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# THE ROLE OF THE CARIBBEAN AGRICULTURAL TRADING COMPANY LIMITED (CATCO) IN THE DEVELOPMENT OF CARIBBEAN AGRICULTURE

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## Introduction

CATCO has its roots in the decision taken by the 12 Member Governments of CARICOM to establish the Caribbean Food Corporation (CFC) in 1976, with the mandate of reducing the ever-growing regional Food Import Bill. In February 1980 a resolution by the CFC Board of Governors stressed the need for a marketing unit to assist CARICOM countries in developing efficient marketing systems. In October 1980, the CFC Board of Directors' resolution further authorised:

*"The establishment of CFC marketing and trading corporation to organise and implement marketing activities ... The corporation to be located in Barbados ..."*

It was further decided that the agricultural marketing and trading subsidiary:

- should be managed under management contract by a suitably experienced regional organization skilled in agricultural trade;
- that the CFC would maintain a majority shareholding of 51 percent;
- that participation from national private sector organisations would be invited for the remaining 49 percent in line with the percentage national distribution of CFC shares.

The CFC asked Grace, Kennedy and Company Limited of 64 Harbour Street, Kingston, Jamaica, to accept the role as negotiator for the establishment of this trading subsidiary on behalf of the Region's private sector. Grace, Kennedy and Company Ltd., was approached because of its varied and successful experiences in many phases of agro-industrial, trading and shipping activities, regionally and extra-regionally. Grace, Kennedy and Company Ltd. accepted this role.

The company, Caribbean Agricultural Trading Company Limited was incorporated in Barbados on October 16, 1981.

## But Why a CATCO?

In the opinion of most farmers, businessmen, Government officials and technicians concerned with regional development, marketing has been the most serious constraint to agricultural development and food production in the Eastern Caribbean.

Given the existing demand for regionally produced food crops and the apparent capacity to sustain commercial production of many commodities, the failure to achieve a great degree of food self-sufficiency through expanded inter-regional trade is attributed primarily to the inadequate structure of the agricultural marketing system. A number of marketing short-comings have been identified including a lack of reliable market information, inadequate transport systems, poor market and storage facilities, lack of credit, and high spoilage caused by improper handling and packaging.

Past efforts to improve individual elements of the marketing system included expanding the physical facilities, improving information and improving the packing containers. But these have been ineffective in improving the overall performance of the marketing system. Likewise, various efforts on the part of governments to stimulate inter-regional trade by establishing marketing protocols have not succeeded, largely because they usually focused on one link of the marketing chain, whereas a resolution of the marketing problem required attention at each link.

But what are the problems associated with Caribbean agriculture which have led to this situation? The main ones are summarised below and their examination will explain why no single national entity has been able to effect a solution to the regional marketing problem.

#### *Insufficient Specialization and Geographic Dispersion*

Orderly marketing arrangements of Eastern Caribbean produce have been difficult to achieve due to geographic dispersion of the island states and the relatively small volumes of a wide variety of crops grown by the small farmer. The production of any given commodity is therefore likely to be scattered and the volumes available for sale in any one community or island are likely to be small. The effects due to non-specialisation and dispersion include:

- (a) farmers are not necessarily growing what is most appropriate on their soils;
- (b) markets tend to be under developed and not able to support the required specialized marketing services;
- (c) assembly of goods tends to be complicated and costly.

#### *Lack of Routine and Stable Supply Relationships*

An absence of coordination, or poorly organised markets, are frequently identified as marketing constraints in areas like the Eastern Caribbean which is dominated by small traders. Typically, little effort is made by these traders to perform the communications functions which link the farmers to existing or potential markets. Moreover, these traders do not anticipate market demand and do not offer contracts which link planting decisions with future market needs. Thus, the typical trader does not act as an agent for effective coordination and change in the production/distribution system. This means that most traders are not able to assure a stable and routine supply to market buyers, nor can they provide the stable market incentives required for farmers to sustain predictable levels of commercial production.

