BARBADOS PRIVATE SECTOR ASSOCIATION

BARBADOS PRIVATE SECTOR TRADE TEAM
A DIVISION OF THE BARBADOS PRIVATE SECTOR ASSOCIATION

EXPORTING TO THE EU

EXPORT GUIDE & ACTION PLAN

BEVERAGES

IDB

MIF
Multilateral Investment Fund
Member of the IDB Group

Contents

INTRODUCTION 4
BACKGROUND 5
Standards and technical regulations *5*
The CARIFORUM EPA in Brief *6*
Understanding Market Requirements *6*
Definitions *7*
OVERVIEW OF THE EUROPEAN DRINKS INDUSTRY 8
Market and Growth forecast *8*
Market Segmentation *9*
Domestic production of milk and dairy products under the EU CAP *9*
HIGH POTENTIAL PRODUCT SEGMENTS IN THE EU 10
Energy drinks *10*
Soft drinks and juices *10*
Catering and Foodservice *11*
Own/ Private Labels *11*
CRITICAL SUCCESS FACTORS IN DEVELOPING EXPORT INDUSTRIES IN NON-ALCOHOLIC BEVERAGES 11
SITUATIONAL ANALYSIS: THE BEVERAGES SECTOR IN BARBADOS 12
Barbados Exports of Beverages *14*
Strengths, Weaknesses, Opportunities, Threats (SWOT) Analysis *16*
GUIDE TO EXPORTING TO THE EU: BASIC REFERENCES FOR EXPORTERS 17
The Beverage Value Chain *17*
New Beverage Formulations and Product Development *17*
Technology *18*
Packaging and Labelling *18*
Production *19*
Assessing Export Readiness *19*
Targeting Buyers through Promotion *19*
Logistics and Distribution *20*
EXPORT DEVELOPMENT STRATEGY AND ACTION PLAN 21
Objectives of the Strategic Export Development Initiative to the EU *21*

Rationale *21*

Methodology and Approach to implementation *21*

Scope of Activities to be Undertaken *22*

Action Plan and Timeframe *23*

REFERENCES 24

INTRODUCTION

This export guide and action plan is one of a series of deliverables from the project *Building Private Sector Capacity to Increase Exports* sponsored by the Barbados Private Sector Association (BPSA), through the support of the Inter-American Development Bank (IDB). As the project title suggests, it is intended to elaborate possible opportunities for building export capacity among Barbadian producers to access the EU market, within the context of the Economic Partnership Agreement (EPA). Based on five months of extensive secondary research conducted in 2012, as well as consultations with Barbados based stakeholders and the Project Steering Committee, which is comprised of leading private sector associations, the research is part of a series of four projects that will strengthen the BPSA in its role as a key participant in public policy debates affecting private sector development; while increasing awareness of changes and challenges that confront the sector.

The purpose of this report is to propose an export guide and action plan for the enhanced positioning of the Barbadian beverage sector within the European Union (EU), in order to take advantage of the new market access opportunities created by the Economic Partnership Agreement (EPA). The EU is a unique economic and political partnership between 27 countries. Operating as a single market, the EU is a major world trading power with an estimated GDP of €12,268,387 million in 2010.[1] With just 7% of the world's population, the EU's trade with the rest of the world accounts for around 20% of global exports and imports. The EU is the world's biggest exporter and the second-biggest importer. Approximately two thirds of EU countries' total trade is done with other EU countries. The United States is its most important trading partner, followed by China. The EPA is a unique agreement which positions both the CARIFORUM and EU countries to benefit from special terms of trade, ultimately on a reciprocal basis, including duty free and quota free market access. The agreement has implications for the possibilities for sourcing of inputs as well as market penetration of goods and services and attraction of foreign direct investment by both parties.

This export guide and action plan begins with this introduction and a brief background to the plan's context; including an overview of the EU regulatory environment, market requirements and definitions for a beverage as well as a brief summary of the CARIFORUM EPA. This is followed by an overview of the EU drinks industry focused on market conditions. High potential segments identified through the earlier research are indicated, as well as critical success factors for developing export industries in non-alcoholic beverages. A situational analysis of the beverage sector in Barbados, including a SWOT Analysis in relation to developing exports to the EU based on consultation with local stakeholders precedes an outline of some references to assist exporters in developing their value chains. The report concludes with a proposal for an export development strategy and action plan to address the current gaps in building the sector's capacity to export to the EU. The export guide and action plan is not intended as a substitute for legal or marketing advice and no liability will be assumed by the BPSA or its authors arising from the use or interpretation of the information contained herein.

[1] http://europa.eu/about-eu/facts-figures/economy/index_en.htm

BACKGROUND

This action plan is based on a sector study completed earlier with a special focus on the market prospects for Barbadian producers in the EU 27; including an assessment of the value chain for non-alcoholic beverages and the market opportunities and market access requirements for these products. The research outcomes formed the basis of a focus group discussion with stakeholders, which was vital to the completion of the proposed action plan. The major focus of the earlier sector study and consultations was the compilation of technical regulations which Barbadian exporters are required to meet in exploring their potential to export to the 27 member states of the EU. EU market requirements can be legal requirements or non-legal requirements. Legal requirements, otherwise known as technical regulations are trending towards harmonization across EU states and represent the minimum requirements that products marketed in the EU must meet. Products that fail to meet these requirements are not allowed on the EU market. Non-legal requirements offer buyers and producers various options in the form of standards and may have varying preferred status across countries. Non-legal requirements go beyond legislation, as companies (buyers) can go further in their requirements than legislation. The main categories of additional requirements are environmental requirements and social (labour) requirements.

Standards and technical regulations

The difference between a standard and a technical regulation therefore lies in the issue of compliance. While conformity with standards is voluntary, technical regulations are by nature mandatory. While the research focused on harmonized mandatory regulations enshrined in legislation and immediately pending future legislation, exporters are advised that additional national legislation and specific buyer requirements for particular marketing channels may also apply.

There is an abundance of EU legislation which could potentially affect food and beverage products seeking entry to Europe Many producers view these legislative hurdles and technical standards as technical barriers to trade. However, these regulations are imposed equally on EU producers and it is also possible to make the case for the need for these market requirements in order to regulate the protection of consumers and the environment from potential dangers. At the very least, where Barbadian producers are interested in positioning themselves to take advantage of the potential market opportunities, they will have to familiarize themselves with these market requirements in order to engage European buyers in dialogue. The significant responsibilities which buyers hold under European law and the high levels of accountability to which they are held are an important feature of the market requirements. This means that engaging buyers in early dialogue provides the basis for successful market entry and future collaboration. The EU business environment is very dynamic and responsive to both the high levels of advocacy and lobby on the part of its producers and also the general welfare of its citizens. Legislative changes are ongoing. Exporters are therefore advised to remain in close communication with potential buyers on all issues pertaining to prospective market entry.

