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The Importance of Trade Adjustment Support to the Caribbean Rum Industry

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This article outlines the importance of trade adjustment support to the Caribbean rum industry and how this support aided in the restructuring of the industry. The main objective of this article is to analyse and learn from the successful experience of the Integrated Development Programme for the Caribbean Rum Sector. The article is meant to inform private sector players who are facing restructuring challenges in the face of trade liberalisation, donors who want to provide adjustment support, and policy makers, who often represent the interface between these two groups of stakeholders. The article uses primary and secondary sources in order to analyse the relationship between trade adjustment support and the restructuring process.

Keywords: Integrated Development Programme, West Indies Rum and Spirits Producers' Association (WIRSPA), "zero for zero" agreement

Introduction

The Caribbean is involved in several trade liberalization processes, including regional integration and bilateral agreements. In order for Caribbean countries to benefit from increased market access opportunities and to be able to adapt to increased competition from imports, the provision of trade adjustment support is crucial. The importance of such support was recognized by the EU when the joint declaration on rum was developed. The declaration seeks to enhance the competitiveness of existing exporters of rum, assist in creation of rum marques or brands by ACP region or country, and enable marketing campaigns to be designed and implemented (Goodison, 2010). The programme is a multifaceted project, providing co-financing for projects, technical expertise and specialized services to the ACP rum sector (WIRSPA, 2009). It had a budget of €70 million over a four-year period, which has since been extended to 2010. The objectives of the programme are to support the upgrading and modernization of rum production, improve waste management and environmental protection and advance management skills. The programme has also aided in marketing and distributing of value-added rums, creating a Caribbean Rum Marque and strengthening the industry's association, the West Indies Rum and Spirits Producers' Association (WIRSPA).

The Economic Value of Rum in the Caribbean

Rum has been exported from the Caribbean to the wider world for more than 300 years, beginning in the 17th and 18th centuries (WIRSPA, 2009). The primary economic value of rum mainly stems from the amount of foreign exchange it brings into an economy, but the industry also has secondary economic values. The secondary economic values of the rum industry relate to the backward and forward linkages on the supply chain. The backward linkages include the supply of sugar cane and other raw materials, capital equipment, transportation and energy (Pounder, 2010). The forward linkages relate to accessing markets, transportation, distribution, wholesale, hotels and restaurants (Pounder, 2010). The Caribbean rum industry provides employment for over 10,000 people and indirectly supports the livelihood of many more (Jessop, 2002). The alcoholic beverages industry in the Caribbean is the fourth largest non service–sector earner of foreign exchange after sugar, bauxite and bananas (Jessop, 2002). It plays an important role in agriculture and manufacturing and provides over US$150 million in foreign exchange and excise duties to alcoholic beverage–producing countries (WIRSPA, 2009). Rum is the chief agricultural export of some Caribbean countries, including Antigua and Barbuda and the Bahamas, where its share in agricultural exports exceeded 30 percent and 50 percent respectively, in the period 2001 to 2003 (WIRSPA, 2009). In the period 2000 to 2002, exports of alcoholic beverages, mainly rum, comprised 17 percent of the region's commodity exports (WIRSPA, 2009).

Trade in alcoholic beverages on both the import and export sides is significant in CARICOM, being secondary only to other major traditional exports such as sugar, bananas and rice. Exports are comprised mainly of rum and tafia in the tariff heading 2208.40, while imports are concentrated in other tariff headings and include whiskey and ethyl alcohol (WIRSPA, 2009). Exports of alcohol from the Caribbean are concentrated in the U.S., Canadian and EU markets, with the United States being the largest importer of Caribbean rum (WIRSPA, 2009). The data indicate that Barbados, Jamaica, Guyana and Trinidad and Tobago are the largest exporters in CARICOM of alcoholic beverages of the type rum and tafia (WIRSPA, 2009). Exports of alcoholic beverages to the EU were between 24 percent and 29 percent of CARICOM's total exports over the period 2004 to 2006 (WIRSPA, 2009). Members of the West Indies Rum and Spirits Producers' Association export over 300,000 hectoliters of alcohol a year to the European Union; the overwhelming majority of this is bulk rum.

