



International Cocoa Organization



Annual Report  
2003/04

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**2003/2004**



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# 1. OBJECTIVES

## The International Cocoa Organization (ICCO)

The International Cocoa Organization (ICCO) was established in 1973 under the auspices of the United Nations to administer the provisions of the International Cocoa Agreement, 1972 and its successor Agreements of 1975, 1980, 1986, 1993 and 2001. The Agreements were concluded among the Governments of the vast majority of cocoa-producing and cocoa-consuming countries at conferences convened by the United Nations Conference on Trade and Development (UNCTAD). In March 2001, the Sixth International Cocoa Agreement was concluded in Geneva, Switzerland, and came into force on 1 October 2003.

Since the International Cocoa Agreement, 2001 came into effect, the Organization has had an explicit mandate to work towards a “sustainable cocoa economy”. For the ICCO, “sustainability” has the dimensions of an economic, environmental and social nature. The concept thus encompasses all major areas of interest and concern to the participants in the world cocoa economy, from the provision of good planting material to the payment of remunerative prices to farmers. All major areas of policies in the 2003/04 cocoa year can be considered under the umbrella of sustainability.

The primary objective of the International Cocoa Organization is to foster international co-operation for cocoa by providing a world-wide forum, contributing to market stabilization and assurance of supplies at reasonable prices, promoting transparency in the cocoa market and promoting scientific research and development.

The designation of the ICCO as the **International Commodity Body** (ICB) for cocoa by the **Common Fund for Commodities** (CFC) provides an additional means of promoting the long-term stabilization aims of the International Cocoa Agreement, 2001.

The ICCO has also developed its role as a centre of information, thereby facilitating the exchange and dissemination of data, emphasizing its function as the most appropriate forum for discussion between producer and consumer governments and the trade and industry,

The Common Fund for Commodities (CFC) is an autonomous intergovernmental development and financial institution, established within the framework of the United Nations. The objective of the Fund is to enhance the socio-economic development of commodity producers.

regarding all matters concerning cocoa, **cocoa products** and chocolate products. An important part of this role is the production of the '**Quarterly Bulletin of Cocoa Statistics**' and the '**World Cocoa Directory**'.

**Cocoa products** are cocoa beans processed into cocoa butter, cocoa powder, cocoa cake and cocoa paste.

Under a renewed provision, the ICCO will enhance its co-operation with other international organizations and research institutions to encourage and promote scientific research and development in areas of cocoa production, processing and consumption.

In pursuing the objectives of the International Cocoa Agreement, 2001, Members shall, within the appropriate framework, encourage the greater participation of the private sector in the work of the Organization.



## 2. STRUCTURE AND FUNCTIONING OF THE ICCO

### Membership

The International Cocoa Council is the controlling body of the International Cocoa Organization. It is composed of all the contracting parties to the International Cocoa Agreement, 2001. It directs the secretariat in the implementation of the new Agreement and oversees the operation of its subsidiary bodies. A detailed organizational chart is contained in **Annex I**. As at 30 September 2004, the Council consisted of 12 producer/exporter Members and 27 consumer/importer Members.



### Council and Subsidiary Bodies

The **Council** held two regular sessions and one special session in London during the 2003/2004 cocoa year. The Council was chaired during the 2003/2004 cocoa year by Mr. Wolfgang Hässel (Germany).

The **Executive Committee**, which deals mainly with financial and administrative matters, held four meetings during the cocoa year in London.

One of the striking innovations of the International Cocoa Agreement, 2001 was the establishment of the **Consultative Board on the**



**World Cocoa Economy** for the first time in the history of the International Cocoa Agreements. The Board consists exclusively of private sector representatives and has a mandate to act in an advisory capacity that is as wide as that of the International Cocoa Council. The Board was officially inaugurated by the Council in December 2003, with the appointment of seven exporting and seven importing members. It is expected to have a major impact on the policies and actions of the ICCO. Since establishing its rules and regulations at its first meeting in London in March 2004, the Board has created an ambitious work programme. The programme covers cocoa consumption, processing of cocoa beans into intermediate cocoa products, marketing of cocoa beans, **post-harvest treatment** of cocoa beans and training, and cocoa farm establishment and cultivation. Funding for implementation of the work programme is to be sought from donors and stakeholders.

**Post-harvest operations** are breaking of the pods, fermentation, drying, removing foreign matter and storage.

Another important innovation of the new Agreement was the creation of the **Market Committee**. The main objective of the Committee is the achievement of a balanced development of production and consumption to secure a sustainable equilibrium between supply and demand. To this end, the Committee held three meetings during the cocoa year and deliberated on the cocoa market situation, annual forecasts of production and consumption, indicative production levels, remunerative prices, cocoa substitutes, and global supply and demand of cocoa.

The new International Cocoa Agreement, 2001 established the **Promotion Committee**. One of the first actions of the Committee was the creation of a campaign focussing on the positive health and nutritional aspects of cocoa, thereby targeting the current concerns of consumers on diet and obesity. The Committee also reviewed a progress report on the project proposal on the Generic Promotion of Cocoa and Chocolate Consumption in the Russian Federation.

The **Expert Working Group on Stocks** supported the secretariat with its annual survey on warehouse stocks of cocoa beans. It also took the initiative to collect information on stocks and cocoa semi-products (butter, powder and liquor). The Working Group continued in its review and establishment of the volumes of cocoa bean stocks in the world.

The **Expert Working Group on Quality** met to consider several issues and possible action on cocoa quality, including the issue of ochratoxins in food products including cocoa; the progress in the development and implementation of the Total Quality Project; and the implementation of the Resolution on International Standards for Jute Bags used for exporting cocoa beans.

## Secretariat

The secretariat of ICCO assisted the Council throughout the year in implementing the International Cocoa Agreement, 2001. As at 30 September 2004, there were 11 Professional and Higher Level category staff Members and seven General Service category staff Members. During the year, three new Professional and Higher Level category staff Members joined the Organization (see **Annex II**).

## Major Events in the 2003/2004 Cocoa Year

The following is a list of the major events that took place in the 2003/2004 cocoa calendar year:

Major Events in the 2003/2004 Cocoa Year		
October	<i>14<sup>th</sup> International Cocoa Research Conference</i>	Accra (Ghana)
October	<i>Eurochocolate Festival</i>	Perugia (Italy)
November	<i>Salon du Chocolat</i>	Paris (France)
December	<i>ICCO 119<sup>th</sup> Executive Committee</i>	London (UK)
January	<i>International Sweets and Biscuits Fair</i>	Cologne (Germany)
February	<i>Cocoa Festival</i>	Abidjan (Cote d'Ivoire)
March	<i>ICCO 69<sup>th</sup> Regular Council and Subsidiary Bodies</i>	London (UK)
March	<i>Consultative Board on the World Cocoa Economy (1<sup>st</sup> meeting)</i>	London (UK)
June	<i>ICCO 121<sup>st</sup> Executive Committee</i>	London (UK)
September	<i>ICCO 70<sup>th</sup> Regular Council and Subsidiary Bodies</i>	London (UK)

## ICCO Publications

During the 2003/2004 cocoa year the following ICCO titles were published:

**Quarterly Bulletin of Cocoa Statistics**

*Volume XXX No.'s 1-4*

**World Cocoa Directory 2004-2005**

**The 2002/2003 Annual Report**

## Administrative Budget and Accounts for 2003/2004

At its sixty-eighth regular session held in September 2003, the Council approved the administrative budget for the 2003/2004 cocoa year (see **Annex III**).

