

International Cocoa Organization

Annual Report

2005/2006

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The International Cocoa Organization (ICCO)
Commonwealth House, 1-19 New Oxford Street
London WC1A 1NU, United Kingdom
Tel: +44 (0)20 7400 5050
Fax: +44 (0)20 7421 5500
www.icco.org
info@icco.org

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1. MANDATE AND PRIORITIES OF THE 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 cocoa producing and cocoa consuming countries at conferences convened by the United Nations Conference on Trade and Development (UNCTAD), on behalf of the Secretary-General of the United Nations. In March 2001, the Sixth International Cocoa Agreement was concluded in Geneva, Switzerland, and came into force in October 2003. In November 2005 and, for the first time in the history of International Cocoa Agreements, the International Cocoa Agreement, 2001, came into force definitively.

The International Cocoa Agreement, 2001, entrusted the ICCO with an explicit mandate to achieve a “**sustainable world cocoa economy**”. For the ICCO, “sustainability” comprises dimensions of an economic, environmental and social nature, related to production and consumption of cocoa and chocolate. The concept thus encompasses all major areas of interest and concern in the world cocoa economy.

The International Cocoa Agreement, 2001, also established a Consultative Board on the World Cocoa Economy. The Board consists exclusively of experts from the private sector, coming in equal numbers from cocoa producing and cocoa consuming countries. The Board functions in an advisory capacity to the International Cocoa Council, the supreme governing body of the ICCO. The mandate of the Consultative Board is as broad as the mandate of the Council.

The three priority areas for implementation of the current International Cocoa Agreement are:

- **Cocoa prices, farmers’ incomes and export revenues.** This priority area comprises all activities related to policies, programmes and projects of direct and immediate relevance for cocoa prices, for cocoa farmer income and for the export revenues of the cocoa producing and exporting countries. This priority area refers to the “economic pillar” of a sustainable cocoa economy, aiming at increasing the income of cocoa farmers. This constitutes the major economic problem in the world cocoa economy.
- **Market Access, Market Information and Market Development.** This priority area comprises all activities to secure, facilitate and improve the capability of origin countries to reach the final consumers more efficiently, in order to derive maximum economic benefit from producing and exporting cocoa beans and cocoa products.

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 Agreement and oversees the operation of its subsidiary bodies. A detailed organizational chart is contained in **Annex I**.

As at 30 September 2006, the Council consisted of 13 producer/exporter Members and 27 consumer/importer Members.



Council and Subsidiary Bodies

During the 2005/06 cocoa year, the **International Cocoa Council** held two regular sessions. The Council was chaired by Mr. Brendan Nevin (Ireland). The spokesman for Producers was Mr. St.-Cyr Djikalou (Permanent Representative of Côte d'Ivoire to International Commodity Organizations, based in London, United Kingdom). The spokesman for Consumers was Mr. Hagen Streichert (Representative of the Federal Ministry of Consumer Protection, Food and Agriculture, based in Berlin, Germany).

In March 2006, the Government of Italy hosted the 73rd regular session of the International Cocoa Council and subsidiary bodies in Modica (Sicily). The Council thanked the Government of Italy for its generous hospitality and expressed its profound appreciation for the active participation of its officials at the highest level during the meetings. Delegates also had the opportunity to visit the Eurochocolate Fair in Modica.

In September 2006, the Council approved the revised Staff Regulations and Staff Rules of the Organization, which had been reviewed and recommended by the Committee appointed by the Council.

The **Executive Committee**, which deals mainly with financial and administrative matters, held four meetings during the 2005/06 cocoa year under the chairmanship of Mr. Askley Delgado (Ecuador). In September 2006, Mr. Bas Drukker, Administrator at the Directorate of Health and Consumer Protection of the European Commission, made a presentation on EU Regulation 396/2005 on Maximum Residue Levels (MRLs) for cocoa. The importance of food safety for the whole cocoa chain was emphasized. Although the regulation on MRLs had been adopted by the Council of the European Union, it would not be implemented until late 2007 or early 2008, allowing for a period of transition for the industry to adapt, as required. It was underlined that the whole cocoa chain needed to co-ordinate its efforts in dealing with the pesticide issue so as to safeguard the interests of all.

At the same meeting of the Executive Committee, Ms. Ersilia Moliterno, from the European Commission, presented the Evaluation of the Impact of Directive 2000/36/EC on the Economies of those Countries Producing Cocoa and Vegetable Fats other than Cocoa Butter and she presented results of the survey, which had been conducted among the original 15 European Union countries.

The **Consultative Board of the World Cocoa Economy** covered a large range of subjects during the 2005/06 cocoa year. The programme of the Consultative Board includes the whole cocoa value chain from cocoa consumption, processing of cocoa beans into intermediate cocoa products, marketing of cocoa beans, post-harvest treatment of cocoa beans and training, to cocoa farm establishment and cultivation.

During 2005/06, the Board held extensive discussions on ways to develop a model for improving sustainability of the world cocoa economy. The model includes data collection, reporting, implementation of activities and independent validation of progress. In September 2006, the Chairman of the Board reported extensively to the Council on a draft document containing a model to achieve sustainability of the world cocoa economy. The Council accepted the document as a starting point for discussions among sector stakeholders and agreed on the proposed next steps towards achieving a more sustainable world cocoa economy. The International Cocoa Council encouraged the Board to vigorously pursue its efforts to develop and implement the concept of a sustainable world cocoa economy.

During the year, the Board also completed the formulation of a project entitled "Analysis of the Cocoa Value Chain in Producing Countries". The project received the endorsement of the Council, and subsequently, approval for financing by the Common Fund.

The Consultative Board discussed a draft report on the subject of indirect taxes on cocoa and chocolate products and concluded that the Secretariat should continue with analytical work in this area.

The Board reviewed several drafts of a comprehensive study by the Secretariat on import duties on cocoa beans and cocoa semi-finished products in major markets. Following completion of the analysis, the Board formulated a recommendation to the Council. On this basis, the Council decided that the study and its conclusions should be brought to the attention of the World Trade Organization for possible action.

In March 2006, the Board drafted a Resolution on Market Information Systems (MIS), which was subsequently adopted by the Council at its 74th session in September 2006.

The main objective of the Market 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, cocoa substitutes, and global supply and demand of cocoa and cocoa products.

In October 2005, the Chairman of the Market Committee met with representatives from the cocoa consuming countries, who stressed the need to adopt a comprehensive, participatory approach in order to achieve sustainable cocoa consumption. Producing and consuming countries agreed that consumption forms an integral part of a sustainable world cocoa economy. They also agreed that growth in consumption over recent decades had been actively stimulated by the chocolate industry in consuming countries through successful adoption of new marketing strategies, research on consumer habits, advertising and promotion. The opening up of new markets through the expansion of the EU and the generally strong increases in purchasing power of industrialized countries, had also helped to sustain growth. On the production side, the cocoa producing countries of the Market Committee met in Accra in August 2005. The meeting identified some critical factors to assist in securing long-term equilibrium in supply and demand in the world cocoa market. These factors included the need for well-founded production policies and programmes in cocoa producing countries, based on systematic and comprehensive information on the cocoa resources in the countries. Finally, there was agreement on the necessity to further develop the cocoa market information systems in most cocoa producing countries.

The **Promotion Committee** was established under the International Cocoa Agreement, 2001. During 2005/06, the Committee extensively discussed the preparatory activities to organize an International Conference on the Health and Nutritional aspects of cocoa and chocolate. The Committee also adopted a document containing an inventory of the health and nutritional attributes of cocoa and chocolate. Following the generous example of Côte d'Ivoire, Ghana made a contribution to the Promotion Fund during the 2005/06 cocoa year. The preparations for the International Conference are being financed by the Promotion Fund.

With the active support of the Expert **Working Group on Stocks**, the Secretariat successfully conducted its sixth regular annual survey on European warehouse stocks of cocoa beans and published its regular assessment of world stocks of cocoa beans identified by location. The Expert Working Group - noting the persistent discrepancy between identified stocks and statistical stocks - established a Panel of Experts to formulate proposals to solve this problem. The Panel recommended to adopt the identified stocks at the end of the 2003/04 cocoa year as a new basis for the statistical stocks. This recommendation was first adopted by the Expert Working Group and subsequently by the Council. This revision was implemented for the first time in the Quarterly Bulletin of Cocoa Statistics, volume XXXII, number 4, cocoa year 2005/06, published in November 2006.

In the course of the year, the **Expert Working Group on Quality** developed a draft Programme on Supply Chain Management for Total Quality Cocoa. The origins of this Programme are successful pilot trade operations in Côte d'Ivoire under the "Total Quality Project". That project has been fully financed and implemented by the private sector, with strong support from a number of (semi-)public institutions in Côte d'Ivoire. The project evolved into an effective tool to improve the efficient and effective functioning of the marketing chain, while simultaneously enabling the achievement of producing and exporting cocoa, meeting "total quality" criteria. Supply chain management has become one of the priority areas established by the Common Fund for Commodities for the financing of projects.

Secretariat

The Secretariat of the ICCO is to assist the Council in the implementation of the objectives of the International Cocoa Agreement, 2001. As at 30 September 2006, the Secretariat consisted of thirteen Professional and Higher category staff members and seven General Service category staff members. During the year, three new staff members in the Professional and Higher category joined the Organization (see **Annex II**).

Administrative Budget and Accounts for 2005/06

At its 72nd regular session held in September 2005, the Council approved the Administrative budget for the 2005/2006 cocoa year (see **Annex III**).

Total expenditure of £1,983,040 was projected for 2005/2006, including £130,000 for relocation of the offices of the Organization. This was to be financed by Members' contributions of £1,747,040, representing a contribution per vote of £873.52 (2004/2005 £848.08), interest on the Special Reserve Fund, bank interest, sales of publications and other income, plus a withdrawal from revenue reserves to cover the costs of relocation.

Actual expenditure for the 2005/2006 cocoa year was £1,967,531, while total income, including the withdrawal from revenue reserves, amounted to £2,031,314, resulting in a surplus of £63,783.

The net assets of the Organization amounted to £2,237,493 as at 30 September 2006, financed by £1,434,810 from the Special Reserve Fund and £802,683 from the Revenue Reserve Fund. The audited balance sheet as at 30 September 2006 and the audited income and expenditure account for the year ended 30 September 2006 are shown in **Annex IV** of this report.

ICCO Publications

During the 2005/2006 cocoa year, the following ICCO titles were published:

Quarterly Bulletin of Cocoa Statistics, volume XXXII, issues I to IV.

