"Experiences of the Private Sector in Investment Promotion and Facilitation in the Region"

**Introduction**

Firstly, I wish to thank the organisers of this Investment Seminar for inviting me to share our experiences as we work diligently to create an internationally competitive business based on adding value to indigenous agricultural raw materials.

You are well aware that the main business of the group that I am associated with is that of rum production, utilising molasses a by-product of the sugar industry as the main raw material. What is not well known is that over the years we have used our knowledge and expertise in processing, packaging and marketing to diversify into other products using fruits produced by local farmers.

Over the last 40 years, we have been processing and preserving local fruits to produce Fruit Mix used for baking, replacing imported raisons and currents previously used.

More recently, over the last 20 years we became involved in the manufacturing of fruit juices from local fruits after we purchased a start-up operation that had outgrown the capacity of its founder. 10 years ago, we invested in a TetraPak packaging plant producing juice drinks for the domestic market from locally produced fruits.

But our rum business is by far the most developed, and today, I want to draw on our experiences in this area primarily in my presentation which I will divide in three parts -

(i) Experiences in developing an international market for our rum

(ii) Some general trends in today's international Market Place

(iii) Some ideas to develop Caribbean Agricultural Products.
Developing an International Market for Rum

Rum is a traditional product of the Caribbean, evolving out of the Sugar Industry utilising its by-product molasses as its main raw material. (I must recognise here that the French Islands produce rum from sugar cane juice and described as Rhum Agricole). Originally, rum (like sugar) was sold and exported in commodity bulk form to European traders who then sell on to bottlers that supply various markets, not the least of which was the British Navy for their customary daily ration of 'rum tot' serve to the men while at sea, a practice that continued for more than 200 years until it was abolished on 31st July 1970.

When Britain join the European Union in the 1970's the Rum Protocol under the Lome' Convention negotiated between the EU and the ACP countries allowed for duty free access of rum to the EU market for an annual Import Quota, (sugar had an Export Quota), and unlike sugar, there was no guarantee price for rum. Hence rum producers in the Caribbean competed against each other for their share of the market.

Towards the end of the 20th century, with the WTO agreement in place, the Lome' Convention had to come to an end and the European Union provided a sum of money (Euro 70m) modernisation of the Caribbean Rum Industry under the Contonou Agreement. There is no doubt in my mind that this assistance has been of significant help to the industry.

In the meantime, rum producers in the region, in anticipation of the change in trading arrangements started to develop their brand rums on the regional and international markets. But there were a number of major challenges -

(i) The huge cost of brand building, especially in the light of major subsidies by the USA through the Governments of Puerto Rican and US Virgin Island to their producers. Even up to this day, more than 80% of rum imported to USA come from these islands, and trade statistics show that the USA is the largest exporter of rum to Canada and the European Union.

(ii) Internationally, rum was viewed as the cheapest of alcoholic beverage - margins were tight and there were little or no profits for brand building.

Against the background of this scenario, we decided to adopt a completely different approach to the market. We utilised the many barrels of unsold rum stored in our warehouses for many years to create a portfolio of aged rums under our Eldorado Brand, with newly designed upscale packaging and position it in the top end of the spirits market. It was a novel approach at that time. We met a lot of resistance in the market as rum was not known to be an expensive drink. No US importer was interested forcing us to establish our own import company in the 1990's to access that market, and had it licensed as an importer of wines and spirits under the ATF regulations. It was a very slow start, and an uphill task to carve a niche in the market, but when our Eldorado 15 year old Rum was adjudged "Best Rum in the World" for three consecutive years at the International
Wines and Spirits Competition, things started to change. We had a bench-mark and a reference point that our brand advocates used exhaustively in the brand message. This was the birth of a new segment in the international rum market - the 'Sipping Rums' as distinct from the 'Mixing Rums'! New horizons were opened and the premium and super-premium segments of the market was born.

To demonstrate my point about the attitude to rum versus other spirits, I wish to make reference to the an article in the Forbes magazine of 19th May 2016. The article is captioned "Is High End Rum the new Whisky"! I wondered whatever happen to low-end whisky!

The fact of the matter is that we would have never succeeded had we tried to position our brand in existing segments of the rum market. There was no room for a new brand in those segments, and we would have had no margins to invest in brand building and would have been doomed to failure! Understanding international markets is key in the development of Caribbean Agriculture Products. The creation of Caribbean brands and their correct "positioning" on international markets are important elements for sustainability. The most successful marketing strategies are based on effective differentiation of your brand from that of others. And finally, find the right brand message and the best way to tell it to the right persons and for the targeted consumer to find it when he goes to buy it.

Some general Trends in today's International Market Place

The domestic markets in the Caribbean are relatively very small. Any significant investment in agriculture or agri-processing must target International markets if it to be feasible. But the markets of the developed world are very dynamic and diverse. In recent years there have been a number of new but important trends that is driving some of the changes that can be of interest to producers in the Caribbean

(a) The Millennial factor - The Millennials (those born in the last two decades of the 20th century) are challenging and changing established patterns of political, cultural and social behaviour. Pew Research found that 20% of Millennials in the USA have at least one immigrant parent. They are confident and have a feeling of entitlement and only 19% say that, generally, others can be trusted. These are the consumers of tomorrow.

(b) The greater use of Social Media Marketing reduces the cost of reaching the target demographic distinct from traditional media.

(c) Unique offerings such as 'Small Batch' and 'Hand Made', 'Organic' and 'Fair Trade' have become attractive and profitable offerings in today's market. Special chains have been developed to target these consumers, such a Whole Foods in the USA and Eataly in Italy.

