Indonesian Cocoa Beans: current situation

I Wayan Yasa

**Indonesian Cocoa Farmer Association, Indonesian Cocoa Board (ICB)**

**Area and Production**

The Indonesian cocoa sector has experienced tremendous growth in the past 25 years, driven by rapid expansion of smallholder farmers participation. Up to now, smallholders contributed 87 % of national production, versus 8 % from state plantation and only 5 % from large private estates. Some of the smallholder’s cocoa was originally bred in Malaysia and was developed mainly for high yield but not on its flavor. Edel (fine flavored cocoa) cocoa is planted by state or large private plantation. The table below shows comparison of total acreage from 1995 to 2003 base on the three type of cocoa holding:

**Table 1. Total acreage of cocoa plantation by type of holding 1995-2003 (Ha)**

<table>
<thead>
<tr>
<th>Type of Holding</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smallholders</td>
<td>534,670</td>
<td>641,133</td>
<td>710,044</td>
<td>798,628</td>
<td>801,332</td>
</tr>
<tr>
<td>State Own</td>
<td>59,990</td>
<td>52,291</td>
<td>55,291</td>
<td>54,815</td>
<td>54,815</td>
</tr>
<tr>
<td>Private</td>
<td>73,055</td>
<td>56,094</td>
<td>56,114</td>
<td>60,608</td>
<td>61,487</td>
</tr>
</tbody>
</table>

Source: Directorate General of Estate Crop, Min. of Agriculture

The main producing area of cocoa is Sulawesi island and the remaining Indonesian cocoa production takes place in North Sumatra, West Java, and Papua, with some small production areas in Bali, Flores, and other islands. Figures 1 below shows the comparison of area and production among cocoa producing provinces.
To increase the production, effort has been made by an extensive mono-crop production of cocoa expanded in parts of Sulawesi where suitable land was abundant and available. However, as available land decrease and the age of bearing trees increases, more intensive production techniques will be required to maintain and/or expand cocoa farm productivity.
In terms of land holding, on the average, smallholder farmers working on plots ranging from 0.5 to 1.5 hectares. Currently, cocoa yields in Indonesia range from 400 to 800 kg/hectare, with the potential to increase yields as 1 to 1.5 MT/hectare. With this figures of productivity, Indonesia stays as the third largest producer of cocoa in the world (Figure 2).

![Figure 2. World cocoa production in 2006](image)

**Export Trend and the Marketing Chain**

In terms of export, cocoa is the fourth largest foreign exchange earning from agriculture sector (Figure 3). The bulk of export lies on the cocoa bean as to compare with processed cocoa. The figure above shows that palm oil is the largest foreign exchange earning for Indonesia follow by rubber, coconut and cocoa bean in rank four. In terms of market destination, Malaysia is the main destination for cocoa export follows by USA and Singapore (Figure 4).
In the global market, the Indonesian cocoa is mainly traded as an unfermented, fat, bulk bean and volume base. Fermentation of cocoa bean is not generally done in Sulawesi, the main area of producing cocoa. Nevertheless, some area such as Sumatera and Papua apply fermentation on their cocoa beans before selling. There have been effort to encourage smallholder farmers in Sulawesi to expand production of fermented bean, but commercial incentives are inadequate.
Overall, the Indonesian cocoa value chain can be characterized as having a market mechanism structure. However this does not reflect equal power relationships in the cocoa chain. Transactions between cocoa farmers and market intermediaries, and between intermediaries and cocoa exporters or processors are primarily conducted on a 'cash and carry' basis which requires access to sufficient working capital to remain competitive. Smallholder farmers have the option of selling to a large number of local collectors or buyers, but most will sell their cocoa soon after harvest for immediate cash. Marketing chain of Indonesian cocoa beans both smallholder and estate beans are presented in Figure 5.

![Diagram of Marketing Cocoa Chain in Indonesia](image-url)

**Figure 5. Marketing cocoa chain in Indonesia**
Without incentives for farmers to differentiate their beans and invest in quality improvements, they continue to be driven by volume base transactions. Nevertheless, Indonesian cocoa farmers receive on average a high percentage of the international price. The farm-gate price for Sulawesi beans can range between 75 to 85 percent of the New York Terminal exchange price. Since volume is a key driver in the cocoa value chain, as stated above, some market intermediaries will attempt to sell cocoa beans mixed with poorer quality beans or actual waste material (e.g. shells, foreign matter) to increase the volume. This is a long persistence problem which caused discount for Indonesian cocoa in the International Market.

**Summary and Projection**

With 572,000 metric tons of cocoa beans produced, Indonesia is the third world biggest producer of cocoa after Ivory Coast and Ghana. Indonesian Cocoa export are currently valued at approximately $600-700 million per year and provide the main source of income and livelihood for over 400,000 smallholder farmers and their families.

Indonesia’s primary competitive advantage in global cocoa trade lies in its ability to supply large quantities of beans. As the largest producer of unfermented bulk cocoa beans, Indonesia currently occupies a strong position with few competitors in this segment of the global market.

The Indonesian cocoa sector has experienced tremendous growth in the last 25 years, driven by rapid expansion of smallholder farmers’ participation. In line with the quality improvement program and cocoa plant rehabilitation, it has been projected that cocoa plantation will be extended to reached 1.5 million hectares in 5 – 10 years ahead. Production of cocoa cultivation per hectare is being projected to be >1 tonnes per year. Cocoa bean quality is expected to be fermented, free from contaminant in terms of mycotoxin, filth and pesticide, and consistence. Certification scheme such as organic and fair trade will be implemented in line with future trend in sustainability farming program. Furthermore,
partnership model will be adopted as one of the model for smallholder cocoa bean management and marketing.

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