The 2004/05 Annual Report



Major events in the 2005/06 Cocoa Calendar

The following is a list of major events that took place in the 2005/2006 cocoa year:

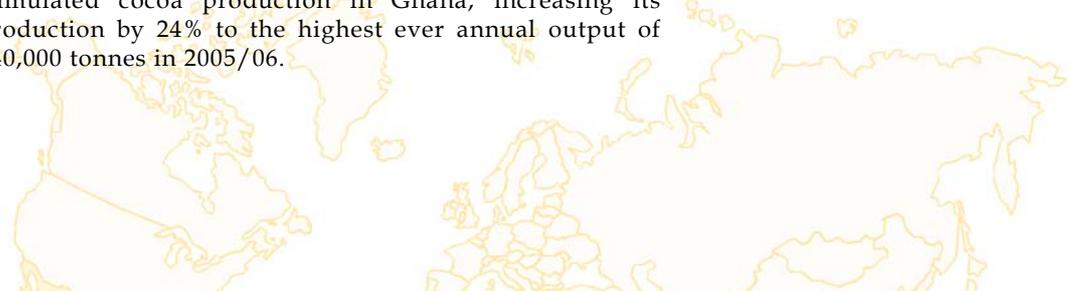
Major Events in the 2005/2006 Cocoa Year		
October 2005	<i>Eurochocolate Festival</i>	Perugia (Italy)
October 2005	<i>Salon du Chocolat</i>	Paris (France)
December 2005	<i>Consultative Board on the World Cocoa Economy (7th meeting)</i>	London (UK)
December 2005	<i>Meetings of the Executive Committee (127th meeting)</i> <i>Expert Working Group on stocks (14th meeting)</i> <i>Promotion Committee (5th meeting)</i>	London (UK)
January 2006	<i>Köln Confectionery Fair (Süßwarenmesse)</i>	Cologne (Germany)
March 2006	<i>Consultative Board on the World Cocoa Economy (8th meeting)</i>	Sicily (Italy)
March 2006	<i>Meetings of the International Cocoa Council (73rd regular session)</i> <i>Executive Committee (128th meeting)</i> <i>Expert Working Group on Quality (17th meeting)</i> <i>Market Committee (6th meeting)</i> <i>Promotion Committee (6th meeting)</i>	Sicily (Italy)
April 2006	<i>Chocoa Fair</i>	Brussels (Belgium)
May 2006	<i>“Days of Chocolate” Festival</i>	Moscow (Russia)
June 2006	<i>Consultative Board on the World Cocoa Economy (9th meeting)</i>	London (UK)
June 2006	<i>Meetings of the Executive Committee (129th meeting)</i> <i>Market Committee (7th meeting)</i> <i>Promotion Committee (7th meeting)</i>	London (UK)
July 2006	<i>Malaysian International Cocoa Conference</i>	Kuala Lumpur (Malaysia)
September 2006	<i>Third International Confectionery Fair on Chocolate and Sweets</i>	Shanghai (China)
September 2006	<i>Consultative Board on the World Cocoa Economy (10th meeting)</i>	London (UK)
September 2006	<i>Meetings of the International Cocoa Council (74nd regular session)</i> <i>Executive Committee (130th meeting)</i> <i>Market Committee (8th meeting)</i> <i>Promotion Committee (8th meeting)</i>	London (UK)

3. THE WORLD COCOA MARKET

Production

World production of cocoa beans increased in 2005/06 to an all-time high of 3.6 million tonnes, up by more than 6% from the 2004/05 cocoa season. Improved growing conditions boosted the output of Côte d'Ivoire and Ghana, which together accounted for almost 60% of global production.

Cocoa production in Côte d'Ivoire increased by 8% from the previous year to 1,390,000 tonnes in 2005/06, which is only slightly below the record 1,410,000 tonnes produced in 2003/04. Steady increases in farmgate prices and Government backed rehabilitation programmes have stimulated cocoa production in Ghana, increasing its production by 24% to the highest ever annual output of 740,000 tonnes in 2005/06.



Production of cocoa beans (thousand tonnes)										
	2001/02		2002/03		2003/04		2004/05		2005/06	
Africa	1952	68.1%	2231	70.4%	2550	72.1%	2379	70.3%	2577	71.8%
Cameroon	131		160		162		184		168	
Côte d'Ivoire	1265		1352		1407		1286		1387	
Ghana	341		497		737		599		741	
Nigeria	185		173		180		200		170	
Others	31		50		64		110		112	
America	377	13.2%	428	13.5%	462	13.1%	443	13.1%	447	12.4%
Brazil	124		163		163		171		162	
Ecuador	81		86		117		116		115	
Others	173		179		182		157		170	
Asia & Oceania	538	18.7%	510	16.1%	525	14.8%	560	16.6%	568	15.8%
Indonesia	455		410		430		460		470	
Malaysia	25		36		34		29		30	
Papua New Guinea	38		43		39		48		48	
Others	19		21		22		23		20	
World total	2867		3169		3537		3382		3592	

Notes : Totals may differ from sum of constituents due to rounding.
 Source: ICCO Quarterly Bulletin Cocoa Statistics. Volume XXXII. 2005/06.

Consumption

Cocoa consumption, as measured by grindings, increased from 2.9 million tonnes in 2001/02 to almost 3.5 million tonnes in 2005/06. Compared to the previous year, consumption increased by almost 4% in 2005/06. The increase resulted from new processing activities coming into operation in various countries. Processing continues to be undertaken predominantly in cocoa consuming countries. However, the share of processing by cocoa producing countries has continued to increase over the past few years

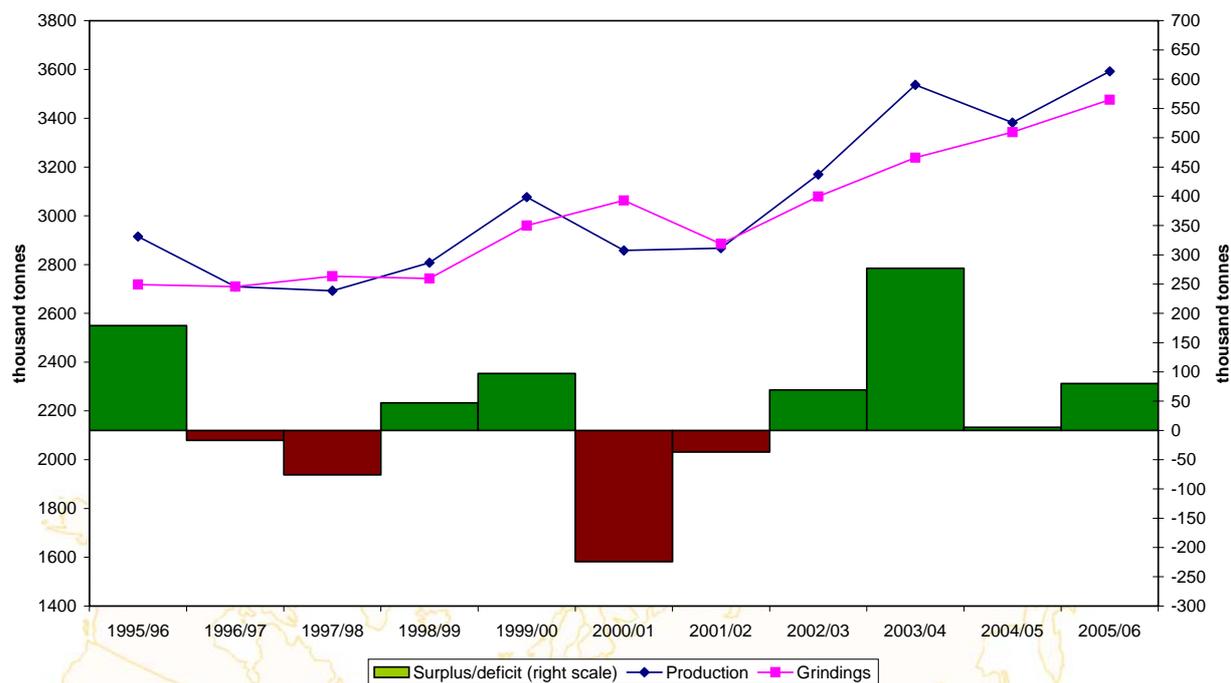
The share of Africa and Asia & Oceania in world grindings remained unchanged at 15% and 19% respectively in 2005/06 compared to the previous year. Europe slightly increased its share in world grindings from 41% in 2004/05 to 42% in 2005/06. By contrast, the share of the Americas in world grindings fell from 26% in 2004/05 to 25% in 2005/06. Grindings at origin were estimated at 1.3 million tonnes in 2005/06, representing an increase of 25,000 tonnes from 2004/05. Côte d'Ivoire and Malaysia remained the top processing countries among the cocoa producing countries and accounted for about 48% of origin grindings. Grindings in cocoa importing countries were estimated at 2.2 million tonnes. The Netherlands and the United States were the principal processing countries, each processing over 400,000 tonnes during the year.

Consumption / Grindings of cocoa beans (thousand tonnes)										
	2001/02		2002/03		2003/04		2004/05		2005/06	
Europe	1282	44.4%	1320	42.9%	1346	41.6%	1375	41.1%	1462	42.1%
Germany	195		193		225		235		302	
Netherlands	418		450		445		460		470	
Others	669		677		676		680		690	
Africa	421	14.6%	447	14.5%	446	14.4%	493	14.8%	507	14.6%
Côte d'Ivoire	290		315		335		364		360	
Others	131		131		131		130		147	
America	767	26.6%	814	26.4%	852	26.3%	853	25.5%	856	24.6%
Brazil	173		196		207		209		223	
United States	403		410		410		419		426	
Others	192		208		235		225		207	
Asia & Oceania	416	14.4%	499	16.2%	575	17.7%	622	18.6%	651	18.7%
Indonesia	105		115		120		115		120	
Malaysia	105		150		203		250		250	
Others	206		234		252		257		281	
World total	2885		3079		3238		3343		3476	
Origin	970	33.6%	1089	35.4%	1188	36.7%	1254	37.5%	1279	36.8%

Notes : Totals may differ from sum of constituents due to rounding.

Source: ICCO Quarterly Bulletin Cocoa Statistics. Volume XXXII. 2005/06.

World Cocoa Bean Production, Grindings and Surplus/Deficits



Stocks

World stocks of cocoa beans totalled 1.8 million tonnes at the end of 2005/06 as compared to 1.7 million tonnes at the end of the 2004/05 cocoa season. The corresponding stocks-to-grindings ratio stood at 50.8% at the end of 2005/06, compared to 50.5% at the end of 2004/05.

