

Executive brief

Product differentiation

1. Background and key issues

2. Latest developments

Multifaceted standards:
Private voluntary standards
(PVS) and labelling

Improving the functioning of
supply chains

General developments in
differentiated markets

Developments in the fair-
trade market component

Developments in the organic
market component

3. Implications for the ACP

Quality-based product
differentiation

Ensuring that non-exclusive
agricultural product quality
standards are developed

Developing the potential for
fair-trade production in ACP
countries

Developing the potential for
organic production in ACP
countries

Extending policy initiatives
on the functioning of supply
chains

1. Background and key issues

A number of market development trends are of growing importance to the ACP. These include:

- the further elaboration of the EU's agricultural product quality policy;
- the labelling policy associated with this policy;
- the expansion of private voluntary standards (PVS).

While PVS can facilitate access to premium priced markets, there are concerns that these price benefits can be eroded when PVS become the industry norm. Since the impact of PVS varies between different supply chains, it is difficult to make generalised conclusions. There is however a need to monitor impact on the distribution of costs and value along supply chains.

Issues related to the functioning of food supply chains within the EU have been a matter of intense policy debate since 2009. Issues to be addressed identified include:

- the need to identify 'unfair contractual practices stemming from asymmetries in bargaining power';
- the importance of monitoring 'potential abuses';
- the establishment of dedicated regulators/ombudsmen.

The EC maintains that inequalities in power relationships in some key sectors are acute, generating a need for transparent 'standard contracts'.

In each of these policy areas the integration of a comprehensive development dimension into EU policies is seen as essential in building a future for ACP exports beyond the lifetime of traditional trade preferences.

In the long term there is a growing convergence of EU and world market prices for undifferentiated products. ACP exporters therefore need increasingly to shift to serving quality-differentiated components of the EU market, or to focus on meeting the price challenge head-on by enhancing their competitiveness.

2. Latest developments

Multifaceted standards: Private voluntary standards (PVS) and labelling

The challenge for ACP exporters of food and agricultural products in meeting various sets of standards is multi-faceted. Some standards, such as sanitary and phytosanitary (SPS) and food safety standards, are preconditions for market access, while others, such as production method standards, could well emerge as preconditions for market access in the coming period. These issues are dealt with in the companion executive brief 'Market access'. However, it should be borne in mind that in some instances PVS go beyond public sector requirements in these areas and form part of efforts to differentiate products in a highly competitive marketplace. In addition, many of these dimensions overlap with each other. All require varying levels of certification, and this can become expensive, depending on how each scheme operates and the level of coordination between private voluntary schemes and public sector schemes. Nevertheless only PVS and labelling requirements will be reviewed in this brief.

There is considerable concern that private voluntary standards are now a critical issue in the commercial conditions under which ACP food and agricultural products are sold on EU markets. Particular concerns arise regarding the distribution of the costs of compliance with the various standards, and the price benefits of higher quality production along the supply chain. While in De-

cember 2010 the EU adopted a package of measures dealing with quality standards (see *Agritrade* article '[EC "quality package" tabled](#)', February 2011), none of the measures related to the regulatory framework for the establishment and operation of private voluntary standards. Currently the EC 'does not support legislation for private and national certification schemes' (see *Agritrade* article '[Communication on agricultural product quality policy released](#)', July 2009). The EC prefers to leave the design of operation of these schemes to the market via consumer choices exercised through the establishment of clear and meaningful labelling rules.

Similarly no attempt was made to promote greater coordination of PVS in the same sector (e.g. by mutual recognition of certification) or harmonisation of certification requirements of private voluntary standards with public standards. That being said, for certain products in certain member states, compliance with PVS is reducing the level of official inspections required (see *Agritrade* article '[Call for early action to ease controls on DR banana exports](#)', October 2010). There is thus some progress in this area at the operational level.

In March 2010 the European Parliament (EP) pointed out that securing the commercial value of quality production requires guarantees of the integrity of 'quality' labels, based on effective enforcement of respect for quality standards both within the EU and internationally. Against this background the EP supported an extension of 'country of origin' labels (known therefore as 'COOL' labelling), since these ensured 'full traceability and transparency' (see *Agritrade* article '[EP recognises commercial importance of quality labelling](#)', June 2010).