The CARIFORUM EPA in Brief

At the end of 2007, the first comprehensive Economic Partnership Agreement (EPA) was agreed through various rounds of discussion, consultation and negotiation between the EU and CARIFORUM (Caribbean Forum of ACP States, comprising CARICOM plus the Dominican Republic). The EPA is a successor, reciprocal trading agreement which replaced the long standing unilateral preferential access to European markets enabled by the Cotonou Agreement with ACP countries. The EPA Agreement was signed in October 2008 and is provisionally applied as from 29 December 2008. In addition to the reciprocal relationship, the EPA modernizes the provisions for trade and development, by the inclusion of provisions aimed at boosting goods trade, as well as trade in services; investment; intellectual property and a wide range of other trade-related areas. Sustainable development and regional integration are major themes running through the agreement, which includes development cooperation provisions. The EPA also establishes new joint oversight bodies for the implementation of the agreement and provides for ongoing monitoring and review. As of the 12 of June 2012, 4 out of 15 CARIFORUM countries and 10 out of 17 EU countries have ratified the agreement, enshrining the provisions in national legislation. The agreement will continue to be provisionally applied until ratification is complete. In principle, effective January 1, 2008, the EU has liberalized market access for most beverage products through the EPA. Duty-free and quota free (DFQF) access is provided for 98% of trade in goods and 94% of trade in services immediately, as of the effective date of January 1, 2008 (CAPRI, 2009).[2]

Understanding Market Requirements

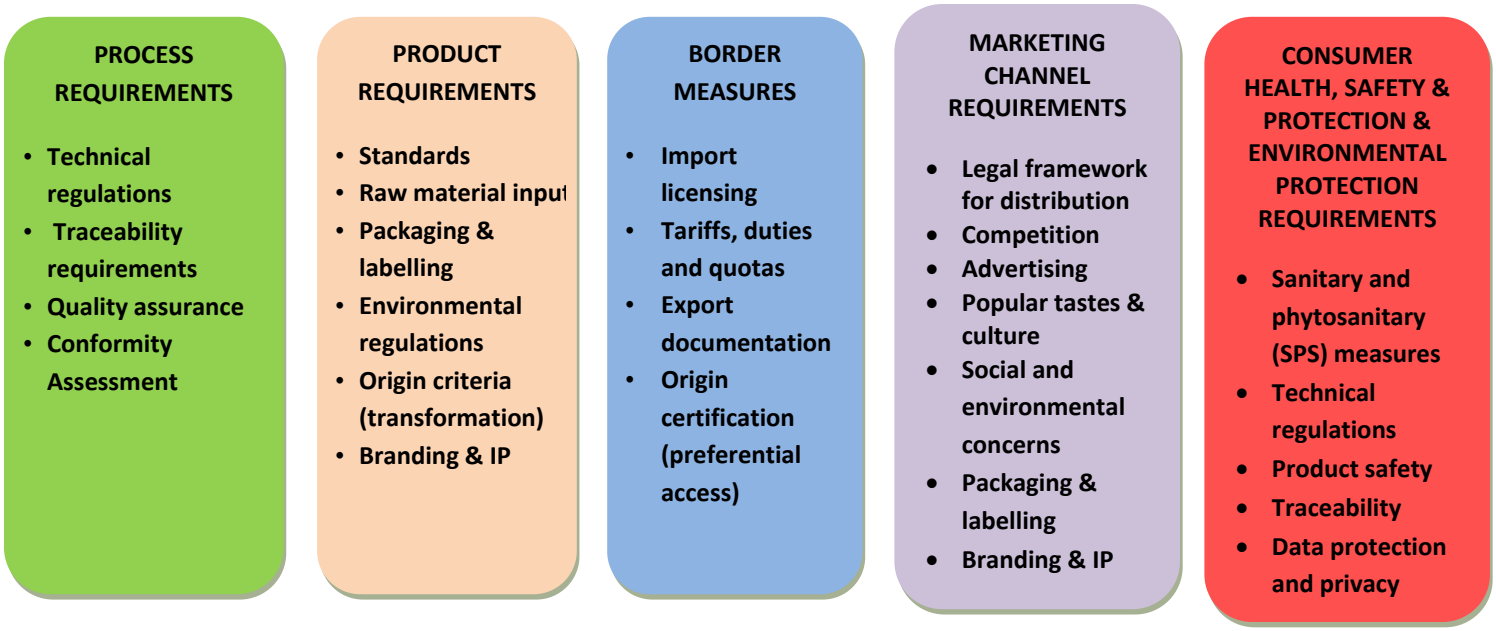
Market access and penetration for the exporter is conditional on meeting general and specific market requirements. Market requirements may vary widely between countries. They may take the form of:

- **Process requirements**: for example; scientifically based technical regulations in relation to specific hazards, use of batch coding and other systems which impact traceability
- **Product requirements:** including standards and mandatory legislation affecting packaging and labelling
- **Border measures:** including mandatory licensing procedures and or requirements for import permits
- **Marketing channel requirements**: for example, the expectation of usage by producers of barcodes and other specific inventory and/or product management systems in certain marketing channels, specific quality requirements which may be required access specific marketing channels (i.e. wholesale, retail, hotel supply, restaurant supply, etc.)
- **Consumer Health, Safety and Protection requirements:** for example, sanitary and phytosanitary measures and data protection and privacy measures.

[2] Source: CAPRI (2009), The Long-term Impact of EPA in the Caribbean: Jamaica and St. Lucia, A Working Paper, retrieved from http://www.slideshare.net/testing123456/economic-partnership-agreement-epa-st-lucia

Figure 1 below illustrates further examples. Because each of the market requirements can act as a barrier to accessing and penetrating a new market, a successful exporter begins the process of investigating market potential with research to identify the requirements for trading legally within the market.

Figure 1: Market requirements to be considered by exporters seeking market access and penetration



Definitions

The Union of European Soft Drinks Associations (http://www.unesda.org) defines a beverage as a drink specifically prepared for human consumption. It specifically excludes plain water, but can refer to soft drinks, teas, coffees, juices or milk-based drinks such as shakes. Generally speaking, wines, beers and spirits are classified specifically as alcoholic beverages. The word beverage comes from the Old French word beverage (modern version *boivre*), meaning 'to drink'. The modern French equivalent is *'breuvage'*. Other expressions include '*bebida*' in Spain and Portugal, *'bevanda'* in Italy, *'getränk'* in Germany and *'drank'* in Dutch.