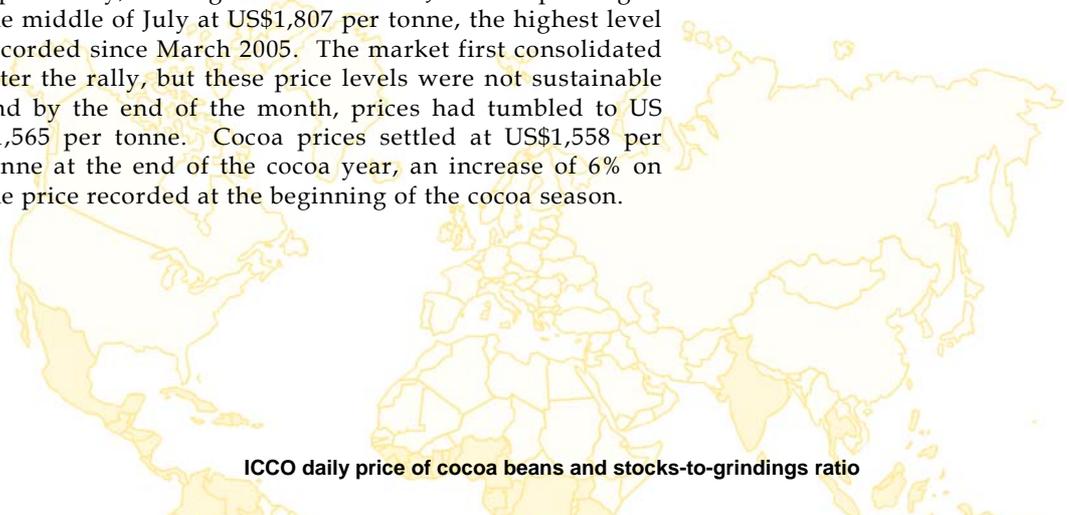
Prices

Developments in the world cocoa market during 2005/06 were mainly driven by the outlook for the 2005/06 season and expectations of a strong European demand for cocoa beans. The cocoa market was initially unsettled by the delayed announcement of the levels of taxes and levies for 2005/06 by the *Bourse du Café et du Cacao* (BCC) in Côte d'Ivoire. Favourable weather at the beginning of the cocoa year raised expectations of large crops in West Africa. These expectations were later manifested by strong arrivals and purchases in Côte d'Ivoire and Ghana which led to a decline in cocoa bean prices from US\$1,467 at the beginning of October to US\$1,381 in mid November.

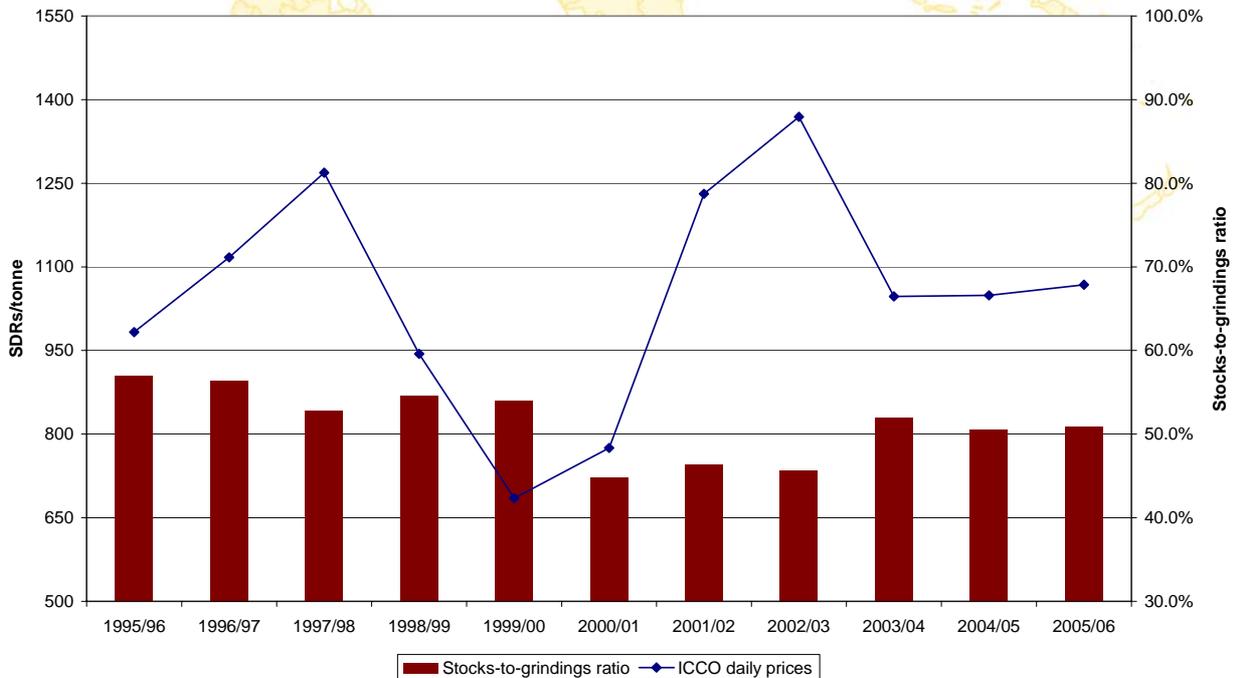
Subsequently, fund and speculative buying led to a sustained recovery and allowed cocoa prices to climb to US\$1,653 per tonne in mid January.

The second and third quarters of the cocoa season were characterized by high volatility in cocoa prices, influenced by a mixture of arbitrage trading due to the depreciation of the US dollar and events in the world's two leading cocoa producing countries which threatened to disrupt supplies. In Côte d'Ivoire, there were renewed demonstrations demanding for the withdrawal of UN peacekeepers. In Ghana, a dispute arose between licensed buyers and COCOBOD over logistical problems and a shortage of jute sacks.

This period of intense fluctuations was followed by a period of strong demand for cocoa beans. This resulted in a price rally, starting in the middle of June and peaking in the middle of July at US\$1,807 per tonne, the highest level recorded since March 2005. The market first consolidated after the rally, but these price levels were not sustainable and by the end of the month, prices had tumbled to US \$1,565 per tonne. Cocoa prices settled at US\$1,558 per tonne at the end of the cocoa year, an increase of 6% on the price recorded at the beginning of the cocoa season.



ICCO daily price of cocoa beans and stocks-to-grindings ratio



4. ICCO AND THE WORLD COCOA ECONOMY

Towards a Sustainable World Cocoa Economy

Six years ago, the United Nations made a call for action to its Member States, civil society and to the UN system as a whole to become more effective and efficient towards the eradication of poverty in all of its many dimensions – hunger, disease, education and environment. This new vision took shape in the development of eight goals – known as **Millennium Development Goals** – which provide a framework for the development of time-bound and quantified targets.

The **International Cocoa Organization**, in following its strategy to achieve a sustainable world cocoa economy, is contributing, from its perspective, to the fulfilment of the **Millennium Development Goals**. The 2005/06 cocoa year witnessed the firm commitment of the Organization towards a sustainable World Cocoa Economy.

The International Cocoa Agreement, 2001, makes specific reference in Article 39 to the issue of sustainability and encourages its Members to “*give due consideration to sustainable management of cocoa in order to provide fair economic returns to all stakeholders in the cocoa economy*”. The ICCO Consultative Board on the World Cocoa Economy had, in the course of the cocoa year, completed a draft document on the concept, model and activities to achieve a sustainable world cocoa economy, for discussion among all stakeholders in the cocoa sector. The Chairman of the Board presented this document to the Council for consideration at its 74th regular session in September 2006. The Council welcomed the work of the Board and encouraged the Board to implement the necessary next steps towards a sustainable world cocoa economy at the earliest opportunity.

Millennium Development 7:

Ensure environmental sustainability

TARGET

Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources (...)

Millennium Development 8:

Develop a global partnership for development

TARGET

In cooperation with developing countries, develop and implement strategies for decent productive work for youth

TARGET

In cooperation with the private sector, make available the benefits of new technologies, especially information and communications (...)

“We, Heads of State and Government....reaffirm that our common fundamental values, including freedom, equality, solidarity, tolerance, respect for all human rights, respect for nature and shared responsibility, are essential to international relations.... We reaffirm our commitment to eradicate poverty and promote sustained economic growth, sustainable development and global prosperity for all... We strongly reiterate our determination to ensure the timely and full realization of the ... Millennium Development Goals. We underline the need for urgent action on all sides, including more ambitious national development strategies and efforts backed by increased international support.” 2005 World Summit Outcome, United Nations, 16 September 2005

Supply Chain Management for Total Quality Cocoa

In the late nineties, the Association of the Chocolate, Biscuit and Confectionery Industries of the European Union (CAOBISCO) formulated **quality criteria for cocoa beans** that would continue to enable chocolate manufacturers to produce chocolate of the quality needed to satisfy both prevailing consumer tastes and changing legislation on food hygiene and safety. This formed the basis for the implementation of an ICCO "Pilot Project" in Côte d'Ivoire.

In 2001, the **ICCO Expert Working Group on Quality**, under the chairmanship of Dr. Tom Harrison, initiated the first fieldwork in the framework of the Cocoa Quality Project in Côte d'Ivoire. The project started from a concept of good physical quality and from there, evolved to an articulated concept of "Total Quality". Through full traceability, the system allows for the meaningful introduction of quality aspects which go beyond the physical characteristics of cocoa. In the course of implementation of the pilot operations, it became increasingly clear that "supply chain management" was a basic feature of the activities.

As the pilot operations in Côte d'Ivoire were successful, work was initiated to expand the scope and coverage of the project. To that effect, a draft project profile on "**Supply Chain Management for Total Quality Cocoa**" was presented to the ICCO Executive Committee for review at its 128th meeting in March 2006.

In June 2006, the ICCO adopted the new "programmatic approach" established by the Common Fund for Commodities for financing of projects. One of the four priority areas selected for financing of projects was "Supply Chain Management". The ICCO draft project profile was presented to the Common Fund and received a very positive reaction. ICCO, encouraged by the CFC, decided to turn the Project into a Priority Programme. At its September meeting in 2006, the Executive Committee decided to submit the programme proposal to the CFC for information and review.

The programme on Cocoa Supply Chain Management involves different elements and represents a pragmatic approach to enhance the efficiency and effectiveness of the supply chain. The main drivers of the programme are: **mutual economic benefits** for all participants in the chain; clear, communicable "total quality" standards; a considerably expanded role of **farmers' co-operatives** (farmers' associations or groups); and the involvement of **commercial partners in the cocoa chain**.

To ensure successful implementation, the projects under the programme will be designed in such a way that they will deliver cocoa, which meets future demand requirements in a sustainable way. In doing so, the programme will only succeed if it provides fair and mutual economic benefits to all the participants in the chain; operates in an efficient and competitive manner

COMMON FUND FOR COMMODITIES (CFC)

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.

www.common-fund.org

and makes a positive contribution to addressing environmental issues, whilst providing social development in the poorer segments of the cocoa economy.

