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GHANA ANNUAL COCOA REPORT 1998

Prepared by:

**Fred Kessel, Agattache
U.S. Embassy**

Drafted by:

Yaw Asante Kwabiah

Report Highlights:

Ghana produced another good crop for the 1997/1998 cocoa season.

**Late rains have reduced prospects for 1998/99, but production still forecast
above 350,000 metric tons.**

Includes PSD changes: Yes
Includes Trade Matrix: No
Annual Report

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Executive Summary

Ghana produced another good crop for the 1997/1998 cocoa season, with a total harvest of about 400,000 metric tons of dried cocoa beans, an increase of 23.4% over the 1996/1997 cocoa crop of 324,000 metric tons. At a world market price of US\$ 1,600.00 per metric ton, Ghana is expected to earn about US\$ 650 million from cocoa sales this 1997/1998 cocoa season. The 1997/1998 main crop, which officially ended in April 1998, yielded a harvest of 360,000 metric tons, while the mid-crop, which officially ended on September 4, 1998 (with the final results to be tallied by September 17, 1998) is expected to yield 40,000 metric tons. Post forecasts another respectable cocoa crop for Ghana for the 1998/1999 cocoa season, which is expected to begin in the latter part of October 1998; the 1998/1999 main crop is forecast to yield 320,000 metric tons, while the mid-crop, beginning in May 1999, would yield 40,000 metric tons, giving a total forecast harvest of 360,000 metric tons.

In June 1998, pursuing its policy of increasing the producer price of cocoa as an incentive to boosting Ghana's cocoa production, the Government of Ghana (GOG) for the fifth consecutive cocoa season increased the producer price of cocoa from ¢ 1,800,000.00 per metric ton of dried cocoa beans to ¢ 2,200,000.00; this represents an increase of 22.2% over the price announced at the beginning of the 1997/1998 main crop.

GOG has completely removed the subsidy on inputs for cocoa production, urging cocoa farmers to pay market prices for the various inputs. Thus a liter of UNDEN 20, a cocoa pesticide, which used to sell for ¢ 3,000.00, is now being sold for ¢ 20,000.00; this represents an increase of 566%. A spraying machine which formerly sold for about ¢ 250,000.00, is now sold for ¢ 750,000.00, an increase of 200%. Because of these price increases, Ghanaian cocoa farmers may not be able to regularly spray their cocoa farms, which could lead to an increase in the incidence of cocoa disease outbreaks. The real income of Ghanaian cocoa farmers is usually eroded away by depreciation of the Ghanaian currency, the cedi, and the higher-than-expected inflation, magnifying the price increases of most inputs, which are imported and whose price is keyed to hard currencies.

Of the twelve privately-owned companies which are licenced to be involved in the internal marketing of cocoa in Ghana, only five are currently actively operating, purchasing dried cocoa beans from the cocoa producing rural communities, and delivering them at the warehouses of the COCOA MARKETING COMPANY (CMC) of the GHANA COCOA BOARD (Ghana COCOBOD) in Tema and Takoradi. The non-performing licenced companies are handicapped mainly in managerial capabilities, as well as facing financial and logistical problems.

GOG has put in place plans aimed at divesting her interests in the PRODUCE BUYING COMPANY (PBC) Limited, the marketing wing of Ghana COCOBOD. Since the inception of private licensed internal marketing of Ghana's cocoa, PBC has always had an advantage over the other licenced privately-owned companies, in terms of finance and logistics. The privately-owned companies have not been able to competitively operate against the PBC, which has never lacked finance resources for cocoa purchases. The divestiture of PBC could create a stage for more competitive internal marketing of cocoa which would be advantageous to the cocoa farmer.

The COCOA SERVICES DIVISION (CSD), the extension wing of Ghana COCOBOD has, on a limited basis (in about five cocoa growing districts), been merged with the main extension wing of the

Ghanaian Ministry of Food and Agriculture (MOFA). MOFA officials claim that cocoa farmers (who may be cultivating other crops in addition to cocoa, and may be rearing some livestock) stand to receive better extension services from the merger of the two bodies, while CSD officials foresee a decline in the delivery of prompt service to cocoa farmers. This could act to retard the growth rate for Ghanaian cocoa production in the future.