OVERVIEW OF THE EUROPEAN DRINKS INDUSTRY

As a result of the recent financial crisis in the Eurozone, the market for 'soft drinks' or non-alcoholic beverages across the EU-27 has seen flat growth to date in 2012. Increased taxation levied on carbonated drinks, rising manufacturing costs and low consumer confidence have created a general slowdown in the growth of the non-alcoholic beverage sector in the EU in recent years. Despite these factors, Europe is still one of the biggest markets for non-alcoholic drinks. Although this report does not focus on alcoholic drinks, it is useful to consider that the European Union occupies a leading position on the world wine market, accounting for 45 % of wine-growing areas, 65 % of production, 57 % of global consumption and 70% of exports in global terms.

Non-alcoholic beverages are an essential part of everyone's daily diet as they are refreshing and help to maintain hydration levels. The European non-alcoholic beverages market totals some 123 billion litres per year (UNESDA, 2010). There are over 1000 soft drinks production plants across Europe, employing some 250,000 people. No and low-sugar varieties now account for up to 30% of total non-alcoholic beverage sales in many European markets. Water represents some 90% of a sugar-containing carbonated drink and even more in low calorie versions. The majority of ingredients used in beverage production in the EU are sourced locally and production is situated relatively close to markets and consumers, resulting in low food miles. Soft drinks contribute around 3% of calories to the average daily diet in Europe. The Union of European Soft Drinks Associations (UNESDA) members committed in 2006 to not advertise to children under 12 on TV, in print or online. In 2010 they extended this commitment to cover all forms of new digital media including social media and their own websites. Also in 2006, UNESDA members committed not to offer their products for sale in primary schools across the EU. For these actions, UNESDA was named and praised by the European Commission for its Commitments to the EU Platform for Action on Diet, Physical Activity and Health. The European soft drinks industry was the first to adopt Guideline Daily Amount nutrition labelling as an entire sector back in 2007. The soft drinks industry is highly innovative with some 40% of the products on sale today having been introduced in the past five years.

Market and Growth forecast

Canadean, a leading strategy research firm, forecasts that the Western European soft drinks market will reach about 103 billion litres in 2012, while Eastern Europe will account for 46 billion litres [3]. Compared to other big markets such as Asia and Latin America, growth has been much slower, particularly in countries such as Greece, Portugal, Ireland and Spain. Canadean proposes that on a regional level, Asia is now the biggest soft drinks producer at about 150 billion litres, followed by North America and Latin America and then Western Europe and Eastern Europe. The biggest difference between these regions is that Europe is experiencing relatively flat growth in soft drinks; 2012 growth is forecast at about 0.6% on 2011 figures in Western Europe, for Eastern Europe about 0.5%. Asia and Latin American markets currently have the strongest growth forecasts; driven by their growing populations and economies, as well as bigger increases in disposable income. In contrast, Western and Eastern Europe are already

[3] Source: http://www.foodprocessing-technology.com

much more developed markets. Very cold weather conditions are another factor which impact market performance.

In Eastern Europe, Turkey is one of the beverage markets expected to grow, based on healthy national GDP growth during the last few years. However, authorities have recently placed a ban on carbonated drinks in school canteens due to health and wellness concerns, which have slowed growth in the first quarter of 2012 compared to 2011. Poland and the Ukraine are also expected to offer some growth opportunities. In Western Europe, France, Germany, UK, Benelux, Austria and Norway may have prospects for growth in the market for drinks despite the recessionary environment. This is in contrast to Greece, Portugal, Ireland, Spain and Denmark where economic conditions will encourage slow recovery.

Health and wellness concerns, in particular related to sugar and obesity in children are a growing influence on the performance of the market. In decisions reportedly aimed at controlling public preferences, the governments of France and Denmark have imposed significant taxes on carbonated drinks. In the case of Denmark, the tax on sweet and soft drinks has increased by 50%. In both countries, the tax has resulted in contraction in the market for these drinks. Forecasters state that it is possible that taxes on carbonated drinks will develop to become a trend within Western Europe because the articulated health concerns are high priority issues on government agendas. Based on the experience to date, this will result in market contraction.

Market Segmentation

The Global Beverages Report in 2009 stated that until recent times, the beverages market was divided simply between alcoholic and non-alcoholic beverages. However, increasing sophistication in consumers' tastes has prompted burgeoning demand in a variety of beverage options catering to lifestyle changes and health concerns and the beverages industry has responded with an overwhelming array of options to choose from. The report proposes that the beverages markets may be disaggregated into the following product segments;

i. alcoholic beverages such as wines, beers and spirits;
ii. non-alcoholic beverages such as bottled water and milk;
iii. brewed beverages such as coffees and teas;
iv. carbonated beverages such as sodas and soft drinks;
v. non-carbonated juice products both fresh and pre-packaged; and
vi. energy drinks which are generally caffeinated beverages in both carbonated and non-carbonated forms.

Domestic production of milk and dairy products under the EU CAP

Agricultural production in the EU has traditionally been and remains, protected by a complex tariff structure, with high rates and tariff quotas, and benefits from high levels of domestic support and export subsidies. The system features of subsidies, import duties and differentiated price support, weigh the balance of market opportunities, heavily in favour of EU producers. Despite the stated intention that

the CAP system should be based on the undertakings accepted under the Uruguay Round of multilateral trade negotiations, the policy has always been somewhat controversial, since its operation creates significant obstacles for market entry for agricultural products from other countries, in effect a system of non-tariff barriers. As such, with the continued maintenance of the CAP, it will be challenging for developing countries to gain market entry in these sensitive sectors and compete, particularly in the areas of primary production. This is because the CAP incentives and subsidies to date have frequently resulted in surplus production at subsidized costs. Despite this, in principle, under the EPA, agricultural products such as beef, dairy, cereals, fruits and vegetables which can meet the marketing standards established in the relevant sectors. Custom duties have been removed from sugar and rice, while quotas will be eliminated on a phase basis. Bananas will be afforded DFQF access to the EU market (CAPRI, 2009). Article 130 of Regulation (EC) No 1234/2007 states that imports of one or more products of the sectors identified are subject to import licences, which are in turn subject to the lodging of a security guaranteeing that the products will be imported during the term of validity of the licence. Except in cases of force majeure, the security shall be forfeited in whole or in part if the import is not carried out, or is carried out only partially, within the period of validity of the licence.

