



Foreign Agricultural Service

**GAIN Report**

Global Agriculture Information Network

Scheduled Report - public distribution

Date: 9/15/1998

GAIN Report #BR8616

## **Brazil**

## **Cocoa**

## **Annual Cocoa Report**

## **1998**

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### **Report Highlights:**

**After declining to the lowest crop level in recent years in 1997/98, cocoa production prospects currently call for a small recovery. This is attributable to better weather, and improved yields. A new program announced in June will aim to re-develop cocoa production in the Bahia region, primarily by combating witch's broom infestation, which has been one of the main causes of the production decline. Stringent fiscal reforms to be announced will likely have a negative impact on demand for cocoa and chocolate products in calendar year 1999.**

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Brasilia [BR1], BR



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## Executive Summary

Prospects for the 1998/99 Brazilian cocoa crop are for a small recovery of nearly 5 percent from the 1997/98's 162.6 thousand ton cocoa bean crop, the lowest production level on record. The Federal government together with the government of Bahia, and the Cocoa Research Center in that state announced a new program aimed at the redevelopment of 300,000 hectares of cocoa area affected with witch's broom disease. This program uses as a basis the old program initiated in 1996 which failed to accomplish its goal.

The current outlook for the Brazilian economy is clouded by the international financial crisis. Stronger fiscal measures will likely be taken early October, which will further slow the economy, likely depressing demand for cocoa and cocoa products. Higher interest rates will also increase the cost of rural credit, and will force banks to be more selective in making such loans. Similarly, recent increases in 'Brazil risk' assessments increased the cost of offshore borrowing by Brazilian export industries such as cocoa processing and products, and could thus also restrict Brazilian exports.

## Production

Brazil's cocoa production for 1998/99 is currently forecast at 170,000 metric tons, up 4.5 percent from the revised (downward) 162,651 metric tons harvested from the 1997/98 crop, which turned out to be the lowest on record.

The upcoming Bahia main 1998/99 crop (Oct. - Apr.) was initially damaged by the long dry spell that occurred during February-April of 1998, which affected flowering. However, recent rains throughout August have improved the outlook for Bahia's main crop, which is now expected to total 70,000 metric tons, nearly 7 percent above than last year's main crop.

It is too early yet to predict Bahia's mid-year 1998/99 crop (May - Sept. 1999), but traders currently forecast the mid - crop will also be higher than the prior year, given the new program to redevelop witch's broom devastated cocoa farms announced by the Federal government (see policy section).

Initial estimates assume weather will follow the normal pattern in South Bahia, and that the infestation of witch's broom disease will remain flat.

There is no reliable information on planted and harvested cocoa tree area. Because of the lack of accurate area information it is very difficult to estimate yields. Our best estimate for yields during 1997/98 crop is for 26.4 "arrobas" (15 kilograms each) per hectare.

OAA also revised the 1997/98 Brazilian cocoa crop to reflect new data obtained from the trade. Bahia's main crop (Oct. '97 - Apr. '98) was 35 percent higher than initially forecasted. Forecast droughty conditions expected from El Nino, did not materialize in the cocoa region during the second half of 1997. The volume of rains was considered good, mostly throughout Dec 97-January 1998.

However, the current mid-year (temporão) crop currently in final harvest stage is estimated to be down by 16 percent from the initial forecast, due to the long dry spell that hit the cocoa region in southern Bahia during February - April of 1998. This is a major factor in the total Brazil 1997/98 cocoa crop placed at 162,651 metric tons, the lowest production level on record.

Brazil's Cocoa Production by State  
Oct-Sep Marketing Year

State/Marketing Year	1995/96 (Final)	1996/97 (Final)	1997/98 (Final)	1998/99 (Forecast)
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Bahia:

Main Crop (Oct-Apr):

Bags (60 kg)	1,651,311	1,396,212	1,124,442	1,200,000
Metric Tons	99,079	83,773	67,467	72,000

Mid-Year Crop (May-Sep):

Bags (60 Kg)	1,691,242	1,343,928	1,253,066	1,300,000
Metric Tons	101,475	80,636	75,184	78,000

Other States:

Main + Mid - Year Crops:

Bags	337,117	338,333	333,333	333,333
Metric Tons	20,227	20,300	20,000	20,000

Brazil:

Main + Mid - Year Crops:

Bags	3679,670	3,078,473	2,710,841	2,833,333
Metric Tons	220,780	184,709	162,651	170,000

Source: FAS/OAA, based on post field travel observations.

## Consumption

OAA has revised the data for domestic consumption of cocoa and cocoa products as a result of more accurate data obtained from the trade. Previous numbers were somewhat over - estimated. Demand for cocoa products in the domestic market remains poor, which explains higher stocks of cocoa products in the hands of the four big crushers (Cargill, ADM, Nestle, and Chadler). Together, these crushers have an estimated crushing capacity 260,000 to 270,000 bags (60 kg) per month, but face problems of shortfalls in the cocoa crop due to the problems with witch's broom and irregular weather in the Bahia producing region.

Demand for chocolate in Brazil increased significantly during 1994 -95, but slowed in 1996, and 1997, and is estimated to remain flat in 1998. Prospects for 1999 - 2000 call for a more realistic demand increase (in the range of 2 - 4 percent per year) in consumption of chocolate, mostly as chocolate drinks. Average consumption of chocolate in Brazil is only 2 kilograms per person (about 4.4 pounds).