The **Supply Chain Management Programme** is envisaged to comprise a number of projects plus a number of related studies and analyses. The studies and analyses will be conducted mainly by the ICCO Secretariat, with co-operation from the relevant actors in both cocoa producing and cocoa consuming countries.

The **first cluster of projects** to be implemented is to consist of determining the base line situation in cocoa producing countries (other than Côte d'Ivoire) and the introduction on a pilot scale of an (adapted) system of chain management and traceability.

The **second cluster of projects** would consist of activities to achieve the production and marketing of "sustainable cocoa" by farmers and farmers' organizations/co-operatives. The cocoa delivered would need to meet criteria of economic, social and environmental sustainability and be traded in an efficient supply chain.

The **third cluster of activities** would, as indicated above, consist of complementary studies, surveys and analyses, mainly related to demand and supply of cocoa. Two areas of study are: analysis of current and future demand for cocoa beans by variety of beans and product use; and studies to estimate future market needs, by analyses of trends in consumption of cocoa-based products with specific characteristics, including organic cocoa, fine/flavour cocoa etc.

For a programme of this nature it is essential to recognize its long-term character and to obtain the commitment required from the key stakeholders in the cocoa chain. Without the operational and financial involvement of both producers and consumers, little will be achieved. The successful implementation of the programme requires co-operation and support from the private sector, researchers and field workers. It is evident that changes in the cocoa supply chain are necessary. These can only be achieved by changes in the behaviour of the key participants in the chain.

The private sector is also involved by directly implementing its own projects to achieve a sustainable cocoa economy. During the Council meeting in September 2006, a project was presented on "**Optimizing farmer income via sustainable and yield-increasing cocoa husbandry techniques**". The project was developed by Nestlé and Ecom and will be implemented under the umbrella of the ICCO.

COCOA QUALITY PROJECT IN CÔTE D'IVOIRE

The field work of the project started in 2001/02, while pilot trade operations were initiated in 2003/04, making 2005/06 the third year of operations. All activities were financed by the private sector with the full support of the authorities in Côte d'Ivoire. The pilot trade operations have been implemented by groups of private sector operators, consisting of co-operatives, exporters and chocolate manufacturers.

In the course of operations, the Bourse du Café et du Cacao (BCC) in Côte d'Ivoire assumed an increasingly important institutional role in the project. In 2005/06, BCC took full responsibility for guidance and monitoring of the project in the field. The pilot operations in Côte d'Ivoire have been successful.

Analysis of the Value Chain in Cocoa Producing Countries

In accordance with its mandate, the **ICCO Consultative Board on the World Cocoa Economy** noted that a better understanding of the value chain of producing, trading and exporting cocoa was essential to the work of the ICCO to achieve a sustainable world cocoa economy. In view of this, the ICCO Secretariat developed a study outline to investigate and determine the costs of producing and exporting cocoa in the major cocoa growing regions of the world, as well as to establish the shares of the different stakeholders in the value created in the chain.

The objective of the proposed study is to enable the stakeholders in cocoa producing countries to systematically and uniformly establish the inputs used and the costs incurred to produce, trade and export cocoa in different areas and with different cultivation practices in their respective countries. The study will improve the insight into the net income derived by farmers from cocoa cultivation and the knowledge of the use of farm resources in cocoa production, with a view to enhancing the sustainability of the cocoa economy. The final result of the study will allow for a **direct comparison of the composition of the costs and proceeds in the cocoa value chain** in the major cocoa producing countries and regions.

It is necessary to achieve **efficient use of resources** to make production sustainable. The study will indicate any differences in resource use between the different countries, regions and regimes of cultivation practices. It will also establish the differences among countries of the share of farmers, traders, exporters and governments in the export value of the cocoa. The major beneficiaries will be smallholder cocoa farmers, who are often among the poorest in society, as this “building block” in the achievement of sustainability will contribute to the development of policies to improve their efficiency, productivity and income. The proposed study will be conducted in **Brazil, Cameroon, Côte d’Ivoire, the Dominican Republic, Ecuador, Ghana, Nigeria and Papua New Guinea**.

In June 2006, the Executive Committee reviewed the proposal for the study and approved its submission to the **Common Fund for Commodities (CFC)** for “Fast Track” financing. In July 2006, the Consultative Committee of the CFC reviewed the proposal and provided comments and suggestions. It further recommended the proposal for approval by the Managing Director of the Common Fund. The proposal, as was noted by the representative of EU, fitted into the EU Action Plan on Commodities. In the meantime, the Consultative Board on the World Cocoa Economy formed an *ad hoc* working group from among its members to provide guidance to the Secretariat on technical matters related to the study, starting with the detailed methodology.

EUROPEAN UNION ACTION PLAN ON COMMODITIES

In April 2004, EU ministers adopted an Action Plan on agricultural commodities, dependence and poverty. The adoption of the Plan is a clear signal of the importance that the EU attaches to the issue of agricultural commodities in the fight against poverty. It demonstrates a strong commitment from the EU to support Commodity Dependent Developing Countries (CDDCs) in addressing the specific challenges that they are facing, both in the short and long term.

Price Risk Management for Cocoa Farmers

During the eighties and the nineties, liberalization, privatization, and globalization have been the determining factors in shaping the world economy. As a result, major changes occurred in the structure and institutions of many agricultural commodity sectors, including cocoa, related to both national and international markets. Before these major changes took place, farmers producing primary commodities in many developing countries were isolated from price fluctuations in the world markets. At national level, this was achieved through market regulating mechanisms implemented by centralized, parastatal commodity marketing agencies, complemented at an international level, by price-stabilization mechanisms in the framework of international commodity agreements.

These mechanisms were increasingly abandoned under the influence of the world economy changes mentioned above. As a result, farmers were directly exposed to price fluctuations in world markets. In response to the negative repercussions of fluctuating cocoa prices, the International Cocoa Organization (ICCO) and the Common Fund for Commodities (CFC) turned their attention to a search for market based price risk management instruments that could contribute to attenuating any adverse impact on farmers.

The aim of the project is to help small-scale cocoa farmers' co-operatives to improve their capacity to manage price risks and to offer them opportunities to access futures contracts and options available on the world's cocoa markets and commodity exchanges. The wider objective is to enable smallholder cocoa producers to reduce their vulnerability to fluctuations in world market prices. The specific objectives of the project are: (i) to introduce and test the feasibility and use of various price risk management instruments by farmers' co-operatives; (ii) to develop suitable market-based options and price risk management instruments for cocoa farmers' co-operatives; and (iii) to enable cocoa farmers to make more rational production and investment decisions.

In February 2006, the Project Agreement between the Bourse du Café et du Cacao (BCC), CFC and ICCO was signed, followed by signature of the Grant Agreement between ICCO and CFC. Subsequently, the project was officially launched in the presence of all relevant stakeholders in Côte d'Ivoire. After intensive consultations and a training programme aimed at all interested parties, five co-operatives were selected to take part in the project. Four local banks also indicated their wish to participate in the project. A Project Co-ordination Unit and a project Steering Committee were established by BCC, the Project Executing Agency (PEA).

The consultants recruited for the project had intensive consultations with potential project partners to arrive at a draft contract acceptable to all parties. Because of the novelty of this project and its legal and financial implications, as well as negative past experiences in this area, some parties are extremely cautious and want to take all possible precautions before actively committing



BOURSE DU CAFÉ ET DU CACAO (BCC)

The objectives of the **Bourse du Café et du Cacao** (BCC) in Cote d'Ivoire are to improve the profits of the farmers and to regulate the cacao commercialisation.

www.bcc.ci

PROJECT EXECUTING AGENCY (PEA)

The PEA is the legal entity responsible for executing projects. The PEA has to be a suitably qualified and cost effective institution with a strong presence in the region in which the project is being executed. The PEA may be constituted nationally or internationally, be a public or private body or a Non-Governmental Organization (NGO).

themselves to the project and this process proved painstakingly slow and sometimes frustrating.

Nevertheless, framework agreements and hedging contracts between the market parties involved are expected to be ready soon.

Cocoa Marketing Improvement Project

The liberalization of the cocoa sector in West Africa created undesirable effects such as the degradation of cocoa quality and the increase in counterpart risks for banks and international traders. This, in turn, has caused finances for small operators to dry up and the forward market to disappear. In response to these effects, the ICCO secretariat launched, with financial assistance from the Common Fund for Commodities, a project in 1999/2000 for the "Improvement of Cocoa Marketing and Trade in Liberalizing Countries" to be implemented in Cameroon, Côte d'Ivoire and Nigeria.

The project was designed to address the negative effects of liberalization. More specifically, the project objective was to improve the quality of exported cocoa, facilitate trade financing, provide market information and to address trade and price risks. The project comprised four substantive components: promotion of a privately run warehousing system; development of a cocoa marketing information system; development of a quality assurance and certification system and development of a system of commodity trade finance. From these four components, the project achieved its objectives in the first three, giving a success rate of 75%. Taking into account the scale of the tasks involved in the components on project implementation and coordination at local level and project execution; staff training; and dissemination of project results at regional level, this overall achievement rate could well be increased to 80%. Bearing in mind the difficulties that had to be overcome to implement the project, this is a satisfactory rate of success.

The project has succeeded in establishing market information systems; manuals, guidelines, training and legislation for warehousing up-country and for quality assurance and quality enhancement; and a system of structured trade financing, as components of a viable and transparent cocoa trade and marketing chain.

Thorough analyses have been carried out describing the situation, issues and problems in the participating countries, related to cocoa warehousing, quality and financing of the cocoa trade. Inventories have been completed and databases made available on cocoa trade and warehousing in the countries concerned. Draft contracts, procedures and manuals have been formulated on "best practices" for the main activities in cocoa production and trade. Training guidelines and

brochures have been developed and training provided for different categories of stakeholders, ranging from farmers (best practices in harvesting and post-harvesting), staff of co-operatives (quality and warehousing), warehouse keepers (collateral management and warehouse keeping) to bank staff (all aspects of structured trade financing). Project activities were completed in 2005/06.

In the meantime, the final project workshop has been held in Douala, Cameroon, in early November 2006, where experts from the participating countries have provided the conclusions and experiences from each country and the final and overall findings on the project have been presented. The findings of the workshop will be included in the next progress report on projects.

Health and Nutritional Aspects of Cocoa and Chocolate

As attention to the health and nutritional aspects of cocoa and chocolate has continued to increase, the ICCO Secretariat has taken an active part in the ongoing debate, with the support of the Council. The aim of the work is to convey to the public an objective picture of the impact of cocoa and chocolate consumption on the health and nutritional status of consumers. Several activities have been developed to this effect. Following last year's first draft of an "Inventory of the Health and Nutritional Attributes of Cocoa and Chocolate", this year a **Programme of Action on the Health and Nutritional Attributes of Cocoa and Chocolate** was discussed in both the Promotion Committee and in the Council.