In June 2010 the EP backed proposals for mandatory labelling of meat, fish, poultry and dairy products, 'even when used as an ingredient in processed food'. It was explicitly stated that this was intended to 'allow consumers to favour products from their region and avoid long animal journeys'. It is in this context that 'country of origin labelling' for processed products is strongly supported by EU farmers' organisations. In the EU there is a growing recognition that 'food quality policy represents one of the responses to globalising markets'.

July 2010 saw the entry into force of 'new EU rules on organic food labelling, including the requirement to display the new EU organic logo'. Significantly these rules require 'compulsory indications of place of farming of the products'. EU farmers' and agri-cooperatives' organisation Copa-Cogeca welcomed the new EU rules, arguing that these labelling requirements will allow EU consumers to distinguish between EU and imported organic products. The president of Copa-Cogeca went on to argue that since 'imported products do not have to comply with the same production, standards that European organic products have to', there is a clear need for promotion programmes which focus on 'organic produce made in the EU' (for example, 'organic plus' private standards). Yet these private standards would not be subject to the same EU labelling requirements, and the possibility could then arise of systematic discrimination against imported EU products.

Alongside stricter EU labelling requirements, linked to a clearer definition of quality standards, EU producers can now be found seeking to exclusively equate EU products with quality production in order to secure price premiums.

Improving the functioning of supply chains

An important aspect of private voluntary standards is the impact they can have on the functioning of supply chains. Inequalities in power relationships along the supply chain can mean that the costs of compliance are borne by exporters, without any corresponding price benefits. In March 2011 the EU Council underlined the need 'to improve the functioning of the food supply chain' in order to 'reverse the steadily decreasing trend in farmers' share of the value-added generated by the food supply chain' (see *Agritrade* article '[Divisions highlighted at last chance for ministerial inputs to EC CAP proposals](#)', April 2011). The types of measure being considered include:

- ensuring transparent contracts;
- a more equal and transparent sharing of value between market players;
- the need to enhance the negotiating power of agricultural producers.

(See *Agritrade* article '[Functioning of the dairy supply chain discussed by stakeholders](#)', May 2010.)

In the EC's raw materials communication of February 2011, it had been recognised that policies on strengthening the functioning of agricultural supply chains could have a role at the international level in dealing with speculation and price volatility (see *Agritrade* article '[Agriculture speculation and the EC raw materials communication](#)', March 2011).

The policy discussions in the EU in 2009–10 on strengthening the functioning of supply chains would appear therefore to hold a wider relevance for ACP–EU trade, particularly in an era of deregulation of markets and erosion of the value of traditional trade preferences. This needs to be seen against the background

of calls from ACP exporters as early as May 2010 for the incorporation of a clear and comprehensive development dimension in evolving EU policies on strengthening the functioning of agricultural supply chains.

General developments in differentiated markets

There are many ways of differentiating products in the marketplace in order to secure price premiums. These range from sustainability initiatives, through organic and fair-trade production, to premium and quality-differentiated labels (e.g. Jamaica's Blue Mountain coffee, the 'Authentic Caribbean rum' label, Namibia's 'Nature's Reserve' meat product labelling) and geographical indications (Protected Designation of Origin). The most appropriate option will vary from product to product depending on the relative costs and benefits associated with, for example, the use of geographical indication protection as opposed to trademark protection. What cannot be disputed is that the commercial significance of these market components is increasing.

A 2010 review by the State of Sustainability Initiatives (SSI) project reported a 'steady to dramatic' increase in sales, with the increase in sales being 'faster than conventional markets'. It also revealed that producers were obtaining a wide range of price premiums for sustainably certified products, although only fair-trade products included explicit requirements on returns to producers. Significantly, however, the review noted that Latin American suppliers dominated most supply chains for products certified as sustainable, the only exception being the tea sector, where some 70% of certified teas were from Africa (see *Agritrade* article '[Trade in sustainable and organic products grows](#)', May 2011).