Brazil: Supply and Demand for Chocolate

Category/Year	1995 (mt)	1996 (mt)	1997 (mt)
Production	294	296	305
Imports	19	29	20
Total Supply	313	325	325
Exports	21	20	23
Consumption	292	305	302
Total Distribution	313	325	325

Brazil is considered the 5<sup>th</sup> largest chocolate market in the world. The chocolate industry is highly competitive in Brazil, and is basically dominated by US and European multinationals. The three largest companies (Philip Morris, Nestle and the Brazilian company Garoto) control nearly 80 percent of the chocolate market in Brazil. Other multinational companies have recently entered the Brazilian market, such as M&M Mars, Warner-Lambert, Arcor and Ferrero Rocher.

## Trade

January-June 1998 trade data show increase of 32 percent in the value of exports of cocoa and cocoa products, and an average of 80 percent in the volume exported. Import data for the same period show value up by 3 percent and volume down by 21 percent, reflecting lower levels of chocolate imports.

The Ministry of Agriculture and Food Supply (MAA) has authorized imports of cocoa products from other sources besides Indonesia, of which the most important is the Ivory Coast. Normally, these imports are authorized under the drawback system, by which a crusher imports cocoa and exports its products exempt of

taxes.

## Stocks

Current stocks in the hands of cocoa crushers are estimated to be high due to low demand, but stocks are expected to be drawn down by the end of the year due to the current shortage of beans.

## Policy

On June 19, 1998 the Federal government published Resolution number 2,513 issued by the Central Bank of Brazil. This carried regulations regarding the special fund of R\$ 367 million (about US\$ 314 million) for the new program to redevelop cocoa production in the southern Bahia region. This program is the second attempt to redevelop cocoa production in Bahia which was seriously affected by witch's broom disease. The first program (a special fund of US\$340 million), only applied US \$ 125 million. Most targeted small producers could not provide the required credit guarantees due to their prior debts with local banks. Thus the assistance target of 20,000 producers was not reached, only 4,000 producers actually obtaining some of the designated credit.

The new program version has established a very ambitious goal of increasing the current level of production (around 162,000/170,000 metric tons) to 400,000 metric tons by the year 2003, by redeveloping production on some 300,000 hectares of cocoa area. The new program entails joint work between cocoa growers, crushers, the Federal government, the government of Bahia State, and the Cocoa Research Center (CEPLAC). During the first year of the program, 20 percent of the area will be redeveloped through the distribution of cocoa strains resistant to witch's broom disease. The resistant strains will be grafted onto the cocoa trees affected by the fungus. During the second year, 30 percent of the area will be redeveloped, and the remaining 50 percent area is targeted for the third year.

CEPLAC also plans to initiate efforts to increase the density of cocoa trees per hectare. Also, as part of the afforestation projects in southern Bahia, rubber trees are being planted together with cocoa trees in order to increase productivity.

## Marketing

This section does not apply to the report.

## Tables

**PSD Table, Cocoa Beans**

PSD Table						
Country:	Brazil					
Commodity:	Cocoa Beans					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		10/1996		10/1997		10/1998
Area Planted	500	500	500	500	0	500
Area Harvested	480	480	480	465	0	450
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
TOTAL Tree Population	0	0	0	0	0	0
Beginning Stocks	1379	0	482	14051	0	6568
Main Production	66000	83773	50000	67467	0	72000
Mid & Other Production	105000	100936	110000	95184	0	98000
TOTAL Production	171000	184709	160000	162651	0	170000
Bean Imports	15000	15106	28000	11949	0	14508
Liquor & Paste Imports	3125	4081	3500	820	0	3525
Butter Imports	1064	468	1197	372	0	412
Powder,Cake,Choc. Imp.	189	15897	236	14261	0	13944
TOTAL Imports	19378	35552	32933	27402	0	32389
TOTAL SUPPLY	191757	220261	193415	204104	0	208957
Bean Exports	5200	4915	5200	8847	0	13270
Liquor & Paste Exports	7875	10234	7900	13304	0	16630
Butter Exports	21014	27673	21000	33207	0	41509
Powder,Cake,Choc. Exp.	13216	43388	12500	47378	0	51167
TOTAL Exports	47305	86210	46600	102736	0	122576
Domestic Consumption	143970	120000	146090	94800	0	85058
Ending Stocks	482	14051	725	6568	0	1323
TOTAL DISTRIBUTION	191757	220261	193415	204104	0	208957

**Export Trade Matrix, Cocoa Beans**

Export Trade Matrix			
Country:		Units:	Metric Tons
Commodity:			
Time period:	Jan-Dec		
Exports for	1997		1998
U.S.	2261	U.S.	3981
Others		Others	
Argentina	246		442
Canada	0		265
European Union	393		884
Japan	1966		1769
Total for Others	2605		3360
Others not listed	49		1506
Grand Total	4915		8847



**Import Trade Matrix, Cocoa Beans**

Import Trade Matrix			
Country:		Units:	Metric Tons
Commodity:			
Time period:	Jan-Dec		
Imports for	1997		1998
U.S.	6602	U.S.	0
Others		Others	
European Union	0		0
Indonesia	8504		11949
Total for Others	8504		11949
Others not listed	0		0
Grand Total	15106		11949

**Prices Table, Cocoa Beans**

Prices Table					
Country:					
Commodity:					
Year:	1997				
Prices in (currency)	Reais	per (uom)	15 kilograms		
Year	1996	1997	% Change		
Jan	17.13	19.44	13.5%		
Feb	16.75	17.83	6.4%		
Mar	16.48	19.44	18.0%		
Apr	16.98	21.61	27.3%		
May	18.37	23.02	25.3%		
Jun	17.76	23.61	32.9%		
Jul	17.02	23.31	37.0%		
Aug	16.69	23.29	39.5%		
Sep	17.07	24.36	42.7%		
Oct	20.12	25.07	24.6%		
Nov	20.98	24.77	18.1%		
Dec	21.38	24.62	15.2%		