

AID-FOR-TRADE CASE STORY

ANTIGUA AND BARBUDA

The Caribbean Rum Programme: The Case of Antigua Distillers Ltd.

Date of Submission: February 2011

Region: Caribbean

Country: Antigua and Barbuda

Type: Project

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Executive Summary

The competitiveness of private sector companies is critical for countries, especially small island developing states, to benefit from market-access, and meet the challenges of increased competition resulting from freer trade.

The rum industry in the Caribbean and the rum trade in Antigua and Barbuda in particular have been in existence for centuries, and has been one of the primary indigenous industries from as early as the 1600s. It is also a significant non-services sector earner of foreign exchange and through its linkages with other sectors (e.g tourism industry) is a major contributor to the socio-economic landscape of the country.

Antigua Distillers Ltd (ADL) located in St. John's, the capital of Antigua, with a manufacturing facility located 2 miles away at the Deep Water Harbour, is the oldest manufacturing company in Antigua and Barbuda. The company was incorporated in 1933. The company is a distiller, blender and bottler of rums and other alcoholic beverages, and is also involved in bottling water, distribution of spirits and beverages and the rental of plantation lands. The company's main products are English Harbour Rums (aged and regular, dark and white), Cavalier Rums (local and regional markets), Nut Power & Kokocaribe Liqueurs, Cavalier Rum Punch, Wildman's Cordials and Oasis Bottled Water. Current markets include the Eastern Caribbean, England, Germany, Italy and Canada.

Antigua Distillers Ltd, as it was with other Caribbean producers in the industry faced challenges to their survival in the market. The 1996 removal of quotas on Africa, Caribbean and Pacific (ACP) Cariforum¹ Rum by the European Union (EU) allowed for rum producers to end their traditional dependence on the production of primarily commodity goods, and move towards higher value-added exports. This was a major and critical step forward for Caribbean Rum Producers to enhance the competitiveness and profitability of the Rum Industry.

This arrangement however was stymied by the European Union/United States of America agreement of the removal of duties on white spirits, which saw a complete opening of the EU Market for these products. However, due to the intervention, and lobbying efforts of Caribbean stakeholders an extension period before liberalization was granted, along with protection from other third country imports.

Four years of considerable negotiations resulted in 2002 with the West Indies Rum & Spirits Producers' Association Inc. (WIRSPA) undertaking the management of a major EU funded project to modernize and revitalize the rum industry in the ACP Caribbean. The agreed activities fell under four major categories:

- Modernisation and Capital Investment.
- Waste treatment and Environmental Protection
- Distribution and Marketing
- Business Development Services

The programme has provided co-financing for upgrading projects, technical expertise and specialized services to the ACP Caribbean rum sector and has stimulated investment of some €108 million by individual producers.

¹ CARIFORUM – the Caribbean Forum of ACP Countries is constituted of the Caribbean member of the Cotonou convention between the Africa, Caribbean and Pacific territories.

As a part of the Caribbean Rum Programme ADL received support towards plant modernisation, procuring equipment, training, and marketing and promotion. Growth in its export sales has been recognized by the company as a key element in its business development plan. The potential represented by major overseas markets has also been evaluated and target markets selected, and in 2000 ADL launched their products in the UK market. ADL also plans to increase sales in future years by building brand awareness and positioning each product to maximize appeal to identified target consumers, and to enter, and build distribution in the on-premise sector.

1. Issues Addressed

After centuries of primary production, the 1996 removal of quotas on ACP Cariforum Rum by the European Union (EU) allowed for rum producers to end their traditional dependence on the production of primarily commodity goods, and move towards higher value-added exports. This was seen as an opportunity for the Rum Sector within the Region to enhance both its competitiveness and profitability. The arrangement however was stymied by the European Union/United States of America agreement of the removal of duties on white spirits.

The Zero-for-Zero Agreement posed a severe threat to the very survival of the Caribbean rum sector, which was a significant contributor towards the economic growth of many Caribbean islands, and a major employer within the Region.