### High Transaction Costs

Given the current structure and practices of traditional marketing in the Eastern Caribbean, as outlined above, the cost associated with transacting purchases and sales is relatively high. Moreover, in a system characterized by a lack of standard weights, measures and grades, traders are forced to personally inspect each lot at every transaction point and negotiate a price depending on the results of each inspection. Because of the time required for each inspection, most traders are limited in the amount that can be personally inspected. This in turn requires a large number of low volume/high margin participants engaged at each link in the marketing chain.

### Physical Handling Costs

Inefficient work methods, congested markets, poor transportation and inadequate packaging contribute to high levels of spoilage and result in the high physical handling costs. Physical handling costs are also increased by the tradition of multiple inspections of small lots referred to above. As these problems are a basic feature of the existing system, it is difficult for small traders to individually overcome them.

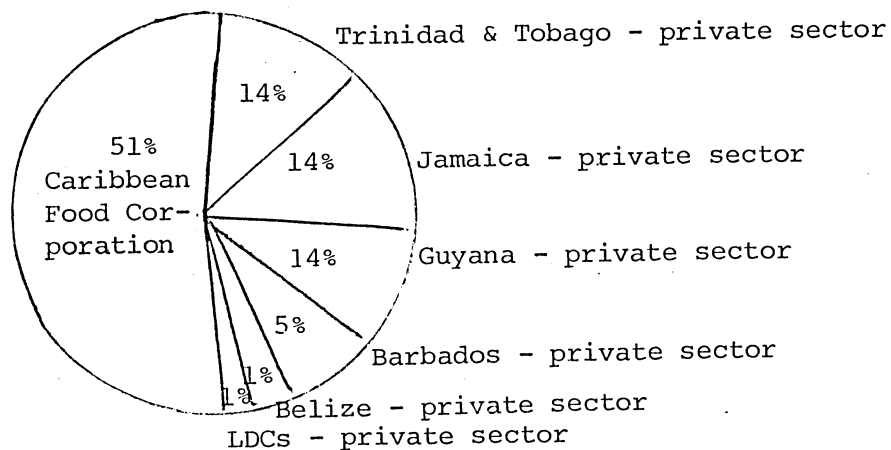
### Lack of Inventory (trading) Capital

Working capital to finance trading inventory for agricultural produce is typically not available from established credit institutions. Credit for perishable products is almost non-existent.

Yet, the credit most traders need is not for facilities, equipment or other fixed assets, but rather to cover the costs between produce production and sale. The fact that traders are expected to finance activities with equity capital clearly demonstrates why there is an absence of relatively larger volume trading companies. As a result, regional agricultural marketing is currently characterized by a larger number of small volume traders, known locally as hucksters. These traders engage typically in bilateral markets and rarely in multiple service markets. *Indeed, there is no trading firm that has a regional perspective, i.e., one that stays in touch with region wide supply and demand situations, and that is equipped with the resources to make a comprehensive approach to the problems involved in marketing regionally grown agricultural produce. This has been the reason for establishing CATCO.*

In keeping with the regional scope of CATCO's activities, its ownership is being spread over the CARICOM territories as is shown in the following diagram.

Fig. 1: Equity Structure of CATCO



## How will the Company Work?

The company goals as listed in its profile are as follows:

- (a) to reduce the region's Food Import Bill by expanding agricultural and agro-industrial trade of regionally-produced commodities;
- (b) to eventually provide a current, efficient and timely regional agricultural trade information service;
- (c) to develop a financially viable organisation.

Marketing opportunities for Caribbean agricultural commodities are threefold:

- (1) import substitution (i.e. satisfying existing demand with regional rather than extra-regional supplies);
- (2) expanding the current level of demand (i.e. increasing the level of demand for regionally produced items); and
- (3) expanding exports to existing extra-regional markets and/or opening-up new markets outside the Caribbean region.

### *Import Substitution for the Region*

CARICOM countries import an estimated Bds\$1,600 million of food and food products annually. Barbados alone imports about \$140 million, and even the small, predominantly agricultural countries have a significant Food Import Bill. St. Lucia, for example, imports more than Bds\$40 million annually. A large proportion of CARICOM food imports is undoubtedly accounted for by grains, red meats, and dairy products that are unlikely to be met by regional production. Nevertheless, most countries in the region also import significant volumes of fruits, vegetables, pulses, vegetable oil, and root crops that can be replaced or substituted with regional production.

