

# ANNUAL REPORT 2006/07



**International Cocoa Organization (ICCO)**

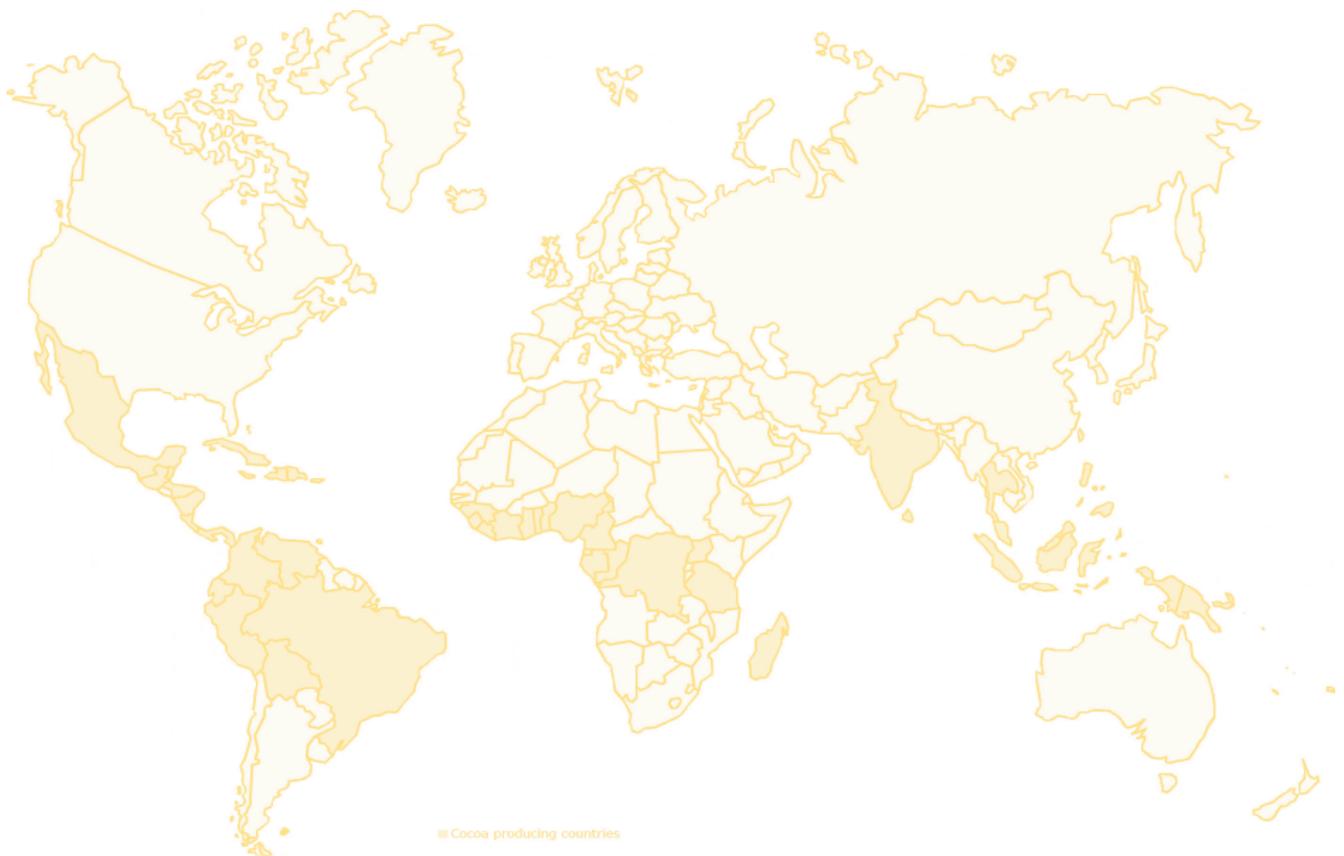


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## 1. MANDATE AND PRIORITIES OF THE ICCO

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. The current Agreement was concluded in Geneva in March 2001 at a United Nations' International Cocoa Conference. The Agreement came into force provisionally on 1 October 2003 and entered definitively into force on 2 November 2005, the first time in the history of the Cocoa Agreements.

The Organization presently brings together 42 Exporting and Importing Member countries with the explicit mandate to work towards a **"sustainable world cocoa economy"**. The concept of "sustainability" encompasses social, economic and environmental dimensions in terms of production, trade, transport, warehousing, processing and manufacturing of cocoa and chocolate. It covers all major areas of interest and concern in the world cocoa economy.

The three priority areas for implementation of the current International Cocoa Agreement, as established in the list of priorities for implementation of the Agreement are:

- **Cocoa Prices, Farmers' Incomes and Export Revenues.** This area comprises activities of direct and immediate relevance for cocoa prices, for the incomes of the cocoa farmers and for the export revenues of cocoa producing and exporting countries. This area refers to the "economic pillar" of a sustainable cocoa economy. Without economic sustainability, farmers cannot properly address social and environmental sustainability. Hence this area deserves to be the first area of priority for the implementation of the Agreement.



*ICCO Meetings in June 2007*

- **Market Access, Market Information and Market Development.** This second priority area comprises all activities required to secure, facilitate and improve the capability of origin countries to better and more easily reach the final consumers, so as to derive maximum economic benefit from producing and exporting cocoa beans and cocoa products.
- **Sustainable Cocoa Economy.** The third priority area comprises all activities related to economic, social and environmental sustainable cocoa production. Achieving this total sustainability should, supported by activities in the other two areas, result in a substantial improvement of the income position of the cocoa farmers. The “economic pillar” of sustainable production should always, through improved resource use and increased productivity, by far outweigh any possible costs of social and environmental sustainability.

ICCO took the lead in organizing the first Round Table meeting on a Sustainable World Cocoa Economy in Accra on 3-6 October 2007. The meeting was hosted by the Ghana Cocoa Board with funding generously provided by the Dutch Ministry of Agriculture, Nature and Food Quality, and by the Ghana Cocoa Board.



## 2. STRUCTURE AND FUNCTIONING OF THE ICCO

### Membership

The International Cocoa Council is the highest authority of the Organization, consisting of all the Contracting Parties to the International Cocoa Agreement, 2001. In January 2007, when Bulgaria and Romania joined the European Union, the total number of Member States of the Organization increased to 13 cocoa exporting and 29 cocoa importing countries (see table below for list of Member Countries).

During the 2006/2007 cocoa year, several countries showed an interest in membership of the ICCO. These countries included specifically Indonesia which

has attended ICCO meetings as an Observer country for many years. Other seriously interested countries included Colombia and Peru.

### Council and Subsidiary Bodies

The **International Cocoa Council** gives direction to the Secretariat in the implementation of the Agreement and oversees the operations of its subsidiary bodies: the Executive Committee; the Market Committee; the Credentials Committee; the Promotion Committee; the Expert Working Group on Quality; and the Expert Working Group on Stocks. **(see Annex I)**

**Membership of the International Cocoa Agreement, 2001  
(as at 30 September 2007)**

EXPORTING COUNTRIES	IMPORTING COUNTRIES	
	European Community	Non European Community
Brazil	Austria	Italy
Cameroon	Belgium	Latvia
Côte d’Ivoire	Bulgaria	Lithuania
Dominican Republic	Luxembourg	Malta
Ecuador	Cyprus	Netherlands
Gabon	Czech Republic	Poland
Ghana	Denmark	Portugal
Malaysia	Estonia	Romania
Nigeria	Finland	Slovakia
Papua New Guinea	France	Slovenia
Togo	Germany	Spain
Trinidad and Tobago	Greece	Sweden
Venezuela	Hungary	United Kingdom
	Ireland	

During the 2006/2007 cocoa year, the Council held two regular sessions chaired by Mr Askley Delgado (Ecuador): the 75th regular session took place on 13-17 March 2007 in Kuala Lumpur, kindly hosted by the Malaysian Government, and the 76th regular session took place on 11-14 September 2007 at the offices of the European Bank for Reconstruction and Development (EBRD) in London.

The Council admitted a number of organizations and non-Member countries as Observers to its sessions. These organizations included the African Development Bank, the Commonwealth Secretariat, the Cocoa Producers' Alliance, CAOBISCO, the Common Fund for Commodities, the International Coffee Organization, the International Sugar Organization, the European Cocoa Association and UNCTAD. Non-Member countries attending the sessions as Observers were Angola, Bolivia, Colombia, Croatia, the Democratic

Republic of Congo, Cuba, Guatemala, Indonesia, the People's Republic of China and Peru.

At its 75th regular session in March 2007, the Council made the following decisions:

### Observer status

The Council reviewed the issue of observer status of countries at its sessions and at meetings of its subsidiary bodies and noted that some countries had attended as Observers for a considerable number of years. It was decided that, with effect from 1 October 2007, or at any later date on which the observer status of a country would become effective, an Observer country would be entitled to attend meetings for a maximum period of two years. To this effect, the Executive Director would invite potentially interested countries to register as Observers with the Organization.



ICCO Meetings in March 2007, Kuala Lumpur, Malaysia

## Frequency of meetings

To improve the efficiency of the Organization, the Council decided that, with effect from 2007/2008, the number of regular sessions of the International Cocoa Council and its subsidiary bodies would be reduced from four per year to three per year. Unless the Council would decide otherwise, these meetings would take place in January, May and September.

## Special Reserve Fund

According to Article 65 of the current Agreement, new Members are required to contribute to the Special Reserve Fund and this contribution will be assessed by the Council based on the number of votes held by the Member. The Council decided on the votes for the new Members of the European Union, namely for Bulgaria, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania and Slovenia. These countries held 81 votes in total. Their contribution was fixed at £750 per vote, the same amount as determined for Members at the time of establishment of the Fund.

Decisions made by the Council at its 76th regular session held in September 2007 included the approval of the administrative budget for 2007/2008, agreement of a list of priorities for the implementation of the Agreement and of the work programme for 2007/2008. During the session, Members also discussed an extension of the current International Cocoa Agreement and the establishment of a Working Group for the Negotiation of a future International Cocoa Agreement.

The Executive Director presented the "golden cocoa pod" to Mr Askley Delgado (Ecuador), as outgoing Chairman of the Council.

*In September 2007, the council elected Ms Irina Medvedeva (Russian Federation) as Chairman of the Council for 2007/2008 and Dr Victor Iyama (Nigeria) as Chairman of the Executive Committee for the 2007/2008 cocoa year.*

The **Executive Committee**, which deals mainly with financial and operational matters, held four meetings during the reporting period under the chairmanship of Ms Irina Medvedeva of the Russian Federation.

During the year under review, the Committee worked on crucial administrative, budgetary and personnel issues. These included the draft administrative budget for the 2007/2008 financial year, the review of the Administrative Rules of the Organization and decisions on the medium-term future of the Organization.

The Executive Committee regularly examined reports on the payment of contributions to the administrative budget, the statement of income and expenditures and the financial situation in the current budget year and the progress reports on projects, as submitted by the Secretariat.

During the 2006/2007 cocoa year, a number of project proposals were approved for submission to the Common Fund for Commodities, namely a project proposal on Supply Chain Management for Total Quality Cocoa in Africa, a Feasibility Study on Opportunities for Organic Cocoa in West African Countries and a project proposal on Host Plant Resistance for Sustainable Cocoa Pod Borer Management in Malaysia and Papua New Guinea.

The 133rd meeting of the Executive Committee in June 2007 included presentations by Ms. Lourdes Paez of IMAGCOM in Ecuador, Mr Olle Östensson of UNCTAD and Mr Bruno Fringuelli, Director General of Eurochocolate.

Ms Paez, Manager of IMAGCOM, a social marketing agency in Ecuador, gave a presentation on Fine or Flavour Cocoa and on the work being undertaken by the agency in co-operation with ANECACAO to promote Arriba Nacional cocoa, a variety of fine or flavour cocoa, through a marketing and image campaign in Ecuador. The campaign would include a chocolate festival, an international beauty contest and a trade fair.

Mr Östensson informed the Committee on progress in the Global Initiative on Commodities and specifically on the results of its recent conference entitled "Building on Shared Interests" organized by the CFC, ACP Secretariat, UNCTAD and UNDP in Brasilia from 7-11 May 2007.

Mr Fringuelli gave a presentation on the annual Eurochocolate festival to be held in Perugia from 13-21 October 2007. The theme of the 2007 event would be "Chocolage: L'Era del Cioccolato". The presentation also contained an outline of Eurochocolate's communication campaign for promoting chocolate events and new products.

At its 134th meeting in September 2007, the Executive Committee discussed the draft administrative budget for 2007/2008, the implementation of the work programme during 2006/2007, an updated list of priorities for the implementation of the Agreement and the draft work programme for 2007/2008. It recommended these draft documents, amended as appropriate, for approval by the Council.

In accordance with the provisions laid down in Chapter VII of the International Cocoa Agreement 2001, the **Consultative Board on the World Cocoa Economy** was established to encourage "the active participation of the private sector" in the work of the ICCO. The Board shall contribute to the development of a sustainable cocoa economy; identify threats to supply and demand and propose actions to meet the challenges; facilitate the exchange of information on production, consumption and stocks; and advise on other cocoa-related matters. The Board consists

of seven members from the private sector in cocoa producing countries and seven members from cocoa consuming countries. Members can be represented by alternates and supported by advisers.

*The motto for the Round Table was  
"Support the Farmers - Sustain the World"*

The programme of the Board embraces 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 cocoa cultivation.

Since its establishment in March 2004, under the chairmanship of Mr Tony Lass MBE, the Board has made significant steps forward in a number of areas such as a cocoa value chain analysis, taxation on cocoa and cocoa products and the incidence and impact of import duties (tariffs) on cocoa, cocoa products and chocolate.

During the reporting period, the Board focussed its work on developing the concept of sustainability, resulting in the completion of a document on "Sustainable Cocoa Economy: a Comprehensive and Participatory Approach". This document would serve as a basis for discussion at the Round Table meeting in Ghana in October 2007. The "Outline Programme: A Round Table on a Sustainable World Cocoa Economy" was presented to the 13th meeting of the Board in June 2007.



*Logo of Roundtable on Sustainable Cocoa Economy (RSCE)*

The objective of the Round Table is to bring together all stakeholders in the world cocoa economy - cocoa farmers, managers of co-operatives, exporters, traders, processors and manufacturers, government officials, non-governmental and other private organizations active in the cocoa and chocolate supply chains.

Another important activity of the Board during the year was the preparation of a "Draft Methodology for the Value Chain Analysis" by the Secretariat in close co-operation with the Board's Support Group for the Methodology. The methodology would allow for a detailed insight into the composition of the costs of producing cocoa in different countries and for a comparison of the costs of production with the actual income earned by farmers from cocoa production. The findings of the study would be presented in the country reports, followed by an international comparison of the findings for individual countries.