Developments in the fair-trade market component

A similar situation prevails in the narrower category of fair-trade products. The 2010 Fairtrade Labelling Organisation (FLO) annual report highlighted sales growth averaging 40% per annum for the past five years, largely based on growing industrial demand for raw materials certified as fairly traded in order to produce value-added 'fair-trade' products. However the report noted that African countries are only poorly integrated into this trade, with Latin American suppliers again dominating. Within the fair-trade movement there is a growing recognition of the need to do more to promote fair-trade production in Africa (see *Agritrade* article '[Africa lags behind in "fair trade" markets](#)', October 2010).

Looking beyond Africa, in the Caribbean where producer organisations played a role in developing demand for fair-trade bananas, it is now the big Latin American suppliers that are capitalising on this market. Clearly there is a substantial agenda for enhancing the participation of ACP suppliers in fair-trade markets.

The expansion of industrial use of fair-trade raw materials raises a number of significant policy challenges in the fair-trade sector. The most notable challenge relates to the risk of abuse of the reputation of the established fair-trade labels, if large-scale commercial companies (whether processors or multiple retailers) are seen as securing major commercial advantages from the expanded marketing of fair-trade products. Given the current policy discussions in the EU on the functioning of the EU food supply chains, and the ongoing elaboration of the EU's agricultural product quality policy, there would appear to be a potential role for EU policy guidelines in this area.

Developments in the organic market component

Despite the economic downturn, EU demand for organic products continues to grow, driven by supermarkets bringing organic consumption into the mainstream (see *Agritrade* article '[USDA review of EU27 organic market](#)', October 2010). The organic market is no longer a small niche market. According to EC analysts, 'retail spending on organic food averaged ... €14.4 billion a year in 2006 and 2007'. In the same period total EU imports of agricultural products from the ACP came to less than €9.2 billion. This EC analysis shows growth in EU demand for organic products outstripping domestic supplies, generating growing demand for imports (see *Agritrade* article '[The growth of EU organic markets](#)', September 2010).

The greatest potential for ACP exporters lies in the organic fruit and vegetable sector. Some ACP producers are already making the transition to organic production in response to the trade challenges faced, with banana production in the Dominican Republic leading the way. However the ability to make this transition assumes the development of capacities to meet increasingly strict quality standards and to implement increasingly sophisticated marketing strategies. The latter is essential in order to enable ACP producers to secure the benefits of price premiums, in the face of the increased costs associated with serving quality-differentiated EU markets (see *Agritrade* article '[Trade in sustainable and organic products grows](#)', May 2011).

The USDA analysis identifies two types of EU organic consumers:

- 'regular buyers', who have consumed organic products for decades and who mainly purchase through dedicated stores;

- 'light buyers', who have started consuming organic products for a variety of reasons and who mainly purchase via supermarkets.

- It is in the latter group where the greatest prospects of market growth lie. This is fortunate for ACP suppliers, since 'light buyers' are likely to be less susceptible to demands for 'organic plus' certification (e.g. 'organic + low carbon footprint +..' certification schemes).

The warning contained in the USDA analysis that the entry of 'unspecialised large retail chains' into the organic market may 'impact the organic price premiums' may be of longer-term policy significance. It raises important issues linked to the choice of routes to market made by ACP organic exporters, and associated issues related to the functioning of organic supply chains.

Africa has great unexploited potential for organic production, but faces a number of challenges in order to develop this potential. These include understanding and complying with regulations, establishing appropriate remunerative marketing channels, and accessing credit for production expansion. The 2010 Africa Trade Policy Centre report on Africa's organic potential called for:

- 'formulation of clear policies on organic agriculture', focusing on small-scale producers and on strengthening organic farmers' associations, including legal changes and supporting export logistics management;
- the establishment of National Organic Agriculture Committees including Government and stakeholders to provide policy guidance, including on production adjustment support measures for farmers;
- the 'expansion and broadening of the domestic market, including through the use of public procurement policies and programmes to build linkages between

producers, traders and consumers

- 'the establishment of local, transparent certification and inspection capacities.

(See *Agritrade* article '[Report highlights potential for developing organic market in African countries](#)', January 2011).

EU governments are already active in supporting access to organic certification in Africa. A joint German/FAO programme in West Africa is illustrative in this regard. Significantly, this programme has focused on 'all stages of the supply chain from production, harvesting and packaging to certification and marketing', with the programme also encouraging farmers to adopt a more proactive approach to production and trade adjustment processes (see *Agritrade* article '[Assisting farmers to secure organic certification yields results](#)', April 2010). This kind of integrated approach would appear to be essential in view of the range of challenges faced.