HIGH POTENTIAL PRODUCT SEGMENTS IN THE EU

Energy drinks

Energy drinks have maintained their growth in Western Europe, estimated at a 19% increase in the first quarter of 2012 from 2011; with a 16.5% increase in Eastern Europe. This small segment/category was formerly dominated by premium brands but has recently been the target for the launch of lower-priced brands, which have made the products more affordable for a larger audience of people. Sales of energy drinks are expected to continue to grow.

Soft drinks and juices

According to a 2009 market study by Food for Thought (FFT), an independent, international food and drink consultancy based in Geneva, Switzerland, the "soft drinks and juices" market in Europe, comprising sales of mineral water, soft drinks, fruit juices, fruit drinks, squashes and concentrates, health and sports drinks and iced supply of soft drinks and juice products across the sixteen countries in Europe covered by the survey; with the top10 companies supplying 49.6% of the market. Major players in 2009 were Coca-Cola with a market share of 21.5%, followed by PepsiCo (7.9%) and Nestlé (4.8%).

The European Fruit Juice Association (AIJN) 2012 Liquid Fruit Market Report with data from market research leader Canadean provides a comprehensive overview of market and sector developments for juices and nectars across the EU 27 countries and Norway, Switzerland and Turkey. It also highlights the raw material flow on which the industry relies, indicating that the EU fruit juice industry is truly a global business which processes fruit juice raw materials sourced from around the globe. Other issues which get special attention in this report are tea, which accounted for Euros 72.9 billion of consumption in 2009; or 6.6% of the all food and drink market of Euros 1111 billion. Recently, more than 784 companies in the industry were involved in the creation of a sustainability policy and initiatives by the carton

packaging industry that produces the packaging format the majority of juices uses, and the contribution of fruit and vegetable juices to a healthy nutrition. The full report is available online at http://www.aijn.org/pages/main/facts-figures.html.

In addition, Fischer (2012) advises that the prices of juice concentrate have been trending high, resulting in increased input costs for juice producers and therefore higher prices of these products in the EU market. In reaction to increased prices, consumers have been attracted to lower-priced categories, such as nectar and fruit drinks. EU fruit juice and nectar consumption stood at 10.7 billion litres in 2011. When Turkey, Norway and Switzerland are included the figure climbs to 11.8 billion litres (AIJN, 2012). This shift to lower priced categories has been seen in Germany, which is the largest Western European market for juice, accounting for more than a quarter of all juice sales. Given its significant market size, the impact of consumer choices in Germany tends to affect the sales numbers for the entire Western Europe. In Eastern Europe, the costs of juice and nectar have been increasing to the benefit of sales in other still drinks with reduced juice content.

Despite the imposition of taxation increases, many carbonated drinks have been heavily promoted in the market by strong campaigns. If this continues, sales are expected to be maintained at reasonable levels. Iced tea, including prominent brands Nestea and Lipton have continued to grow sales, consistent with the consumer appetites for products linked to health and wellness.

Catering and Foodservice

FFT estimated that the total foodservice market was valued at Euros 14.9 billion or 20.4% of the overall food and beverage market, while the retail market was worth Euros 58.1 billion or about 79.6% of the overall food and beverage sales.

Own/ Private Labels

As a proportion of the total market by value in 2009, distributors' own label products made up 17%, with manufacturers' branded products making up 83% of the total market. Retail distributors' own label products continued to make inroads into manufacturers' branded products in many products. Artisanal products (own-produced for own sale) and unbranded products (important in say fresh fruit and vegetable markets) make up the rest of distribution.

CRITICAL SUCCESS FACTORS IN DEVELOPING EXPORT INDUSTRIES IN NON-ALCOHOLIC BEVERAGES

In developing export industries in non-alcoholic beverages, there are several basic requirements to enable producers to enter the value chain. Basic optimal conditions include:

- sustainable supply of quality agricultural inputs and other raw materials
- packaging sourced from suppliers compliant with GMP and EU standards
- adherence to packaging and labelling regulations and composition requirements for foods
- adequate transportation infrastructure: roads, ports and airports
- refrigerated cargo facilities to enable maintenance of the cold chain in transport

- sanitary and phytosanitary regulatory systems
- appropriate testing systems to monitor compliance with technical regulations
- ability to target specific niches and develop partnerships with buyers in the target markets; convenience, health and wellness, organic, fair trade, etc.
- trade policies which favour suppliers entering the market on competitive terms
- understanding market needs and requirements in the context of the buyer-driven supply chain; maintenance of open lines of communication regarding demand preferences in products, quality and packaging requirements and fostering buyer involvement at all stages of the chain
- particularly in the case of processing, willingness to meet hygiene requirements, manage food safety and develop on site laboratories for testing of product and staff and support Hazard Analysis and Critical Control Pont (HAACP) analysis
- understanding of the role of investments in new technologies and good quality packaging materials in preserving quality and increasing shelf life and the ability to source these good quality packaging materials economically
- understanding the role of workforce training and development to meet the needs of a more highly developed and competitive value chain
- understanding the role of research and development, innovation and technology as driving forces in new product development
- recognition of the role of economies of scale and by extension, collaboration among small producers in convincing the market of the ability to deliver consistent quality supply on a timely basis
- need for sector-specific collaboration among SMEs in the areas of advocacy, lobby, trade promotion, brand development and integration with global supply chains.

SITUATIONAL ANALYSIS: THE BEVERAGES SECTOR IN BARBADOS

In 2010, the Barbados Investment and Development Corporation (BIDC) published a *Profile of the Beverages Subsector (January to December 2009)*. This report provides a useful indication of the characteristics of this sector in Barbados at the time of writing and the main the issues affecting its growth and development, most of which are increasingly relevant today. The main issues in report as well as the preceding BPSA sector study on beverages are summarized below.

- ***Structure of Industry and employment:*** At the end of 2009, the Barbadian beverage sector comprised 12 companies producing alcoholic and non-alcoholic beverages and employing 656 persons. Ten of the companies in the beverages subsector employ less than 100 persons. These account for 379 persons or 57.8% of total workers in the subsector. About half of the formally registered companies in the sector were in the area of non-alcoholic beverages. These six companies employed 339 persons, of which 277 or 81.7% were male.
- ***Main Activities:*** The companies involved in the production of non-alcoholic beverages are mainly producers of juices. However, there is also production of tonic, dairy products, aerated beverages and bottled water.