With pressure mounting from various quarters, domestic and international, regarding liberalized export marketing of Ghana's cocoa, GOG and Ghana COCOBOD remain unyielding in opposing such a step. They cite the potential for lowering of the 'premium' quality of the cocoa beans in the face of the privatization of the external marketing of the dried cocoa beans.

(US\$ 1.00 = ¢ 2,350.00 as at September 8, 1998)

PRODUCTION:

Cocoa cultivation will continue to play a significant and crucial role in the Ghanaian economy. High export taxes on cocoa offer an administratively simple means of gathering significant revenue for GOG; to the Ghanaian farmer, cocoa cultivation offers a ready source of income since farmers are assured of a ready and steady market for their produce even though the producer price of the commodity may not offer a very remunerative real income.

Ghana's COCOBOD hopes to attain and maintain average annual cocoa production levels of 450,000 metric tons of dried cocoa beans by the year 2005, and 500,000 metric tons by the year 2010. With this objective in mind, COCOBOD has embarked upon a gradual but steady program for the reclamation of abandoned and diseased cocoa farms. This could lead to an increase in the total acreage under cocoa cultivation and an increase in cocoa production.

With the depletion of virgin forests as a result of the competitive and destructive activities of timber millers and other wood processors, the creation of human settlements, the establishment of food and other cash crop farms as well as new cocoa plantations in the forest zones, the need for the urgent reclamation of abandoned and diseased cocoa farms has become apparent. GOG and the COCOBOD therefore embarked upon a steady program of encouraging cocoa farmers to reclaim abandoned and diseased (especially, swollen shoot-diseased) cocoa farm land. The COCOA RESEARCH INSTITUTE OF GHANA (CRIG) and CSD, have been raising hundreds of thousands of seedlings of the high-yielding early maturing hybrid varieties, and have been distributing them to farmers for the rehabilitation of their abandoned and diseased farms.

To boost cocoa production in Ghana, GOG in addition to encouraging farmers to reclaim abandoned and diseased cocoa farms, has been increasing the producer price of cocoa over the years, with the aim of paying cocoa farmers about 60% of the prevailing world market price of cocoa by the year 2005. GOG acknowledges the fact that higher producer prices for cocoa, which in turn offers lower export taxes on cocoa, and subsequently lower GOG revenues, is an incentive for increased cocoa production.

CRIG and CSD have embarked upon additional activities aimed at boosting cocoa production. One such activity is encouraging cocoa farmers to apply fertilizers on their cocoa farms. Research findings at CRIG indicate that cocoa production can be increased from the present average levels of 300 kilograms to 3000 kilograms of dried cocoa beans by applying the requisite amounts of the appropriate fertilizer. The usual cultural practices for

cocoa in Ghana do not typically include large scale commercial fertilizer application.

Fertilizer field trials encourage by CSD have been well received by participating farmers. Increases from two bags of dried cocoa beans (about 120 kilograms) to ten bags (about 800 kilograms) per acre were reported. Even though this falls far below the CRIG results, the farmers are convinced of the increase in cocoa production as a result of the fertilizer application. The use of CSD-procured fertilizer is expected to expand in the forecast year.

The rainfall pattern was not very favorable for cocoa production during the 1997/1998 cocoa season. Despite this, Ghana is expected, when final results are compiled to have a crop of 400,000 tons for the 1997/1998 cocoa crop, which officially ended September 4, 1998. The reduction in the total from previous estimates is due to rainfall induced shortfall in the mid-crop, which resulted in small bean size as well as smaller overall production numbers.

The rainfall pattern has continued to be unfavorable (late August/early September 1998) for the 1998/1999 cocoa season. This is largely responsible for the forecast decline in cocoa production. However, the forecast decline in production is less severe than anticipated by some analysts, resulting in a forecast production level above 350,000 tons. Sporadic rainfall patterns help to limit the outbreak of Black pod disease, a major fungal disease in cocoa.