Total expenditure of £1.88m ( 2.69m) was projected for 2003/2004. This was to be financed by Members' contributions of £1,727,360 ( 2,470,130), representing a contribution per vote of £863.68 ( 1,235.07), interest on the Special Reserve Fund, bank interest, sale of publications and other income. The expected result was a deficit of £68,695 ( 98,230).

Actual expenditure for the 2003/2004 cocoa year was £1.73m ( 2.48m). Members' contributions amounted to £1,758,319 ( 2,514,386). This resulted in income exceeding expenditure by approximately £132,000 ( 190,000), after including interest earned, the sale of publications and other income. The above amounts are stated after taking account of relocation expenses of approximately £124,000 ( 177,000), which were transferred from the Special Reserve Fund.

The net assets of the Organization amounted to £2.1m as at 30 September 2004 financed by £1.4m from the Special Reserve Fund and £0.7m from the Revenue Reserve Fund. The audited balance sheet as at 30 September 2004 and the audited income and expenditure amount for the year ended 30 September 2004 are shown in **Annex III** of this report.

## 2. THE WORLD COCOA MARKET

### 2003/2004 Cocoa Year

The 2003/04 cocoa year was characterized by a very rapid increase in the production of cocoa beans, reaching an all time record level of 3.5 million tons. The growth in production was concentrated in West Africa and in Ghana, in particular, where production increased at a spectacular rate for a second year in a row. Although cocoa bean grindings also increased at a robust rate, world stocks expanded by more than 250,000 tons to 1.4 million tons. As a result, cocoa bean prices in world markets declined by almost 25%.

### Production

In 2003/04, the global production of cocoa beans continued to rise for the fourth successive year, with output exceeding the record production levels of 2002/03 by almost ten per cent to reach 3.5 million tonnes. Much of the increase in world production resulted from production growth in Côte d'Ivoire and Ghana. Output in Côte d'Ivoire has defied fears of declines and instead recorded a substantial increase to reach 1.4 million tonnes, despite two years of political and social unrest in the country. Production in Ghana increased even faster. Higher farm gate prices, combined with effective government-backed mass spraying of crops contributed to a substantial increase in yields, thus propelling Ghana's production to rise by a staggering 48% to a record output of 736 000 tonnes in 2003/04. Latest export data indicate that cocoa output in Ecuador had surged by 16% in 2003/2004. On the other hand, Witches' Broom disease and unfavourable climatic conditions retarded production growth in Brazil. The pod borer disease, affecting 850,000 hectares of cocoa farms, and drought in the growing areas of Indonesia reduced the effectiveness of widespread application of inputs.

Production of cocoa beans (thousand tonnes)						
	1999/00		2001/02		2003/04	
<b>Africa</b>	<b>2156</b>	<b>70.1%</b>	<b>1952</b>	<b>68.3%</b>	<b>2500</b>	<b>72.4%</b>
Cameroon	115		131		145	
Côte d'Ivoire	1404		1265		1405	
Ghana	437		341		736	
Nigeria	165		185		175	
Others	2121		1922		2461	
<b>America</b>	<b>389</b>	<b>12.6%</b>	<b>370</b>	<b>12.9%</b>	<b>438</b>	<b>12.7%</b>
Brazil	124		124		164	
Others	265		246		274	
<b>Asia &amp; Oceania</b>	<b>532</b>	<b>17.3%</b>	<b>539</b>	<b>18.8%</b>	<b>514</b>	<b>14.9%</b>
Indonesia	422		455		415	
Malaysia	45		25		35	
Others	65		59		64	
<b>World total</b>	<b>3077</b>		<b>2861</b>		<b>3452</b>	

Source: ICCO Quarterly Bulletin of Cocoa Statistics. Vol. XXX No. 4. Cocoa year 2003/04

## Consumption and Stocks

World grindings of cocoa beans (a proxy for global consumption) for the 2003/04 cocoa year were at an all time high of 3.2 million tonnes, compared with 3.1 million tonnes in 2002/03. Europe remained the largest cocoa-processing region, although its share in world grindings declined somewhat, from 45% in 1999/00 to 43% in 2003/04. America's share declined from 29% in 1999/00 to 26% in 2003/04.

Grindings in Asia and Oceania recorded the largest share increase, resulting in a gain from 13% to 17% over the same period. The share of the African region increased moderately, from 12% to 14%. Between 1993/94 and 2001/02, global cocoa demand tended to exceed supply, with production deficits occurring in seven out of ten years.

Consequently, world stocks of cocoa beans declined from 1.4 million tonnes in 1993/94 to 1.1 million tonnes in 2001/02. As a result, the world stocks-to-grindings ratio declined over the period from 57% to 39%. However, developments in the past two years have been in complete contrast. Surplus production has caused world stocks to rise again to 1.4 million tonnes increasing the stocks-to-grindings ratio to almost 45% in 2003/04.

**Stocks of cocoa beans are mainly held in port warehouses near the main-processing centres in Europe and North America.**

Grindings of cocoa beans (thousand tonnes)						
	1999/00		2001/02		2003/04	
<b>Europe</b>	<b>1336</b>	<b>45.1%</b>	<b>1282</b>	<b>44.6%</b>	<b>1360</b>	<b>42.8%</b>
Germany	215		195		225	
Netherlands	436		418		445	
Others	685		669		690	
<b>Africa</b>	<b>368</b>	<b>12.4%</b>	<b>422</b>	<b>14.7%</b>	<b>455</b>	<b>14.3%</b>
Côte d'Ivoire	235		290		305	
Others	133		132		150	
<b>America</b>	<b>852</b>	<b>28.8%</b>	<b>758</b>	<b>26.3%</b>	<b>822</b>	<b>25.9%</b>
Brazil	202		173		202	
United States	448		403		410	
Others	202		182		210	
<b>Asia &amp; Oceania</b>	<b>404</b>	<b>13.7%</b>	<b>413</b>	<b>14.4%</b>	<b>540</b>	<b>17.0%</b>
Indonesia	92		105		120	
Malaysia	115		105		180	
Others	197		203		240	
<b>World total</b>	<b>2960</b>		<b>2875</b>		<b>3177</b>	
<b>Origin</b>	<b>951</b>	<b>32.1%</b>	<b>960</b>	<b>33.4%</b>	<b>1134</b>	<b>35.7%</b>