(d) 'Craft Products' Perhaps the Beer industry is a classic example of how popular 'Craft' products have become. It is now estimated that there are some 4,000 craft
breweries in the USA at a time when the large beer brands are consolidating to remain viable.

(e) **Product Knowledge** - Today's consumers are more educated and informed and therefore they want to know more about the products they consume. They are curious to know where and how it is grown or made, why is one brand different from the other.

(f) **Premiumisation** - In alcoholic beverage market there has been a very significant movement towards buying less but buying more premium. In many segments of the market, while the high end products are growing, the standard is static or declining.

In my view all of these trends are favourable to small scale producers and present an opportunity to Caribbean producers if there is a strategic approach to the development of particular products or sectors.

**Some Ideas for the Development of Caribbean Agricultural Products**

In addressing the third and most important part of my presentation, one has to reflect on where, we as a region, have taken our agriculture sector since we became independent about half a century ago. Have we progressed or have we regressed? I do not have the data to determine if agriculture as a percentage of GDP has increased or decreased! But if I am to hazard a guess, I would want to think that agriculture and agriculture based manufacturing is now a significantly lower percentage of GDP than 50 years ago.

A US entrepreneur and author, Chris Anderson, writing in his 2012 book: MAKERS The New Industrial Revolution, argues "Any country, if it wants to stay strong, must have a manufacturing base. Even today, about a quarter of the US economy consists of the manufacturing of physical goods. When you include their distribution and sale in the retail outlets, you're talking about closer to three-quarters of the economy. A service economy is all well and good, but eliminate manufacturing and you're a nation of bankers, burger flippers and tour guides. Software and information industries get all the press, but they employ just a small percentage of the population."

I believe that if we are to produce physical goods by growing them, and either sell them fresh or processed and/or packaged then we need to do things differently from the way we did it in the past. We have to encourage innovation and entrepreneurship, but the role of the state may have to be re-examined and changed.

In this regard I found quite interesting the views expressed in the Introduction of her 2015 book 'The Entrepreneurial State', by Professor Mariana Mazzucato, who holds the RM Phillips Chair in the Economics of Innovation at the Science Policy Research Unit at the University of Sussex wrote "Across the globe, countries, including in the developing world, look to emulate the success of the US economy. In doing so, they look at the power of 'market-driven' mechanisms, versus what might seem like old-style, State-driven mechanisms in places like Europe or the ex-Soviet Union. But the United States is not what it seems. The preacher of the small State, free-market doctrine has for
decades been directing large public investment programs in technology and innovation that underlie its past and current economic success. From the internet to biotech and even shale gas, the US State has been the key driver of the innovation-led growth - willing to invest in the most uncertain phase of the innovation cycle and let business hop on for the easier ride down the way. If the rest of the world wants to emulate the US model they should do as the United States actually did, not as it says it did: more State not less. A key part of the lesson should be to learn how to organise, direct and evaluate State investments, so that they can be strategic, flexible and mission-oriented. Only in this way will top minds find it an 'honour' to work for the State."

I wish to make a few suggestions on areas that require attention to create a more innovative and entrepreneurial environment for the development of agriculture and indigenous agriculture based products. In the first phase the goal must be to create a greater market in the region itself for products produce from regional agricultural produce as a first step to getting into foreign markets. Unless Caribbean agriculture products are widely and readily available across the region it will be difficult to get acceptance in export markets.

(1) The education system - changes should be made to the education system to incorporate more practical on the job exposure to students at the secondary and tertiary levels. Practical work should be supervised, evaluated and incorporated in the overall results of the students. Apart from allowing opportunities to apply theory to practice, this experience will trigger business ideas that enterprising students can later embark upon.

(2) Trade Mark Registration - consideration should be given to creating a mechanism for a single registration of indigenous brand names for the entire region rather than entrepreneurs having to register in each individual territory. Apart from being less costly and more convenient, it will also encourage the creation of new brands in the region and expand intra-Caribbean trade. As an example, it should be noted that in Europe, under the Madrid Treaty, a brand can get registration in more than 50 country with one single registration application.

(3) There is the need for Differentiation of products made from regional agricultural inputs versus imported agricultural inputs, and educate regional consumers to differentiate the two. For example, a regionally-produced juice drink made exclusively with regional produced fruits should have on its package a particular symbol and/or description to distinguish it from a regionally packaged juice drink from imported non-regional concentrates. In this way Caribbean consumers are empowered to choose and spend better on products that are in their best economic interest. The economic value of Consumer Packaged Goods made in the region from regionally produced inputs is of much greater than those made in the region from imported input, and a way must be found to communicate and make the differentiation to consumers. We must put the consumers in the region in a position to make the choice and we must educate them to make wise choices.
(4) **Origin** - Opportunities greater use of Origin under GI legislation should be fully explored and exploited.

(5) **Consumer Education** - Governments and the Region should embark on extensive public education of consumers in the region on healthy lifestyles many of which can be supported by fresh products produced in the region.

(6) **Marketing** - Governments must support the creation of new markets, including cross marketing with other sectors such as the Tourism sector. as Professor Mazzucato pointed out in her book "Getting governments to think big about innovation is not just about throwing more taxpayer money at more activities. It requires fundamentally reconsidering the traditional role of the State in the economy."

I am well aware that these measures will take time and require much consideration by trade and legal experts in trade matters, but I know it can be done. It requires strategic focus, and a determination to act. Doing nothing should not an option!

Thank you for your attention during my presentation.