At its 14th meeting in September 2007, the Chairman of the Board introduced a document entitled "Overview of Best Practices in Cocoa Production" as a first attempt to describe best practices for producing high quality cocoa in a useful format. The Board agreed that the Secretariat should incorporate a number of amendments in a revised document, including the Good Agricultural Practices developed by the Malaysian Cocoa Board.

Following consideration of the Executive Summary of the First Evaluation of the European Directive 2000/36/EC on the Use of Cocoa Butter Substitutes by the Executive Committee at its 131st meeting in December 2006, the Board reviewed the topic at its September 2007 meeting. This Directive permitted the use of up to five per cent of a limited number of vegetable fats in the production of chocolate.

The analysis suggested that the Directive had had very little impact on the global cocoa market as very few EU-15 chocolate manufacturers had incorporated Cocoa Butter Equivalents (CBEs) into their recipes. On this basis, it was concluded that there would be no need to change the list of permitted fats.

Venue: International Conference Centre, Accra, Ghana  
Date: 3 October to midday 6 October 2007

**Languages**  
Interpretation to and from English, French and Spanish during Plenary Sessions and Focus Group meetings as well as English, French and Spanish versions of the programme and some Round Table documents.

**Participants**  
All stakeholders in the world cocoa economy, from cocoa farmers, managers of co-operatives, exporters, traders, processors and manufacturers, government officials, non-governmental and other private organizations active in the cocoa and chocolate supply chains.

**Hotels**  
Participants will make individual hotel reservations. Special Conference rates are offered by the following hotels:

- Labadi Beach Hotel (5-star)
- La Palm Royal Beach Hotel (5-star)
- Novotel (4-star)

Further details are available on the ICCO website ([www.icco.org](http://www.icco.org)) under "Information on Hotels".

**Transportation**  
Participants will be met at the airport and taken to their hotels. Transport will be provided between these hotels and the Conference Centre.

**Registration**  
The registration form can be accessed on the ICCO website ([www.icco.org](http://www.icco.org)). There is no registration fee.

In its 34th year of existence, the ICCO is a unique global forum for dialogue and interaction between government agencies, international organizations and the private sector from both producer and consumer countries on all matters concerning cocoa and cocoa products.

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<http://www.icco.org>

*Information Sheet for Round table  
Accra, Ghana - October 2007*

It was recommended to maintain the list for a longer period of time, until the impact of the use of vegetable fats other than cocoa butter on the economies of developing countries would be further assessed. The analysis also suggested that a later review of the market in five to ten years' time would be useful, considering the short term effects of the EU regulation which was passed in 2001 and implemented in 2003.

The Board requested the Secretariat to prepare a document on the accuracy of the methodology to measure the use of vegetable fats other than cocoa butter in chocolate and to review the earlier document on methodologies to study the actual use of other vegetable fats and their impact.

**The Promotion Committee** was established under the International Cocoa Agreement, 2001, to stimulate the consumption of chocolate and cocoa-based products by co-ordinating and executing appropriate activities.

During the period under review, a Steering Committee worked on preparations for an international conference on "Cocoa and Chocolate: Food for Good Health", to be hosted by ICCO in January 2008. Unfortunately, and despite the best efforts of ICCO and its partners to create an opportunity for a robust dialogue on the topic, the Promotion Committee had to decide at its 12th meeting in September 2007, to postpone the conference to a later date.

During the June and September meetings of the Promotion Committee, the ICCO Secretariat provided background information and a summary status report on the project on Generic Consumption Promotion of Cocoa and Chocolate in the Russian Federation. Following confirmation that the private sector would participate in the project, the Association of Russian Confectionery Industry Enterprises (ASKOND) informed the Executive Director that they were prepared to launch a project without a second feasibility study. The next step would be the completion of a project proposal.

The main objective of **the Market Committee** is to achieve a balanced development of production and consumption to secure a sustainable equilibrium between supply and demand. The Committee held three meetings during the 2006/2007 cocoa year.

The Secretariat presented a new format of the Review of the World Cocoa Market Situation at the Committee's 9th meeting in March 2007 in Kuala Lumpur. The Review is published on a monthly basis (previously quarterly) and provides information on the world cocoa market in the form of figures, graphs, charts and text. The review is made available on the ICCO website ([www.icco.org](http://www.icco.org)).



*Cocoa Pods, Cocoa Beans and Cocoa Powder*

During the March meeting of the Committee, the Secretariat also presented an "Assessment of the Movement of Global Supply and Demand" covering the last 10 years. The report highlighted the importance of premium/gourmet chocolate products such as organic, Fair-trade, single-origin, reduced sugar and dark and high cocoa-content chocolate as the new trend that would impact on world consumption and grindings.

In presenting the "Annual Forecasts of Production and Consumption" for the period 2007/2008 to 2011/2012 and estimates of production levels to achieve equilibrium in the world cocoa market towards 2011/2012, the Executive Director indicated that the Secretariat had re-estimated the relationship between cocoa prices and the stocks-to-grindings ratio because of the upward revision of the ICCO statistically-derived stocks. The new parameters indicated that the elasticity of prices to changes in the stocks-to-grindings ratio was stronger than previously.

Regarding forecasts for the world cocoa economy, production was expected to increase at an average rate of nearly two per cent and grindings at an average rate of 3.4%. Consequently, the stocks-to-grindings ratio was forecast to decline to 46% in 2011/2012.

During its 9th meeting in March 2007, the Market Committee established that only a limited number of producing countries have adequate information on the quantity and characteristics of their cocoa resources.

Discussions highlighted the importance for producing countries to obtain adequate information on their cocoa resources as a basis for the formulation of appropriate policies and programmes for the cocoa sector in their respective countries. In view of this, the Executive Director confirmed the Secretariat's readiness to provide technical assistance to producing Member countries in collecting and processing information on their cocoa resources.

The Committee also requested the Secretariat to provide more information on the composition of the demand for cocoa beans in consuming countries which would provide producing countries with a better basis for the formulation and implementation of policies and programmes on cocoa production.

During its 10th meeting in June 2007, the Chairman of the Committee, Mr Tano Kassi Kadio (Bourse du Café et du Cacao), noted, with reference to a document on the "Quarterly Reporting by Member Countries" for the 2005/2006 cocoa year, that the overall level of compliance with ICCO's statistical requirements had increased as compared to the previous year. However, it was concluded that there was a need for significant improvements in this area.

The Secretariat also reported on the "ICCO Annual Survey on Cocoa Production and Consumption". It was the second time that this survey had been carried out and 19 countries had responded to the questionnaire, including information provided by the European Commission. The Committee reviewed the situation regarding import duties, import regulations, taxes on cocoa consumption and national programmes to increase production and processing of cocoa beans.

In January 2007, the Intercontinental Exchange (ICE) acquired the New York Board of Trade (NYBOT), which is now known as "ICE Futures U.S."

As requested by the Committee at its March 2007 meeting, the Secretariat had drafted a report on "Cocoa Resources in Consuming Countries" which provided an overview of information on the volume and composition of the demand for cocoa beans in consuming countries. The report concluded that the chocolate manufacturing industry had shown a strong capacity to react to changes in consumer tastes.

Discussions by the Market Committee at its June 2007 meeting established that more detailed information on commercial transactions would enable the Secretariat to provide more reliable statistics on production and export of fine or flavour cocoa. It was further noted that the results of the recently completed INIAP/ICCO Project on the differentiation between fine or flavour and bulk cocoa might lead to an objective establishment of the share of fine or flavour cocoa in the total exports and production of cocoa producing countries.

The Executive Director presented an updated study on the impact of terminal markets on cocoa bean prices to the Market Committee. He cautioned on drawing definite inferences from the report, as the Secretariat did not have access to all the information on terminal markets. The final review of the study took place in the Committee's 11th meeting in September 2007. The main conclusions of the study were that non-commercial traders do not exacerbate the volatility of cocoa futures contracts and that their trade seems to have a stabilizing rather than a de-stabilizing effect on the cocoa market.

The **Expert Working Group on Quality** was established in 1989 to consider issues pertaining to cocoa quality and is chaired by Dr Tom Harrison. At its 18th meeting in March 2007, Ms Flavia Bernardini from CAOBISCO updated the Committee on the European Commission's decision to establish Maximum Residue Levels (MRLs) for all active substances in pesticides used in food crops, including cocoa.

ECA/CAOBISCO had collected information and produced a list of pesticides believed to be used in cocoa. ICCO contributed to the list with information on the use of pesticides in ICCO Member countries.

All producing countries were asked to provide the Secretariat with information on which pesticides were used in their country. As the situation had become confusing for cocoa farmers, the Secretariat had engaged an expert to draft a manual on the safe use of pesticides (see also chapter 4).

An ECA/CAOBISCO/CABI research programme on Polycyclic Aromatic Hydrocarbons (PAH) revealed that PAH contaminants might arise as a result of drying the cocoa beans on asphalt alongside busy roads where they entered into direct contact with smoke and combustion gases.



At its 19th meeting in June 2007, the Working Group discussed the Project on Supply Chain Management for Total Quality Cocoa in Africa. At the request of the Common Fund for Commodities (CFC), the proposal on Supply Chain Management had been split into two regional projects – one for Africa and one for Asia and Latin America. The two proposals were awaiting submission to the Consultative Committee of the CFC while co-financing was being sought from potential donors.

Since its creation in September 1989, **the Expert Working Group on Stocks** had met 14 times with the active participation of representatives and analysts from cocoa producing countries, trade associations, cocoa processors and chocolate manufacturers, including representatives from non Member countries.

At its 15th meeting in December 2006, chaired by Mr Philip Sigley, Chief Executive of the Federation of Cocoa Commerce Ltd, the Secretariat presented a report on the Annual Survey of Cocoa Bean Stocks.

This survey for the census date of 30 September 2006 was a success with a response rate of 91% from a total of 78 warehouses in Belgium, Estonia, France, Germany, Ireland, Italy, Latvia, the Netherlands, Poland, Spain and the United Kingdom. The results indicated that total European port-warehouse stocks had increased by 3.6% to 1,272 million tonnes as at 30 September 2006, almost 45,000 tonnes higher than in the previous year.

The Secretariat also introduced conference room paper EWG/S/15/CRP.2 containing statistical information on the level of world stocks of cocoa beans as at 30 September 2006. The Group assessed the volume, location and composition of world stocks of cocoa beans as at the end of the 2005/2006 cocoa year. The results indicated that world stocks of cocoa beans had increased by 221,000 tonnes to almost two million tonnes as at 30 September 2007 compared to the previous year.

Ms Pamela Thornton, representative of the Cocoa Merchants' Association of America (CMAA) and a cocoa trader at Armajaro, gave an overview of the situation regarding cocoa stocks in the USA and in origin cocoa producing countries. At the end of the 2005/2006 campaign, US warehouses held an above-average quantity of cocoa beans (around 269,000 tonnes) which represented an increase of 36% (72,000 tonnes) compared with 2004/2005. All US stocks were held in the New York Board of Trade licensed warehouses located at five delivery points: Delaware River (Camden and Philadelphia), Hampton Roads (Norfolk), New York, and the two new ports at Baltimore and Albany. The Delaware River ports held over 79% of total US cocoa bean stocks as at the end of the 2005/2006 cocoa year.

Based on statistical and anecdotal evidence, overall origin country stocks showed increases in Malaysia and Côte d'Ivoire, decreases in Brazil and Ghana, and no change in Indonesia, compared with the previous year. Ms Thornton reported a total of 315,000 tonnes of stocks in producer countries as at the end of the 2005/2006 season.

## The Secretariat

The Secretariat of the ICCO assists the Council in the implementation of the objectives of the International Cocoa Agreement, 2001. As at 30 September 2007, the Secretariat consisted of 13 Professional and Higher category staff members and seven General Service category staff members (see **Annex II**).

## Administrative Budget and Accounts for 2006/2007

At its 74th regular session held in September 2006, the Council approved the Administrative Budget for 2006/2007. Total expenditures of £1,943,905 were projected for the period, to be financed mainly by Members' contributions which totalled £1,827,405, representing £913 per vote.

Actual expenditures during the 2006/2007 financial year were £1,914,599 while total income amounted to £2,011,178, arising from Members' contributions, bank interest and sales of ICCO publications, thus resulting in a surplus in the Administrative Accounts of £96,579.

Net assets as at 30 September 2007 had increased to £2,400,720, made up of £1,501,458 in the Special Reserve Fund and of £899,262 in the Revenue Reserve Fund.

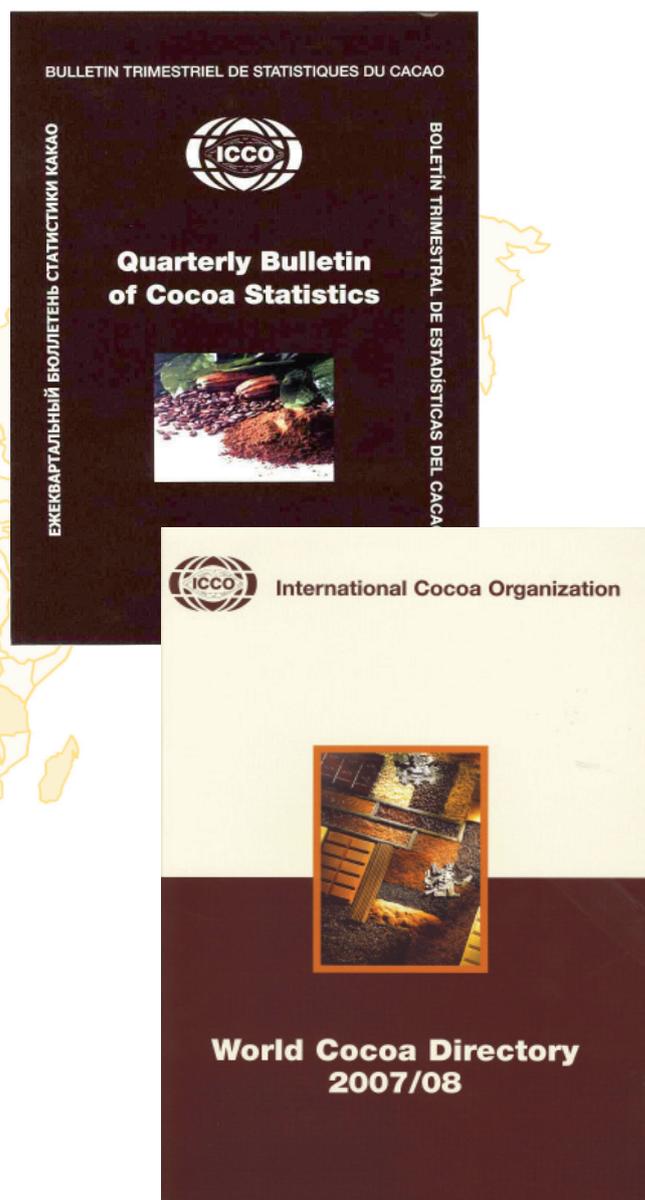
The audited Balance Sheet and the Income and Expenditure Account are presented in **Annex III**.