However such support needs to be rooted in clear and consistent government policies for the promotion of organic forms of agricultural production in ACP countries.

3. Implications for the ACP

Quality-based product differentiation

Assisting ACP producers to target 'luxury purchase' components of the EU market represents an important dimension of any policy to address preference erosion (e.g. the 'Integrated programme for the development of the Caribbean rum sector') (see *Agritrade* article '[Lessons from the Caribbean rum programme](#)', July 2010). However it should be noted that quality-based product differentiation schemes need to be adopted in close association with:

- assistance to ACP producers in improving their marketing strategies, to stay on top of changing consumer preferences and needs;
- the establishment of clear non-discriminatory labelling requirements to facilitate objective consumer choice;
- initiatives to strengthen the functioning of particular ACP–EU supply chains.

Without such initiatives, the danger is that other non-ACP suppliers or other players in the supply chains will secure the price benefits of quality-based product differentiation.

Ensuring that non-exclusive agricultural product quality standards are developed

When the EC speaks of its agricultural product quality policy encouraging consumers to pay a 'fair price' for quality-differentiated agricultural and food products, what it actually means is paying a higher price for EU-produced, quality-differentiated products. Against this background, the danger exists that the development of quality standards and associated labelling schemes could either exclude ACP suppliers from quality-differentiated components of the EU market (e.g. via an exclusive EU quality logo) or generate prohibitively expensive marketing costs. This needs to be avoided, given the potential commercial benefits ACP exporters can obtain from quality-differentiated products.

In this context a call has been made for the incorporation of a clear and comprehensive 'development dimension' into the EU's evolving policy on agricultural product quality standards (including in relation to labelling regulations), to ensure that EU agricultural product quality standards do not systematically discriminate against imported products which meet the same quality standards.

Developing the potential for fair-trade production in ACP countries

A number of priority areas can be identified in supporting the development of commercially attractive fair-trade production in ACP countries. These include:

- support to the organisation of producer groups and associated processes of fair-trade certification;
- support to the establishment of local certification agencies (most cost effectively at the regional level);
- capacity-building support in contract negotiations, given the inequalities within fair-trade supply chains following the entry of large commercial players to this market component;
- the establishment of a code of conduct or guidelines for fair-trade labelling, to ensure that producer organisations – in line with consumer expectations – secure the vast majority of the financial benefits from any price premiums paid for fair-trade products.

Once again, this potentially gives rise to a substantial 'aid for trade' agenda. It also of course throws up regulatory challenges for ACP governments.

Developing the potential for organic production in ACP countries

Despite the price premium to be gained from organic farming, the 2–3 year conversion and certification process can pose serious financial challenges to ACP producers, particularly smallholder farmers. This suggests a need for an expansion of 'aid for trade' support to unleash ACP potential for organic production.

The constraints identified in the Africa Trade Policy Centre report offer an excellent starting point for identifying priority needs. The constraint is likely to be in

identifying efficient organisational and institutional frameworks for the delivery of such assistance.

The assistance will need to include:

- support for farmers' organisations;
- measures to improve access to finance for farm conversion;
- support for local organic certification;
- support for information systems on market opportunities for organic producers (national, regionally and internationally); and
- support to building sustainable supply relationships.

Helping ACP organic exporters to strengthen their marketing capacities and develop sustainable supply relationships is particularly important in view of the inequalities that characterise ACP–EU supply chains, and the EC's warning that the entry of 'unspecialised large retail chains' into the organic market may 'impact the organic price premiums'. Without such action the danger exists that ACP exporters of organic products could lose out on those organic price premiums.

In addition, there would appear to be a need to ensure that the application of new organic labelling schemes does not lead to any commercial discrimination against organic products originating in ACP countries which comply with the same standards as EU organic producers. This reinforces the need to include a 'development dimension' in the EU policy on agricultural product quality labelling.