Table A and the accompanying chart show the production and imports of selected produce for which there is good regional demand.

Of the three examples, CATCO would be likely to select onions and carrots as initial items to market rather than tomatoes, even though the tomato market demand is larger.

### *Expanding Regional Demand*

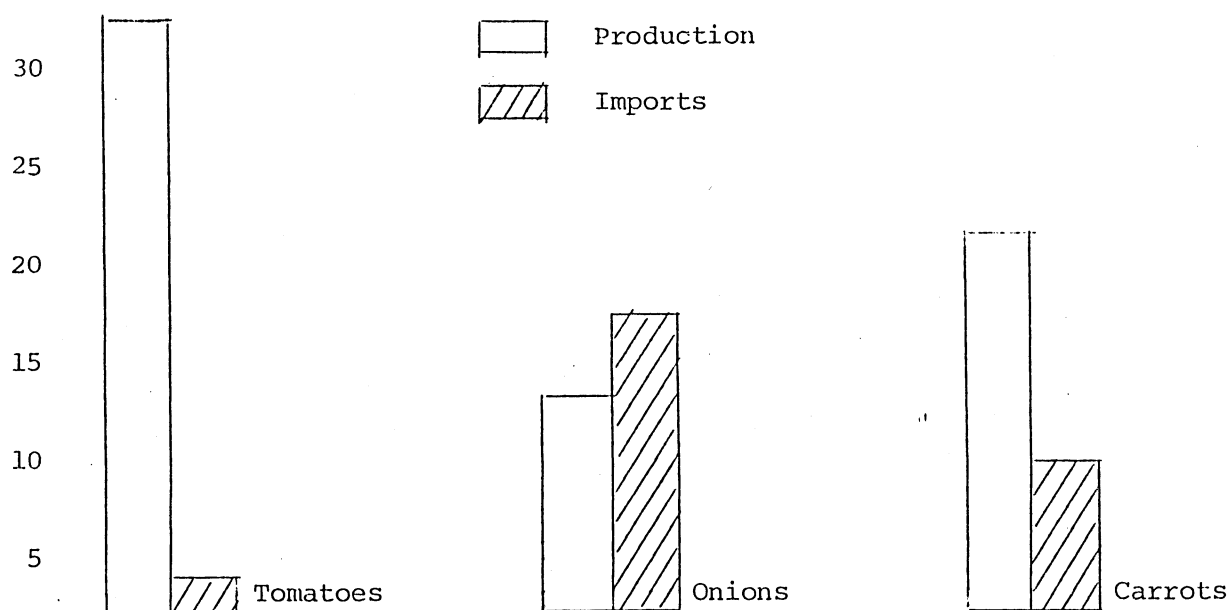
Consumers in countries which have a production rather than a market orientation, base their eating habits on the availability of specific commodities. However, if a wider range of commodities were regularly available by means of an improved marketing system, an increase in the regional demand for commodities locally produced is likely. A case in point is the regional banana market. In Barbados and Trinidad there is a relatively small but steady demand for imported bananas. Recent market studies, however, indicate that the market size could be substantially increased if a quality banana, processed through a ripening room, were regularly available.

### *Expanding and Finding New Extra-regional Markets*

The traditional extra-regional markets for CARICOM agricultural commodities are the European Economic Community, the U.S.A. and Canada.

Table A: Production and Imports of Three Vegetables, CARICOM Countries, 1978

<u>Vegetable</u>	<u>Production</u> (metric tons)	<u>Extra-Regional</u> (metric tons)
Carrots	11,183	3,756
Onions	7,477	9,711
Tomatoes	30,208	580



Source: Unpublished data, Mrs. Eve Richards De Castro, CARICOM Secretariat.