- ***Estimate of economic value:*** According to the BIDC, exports of non-alcoholic beverages amounted to BDs$7.9 million in 2009, down from BDs$ 81.3million in 2008. Exports by value in 2009 may be further broken down as follows:

  Aerated beverages: BDs$769,232
  Aerated beverages with added sugar: BDS$5,828,671
  Malt beverages: BDS$251,231
  Other non-alcoholic beverages: BDS$1,057,350

  Annual imports of non-alcoholic beverages in this year amounted to BDs$36.5 million, down from BDs$36.7million in 2008.
- ***Challenges faced by the sector***: Rising costs of raw material, inputs and energy prices, intense competition within the highly price sensitive markets, increasing food safety issues, undercapitalization of the micro-producers and health and nutrition concerns related to obesity and sugar are among the challenges facing the sector.
- ***High levels of competition and rivalry among firms***: The global food industry is characterized by intense competition. In recent years, there have been a number of mergers and acquisitions, as companies strive to increase their market share, cut costs and diversify, as well as strengthen their product lines. This trend is expected to continue.
- ***Growth segments internationally and regulation***: Growing concern in recent years about health and nutrition has resulted in an increasing consumer demand for products offering both convenience and health benefits. This includes functional foods which deliver health benefits through nutritional supplementation. The use of supplements, as well as the use of additives, including certain types of colouring is highly regulated in the EU market. Obesity concerns have emerged as a major health issue in the EU market, resulting in taxes being levied on carbonated drinks. Traceability of inputs and product along the supply chain is a basic requirement of EU buyers in addition to HACCP or ISO900) certification. Companies must have in place quality assurance systems which are transparent and allow for the tracing of any food contamination sources along the supply chain. There is an abundance of various forms of health and safety legislation. Producers intending to ship their products to such markets must ensure that they comply with the regulations enforced.
- ***Packaging***: In order to gain the benefits of protection while enticing the target consumer, technical and aesthetic issues in packaging are major areas of focus for EU based producers. Barbadian producers seeking entry to the market must be prepared to evaluate the effectiveness of their packaging in terms of attractiveness, but also in terms of practical issues such as lightweighting and capacity for recycling and reclamation.
- ***Other Issues: Innovation:*** It is anticipated that like the food industry, the beverage industry will be driven by new and innovative product developments in the areas of health, wellness and functional foods. Consumers continue to demand new flavours and preparations. With migration creating ethnic diversity in most metropolitan centres, there will continue to be a diversity of tastes and flavours to be satisfied. This will create new prospects for local manufacturers of beverages. Increasing emphasis on health and wellness will continue to create niches for healthier food alternatives. Consumers are expected to increase their demand for low-fat, non-fat and sugar-reduced varieties, which tend to be more expensive than traditional products.

Barbados Exports of Beverages

Table 1 below shows a list of beverage products exported by Barbados and Table 2 shows the main destinations for these products from Barbados. Exports of alcoholic beverages to Canada, UK, France, Dominican Republic, Spain, Netherlands, and Netherlands Antilles, Suriname are the leading category of beverage exports. Non-alcoholic beverages other than water, fruit and vegetable juices from concentrate and juices from fresh fruit (HS 2009) are also significant. Export of mineral and aerated waters declined by more than 50% in 2011. The data shows a consistent pattern of non-alcoholic beverage exports to a range of countries, including Aruba, Denmark, France, the Netherlands and Netherlands Antilles, Spain, Sweden and the United Kingdom within the EU.

TABLE 1: LIST OF SELECTED PRODUCTS EXPORTED BY BARBADOS

HS Code	Product label	EXPORTED VALUE (US$000's)				
		2007	2008	2009	2010	2011
'2208	Spirits, liqueurs, other spirit beverages, alcoholic preparations	36379	39517	35703	43980	42317
'2202	Non-alcoholic beverages (excl. water, fruit or vegetable juices of heading 2009)	3175	4504	3930	3378	2109
'2009	Fruit & vegetable juices, unfermented	988	1121	935	857	2028
'2203	Beer made from malt	68	430	427	407	600
'2204	Wine of fresh grapes	12	429	694	1170	377
'2206	Fermented beverages, not elsewhere stated	29	120	149	155	121
'2201	Mineral & aerated waters	27	89	138	75	36
'2205	Vermouth & other grape wine flavoured with plants or aromatic substances	7	11	29	19	3

Sources : ITC calculations based on UN COMTRADE statistics.

TABLE 2: LIST OF SELECTED PRODUCTS EXPORTED BY BARBADOS		
HS Code	**Product label**	**Country**
'2208	Spirits, liqueurs, other spirit beverages, alcoholic preparations	US, Canada, UK, France, Dominican Republic, Spain, Netherlands, Netherlands Antilles, Suriname
'2202	Non-alcoholic beverages (excl. water, fruit or vegetable juices of heading 2009)	CARICOM, US, UK
'2009	Fruit & vegetable juices, unfermented	CARICOM, US
'2203	Beer made from malt	CARICOM, Canada, US, UK
'2204	Wine of fresh grapes	CARICOM, US, Mexico, Turks & Caicos, Canada, Italy, British Virgin Islands
'2206	Fermented beverages, nes	US, CARICOM, UK, British Virgin Islands, Bermuda
'2201	Mineral & aerated waters	UK, US, CARICOM, Bahrain, Canada, France, Aruba, Spain
'2205	Vermouth&other grape wine flavoured with plants or aromatic substances	France, Italy, Jamaica, Bermuda, Denmark, St. Lucia, Sweden, UK, US
Sources : ITC calculations based on UN COMTRADE statistics.		

Strengths, Weaknesses, Opportunities, Threats (SWOT) Analysis

Table 3 below highlights the key points of a SWOT analysis of the Barbadian beverages industry, undertaken through focus group consultations with some companies in the sector.