The programme of action underlines the importance of including consumers, both in the traditional markets, as well as in cocoa producing countries, as health concerns are becoming increasingly important worldwide. During the programme debate, the idea of a possible international conference was raised, which received a positive response from Members. This conference will cover all aspects of the health and nutritional attributes of cocoa and chocolate. It was agreed to target the conference on opinion leaders, as a means of reaching the public at large.

A Steering Committee was established to oversee the scientific programme and to develop the content and format of an international conference, where the latest research on the role of cocoa and chocolate in the health of the consumer will be presented. The **conference** is envisaged to **take place in November 2007**.

HEALTH & NUTRITION

If you want to learn more about the healthy aspects of the cocoa and chocolate, you can visit our website :

www.icco.org/about/health.aspx

Moreover, if you click on Economy, you will also find the first draft of the "Inventory of the Health and Nutritional Attributes of Cocoa and Chocolate"

www.icco.org/economics/market.aspx

Witches' Broom Project

The project on "The use of molecular biology techniques in a search for varieties resistant to witches' broom disease of cocoa" was designed to apply new techniques, using molecular markers at DNA level, to develop new cocoa plant varieties, which are more uniform, more productive and more tolerant to witches' broom. Project implementation started in April 2000 in Brazil, Ecuador and Peru, and was completed in September 2005. The final project evaluation workshop was conducted in July 2005 at CEPLAC in Brazil. The Project Completion Report prepared by CEPLAC was submitted for review by the ICCO secretariat in September 2006. The report will soon be made available to all stakeholders.

The Project Completion Report indicates that very positive results had been achieved in all the participating countries to the extent that the witches' broom disease of cocoa was presently being effectively managed in Latin America after decades of devastation.

As a direct result of the project, 22 resistant planting material varieties had been released to cocoa farmers and cocoa production in Brazil had improved significantly. There were now clear signs that abandoned farms were being reactivated, leading to re-employment of farm workers. This in turn was reflected by re-migration into rural areas and increased commercial activities in rural centres. Another major achievement of the project had been in the area of human capacity development. The project had supported and trained a number of post-graduate students for specialization courses, short courses and other trainee programmes. In addition, a large number of scientific papers and conference summaries had been published.

A key achievement of the project had been recorded in the area of preventive research in breeding and pathology before the occurrence of the pathogen in a country. The project had demonstrated that a country could use molecular biology techniques to develop resistant varieties to diseases that had not occurred yet in the country. For example, Brazil had used the project to develop varieties resistant to cocoa frosty pod caused by *Monilia* which was not found in Brazil but already causing damages in neighbouring countries.

The next step is to disseminate the results of the project to the other cocoa growing regions in view of the threat of the spread of cocoa pests and pathogens from one region to another, or even from one continent to another. To achieve this, the ICCO has, in co-operation with the Common Fund for Commodities, started preparations to organize an international workshop on preventing and managing the global spread of cocoa pests and pathogens and to disseminate lessons from the project on witches' broom disease of cocoa.



CEPLAC

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.

www.ceplac.gov.br

WITCHES' BROOM

Crinipellis pernicioso is a fungus that causes **Witches' Broom**, when cocoa trees produce branches with no fruit and ineffective leaves. It has been the cause of production losses 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.

Prevention and Management of the Global Spread of Cocoa Pests and Diseases

Simulations carried out by scientists in CEPLAC (Brazil) showed that an outbreak of Witches' Broom in Côte d'Ivoire would reduce cocoa production in Côte d'Ivoire from its current level of more than 1.3 million tonnes to just around 500,000 tonnes. In many parts of West Africa, where cocoa is the cash crop of choice for poor farmers and the main way out of the poverty of subsistence agriculture, the introduction of such a major disease from another cocoa producing area would, therefore, have extremely serious social, economic and environmental consequences.

However, a review by the ICCO secretariat in the pest and disease situation in the world's leading cocoa producing regions showed that most countries, particularly in West and Central Africa (where 70% of world cocoa production originates) were ill-prepared and ill-equipped for a major outbreak of pests and pathogens, such as Witches' Broom Disease. Although being effectively managed in Brazil, Witches' Broom Disease is still in an invasive phase in other countries and, together with Monilia and Black Pod, represent significant threats to the cocoa sector in Latin America and to the cocoa world at large.

In view of the above, it is appropriate to assume that cocoa production in West Africa would be hard hit if either Witches' Broom Disease or Monilia were to appear in the region. Neither farmers nor extension agencies would be well-prepared to recognize the early onset of the disease and to take the appropriate action to contain it. The same would apply in the case of cocoa pod borer spreading from South-East Asia to Africa.

Taking into consideration these dangers, a Fast Track Proposal for the Common Fund was formulated by the ICCO secretariat, in co-operation with CABI International, to organize an international workshop on this important issue. The operational objectives of the workshop are, firstly, to disseminate the results of the Witches' Broom project to participants; secondly, to discuss ways and means to obtain detailed assessments of actual crop losses due to pests and pathogens; and, thirdly, to agree on a worldwide strategy and contingency plans to prevent the spreading and, in case of any eventual spreading, to manage and reduce the impact of the invasion of cocoa pests and pathogens. The workshop is envisaged to result in a major project to implement the strategy agreed upon by participants.

It is proposed to hold the international workshop in Abidjan, Côte d'Ivoire around June 2007. The workshop would be managed by CABI in close collaboration with the Autorité de Régulation du Café et du Cacao (ARCC) and the Centre National de Recherche Agronomique (CNRA). National research institutes from cocoa producing countries Cameroon, Nigeria, Côte d'Ivoire, Ghana, Brazil, Ecuador, Dominican Republic, Indonesia, Malaysia, PNG and Trinidad & Tobago would send representatives to the workshop. In addition, scientists from CATIE (Costa Rica), CIRAD (France), IPGRI (Italy) and INGENIC would be invited.

PESTS & DISEASES

If you want to learn more about pests and diseases of cocoa tree, you can visit our website :

www.icco.org/about/pest.aspx

Together with the description of the principal pest and diseases, you will find the main organizations around the world that are researching and fighting them.

Cocoa Productivity and Quality Improvement: a Participatory Approach

The overall objective of the project is 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. The planned project activities are geared towards selection, distribution and use of new cocoa varieties with improved yield, pest and disease resistance and quality traits. It was expected that the use of improved cocoa planting material would make cocoa cultivation more competitive and more attractive to new generations of cocoa farmers.

Other objectives of the project include the dissemination and validation of promising cocoa varieties in farmers' fields through participatory approaches; increasing sustainability in cocoa crop improvement programmes through validation and dissemination of selected cocoa varieties; exchange of information and dissemination of results; and establishment of functional linkages between national cocoa breeding programmes, international cocoa gene banks and quarantine centres.

With a budget of almost \$10.5 million, the project is to be implemented from June 2004 to May 2009 and involves the following research institutions and companies: CATIE (Costa Rica), CCI (PNG), CEPLAC (Brazil), CNRA (Côte d'Ivoire), CRIG (Ghana), CRIN (Nigeria), CRU (Trinidad), INIA (Venezuela), INIAP (Ecuador), IRAD (Cameroon), MCB (Malaysia), MALMR (Trinidad), UNAS (Peru) and the University of Reading (UK). Co-financing is provided by BCCCA (UK), CIRAD (France), Guittard (USA), Mars Inc., (USA/UK), USDA and WCF (USA). IPGRI was appointed Project Executing Agency and ICCO assumed the role of Supervisory Body.

Reports received so far, indicate that, in all the participating countries, the planned surveys have been carried out. Farm Selection Observation Plots (FSOP) have been planted in most countries and the multiplication of selected material has been expanded. The project partners have carried out extensive evaluations of the field trials established under the Germplasm I project and selections emanating from that project are being used.

In Africa, the Regional Variety Trials (RVT) have been planted and evaluations of resistance to black pod has been carried out, obtaining favourable correlations with the field studies. In the Americas, a difference in field resistance to diseases (witches' broom and moniliasis) has been confirmed in on-going trials in Brazil, Ecuador, Trinidad & Tobago and Venezuela. The RVT for year one has been planted in these countries, as well as in Costa Rica. The studies on resistance of cocoa to witches' broom and monilia have been progressing well.

Routine observations on the established field trials continued in Asia and resistance to cocoa pod borer (CPB)



was now an additional major priority. Pollination was undertaken to try to combine vascular streak disease (VSD) resistance, pod-wall hardness and high yield in a series of 60 hybrids. The first “Regional African Project Coordination and Resistance Testing Meeting” was organized by IRAD and IPGRI and held in Yaoundé, Cameroon, from 27 November to 3 December 2005.

Overall, the project has been making good progress and results achieved are encouraging.

Fine and Bulk Cocoa Project

The project on “The Study of Chemical, Physical and Organoleptic Parameters to Establish the Difference between Fine and Bulk Cocoa” aimed at evaluating the characteristics of fine/flavour cocoa as compared to bulk cocoa. This was to be achieved through a series of scientific evaluations of physical, chemical and organoleptic parameters to provide methodologies, standards and instruments for universal use in differentiating fine/flavour from bulk cocoa.

Project implementation started in January 2001 and was carried out in Ecuador, Trinidad and Tobago, Papua New Guinea and Venezuela. The final project evaluation workshop was held in Guayaquil, Ecuador, in April 2006. The workshop was attended by representatives from ICCO, CFC and the participating institutes as well as other project stakeholders from Ecuador. The workshop reviewed the results achieved by the project and evaluated the next steps to be taken using the findings of the project.

The results of the project clearly indicated that the physical parameters measured had proved to be inconclusive in differentiating fine from bulk cocoas. On the other hand, the theobromine/caffeine ratio had proved to be a clear indicator in differentiating fine cocoa from bulk cocoa. However, this ratio could not differentiate qualities of expected flavour profiles, although aromatic profiles were promising indicators in achieving both origin and flavour qualities differentiation. It was further demonstrated that all fine or flavour cocoa samples differed clearly in their organoleptic parameters from the Ghana bulk cocoa which was used as a reference. The project produced a spectrum of unique sensorial attributes for samples from each fine cocoa producing country that had participated in the project, concluding that the countries were not competing against each other but satisfied different flavour niche markets.