This necessitated for close collaboration between all stakeholder parties, and a concerted effort was made to have the EU recognize the negative impact of the agreement, and to propose ameliorative measures. The effort took form by way of the Integrated Development Programme for the Caribbean Rum Sector.

2. Objectives Pursued

The Objective of the Programme was to revolutionize the Rum Industry through support to:

- the upgrading and modernization of rum production
- the improvement of waste management and environmental protection

- the technical and management training
- the marketing and distribution of value-added rums
- the creation of a Caribbean Rum Marque
- the strengthening and deepening of the industry association

The Antigua and Barbuda operation specifically through programme assistance sought to meet needs related to:

- Upgrading Plant Facilities
- Procuring Equipment
- Human Resource Capacity Building -.
- Marketing and Promotion

3. Design and Implementation

The design and implementation of the Caribbean Rum Programme represents a novel, private sector driven, industry led approach to the execution of the EU funded project, where complete responsibility for the project was placed into the hands a private sector association - the West Indies Rum & Spirits Producers' Association Inc. (WIRSPA).

The Rum Programme was managed by WIRSPA in its day to day activities, through the Programme Management Unit (PMU). Specialist technical assistance was provided through advisers in production, waste treatment, marketing and business development.

A Steering Committee had the responsibility for overseeing programme implementation and for approving grant applications. The Committee was chaired by a representative of CARIFORUM.

The programme had a system of continuous ongoing monitoring, as well as being subject to mid-term evaluation and regular EDF (European Development Fund) audit.

4. Problems Encountered

The programme, though an overall success was not without shortcomings, and several problems materialized at various stages throughout the life of the project.

i. Timeframe and Funding:

- The timelines (the four-year timeframe) associated with the completion of project activities did not adequately provide for all needs to be met. A number of activities remain incomplete as a result of insufficient time in the execution of the project. The programme ended too soon, for ADL, the company did not receive waste treatment assistance, and still currently disposes of its spent wash by marine outfall, as approved by the National Solid Waste Management Authority, which makes regular checks of the BOD and plume of the outfall point. The company is also investigating new technologies such as ozonisation. However these have not proven to be effective yet for the sector, but are watched closely as current available technology such as biogas system are not feasible for such a small company.
- Certain goals within the marketing component were not met, and activities remain incomplete due to the lack of sufficient funding and the need for a longer time period for implementation, especially for small producers.

ii. Design and Implementation:

- The design and implementation of the project encountered some weakness especially in the area of the modernization window existed within the program. Therefore, companies like ADL, had to source financial assistance up to 50% from commercial banks up front, in order to access aid funds from EU. It must be noted that ADL was limited as a result of this arrangement since it had limited capital to source more funding from the

commercial bank; as a result it was difficult to access additional assistance through the project.

- The capacity for smaller distillery ADL to absorb the agreed funding of 70 million was in a sense too much of an ambitious target for smaller distilleries. Hence it is suggested that a mechanism be included in future agreements for smaller distillery to be able to participate effectively in these programs.

5. Factors for Success/Failure

- i. The project was clearly outlined and there was full accountability and transparency which prevented miss-use of funds allocated for the project.
- ii. The project was very well implemented. There was continuous dialogue and collaboration between ADL Ltd and WIRSPA, and ongoing technical assistance was received throughout the project life by way of, frequent visits by personnel of WIRSPA.
- iii. The expansion of the rum market was realized, along with increased and improved production capacity.
- iv. Flexibility of the EU was also critical. The consideration and granting of the extension request, especially for the ADL was a key factor in achieving a number of goals.

6. Results Achieved

The Caribbean Rum Programme has been a catalyst of meaningful change for ADL. The distillery was upgraded with Programme assistance and new bottling equipment and new process

equipment was purchased. These improvements have resulted in increased efficiency and have reduced the costs of production. Further investments in equipment are planned.

ADL faces very high costs of water and energy and in order to lower energy consumption it undertook an energy audit in order to identify realistic energy conservation measures.

Growth in its export sales has been recognized by the company as a key element in its business development plan. The potential represented by major overseas markets has been evaluated and target markets selected and in 2000 ADL launched their products in the UK market. The company currently has two marketing projects in the UK and Italy support by the Programme. In March 2007 they re-launched the English Harbour Rum brand with the assistance of the Programme.

