



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 10/6/2000

GAIN Report #GH0002

Ghana

Cocoa

Ghana Cocoa Situation Report

2000

Approved by:

David Rosenbloom, Agricultural Counselor

U.S. Embassy, Lagos

Prepared by:

Yaw Asante-Kwabia, Agricultural Specialist

Report Highlights:

Ghana's 2000/2001 cocoa crop is forecast at 475,000 tons, up 6 percent over a year earlier. Although the Government has agreed to partially privatize the external marketing of cocoa, effective this month, it has not yet announced and implemented necessary regulatory guidelines. Ghana is discussing with other producers a proposal to strengthen weak cocoa export prices through a scheme to limit exportable supplies.

Includes PSD changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Lagos [N11], GH

Table of Contents

Executive Summary	1
Production	2
PS&D Table	2
Inputs	3
Crop Area	4
Yield	4
Price Table	5
Policy	5
Consumption	6
Trade	6

Executive Summary

Ghana has enjoyed favorable weather for cocoa production in 2000/2001 as was true for the crop a year earlier. We are forecasting cocoa production this year at 475,000 tons, consisting of a major crop of 430,000 metric tons, and a minor crop of 45,000 tons. Harvest activity for the main crop is expected to be underway by the second or third week in October while the mid-crop harvest will run from June through August of 2001.

International cocoa prices remain weak although the local industry does anticipate some price recovery next year. Export price levels fell to \$767 per ton in mid-August, the lowest level in about twenty years. According to the Ghana's Cocoa Board (COCOBOD) Ghana lost approximately \$400 million in export earnings since 1998 due to the fall in prices. West African cocoa producing countries - - Cote d'Ivoire, Ghana, Nigeria and Cameroon - - met mid-July and again in early September to discuss the cocoa price situation. They reportedly discussed a scheme to withdraw and destroy 250,000 tons of cocoa beans from the 2000/2001 crop. It is hoped that this will significantly reduce exportable supplies which will have a positive impact on prices. Although Ghana and perhaps Cote d'Ivoire have the administrative capacity to do this through their cocoa boards, it is doubtful if Nigeria and Cameroon could implement such a supply management program. Additionally, destruction of beans following the Government's decision to approve increased grower prices in the face of the fall in export price levels could open the Government to criticism. This would be particularly true if other exporters in the region fail to share the burden equally and illegal imports continue to enter Ghana in order to take advantage of higher grower prices not enjoyed in neighboring countries.

Despite the decline in the export price, the COCOBOD is expected to announce an increase in the producer price of cocoa from 2.4 million cedis to 3.0 million cedis per ton for the upcoming season. Many within the industry attribute this noticeable increase to the fact that a presidential election is scheduled for December 2000.

The Government agreed to partially privatize the external marketing of cocoa, effective October 2000. Privately owned "Licenced Buying Companies" (LBCs) will be allowed to export thirty percent of their purchases. However, to date the Government has failed to announce the necessary rules, regulations and other modalities which will govern the external marketing of cocoa by the LBCs. The LBCs, therefore, have adopted a wait-and-see attitude towards this privatization program.

Exchange Rate: US\$1.00 = 6,800 Cedis (September 2000)

Production

PS&D Table

PSD Table						
Country	Ghana					
Commodity	Cocoa Beans			(1000 HA)(MILLION TREES)(MT)		
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		10/1998		10/1999		10/2000
Area Planted	1075	1075	1180	1300	0	1300
Area Harvested	1065	1065	1070	1177	0	1240
Bearing Trees	1508000	1508000	1650000	1815000	0	1855750
Non-Bearing Trees	80000	80000	82500	90750	0	95288
TOTAL Tree Population	1588000	1588000	1732500	1905750	0	1951038
Beginning Stocks	2930	2930	2930	2930	3000	2000
Main Production	380000	380000	400000	400000	0	430000
Mid & Other Production	50000	50000	50000	50000	0	45000
TOTAL Production	430000	430000	450000	450000	0	475000
Bean Imports	15000	15000	50000	50000	0	30000
Liquor & Paste Imports	0	0	0	0	0	0
Butter Imports	0	0	0	0	0	0
Powder,Cake,Choc. Imp.	0	0	0	0	0	0
TOTAL Imports	15000	15000	50000	50000	0	30000
TOTAL SUPPLY	447930	447930	502930	502930	3000	507000
Bean Exports	350000	350000	400000	405000	0	410000
Liquor & Paste Exports	30000	30000	19000	19000	0	19000
Butter Exports	40000	40000	60000	60000	0	60000
Powder,Cake,Choc. Exp.	20000	20000	10000	10000	0	10000
TOTAL Exports	440000	440000	489000	494000	0	499000
Domestic Consumption	5000	5000	10930	6930	0	7000
Ending Stocks	2930	2930	3000	2000	0	1000
TOTAL DISTRIBUTION	447930	447930	502930	502930	0	507000