## ICCO Publications

### Documents

Meeting documents and Memoranda issued by the Executive Director in English, French, Russian and Spanish are drafted in-house and forwarded to the representatives of ICCO Member countries, Observer

countries, and Observer organizations. A number of documents are also published on the ICCO website ([www.icco.org](http://www.icco.org)).



*Quarterly Bulletin of Cocoa Statistics Volume XXXIII and World Cocoa Directory 2007/08*

## Publications and Studies

The Organization collects, processes and publishes statistics on all matters related to cocoa. Indeed, its **Quarterly Bulletin of Cocoa Statistics** is considered to be the most authoritative source of cocoa statistics in the world. One of the main sources of information for the **Bulletin** is the data provided by ICCO's Member countries. The Bulletin provides statistical information on trade in cocoa beans, cocoa products and chocolate, by country and by region. Details of destination of exports and origin of imports for leading cocoa exporting countries are also provided, along with historical statistics on cocoa trade and consumption by country and by region.

The ICCO's annual **World Cocoa Directory** is an important reference tool which comprises information on the entire international cocoa industry, providing more than 4,000 business names, addresses and contact details worldwide. The 2006/2007 issue of the World Cocoa Directory was completed and presented to Members during the ICCO June 2007 meetings.

The Economics and Statistics Division publishes the **Monthly Review of the Cocoa Market Situation** which reports on cocoa price movements on international markets. Previously, the Review was presented each quarter to Members in the standard format of an ICCO document. To facilitate access by Members, the Review is currently published monthly on the ICCO website in an enhanced style of presentation. Members discuss the current cocoa market situation on a regular basis at ICCO meetings, with the monthly reviews as inputs. In addition, the reviews are dispatched by email to all persons on the mailing list of the Secretariat.

**The Impact of Terminal Markets on Cocoa Bean Prices.** During the Market Committee's eighth meeting in September 2006, concerns were expressed about the July 2006 price developments in the LIFFE cocoa market – in particular, that distorting speculative trading gave rise to a contango of the nearby cocoa

futures contract. To address this issue, the Secretariat carried out a study to evaluate the effects of speculative trading on the levels and volatility of cocoa prices in terminal markets. The results reject the hypothesis that speculative trading moved cocoa prices away from market fundamentals and exacerbated volatility.

It should be noted that the ICCO investigation was carried out using only the speculators' reportable positions recorded each Tuesday by the US Commodity Futures Trading Commission – it did not account for speculators' activity in other trading sessions in the week. The US Commodity Futures Trading Commission denied ICCO access to higher frequency data, fearing that open interest broken down by type of traders on a daily basis would disclose privileged commercial and financial information. Hence caution is advised in the interpretation of the results of the ICCO investigation.

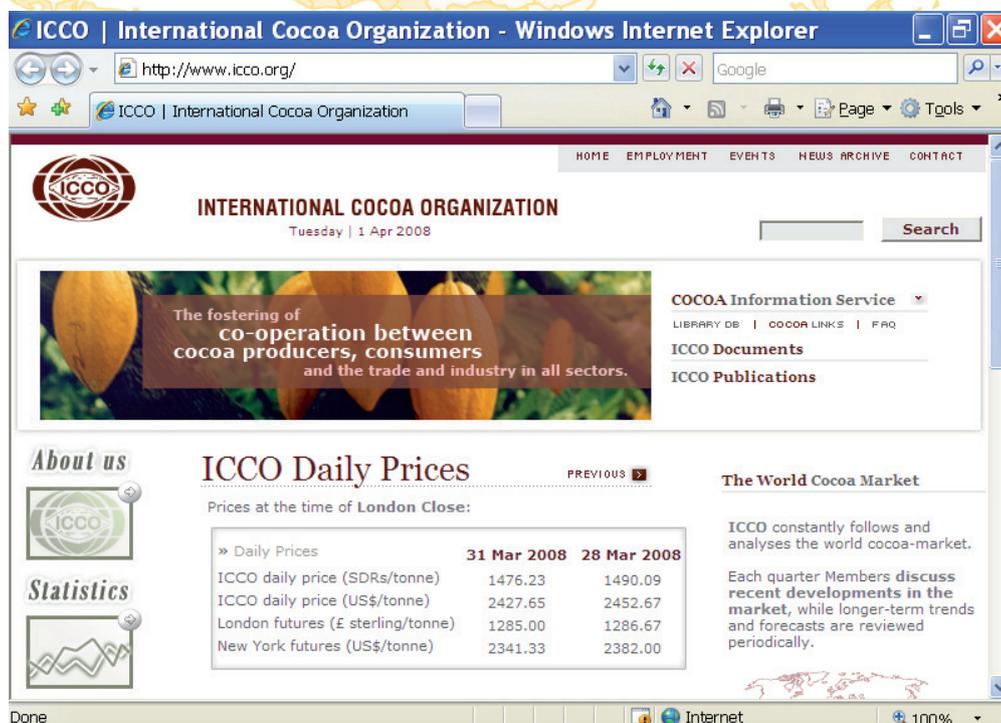
Concerning the backwardation in the London terminal market in July 2006, it became clear that such a phenomenon reflected the traders' fear of an imminent "stock-out" of cocoa in LIFFE warehouses. In fact, a relatively large number of cocoa deliveries were evaluated as non-tenderable. However, as cocoa beans of better quality were rushed to LIFFE just before contract expiration, market participants revised their view on the availability of stocks accordingly. As a result, the usual contango situation returned with prices at a later date being higher than spot prices.

Website

The ICCO **website** continues to attract a wide range of users, as reflected in the daily requests through the FAQs for information on the Organization, its work, and the cocoa and chocolate industry. Data produced by the Statistics and Market Review Section on the daily prices of cocoa beans and monthly averages of the daily prices attract a considerable number of hits on the site.

In 2007, ICCO recorded an average of more than 115,000 web visits per month.

Recent upgrades to the website include a content partnership with IGLOO, a knowledge-sharing network with an online repository comprising several unique governance collections gathered from hundreds of partnering organizations from around the world. A link to the site [www.igloo.org](http://www.igloo.org) can be found on the ICCO website under Library DB. IGLOO also placed a profile of ICCO on its website.



ICCO Home Page ([www.icco.org](http://www.icco.org))

## Meetings, Workshops and Seminars

In the spirit of co-operation and continuing dialogue with governments, industry and related organizations,

the ICCO hosted and participated in a number of meetings during the reporting period from October 2006 until September 2007.

<b>ICCO Home and Abroad</b>	
<b>October 2006</b>	<ul style="list-style-type: none"> <li>• The Executive Director attended the Committee on Trade and Development of the World Trade Organization which met in Geneva from 3-4 October. He presented a paper entitled "The World Cocoa Economy: Situation and Challenges Ahead".</li> <li>• ICCO was represented by its Project Manager at the CFC Regional Round Table Meeting on "Commodity Development in Africa" held in Yaoundé from 16-22 October.</li> <li>• The Executive Director gave a presentation entitled "Cocoa Supply Chain Management for Total Quality Cocoa" at the Eurochocolate 2006 Summit held in Perugia from 18-22 October.</li> </ul>
<b>November 2006</b>	<ul style="list-style-type: none"> <li>• A delegation from the Cocoa and Chocolate Association of Japan visited the Organization on 6 November to discuss the issue of Maximum Residue Levels (MRLs) for cocoa.</li> <li>• The Director of the Economics and Statistics Division attended the Final Workshop of the Project for the Improvement of Cocoa Marketing and Trade in Liberalizing Cocoa Producing Countries, from 2-3 November in Douala.</li> <li>• From 8-17 November, the Executive Director and the Director of the Economics and Statistics Division visited Abidjan to discuss ongoing project activities with government officials as well as with the Autorité de Régulation du Café et du Cacao (ARCC), the Bourse du Café et du Cacao (BCC) and the Fonds de Développement et de Promotion des Activités des Producteurs de Café et de Cacao (FDPCC). Subsequently, the Executive Director visited Ghana, accompanied by the Associate Statistician, for discussions with the Ghana Cocoa Board, the Cocoa Research Institute of Ghana (CRIG) and Kuapa Kokoo on various subjects.</li> </ul>
<b>December 2006</b>	<ul style="list-style-type: none"> <li>• The 11th meeting of the Consultative Board on the World Cocoa Economy, the 131st meeting of the Executive Committee, the 9th meeting of the Promotion Committee and the 15th meeting of the Expert Working Group on Stocks took place in London from 4-6 December.</li> <li>• On 16 December, the Senior Statistician and the Associate Statistician visited Eurostat in Luxembourg.</li> </ul>
<b>January 2007</b>	<ul style="list-style-type: none"> <li>• The Executive Director, accompanied by the Chairman of the Expert Working Group on Quality and the Director of the Economics and Statistics Division, attended the Consultative Committee meeting of the Common Fund for Commodities in Amsterdam on 25 January, to present the Project Proposal on Supply Chain Management Operations in Cocoa Producing Countries and the Fast Track Project Proposal on Managing and Preventing the Spread of Cocoa and Pests and Pathogens.</li> <li>• From 28-29 January, the Executive Director attended the annual Confectionery Fair [Internationale Süßwarenmesse] and Dinner in Köln, Germany.</li> </ul>

<b>ICCO Home and Abroad</b>	
<b>February 2007</b>	<ul style="list-style-type: none"> <li>• The Project Manager visited Malaysia and Papua New Guinea from 8-23 February 2007 in connection with the mid-term evaluation of the Germplasm II Project.</li> </ul>
<b>March 2007</b>	<ul style="list-style-type: none"> <li>• The 12th meeting of the Consultative Board on the World Cocoa Economy, the 75th regular session of the International Cocoa Council, the 132nd meeting of the Executive Committee, the 9th meeting of the Market Committee, the 10th meeting of the Promotion Committee and the 18th meeting of the Expert Working Group on Quality took place in Kuala Lumpur from 12-17 March. The meetings were serviced by the Executive Director, with members of the management, professional and support staff.</li> <li>• From 18-21 March, the Executive Director met with government officials and the private sector in Jakarta in connection with the possible membership of Indonesia of the ICCO.</li> <li>• The Executive Director and the Director of the Economics and Statistics Division met with the Chief Operations Officer of the CFC in Amsterdam in connection with various ongoing projects and the proposed hosting of the 14th meeting of the CFC and the International Commodity Bodies (ICBs) at ICCO Headquarters in April.</li> </ul>
<b>April 2007</b>	<ul style="list-style-type: none"> <li>• The 14th meeting between the CFC and the International Commodity Bodies was held at ICCO Headquarters on 2-3 April to exchange views on issues of mutual interest and to co-ordinate responses to various developments and initiatives at global level.</li> <li>• On 12 April, the Director of the Economics and Statistics Division and the Chairman of the Expert Working Group on Quality attended the CAOBISCO Cocoa Committee meeting in Brussels, in connection with the ICCO Total Quality Cocoa Project.</li> <li>• On 16-20 April, a Seminar on Econometric Models for cocoa was organized by the ICCO at its Headquarters in London for experts from cocoa producing countries.</li> </ul>
<b>May 2007</b>	<ul style="list-style-type: none"> <li>• During the period from 22 April to 13 May, the Executive Director visited Brazil, Venezuela and the Dominican Republic for meetings with government officials and the private sector and for field visits, to strengthen the relations between the countries and ICCO and to enhance their participation in project activities.</li> <li>• The Executive Director met with Rausch Chocolates in Berlin on 17 May to discuss developments in the single –origin, high quality cocoa market.</li> <li>• The Project Officer and Project Manager attended the World Cocoa Foundation partnership meetings from 22-24 May in Amsterdam.</li> <li>• From 21-25 May, the Director of the Economics and Statistics Division and the Econometrician met with government officials in Abidjan in connection with the Price Risk Management Project.</li> </ul>

## ICCO Home and Abroad

<p><b>June 2007</b></p>	<ul style="list-style-type: none"> <li>• The 13th meeting of the Consultative Board on the World Cocoa Economy, the 133rd meeting of the Executive Committee, the 10th meeting of the Market Committee, the 11th meeting of the Promotion Committee, and the 19th meeting of the Expert Working Group on Quality took place in London from 4-7 June.</li> <li>• The Executive Director attended the Fourth Indonesian International Cocoa Conference held in Bali on 28-29 June and made a presentation entitled "The State of the World Cocoa Economy: Situation and Challenges".</li> </ul>
<p><b>July 2007</b></p>	<ul style="list-style-type: none"> <li>• The Director of the Economics and Statistics Division attended the ICCO/CABI Workshop on Preventing and Managing the Global Spread of Cocoa Pests and Pathogens, in Abidjan, from 16-20 July.</li> <li>• The Executive Director and the Director of the Economics and Statistics Division met with government officials and the private sector in Côte d'Ivoire, from 20-24 July to discuss matters related to the relocation of the Organization and to the implementation of projects. This was followed by meetings in Ghana from 26-27 July with the Ghana Cocoa Board and the Ministry of Finance in connection with the upcoming Round Table meeting in Accra.</li> </ul>
<p><b>September 2007</b></p>	<ul style="list-style-type: none"> <li>• On 5 September, the Executive Director met with the CFC in Amsterdam and with the Ministry of Foreign Affairs and Ministry of Agriculture, Nature and Food Quality in the Hague to discuss issues related to project financing. On 6 September, the Executive Director visited Brussels for discussions on project financing matters with the Belgian Ministry of Foreign Affairs.</li> <li>• The 14th meeting of the Consultative Board on the World Cocoa Economy, the 76th regular session of the International Cocoa Council, the 134th meeting of the Executive Committee, the 11th meeting of the Market Committee, and the 12th meeting of the Promotion Committee took place in London from 10-14 September.</li> </ul>



## Seminars

On 16-20 April 2007, ICCO organized and hosted a **Seminar on Econometric Models** for cocoa at its Headquarters in London. The Seminar targeted experts from producing countries, and attracted 18 participants from Brazil, Cameroon, Côte d'Ivoire, Ghana, Indonesia, Malaysia, Nigeria, Papua New Guinea and two participants from the Cocoa Producers' Alliance (COPAL).

The objective of the Seminar was to highlight the importance of econometric models in understanding historical market developments, assessing future market developments and evaluating the impact on the cocoa economy of different production policy options.