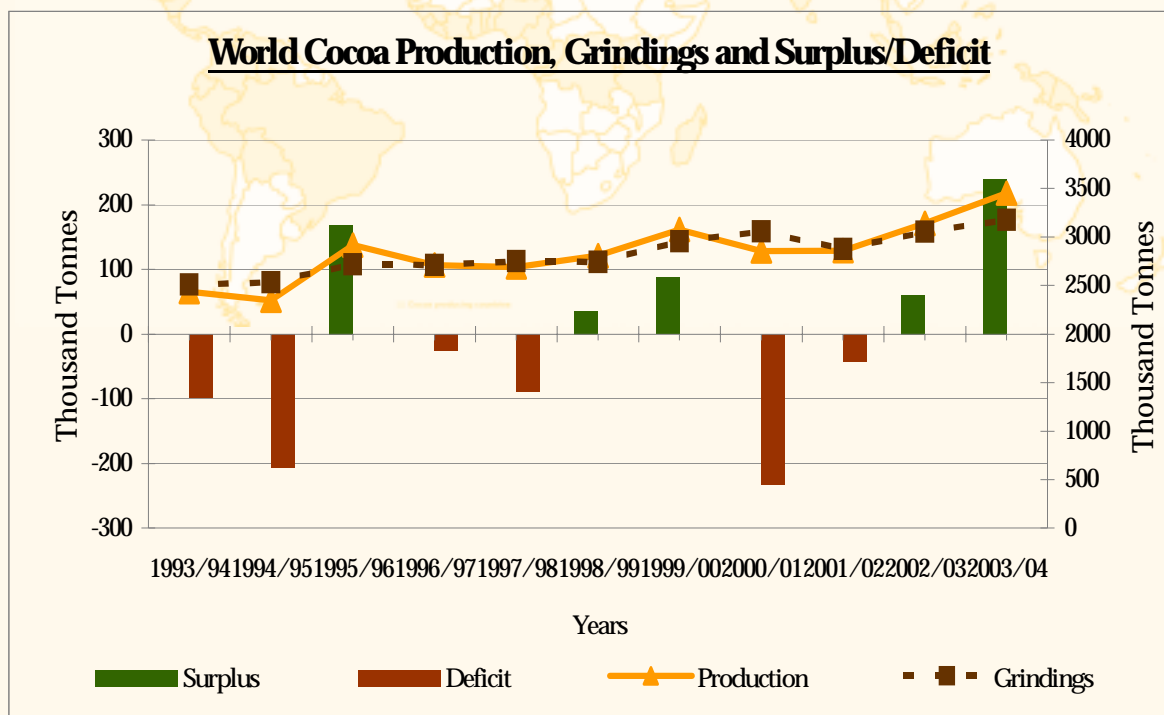
Source: ICCO Quarterly Bulletin of Cocoa Statistics. Vol. XXX No. 4. Cocoa year 2003/04

## Processing

Cocoa processing continues to be undertaken predominantly in Europe and North America with the Netherlands and the United States as the world's two leading cocoa processing countries.

However, there has been a steady increase in origin grindings in recent years with its share of total world grindings increasing from 32% in 1999/2000 to almost 36% in 2003/04. This has partly resulted from government policies geared towards exporting value-added semi-finished products rather than raw cocoa beans, triggering substantial investments in cocoa processing capacity at origin by multinational companies.

As a result, Côte d'Ivoire, the world's largest cocoa producer, has replaced Germany as the world's third largest processing country since 1998/99.

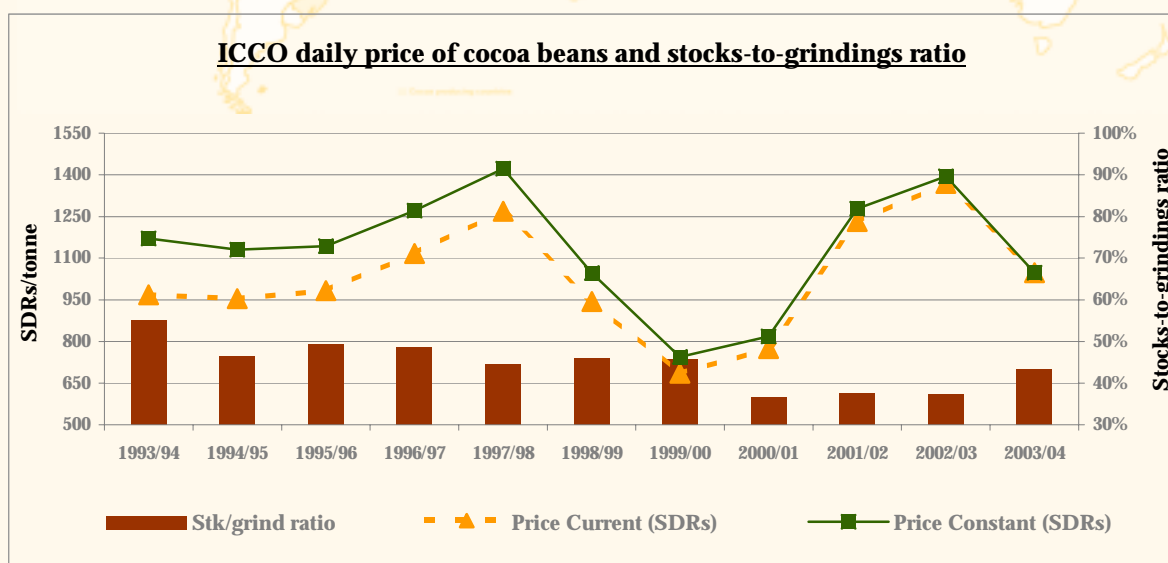


Source: ICCO.



## Prices

World cocoa bean prices have tended to exhibit an inverse relationship with changes in world stocks of cocoa beans. A sharp reduction in stocks in 2000/01, implying a decline of the stock-to-grindings ratio from 47% to 38%, led to an increase of 13% in world cocoa bean prices. Subsequently, the annual average of the ICCO daily price increased by almost 60% in 2001/02 and by more than ten per cent in 2002/03, as the stocks-to-grindings ratio remained below 40%. The rise in prices in late 2002 was partly attributed to political and social unrest in Côte d'Ivoire, which followed a failed coup attempt in September 2002. Prices hit a 17-year high of more than SDR 1,800 in October 2002, in the immediate aftermath of the coup attempt. However, the widely anticipated disruption to cocoa production and supplies to world markets, as a result of the socio-political situation in Côte d'Ivoire did not materialize during the 2002/03 season. For that reason, its impact on world prices was more limited in 2003/04. The successive surpluses in production over grindings in the last two seasons have resulted in a reduction of the average ICCO daily price from almost SDR 1,400 to just over SDR 1,000.



