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Cocoa

Annual Report

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Report Highlights:

Post forecasts Ghana's cocoa production in MY 2005/06 is 600,000 MT, up from 580,000 MT in MY 2004/05. In 2003/04 Ghana cocoa volume was a record high of 730,000 MT, which fetched \$7.2 billion from cocoa export sales, the highest ever achieved in the sector. The domestic processors are operating below capacity due to the narrow margin between farm gate prices and world market prices.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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Executive Summary

Ghana's cocoa bean production forecast in Marketing Year (MY) 2005/06 is 600,000 Metric Tons, up from 580,000 MT in MY 2004/05. This forecast is due to adequate and timely rains and the GOG commitment to support the sector. In MY 2003/04, cocoa bean yield was a record high, enabling Ghana to maintain its position as the world's second largest exporter of cocoa after Cote d'Ivoire. In order to encourage farmers to increase production, the Government of Ghana (GOG) has consistently increased the producer price of cocoa each year. Currently, the producer price of cocoa is 9,000,000 cedis per ton, up from 8,500,000 cedis. The concern in the cocoa industry is that external cocoa prices are inconsistent and the GOG is not preparing to accommodate any future drop in price, leaving the country heavily exposed to major external shocks.

The record volume of cocoa beans in MY2003/04 fetched a CIF value of \$7.2 billion US dollars or FOB value of 1.2 billion US dollars for Ghana, the highest achieved in the sector. The GOG official data indicates that the closest record achievement was the FOB value of \$889 million in the 2002/03 cocoa seasons. Export receipts for cocoa in the past five years averaged \$500 million.

The political crisis and the relatively low farm gate price of cocoa in Cote D'Ivoire have encouraged the movement of cocoa into Ghana. Some market analysts estimate that between 120,000 to 150,000 metric tons of the 2003/2004 cocoa beans are from Cote D'Ivoire. Such imports have reduced considerably. Although officials of COCOBOD accept that some cocoa may be smuggled into Ghana, they have no records. The buyers of Ghana cocoa beans reduced the premium price from \$80 to \$20 per metric ton, probably because Ghanaian beans are mixed with Ivorian beans, thus eroding the quality.

Exchange Rate: One USD is 9,040 cedis

PSD Table: Cocoa

Ghana Cocoa Beans							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		10/2003		10/2004		10/2005	MM/YYYY
Area Planted	0	1180	0	1180	0	1180	(1000 HA)
Area Harvested	0	1070	0	1070	0	1070	(1000 HA)
Bearing Trees	0	1800000	0	1800000	0	1800000	(MILLION TREES)
Non-Bearing Trees	0	60000	0	60000	0	60000	(MILLION TREES)
TOTAL Tree Population	0	1860000	0	1860000	0	1860000	(MILLION TREES)
Beginning Stocks	0	5000	0	5000	0	5000	(MT)
Main Production	0	390000	0	385000	0	385000	(MT)
Mid & Other Production	0	190000	0	160000	0	180000	(MT)
TOTAL Production	0	580000	0	545000	0	565000	(MT)
Bean Imports	0	150000	0	30000	0	30000	(MT)
Liquor & Paste Imports	0	0	0	0	0	0	(MT)
Butter Imports	0	0	0	0	0	0	(MT)
Powder,Cake,Choc. Imp.	0	0	0	0	0	0	(MT)
TOTAL Imports	0	150000	0	30000	0	30000	(MT)
TOTAL SUPPLY	0	735000	0	580000	0	600000	(MT)
Bean Exports	0	640000	0	460000	0	480000	(MT)
Liquor & Paste Exports	0	35000	0	35000	0	35000	(MT)
Butter Exports	0	25000	0	30000	0	35000	(MT)
Powder,Cake,Choc. Exp.	0	20000	0	35000	0	30000	(MT)
TOTAL Exports	0	720000	0	560000	0	580000	(MT)
Domestic Consumption	0	10000	0	15000	0	15000	(MT)
Ending Stocks	0	5000	0	5000	0	5000	(MT)
TOTAL DISTRIBUTION	0	735000	0	580000	0	600000	(MT)