The use of molecular markers in DNA profiling and spectral image analysis had proved to be a powerful indicator in discriminating between fine and bulk cocoa. The use of this technique was so precise that when a set of bulk genotypes had been identified from a certain region, it was possible, by using molecular markers, to determine whether fine cocoa batches had been mixed with bulk batches. With these results, certification and identity preservation of fine cocoa batches had become

VASCULAR STREAK DIEBACK (VSD)

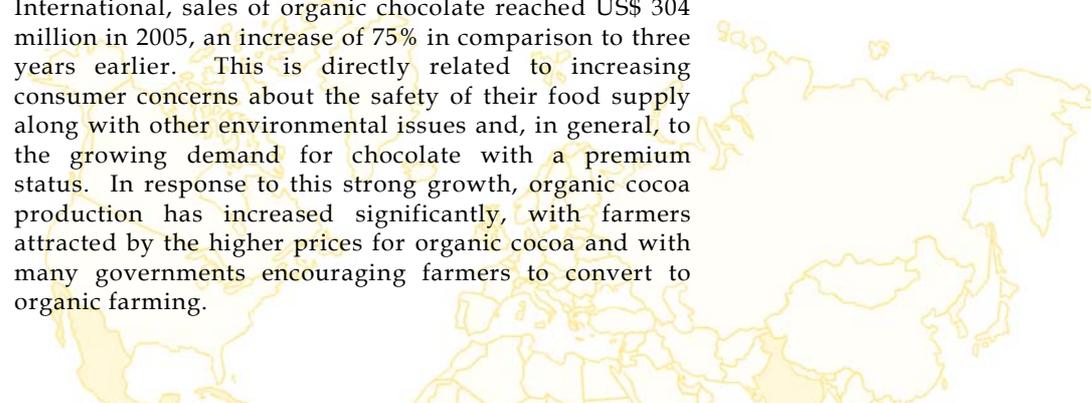
Vascular Streak Dieback (VSD) is caused by the fungus *Oncobasidium theobromae*. It is a regional disease in South East Asia and Malanesia. The fungus may spread internally to other branches or the trunk, usually causing death of the tree. Excess water or high levels of humidity are a suitable environment for the reproduction and dissemination of the fungus.

possible using a set of markers. The outcome of the project opened the way for discrimination of cocoa from different origins, in some instances even within a country, leading to a possible process of cocoa certification.

MARKET TRANSPARENCY

The Market for Organic Cocoa

In recent years, the market for certified, organic chocolate has developed dynamically. According to Euromonitor International, sales of organic chocolate reached US\$ 304 million in 2005, an increase of 75% in comparison to three years earlier. This is directly related to increasing consumer concerns about the safety of their food supply along with other environmental issues and, in general, to the growing demand for chocolate with a premium status. In response to this strong growth, organic cocoa production has increased significantly, with farmers attracted by the higher prices for organic cocoa and with many governments encouraging farmers to convert to organic farming.



Organic Cocoa

The *International Federation of Organic Agriculture Movements* (IFOAM) (www.ifoam.org) is an umbrella organization for the participants in the organic market. The founding of IFOAM in 1972, the first formal global network for organic agriculture, was probably one of the main landmarks for the organic movement. IFOAM's mission is "leading, uniting and assisting the organic movement in its full diversity" and its main goals are to:

- § build a global platform for the organic movement;
- § develop, communicate and defend the principles of organic agriculture;
- § advocate and facilitate the adoption of organic agriculture;
- § promote the development of organic markets;
- § ensure an effectively managed organization with sufficient and sustainable resources.

Regulations on organic products

European Commission (1991). Council Regulation (EEC) No. 2092/91 of 24 June 1991 on Organic production of agricultural products and indications referring thereto on agricultural products and foodstuffs.

European Commission (2005). Proposal for a Council Regulation on Organic production and labelling of organic products, amending Regulation (EEC) No. 2092/91.

European Commission (2005). List of bodies or public authorities in charge of inspection provided for in article 15 of Regulation (EEC) No. 2092/91.

FAO/WHO Codex Alimentarius Commission (2001): Guidelines for the Production, Processing, Labelling and Marketing of Organically Produced Foods, revised version.

United States (2005). Organic Foods Production Act of 1990 [As amended through public law 109-97, Nov. 10, 2005].

In 2005/06, The Market Committee of ICCO reviewed the market for organic cocoa. In July 2006, the Secretariat completed a study on this niche market, defining its specifications, providing information on the major participants and regulations applying to organic products and presenting an estimate of the size of the organic cocoa market.

Certified organic cocoa producers must comply with all requirements associated with the relevant legislation of importing countries. At international level, the Codex Alimentarius Guidelines (FAO/WHO, 1999), define the general principles and requirements applying to the production and labelling of organic products. This was a first step in official, international harmonization of organic product requirements in terms of production and marketing standards, inspection arrangements and labelling requirements. It specifies that cocoa beans must grow on land which has been free of prohibited substances for three years prior to harvest and that production methods, such as the use of fertilizers, soil conditioners and pesticides, should be strictly regulated. The benefit for cocoa farmers is that organic cocoa commands a higher price than conventional cocoa, attracting a premium usually ranging from US\$ 100 to US\$ 300 per tonne. This premium should cover both the cost of fulfilling organic cocoa production requirements and fees paid to certification bodies.

Europe is by far the major market for imports of organic cocoa beans, as well as for processing and manufacturing activities to obtain certified cocoa and chocolate products. Part of the organic cocoa and chocolate produced in Europe is exported, mainly to the United States, Canada and Japan. Using a survey and various other sources of information, the ICCO Secretariat estimated that the total supply of organic cocoa beans amounted to 15,500 tonnes in 2005. This means that the organic market only represents a very small share of the total cocoa market, estimated at less than 0.5%. Most of the countries producing organic cocoa beans are located in South America, which is the origin of more than 70% of organic cocoa in the world. The Dominican Republic is by far the largest supplier.

The potential for organic cocoa remains high. However, the supply side faces many challenges to meet growing demand, such as quality, high costs of certification and cocoa farmers' lack of knowledge of organic channels. Trade channels also have to allow for increased volumes of organic cocoa, for instance, through the entry of bigger players in the market. The development of a processing and manufacturing industry in North America would boost the availability of organic chocolate to American consumers.

ESTIMATED PRODUCTION OF ORGANIC COCOA BEANS (2005)	
Region / Country	Organic production (in tonnes)
Africa	3,000
Madagascar	1,500
Tanzania & Uganda	1,500
Americas	11,738
Belize	33
Bolivia	400
Brazil	1,100
Costa Rica	300
Dominican Republic	5,000
El Salvador	30
Mexico	2,500
Nicaragua	98
Panama	350
Peru	1,850
Venezuela	77
Asia and Oceania	762
Fiji	50
India	12
Sri Lanka	200
Vanuatu	500
Total Identified	15,500

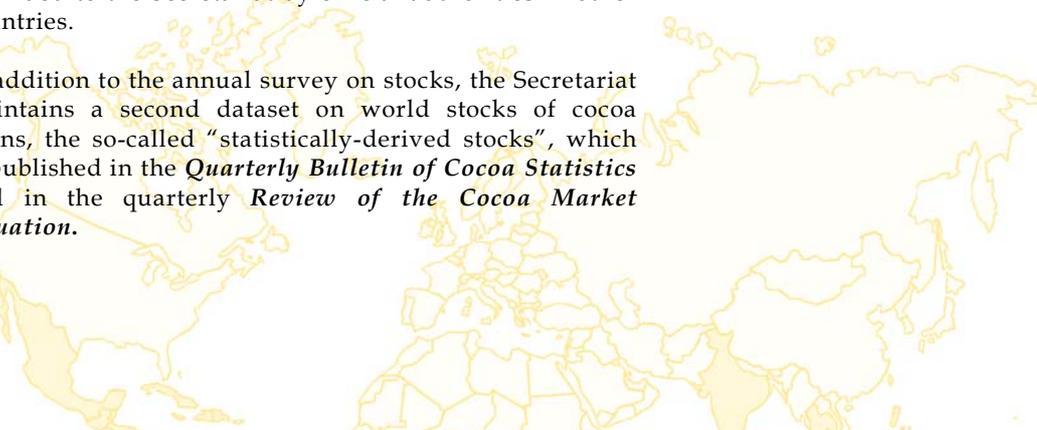
Other producing countries include: Ghana, São Tomé and Príncipe, Togo, Colombia, Cuba and Ecuador.
Source: ICCO

Revision of ICCO Statistics on World cocoa Beans Stocks

Changes in the levels of world stocks of cocoa beans have, as demonstrated by economic analyses, a direct impact on world market prices of cocoa beans. It is, therefore, most important to have reliable and up-to-date statistics on cocoa bean stocks to enhance market transparency and efficient price formation on world markets.

Since the year 2000, the ICCO Secretariat has conducted an annual survey to determine the stocks of cocoa beans at the end of each cocoa year. In accordance with the recommendations by the International Cocoa Council, the annual survey consists of a survey of stocks in port warehouses in Europe, complemented by data on stocks provided to the Secretariat by official authorities in other countries.

In addition to the annual survey on stocks, the Secretariat maintains a second dataset on world stocks of cocoa beans, the so-called “statistically-derived stocks”, which is published in the *Quarterly Bulletin of Cocoa Statistics* and in the quarterly *Review of the Cocoa Market Situation*.



DISTRIBUTION OF WORLD STOCKS OF COCOA BEANS AS AT 30 SEPTEMBER 2004 (THOUSAND TONNES)	
Location of cocoa bean stocks	Volume
STOCKS IN COCOA-IMPORTING COUNTRIES	1,427
Port warehouse stocks, of which:	
Europe: Main entry ports Belgium, Germany, the Netherlands, UK	1,136
Others: Estonia, France, Ireland, Italy, Latvia, Spain	119
Licensed US warehouse stocks	120
Japan	17
Manufacturer working stocks	34
STOCKS IN COCOA PRODUCING COUNTRIES	183
Origin port stocks and manufacturer working stocks, of which:	
Identified stocks (Brazil, Trinidad & Tobago, Cameroon, Côte d'Ivoire, Ghana)	149
Other	34
COCOA BEANS IN TRANSIT	72
TOTAL ESTIMATED WORLD COCOA STOCKS	1,682

Source: ICCO Survey on Stocks

In December 2004, the ICCO *Expert Working Group on Stocks (EWGS)* highlighted the persistent discrepancy between the two datasets of stocks. Subsequently, the Secretariat established a panel of experts to review the different options and make proposals to solve this problem. In its report, the panel concluded that the survey on cocoa bean stocks conducted in 2004, determining the stocks held at the end of the 2003/04 cocoa season, was considered as the most comprehensive survey thanks to the positive response from all the principal warehouse-keepers in Europe and from many other major importing and producing countries. The panel recommended that the Secretariat use the volume of stocks estimated at the end of the 2003/04 cocoa season as the volume for a new base year (2003/04) for the “statistically-derived stocks” data. The EWGS and subsequently the Council approved the recommendation of the panel.