Source: ICCO.

### 3. ICCO AND THE WORLD COCOA ECONOMY

In 2003/04, the focus of attention in the world cocoa economy was on “sustainable cocoa production”. This related mainly to aspects of economic and environmental sustainability; to “remunerative prices for cocoa farmers”, which are at the core of economic sustainability; to issues of “food safety”, and to emerging new preoccupations with “health and nutritional aspects of cocoa and chocolate consumption”. The ICCO, located at the centre of the world cocoa economy, has been active in all these areas.

#### Global Co-ordination Group On Sustainable Cocoa Economy

As an expression of its commitment to “sustainability”, the ICCO has functioned since 2001 as the secretariat of the Global Co-ordination Group, which operates as a co-ordination mechanism for a more sustainable world cocoa economy. Membership of the Group is drawn from across the stakeholders in the cocoa sector, from agricultural research institutes to representatives of farmers’ groups. The Group performed many important activities during the 2003/04 cocoa year. In October 2003, during its meeting in Accra, the Group presented a global programme on sustainable cocoa economy to the donor community. The programme focused its priorities on cocoa research and development activities and on the major concerns and interests of cocoa farmers.

At its meeting in March 2004 in London, the Group noted a request from the **World Cocoa Foundation** (WCF) and agreed to support the WCF in an advisory capacity, as required. The Group concentrated, however, on its main task of co-ordination and exchange of information by reviewing completed projects and ongoing activities geared towards a sustainable world economy from representatives of the institutions participating in the Group.

The **World Cocoa Foundation** was established in the year 2000 by cocoa using industries to promote and coordinate sustainable cocoa community development.



## Sustainable Cocoa Production

As the International Commodity Body for cocoa recognized by the Common Fund for Commodities, the ICCO has, in co-operation with and support from other institutions and the private sector, actively supported a number of projects aimed at promoting a sustainable cocoa economy.

On the production side, work was completed in 2004 on the project on “**Cocoa Germplasm Utilization and Conservation: A Global Approach**”. The project was implemented by the International Plant Genetic Resources Institute (IPGRI) under ICCO supervision, in association with 12 research institutes covering all cocoa regions in the world. The project aimed at a more sustainable production of cocoa at lower costs by making optimal use of cocoa germplasm through the selection and breeding of improved cocoa genotypes for resistance to some of the major diseases and pests which have mired cocoa production. After very successful implementation during a period of six years, the Project was officially brought to a close during a workshop held at Reading University in the United Kingdom in March 2004. The workshop was attended by 90 participants including scientists from all over the world and representatives from the private sector and international organizations.

**The germplasm project aims at improving productivity and sustainability of cocoa through selection and utilization of high quality, high yielding disease resistant cocoa genotypes.**

The completion of the Germplasm project ushered in its successor project: “**Cocoa Productivity and Quality Improvement: A Participatory Approach**”. Officially launched on 1 April 2004, the Project aims to contribute to the welfare of the large number of smallholders cultivating cocoa through higher and sustainable productivity levels of good quality cocoa at lower production costs. Whilst continuing some work on breeding improved varieties, the Project will concentrate efforts on testing (in farmers’ fields) and dissemination of improved planting material to farmers. The Project has been implemented in ten cocoa producing countries in Asia, Africa and Latin America and has a total budget of US\$10.6 million, out of which about one third is being financed by the Common Fund for Commodities. The private sector and the participating institutes are other major contributors of co-financing and counterpart funding.

Another major project to improve planting material is the project on “**The Use of Molecular Biology Techniques in a Search for Varieties Resistant to Witches’ Broom Disease of Cocoa**”. This project,

## Sustainable Cocoa Production (Continued)

developed to fight the Witches' Broom disease, which threatened to wipe out cocoa production in Brazil, has successfully been implemented by the *Comissão Executiva do Plano da Lavoura Cacaueira* (CEPLAC) of Brazil. The Project, called the "Witches' Broom project" aims at developing and releasing new cocoa plant varieties which are more uniform, productive and tolerant to diseases, particularly to Witches' Broom. The breeding programme, utilizing biotechnology, is being developed in collaboration with institutes in Ecuador and Peru. Begun in April 2000, the Project is currently in its fifth and final year of implementation. A mid-term evaluation, carried out by a representative of the Common Fund for Commodities and an independent consultant in May 2003 indicated that progress towards the completion of the proposed project objectives has been excellent. The Project has made a substantial contribution to maintaining cocoa production in the Bahia region of Brazil.

The Project on the "**Study of the Chemical, Physical and Organoleptic Parameters to Establish the Difference between Fine and Bulk Cocoa**" is an activity of a completely different nature to achieve sustainability of the highest quality cocoas in the world. This project was developed by the *Instituto Nacional de Investigaciones Agropecuarias* (INIAP) of Ecuador and involves Ecuador, Papua New Guinea, Trinidad and Tobago and Venezuela. The objective of the project is to develop the capacity for all involved in production and trade of cocoa to differentiate adequately between fine and bulk cocoa, thus improving the marketing position of fine or flavour cocoa.

Since its inception in February 2001, the project has investigated several chemical compounds including the physical analysis of cocoa to provide a distinguishing factor between **fine and bulk cocoa**. The project has also provided training on various aspects of chemical analysis for a number of post-graduate students. In Ecuador and Venezuela, laboratories have been provided with state-of-the-art equipment and a pool of data has been collected on the various cocoa clones available in the countries. The project has also created awareness among farmers of the need to maintain good post-harvesting practices in order to protect the reputation of fine or flavour cocoa originating from their countries.

**Witches' Broom Disease** or *crinipellis pernicioso* is a fungal disease which has been devastating cocoa pods in Bahia and some other cocoa growing areas in South America. The pathogen causes a hypertrophic growth of buds to give the characteristics "witches" broom.

**CEPLAC** is an organization which is responsible for the economic wellbeing of the cocoa zone in Brazil. It aims to promote competitiveness and sustainability of the agricultural industry and the development of the cocoa growing regions.


The market distinguishes two major categories of cocoa beans: **bulk** or ordinary cocoa coming from forastero trees and giving a good strong chocolate flavour and **fine cocoa** produced from criollo or trinitario trees.

## Sustainable Cocoa Production (Continued)

A number of problems caused the project to overrun its scheduled completion date of January 2004. These problems related to the standardization of methodologies in addition to the lack of some specific equipment, insufficient expertise on certain technical processes, inadequate communication flows and in some cases, a shortage of funds. These problems were confirmed by a midterm evaluation by a representative of the Common Fund for Commodities (CFC) and an independent consultant in May 2003. The ICCO endorsed a request for a one-year extension by INIAP and forwarded the request to the CFC for review and approval. The CFC approved the request for the project to be completed by January 2005.