Production

Ghana's cocoa bean production in MY2005/06 is forecast at 565,000 MT, up from 545,000 MT in MY 2004/05. This forecast is due to adequate and timely rains and the GOG commitment to support the sector. According to the Business news daily of May 31, 2005 the GOG revised its target for the 2004/05 seasons downward to 550,000-600,000 MT due to the poor rains. However, in MY 2003/04 Ghana cocoa production reached a record high of 580,000 MT. According to official sources at the Ghana Cocoa Board (COCOBOD), the improved cocoa bean yield obtained over the past few years is due to the Government of Ghana (GOG) support to the cocoa sector and favorable weather conditions. The GOG support includes 1) free mass spraying of cocoa farms that have reduced the incidence of pests and diseases especially black pod, swollen shoot disease and capsid insect attack; 2)

the steady increase in the farm gate price of the cocoa beans each season, an incentive for high production; 3) rehabilitation and replanting of old farms; and 4) road rehabilitation works in cocoa growing areas that have eased movement of high volumes of the dry beans to the ports in good time for shipment.

Additionally cocoa farming is largely rain fed and favorable rainfall during the night followed by sunny days has led to cocoa trees bearing good healthy looking, and fully filled pods. Cocoa farmers also adopted improved agronomic practices and the use of fertilizer on their farms and these have also largely contributed to the high yields over the past few years.

However, the high export volume in MY 2003/04 was also contributed by cocoa imports from Cote d'Ivoire. Unofficial sources have indicated that between 120,000-150,000 MT of cocoa beans was smuggled into Ghana in MY 2003/04 from Cote d'Ivoire. Ghana cocoa is of a higher quality than Ivorian cocoa. The influx of lower quality Ivorian cocoa into Ghana have reduced the quality of the Ghana cocoa beans causing the reduction in the premium price of the Ghana cocoa beans on the international market.

Crop Quality

Ghana's cocoa is of premium quality and COCOBOD grading mechanism has done much to ensure it remains so. Buyers of cocoa pay a premium ranging \$50-\$80 because of the high quality of the beans. Manufacturers want beans that are fully fermented, not brown break, slaty or purple. In order to maintain the high quality of Ghana cocoa beans the monitoring of the quality of the beans at the time of purchase is the sole responsibility of COCOBOD, a government organization. As such, the Quality Control Division of COCOBOD carries out inspection, grading and sealing of cocoa for the international and local markets. They also carry out fumigation and disinfection of beans to ensure that only insect free cocoa beans are exported. In addition, rodent control is also carried out in all cocoa storage premises to prevent damage to the beans in storage.

However, the buyers reduced the premium price of Ghana cocoa beans since the 2003/04 seasons from \$80 to \$20 per metric ton, probably because Ghanaian beans are mixed with Ivorian beans, thus eroding the quality. To curtail smuggling of low-grade cocoa beans into Ghana from neighboring countries Licensed Buying Companies (LBC) will be surcharged for the delivery of low-grade cocoa beans by COCOBOD.

Price

Ghana cocoa price is not liberalized. The GOG fixes the producer price upwards by making adjustments to the price of cocoa each time there is an improvement in the world market price. The aim of the GOG is for the farm gate price of cocoa beans to be at least 70 percent of the Free On Board (FOB) price. As such, the GOG has consistently increased the producer price of dried cocoa beans by announcing a new producer price at the beginning of the harvest seasons. The producer price per metric ton in MY 2004/05 was 9,000,000 cedis (about 69% of fob price) up from 8,500,000 cedis in MY 2002/03. In 2001/02 the producer price per metric ton was increased twice from 4,389,000 cedis to 6,200,00 cedis in October 2001 and May 2002 respectively as the world market price changed. This price incentive has encouraged cocoa producers to increase production and to manage their farms as a business enterprise with the requisite gains.

Policy

The government controls the export and internal marketing of Ghana cocoa beans. Thus the Ghana Cocoa Board (COCOBOD), a GOG institution, has been mandated to monitor and regulate the operations of the cocoa industry in Ghana. However, GOG partially liberalized cocoa purchases in 1992/93 in order to reduce monopoly in cocoa purchasing. As of MY 2003/04, twenty-two (22) private sector companies have been registered as Licensed Buying Companies (LBC) up from fourteen (17) in MY 2002/2003. Under such partial liberalization all LBC pay the same minimum set price to cocoa producers. The LBC are thus obliged to sell their cocoa beans at a fixed price to the COCOBOD that exports the beans or sells to domestic processors.