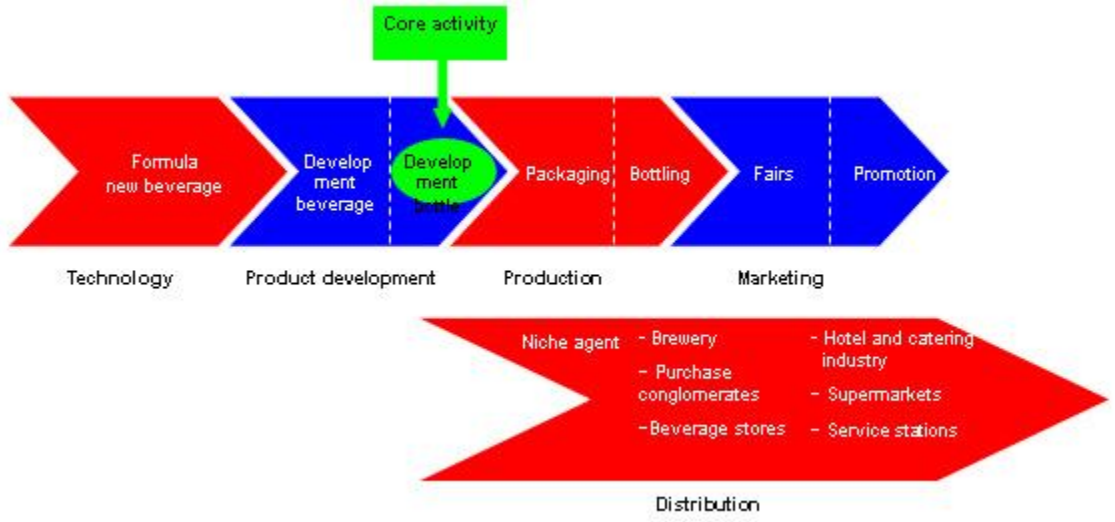
TABLE 3: SWOT ANALYSIS: BARBADIAN BEVERAGE SECTOR		
INTERNAL TO THE SECTOR	**STRENGTHS**	**WEAKNESSES**
	• experience of export • some market penetration in EU markets and the Dutch OCTs , French DOMs • Independent local laboratory (BNSI) in expansion mode • Track record in export of both alcoholic and non-alcoholic beverages • New investments in the sector (BIDC, 2010)	• testing systems for compliance with specific EU technical regulations and SPS measures for food- current testing done mainly to US FDA standards • sourcing and selection of inputs, machinery and packaging for EU market • absence of reclaimable and innovative packaging • effective branding and consistent and sustainable international marketing and promotion • sensitization as to the needs and flavours and tastes of EU consumers • workforce orientation and training and development towards food safety and HAACP • low levels of innovation and lack of ongoing research and development • EU based distribution arrangements and insertion into supply chain • Low levels of collaboration
EXTERNAL	**OPPORTUNITIES**	**THREATS**
	• Health and wellness products • Convenience foods • Novel and traditional Barbadian foods • Research and technology partnerships • Receptivity towards Caribbean cuisine while market is interested in new product lines • Organic food markets • Fair trade markets • Global migration and Diaspora markets • Pre-packaged and frozen foods	• High global prices for agricultural commodities and energy • Significant levels of competition from food imports • High levels of competition and rivalry among firms in the global market, mergers and acquisitions creating conglomerates with significant bargaining power at the expense of smaller firms • Inefficient functioning of the CARICOM Single Market and Economy (CSME) • Requirements for increasing levels of environmental and ethical standards at increasing cost • Non-compliance with increasing regulatory environment for food safety • Downward pressure on prices created by the conditions in the global economic market • Undercapitalization of micro-firms (BIDC, 2010)

GUIDE TO EXPORTING TO THE EU: BASIC REFERENCES FOR EXPORTERS

The Beverage Value Chain

Figure 2 below shows the elements of the beverage value chain leading to the development of export markets. In order to optimize productivity and their chances of successful market entry, producers need to address each component of the value chain within their operations or through outsourcing, in a manner consistent with the specific requirements of each export market being targeted.

Figure 2 (below): The Beverage Value Chain



Source: http://www.inceptum.eu/tool-eng/help.php

A summary of useful information references related to exporting to the EU is outlined below.

New Beverage Formulations and Product Development

A beverage formulation is a standardized recipe for the combination of ingredients in specific quantities or ratios. It is the basis of unique characteristics for the taste and sensory qualities which ultimately attract the consumer and can therefore provide strategic competitive advantage. Additives, enzymes, flavourings, supplements, vitamins and minerals are among the component in formulations. Each of these components must conform to the legal requirements and producers must maintain records to enable traceability. Specialized laboratories are often contracted to deliver tested formulations for commercial production.

- More about EU food additives: http://www.efsa.europa.eu/en/topics/topic/additives.htm
- More about food flavourings: http://www.efsa.europa.eu/en/topics/topic/flavourings.htm
- Market Analysis Report, The Global Flavours Industry, March 2011
  http://www.gov.mb.ca/agriculture/statistics/food/ma_global_flavours_industry_en.pdf
- International Organization of the Flavour industry (IOFI) Global Reference List (GRL)

http://www.iofi.org/Home/Teaser-Code-of-Practice/IOFI-Global-Reference-List/page.aspx/127.

- Buyers Guide for ingredients and product formulation services : http://www.softdrinksinternational.com/Buyers-Guide

Technology

The EU beverage market is driven by innovation and technology is a key enabler of both product and process. Producers seeking to be successful in the EU market must follow the developments in technology and the use of technology to enhance integration of activities along the value chain; including the supply chain management and traceability of quality agricultural inputs and other raw materials.

- Breaking News on Food & Beverage Development – Europe: http://www.foodnavigator.com
- Food Drink Europe: http://www.fooddrinkeurope.eu
- Soft Drinks International : http://www.softdrinksinternational.com/About-Us

Packaging and Labelling

It is imperative that all packaging is sourced from suppliers compliant with Good Manufacturing Practice (GMP) and EU technical regulations, as well as any standards imposed by buyers or retailers. The packaging which is sourced must adhere to all harmonized packaging and labelling regulations. Additional national regulations may also apply and these should be identified through dialogue with buyer. EU Regulations that apply include:

- Product labelling and packaging http://europa.eu/legislation_summaries/consumers/product_labelling_and_packaging/index_en.htm
- Labelling, presentation and advertising of foodstuffs http://europa.eu/legislation_summaries/consumers/product_labelling_and_packaging/l21090_en.htm
- Nutrition and health claims http://europa.eu/legislation_summaries/consumers/product_labelling_and_packaging/l21306_en.htm
- Nutrition labelling (until 2014) http://europa.eu/legislation_summaries/consumers/product_labelling_and_packaging/l21092_en.htm
- Production and labelling of organic products http://europa.eu/legislation_summaries/consumers/product_labelling_and_packaging/f86000_en.htm
- Alcoholic strength by volume '% vol' (until 2014) http://europa.eu/legislation_summaries/consumers/product_labelling_and_packaging/l32005_en.htm

Production

At the beginning of the 2000s, the European Union introduced an initiative called 'From the Farm to the Fork' based on risk analysis and traceability, with the aim of guaranteeing food safety. In line with this approach, foodstuffs are monitored at all susceptible stages of the production chain, in order to make sure that strict hygiene rules are adhered to. It is critical that processing plants are willing to meet hygiene requirements, manage food safety and develop on site or external laboratories for testing of product and compliance with EU sanitary and phytosanitary regulatory systems.