Following an ICCO review mission in May 2004, a meeting was held in early June 2004 in Merida (Venezuela). The meeting was attended by the project co-ordinators and researchers from Venezuela, Trinidad and Tobago and Ecuador, a representative of the Guittard Chocolate Company, representatives from stakeholders in the cocoa sector of Venezuela, growers and exporters and a NIRS specialist from the University of Los Andes. The meeting took stock of progress achieved in the different countries and agreed on recommendations to take the project forward. It was also recognized that it might be necessary to request another extension of the project to achieve a satisfactory outcome.

Another initiative aimed at balancing the equation towards a sustainable cocoa economy is the “**Pilot Project to Process Cocoa By-Products in Ghana**”. Implemented by the Cocoa Research Institute of Ghana (CRIG), the project was partly funded by the Common Fund for Commodities (CFC) and by the Government of Ghana through the Ghana Cocoa Board. The project aimed to develop technology for the commercial processing of cocoa by-products and cocoa wastes, which would otherwise be discarded, with a view to expanding the income-generating capacity of the industry in cocoa-producing countries. Work on the technologies for the processing of cocoa by-products and a feasibility study on the commercial viability of the project were completed in 2002/03 and an international workshop was held in Ghana in July 2003 to review and discuss the results of the project. The final technical report of the workshop was completed in March 2004.



**Cocoa by-products** consists of the cocoa pod husks, sweatings (the muscillage surrounding the cocoa beans) and subgrade cocoa beans.

## Sustainable Cocoa Production (Continued)

One of the most significant activities of ICCO in the achievement of a truly sustainable world cocoa economy has been the development and implementation on a trial basis of a “**Total Quality Project**”. The development of this project originated, some years ago, from the idea to improve the physical quality of cocoa to ensure better prices for farmers and sufficient supplies of cocoa beans of so called **liquor quality** to maintain and enhance the quality of cocoa produced in the world. So far, studies and pilot operations have been limited to Côte d’Ivoire, starting with a field study on factors determining the physical quality of cocoa beans, followed by training of farmers and staff of co-operatives in producing and maintaining cocoa beans of high quality.

The most important evolution in the project has been the movement from attention to the purely physical quality of the cocoa beans towards a concept of “**total quality**”. The concept of “total quality” was developed by the Task Force for the project, and encompasses in addition to physical quality, aspects of food safety, and ethical and environmental considerations. The common denominator of these aspects of total quality is that, to ensure that established norms or criteria are being maintained, all cocoa has to be traceable to the farming community from which it originates. In this way, “traceability” has become the central pre-occupation of the project.

To achieve this, the project has initiated a simple, but effective trading system, whereby exporters buy direct from farmers through co-operatives. When the cocoa collected from a farmer meets the set quality criteria, it is put into export bags at the level of the co-operative, marked and sealed. The integrity of the cocoa is maintained up to the point of export, as blending of cocoa is no longer possible. Conditioning of the cocoa is not necessary, as the farmer himself delivers the cocoa against the required quality standard. The farmer and the co-operative share a Project Participation Incentive (PPI) to remunerate them for their efforts. Pilot trade operations to test this system have been implemented successfully in Côte d’Ivoire. A full project proposal will be developed to extend the system in Côte d’Ivoire and to introduce it to other interested countries.

Cocoa beans of **liquor quality** are beans from which cocoa liquor can be produced, which has the required aroma and taste to meet the quality requirement of the manufacturer.



## Remunerative Prices for Cocoa Farmers

Remunerative prices for cocoa farmers are at the core of “economic sustainability” of the world cocoa economy. With wide fluctuations in cocoa prices, there are times when prices are no longer sufficiently attractive to farmers to plant new cocoa trees and to properly maintain their cocoa farms. Whenever that occurs, cocoa production is no longer economically sustainable, until prices have increased.

Over the past decades, cocoa prices in real terms (corrected for inflation) have followed an almost continuously declining trend. In the 2003/04 cocoa year, real prices were less than half of what they were in 1970/71. In this situation and against this background, the Executive Committee of the ICCO decided in the middle of 2004 to conduct a full review of the possible measures to maintain remunerative prices for cocoa farmers. In its review towards the end of the cocoa year, the Committee distinguished between possible measures to generate improvement in prices on the production side and on the consumption side of the market. The main categories of action identified on the production side of the market were **Market Transparency** and **Information** (including the provision of statistics, market information and access to price risk management), Modification of the price signal for farmers (comprising variable taxes and levies) and Government-supported production programmes. The main options for action identified on the consumption side of the market were Market Transparency (including assessment of factors affecting consumption), Tariffs and Taxes, and Use of Substitutes. Following this review, the Council decided to make “Remunerative Prices” one of the main priority areas in the work plan of the ICCO for 2004/2005.

Activities to improve **Market Transparency** have been an important part of the mandate of the ICCO for more than thirty years. Without a fully transparent market, the market participants cannot take the best decisions to produce, buy or sell cocoa. The market can only function efficiently and effectively when all participants have the same full knowledge of developments in the market.

The ICCO has for many years collected, processed and published statistics on cocoa and cocoa semi-products. The ICCO Quarterly Bulletin of Cocoa Statistics is the most comprehensive publication in the world on the production, consumption, trade,

**A remunerative price** is a price which gives a reasonable return to the farmer. Also a price which is a sufficient incentive to maintain cocoa farms in good condition.

**Market Transparency** exists in a situation where cocoa farmers and market operators are fully informed of the market situation and prospects to help them make appropriate decisions.

**Market Information** provides a general awareness of prices on the domestic and international markets and of the margins between them so that the farmers can understand their counterparty's offer and to know when the offer price is reasonable.

## Remunerative Prices for Cocoa Farmers (Continued)

processing and prices of cocoa. The ICCO secretariat also conducts regular short-term and long-term analyses of market developments and studies on forecasts of trends in world production, consumption, stocks and prices.

The International Cocoa Agreement, 2001, has further extended the mandate of the Organization to improve and promote market transparency. This relates to statistics on fine or flavour cocoa and information on cocoa stocks in addition to other issues. The ICCO Expert Working Group on Stocks has been very active in this area, supporting the secretariat in its highly successful annual survey on warehouse stocks of cocoa beans. The Working Group has also taken the initiative to seek to collect stocks on cocoa semi-products (butter, powder and liquor).