The Seminar consisted of five daily sessions in a lecture-discussion format and revolved around five major themes: model specification; data collection; estimation; model validation and application.

Presentations during the sessions were followed by extensive discussions between the speakers and participants, analysing experiences on the ground in cocoa producing countries and examining any shortcomings and possible remedial measures.



*Participants attending the seminar on Econometric Models, April 2007*

strengthen and maintain the technical capacity of experts in cocoa producing countries, while establishing a consistency of approach by the Secretariat in developing and updating its econometric model for cocoa.

## Workshops

The global cocoa economy continues to suffer from cocoa pests and pathogens, which have decimated crops and destroyed the livelihoods of farmers. An international Workshop on the **Prevention and Management of the Global Spread of Cocoa Pests and Pathogens** was organized by the ICCO on 16-20 July 2007 in Abidjan to present the results of the Witches' Broom Project and to review the status of major pests and pathogens. Its main objective was to build consensus on the approach and content of a global-level project to address the issue of the spreading of pests and pathogens. The results of the Workshop will provide the input for a major global project to prevent and/or minimize losses from the spreading of pests and pathogens through the establishment of "early warning" and "early action" systems.



*Dr J.M. Anga presenting the certificates at the seminar on Econometric Models, April 2007*

It was agreed that such Seminars should be organized at least every two or three years to keep producer countries abreast of developments in the field and to

## Major Events in the 2006/2007 Cocoa Calendar

Major Events in the 2006/2007 Cocoa Calendar		
3-4 October 2006	Meeting of the Committee on Trade & Development of the World Trade Organization	Geneva
9-14 October 2006	15th International Cocoa Research Conference organized by COPAL	San José, Costa Rica
16-22 October 2006	CFC Regional Round Table Meeting on Commodity Development in Africa	Yaoundé
18-22 October 2006	Eurochocolate Festival	Perugia
2-3 November 2006	Final Workshop of the Project for the Improvement of Cocoa Marketing & Trade in Liberalizing Cocoa Producing Countries	Douala
4 December 2006	11th meeting of the Consultative Board on the World Cocoa Economy	London
5-6 December 2006	131st meeting of the Executive Committee, 15th meeting of the Expert Working Group on Stocks and 9th meeting of the Promotion Committee	London
25 January 2007	CFC Consultative Committee meeting	Amsterdam
28-29 January 2007	Köln Confectionery Fair (Süßwarenmesse)	Köln
12 March 2007	12th meeting of the Consultative Board on the World Cocoa Economy	Kuala Lumpur
13-17 March 2007	75th regular session of the International Cocoa Council, 132nd meeting of the Executive Committee, 9th meeting of the Market Committee, 10th meeting of the Promotion Committee and 18th meeting of the Expert Working Group on Quality	Kuala Lumpur
2-3 April 2007	14th Meeting between the Common Fund for Commodities and the International Commodity Bodies, hosted by ICCO	London
12 April 2007	CAOBISCO Cocoa Committee meeting	Brussels
16-20 April 2007	Seminar on Econometric Models, ICCO Headquarters	London
22-24 May 2007	World Cocoa Foundation Partnership meetings	Amsterdam
4 June 2007	13th meeting of the Consultative Board on the World Cocoa Economy	London
5-7 June 2007	133rd meeting of the Executive Committee, 10th meeting of the Market Committee, 11th meeting of the Promotion Committee and 19th meeting of the Expert Working Group on Quality	London
28-29 June 2007	Fourth Indonesian International Cocoa Conference	Bali
16-20 July 2007	Workshop on Preventing and Managing the Global Spread of Cocoa Pests and Pathogens	Abidjan
5-7 September 2007	Sweets China 2007, sponsored by ISM	Shanghai
10 September 2007	14th meeting of the Consultative Board on the World Cocoa Economy	London
11-14 September 2007	76th regular session of the International Cocoa Council, 134th meeting of the Executive Committee, 11th meeting of the Market Committee, and 12th meeting of the Promotion Committee	London
27-30 September 2007	ECA Concoction III organized by the European Cocoa Association	Berlin

### 3. THE WORLD COCOA MARKET

#### Production

World production of cocoa beans dropped by almost nine per cent from the previous season to 3.4 million tonnes in 2006/2007, mainly as a consequence of unfavourable weather conditions in many cocoa producing areas. West Africa, the main cocoa-producing region, was hit by a severe harmattan and its inherent dry weather, which lasted from the end of 2006 to February 2007, had a strong negative impact on production. In Asia and in South America, El Niño-related weather conditions developed in September 2006 and continued until the beginning of 2007.

Cocoa production in the two major producing countries was hit severely in 2006/2007. Production in Ghana declined by 17% from the previous season to 614,000 tonnes, resulting mainly from a very poor mid crop. In Côte d'Ivoire, cocoa output reached 1,292,000 tonnes,

down by 116,000 tonnes from the previous season. As in Ghana, the second harvest of the season proved very disappointing, as the trees did not recover from the poor level of soil moisture and lack of rainfall which lasted until February 2007, causing many developing pods to shrivel.

The statistical picture for the mid crop in Côte d'Ivoire could have been worse. Indeed, the 2007/2008 main crop experienced an early and strong start at the end of August - almost 100,000 tonnes of cocoa beans reached Ivorian ports in September 2007. These cocoa beans were statistically counted as part of the 2006/2007 mid crop and, consequently, enhanced the production figures of the 2006/2007 cocoa season, while in fact, they were part of the 2007/08 main crop.

**Production of cocoa beans (thousand tonnes)**

	2002/03		2003/04		2004/05		2005/06		2006/07	
<b>Africa</b>	<b>2 231</b>	<b>70.4%</b>	<b>2 550</b>	<b>72.1%</b>	<b>2 375</b>	<b>70.3%</b>	<b>2 642</b>	<b>71.0%</b>	<b>2 392</b>	<b>70.4%</b>
Cameroon	160		166		185		166		166	
Côte d'Ivoire	1 352		1 407		1 286		1 408		1 292	
Ghana	497		737		599		740		614	
Nigeria	173		180		200		200		190	
Others	50		60		104		128		129	
<b>America</b>	<b>428</b>	<b>13.5%</b>	<b>462</b>	<b>13.1%</b>	<b>445</b>	<b>13.2%</b>	<b>446</b>	<b>12.0%</b>	<b>411</b>	<b>12.1%</b>
Brazil	163		163		171		162		126	
Dominican Republic	47		47		31		42		47	
Ecuador	86		117		116		114		114	
Others	132		134		127		128		124	
<b>Asia &amp; Oceania</b>	<b>510</b>	<b>16.1%</b>	<b>525</b>	<b>14.8%</b>	<b>559</b>	<b>16.5%</b>	<b>636</b>	<b>17.1%</b>	<b>597</b>	<b>17.5%</b>
Indonesia	410		430		460		530		490	
Malaysia	36		34		29		30		31	
Papua New Guinea	43		39		48		51		50	
Others	21		22		22		25		25	
<b>World total</b>	<b>3 169</b>		<b>3 537</b>		<b>3 379</b>		<b>3 724</b>		<b>3 400</b>	

**Notes:** Totals and differences may differ due to rounding.

**Source:** ICCO Quarterly Bulletin of Cocoa Statistics, Volume XXXIII, No.4 2006/07.

## Consumption

Cocoa consumption, as measured by grindings, increased by 2.5% from the previous season to 3,608,000 tonnes in 2006/2007. Despite a relative slow-down during that season, the cocoa market has been characterized over the last five years by a sustained demand for cocoa, rising by 3.8% per annum (based on a three-year moving average). It was supported by a strong demand for cocoa butter to rebuild stocks, as well as by rising chocolate consumption in emerging and newly-industrialized markets and changes in chocolate consumption behaviour in mature markets towards higher cocoa content chocolate products.

At the regional level, developments were heterogeneous in 2006/2007, with grindings rising by around six per cent in Europe to 1,540,000 tonnes and to 514,000 tonnes in Africa. Meanwhile, they remained at almost the same level, at 699,000 tonnes in Asia and Oceania

and declined by three per cent in the Americas to 853,000 tonnes. Processors located in Germany and Ghana contributed to almost half of the increase in world grindings, reflecting the installation of additional capacities in these countries.

The Netherlands and the United States remained the major cocoa processing countries, each with grindings of more than 400,000 tonnes during the year.

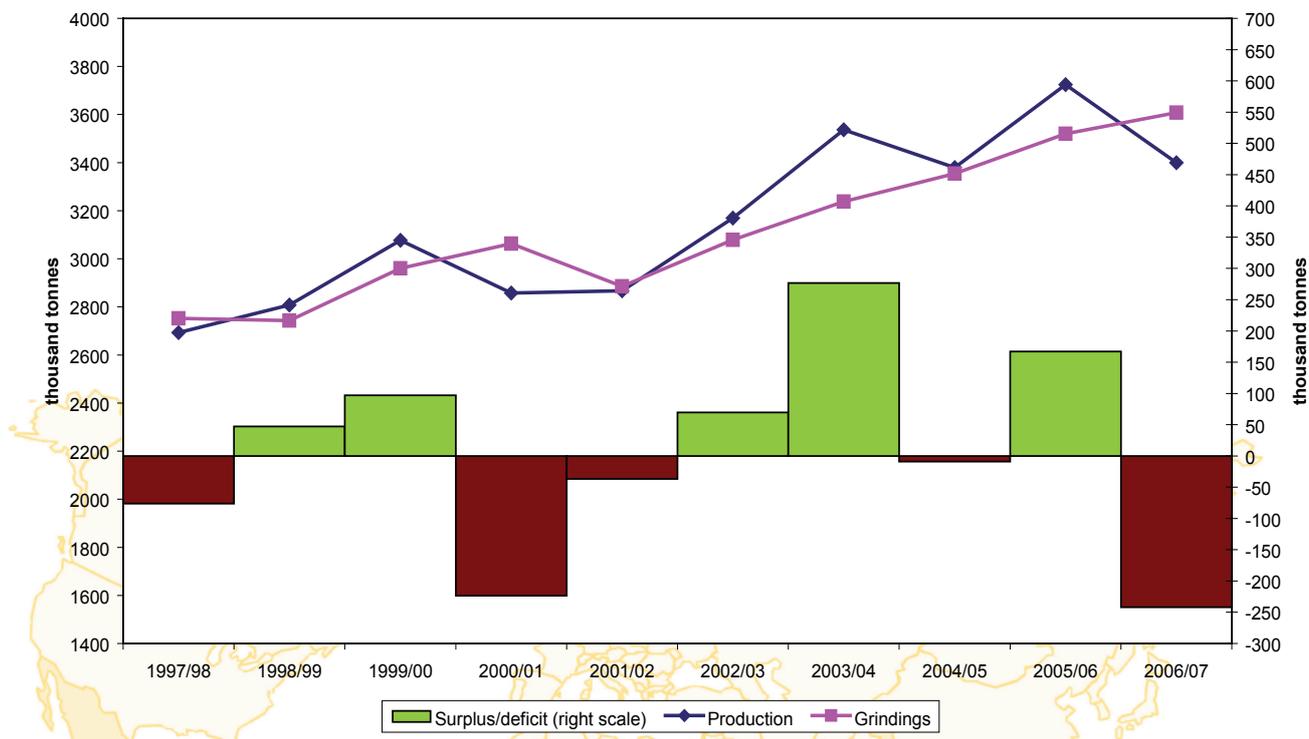


Consumption/Grindings of cocoa beans (thousand tonnes)										
	2002/03		2003/04		2004/05		2005/06		2006/07	
<b>Europe</b>	<b>1 320</b>	<b>42.9%</b>	<b>1 348</b>	<b>41.6%</b>	<b>1 379</b>	<b>41.4%</b>	<b>1 456</b>	<b>41.4%</b>	<b>1 540</b>	<b>42.7%</b>
Germany	193		224		235		306		357	
Netherlands	450		445		460		455		465	
Others	677		678		684		695		719	
<b>Africa</b>	<b>447</b>	<b>14.5%</b>	<b>464</b>	<b>14.3%</b>	<b>501</b>	<b>14.9%</b>	<b>485</b>	<b>13.8%</b>	<b>514</b>	<b>14.3%</b>
Côte d'Ivoire	315		335		364		336		336	
Others	131		129		137		149		179	
<b>America</b>	<b>814</b>	<b>26.4%</b>	<b>852</b>	<b>26.3%</b>	<b>853</b>	<b>25.4%</b>	<b>881</b>	<b>25.0%</b>	<b>853</b>	<b>23.7%</b>
Brazil	195		207		209		223		224	
United States	410		410		419		432		418	
Others	208		235		225		226		212	
<b>Asia &amp; Oceania</b>	<b>499</b>	<b>16.2%</b>	<b>575</b>	<b>17.7%</b>	<b>622</b>	<b>18.5%</b>	<b>698</b>	<b>19.8%</b>	<b>699</b>	<b>19.4%</b>
Indonesia	115		120		115		140		140	
Malaysia	150		203		249		267		270	
Others	234		252		258		291		289	
<b>World total</b>	<b>3 079</b>		<b>3 238</b>		<b>3 354</b>		<b>3 520</b>		<b>3 608</b>	
<b>Origin</b>	<b>1 089</b>	<b>35.4%</b>	<b>1 186</b>	<b>36.6%</b>	<b>1 262</b>	<b>37.6%</b>	<b>1 293</b>	<b>36.8%</b>	<b>1 325</b>	<b>36.7%</b>

Notes: Totals and differences may differ due to rounding.

Source: ICCO Quarterly Bulletin of Cocoa Statistics. Volume XXXIII, No.4 2006/07

World Cocoa Bean Production, Grindings and Surplus/Deficits



**Stocks**

The 2006/2007 cocoa season experienced a large production deficit, estimated at 242,000 tonnes. Total world stocks of cocoa beans at the end of the year had therefore decreased to 1.6 million tonnes, the equivalent of 44% of the estimated annual grindings in 2006/2007.

**Prices**

Average international cocoa prices, as measured by the ICCO daily price, increased in 2006/2007 from the previous cocoa year by 19% to US\$1,854 per tonne. The large production deficit in the 2006/2007 cocoa season had been the main factor leading to this development in the market. Other bullish factors

included the position in the futures markets of cocoa processors and chocolate manufacturers, having below-average forward fixed price coverage, and the weakening US dollar against other major currencies.