- EU Food Safety: http://europa.eu/legislation_summaries/food_safety/index_en.htm
- EU Food Hygiene rules: http://europa.eu/legislation_summaries/food_safety/veterinary_checks_and_food_hygiene/index_en.htm

  HACCP Implementation:
- EU HACCP Guidance Document: http://ec.europa.eu/food/food/biosafety/hygienelegislation/guidance_doc_haccp_en.pdf
- Food Safety Jamaica Initiative: http://www.fsjamaica.org/en/haccp_/
- SGS HACCP Certification: http://www.sgs.com/en/Agriculture-Food/Food/Transportation/GFSI-Certification/HACCP-Certification.aspx

Assessing Export Readiness

Market promotion should only be undertaken when the exporter has assessed export readiness and the potential viability of export to a specific target country within a specific market segment (i.e. wholesale, retail, food service and catering, e-commerce, etc.). The following resources may be useful for exporters in assessing their export readiness.

- CBI Export Marketing Planner (2009): http://www.cbi.eu/marketintel/Export-Marketing-Planner-A-manual-on-how-to-enter-European-markets/158976
- SIPPO Export Manual, Exporting to Europe: An Introduction: http://www.slideshare.net/olgan/exporting-to-europe-an-introduction-sippo-cbi

Targeting Buyers through Promotion

Trade Fairs and in-store promotions are two of the most common methods of targeting buyers. In store promotions are usually conducted through contractual arrangements with agents or distributors at the local level, based on the potential to have an exclusive arrangement for distribution. Some prominent trade fairs in the EU are listed below.

- ***Some major beverage buyers*** : http://www.softdrinksinternational.com/Buyers-Guide
- ***The Anuga Fair*** in Germany (http://www.anuga.com), to be held next in October 2013, is not only the largest food and beverage fair in the world, it is also the sector´s most important fair for new markets and target groups. Organizers state that it is the perfect venue for all the latest trends and themes and a great place to make first-rate contacts and business deals. Anuga 2011 was attended by 6,596 companies from 100 countries, which occupied a gross exhibition space of 284,000 m². Over 155,000 trade visitors from 180 countries attended.
- ***The SIAL Fair*** in France (http://www.sialparis.com) to be held next in October 2014, hosted about 5,900 exhibitors from 100 countries in 2012 as well as 140,000 food professionals from

200 countries from the retail and trade, food industries, foodservice, the wine professions and buyers from all around the globe looking for new food products and/or new suppliers. It is recognized as a hub event for food innovation.

- ***The Birmingham International Food Fair*** (http://www.birminghaminternationalfoodfair.co.uk) held in the United Kingdom, yearly in June, is a food festival hosted in collaboration with the City Council. In 2011, the Food Fair attracted over 250,000 visitors who enjoyed 140 stalls of mouth watering food and drink from around the world. Birmingham is a cultural crossroads where numerous ethnic as well as mainstream consumer markets converge.

Logistics and Distribution

It is important that exporters understand the framework for distribution and the attendant costs which will apply to transportation through roads, ports and airports. For chilled and fresh drinks, refrigerated cargo facilities are critical to enable continuous maintenance of the cold chain in transport. Laparkan Shippers in Barbados, during an interview in October 2012, advised that from Barbados, shipments are occasionally sent to the EU by air or freight. Air cargo is done via British Airways and Virgin Airlines. As such, there are no direct air routes to the continent and cargo must pass through the UK before being transferred on to the EU. Ocean freight is less expensive than air freight and is the preferred medium for movement of less than a container load of products, since it offers the possibilities of consolidation with other producers which is a more economical option. Transfer to the EU is also done through the UK where Laparkan maintains an agent who makes contact with EU freight forwarders to arrange cargo transfer to the EU. The company is also connected with a range of agents in the EU through its membership in the World Customs Agents (WCA) Association. Shipments are demand based and in general vessels leave every two weeks, however with full container loads, these can be shipped weekly. If groups or clusters are interested in accessing cold chain transportation, dialogue on collaboration could be pursued with Goddard's catering which maintains a cold storage facility at the airport or BICO which maintains cold storage close to the port. Air freight rates are based on weight or dimensions of a particular package (whichever is more). In general, rates for ocean shipping can be estimated as follows:

- ***Barrels (Barbados to Portsmouth, UK):*** range between BDS$650.00 (consolidated) to upwards of BDS$1000.00 (consolidated)
- ***Containers (Barbados to Portsmouth, UK):*** upwards of US$1800.00 (approximately).

On the EU side, intra-EU transportation is mostly handled by truck or rail through freight forwarders. Air transportation is more expensive and given the extensive rail and road network, this is much less frequently used. There is an association of freight forwarders in every country and very often, there may be relationships between distributors in the market and particular forwarders. Handling charges are approximately 0.6% of the shipment value for the first 30 days and 0.15% of the value for an additional 30 day period.

EXPORT DEVELOPMENT STRATEGY AND ACTION PLAN

Objectives of the Strategic Export Development Initiative to the EU

The general objective of the strategic export development initiative is to assist producers in tapping into potential market opportunities arising from the EPA. The specific objectives are:

- To increase the market penetration of Barbadian beverages within the middle to high end segments of the EU market, and
- To establish a functioning working committee of producers and organizations across the value chain to contribute to long term advocacy and lobby initiatives in entering the EU market and hence the development of EPA monitoring mechanisms.