2.1. The End of the Rum Protocol

The four commodity protocols that were annexed to the Lomé Convention for bananas, beef/veal, sugar and rum gave duty free access to the European Market for fixed quantities of exports from traditional suppliers from the African, Caribbean and Pacific Group of States (ACP). The rum protocol was unique in that rum was the only industrial product of agricultural origin for which duty free access was restricted by a quota (Dunlop, 1999). Ravenhill stated that ACP producers "are in the position of being competitive suppliers denied access to segments of the European market in order to protect either producers in the French overseas territories or other third-party suppliers" (Ravenhill, 1985). He later noted that "for the other two protocols [bananas and sugar], the compartmentalization of the European market has worked to safeguard ACP interests" (Ravenhill, 1985). The rum protocol had no list of signatories, and any ACP exporter could participate in the arrangement. The Bahamas, Barbados, Trinidad and Tobago, Jamaica, Guyana and the Dominican Republic were the principal beneficiaries of the rum protocol (Dunlop, 1999). In 1998, Trinidad and Tobago was the main beneficiary, receiving €113,897,000 (equivalent to 30 percent of its total trade with the EU). Rum was CARICOM's third largest export to the EU in 1998, contributing €248,885,000 to the region's foreign exchange earnings and representing 13 percent of the region's total exports to the EU (Dunlop, 1999).

The benefits of the rum protocol to the Caribbean went beyond foreign exchange earnings and employment. Given the small size of domestic rum markets in the

Caribbean, economies of scale for some plants in the region can only be generated through the production of large volumes. This would not be possible without the export of rum to the EU market, which enables Caribbean rum producers to produce for domestic consumption while keeping the per-unit cost at an acceptable level (Berg, 1998). Without the relationship with Europe through the rum protocol it is unlikely that rum production in the Caribbean would be sustainable, not least because non-subsidized Caribbean rum would have to compete with global alcohol production, 87 percent of which is subsidized (Berg, 1998; Goodison, 2010). The quota system, however, confined ACP producers to the low–value added end of the commodity chain, the production of bulk rum.

Many ACP rum producers fought for the quota to be removed and for the rum protocol to be adjusted so that they could tap into the higher end of the commodity chain. At the same time the various protocols were coming under extreme pressure at the World Trade Organization. In March 1997, in the margins of the WTO Singapore Ministerial Meeting, the EU and the United States concluded an agreement on distilled spirits tariffs: the “zero for zero” agreement on rum. The agreement contained a special annex with respect to rum. This annex provided for the progressive liberalization of Most Favored Nation (MFN) duties and quotas on most bulk and bottled rums entering the EU and the United States. The agreement virtually opened up the EU and U.S. markets to worldwide competition on a duty-free and quota-free basis following a short transition period (Dunlop, 1999). This agreement was negotiated without consulting ACP exporters of rum, whose competitive position was eroded as a result. In order to minimize the damage to Caribbean economies, the agreement also provided for retention of MFN tariffs (for non-ACP rum) – and thus of the duty preference favouring ACP suppliers – on rum below specified price levels (Dunlop, 1999). Tariff preferences continued to be possible on only a small percentage of the rum market after 2003, since tariff protection still existed for bulk rum below the price break (Dunlop, 1999). After 2003, any new preferences for ACP rum producers would have to be negotiated. ACP exporters of rum made it clear in their representations to the European government that they would be at a competitive disadvantage after 2003, when they would have to compete against larger, subsidized producers on equal terms above the agreed price break (Dunlop, 1999). The 1997 so-called “zero for zero” agreement on rum effectively signaled the end of the rum protocol.

The Integrated Development Programme

Many ACP rum producers became comfortable under the preferential blanket and this led to a high degree of export dependence and little or no economic diversification.

The rum sector of the ACP embarked on a transition out of preferences as a result of the "zero for zero" agreement. Caribbean governments gave immediate voice to these concerns and opened a dialogue with the EU on an appropriate policy response to the challenges which this unilateral EU action would give rise to (Goodison, 2010). The first objective of the various governments was to secure EU recognition of the negative effects the "zero for zero" agreement would have on the Caribbean rum industry. Caribbean governments also sought the EU's acceptance of the need for the provision of adjustment support in response to the policy changes. The objectives of the various governments were supported by the coordinated launch of parallel private sector advocacy (Goodison, 2010). The joint declaration on rum was developed in 1999 as a response to the concerns of the Caribbean grouping. The declaration states that the EU Community is prepared to provide sufficient funds to finance the ACP during the preparatory period. The declaration also states that the Community will assist ACP rum producers to meet environmental and waste management standards and other norms in the international markets including the Community market (Goodison, 2010). The Community will also assist the ACP rum industry to move out of bulk commodity production into the higher-value branded rum products.

