 1997 they made a commitment to address the Caribbean rum industry's needs. This gave rise to a joint declaration on rum, which was annexed to the Cotonou Agreement and which committed the EU to financing a range of measures requested by the rum industry. These measures related to modernisation and capital investment needs to support production adjustments, marketing support to address trade adjustment needs, and capacity-building support to facilitate an industry-wide approach.

Q: What were the main elements of the adjustment strategy which the rum industry pursued?

Our adjustment process was led by our understanding of where the global rum market was heading and how Caribbean producers could profitably situate themselves within this evolving market. It was this understanding that informed the development of both capital investment and marketing support measures under the rum programme. In this respect the approach was market led. This approach was later confirmed by detailed market research to enable us to effectively target the market components which we knew were out there, on the basis of our general understanding of how the market was developing.

While it was relatively easy to reach agreement on what the aim of the programme should be – i.e. enhancing the competitiveness and profitability of Caribbean rum producers by assisting in the transition from the export of bulk rum to the export of high-quality, high-value branded rum – it was not so easy to jointly develop common operational programmes within an industry whose companies were traditionally competing with each other in the export market.

Getting a consensus on joint market development measures proved extremely time-consuming, as agreements needed to be reached on a range of issues. How, for example, do you design a common campaign promoting quality rums, while allowing individual brand owners to pursue their own marketing initiatives? Which national EU markets should you focus on, and for how long should such programmes run in order to yield sustainable results? These and a multiplicity of other issues needed to be resolved before a concrete marketing programme could be launched. This took time, especially given the very rigid nature of the European Development Fund (EDF) rules in activities of this type.

Nevertheless, an 'Authentic Caribbean Rum Marque' and associated true rum marketing campaign were agreed and launched with the benefit of EU financing. However, this left us with a very tight implementation time-frame.

Getting things moving on the investment and modernisation side of the programme faced its own problems. Not only did the administrative arrangements for the core cost-sharing grant scheme arrangement need to be agreed and set in place, but rum companies also needed to buy into the ambitious restructuring vision. Early on, the level of support extended was not sufficiently attractive to encourage companies to take the risk of going for investments, as some of these – such as expensive waste treatment processes – had no tangible payback. Consequently the take-up of funds was relatively slow until the scheme was modified to provide a higher level of pump-priming support to the production adjustment process. However, as companies gained a greater understanding of what was available and what the possibilities were under the programme, the take-up of funds accelerated greatly.

This slow 'take-off' phase holds important lessons for the design of similar such programmes in other sectors and regions of the ACP.

Q: What role did support from the government play in assisting the rum industry to make the necessary production and trade adjustments?

Our governments played a highly significant role in lobbying for the establishment of the programme. Our government officials had to follow the whole initiative through all stages of the complex EU decision making process, from the March 1997 EU Council decision to the signing of the financing agreement in January 2002. This required real staying power and constant monitoring. Of course the rum sector, through WIRSPA, actively supported our governments throughout this process and this joint approach ensured that no one took their eye off the ball. This meant that not only was European Commission (EC) assistance made available, but it was made available on terms and conditions which meant that the Caribbean industry could effectively use the financial resources made available to meet their own marketing, modernisation and capital investment priorities.

Our governments also played an important role in supporting the design of the programme favoured by the rum industry and supporting the establishment of management arrangements that gave WIRSPA a central role. This meant that those most concerned with the restructuring of the rum sector – the rum industry – had full responsibility for the design and management of the rum programme.

This of course posed challenges for WIRSPA, which needed to significantly expand its administrative capacity. Despite this expansion, which included the contracting in of external technical assistance, WIRSPA remained accountable to its constituent members. This was no mean achievement, since it was also responsible to the CARIFORUM Secretariat and the EU Delegation for the administration of funds in line with EU procedures and the programme's overall objectives.

Of course this would not have been possible without the excellent collaboration enjoyed by WIRSPA with both the CARIFORUM Secretariat and the EU Delegation in Barbados.

Q: What role did EC assistance play in supporting the rum industry in making the necessary production and trade adjustments?