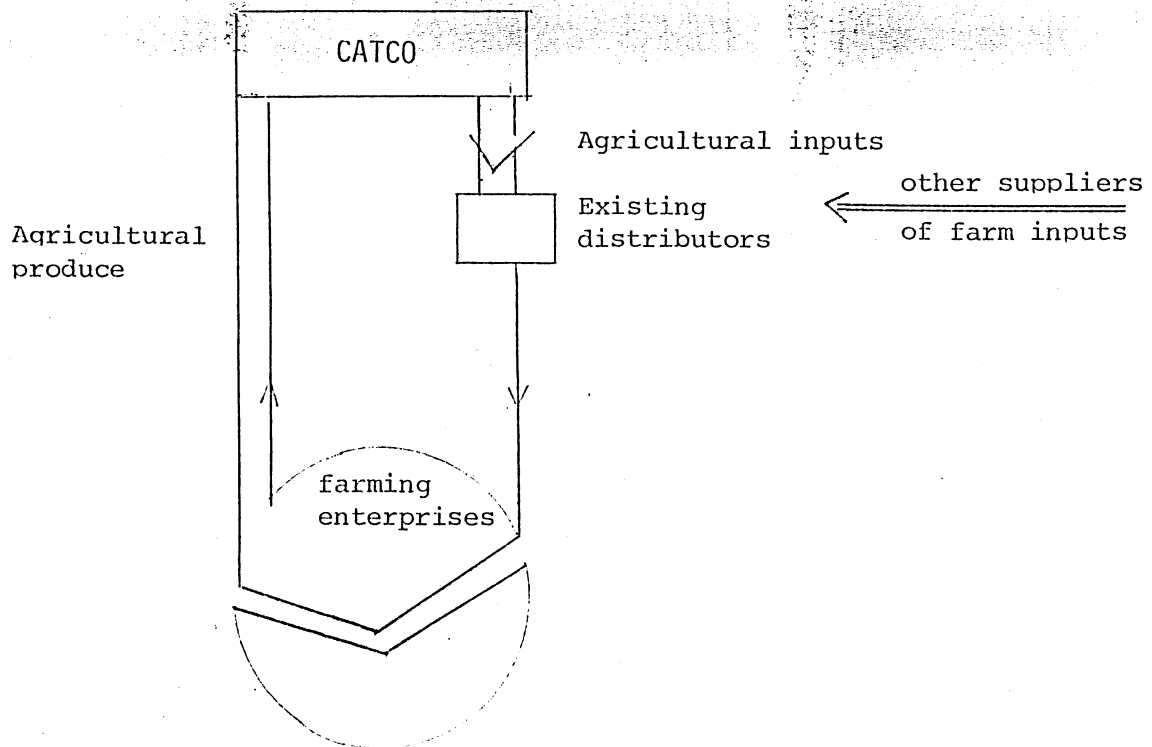
The market share of the existing exports to these markets is extremely small; only in the case of bananas exported to the United Kingdom does the market share exceed 1 percent. This is due to a variety of factors including the relatively high unit costs for average quality produce, stiff competition from other countries, and poor export market infrastructure in the Region. Nevertheless, there are extra regional market opportunities for selected items of CARICOM origin and CATCO will be identifying and exploiting these wherever possible.

The strategy used in structuring CATCO's operations is summarised in Table B.

The central theme running through CATCO's plant of trading operations, both in produce trade and that for farm supplies, is the concept of minimum disturbance to existing business; whether they are hucksters or farm supply distributors. CATCO plans to achieve this goal by:

- (1) planning regional production to displace some of the produce now imported from extra-regional sources and not marketed by hucksters, e.g. carrots from North America;
- (2) increasing regional consumption of locally grown foods currently going to waste, e.g. bananas and grapefruit;

Table B: The Basic Strategy



*Hurdles:*

Low level of farming technology used for fruits and vegetables limits ability of existing suppliers to capture reasonable segment of extra-regional import market.

Low availability of adequate transportation facilities for moving produce between the islands.

At present no coordination between production and marketing for most crops.

Market requirements for produce must determine selection of inputs, e.g. variety, type. Pesticide type and use, e.g. as specified by USEPA requirements.

Ultimate strategy must be seen to improve farmers' lot, while being least threatening to existing businesses.

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- (3) providing the farm inputs and support services of new varieties, better formulations of fertiliser, improved pesticides and on-farm technical support for farmers or farmer groups growing crops under contract for CATCO through existing, or if needed, new distributors.