In November 2001, the European Development Fund (EDF) Committee approved a four-year package of transitional support, referred to as The Integrated Development Programme for the Caribbean Rum Sector. The programme is a multifaceted project, providing co-financing for projects, technical expertise and specialized services to the ACP rum sector (WIRSPA, 2009). The integrated, sector-specific programme was developed to enhance the competitiveness of existing exporters of rum, assist in creation of rum marques or brands by ACP region or country, and enable marketing campaigns to be designed and implemented; it also strengthens industry associations (Goodison, 2010). The Caribbean rum sector has been the only country grouping to trigger this programme. The programme had a budget of €70 million from the European Union over a four-year period, which has since been extended to 2010. Of the total budget, €46 million was allocated towards a support scheme for co-financing of beneficiary projects (Goodison, 2010). The sector itself contributed €65 million of its own resources to co-finance investment in the areas mentioned in table 2 in the technical annex to this article (WIRSPA, 2009). The co-financing scheme reimbursed the agreed percentage of costs incurred by the sector upon submission of relevant documentation and proof that the activities had taken place (Goodison, 2010).

The most important element financially was the development of the Caribbean Rum Marque Programme (allocation €16.9 million), which aimed to support the establishment and use of an "Authentic Caribbean Rum" Marque,[1] which would provide the umbrella for the marketing and promotion activities of affiliated rum producers (Goodison, 2010). The marketing and promotion activities initiated under this programme and the associated “True Rum” campaign were seen as vital components in the development of a Caribbean brand. The creation of the Caribbean brand would not only increase the region’s competitiveness, it could also increase the region’s share of the global spirits market. The Caribbean Rum Marque was used as an umbrella marque which generated critical mass and allowed Caribbean rum producers to differentiate their product at a lower cost to the individual producer. In designing the rum marque programme, care was taken to leave commercial activities to individual companies; however, assistance was available under the programme to support the marketing efforts of individual companies (Goodison, 2010). Once the distribution and marketing window of the cost-sharing grant scheme was opened, each company was free to apply for support in line with their own priorities (Goodison, 2010). Equally, companies could request information services from the country marketing managers employed under the rum marque component of the programme (Goodison, 2010). However, while country marketing managers could facilitate contacts with distributors and even share benchmark information on the kind of deals which could be sought, considerable care was taken to ensure the country marketing managers did not get involved in commercial negotiations (Goodison, 2010).

The third and fourth elements of the programme, while financially less significant, can be seen as the foundations for the implementation of the programme. These consisted of programmes of institutional support (initial allocation €3.4 million) and technical assistance support (initial allocation €2.1 million) to the West Indies Rum and Spirits Producer Association[2] (Goodison, 2010). Without the necessary technical assistance and, perhaps more importantly, the substantial expansion of the core administrative capacity of the regional industry association and the engagement of additional administrative assistance, it is inconceivable that the programme could have been developed and implemented successfully (WIRSPA, 2008). This programme component transformed WIRSPA from a part-time secretariat into a full-time, efficiently managed secretariat which included a dedicated programme management unit. Even with this transformation in the scale and scope of the activities of the WIRSPA Secretariat it remained fully responsive and accountable to its members (Goodison, 2010). Staffing levels were progressively expanded in response to programme needs, including the temporary recruitment of accountancy services to deal with a large cluster of reimbursement claims.

The business development services window provided assistance to stakeholders in the drafting of business plans. This assistance contributed to raising the general standards of business management within the industry (Goodison, 2010). While business plan development support was probably the most useful contribution under the business development services window, it was by no means the only contribution (WIRSPA, 2008). Funding was also used to provide company-specific technical training, capacity-building support and technical-assistance support. The completion of a business plan was one of the prerequisites for attaining funding from the cost-sharing grant scheme. Initially, the business plan process was viewed as a necessary burden; however, this process enabled businesses to develop long-term visions that were directly linked to the day-to-day operations of the enterprise. In many respects therefore, it was the time invested in the development of thorough business plans that laid the foundations for the subsequent success achieved under other cost-sharing grant scheme windows (Goodison, 2010). The benefits gained through the development of proper business plans, particularly for small and medium-sized enterprises, were phenomenal. This suggests that proper funding of business development measures within cost-sharing grant schemes is essential; however, business development services need to be extended in close association with the industry institution that is conceptualizing and dynamising the restructuring and adjustment process (Goodison, 2010).