GOG has a liberalization policy in which sales and distribution of cocoa inputs have been privatized. This is to encourage private sector companies to enter the input distribution and compete with the Farmers Cocoa Inputs Company (GOG) that is operating.

Government Intervention

The GOG has been financing cocoa purchases with syndicated loans since COCOBOD is cash trapped. The GOG secured a syndicated bank loan of \$850 million from a consortium of foreign banks to finance its cocoa purchases for the 2004/05 cocoa season repayable in one year. The loan agreement was signed with a group of 32 off shore and four local banks. The loan is the twelfth successive facility provided by the participating financial banks in the syndication since the GOG honors its loan obligations. A similar syndication arrangement raised US\$ 650 million for 2003/04, \$420 million in 2002/03 and \$300 million in 2001/02 seasons. The increase in the loan is in anticipation of a higher volume of cocoa harvests during the 2004/05 seasons that started last October. The funds are deposited with the Bank of Ghana, which disburses the monies to the LBC registered with the COCOBOD.

Ghana has also established itself as a center of excellence in the study and cultivation of cocoa. The Cocoa Research Institute of Ghana (CRIG) undertakes agronomic research into problems related to the production of cocoa, such as, development of high yielding cocoa hybrids, disease and pest control and other uses of cocoa and its byproducts in making liquor, oil, soaps and creams.

Consumption

The Bulk of Ghana cocoa output is exported either in the dry bean or processed form. Cocoa beans are processed locally into liquor, butter, powder and cake. About 95% of all processed cocoa is exported and the rest is used in producing confectionery products like chocolate, cocoa powder and other chocolate candies. In MY 2003/04 cocoa beans utilized by local processing industries was 82,000 MT down from 137,000 MT in MY 2002/03 due to the high cost of cocoa beans locally and a consequent high price of the confectionery products. The challenge facing Ghana cocoa industry is the need to add value to its cocoa beans that could attract higher prices in the international export market.

The total installed processing capacity of cocoa in Ghana for 2004/05 is 145,000 metric tons up from 85,000 metric tons in 2003/04. This increase is due in part to an increase in the capacity of the Ghana Cocoa Processing Company plant from 25,000-65,000 metric tons in January 2005 and the establishment of a new cocoa processing factory with installed capacity of 25,000 metric tons.

Trade

Ghana exported 640,000 MT of cocoa in MY2003/04 up from 350,000 MT in MY2002/03. Figures for MY2004/05 cocoa exports are not available yet. Cocoa bean exports account for about 40 percent of the country's foreign exchange earnings. Cocoa provides the second largest source of export dollars to Ghana bringing in almost \$500 million yearly to the GOG. The record volume of cocoa bean yields in MY 2003/04 fetched a CIF value of \$7.2 billion US dollars or FOB value of 1.2 billion US dollars for Ghana. This is the highest export revenue ever achieved by the cocoa sub-sector of the Ghanaian economy. GOG official data indicates that the closest record achievement was the FOB value of \$889 million in the 2002/03 cocoa seasons. The normal export receipts for most years had ranged between US \$300 million and US \$500 million.

The main importing countries of Ghana cocoa beans are the EU countries mainly Holland, UK and Germany. Ghana's exports of cocoa to the U.S. fell from \$24.7 million in 2002 to \$7.3 million in 2003. Despite Ghana's increasing cocoa production, less and less of it is finding its way into the U.S. market because of competition from Ivory Coast and Asian sources, particularly Indonesia. The reason for the decline could be preference for lower priced cocoa.

The political crisis and the relatively low farm gate price of cocoa in Cote D'Ivoire have encouraged the movement of cocoa into Ghana. Cote D'Ivoire maintains a relatively liberal cocoa market, which allows farm gate price to fluctuate with the world price while Ghana fixes the cocoa producer price. Since 2003, farm gate price of cocoa beans in Cote D'Ivoire have remained at around 350,000 CFA per metric ton as opposed to the 550,000 CFA that Ghana offers. The relatively stable Ghanaian currency also helped keep the Ghanaian price above the Ivorian price.