The EC played an important role, not only because of the money – some €70 million in restructuring support – but also because of their willingness to look ahead with us at what was needed and how to get there. This enabled us to identify some of the likely problems in advance, and address them. This proved to be very important in the area of tendering and procurement, an area which I understand is the most common source of delay in the implementation of EU development cooperation activities. In the case of this programme the EC agreed up front to the drawing up of a specific manual of procedures designed to promote best business practice. This proved vitally important to the efficient implementation of the programme and greatly contributed to the underlying policy objective of enhancing the competitiveness of the Caribbean rum sector.

The EC also proved flexible in modifying elements of the programme to allow us to build on the most successful component of the programme – the modernisation and capital investment window of the €46 million cost-sharing grant scheme. The EC was also willing to design certain elements of the programme to improve its attractiveness to the final beneficiary.

At the more day-to-day level, the EC also proved flexible in adapting administrative arrangements so as to speed up the implementation of the programme. For example, a 'faxed approval' procedure for members of the project steering committee was introduced to overcome the problem of the region-wide spread of committee membership. Similar administrative innovations were introduced regarding the process for reimbursing eligible claims, with the EC accepting that partial claims for completed activities could be submitted under the various approved projects. This greatly reduced the cash flow difficulties of large and small beneficiaries who had to finance investments up front, and increased the rate of 'first time' submission of eligible claims.

However some of these innovations took time to get approval for. This delayed some capital investment projects by up to a year and pushed some projects towards the end of the programme's life, while approval was awaited from Brussels for a reallocation of funds between different windows of the cost-sharing grant scheme. This came to pose a major problem as projects bunched at the end of the programme, but was mitigated through further flexibility on the part of the EC in collaboration with CARIFORUM.

Q: Against this background, how would you describe your experience of EU support to the adjustment process?

Overall, given the reputation for bureaucracy which the EC has, the experience has been extremely good. EC officials listened to our problems and our vision of how to address them and sat down with us to work out practical ways of reaching our objectives within the procedural constraints faced. Of course divergence of views and disagreements arose, but these were always worked through in a constructive spirit. It was a learning process for us all, attempting as we were to implement a highly ambitious programme to reposition an entire sector within an evolving marketplace. Yet it worked. It might have taken longer than we envisaged at each step of the way, but we got there each time.

However ultimately the programme has come up against the problem of EDF rules concerning the overall time-frame for the implementation of the programme. This has led to what the rum industry considers to be a premature closure of the programme – premature in that investment measures jointly agreed, in line with EU requirements, were only reimbursed at the very end of the programme, due to a three-month extension in the payment period agreed to by the EC. There were numerous implementation delays, many of which were external to the companies concerned. In one case, for example, delays in the completion of the investment arose because of a hold-up in the shipment of a key component due to the terrorist attack in Mumbai, India! So while most capital investments were largely completed, a major component of the programme – the Rum Marque – only received limited exposure through a short promotional campaign of only 20 months, thereby preventing it from achieving its objective of becoming a sustainable instrument to support ACP Caribbean brands.

Traditionally, it took on average 12 to 13 years to implement a well-designed and comprehensive sectoral programme under EDF rules, and even longer for such programmes implemented at the regional level. Against this yardstick, the innovative and ambitious sectoral programme which is the rum programme performed extremely well. In this context, seeking a further extension to enable the achievement of the overall objectives for the programme would appear eminently reasonable. Indeed, this was the consensus amongst all those involved in the programme, including the EC officials, monitors and evaluators. The problem was that the EDF rules did not permit this.

Clearly reform of these EDF rules is needed if the EC is to effectively get to grips with the production and trade adjustment support needs which will arise across the ACP as a result of the implementation of the economic partnership agreements and wider processes of change in EU trade policy. In the Caribbean context, this of course includes the implications of all those new preferential trade agreements that the EC is signing with Latin American countries.

Before leaving this issue of the experience of EC support to the rum sector, it should be noted that the rum industry itself has made a far larger investment in the restructuring process than the EC. EC funding served to pump-prime the process, but it was the rum industry itself which carried the main financial cost of the adjustments undertaken. This is not to downplay the EC's contribution, but rather to put it in context.

Q: How successful has the rum industry adjustment programme been in helping the industry to reposition itself in an evolving market?