Post estimates a harvest of 320,000 metric tons of cocoa for the 1998/1999 main cocoa season, which is expected to start late in the middle of October 1998, ending in May/June 1999; the 1998/1999 mid crop is estimated to yield 40,000 metric tons.

INPUTS

As indicated in earlier reports on the cocoa industry in Ghana, GOG has completely removed all subsidies on agricultural inputs, including fertilizers and pesticides. Ghanaian farmers are now paying the full costs for inputs. Prices for these inputs have soared in some cases to more than three hundred per cent over the formerly GOG subsidized prices; for example a liter of UNDEN 200 EC (the insecticide used for the control of cocoa insect pests), which used to be sold for ₵ 3,000.00, now sells for ₵ 20,000.00, an increase of 566.6%.

With farmers real income eroded by inflation and depreciation, farmers are unable to absorb this 566% increase in the price of production inputs. This has resulted in the decline in the use of agricultural inputs: for example records available indicate a drop in the use of fertilizers from 104 grams/hectare to 43 grams/hectare. There is a drop in the usage of UNDEN 200 EC; instead of farmers spraying their cocoa farms nine times a year (recommended by CSD), the average Ghanaian small scale cocoa farmer may spray his farm only once in a year. This provides a good ecosystem for the growth and development of the disease-causing fungus and insect pests.

Despite repeated appeals by farmers to GOG and COCOBOD for a revision of this policy on subsidies on agricultural inputs, there has not been any indication by GOG of a reversal on this policy, which is said to be part of World Bank recommendations on the reformation of the Ghanaian economy.

Ghana COCOBOD has put in place plans for a syndicated loan of about US\$ 350 million from a consortium of Banks overseas for the purchase of cocoa during the 1998/1999 cocoa season. This amount is far in excess of the US\$ 275 million which was secured during the 1997/1998 cocoa season. This bigger amount is due to the

increase in the producer price of cocoa from ¢ 1,800,000.00 per metric ton (for 1997/1998) to ¢ 2,200,000.00 per metric ton (for 1998/1999). Ghana COCOBOD is asking for this bigger amount as a means of averting a situation where it could run short on funds for cocoa purchases as occurred in November/December 1997.

COCOBOD officials have indicated that COCOBOD has in stock enough cocoa sacks and twine for the purchasing and storing of the 1998/1998 cocoa crop. However, the licenced buying companies are worried about the high expenses they incur for transporting cocoa from the rural purchasing communities to the harbors in Tema and Takoradi.

CROP AREA

Virgin forest lands are fast dwindling due to the activities of timber millers, the establishment of human settlements and other developmental activities embarked upon by the various local communities/governments and the central government. New, often younger, cocoa farmers in most cases are reclaiming the old cocoa farms abandoned by their older and aged relatives, and are replanting these formerly abandoned farms with high-yielding early-maturing cocoa varieties recommended by the CSD.

The replanting of swollen shoot affected cocoa farms with seedlings of the high-yielding early-maturing cocoa varieties, under the supervision of the CSD is also going on gradually. However, all these 'new' cropping areas would not significantly add to the total acreage under cocoa cultivation.

YIELDS

CSD is known and acknowledged by Ghanaian cocoa farmers as a 'friend' in helping farmers increase their production levels. Farmers 'give' ear to the advice by CSD personnel to clear farms of weeds regularly, to prune trees of mistletoe, to spray farms regularly with the recommended cocoa pests insecticides and to fertilize cocoa farms. Even though farmers are adopting some of the recommendations by CSD, they may not be spraying their farms the recommended number of times in a year due to the high costs involved in procuring the insecticides.

Some cocoa farmers in the Ashanti Region of Ghana accepted the recommendations by CSD to fertilize their cocoa farms during the 1997/1998 cocoa season; the yields increased ten times. This has prompted other neighboring farmers to agree to fertilize their farms, and have thus made monies available for the purchase of fertilizers to apply on their farms this 1998/1999 cocoa season.