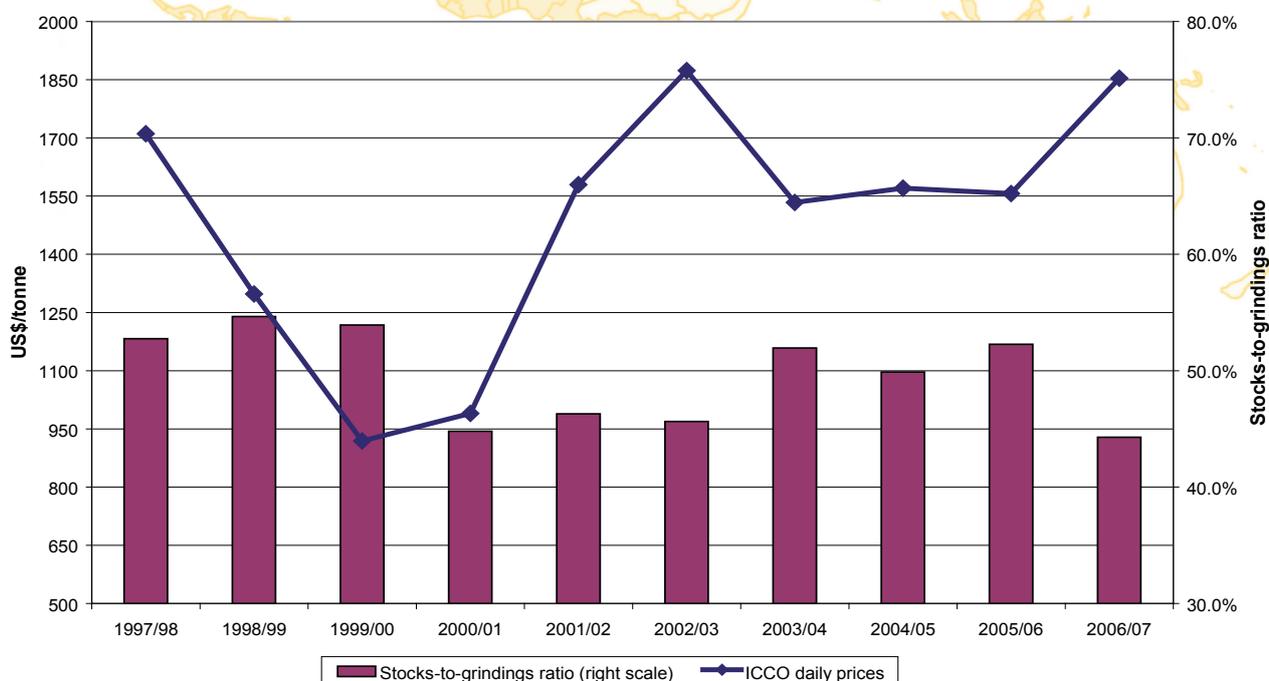
The highest price level of the season was reached on 6 July 2007, when prices climbed to £1,140 on the London terminal market and US\$2,144 in New York, their highest levels since 2003. However, the strong increase in recorded prices induced some nervousness among market participants and, at such relatively high prices, the markets were rendered vulnerable to profit-taking. In the second week of July, the cocoa futures markets witnessed a strong adjustment and, after a short-lived recovery, the markets again retreated until the fourth week of August.

The decline in prices was not attributed to particular bearish news on the fundamental cocoa supply and demand situation, but may have been related to concerns in financial markets over the US subprime mortgage market crisis. This may have prompted funds to reduce their investments in cocoa to cover stock market losses. However, the US sub prime mortgage market crisis is likely to have acted only as a catalyst, hastening and exacerbating an expected downward correction at that time of the year in the cocoa market. Indeed, futures cocoa prices had soared by more than 30% in London and by more than 40% in New York since the beginning of the 2006/2007 season until the beginning of July.

From the last week of August to the end of the 2006/2007 season, cocoa prices in futures markets moved upwards, supported by concerns over the impact on production of the spread of black pod disease in some regions of Côte d'Ivoire, Ghana, and to a lesser extent, Nigeria.



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



## 4. MEETING THE CHALLENGES FACING THE WORLD COCOA ECONOMY

Major new trends have developed in the world cocoa economy in recent years, while an old major problem has continued to persist. The new trends relate to changes in demand for chocolate, which are sometimes dramatic, while the old problem is that of the abject poverty of many cocoa farmers. Together these are the two major challenges facing the world cocoa economy: meeting the changing demands of consumers and considerably increasing the income of poor cocoa farmers.

### Meeting the New Demands of Consumers

In the last two or three years, there has been a breakthrough in some earlier trends on the composition of chocolate demand. Recently, there has been quite a dramatic switch from chocolate with a low cocoa content to chocolate with a higher cocoa content, resulting in considerably more consumption of dark chocolate. This switch has occurred, in particular, in the mature markets of Europe and North America. These developments in demand have contributed to an unprecedented rapid increase in world cocoa grindings over the past five years.

The observed changes in demand have not been limited to more demand for chocolate of high(er) physical quality. The demand for chocolate that meets social, ethical, environmental, food safety and/or economic standards of sustainability has continued to increase very rapidly. This phenomenon is manifested in rapidly increasing demand for Fair-trade, organic and single-origin cocoa. Increasingly, consumers not only demand chocolate of a high physical quality, they also want to be sure that the cocoa, from which the chocolate is made, has provided a better income to the farmers and that the cocoa has been produced in a socially acceptable way, without causing undue harm to the environment.

The task for both cocoa producers and chocolate manufacturers is to meet the challenges of these changes in demand. Both farmers and manufacturers have to be proactive in meeting the demands of consumers, for the benefit of all stakeholders in the sector. Authorities in producing countries have to work with the farmers to produce the high quality beans demanded by the consumers, while the manufacturers of chocolate have to co-operate more closely with cocoa bean producers to meet the non-physical quality demands of consumers and to better anticipate future changes in demand patterns.

### Improving Farmers' Incomes

About 90%-95% of all cocoa is produced by smallholder farmers. The typical size of a smallholder farm is about three hectares, with a very large proportion of the farms in the size group of two to five hectares. On most, or rather on almost all of these farms, the production per hectare (yield) is either low or very low and in most cases, the yields have been stagnant over time.

■ Cocoa producing countries



*Farmers in a Cocoa Plantation*

In most countries, Malaysia being the main exception, yields of around 600 kg of dry cocoa beans per hectare are considered quite satisfactory. However, for many cocoa farms, the annual yield is at a level of around 500 kg/ha. or lower. This situation implies that, allowing for additional income from food production and from other sources, most cocoa farmers do not earn a decent income. In fact, the ICCO Secretariat estimates that, over the last decade, the per capita income of the majority of cocoa farm families has been below the official United Nations poverty line of US\$2 per capita per day.

This major challenge has to be met by increasing productivity on the farms and by improving the efficiency of the supply chain between the farmer and the port of export. That has to be done, while avoiding overproduction – through diversification – to prevent a decline in prices arising from higher productivity. Most of all, the increase in the incomes of cocoa farmers is to come from higher productivity. Fortunately, there is enormous scope for increasing productivity by introducing “best known practices” in cocoa farming. The technologies are known. What is required is that the farmers have the know-how, the means and the incentives to apply them.

### Working Towards a Sustainable World Cocoa Economy

The current International Cocoa Agreement, which entered into force on 1 October 2003, gives the ICCO an explicit mandate in the area of sustainability. Article 39 of the Agreement “encourages its Members to give consideration to the development of a sustainable cocoa economy”. In so doing, the ICCO adopted the definition of sustainability proposed by the Brundtland Commission which described sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.

The new International Cocoa Agreement also established a Consultative Board on the World Cocoa Economy, composed of private sector representatives,

to serve as a forum for discussions on matters relevant to the sustainability of the world cocoa economy and to advise the Council on such matters. Being closely involved in the industry, these representatives are able to bring their expertise to bear in Board meetings. They participate actively in discussing relevant issues and in making recommendations to the ICCO Council with a view to bringing benefits to the cocoa sector.

Following its meetings in December 2006 and March 2007, the Consultative Board finalized a document entitled “Sustainable Cocoa Economy: A Comprehensive and Participatory Approach”. The document was to serve as a reference and a starting point for discussions towards the planned Roundtable on a Sustainable Cocoa Economy (RSCE). It was agreed that the concept of sustainability in cocoa had to take into account the economic, social and environmental pillars of sustainable development, and that this holistic approach would lead to progress in achieving a sustainable cocoa economy. The document outlined the following overall objectives for a sustainable world cocoa economy:

- to increase the incomes of cocoa farm families by improving efficiency and modernizing cocoa production and by expanding demand for cocoa through the further development of markets for cocoa and chocolate products and by diversification of the cocoa sectors in producing countries (economic pillar);



*A diagrammatic representation of sustainability*

- to ensure that cocoa is produced, processed and manufactured into cocoa and chocolate products in ways that are consistent with the protection of the environment (environmental pillar); and
- to improve the social situation of all people involved in cocoa production, and of those processing cocoa and producing chocolate by enhancing corporate responsibility and involvement (social pillar).

Achieving economic sustainability was seen as a precondition to social and environmental sustainability. Increasing farmers' incomes was therefore the first challenge to be tackled by the Board.

In view of these challenges, it was considered imperative that all players in the cocoa chain work together to improve the efficiency of the cocoa supply chain in delivering "sustainable" cocoa and cocoa-based products. It was expected that, in order to meet these requirements for sustainability in cocoa, an independent multi-stakeholder process would eventually lead to some form of guidelines through transparent consultations where minimum standards would be set as benchmarks. These could be set as initial targets and continuous progress would need to be made to improve on these standards over time, using an agreed method of measurement or indicators of sustainability. It could then lead to independent verification or certification to gain credibility and wider acceptance.

Given the characteristics of the world cocoa economy, the Board analysed why the cocoa economy is presently unsustainable; outlined the sustainability goals; identified activities to achieve economic, environmental and social sustainability; suggested potential indicators to measure progress in achieving sustainability; and highlighted the benefits of sustainability. It also offered a model for improving sustainability of the world cocoa economy, involving four specific steps: data collection; reporting of data; implementation of activities towards sustainability goals; and validation of progress.

The Board also discussed how to seek consensus on ways to achieve a sustainable world cocoa economy and agreed on the hosting of a Roundtable involving all major stakeholders. It was agreed that the proposed Roundtable on a Sustainable Cocoa Economy would be held in Accra, Ghana from 3 to 6 October 2007. The event would be hosted by the Ghana Cocoa Board, with funding provided by the Dutch Ministry of Agriculture, Nature and Food Quality, and the Ghana Cocoa Board. The Roundtable would bring together representatives of cocoa farmers, managers of co-operatives, exporters, traders, processors and manufacturers, government officials, donor organizations, financial institutions, non-governmental organizations and other private organizations active in the cocoa and chocolate supply chains.

### Consumption of Premium Chocolate

The cocoa and chocolate market is undergoing dynamic change in the nature of the demand for chocolate. The trends towards premium chocolate products have engendered not only new challenges but also opportunities for all participants in the sector.



Chocolate samples

Until recently, the general perception was that consumption of chocolate in Europe and the United States would begin to stagnate, as these major chocolate markets were reaching saturation. However, consumption behaviour across these mature markets has recently experienced major change, with the increasing appeal of premium chocolate, including organic, Fair-trade, single-origin, reduced sugar and dark and high cocoa content chocolates. Indeed, the confectionery market has increasingly been characterized by consumer demand for taste, convenience and health, and products addressing ethical and environmental concerns.

New product developments and 'functional foods' with wholesome ingredients (foods that provide health benefits beyond basic nutrition), have played an important role in the upward trend of the confectionery market. In recent times, research has increasingly been conducted on the health and nutritional attributes of cocoa and chocolate. The findings indicate that flavanoids in cocoa may decrease low-density-lipoprotein (LDL or "bad" cholesterol) oxidation, helping to prevent cardiovascular diseases. In addition, cocoa's high content in antioxidants has been proven to reduce the risk of cancer. The demand for dark and high cocoa content chocolate in particular, has surged in response to these positive findings.

The chocolate industry has demonstrated a strong ability to meet these challenges and to benefit from the new opportunities brought about through changing consumer demand. Companies traditionally known for milk chocolate products have been introducing new dark and high cocoa content chocolate products. Datamonitor reported that 33% of all chocolate candies launched in 2006 were dark chocolate products. Data published by ACNielsen highlighted an increase in sales of dark chocolate in the United States by nine per cent per year on average between 2001 and 2005, while sales of high cocoa content dark chocolate had increased by 24% during the same period. The dark chocolate global market is now estimated to represent between five per cent and 10% of the total market for chocolate tablets (the others being plain milk, plain

white and filled chocolate tablets), with a higher share in continental Europe than in the United States and the United Kingdom. Similarly, the certified organic and Fair-trade chocolate markets have been booming, increasing at double-digit rates.

The advent of increased demand for premium chocolates has impacted significantly on the demand for cocoa beans in terms of both quantity and quality. While the chocolate industry has responded proactively to this development, the need for cocoa producers to have further information on this issue was brought to the fore. Such information would provide cocoa producing countries with a better basis for formulating and implementing policies and programmes regarding cocoa production. One of the main challenges facing producing countries, to enhance their revenues from cocoa, is to meet the changing face of consumer demand.

<b>Estimated share of the retail values of dark chocolate tablet retail values, 2006</b>	
<b>More than 20%</b>	
	Austria
	Belgium
	Finland
	France
	Italy
	Netherlands
	Portugal
	Spain
	Switzerland
<b>Between 10% and 20%</b>	
	Germany
	Greece
	Norway
	Sweden
<b>Less than 10%</b>	
	Denmark
	Ireland
	United Kingdom
	United States

*Dark chocolate tablets - share of market by country*

Since its establishment in 1973, ICCO has kept abreast of emerging issues that impact on the development of the cocoa market and particularly on the welfare and income of cocoa farmers. In June 2007, the ICCO Market Committee reviewed a study prepared by the Secretariat on the demand situation for cocoa and chocolate products, showing the direct impact on the composition of demand for cocoa, in terms of quantity and quality.

For instance, it was shown that the increase in consumption of dark chocolate impacted on the cocoa market in two different ways:

- by increasing the demand for cocoa because dark chocolate has a higher cocoa content than other chocolate tablets;
- by increasing the demand for cocoa beans of higher liquor quality as compared to those for pressing into butter and powder. Cocoa liquor is the key raw material for chocolate production and plays a predominant role in determining the ultimate flavour of the chocolate. Premium quality cocoa liquor is a critical factor in good quality chocolate. It should also be noted that chocolate manufacturers' recipes of high cocoa content dark chocolate usually require a significant proportion of fine or flavour cocoa.

These changes in chocolate consumption behaviour have led to an increasing segmentation of the cocoa market according to the origin of the cocoa beans. Hence farmers producing beans in high demand, such as fine/flavour and organic cocoa, have been benefiting from significantly higher prices in recent years.