The volume of stocks for the new base year (2003/04) of the “statistically-derived stocks” dataset is now estimated at 1,682 thousand tonnes. This implies an upward revision of the statistically-derived stocks of around 250 thousand tonnes at the end of the 2003/04 cocoa season. This revision was implemented for the first time in the *Quarterly Bulletin of Cocoa Statistics*, volume XXXII, number 4, cocoa year 2005/06, published in November 2006.

The Effects of Speculation on Cocoa Futures Markets

Investor interest in cocoa futures markets has increased significantly in recent years. For example, in the New York cocoa futures market, the share of open interest held by non-commercial traders increased from 16% to 21% between 1986 and 2005. This has led analysts to suggest that the increased speculative activity in cocoa futures markets is moving prices and volatility away from the levels justified by fundamentals. However, an alternative view is that increased investor activity in this commodity market is simply a vehicle to translate changing views about fundamentals into changes in prices. As a result, the increased volatility in cocoa futures markets would be the cause (rather than the effect) of the increased investor participation.

To address this issue, the ICCO Secretariat appraised the effect of speculation on both the levels and the volatility of cocoa futures prices. Specifically, the ICCO Secretariat addressed the following empirical questions. Firstly, are the London International Financial Futures Exchange (LIFFE) and New York Board of Trade (NYBOT) reflecting market participants’ views on fundamentals? Secondly, does speculation activity in the foreign exchange market have any impact on LIFFE and NYBOT cocoa futures markets? Finally, does speculation activity in the NYBOT cocoa futures market have an impact on cocoa price levels and volatility?

COCOA FUTURES CONTRACTS

The two places where cocoa futures contracts can be exchanged are the London International Financial Futures Exchange (LIFFE) and the New York Board of Trade (NYBOT).

LIFFE Website: www.euronext.com

NYBOT Website: www.nybot.com

For more information on trading cocoa, you can visit ICCO website:

www.icco.org/about/shipping.aspx

Empirical results suggested that the price discovery mechanism in LIFFE and NYBOT cocoa futures markets is reflecting all available market information. As a result, it is not possible to forecast futures prices using past information. Furthermore, trade activity in the US Dollar/Sterling Pound market has a negligible impact on price and volatility of both LIFFE and NYBOT cocoa futures prices. Finally, speculation activity in the NYBOT seems not to have any effect on the levels and volatility of cocoa futures contract prices. Indeed, empirical results indicate that an increase in speculation activity slightly declines price volatility, suggesting that speculators reduce transaction costs by increasing the market liquidity.

These empirical findings support the hypothesis that increased investor activity in cocoa futures markets is simply a vehicle to translate changing views about fundamentals into changing prices. Speculators increase the liquidity in cocoa futures markets, but they do not have a systematic causal influence on cocoa prices.

Caution should be exercised in the interpretation of these results because of data limitations. Indeed, analysis on speculators' positions could only be carried out for the NYBOT cocoa market because data on the open interest, broken down by type of traders, are not available for LIFFE. Moreover, the data for NYBOT are published on a weekly basis only. Consequently, these results might not apply to a large dataset.

The ICCO Econometric Model

The ICCO econometric model summarizes, in the form of algebraic expressions, the three stylized facts characterizing the world cocoa economy. Firstly, cocoa supply is positively related to the current level of prices and to expected future prices. Secondly, the growth in grindings mirrors the growth in the number and incomes of consumers. Thirdly, world cocoa bean prices are inversely related to the stocks-to-grindings ratio.

These stylized facts are assessed quantitatively by the ICCO econometric model, using techniques of mathematical statistics on the basis of historical data. The short-run supply of cocoa beans is modelled in terms of current and past prices, while the potential production capacity is used to project supply in the medium-term. Grindings are modelled by correlating them to the historical series of real gross domestic product in consuming countries and to real prices of cocoa beans. Finally, world cocoa prices are modelled in relation to past prices and to (changes in) the world stocks-to-grindings ratio.

Once these quantitative relationships are computed, the econometric model is employed to project the future developments in the world cocoa market. Usually, at the beginning of each crop year, the ICCO Secretariat

evaluates the annual forecasts of world production and consumption for the next five cocoa years. Forecasts are then reviewed and revised as soon as new information, concerning macroeconomic variables, grindings and production, becomes available.

The ICCO econometric model is an important tool which assists those who are involved in decision-making and policy-making in the cocoa sector. In fact, it can be used to identify possible market imbalances at an early stage or to evaluate, *a priori*, the potential consequences of alternative policy options. However, it is worth noting that the accuracy of these forecasts strongly depends on the quality of historical data on cocoa resources.



ICCO econometric model

The ICCO econometric model can be represented compactly as set of four equations:

$$(1) \quad P_t = f_1(stg_{t-1})$$

$$(3) \quad D_t = f_3(GDP_t, P_t)$$

$$(2) \quad S_t = f_2(P_t, qn_t)$$

$$(4) \quad I_t = I_{t-1} + S_t - D_t$$

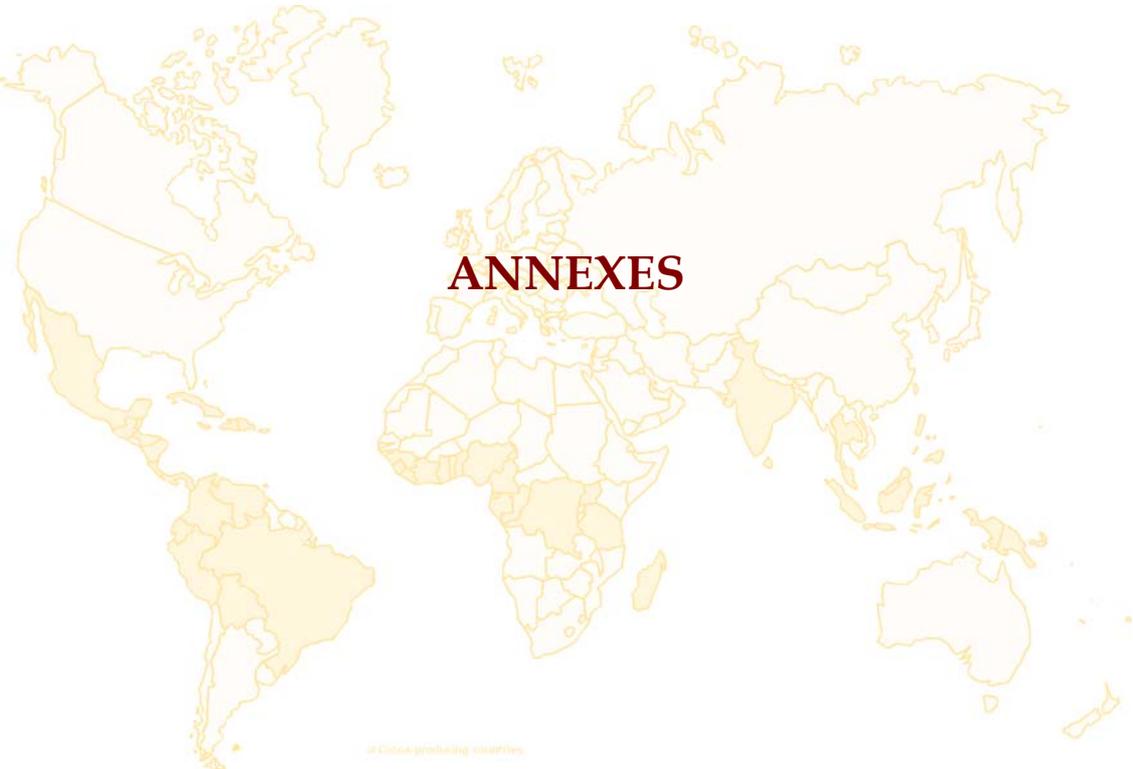
(1) Quantitative relationship between the current world price of cocoa beans (SDRs/tonne) and the lagged value of the stock-to-grindings ratio.

(2) Dependence of cocoa supply upon the real price of cocoa beans and the estimated level of normal production.

(3) Dependence of demand of cocoa beans upon real world income and international real prices of cocoa beans.

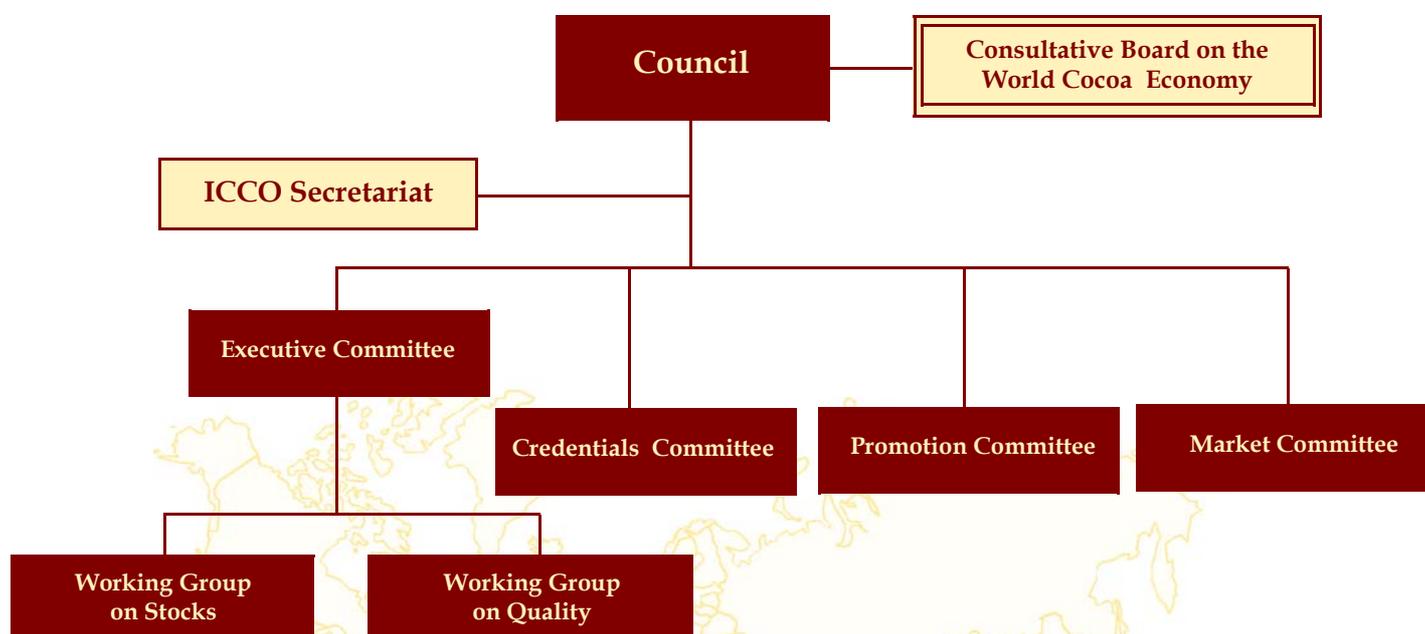
(4) Inventory identity which assures that the market clearing conditions in the world cocoa market are met.