To date the rum programme has proved of considerable value, often not only in the expected ways but also in some unexpected ways. For example the process of drawing up business plans, while initially seen as something of a burden, has proved to be extremely valuable, contributing to a general raising of the standards of business planning across the industry. This has been of particular benefit to small-scale producers. It has also served to help companies to raise capital from local financial institutions for the implementation of capital investment programmes. The programme also encouraged the development of a strategic vision for the sector. These may appear somewhat intangible gains, but they are nevertheless real benefits.

Getting to the more concrete aspects of the programme, it generally helped companies to get to grips with costs and improve efficiency, sometimes through relatively small investments. The programme also greatly facilitated, as intended, capital investment in modernisation, a process which will lay the basis for repositioning the industry within the global rum sector.

This repositioning itself of course very much depends on the success of the Rum Marque programme and the associated true rum campaign which EC funding has financed. However, the implementation of this programme has been considerably telescoped and is being implemented against the background of a severe global economic downturn. This is not the best environment in which to be repositioning the Caribbean rum industry into premium-priced components of the market. It may take another five or six years before the benefits of these activities start showing up on corporate balance sheets. This is why WIRSPA has applied to be allowed to utilise the funds not spent under the programme on continuing the work to entrench the marque and the ACP Caribbean rum category in the market.

Significantly, the programme encouraged the rum industry to address certain issues that were not a commercial priority, notably issues related to waste management and environmental protection. This can be seen as a very positive development, since it has helped to position the sector 'ahead of the curve' in terms of developments in environmental protection and waste management.

Overall, although the process of adjustment is still ongoing, we hope that the rum programme will have helped our rum producers attain a level of efficiency and competitiveness which will allow them to survive beyond the lifetime of trade preferences in an increasingly competitive global trading environment.

Q: What, in your view, are the major challenges to be faced in the future?

Having addressed many of the immediate production and supply issues in the sector, the major challenge is the continued growth of the branded exports. The success of the Marque is key to supporting and underpinning this growth. The market is only now beginning to appreciate the category of ACP Caribbean rum – authentic Caribbean rum with a diverse history that is rich in heritage. We will need to promote this category to make space for the individual brands to grow, and to ensure that the marque continues to be backed up by a strong certification process that gains the respect of the trade and the consumer.

For those producers who continue to depend on the bulk rum market to support their brand-building efforts, the maintenance of the remaining tariff protection afforded to producers against low-cost competing product is crucial. Actions by the EC to trade these away are a major challenge to the viability of some of the largest ACP Caribbean companies, and have the potential for a negative impact on earning and employment.

Launched by CTA (Technical Centre for Agricultural and Rural Cooperation EC-ACP) in 2001, the Agritrade website (http://agritrade.cta.int) is devoted to agricultural trade issues in the context of ACP (Africa, Caribbean and Pacific) – EU (European Union) relations. Its main objective is to better equip ACP stakeholders to deal with multilateral (World Trade Organization - WTO) and bilateral (Economic Partnership Agreement – EPA) negotiations. Thus it provides regular and updated information and analysis on technical aspects of the trade negotiations, developments in the CAP and their implications on ACP-EU trade, as well as on major commodities (bananas, cereals, sugar, fisheries, etc).

CTA was created in 1983 in the framework of the Lomé Convention between ACP (Africa, Caribbean, Pacific) and EU (European Union) countries. Since 2000, the Centre has been operating under the ACP-EU Cotonou Agreement. CTA's tasks are to develop and provide services that improve access to ever-changing information for agricultural and rural development, and to strengthen the capacity of ACP countries to produce, acquire, exchange and use information in this area.

For more information:

CTA:
Web: http://www.cta.int

Agritrade:
Web: http://agritrade.cta.int
Email: agritrade@cta.int

Postal Address:
CTA
Postbus 380
6700 AJ Wageningen
The Netherlands
Telephone: +31 (0) 317 467100
Fax: +31 (0) 317 460067
E-mail: cta@cta.int

Visiting address:
Agro Business Park 2
Wageningen
The Netherlands

Brussels Branch Office:
CTA
Rue Montoyer, 39
1000 Bruxelles
Belgium
Telephone: +32 (0) 2 5137436
Fax: +32 (0) 2 5113868