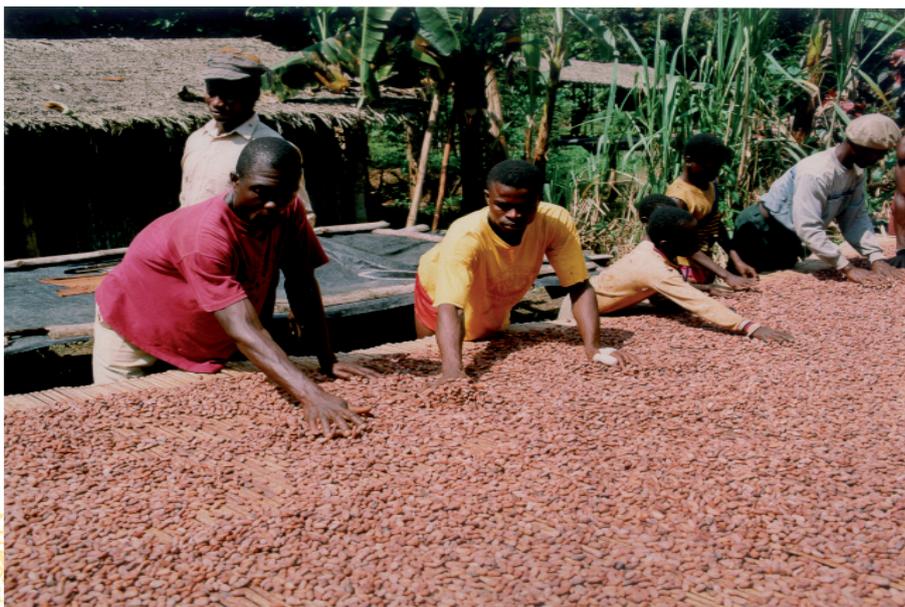
Currently, the following 14 countries have been recognized by the International Cocoa Council as exporters of fine or flavour cocoa: Colombia, Costa Rica, Dominica, Ecuador, Grenada, Indonesia, Jamaica, Madagascar, Papua New Guinea, Peru, Saint Lucia, São Tomé and Príncipe, Trinidad & Tobago and Venezuela.

At the end of the 2006/2007 cocoa year, ICCO prepared for a meeting of the Ad Hoc Panel on Fine and Flavour Cocoa which would take place in London in January 2008, composed of experts in the production and marketing of fine or flavour cocoa. The aim of the Panel meeting would be to review and evaluate the proportions of exports of fine and flavour cocoa allocated to producer countries. The Secretariat will continue periodic analyses of the situation and prospects in the market for niche, specialty and premium cocoas.

### Supply Chain Management for Total Quality Cocoa

The cocoa supply chain covers a wide range of activities and services required to bring cocoa beans from the point of production by farmers to their final use by consumers. Hence the efficient and effective functioning of the supply chain is an important step towards achieving a sustainable world cocoa economy. However, liberalization and privatization of the cocoa markets in the 1980s and 1990s resulted in major disruption in the efficiency and effectiveness of the cocoa supply chains in producing countries. The consequent result was a deterioration in the quality of cocoa beans produced, as the direct involvement of public bodies in the physical operations of the cocoa supply chain had been significantly reduced and, in some cases, completely removed.

In 1998, the Association of the Chocolate, Biscuit and Confectionery Industries of the European Union (CAOBISCO) expressed its deep concerns over the physical quality of cocoa beans supplied to the industry. The Association had observed that farmers were not consistently harvesting, fermenting and drying their cocoa in line with recommended practices. This was due to farmers' lack of knowledge of best known agronomic practices and, in particular, to the inefficient supply chains in producing countries. Cocoas of widely different qualities and bean size were often blended to the limits which contracts allowed.



*Drying of Cocoa Beans*

The problems were partly blamed on a lack of clearly established quality criteria and measurement of these criteria in the origin countries. Accordingly, CAOBISCO had established quality criteria for cocoa beans that would allow the Members of the Association to produce chocolate of the quality needed to satisfy both prevailing consumer tastes and changing legislation on food hygiene and safety.

The physical quality criteria developed by CAOBISCO formed the basis for the implementation of an ICCO "Pilot Project" in Côte d'Ivoire. The operations of the project started in 2001 to develop a model of a cocoa supply chain that would meet the CAOBISCO quality criteria. In 2003, the original CAOBISCO quality criteria were broadened to include other non-physical aspects such as food safety, ethical considerations (including the absence of forced child labour cocoa production) and environmentally-friendly production methods. Thus the concept of "total quality" was established.

Once the "total quality" concept had been developed, a key question emerged as to how to alter the existing supply system to ensure that these "total quality" criteria were satisfied throughout the supply chain. To achieve this, an essential requirement was that the cocoa would have to retain its integrity in the chain

and be traceable to its origin, to ensure the credibility of the "total quality" criteria. To this effect, a simple system of traceability was designed. Starting from the co-operative level, the co-operative would collect the cocoa from the farmers in "project villages". When collecting the cocoa, the co-operative would keep the cocoa from participating farmers separate from other cocoas produced in the region. At the co-operative warehouse, the cocoa would be checked for physical quality against the quality standards of the project. If these criteria were met, the cocoa would be put into export bags, closed, sealed and labelled. The cocoa would then be transported to port, once again checked for quality and then shipped. This system ensured both full traceability and full integrity of the cocoa between the co-operative and its shipment at the seaport through to the overseas cocoa buyer.

This system was tested in Côte d'Ivoire between the 2003/04 and 2006/07 cocoa years. The major lesson learned from the pilot operations was that the improved system did work, albeit with a need for further improvement. It further showed that the farmers were, under project conditions, willing and capable of producing cocoa which met high physical quality standards. The system prevented tampering with the integrity of the cocoa between the co-operative

warehouse and the seaport, thereby eliminating the practice of blending bad cocoa with good cocoa. Through full traceability, the system allowed for a meaningful introduction of quality aspects, which go beyond the physical quality of cocoa, thus arriving at a "total quality" cocoa. The system also resulted in a more efficient supply chain, with savings amounting to at least US\$ 30 per tonne, with significant upside potential. Moreover, all intermediary agents in the chain were eliminated, resulting in additional benefits for the farmers and their co-operatives.

As the pilot operations in Côte d'Ivoire were successful, work was initiated to expand the scope and coverage of the project in Côte d'Ivoire to other countries. It was recognized that the establishment of a world-wide sustainable cocoa supply chain mechanism for traceable and efficiently produced and traded "total quality" cocoa would lead to additional value for complying farmers and co-operatives. This would encourage non-project farmers in the countries concerned to adopt "total quality" practices and increase the readiness of other chocolate industry companies to reward production of traceable "total quality" cocoa.

It was to this effect that the ICCO developed a programme on Cocoa Supply Chain Management to involve different elements, and a pragmatic approach to enhance the efficiency and effectiveness of the supply chain. The programme also conforms with one of the priority areas agreed with the Common Fund for Commodities (CFC) for financing of projects. 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 for farmers' co-operatives; and the development of commercial partnerships in the cocoa chain. In the meantime, the ICCO has been in consultation with the Common Fund for Commodities, the Bill and Melinda Gates Foundation and other stakeholders to develop and implement one or more projects along these lines.

## Action Programme on Pesticide Residues

Evolution in modern agriculture has made it possible for consumers to access a plentiful supply of food at reasonable prices. This has been achieved through various means including the use of agro-chemicals such as fertilizers and pesticides. However, the chemical compounds used as pesticides for killing weeds, insects and other pests on crops are also often harmful to people, wildlife and the environment. In recent years, food safety has become one of the most important issues of concern to consumers. Hence the sale and use of these compounds are regulated in order to minimize the amount of pesticide residues found in food products. These are known as Maximum Residue Levels (MRLs). MRLs are defined as the maximum concentration of pesticide residues allowed to occur in or on food after the use of pesticides according to Good Agricultural Practice (GAP).

Up to 2005, procedures in the European Community (EC) allowed Member States to set and maintain national MRLs as applied to crops that were grown within the EU. However, in February 2005, the European Union introduced a new harmonized pesticide residue legislation on MRLs. For the first time, the legislation (EC No. 396/2005) applies to imported foods, including cocoa beans as well as to domestic produce. It had been adopted by the Council of the European Union and was expected to come into effect in early 2008. Under the legislation, tolerances would be established for pesticides which have not been approved for use in the EU or where GAP differs from that established in the EU. Similar legislation on MRLs was introduced in Japan in May 2006.

Until the new legislation comes into force, temporary EU MRLs will be set, based on existing EU Member State national and/or CODEX MRLs. Hence imports into the EU will be judged against this provisional list.

Where there are no national or CODEX MRLs in place, the EU MRL will be set at the Limit of Detection (LOD), i.e. 0.01mg/kg - effectively zero tolerance. This means that pesticides used on products destined for the EU must be approved by the EU. Otherwise, they could face rejection at the point of entry. The prospect of such a situation raised concerns in the cocoa sector, as it could disrupt cocoa trade.

Against this background, the ICCO Executive Committee adopted an Action Programme on Pesticides at its meeting in September 2005. The aim of the programme was to act quickly to avoid the imposition of unreasonable MRLs for pesticides in cocoa and cocoa products. The Action Plan distinguished between action to be taken in the short-term, follow-up action to be taken and, finally, action on how to make use of the information collected.

Under the Action Programme, the ICCO Secretariat compiled information on the types of pesticides used in cocoa producing Member countries. An expert on pesticides was enlisted by the ICCO to compare this information with the provisional list prepared by the EU and to formulate appropriate advice to producing countries.

In Japan, the cocoa trade was severely affected as a consequence of the new legislation which had been introduced. This development brought home the message that a similar situation could occur in the EU if preventative action was not taken. Producers have, therefore, been advised to avoid using pesticides not on the EU list as they would be subject to measurement at the Limit of Detection (LOD) and, in a more positive approach, the ICCO requested the expert on pesticides to produce a manual to guide cocoa producing countries on the safe and appropriate use of pesticides.

The ICCO Action Programme on Pesticides was welcomed by the European Cocoa Association (ECA) and the Association of the Chocolate, Biscuit & Confectionery Industries of the EU (CAOBISCO) who

had themselves formed a Pesticides Working Group to address the pesticide issue within the EU. The two Associations had launched a joint project to gather information on pesticide usage on cocoa in Ghana, Nigeria, Côte d'Ivoire and Cameroon for analysis and for provision of support to the countries on the safe and appropriate use of pesticides. The results of the joint project and the ICCO Action Programme will assist the Working Group in their negotiations with the EU in respect to the establishment of MRLs for cocoa and cocoa products.



*Cocoa pod sleeving against CPB (Cocoa Pod Borer)*

## 5. COCOA PROJECTS

### Projects under implementation

#### Price Risk Management Project

Smallholder cocoa farmers and co-operatives face great uncertainties in relation to the prices they will receive for their cocoa after the harvest, arising from the volatility of cocoa prices in the world markets. In an attempt to address this issue, the ICCO Secretariat prepared a pilot project proposal on "Price Risk Management for Cocoa Growers in Côte d'Ivoire". The aim of the project was to help small-scale cocoa growers and/or co-operatives to improve their capacity to manage price risks by offering them opportunities to access futures contracts and options available on the London International Financial Futures and Options Exchange (LIFFE) and on the New York Board of Trade (NYBOT).

Project implementation started in Abidjan (Côte d'Ivoire) in February 2006 with the identification and training of project participants, involving the staff of the Bourse du Café et du Cacao (BCC), the Project Executing Agency (PEA), representatives from co-operatives, banks and exporters, in the use of price risk management instruments. The project is presently in its second and final year of implementation.

Initial project activities revealed difficulties in implementing the project using the proposed strategy of Participatory Options Programmes (POPs). The strategy was not accepted by the local banks, as they required a guarantee mechanism from the sponsoring institutions of the cocoa sector in Côte d'Ivoire. In addition, the upward trend of the spot price paid at the end of 2006 was more attractive than the minimum farm-gate strategy proposed in the project. Faced with these difficulties, a new strategy was proposed, involving the use of POPs and Put options. After

intensive consultations in Abidjan in May 2007 between the project participants, contractual agreements were signed to purchase hedging instruments for a total volume of 1,250 tonnes of cocoa, split between five co-operatives. Two co-operatives decided to hedge 250 tonnes each using the Put options while the other three decided to hedge 100 tonnes each with the Put options and 150 tonnes each with POPs.

The Put options and POPs were bought during August 2007, guaranteeing net minimum farm-gate prices of 435 and 350 CFA Francs per kilo, respectively. Both hedging strategies were still in place at the end of the 2006/2007 cocoa year.

#### (Germplasm II) Productivity and Quality Improvement: A Participatory Approach

The overall objective of the project is to improve the welfare of smallholder cocoa farmers through higher and more sustainable productivity levels of good quality cocoa, at lower production costs. This objective will be achieved through the selection, distribution and use of new cocoa varieties with improved yield capacity, resistance to pests and pathogens and good quality traits. The countries that participate in the project are: for Africa – Cameroon, Côte d'Ivoire, Ghana and Nigeria; for the Americas – Ecuador, Peru, Trinidad & Tobago and Venezuela; and for Asia – Malaysia and Papua New Guinea.

This five year project started in June 2004 after the successful completion of its predecessor project on Cocoa Germplasm Utilization and Conservation: A Global Approach and is now in its third year of implementation. A comprehensive progress report dated April 2007 was submitted by the evaluation team for the mid-term review of the project, consisting of representatives from CFC and ICCO with technical support from Bioversity International. The report also covered the

General Progress Report of Year Three (1 June 2006 to May 2007) and outlined the achievements, resources used and constraints encountered during project implementation.

Since the start of the project, four project workshops have been held – April 2004 (United Kingdom); 2005 (Cameroon); 2006 (Venezuela) and 2007 (Ecuador). The mid-term evaluation indicated that project implementation had experienced technical constraints with regard to inadequate staffing, poor commitment of farmers, disease and drought, unsatisfactory testing methods, shipment problems, seed survival and increased costs of project implementation arising from the depreciation of the US dollar. These constraints were overcome through appropriate measures adopted by the participating institutions.

The review of project implementation indicated that all milestones had been achieved, either partially or completely. The project has thus far recorded positive outcomes in 31 milestones set out in the Project Appraisal Report for project years One, Two and Three.

### Cocoa Value Chain Analysis Project

At an early stage in its work, the Consultative Board on the World Cocoa Economy noted that a better understanding of the value chain from producing and trading to exporting cocoa was one of the essential building blocks for the work of the ICCO on sustainability issues. In this respect and at the request of the Consultative Board, the ICCO Secretariat drafted a project proposal entitled "Cocoa Value Chain Analysis".