3.1. The Support Scheme in Action

The number of projects financed under the distribution and marketing (D&M) window totaled 26, with a grant value of €3.9 million in 2008; this represented a decrease of 39 projects when compared with the previous year (WIRSPA, 2008). During the period 2003 to 2008, 91 projects received and are receiving support from this window (WIRSPA, 2008). The European Development Fund's (EDF) requirements for documentation for the reimbursement of claims have discouraged companies from submitting applications for marketing projects under the D&M window. The types of financial documentation required by the EDF for reimbursements are stringent, and are at odds with the accounting systems that exist in the Caribbean (WIRSPA, 2008). This issue has been raised with the EU at the delegation level, with no conclusion reached. WIRSPA has provided assistance to beneficiaries in negotiating the claims procedures; beneficiaries have been encouraged to submit claims for payment at appropriate points in the life of each project, especially when the project has a long duration (WIRSPA, 2008). This strategy has allowed companies to collect documentation in a more manageable way and has aided in the management of their cash flow (WIRSPA, 2008). In the case of the programme management unit, the strategy allowed for easier processing and a smoother drawdown of programme funds (WIRSPA, 2008). The completed projects under the distribution and marketing window led to the development of new products and increased market access opportunities throughout Europe.

The business development services (BDS) window saw a decrease of 77.8 percent in the number of projects approved in 2008 when compared to 2007 (WIRSPA, 2008). The grant amounts in the BDS window for 2006 stood at €150,595 and continually trended downward to reach €6,891 in 2008 (WIRSPA, 2008). The decrease in the number of projects under the BDS window could be attributed to the fact that this window was mainly utilized for funding the development of business plans, a setup phase which no longer pertains. It also reflects the fact that beneficiaries have been focused on maximizing the utilization of the other windows (WIRSPA, 2008).

The modernization and capital investment (M-CI) window was actively utilized with the approval of 49 projects in 2008; this number represented an increase of 3.0 percent when compared with 2007 (WIRSPA, 2008). Several large projects were approved under this window, including the building and upgrading of distillers (WIRSPA, 2008). The funds allocated under this window were almost fully exhausted at the end of 2007; however, a rider was requested by WIRSPA to reallocate the unused funds from the D&M window to the M-CI window. The EU approved the rider and €9.8 million in grant funding was reallocated; this could not have been possible if flexibilities had not been built into the programme at the beginning. In the case of the waste treatment and environmental protection (WTEP) window, thirteen full-grant and two small-grant applications were approved, which amounted to €8.3 million in 2008 (WIRSPA, 2008). This compared with only four small grants and one full grant, amounting to a total of €552,485, in 2007 (WIRSPA, 2008). The rising cost of fossil fuels led to the dramatic increase in the submission of projects under the WTEP window; beneficaries were looking for alternative sources of energy, and therefore developed energy-saving projects which made up a significant portion of the projects approved in 2008 (WIRSPA, 2008).

The total value of grants and number of projects approved in the region for 2008 were €44.0 million and 347 respectively (WIRSPA, 2008). In terms of the value of grant approvals, the Dominican Republic topped the list with €10.5 million, followed by Barbados, Jamaica and Guyana with €9.2 million, €8.8 million and €7.5 million respectively (WIRSPA, 2008). In 2008, Guyana undertook several capital-intensive projects and moved from a grant total of €2.2 million in 2007 to a grant total of €7.5 million (WIRSPA, 2008) (see figure 2 in the technical annex to this article). Countries such as Dominica, Suriname and Grenada, which have only one or two producers, have also taken advantage of and benefited from this scheme (WIRSPA, 2008). The percentages of co-financing which were required by the scheme had an impact on the investment that small companies could take on at any one time; however, the number of projects submitted by small companies from various territories rose in 2008 (WIRSPA, 2008).

The provision of trade adjustment support was integral in transitioning the Caribbean rum industry from the lower-value end to the higher-value end of the global rum industry. The trade adjustment support aided in the modernization of distilleries, the development of new products and the development of proper business plans. Rising stars like Mount Gay, Cockspur, Appleton Estate and El Dorado have benefited from the programme and have been expanding their distribution throughout Europe.