ANNEX I

1. Organizational Structure (as at 30 September 2006)



Council

Chairman: Mr. Brendan Nevin (Ireland)
 First Vice-Chairman: Mr. Markus Schlagenhof (Switzerland)
 Second Vice-Chairman: Mr. Hayford Fiamor (Ghana)
 Open to all Members

Credentials Committee

Chairman: Mr. Pierre Etoa Abena (Cameroon).
Exporting Members: Cameroon, Côte d'Ivoire, Ecuador, Ghana.
Importing Members: Belgium/Luxembourg, Finland, Ireland, Spain.

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 Ltd, United Kingdom)
 Invited Experts, open to all Members

Expert Working Group on Quality

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

Executive Committee

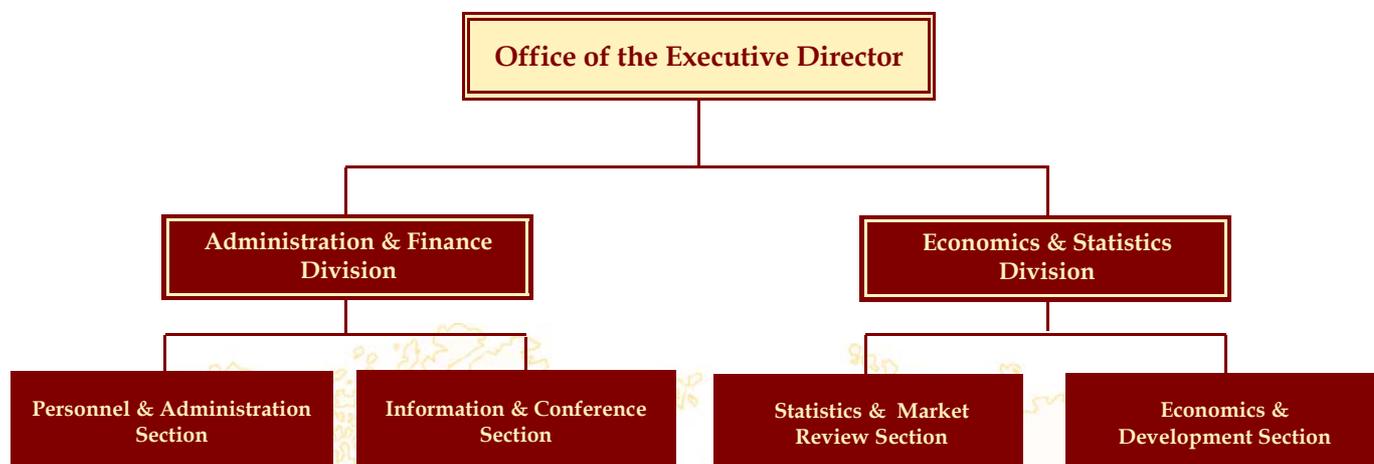
Chairman: Mr. Askley Delgado (Ecuador)
 Vice-Chairman: Dr. Victor Iyama (Nigeria)
Exporting Members: Brazil, Cameroon, Côte d'Ivoire, Dominican Republic, Ecuador, Gabon, Ghana, Malaysia, Nigeria and Papua New Guinea.
Importing Members: Belgium/Luxembourg, European Commission, France, Germany, Italy, Netherlands, Russian Federation, Spain, Switzerland and the United Kingdom.

Consultative Board on the World Cocoa Economy

Chairman: Mr. Tony Lass (BCCCA, United Kingdom)
 Vice-Chairman: Mr. Idelfonso Medina (Comisión Nacional del Cacao, Dominican Republic)
Members: Dr. Ismail Azhar (Malaysian Cocoa Board, Malaysia), Mr. Antonio Feola (Associazione Industrie Dolciarie (AIDI), Italy), Dr. Martin Gilmour (CAOBISCO, Belgium), Mr. Hayford Fiamor (Ghana Cocoa Board, Ghana), Mr. Humberto Heredia (ANECACAO, Ecuador), Dr. Victor Iyama (Cocoa Association of Nigeria, Nigeria), Dr. Karsten Keunecke (Bundesverband der Deutschen Süßwarenindustrie EV, BDSI, Germany), Mr. Tony Lass (BCCCA, United Kingdom), Mr. Jacques Mangoua (Union Nationale des Opérateurs Café-Cacao, UNOCC, Côte d'Ivoire), Mrs. Ursula Mathis (Chocosuisse, Switzerland), Mr. Jean-Marc Oyono (Conseil Interprofessionnel du Cacao Café, Cameroon), Mr. Philip Sigley (Federation of Cocoa Commerce Ltd, United Kingdom), Mr. Robert Zehnder (European Cocoa Association, 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 2006)



Office of the Executive Director:

Dr. Jan Vingerhoets
Executive Director

Miss Sarah Sharp
Personal Assistant to the Executive Director

Economics and Statistics Division:

Dr. Jean-Marc Anga, Head of Economics and Statistics Division
Miss Madeleine Seal, Assistant to the Head of Economics and Statistics Division

Statistics and Market Review Section:

Mr. Laurent Pipitone, Senior Statistician
Mrs. Veena Ramgulam, Statistician
Mrs. Elizabeth Gyamfi, Associate Expert in Statistics*

Economics and Development Section:

Mr. Han Loke Fong, Senior Economist
Dr. Michele Nardella, Econometrician
Mr. Yunusa Abubakar, Project Manager
Mr. Moisés Gómez, Project Officer
Mr. Victor Adjei, Senior Research Assistant

Administration and Finance Division:

Mrs. Katharina Schön
Head of Administrative & Finance Division

Personnel and Administration Section:

Miss Sophia Petros, Senior Administrative Assistant
Mrs. Olubukola Akosile, Senior Accounts Assistant
Mr. Gabby Owusu-Aninakwah, Communications Assistant

Information and Conference Section:

Miss Yolanda Mula Meneses, Information Officer
Mr. Alan Banbury, Senior Conference Assistant
Mr. Shastri Persad, Conference Assistant
Miss Asanthika Nimanthi, Information Assistant

* Funded by the Government of the Netherlands

ANNEX III

3. Administrative Account

Balance Sheet as at 30 September 2006 (Expressed in £ Sterling)

CURRENT ASSETS	2004/2005	2005/2006
Balance with bankers and cash in hand	2,422,434	2,339,068
Debtors	13,223	14,095
Prepaid Expenses	0	46,267
Contributions to administrative budgets outstanding		
1990/91 to 2001/2002 inclusive	254,570	239,172
Year ended 30 September 2003	29,977	29,977
Year ended 30 September 2006	9,649	8,310
Provision for outstanding contributions	(175,420)	(191,420)
	2,554,434	2,485,469
Less: LIABILITIES		
Creditors and provisions for accrued expenses	63,174	93,635
Members' contributions paid in advance	111,073	6,341
Provision for Installation and Termination Fund	79,540	148,000
	253,787	247,916
TOTAL NET ASSETS	2,300,647	2,237,493
Represented by:		
SPECIAL RESERVE FUND		
Principal	2,500,000	2,500,000
Contributions outstanding	(49,861)	(46,798)
	2,450,139	2,453,202
Less: Transfer to Income and Expenditure Account	1,018,392	1,018,392
	1,431,747	1,434,810
REVENUE RESERVE FUND	868,900	802,683
	2,300,647	2,237,493

ANNEX IV

4. Administrative Account

Income and Expenditure Account for the Year Ended 30 September 2006 (Expressed in £ Sterling)

	2004/2005	2005/2006
Contributions assessed on Members	1,699,333	1,747,040
Interest earned - general funds	50,450	54,441
Interest earned - special reserve	62,739	62,143
TOTAL INTEREST EARNED	113,189	116,584
Subscriptions to Quarterly Bulletin of Cocoa Statistics	12,954	10,197
Other document sales	0	0
Other income	27,145	27,127
TOTAL INCOME	1,852,621	1,900,948
Transfer from Revenue Reserve Fund	0	130,000
Surplus/(Deficit) on Foreign Currency Exchanges	57,986	366
	1,910,607	2,031,314
Less:		
ADMINISTRATIVE EXPENDITURE	1,763,968	1,967,531
Balance carried to Revenue Reserve Fund	146,639	63,783

ANNEX V

5. Relations with other institutions

ICCO, with its central role in the international cocoa industry, has dealings with a large number of other organizations and companies. Many of these organizations assist us in gathering timely and relevant information on the cocoa market. In addition, we provide effective information and assistance to various public organizations and private sector companies where necessary.

Excluding Member countries, the following is a list of the main organizations and companies with which we deal:

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 Bank for Reconstruction and Development
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
North-East Atlantic Fisheries Commission
United Nations Conference on Trade and Development
United Nations (New York)
Union Nationale Des Opérateurs Café-Cacao
World Bank Group
World Cocoa Foundation
World Trade Organization

COCOA ORGANIZATIONS IN MEMBER COUNTRIES

ANECACAO
Associazione Industrie Dolciarie
Bundesverband Der Deutschen Suswarenindustrie Ev
Chocosuisse
Cocoa Association of Nigeria
Cocoa Board of Papua New Guinea
Comisión Nacional del Cacao
Comité de Co-ordination pour les Filières Café et Cacao (CCFCC)

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
Indonesian Cocoa Association
Malaysian Cocoa Board
National Cocoa and Coffee Board of Cameroon (NCCB)

RESEARCH INSTITUTIONS

CABI Bioscience
Centre de Coopération Internationale en Recherche Agronomique pour le Développement (France)
Centre National de Recherche Agronomique (Côte d'Ivoire)
Cocoa and Coconut Institute of Papua New Guinea
Cocoa Research Institute of Nigeria
Cocoa Research Institute of Ghana
Cocoa Research Unit (Trinidad)
Cocoa Research (UK) Ltd
Comissão Executiva do Plano da Lavoura Cacaueira (Brazil)
Institut de Recherche Agricole pour le Développement (Cameroon)
Instituto Nacional Autónomo de Investigación Agropecuaria (Ecuador)
Instituto Nacional de Investigaciones Agrícolas (Venezuela)

PRIVATE SECTOR

Armajaro Trading Ltd
Barry Callebaut Sourcing AG
Cadbury Schweppes PLC
China Association of Bakery and Confectionery Industry
China National Light Industrial Products I/E Corp
China Tea Co. Ltd
Chocolates El Rey, C.A.
Daarnhouwer & Co BV
Ecom Agroindustrial Corp Ltd
E D & F Man Cocoa Ltd.
Ferrero Trading Lux SA
Genertec International Cooperation
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

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