The objective of the study is to establish the inputs used and costs incurred to produce, trade and export cocoa in different producing countries and under different cultivation practices. The ultimate objective of the analysis of the cocoa value chain is to improve the insight into the net income derived by farmers and other stakeholders from cocoa cultivation and trade

and to enhance the knowledge on the use of resources in cocoa production, trade and export. The end 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.

The study will be implemented over a period of 18 months in cocoa producing countries in Africa, Latin America and South-East Asia. For Africa, the study will be implemented in Cameroon, Côte d'Ivoire, Ghana and Nigeria. For Latin America, the study will be implemented in Brazil, the Dominican Republic and Ecuador. A study will also be implemented in Papua New Guinea, representing South-East Asia. The results will be a useful tool for policy-making decisions by participating countries and constitute a valuable insight into the income position of cocoa farmers at certain price levels.

An Ad Hoc Advisory Committee is overseeing the study at the ICCO level, with a senior ICCO staff member acting as international co-ordinator and participating in the field work. After receipt of the country reports, the ICCO Secretariat will draft a final report on the Cocoa Value Chain Analysis. The focus of the final report will be on the general findings and an international comparison of the composition of the costs and proceeds in the cocoa value chain for the major cocoa producing countries. It will further concentrate on the relative efficiency in the use of resources in different countries and on a comparison of the costs of production, compared with the actual incomes earned by farmers from cocoa production.

### Preventing and Managing the Global Spread of Cocoa Pests and Pathogens

As a result of the success achieved in the project on "The Use of Molecular Biology Techniques in a Search for Varieties Resistant to Witches' Broom Disease of Cocoa" in Brazil, the ICCO Secretariat, in close collaboration with CAB Bioscience, formulated a Fast Track proposal for a workshop on "Preventing

and Managing the Global Spread of Cocoa Pests and Pathogens". The purpose of the workshop was to present the results of the Witches' Broom Project and to build consensus on the approach and content of a world-wide initiative to address the threat and impact of the further spread of cocoa pests and pathogens.

In September 2006, this Fast Track Project Proposal was approved by the Executive Committee of ICCO and forwarded to the Common Fund for Commodities for consideration by its Consultative Committee. In January 2007, the Consultative Committee of the Common Fund approved the Fast Track proposal for implementation. The workshop was successfully held in Abidjan, Côte d'Ivoire, from 17-20 July 2007 and was attended by 120 experts from 14 countries across Africa, Europe, Latin America, South-East Asia and the Pacific. Participants in the workshop agreed on the following key action points to form the basis of a global strategy:

- Commitment and co-operation of all stakeholders in a given country is essential and bio-security planning by the whole cocoa sector is needed – including preparation of Pest Risk Analyses, to identify key pest pathways into cocoa producing countries. Linked to the above, there is a need for improved surveillance on threats, both regionally and worldwide, and for sharing expertise and experiences of management practices by agencies in countries familiar with certain pests and pathogens.
- Raising awareness among producers, policy makers, plant health authorities, customs staff and other stakeholders in the cocoa supply chain, to familiarize them with the symptoms of a pest, thereby enabling early detection, was considered essential so that they would recognize the threats and commit the necessary resources before an outbreak occurred. Improvement of post-entry quarantine facilities was also recommended. Recognition of the symptoms to assist in early detection and training in management techniques was also highlighted.

- New legislation may be needed in-country to enforce any action that might have to be undertaken, including setting up cordons sanitaires, eradication of infected material and compensation to growers. This would mean financial commitment in the framework of a national action plan, involving the relevant government agencies.
- Raising awareness to encourage producers to obtain improved planting material from certified sources and discourage growers from using "unofficial germplasm". Implementing preventative breeding so that all local/national breeding programmes would receive resistant material that could be tested under local conditions in conjunction with other management practices.
- Finally, a comprehensive training and capacity building programme was advocated, for all relevant stakeholders.



*Cocoa beans*

At the end of the 2006/2007 cocoa year, CAB Bioscience compiled the workshop proceedings. Subsequently, a project proposal will be formulated containing a strategy on how best to prevent the introduction of and to manage the global spread of major cocoa pests and pathogens.

## Total Quality Project

The objective of the Total Quality Project is to increase the supply of cocoa beans of "liquor" quality and to bring about a general improvement in the quality of beans for the processing industry by establishing the required changes in commercialization systems and farming practices and by rewarding the farmer for producing beans of high quality.

Activities started in 2001 in Côte d'Ivoire with a field study on farming practices. The results of the field study identified the need for further training and the introduction of some basic farming aids. The next stage in the project was the development of a detailed training programme and the training of selected co-operatives in quality control and best known farming practices for the production of good quality cocoa. During these development stages, the concept of the project changed considerably from just good physical attributes to a "Total Quality Project" including ethical, environmental and food safety issues.

The first pilot trade operations incorporating this new approach started in the 2003/04 main crop season. These consisted of the production and delivery of cocoa beans, which met a set of criteria developed by CAOBISCO, directly from the farmers through the co-operatives to the chocolate industry. An essential part of the trade operations was that the integrity of the cocoa was preserved from the co-operative warehouse to the port and was traceable to the farmer or group of farmers. A secondary objective of the trade operations was to test a system of simplifying the supply chain by establishing a direct link between the farmers/co-operatives and the chocolate manufacturers through the cocoa trade.

The implementation of the pilot trade operation went remarkably well and has been repeated during the 2004/05 to 2006/07 cocoa seasons. The operations have demonstrated that the system can provide a good basis for an economically sustainable means of achieving "total quality" while resulting in an efficient

and effective supply chain. It was envisaged to expand the system in Côte d'Ivoire by building on the experience gained in previous years. In June 2007, the Executive Committee approved a project proposal to adapt the system developed in Côte d'Ivoire to other producing countries in Africa. The project proposal was submitted to the CFC for transmission to the Bill & Melinda Gates Foundation for funding.

## Projects completed in 2006/2007

### Project on Pilot Plants for the Processing of Cocoa By-products in Ghana

Previous research conducted by the Cocoa Research Institute of Ghana (CRIG) during the 1970s and 1980s demonstrated that the wastes from the processing of cocoa pods and cocoa beans could be processed into commercially useful by-products. In view of this, an ICCO/CFC/CRIG project on "Pilot Plants to Process Cocoa By-products in Ghana" was implemented from September 1993 to July 2003 to carry out pilot-scale production and commercialization of the above mentioned by-products. The project aimed to expand the income generating capacity of the cocoa industry in cocoa producing countries through the development and transfer of appropriate technologies for the commercial processing of cocoa by-products and wastes.

The Project Completion Report was submitted to the ICCO Executive Committee in late October 2006, including the conclusions of the project. There were two major conclusions emanating from the analyses of the Project on Pilot Plants to Process Cocoa By-products in Ghana. Firstly, the project concluded that it is technically feasible to process cocoa wastes such as cocoa pod husks, cocoa sweatings and sub-standard cocoa beans into useful commercial products. It was agreed that the technologies and procedures developed were simple and could easily be applied by cocoa farmers. Secondly, the economic and financial viability of the enterprises that had been analyzed produced mixed

results. It was established that, for cocoa sweatings and discarded cocoa beans-based enterprises, while the production of wine and vinegar was probably truly profitable, the production of alcohol and alcoholic drinks, pectin, jelly, marmalade, soft drinks, cocoa butter toilet soap and cocoa butter pomade were only marginally profitable. It was also concluded that a cocoa pod husk-based enterprise for the production of animal feed was unlikely to be economically feasible; however, the production of potash and soft soaps was likely to be economically viable.



*Cocoa being shipped*

Descriptions of the activities, procedures and machinery to produce these cocoa by-products are available at CRIG and available for interested parties in other cocoa producing countries.

### Cocoa Marketing Improvement Project

The overall objective of the project was to improve the functioning of the marketing channels in the cocoa producing countries engaged in the process of liberalization and to ensure full participation of local operators in the physical trading of cocoa, while reducing trade and price risk. The project was implemented in Cameroon, Côte d'Ivoire and Nigeria, and had a duration of seven years, including two extensions of one year each.

The project comprised four substantive components; promotion of a privately-run warehousing system; development of a cocoa marketing information system; development of quality assurance and certification systems; and development of a system of commodity trade finance. The overall objective of the project was a very ambitious one and, despite encountering a number of problems, it did achieve several of its practical objectives.

An in-depth analysis of the project's results produced recommendations with regard to cocoa warehousing, quality issues, including quality control and financing of cocoa trade. The recommendations included suggestions on how some of the problems identified could be addressed. Furthermore, the project produced inventories and data bases on cocoa trade and warehousing. The countries concerned carried out inventories of best known practices in marketing operations. Training guidelines and brochures were developed, followed by extensive training to market participants, mainly to staff of co-operatives (in quality and warehousing), warehouse keepers (in collateral management and warehouse keeping) and bank staff (in structural trade financing).

The main achievement of the Project was the establishment of Market Information Systems (MIS) in Cameroon, Côte d'Ivoire and Nigeria. In view of the good prospects of the newly developed MIS system, ICCO recruited a consultant to formulate a project proposal on "Reinforcement and Modernization of MIS for Cocoa and Coffee" to be implemented in Cameroon, Côte d'Ivoire and Nigeria.

### Project to Determine the Physical, Chemical and Organoleptic Parameters to Differentiate between Fine and Bulk Cocoa

The main objective of the project was to develop the capacity of all stakeholders in the cocoa sector to adequately differentiate between fine and bulk cocoa with a view to improving the marketing position of fine/flavour cocoa. The Project started in February 2001 and was completed in April 2006. The final project report was submitted to the ICCO Secretariat in August 2007.

The project was implemented in close collaboration with the Instituto Nacional Autónomo de Investigación Agropecuaria (INIAP) in Ecuador, the Cocoa Research Unit (CRU) in Trinidad & Tobago, the Instituto Nacional de Investigaciones Agropecuarias (INIA) in Venezuela, the Cocoa and Coconut Research Unit (CCRI) in Papua New Guinea and Plant Research International (PRI) at the University of Wageningen in the Netherlands. Guittard Chocolate Company contributed to the training of project members on sensorial techniques, providing reference samples and giving feedback on fine cocoa samples received from the participating countries.

The final project workshop, organized in April 2006, reviewed the main project achievements, constraints and proposed solutions. The project generated new knowledge which could, in combination, allow not only for some distinction between fine or flavour and bulk cocoa, but also establish differences between diverse types of fine/flavour cocoa. Among the different results obtained, the theobromine/caffeine ratio clearly differentiated between fine/flavour and bulk cocoa. This ratio also held good potential to be predicted by Near Infra-Red Spectrometry (NIRS) and its validation should be pursued further in future projects. From a commercial perspective, the diverse range of flavours that emerged from the different country clones assessed, provided sufficient evidence that producing countries occupied unique flavour niches in the world cocoa market.

Auspiciously, the project was the first to analyze the potential of ultraviolet spectrometry for the characterization of cocoa beans. After appropriate validation exercises, a combination of DNA marker analysis for genotype identification and fast spectral analysis of samples could be used to establish quality control systems. It was recommended that project results should be used for initiatives that would contribute to the development and strengthening of the fine/flavour supply chain and market. Additionally, it was considered worthwhile to continue the line of research to develop the promising potential of the UV fluorescent methodology as a tool to discriminate between fine and bulk cocoas.



*Instituto Nacional Autónomo de Investigación Agropecuaria*



*Plant Research International*



*Instituto Nacional de Investigaciones Agropecuarias*

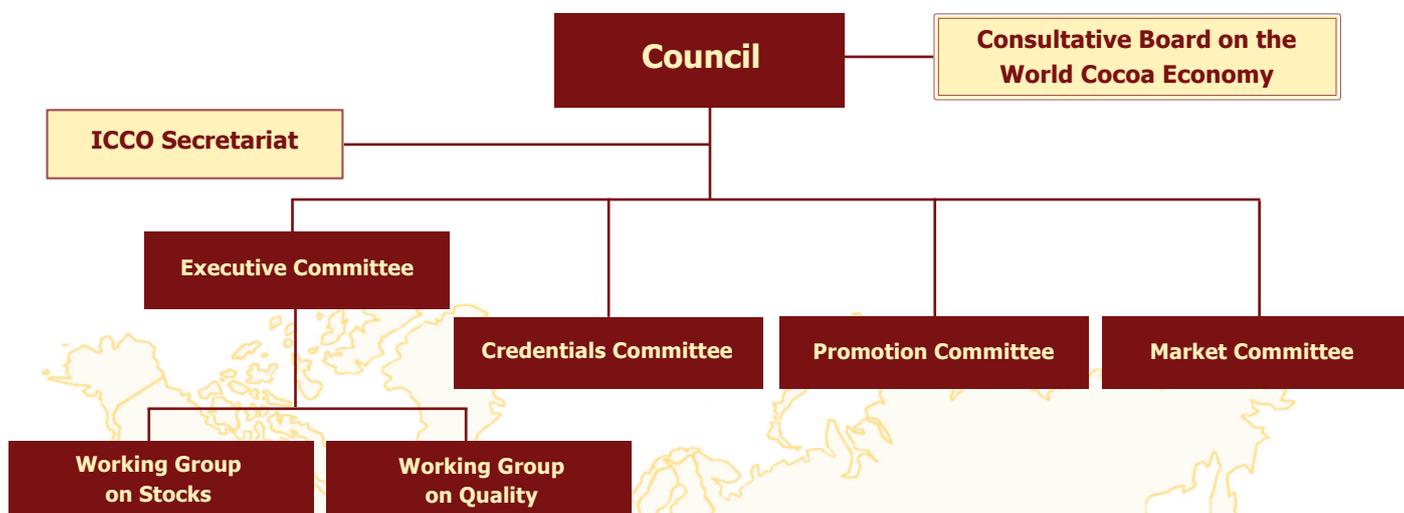
*Cocoa Research Unit*





# ANNEX I

## Organizational Structure (as at 30 September 2007)



### Council

Chairman: Mr Askley Delgado (Ecuador)  
 First Vice-Chairman: Dr Victor Iyama (Nigeria)  
 Second Vice-Chairman: Mr Francis Vannerom (Belgium/Luxembourg)  
 Open to all Members

### Executive Committee

Chairman: Ms Irina Medvedeva (Russian Federation)  
 Vice-Chairman: Mr Enzo Barattini (European Community)  
 Exporting Members: Brazil, Cameroon, Côte d'Ivoire, Dominican Republic, Ecuador, Gabon, Ghana, Malaysia, Nigeria, Papua New Guinea  
 Importing Members: Belgium/Luxembourg, European Community, France, Germany, Italy, Netherlands, Russian Federation, Spain, Switzerland, United Kingdom