In the area of human resource development the company has also approved applications to assist in training in its accounting practices, and in distance education in distillation. Individual producers have been able to take advantage of grants to train individual technical staff and groups, in-plant or at overseas institutions. Presently, there is no industry specific training available in the region, and WIRSPA continues to have discussions with regional tertiary level education facilities and with international providers of technical training with the objective of creating a mechanism to improve delivery of technical training and certification in the Caribbean

Key Achievements as per objectives pursued:

Modernisation and Capital Investment

- Distillery Upgrade
- Blending & Bottling Upgrade
- Purchase of an Air Compressor and Dryer
- IT Hardware Upgrade
- Purchase of a Transformer
- IT Infrastructure – Software

Distribution and Marketing Window

- Italy Marketing Plan
- U.K. Marketing Plan
- France Marketing Plan 2007
- Attendance to Rum Fest

Business Development Services Window

- Energy Audit
- Brewing & Distilling Course - Distance Learning
- Cost Accounting, consultancy and Training
- Market Research
- APICS Course – Distance Learning

**All project activities identified under this window have been completed.*

For the Region as a whole, the programme has produced tangible results. One of most important elements financially was the creation of the Rum Marque Programme, which aimed to support the establishment and use of an ‘Authentic Caribbean Rum’ Marque, which would provide the umbrella for the marketing and promotion activities of affiliated rum producers. The intention of this element of the programme was to expand the value and volume of branded high quality rum sales in the target markets, and it was proved highly successful in creating, and distinguishing the Caribbean as a unique and authentic brand. The Antigua Distillery, as a part of the industry has experienced the redounding benefits of the Rum Marque.

7. Lessons Learned

The Caribbean Rum Programme offers a number of lessons. Certain concrete points can be drawn from the experience. These lessons prove important for industry, governments and regional institutions.

- i. The importance of industry leaders within the affected sector having clearly articulated needs and priorities for the sector is essential. This proved an asset in the execution of this programme where a clear vision was developed of the challenges faced and the appropriate response required to meet these challenges.
- ii. Another important lesson learnt that there is an important role for governments to play, which is the role of facilitator rather than driver of production and trade adjustment.
- iii. Having the management of the programme based in a respected, representative accountable and efficiently managed industry association was of central importance in order to gain and maintain the confidence of all affected stakeholders.
- iv. Public/private sector partnership is important for success. Ensuring a continuous dialogue between all stakeholders (private sector enterprises, trade unions, governments, and regional authorities) in order to ensure the smooth and effective implementation of the overall programme.
- v. Issues related to co-financing should be at a adequate level to promote and build confidence in risk taking and a practical response to trade adjustment challenges.
- vi. Flexibility mechanisms are important and should be built into programme designs, which will aid in the efficient and effective meeting of objectives pursued.

The management of ADL believed that one of the issues of major concern and lesson learnt was the capacity to handle the project on its own. The distillery expressed there was need for more

technical assistance in the area of in house supervision; identifying the project, documentation and building capacity.

8. Conclusion

The Caribbean Rum Programme has proved to be an exemplary model of an explicitly market led and private sector based project. Major success elements, and lessons learnt have been as a result of maintained advocacy, and industry leadership, where leaders had a clear understanding of the existing challenges, and the scope for the policy and programme response required. The use of an accountable body, in which all operational responsibility, and implementation was located further added to the to the confidence building of all stakeholders involved.

The design and implementation; continuous stakeholder dialogue, and flexibility mechanisms all contributed significantly to the realization of objectives. All these elements played integral roles in the execution of this project, and can be applied towards the success of future projects.

ADL Ltd as a small producer has recognized the importance of these elements in their experience with the Caribbean Rum Programme, and has credited these factors with the achievements realized. ADL was able to access and receive assistance as result of the programme which it may not have otherwise enjoyed outside of this arrangement, thus, creating for this company, avenues for enhancing competitiveness, profitability, and establishing firm brand recognition in the market.

References

www.wirspa.com