Rationale

The EU market offers significant opportunities based on the number of consumers and current population trends such as increasing multiculturalism and interest in health and wellness and novel food items. Despite this, the recessionary economic conditions have created increasing competition and rivalry in the market which has triggered downward pressures on prices and an ongoing hunt for value on the part of the EU consumer. The levels of regulation concerning food safety and potential hazards are very high and European Food Law places significant legal responsibilities on both the manufacturer and the importer to ensure compliance. Within this context and with so many products globally seeking entry to this potentially lucrative market, Barbadian firms are unlikely to gain the audience of buyers unless they can demonstrate systems to ensure compliance with both sanitary and phytosanitary (sps) measures and technical regulations. There are also the technical, functional and aesthetics aspects of packaging and labelling to be considered and many locally produced products will not meet the market expectations in this regard. There is evidence that in general, new product development and innovation is inconsistent, unstructured and unfocused within firms and this means that where firms are successful in entering the market, there is very limited chance of their long term survival and success. Collaboration among firms is weak and levels of trust are low. This will be a major challenge, since firms seeking to penetrate the EU market with products can expect to face well organized, established and effective lobby from the multiple sector-specific associations in the EU and there will be a future need to replicate sector-specific advocacy on the local level. With the comparatively small size of the private sector in Barbados, it is unlikely that multiple associations will be sustained, hence the proposed approach of establishing a sector-specific, private sector led working committee is considered more feasible.

Methodology and Approach to implementation

The key aspect of the proposed initiative which differs from many similar export development initiatives is the underlying objective to establish a small private sector led working committee of producers under the Barbados Small Business Association, the Barbados Manufacturers Association or the Barbados Private Sector Association to oversee the project development and implementation. Experience all over the world has shown that where small firms engage in focused collaboration this leads to shared learning and catalyzes innovation. The focused collaboration in this case is an export development initiative to develop cluster members. It is important that clustering encompass all stages in the value chain, for example to include suppliers of inputs (particularly packaging) as well as producers, packaging

logistics and transportation providers and representatives of all agencies involved from concept to consumer promotion. During the research consultations, a representative of Laparkan shippers has already expressed interest in working with producers on such a Committee over the long term to derive mutually beneficial commercial expansion. The absence of value chain engagement is a significant failing of many cluster initiatives in the Caribbean. It is widely accepted that inter-firm cooperation can allow firms to retain their autonomy while:

- Developing markets faster at reduced cost and risk, in particular, export markets
- Undertaking joint activities such as market research and product development beyond individual firm capabilities or resources
- Exploring new business opportunities abroad and promote integration into global markets
- Improving profitability by sharing administrative and promotional costs
- Achieving efficiency gains by shared access to technology
- Accumulating knowledge and information
- Saving time and cost using joint transportation and other export facilities
- Moving from 'reactive' to 'active' exporting.

Scope of Activities to be Undertaken

The proposed scope of activities to be undertaken represents another outcome of the consultation discussions. The strategic activities identified reflect immediate priorities to be addressed on the local level, which also offer capacity building possibilities for BPSA as an organization.

1. ***Strategic Activity 1: Establishment of a working committee***

As an outcome of the technical regulations workshop, the firms and individuals in attendance agreed to pursue the formation a working committee. The merits of the committee have been discussed previously. A decision should be taken on the local level which organization will incubate the committee. While every attempt should be made to be inclusive in the approach to working with local producers who are willing, there is no need for the committee to be huge in numbers. As the development of the initiative progresses, various components of the value chain can be engaged according to the priority needs.

2. ***Strategic Activity 2: Programme to support HACCP implementation in small firms***

HAACP implementation and eventual certification is a benchmark requirement for entry into any international market, but it is particularly significant in the context of EU food law and certain technical regulations. The initial costs of audit and certification can be costly for small firms; however this is a requirement of safe food production. There is a need to guarantee traceability from farm to fork and HAACP provides a template management system which is considered universal. A consultant is required to begin diagnostic audits and some firm level support to implementation may also be required. There may be opportunities to partner with the BNSI, Government Laboratory, the BIDC or a relevant Ministry on this activity and these possibilities should be explored by the working Committee.

3. ***Strategic Activity 3: New product development initiative among cluster firms***

Among firms present at the consultations, there was agreement to commence working together as a small cluster, with each firm retaining its independence, but pursuing greater collaboration ensuing to engage partners along the value chain. It is recommended that a pilot initiative be developed, with each firm contributing one or two products lines for development towards the EU and international markets.

A product development initiative encompassing the development of safe formulations which meet the prevailing EU product standards, taste profile of target EU consumers, nutrition labelling and intellectual property branding should then be developed in collaboration with the firms to bring these product lines to the standard which would ensure market acceptance.

4. ***Strategic Activity 4: Technical Assistance (packaging selection and labelling development)***

Expertise should be engaged to support cluster firms in the selection of their packaging and development of labelling, consistent with the technical regulations outlined in the research reports as well as the individual EU product standards and in consultation with an in-market consultant. The bilingual nature of EU commerce needs to be considered as well as technical requirements such as nutritional labelling.

5. ***Strategic Activity 5: Cluster attendance at a major EU food fair which can facilitate building of market awareness and also sourcing of inputs as well as machinery to generate compliance with EU standards and technical regulations***

Attendance at a major trade fair will support cluster members in understanding market standards, observing distribution channel requirements and gaining knowledge to inform sourcing of inputs to comply with EU market standards and technical regulations. Cluster members should attend first as visitors and attend market orientation seminars before staging an exhibition of the group in future years, provided the new product development initiative is successful.

6. ***Strategic Activity 6: In-market promotion***

Brand recognition and market penetration can only be accomplished with consistent in-market promotion through in-store promotions, trade events or other promotional activities. These activities are best undertaken with the guidance of in-market experts, who can navigate the technical regulations, but also the wider legal and social environment of doing business in the EU.

Action Plan and Timeframe

It is suggested that a one year pilot programme be developed to support the market penetration initiative. Table 4 below shows possible sequencing of the indicative work plan.

TABLE 4: INDICATIVE WORK PROGRAMME					
	ACTIVITY	Q1	Q2	Q3	Q4
1	Establishment of a working committee and project coordinator				
	Engagement of EU-based in-market expertise				
2	Programme to support HACCP implementation in small firms				
3	New product development initiative among cluster firms				
4	Technical Assistance (packaging selection and labelling development)				
5	Cluster attendance at a major EU trade fair				
6	In market promotion				

REFERENCES

BIDC (2010), Barbados Investment and Development Corporation: Profile of the Beverages Subsector, January – December 2009, retrieved from http://Www.Bidc.Com/Index.Php?Option=Com_Docman&Task=Cat_View&Gid=77&Itemid=75&Limitstart=20 in November 2012

Canada International Markets Bureau (2011), The Global Flavours Industry Market Analysis Report: March 2011 http://www.gov.mb.ca/agriculture/statistics/food/ma_global_flavours_industry_en.pdf

ITC Trademaps www.intracen.org

UNESDA (2010), Key Facts on Non-alcoholic beverages, http://www.unesda.org/key-facts