Ghana's cocoa production in 2000/2001 is forecast at 475,000 tons. Rainfall has been beneficial for crop development. Heavy rains produced a strong flush which support a good flowering and setting over subsequent months. Rainfall at night has been plentiful while sunshine during the day has been adequate. This has reduced the likelihood of an outbreak of cocoa Black Pod Disease which usually occurs when precipitation levels are high.

Although the Government continues its efforts to diversify economic activity away from primary commodities, cocoa is likely to play a major role in the Ghanaian economy in the near-term. The livelihood of millions of

Ghanaians is tied to the survival of the cocoa industry. The Government of Ghana has established a target of increasing the increasing the cocoa crop to 500,000 ton by 2005 and to 700,000 tons by 2010.

To achieve these production targets, the Government has adopted a price-driven incentive program for growers. A new producer price is now announced at the beginning of both the major and minor harvests. Previously, one price held throughout the year. The new grower price for the harvest that will begin later this month is expected to be close to 3.0 million cedis per ton. The producer price will likely reach 60 percent of the fob price level.

The average cocoa producer in Ghana is about 65 years old and farms approximately 3 acres that were established nearly 50 years ago. The Government is encouraging young, enterprising Ghanaians to go into large- scale cocoa farming in order to sustain the industry. It has launched a cocoa maintenance program which it is calling its "Hi-Tech Maintenance Scheme" and is being implemented by CASHPRO Limited, the leading privately owned LBC in Ghana. Under this program, 100,000 acres of cocoa farms will be maintained, with financing arranged through two Ghanaian Banks - - Agricultural Development Bank and SSB Bank Limited. Grower loans will be targeted for weeding and spraying activity.

Inputs

Another constraint to increasing Ghana's cocoa production is the inability of growers to obtain adequate levels of necessary inputs. They tend to be available in the Ghanaian market, but they are not affordably priced. The Government removed its input subsidies about four years ago following the restructuring of the cocoa sector as suggested by the World Bank. This has been associated with a sharp runup in input price levels. For example, a 1 liter container of a common insecticide used in spraying which used to cost 10,000 cedis now costs about 35,000 cedis.

The Government has over the past four cocoa crop seasons arranged a syndicated loan from foreign Banks to finance cocoa purchases in Ghana. These loans have ranged from \$300 to \$350 million per cocoa crop season. With the announcement that the LBCs will be allowed to export 30 percent of their cocoa purchases, commencing October 2000, the Government has stated that it expects the LBCs to arrange crop financing for this portion of their cocoa purchases. Therefore, the Government has arranged for a syndicated loan from foreign banks of only \$250 million to finance crop purchases during the 2000/2001 season. A considerable financial burden will be placed on the LBCs if they are called upon to take loans from the Ghanaian financial sector where annual interest rates range between 48 - 52 percent. In previous years, the LBCs received loans from the Government at about 25 percent interest to conduct their buying activity. These loans were made possible through the Government's financing arrangements made with foreign banks.

In an effort to ease this financial burden on the LBCs, a Commodity Clearing House (CCH) Scheme is to be established in Ghana. The CCH is basically a commodity risk management tool or medium for the smooth facilitation of the marketing operations of certain commodities such as cocoa, coffee, grains, pulses, etc. Under the CCH Scheme, qualified LBCs will draw down on an offshore facility against warrants issued by CCH and a contract to deliver cocoa beans. The CCH, through its collateral management system, will serve as a medium of comfort to external buyers of cocoa from Ghana (and other commodities) who will accept contracts from the LBCs selling alongside the Cocoa Marketing Company (CMC) of Ghana's Cocoa Board. The CCH is designed through its collateral management system to forestall problems regarding quality and weight, and ensure that all produce channeled through its system meet internationally acceptable quality standards. The CCH will be managed by a former managing director of the Produce Buying Company (PBC). The PBC is the internal

marketing arm of Ghana's Cocoa Board.