CATCO is market oriented and its trade in produce will require first - identification of the market (variety, quality, packaging, frequency of supply, volume, etc.) then contracting with producers or producer organisations to meet these requirements. Indeed, in the import substitution segment of the regional market, a prime requirement is year round continuity of supply.

This is what the importers now get from extra-regional suppliers.

The strategy employed for marketing farm supplies has two broad objectives:

- (a) raising the level of technology used in farming in order to increase yields; and
- (b) demonstrating effective crop protection with the use of low mammalian toxicity pesticides.

If CATCO is to trade in substantial volumes of agricultural produce (most of which will be new off-season production since most surpluses currently tend to occur in all the islands at about the same time) for the regional market, or procure high quality produce for extra-regional markets, then the level of technology used in CARICOM agricultural production must be raised. Poor yields and quality for many crops grown in the Caribbean have been attributed to, among other things, old varieties, inadequate amounts of fertiliser and not enough attention paid to crop protection resulting in high losses both in field and after harvesting.

In many instances the low rate of use of farm supplies accounts for startling yield reductions, e.g. Windward Islands banana yields of approximately ten metric tons per acre as compared with 40 or 50 metric tons in Central America.

CATCO will identify and make available the improved varieties (especially in vegetables) needed for effective import substitution, along with the required formulations of fertilizer and crop protection pesticides, needed by farming groups growing these crops under contract for CATCO. Of course, since these supplies will be made available through regular distribution channels, they will be accessible to all members of the farming community.

Table C: Production Strategy for Regional Trade

Market Countries	Production Countries
<p><i>Vegetables and Pulses:</i></p> <ul style="list-style-type: none"> <li>- Replace extra regional supplies.</li> <li>- Varieties and seasonality of produce important.</li> </ul> <p><i>Fresh Fruit:</i></p> <ul style="list-style-type: none"> <li>- e.g. citrus, pineapples, etc.</li> <li>- market in countries unable to grow these.</li> <li>- Varieties and seasonality are critical.</li> </ul> <p><i>Staple Fruit:</i></p> <ul style="list-style-type: none"> <li>- e.g. bananas and plantains.</li> <li>- market in deficit countries on a year round basis.</li> </ul>	<ul style="list-style-type: none"> <li>- Caribbean countries with wet season production (light soils) advantage.</li> <li>- Caribbean countries with irrigation (dry season) production advantage.</li> <li>- Caribbean countries with fruit production potential.</li> <li>- Supply sources must be counter seasonal for year round supply.</li> <li>- Caribbean countries with production potential.</li> <li>- Volumes must be large enough to merit single or close related commodity shipments for best freight rates.</li> </ul>



## Who Will Benefit?

In achieving our goals of increasing agricultural production through the provision of better marketing opportunities, resulting in net additions to the present volume of intra-regional trade, CATCO's operations will be beneficial to a number of regional groups.

- (a) farmers will be the main beneficiaries since they would be required to increase production in order to meet CATCO's needs. In addition they would then be able to sell some items (bananas, grapefruit, etc.) which would otherwise be left to spoil;
- (b) hucksters - since CATCO will be contracting production of selected vegetables of specified quality to fill the import substitution market segment, grades not meeting this quality but from this increased production will be available for sale on the local markets, usually by hucksters;
- (c) retailers of produce, by having more regular supplies of quality fruits and vegetables and additions to their product range, e.g. ethylene ripened bananas, pineapples. etc. will not only be able to attract more store traffic and increase sales, but also when allied with lower spoilage rates because of better production methods and handling, etc. may be able to reduce average retail prices;
- (d) consumers will have access to a wider range of regularly supplied fruits and vegetables at reasonable prices, and in addition to improving their nutrition, will be able to enjoy more wholesome produce because of the reduced use of unsupervised highly toxic pesticides close to harvest time;
- (e) regional producers of inputs will have a company which will aggressively market their products throughout this region in preference to extra-regional supplies, e.g., say fertilizers, egg boxes and packaging material from Trinidad and gypsum from Jamaica.