Lessons to be Learnt

The availability of independent technical advice

In order to ensure industry ownership, the necessary technical assistance to efficiently implement the envisaged programme needs to be integrated with industry structures, while maintaining technical independence (Goodison, 2010). In the case of the rum programme, the long-term technical adviser was a full member of the WIRSPA team and formally reported to the CEO of WIRSPA. A database of short-term technical advisers ensured that companies could draw on external expertise in specific areas as needed at any time during the programme (Goodison, 2010). This provision of technical assistance transformed WIRSPA from a part-time secretariat to a full-time secretariat which was able to manage the Integrated Development Programme more effectively.

Building flexibilities into the allocation of funds

Flexibility in the allocation of funds between windows was essential so that programmes could be demand driven and beneficiaries would be able to shift funds around as needed. Under the Integrated Development Programme, delays occurred because reallocation of funds across different windows of the cost-sharing grant scheme was only possible after riders to the service contract had been prepared and approved by the EC (Goodison, 2010). The minimum allocations to each window should have been a certain percentage of the allocated funds (e.g., 60 percent), which would have allowed the remaining funds to be directed to the areas of greatest demand, without the delays associated with seeking a rider to the initial contract (Goodison, 2010). This type of flexibility should have been built into the design of the programme during the initial stages.

The Integrated Development Programme was a four-year transitional support programme which was created in 2001; however, an extension was sought due to the length of the gestation periods for different projects. In planning aid programmes, the gestation periods for different types of activities need to be taken into account, so as not to unnecessarily tie up funding. This is particularly important under annually financed programmes (e.g., the EU sugar protocol accompanying measures programme). The utilization of aid funds should be consistent with the aid practices of the Paris Declaration, which speaks to better ownership and alignment, better accountability, harmonization and capacity development.

Building support services into cost-sharing grant schemes or aid programmes

Establishing a facility to support the elaboration of business plans is an essential complementary measure to any cost-sharing grant scheme or aid programme targeting small and medium-sized enterprises (Goodison, 2010). The business development services window proved to be an essential element of the Integrated Development Programme in that it provided assistance to stakeholders in the development of business plans, a prerequisite for accessing funding from the cost-sharing grant scheme. Without such support, applications for EC co-financing would almost certainly have been submitted at a much slower rate and would probably have been more restricted to larger enterprises (Goodison, 2010).

Many developing countries often experience difficulties in accessing aid funds due to the burdensome application and reimbursement procedures. Early and effective information dissemination on how aid financing works is essential (on eligibility of firms, the activities which can be supported, application procedures and reimbursement procedures) (Goodison, 2010). Effective aid schemes should include facilities which would assist private or public enterprises in engaging with aid procedures. Of particular importance is the establishment of appropriate support services to assist eligible beneficiaries in documenting and submitting claims under the particular aid scheme (Goodison, 2010).

Providing sufficient time for the design and implementation of marketing and promotion activities

The cost of marketing and distributing a new product is high, especially for small and medium-sized businesses; therefore, the provision of funding for marketing activities is essential to any market-led trade and production adjustment scheme. Without effective support in this area, production adjustments can on their own yield little benefit (Goodison, 2010).

The timeframes for the implementation of marketing and promotion activities under any aid scheme should be responsive to changing market conditions and not the donors' aid procedures. The timeframes for the implementation of these activities may need to be longer than those allowed under current donor rules. Procedural rules may have to change in order to enhance the effectiveness of donor assistance in this critically important area.

Conclusion

The importance of trade adjustment support to the Caribbean rum industry cannot be underestimated. The funding and technical assistance which was provided reenergized the Caribbean rum industry and was integral in transitioning it from the lower-value end to the higher-value end of the global rum industry. The provision of trade adjustment support does not reduce the importance of strategic planning and visionary leadership. The formation of strategic alliances and the creation of unique rum flavours are important tools for increasing the region's market share in the global rum industry. The True Rum campaign has served as a vehicle in bringing the Caribbean brand to the world. The Authentic Caribbean Rum Programme has at the very least established in the minds of European consumers that all quality rums come from the Caribbean.

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Endnotes

1. The Authentic Caribbean Rum Marque is protected by trademark under intellectual property law in 45 different countries.
2. WIRSPA is an association of rum producers in the Caribbean. WIRSPA is based in Barbados and was initially set up to protect the interests of its members concerned with distilleries' exporting and marketing of rum. WIRSPA has recently taken on the role of developing Caribbean rum in international markets through the rum programme.