The CCH, as an inter-bank system for securitization of commodity trade, will enable financial institutions to effectively intermediate in the financing of cocoa purchases. For cocoa, the CCH System will operate as follows:

- Graded and sealed cocoa will be warehoused and stocked by first class collateral managers who will issue warehouse receipts to the LBCs;
- Warehouse receipts will be converted into "warrants" or financial collateral instruments based on agreed reference prices;
- Warrants will be used to draw upon either local or offshore facilities for funding the purchases of cocoa beans and inputs for cocoa cultivation.

Crop Area

The results of a census undertaken by the Government to determine Ghana's cocoa tree population, total acreage under cultivation, the number farmers, and the average size of a cocoa farm have still not been released. The results were to have been released by the end of the 1998/1999 cocoa season.

One of the main constraints against an expanded cocoa harvest is the limited availability of land for cocoa cultivation. Almost all virgin forests, with the exception of those in Government held reserves, have disappeared. Some young cocoa farmers are encroaching upon these publicly-managed reserves and are illegally establishing cocoa plantations. The Cocoa Services Division of Ghana's Cocoa Board is encouraging cocoa farmers to reclaim abandoned cocoa farms. Growers also are being urged to replant aged cocoa farms with early-maturing, high-yielding cocoa hybrid varieties being developed by the Cocoa Research Institute of Ghana (CRIG).

Yield

Both the Government and farmers recognize the importance of the extension services provided to the cocoa sector. The Government seeks to improve its performance in this area by unifying the extension services delivered by the Cocoa Services Division of Ghana's Cocoa Board and the Extension Services Division of the Ghanaian Ministry of Food and Agriculture. A pilot program was initiated during the 1998/1999 crop season, under which the two extension bodies in Ghana were merged. Technical personnel from the Cocoa Services Division who reluctantly retired after the merger were re-employed to form the nucleus of a special body within the Cocoa Services Division to be responsible for the control of Swollen Shoot and Mistletoe diseases. These two cocoa diseases each have the capacity to completely wipe out a cocoa plantation.

Price Table

Prices Table			
Country	Ghana		

Commodity	Cocoa Beans		
Prices in	CEDIS	per uom	Ton
Year	1999	2000	% Change
Jan	1800000	2200000	22.22%
Feb	1800000	2200000	22.22%
Mar	1800000	2200000	22.22%
Apr	2200000	2428080	10.37%
May	2200000	2428080	10.37%
Jun	2200000	2428080	10.37%
Jul	2200000	2428080	10.37%
Aug	2200000	2428080	10.37%
Sep	2200000	2428080	10.37%
Oct	2200000	3000000	36.36%
Nov	2200000	3000000	36.36%
Dec	2200000	3000000	36.36%
Exchange Rate	C6800/\$1	Local currency/US \$	

Grower prices shown in the table above for October, November and December 2000 are projected.

Policy

Increases in Ghana's cocoa output during the past four seasons is largely attributed to the response of cocoa farmers to the price-driven incentive policies initiated by the Government. While the nominal price of cocoa has been increased markedly (which is attractive to the average Ghanaian smallholder cocoa farmer), in real terms, cocoa prices have fallen due to inflation and a depreciation of the Ghanaian currency. To address this issue, the Government has adopted a multiple pricing system in which it sets a new producer price for both harvests. Prior to this, the year's producer price was announced before the onset of the minor season's harvest and was carried over unchanged into the main harvest. The Government is expected to announce an increase in the producer price of cocoa for the 2000/2001 cocoa season later this month. Existing policy, calls for the grower price to be set at about 60 percent of the prevailing F.O.B. export price. Despite the marked fall in the export price over recent months, the grower price is likely to be increased. Parliamentary and presidential elections are set for the end of this year which will encourage the Government to raise the grower cocoa price from 2.4 million cedis to about 3.0 million cedis per ton.

The Government announced that it will partially privatize the external marketing of cocoa following the recommendations of both the World Bank and the International Monetary Fund. Effective October 2000, the LBCs will be allowed to export 30 percent of their total cocoa purchases from the 2000/2001 cocoa season. The Government organized a workshop on this new export policy. The main objectives of the workshop were to sensitize potential exporters, i.e. current LBCs to:

- registration of exporters

- the broad and specific issues to be considered, and
- the rules and regulations under which exporting LBCs will operate.

Although necessary regulations were to be made available to the LBCs by the end of the workshop, the Government failed to comply. Necessary committees responsible for export pricing and export sales also have not been formed. Procedures covering the delivery and warehousing of that portion of the crop to be exported by the private sector are yet to be formulated. The LBCs are discussing the possibility of forming an association which will assist in negotiating export prices, bulk purchasing of inputs, securing local and foreign financing for LBC cocoa purchasing activity, and representation at national and international fora on cocoa trade issues.