In the beginning of the 2003/04 cocoa year, the Executive Committee reviewed a document on market transparency to maintain remunerative cocoa prices. In the meantime, that subject area was also incorporated in the Work Programme of the Consultative Board on the World Cocoa Economy. The innovative approach that is being explored by the ICCO in this area is to consider giving farmers access to intra-seasonal and long-term price prospects to guide the production and investment decisions of farmers. This could, if successful, help in preventing cocoa prices from moving cyclically to low non-remunerative levels.

Access to Price Risk Management instruments is one of the possible tools to improve the income position of farmers, assisting them in their production decisions and thus enhancing the sustainability of cocoa farming. Since the liberalization of cocoa marketing in West Africa in the eighties and nineties, cocoa farmers all over the world are directly exposed to short-term and long-term fluctuations in the world cocoa market. The liberalization process had triggered renewed interest in price risk management for primary commodities and the World Bank has paid considerable attention to options and possibilities in this connection.

## Remunerative Prices for Cocoa Farmers (Continued)

In the late nineties, the ICCO developed a project proposal to test possible instruments in three countries in West Africa: Cameroon, Côte d'Ivoire and Nigeria. In the proposal, it was recognized that price risk management instruments cannot protect farmers from long-term price declines in world cocoa prices. However, price risk management can – at a cost - give farmers a guaranteed price over a period of six months, for example, while the farmer can still benefit from upward movements in price developments in the market. It would provide the farmer with information on the minimum price that he would receive for his cocoa at harvest time, assisting him in making a timely decision on the use of labour and other inputs. Hence the production decisions of cocoa farmers would be facilitated, thereby stabilizing their income to a certain degree.

The project was approved for financing by the Common Fund for Commodities in the middle of the year 2000. Since then implementation of the Project has been delayed arising from difficulties in finding a Project Executing Agency (PEA) and also because the institutional and legal infrastructure in the countries concerned is not conducive to price risk management operations. Recently, the Common Fund for Commodities decided to resume its work on market-based price risk management in cocoa, coffee and cotton in selected African countries. The World Bank will probably become the implementing agency for coffee and cotton, while ICCO will take the lead on cocoa. In early 2005, consultations began between ICCO and the Common Fund for Commodities to reformulate the project proposal and to identify a suitable PEA for the project.

**Price Risk Management** for small cocoa farmers is a tool designed to reduce their exposure to risk arising from fluctuations in world cocoa markets, thus securing more certain incomes for farmers from cocoa growing.

## Food Safety Concerns

Consumers are becoming increasingly conscious of the safety of the food they eat. Safety concerns arise from the production, processing and handling of food with certain chemicals and procedures that may be injurious to human health. The food safety concerns that affect cocoa are related to the issues of jute bags used in the packaging of cocoa beans, ochratoxins (OTAs) in cocoa and pesticide residues. The ICCO takes the issues of food safety very seriously and has been working in co-operation with the cocoa trade and industry to follow up and monitor certain legislation on food safety concerns. The Expert Working Group on Quality co-ordinates its policies with these issues in mind to ensure that cocoa is produced, transported and processed to meet the food safety concerns of consumers.

With regard to **Ochratoxin A** (OTA) in cocoa, ICCO and CAOBISCO are working together to achieve a better understanding of the causes and origin of OTA in cocoa. In June 2004, during the meeting of the Expert Working Group on Quality, it was reported that a study funded by the European Cocoa Association, CAOBISCO and the Common Fund for Commodities and conducted by CIRAD in France had established a relationship between OTA and damaged pods. The study also showed that climatic conditions and the mode of fermentation influence the levels of OTA. Samples taken in the ICCO Cocoa Quality Improvement project have been analysed for the presence of OTA by the manufacturers concerned.

The International Cocoa Council adopted a resolution in March 1998 on an **International Standard Specification for jute bags** in the export of cocoa beans. The ICCO has been constantly monitoring the implementation of the resolution to ensure that manufacturers of jute bags and exporters of cocoa beans use jute bags that conform to the international standard specifications. In the middle of 2004, the Expert Working Group on Quality noted that considerable progress had been made in the implementation of the resolution. It was also observed, however, that some problems of compliance persisted. An *ad hoc* Working Group on Jute Bags was established to take stock of outstanding issues and to arrange for remedial measures.

**OTA, Ochratoxin** is a fungal toxin which is present in cereals and many other agricultural commodities, including cocoa.

In March 1998, the International Cocoa Council adopted the following International Standard Specifications for jute bags used in the packing of cocoa beans:

**Analytical:** ingredients used as batching oils shall be non-toxic and shall not contain compounds that could produce off-flavours in food materials packed in jute bags.

**Chemical:** Amount of unsaponifiable compounds shall be less than 1250 mg/kg. The recommended methods shall follow British Standard 3845:1990.

**Organoleptic:** No undesirable odours or untypical of jute shall be present or shall develop after artificial ageing of bags. The ageing procedure to be followed shall be the one described in European Standard EN 767 on sacks for the transport of food aid.



## Food Safety Concern (Continued)

During the 2003/2004 cocoa year, CAOBISCO and ICCO discussed with the United Kingdom Pesticide Safety Directorate the pending EU regulation to set **maximum residue levels** for **pesticides** used in a range of foodstuffs including cocoa. CAOBISCO had requested more time to be given before cocoa is included in the list of products to allow for the proper establishment of maximum residue levels (MRLs) in cocoa. CAOBISCO and ICCO believe that any hasty decision regarding cocoa could cause disruptions to supply and trade before a tolerable MRL is established for cocoa. It should be noted that the issue of maximum residue levels in foodstuffs is more related to appropriate farming systems than to direct concern over residue levels for food safety reasons.