### Credentials Committee

Chairman: Mr Manuel Altimira (Spain)  
 Exporting Members: Cameroon, Côte d'Ivoire, Ecuador, Ghana  
 Importing Members: Czech Republic, Ireland, Netherlands, Spain

### Market Committee

Chairman: Mr Tano Kassi Kadio (Côte d'Ivoire)  
 Vice-Chairman: Dr Sharief Mohamed (Netherlands)  
 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 Quality

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

### Consultative Board on the World Cocoa Economy

Chairman: Mr Tony Lass, MBE (BCCCA, UK)  
 Vice-Chairman: Mr Idelfonso Medina (Rizek Cacao C. por A., Dominican Republic)

Members: Mr Kassi Henri Amouzou (FDPCC, Côte Ivoire), Dr Ismail Azhar (Malaysian Cocoa Board), Mr Antonio Feola (Associazione Industrie Dolciarie (AIDI), Italy), Dr Martin Gilmour (Mars Confectionery, Belgium), Dr Victor Iyama (Cocoa Association of Nigeria), Dr Karsten Keunecke (Bundesverband der Deutschen Süßwarenindustrie EV (BDSI), Germany), Ms Ursula Mathis-Künhe (Chocosuisse, Switzerland), Mr Isaac Osei (Ghana Cocoa Board), Mr Philip Sigley (Federation of Cocoa Commerce Ltd, UK), Ing Alejandro Taramelli (ANECACAO, Ecuador), Mr Pierre Tsimi Enouga (CICC, Cameroon), Mr Robert Zehnder (European Cocoa Association, Belgium)

Alternate Members: Mr Edem Amegashie-Duvon (Ghana Cocoa Marketing), Ms Flavia Bernardini (CAOBISCO, Belgium), Mr Aldo Cristiano (Ferrero Trading Lux SA, Italy), Mr Dao Hamed Kader (FDPCC, Côte d'Ivoire), Dr Torben Erbrath (Bundesverband der Deutschen Süßwarenindustrie EV (BDSI), Germany), Dr Tom Harrison (Armajaro, UK), Mr Humberto Heredia (Hercoma S.A., Ecuador), Dr Lee Choon Hui (Malaysian Cocoa Board), Mr José Antonio Martínez Rojas (Comisión Nacional del Cacao, Dominican Republic), Mr Jérôme Mvondo (SODECAO, Cameroon), Dr Akinwale Ojo (Cocoa Association of Nigeria)

Open to all Members as observers

### Expert Working Group on Stocks

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

## ANNEX II

### Secretariat (as at 30 September 2007)



## ANNEX III

## Administrative Accounts

**Balance Sheet as at 30 September 2007**  
(Expressed in £ Sterling)

	2005/2006	2006/2007
<b>CURRENT ASSETS</b>		
Balance with bankers and cash in hand	2,339,068	2,513,965
Debtors	14,095	32,060
Prepaid Expenses	46,267	50,337
<b>Contribution to administrative budgets outstanding</b>		
1990/91 to 2001/2002 inclusive	239,172	210,710
Year ended 30 September 2003	29,977	29,977
Year ended 30 September 2006	8,310	0
Year ended 30 September 2007	0	15,313
Provision for outstanding contributions	(191,420)	(203,420)
	2,485,469	2,648,942
<b>LESS: LIABILITIES</b>		
Creditors and provisions for accrued expenses	93,635	82,491
Members' contributions paid in advance	6,341	2,231
<b>Provision for installation and repatriation</b>	148,000	163,500
	247,976	248,222
<b>TOTAL NET ASSETS</b>		
	<b>2,237,493</b>	<b>2,400,720</b>
Represented by:		
<b>SPECIAL RESERVE FUND</b>		
Principal	2,500,000	2,560,750
Contributions outstanding	(46,798)	(40,900)
	2,453,202	2,519,850
Less: Transfer to Income and Expenditure Account	1,018,392	1,018,392
	1,434,810	1,501,458
<b>REVENUE RESERVE FUND</b>		
	802,683	899,262
<b>Balance as at 30 September 2007</b>	<b>2,237,493</b>	<b>2,400,720</b>

**Income and Expenditure Accounts for the Year Ended 30 September 2007  
(Expressed in £ Sterling)**

	2005/2006	2006/2007
Contributions assessed on Members	1,747,040	1,836,314
Interest earned - general funds	54,441	71,586
Interest earned - special reserve	62,143	76,107
<b>TOTAL INTEREST EARNED</b>	<b>116,584</b>	<b>147,693</b>
Subscriptions to Quarterly Bulletin of Cocoa Statistics	10,197	14,048
Other documents sales	-	-
Other income	27,127	13,118
<b>TOTAL INCOME</b>	<b>1,900,948</b>	<b>2,011,173</b>
Transfer from Revenue Reserve Fund	130,000	0
Surplus / (Deficit) on Foreign Currency Exchange	366	5
	2,031,314	2,011,178
<b>Less:</b>		
<b>ADMINISTRATIVE EXPENDITURE</b>	<b>1,967,531</b>	<b>1,914,599</b>
<b>Balance carried to Revenue Reserve Fund</b>	<b>63,783</b>	<b>96,579</b>

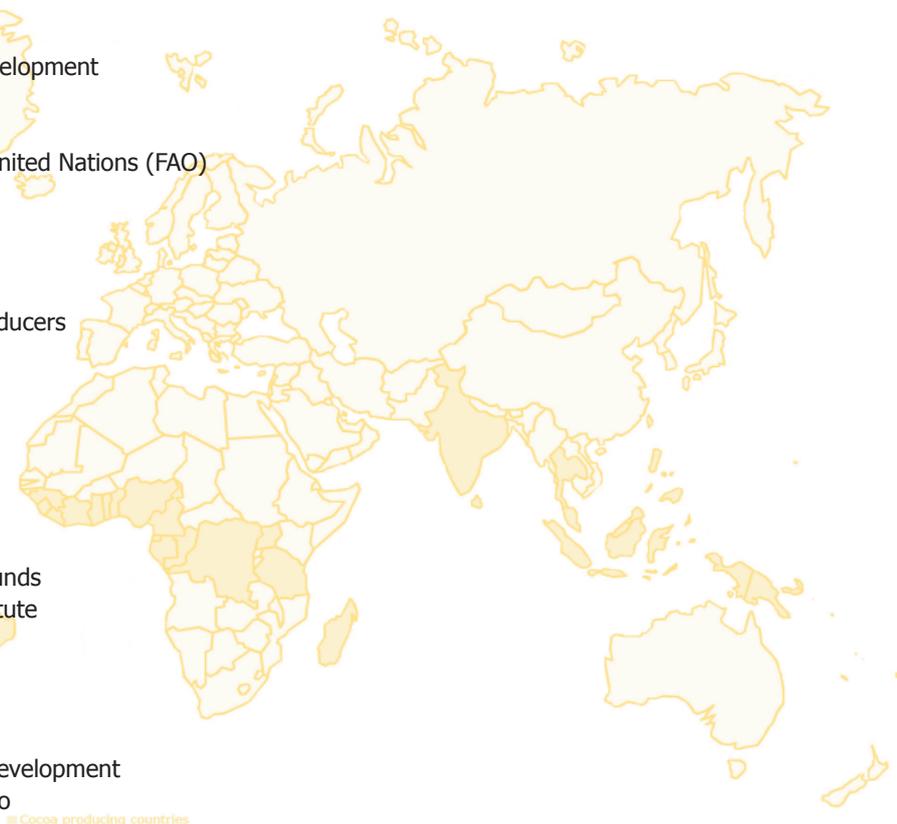
## ANNEX IV

### Relations with Other Institutions

ICCO, with its central role in the international cocoa industry, has dealings with a large number of organizations and companies. The following is a list of the main organizations and companies, with which ICCO has regular contacts.

#### GOVERNMENTAL AND INTERNATIONAL ORGANIZATIONS

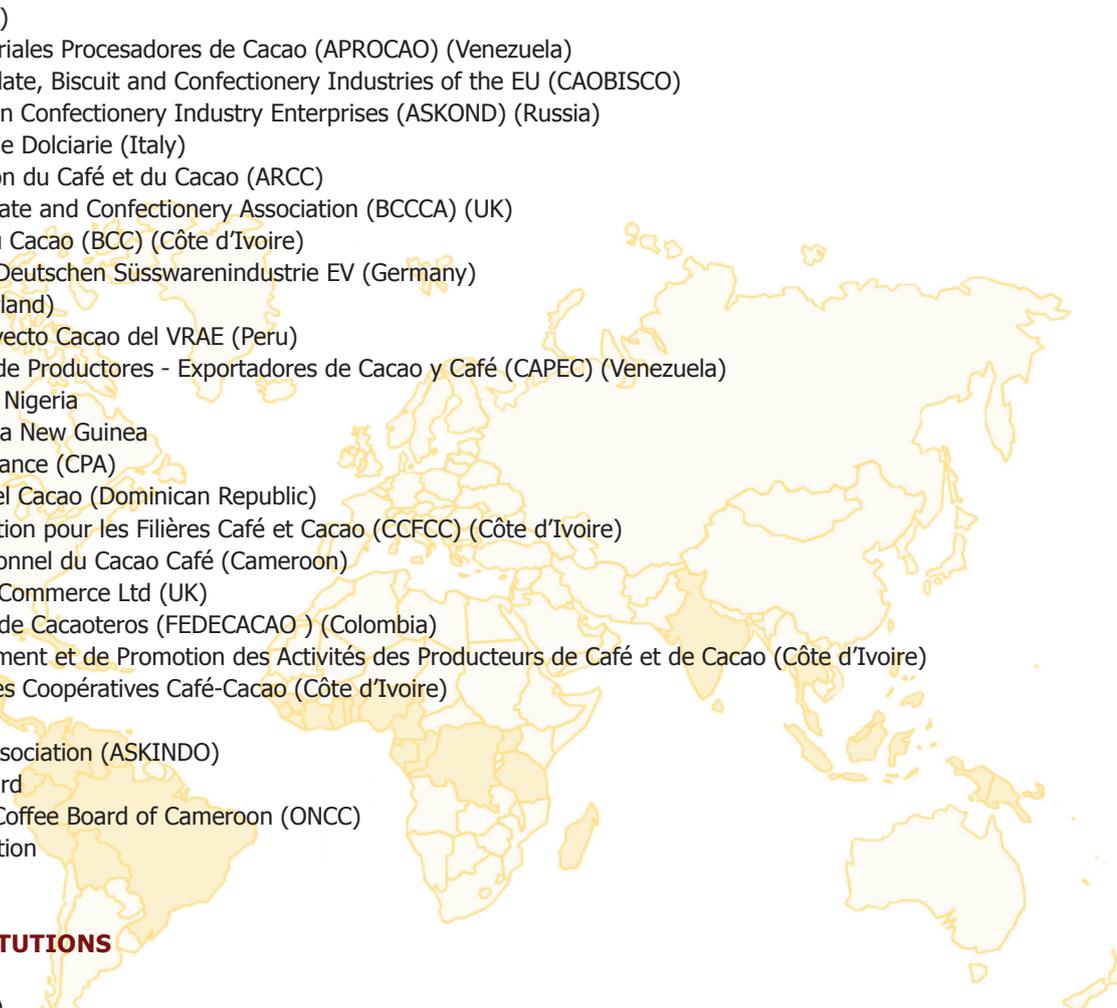
African, Caribbean and Pacific Group of States  
Bioversity International  
Cocoa Merchants' Association of America  
Common Fund for Commodities  
Commonwealth Secretariat  
European Bank for Reconstruction and Development  
European Cocoa Association  
European Commission  
Food and Agriculture Organization of the United Nations (FAO)  
Foreign & Commonwealth Office  
International Coffee Organization  
International Confectionery Association  
International Copper Study Group  
International Federation of Agricultural Producers  
International Grains Council  
International Jute Study Group  
International Labour Organization  
International Lead and Zinc Study Group  
International Maritime Organization  
International Mobile Satellite Organization  
International Monetary Fund  
International Oil Pollution Compensation Funds  
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  
Union Nationale Des Opérateurs Café-Cacao  
World Bank Group  
World Trade Organization



#### NON GOVERNMENTAL ORGANIZATIONS (NGOs)

Business Watch Indonesia (BWI)  
Conservación & Desarrollo (Ecuador)  
Conservation Internal Ghana  
Fair Trade Ghana  
Farmers Development Union (FADU, Nigeria)  
Hands Across The Ocean Foundation (Hatof)  
Humanist Institute for Cooperation with Developing Countries (HIVOS, Netherlands)  
Oxfam Novib (Netherlands)  
Rainforest Alliance  
Sustainable Tree Crops Program (STCP)  
West Africa World Wide Fund for Nature (WWF)

## COCOA ORGANIZATIONS



ANECACAO (Ecuador)  
Asociación de Industriales Procesadores de Cacao (APROCAO) (Venezuela)  
Association of Chocolate, Biscuit and Confectionery Industries of the EU (CAOBISCO)  
Association of Russian Confectionery Industry Enterprises (ASKOND) (Russia)  
Associazione Industrie Dolciarie (Italy)  
Autorité de Régulation du Café et du Cacao (ARCC)  
Biscuit, Cake, Chocolate and Confectionery Association (BCCCA) (UK)  
Bourse du Café et du Cacao (BCC) (Côte d'Ivoire)  
Bundesverband Der Deutschen Süßwarenindustrie EV (Germany)  
Chocosuisse (Switzerland)  
Cacao VRAE SA, Proyecto Cacao del VRAE (Peru)  
Cámara Venezolana de Productores - Exportadores de Cacao y Café (CAPEC) (Venezuela)  
Cocoa Association of Nigeria  
Cocoa Board of Papua New Guinea  
Cocoa Producers' Alliance (CPA)  
Comisión Nacional del Cacao (Dominican Republic)  
Comité de Co-ordination pour les Filières Café et Cacao (CCFCC) (Côte d'Ivoire)  
Conseil Interprofessionnel du Cacao Café (Cameroon)  
Federation of Cocoa Commerce Ltd (UK)  
Federación Nacional de Cacaoteros (FEDECACAO) (Colombia)  
Fonds de Développement et de Promotion des Activités des Producteurs de Café et de Cacao (Côte d'Ivoire)  
Fonds de Garantie des Coopératives Café-Cacao (Côte d'Ivoire)  
Ghana Cocoa Board  
Indonesian Cocoa Association (ASKINDO)  
Malaysian Cocoa Board  
National Cocoa and Coffee Board of Cameroon (ONCC)  
World Cocoa Foundation

## RESEARCH INSTITUTIONS

CABI Bioscience (UK)  
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)