The LBCs have adopted a wait-and-see attitude towards the external marketing of Ghana's cocoa. Concern does exist regarding adequate external financing of the this year's cocoa crop given that the Government has secured only a \$250 million foreign line instead of the anticipated \$350 million. The LBCs have been asked by the Government to arrange their own financing for that portion of their cocoa purchases from growers that they will export.

Changes in the Board of Directors of the Produce Buying Company (PBC), the marketing wing of the Cocoa Board were announced last May following the public floating of shares in the PBC. The Government through the Social Security and National Insurance Trust, the state-owned pension scheme operator, still maintains majority shares in PBC. Some shares were sold to one of the new Directors of PBC. Ownership and management of the PBC continues to rest largely in the hands of the Government.

Consumption

Total installed cocoa processing capacity in Ghana has not changed. It is still 110,000 metric tons.

Cocoa Processing Company, CPC (PORTEM), Tema	- 50,000 metric tons
WAMCO I, Takoradi	- 20,000 metric tons
WAMCO II, Takoradi	- 40,000 metric tons

Three more local cocoa processing companies have been incorporated in Ghana's Export Processing Free Zone enclave. One of them had previously announced that it would become operational during the upcoming season. As of report date, we are not anticipating that this plant will have a major impact on processing and export volumes for cocoa products during the 2000/2001 marketing season. The completion of the first project will expand the local industry's processing capacity to 150,000 tons. When all 3 plants come on line, processing capacity in Ghana will increase to 200,000 tons.

Trade

The fall in the international market price of cocoa is reflected in the large stocks of cocoa in the warehouses of the various cocoa grinding houses in the EU, the United States, and Japan. The world market price of a ton of cocoa fell to \$735 - 744 compared to roughly \$1,200 a year earlier. The decline in export prices resulted in lost export earnings of approximately \$400 million over the past 2 years according to the Cocoa Board. The Ghanaian Government anticipates a recovery in cocoa prices, although it does not anticipate the increase in price to go significantly beyond \$1,000 per ton.

In an effort to strengthen export earnings from cocoa, Ghana along with Nigeria, Cameroon, and Cote d'Ivoire met last July and again in September to discuss a common strategy. According to reports in Ghana, discussions focused on the destruction of as much as 250,000 tons from current crop cocoa as a means of reducing exportable supplies and adding strength to export prices. These four countries account for about 70 per cent of the world's cocoa output. We note that although Ghana and Cote d'Ivoire have Cocoa Boards which could intervene to remove beans from the market, no such body exists in Nigeria and Cameroon. Doubts exist as to whether these industries could or are willing to participate in such a scheme. With doubts on solidarity existing among these exporting countries, we have decided to forecast a maximum volume of Ghanaian cocoa exports during the 2000/2001 marketing season. Additionally, the withdrawal and destruction of cocoa beans in Ghana could present a difficult situation for the Government in light of its decision to raise grower prices despite the fall in export sales prices in recent months. If Ghana's cocoa bean exports during the upcoming year fall below the projected 410,000 tons, it is more likely to be the result of this year's policy changes impacting on private export sales. We remain concerned that the credit facility obtained this year by the Government is less than last year and that the LBCs have been instructed to arrange financing for that portion of their crop purchases which they will export. The LBCs may not be ready to assume this responsibility.

Ghana's cocoa export strategy also focuses on increasing its export earnings by adding value through processing of beans locally. Three new local cocoa processing companies are scheduled to be built in Ghana's export processing zone. Many within the local industry suggest that the sale of higher-priced, value-added cocoa products manufactured from local cocoa beans is the future of Ghana's cocoa export business rather than enhancing earnings through a scheme of withdrawal and destruction of Ghana's premium cocoa

Cocoa bean export earnings during the 2000/2001 marketing season are forecast at about \$320 million based upon an export volume of approximately 400,000 tons at an average price of \$800. Ghana's cocoa exports receive a premium of about \$70 per ton above sales prices for other West African exporting countries because of the market's recognition of its superior quality.

The anticipated increase in the upcoming season's grower price despite the fall in export prices registered in recent months will encourage illegal imports of cocoa beans from Cote d'Ivoire (where grower prices have been reduced) to continue during the upcoming season. Despite efforts to eliminate this trade, we forecast illegal cocoa bean imports in 2000/2001 at about 30,000 tons.