Extending policy initiatives on the functioning of supply chains

Concerns about the impact of increased price volatility on agricultural producers at a time of agricultural trade liberalisation have led the EU to develop policy measures to strengthen the functioning

of certain agricultural supply chains. The aim is to ensure that price volatility does not undermine the basis for agricultural production. These concerns are shared by many ACP governments across a wide range of sectors. Indeed, a number of ACP governments are implementing or examining measures to strengthen the functioning of specific supply chains. These range from the use

of import licensing to encourage local procurement in the horticulture sector in Namibia, through the promotion of contract farming in the cotton sector in Tanzania, to the introduction of statutory deposits for milling companies in the rice sector in Guyana.

Important issues related to the functioning of ACP–EU supply chains also arise in the

context of moves towards more market-based price formation within the EU (in the sugar and banana sectors, for example). In this context, targeted initiatives may well be appropriate to strengthen the functioning of supply chains where EU agricultural and trade policy reforms are transforming the market context. One such initiative could take the form of the formal integration of a development dimension into the evolving policy on strengthening the functioning of supply chains.

In addition there would appear to be scope for ACP–EU cooperation in strengthening the functioning of food supply chains serving domestic and regional ACP markets.

Main sources

General market developments

1. European Commission, Agriculture and rural development directorate website, archive of previous updates on the evolution of commodity and food price developments in the EU
http://ec.europa.eu/agriculture/analysis/markets/foodprices/archive_en.htm

2. OECD/FAO, 'OECD-FAO agricultural outlook 2010-19', 15 June 2010
<http://www.agri-outlook.org/dataoecd/13/13/45438527.pdf>

Commodity price speculation

3. EC, 'Tackling the challenges in commodity markets and on raw materials', Communication to EP, Council *et al.*, COM(2011) 25 final, 2 February 2011
http://ec.europa.eu/enterprise/policies/raw-materials/files/docs/communication_en.pdf

EU 'quality package'

4. EC, 'Quality package', Commission background note, MEMO/10/669, 10 December 2010
<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/10/669&format=HTML&agend=0&language=EN&guiLanguage=en>

5. EC, proposal for an EU regulation on agricultural product quality schemes, COM(2010) XXX final, 2010
http://ec.europa.eu/agriculture/quality/policy/quality-package-2010/com-2010-733_en.pdf

Trends in EU food and agricultural trade

6. Eurostat, 'Continued upswing in trade with ACP countries', *Statistics in Focus*, No. 85/2009
http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-09-085/EN/KS-SF-09-085-EN.PDF

7. Eurostat, 'EU-27 consistent world leader in trade of food and drink', *Statistics in Focus*, No. 78/2009
http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-09-078/EN/KS-SF-09-078-EN.PDF

Organic market developments

8. African Trade Policy Centre, Economic Commission for Africa, 'Scaling up organic agriculture and enhancing its foreign market access: Lessons learned from Eastern Africa', N. Ndugire, *Work in Progress* No. 80, 2010
<http://www.uneca.org/atpc/Work%20in%20progress/80.pdf>

9. USDA Foreign Agricultural Service, 'EU-27 Organic products market report', GAIN Report No. NL0022, 17 August 2010
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/EU-27%20Organic%20Products%20Market%20Report_The%20Hague_EU-27_8-17-2010.pdf



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.

It does this by providing access to information and knowledge, facilitating policy dialogue and strengthening the capacity of agricultural and rural development institutions and communities in ACP countries.

Technical Centre for Agricultural and Rural Cooperation (ACP–EU)

PO Box 380

6700 AJ Wageningen

The Netherlands

Tel: +31 (0) 317 467 100

E-mail: cta@cta.int - www.cta.int

.....
10. EC, 'An analysis of the EU organic sector', June 2010
http://ec.europa.eu/agriculture/analysis/markets/organic_2010_en.pdf

Sustainability initiatives

.....
11. IISD, IIED, Aidenvironment, UNCTAD and ENTWINED, 'The State of Sustainability Initiatives review 2010: Sustainability and transparency', November 2010
http://www.iisd.org/pdf/2010/ssi_sustainability_review_2010.pdf

.....
About this update

This brief was published in July 2011.
Other publications in this series and additional resources on ACP—EU agriculture and fisheries trade issues can be found online at <http://agritrade.cta.int/>