**Maximum Residue Levels, (MRLs),** reflect maximum levels of pesticides allowed in food products.

## Cocoa, Health and Nutrition

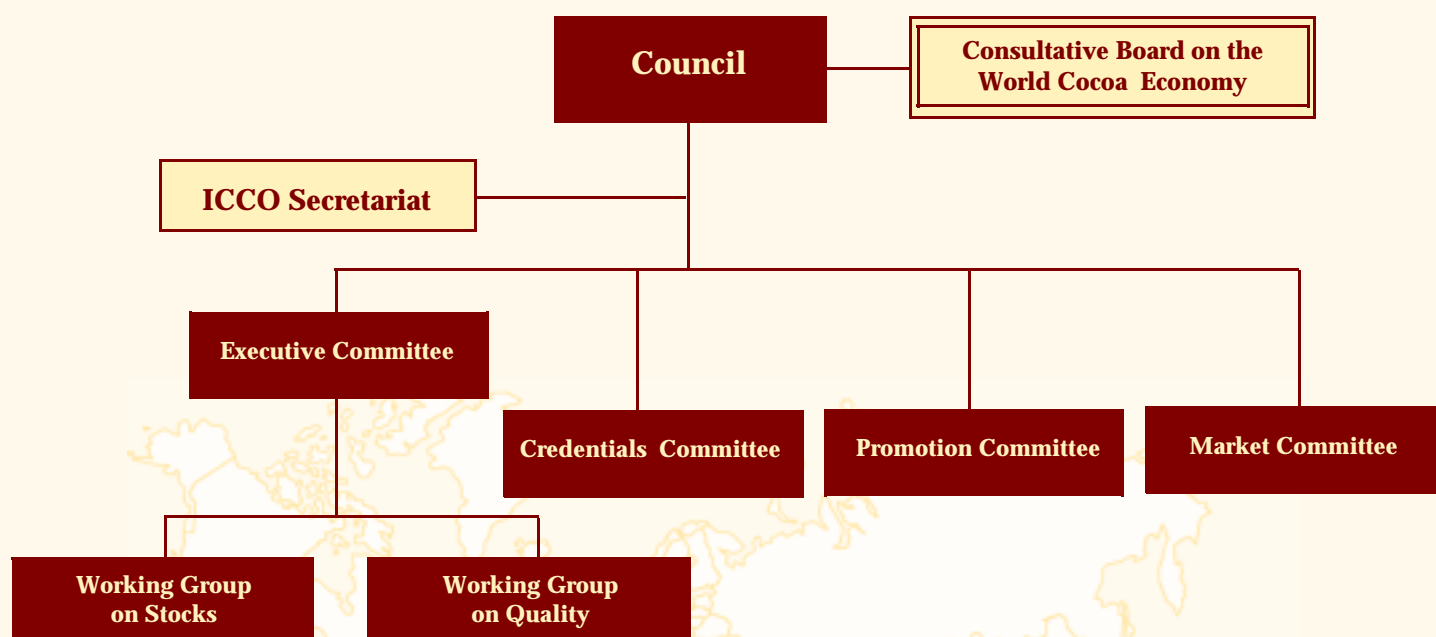
Health and nutritional concerns have started to play a more prominent role in ensuring the continued expansion of cocoa consumption. Consumers in Japan have always been very health conscious. For that reason, health and nutritional aspects of cocoa and chocolate consumption were the main theme of the ICCO project on the Generic Promotion of Cocoa and Chocolate Consumption in Japan. This very successful campaign, implemented by the Japanese chocolate industry had a lasting positive impact on chocolate consumption in the country. Presently, preparations are underway for a similar campaign in the Russian Federation, where the industry has decided to give centre stage to health and nutritional aspects of chocolate consumption.

In the meantime, many consumers, particularly in markets with relatively high levels of per capita incomes, have become more health conscious. At the same time the phenomenon of obesity has become more widespread, both among adults and children. These developments have given renewed emphasis to the mandate of ICCO in the area of consumption promotion, which was strengthened in the International Cocoa Agreement, 2001. As a result, the Organization has installed a Committee for Promotion of Cocoa Consumption in 2004 and is in the process of establishing a Consumption Promotion Fund. At the request of the Committee, the secretariat is currently making an inventory of both the positive and the negative health properties of cocoa and chocolate.



# ANNEX I

## 1. Organizational Structure (as at 30 September 2004)



### Council

Chairman: Mr. Wolfgang Hässel (Germany)  
 First Vice-Chairman: Mr. Antonio Lopez-Villares (Spain)  
 Second Vice-Chairman: Mr. Ashley Delgado (Ecuador)  
 Open to all Members

### Credentials Committee

Chairman: Mr. Brendan Nevin (Ireland)  
*Exporting Members:* Cameroon, Côte d'Ivoire, Ecuador, Ghana  
*Importing Members:* Belgium/Luxembourg, Finland, France, Ireland

### Market Committee

Chairman: Mr. Tano Kassi Kadio (Côte d'Ivoire)  
 Vice-Chairman: Mr. Jim Howell (United Kingdom)  
 Open to all Members

### Promotion Committee

Chairman: Mr. Steve Wateridge (United Kingdom)  
 Vice-Chairman: Mr. Hayford A.K.Fiamor (Ghana)  
 Open to all Members

### Expert Working Group on Stocks

Chairman: Mr. Philip Sigley (Federation of Cocoa Commerce)  
 Invited Experts, open to all Members

### Expert Working Group on Quality

Chairman: Dr. Tom Harrison (United Kingdom)  
 Invited Experts, open to all Members

### Executive Committee

Chairman: Mr. Simon Pierre Essomba Abanda (Cameroon)  
 Vice-Chairman: Mr. Idelfonso Medina (Dominican Republic)  
*Exporting Members:* Brazil, Cameroon, Côte d'Ivoire, Dominican Republic, Ecuador, Gabon, Ghana, Malaysia, Nigeria, Papua New Guinea  
*Importing Members:* Belgium/Luxembourg, European Commission, France, Germany, Italy, Netherlands, Russian Federation, Spain, Switzerland, United Kingdom.

### Consultative Board on the World Cocoa Economy

Chairman: Mr. Tony Lass (BCCCA)  
 Vice-Chairman: Mr. Idelfonso Medina (Dominican Republic)  
*Members:* Mr. Sam Appah (Ghana), Dr. Ismail Azhar (Malaysia), Mr. Antonio Feola (Italy), Mr. Martin Gilmour (CAOBISCO), Mr. Humberto Heredia (Ecuador), Mr. Halim Iyama (Nigeria), Dr. Karsten Keunecke (Germany), Mr. Jacques Mangoua (Côte d'Ivoire), Mrs. Ursula Mathis (Switzerland), Mr. Jean-Marc Oyono (Cameroon), Mr. Philip Sigley (United Kingdom), Mr. Robert Zehnder (Belgium)  
*Alternate Members:* Mr. Marc Daubrey (Côte d'Ivoire), Ms. Ana Gabrielian (CAOBISCO), Dr. Tom Harrison (United Kingdom), Mr. Fiamor Hayford (Ghana), Mr. Joseph Ingwatt II (Cameroon)  
 Open to all Members as observers

## ANNEX II

### 2. Secretariat of the International Cocoa Organization (as at 30 September 2004)



#### Office of the Executive Director:

Dr. Jan Vingerhoets  
Acting Executive Director/  
Head of Economics and Statistics Division

Miss Sarah Sharp  
Personal Assistant to the Executive Director

#### Economics and Statistics Division:

Secretary Economics and Statistics (*Vacant*)

#### Statistics and Market Review Section:

Mr. Laurent Pipitone, Head of Statistics Section  
Mrs. Veena Ramgulam, Statistician  
Mrs. Elizabeth Gyamfi, Associate Expert in Statistics\*  
Statistical Assistant (*Vacant*)

#### Economics and Development Section:

Mr. Frank Martinez, Econometrician  
Mr. Henning Terwey, Economist (temporary)  
Dr. Jean-Marc Anga, Project Manager  
Mr. Yunusa Abubakar, Project Monitoring Officer  
(Associate Expert)\*  
Mr. Victor Adjei, Senior Research Assistant

#### Administrative and Financial Services Division:

Mr. James Ryan, Acting Head of Division (temporary)

#### Personnel and General Services Section:

Miss Sophia Petros, Senior Administrative Assistant  
Mr. Lee Portelli, Senior Accounts Assistant (temporary)  
Mr. Gabby Owusu-Aninakwah, Registry Clerk  
Mr. Felipe Hurtado, Communications/  
Computer Assistant

#### Information and Conference Section:

Languages/ Conference Officer (*Vacant*)  
Miss Yolanda Mula Meneses, Information Officer  
Mr. Alan Banbury, Senior Conference Assistant/  
Machine Operator  
Mr. Shastri Persad Conference Assistant/  
Documents Clerk  
Miss Asanthika Nimanthi, Information Assistant (temporary)

\* Funded by the Government of the Netherlands

## ANNEX III

### 3. Administrative Account

#### Balance Sheet as at 30 September 2004 (Expressed in £ Sterling)

<b>CURRENT ASSETS</b>		<b>2003/2004</b>
Balance with bankers and cash in hand		2,056,308
Debtors		26,629
Prepaid Expenses		25,686
<b>Contributions to administrative budgets outstanding</b>		
1990/91 to 2001/2002 inclusive	295,082	
Year ended 30 September 2003	36,722	
Year ended 30 September 2004	26,015	
Provision for outstanding contributions	(180,685)	177,134
		2,285,757
<b>Less: CURRENT LIABILITIES</b>		
Creditors and provisions for accrued expenses	109,954	
Members' contributions paid in advance	1,083	
Provision for Installation and Termination Fund	24,540	
		135,577
<b>TOTAL NET ASSETS</b>		<b>2,150,180</b>
Represented by:		
<b>SPECIAL RESERVE FUND</b>		
Principal	2,500,000	
Contributions outstanding	(53,689)	
	2,446,311	
<b>Less: Transfer to Income and Expenditure Account</b>	1,018,392	
		1,427,919
<b>REVENUE RESERVE FUND</b>		
Liquid Funds	364,442	
Contributions in arrears	357,819	722,261
		2,150,180

## ANNEX III

### 3. Administrative Account

#### Income and Expenditure Account for the Year Ended 30 September 2004 (Expressed in £ Sterling)

	2003/2004	
Contributions assessed on Members		1,758,319
Interest earned – general funds	31,500	
Interest earned – special reserve	53,475	
		84,975
Subscriptions to Quarterly Bulletin of Cocoa Sta-		8,471
Other document sales		21,248
Other income		20,293
<b>TOTAL INCOME</b>		<b>1,893,306</b>
Transfer from Special Reserve Fund		123,526
Surplus/(Deficit) on Foreign Currency Ex-		(28,271)
		1,988,561
<b>Less:</b>		
<b>ADMINISTRATIVE EXPENDITURE</b>		<b>1,855,970</b>
<b>Balance carried to Revenue Reserve Fund</b>		<b>132,591</b>

## ANNEX IV

### 4. Relations with other institutions

ICCO, in its role within the international cocoa sector, has dealings with a large number of other organizations and companies. Many of these organizations assist ICCO in gathering timely and relevant information on the cocoa market. On its part, ICCO provides information and assistance to various public organizations and private sector companies.

Excluding Member countries, the following is a list of the main organizations and companies with which ICCO maintains regular relations:

#### GOVERNMENT AND INTERNATIONAL ORGANIZATIONS



African, Caribbean and Pacific Group of States  
Autorité de Régulation du Café et du Cacao  
Association of Chocolate, Biscuit and Confectionery Industries of the EU  
Biscuit, Cake, Chocolate and Confectionery Association  
Cocoa Merchants' Association of America  
Cocoa Producers' Alliance  
Common Fund for Commodities  
Commonwealth Secretariat  
European Cocoa Association  
European Commission  
Food and Agriculture Organization of the United Nations (FAO)  
Foreign & Commonwealth Office  
International Coffee Organization  
International Confectionery Association  
International Grains Council  
International Jute Study Group  
International Lead and Zinc Study Group  
International Maritime Organization  
International Monetary Fund  
International Plant Genetic Resources Institute  
International Rubber Study Group  
International Sugar Organization  
International Tropical Timber Organization  
United Nations Conference on Trade and Development  
United Nations (New York)  
Union Nationale Des Operateurs Café-Cacao  
World Bank Group  
World Cocoa Foundation

#### COCOA ORGANIZATIONS IN MEMBER COUNTRIES

ANECACAO  
Bourse du Cacao et Café (BCC)  
Associazione Industrie Dolciarie  
Bundesverband Der Deutschen Suswarenindustrie Ev  
Chocosuisse  
Cocoa Association of Nigeria  
Cocoa Board of Papua New Guinea  
Comision Nacional del Cacao  
Conseil Interprofessionnel du Cacao Café  
Fonds de Développement et de Promotion des Activités des Producteurs de Café et de Cacao  
Fonds de Garantie des Coopératives Café-Cacao  
Ghana Cocoa Board  
Malaysian Cocoa Board



## ANNEX IV

### 4. Relations with other institutions (Continued)

#### RESEARCH INSTITUTIONS

Centre de coopération Internationale en Recherche Agronomique pour le Développement (France)  
Centre National de Recherche Agronomique (Côte d'Ivoire)  
Cocoa Research Institute of Nigeria  
Cocoa Research Institute of Ghana  
Cocoa Research Unit (Trinidad)  
Comissão Executiva do Plano da Lavoura Cacaueira (Brazil)  
Institut de Recherche Agricole pour le Développement (Cameroon)  
Instituto Nacional Autonomo de Investigacion Agropecuaria (Ecuador)  
Instituto Nacional de Investigaciones Agrícolas (Venezuela)

#### PRIVATE SECTOR



Armajaro Trading Ltd  
Barry Callebaut Sourcing AG  
Cadbury Schweppes PLC  
Chocolates El Rey, C.A.  
Daarnhouwer & Co BV  
Ecom Agroindustrial Corp Ltd  
E D & F Man Cocoa Ltd.  
Ferrero Trading Lux SA  
Guittard Chocolate Company  
Kraft Foods Deutschland GmbH  
Lindt & Sprüngli (International) AG  
LMC International Ltd  
Masterfoods  
Mitsubishi Corporation (UK) Plc  
Nestec Ltd  
Noble Cocoa SA  
PCR Ltd  
Schlüter & Maack  
The Federation of Cocoa Commerce Ltd  
The London International Financial Futures and Options Exchange  
Thorntons Plc  
Toshoku Ltd  
Touton SA  
Walter Matter SA



## NOTES

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