It is generally accepted that with the merger of the CSD and the main Extension Services Department of the Ministry of Food and Agriculture (MOFA), the number of FRONT LINE STAFF (FLS) involved in agricultural extension activities would increase, and therefore more farmers could benefit from the expertise of these FLS, and thus perform better. However, this is very questionable considering the anticipated low morale of staff of CSD which may eventually lead to some of them resigning from CSD in search of jobs at other places.

Consumption

The total installed capacity for the local processing of Ghana's cocoa has increased from 80,000 metric tons to 85,000 metric tons. This is due to the refurbishment of some equipment at PORTEM in Tema, which has increased their processing capacity from 20,000 to 25,000 metric tons. However there is substantial room for additional expansion if GOG and Ghana COCOBOD would reconsider their stand on the privatization of PORTEM.

PORTEM, Tema	25,000 metric tons
WAMCO I, Takoradi	20,000 metric tons
WAMCO II, Takoradi	40,000 metric tons

The parent company of WAMCO I and WAMCO II, HOSTA of Germany, has instituted a € 100 million fund to conduct research into the processing and marketing of Ghana's cocoa products. The findings from this research program could add more value to Ghana's cocoa. Additional processing and product exports could take place provided that the Malaysian-owned cocoa processing company, CARIDEM COMPANY LIMITED, recently licenced to process cocoa in Ghana, begins operations.

The local processing of cocoa in Ghana for the 1998/1999 cocoa season will be the same for the 1997/1998 cocoa season. The three processing companies are forecast to process a total of about 75,000 metric tons of cocoa. WAMCO I and WAMCO II export their semi-finished products to their parent company, HOSTA, in Germany for further processing, while PORTEM exports the bulk of its products to the EU, Japan, USA, China, Australia, and some new markets in the former eastern European countries.

Policy

GOG continues to pursue its price incentive policy as a means of boosting cocoa production in Ghana by increasing the producer price of cocoa in June 1998, from € 1,800,000.00 (one million eight hundred thousand cedis) to € 2,200,000.00 (two million two hundred thousand cedis) per metric ton of dried cocoa beans, an increase of 22.2%. This new price took immediate effect: thus, the 1997/1998 mid crop was purchased at this new producer price. The 1998/1999 main crop will also be purchased at this new producer price of € 2,200,000.00 per metric ton. GOG, as a matter of policy, is expected to increase the producer price of cocoa for the 1998/1999 mid crop. Following trends in price increases, the next price increase may be as much as 40% over the current producer price of € 2,200,000.00 per metric ton.

While the nominal price of cocoa has been rising at some pace for the past ten years, the fact is that the producer price paid to Ghanaian cocoa farmers has been dwindling in real terms. The real price for the 1995/1996 cocoa season was about 13.5% lower than the level for the 1994/1995 season. This implies that the increases in the producer price have lagged behind the rate of inflation, and that farmers have not realized the full benefits of the current relatively high world cocoa prices.

With the complete withdrawal of subsidies on inputs, and the resultant increases in the price of the inputs of the cocoa industry, COCOBOD-maintained prices will likely need to continue to increase to reach hoped-for production levels.

The periodic producer price increases are also in line with GOG/Ghana COCOBOD's policy of paying cocoa

farmers at least 60% of the FOB price for cocoa by the year 2000. For the 1997/1998 season, the share was about 55% as against about 80% for neighboring Cote D'Ivoire. At this low rate coupled with inflation and the depreciation of the Ghanaian currency, a good incentive is thus created for the smuggling of Ghanaian dried cocoa beans to Cote D'Ivoire (smuggling is said to be in the range of 15,000 to 20,000 metric tons annually).

PBC, the marketing arm of Ghana COCOBOD, involved in the internal marketing of cocoa in Ghana, is finally to be privatized by October 1998. This would likely lead to PBC being divided into three organizations as follows: GOG would maintain 33% of the current assets of PBC; the second 33% of the assets would be floated as shares for the staff of PBC; the remaining 33% shares would be sold to the general public.

PBC currently purchases about 65% of Ghana's dried cocoa beans at the farm gate. The internal marketing of cocoa in Ghana has been skewed in favor of PBC since the inception of the policy of privatizing the internal marketing of cocoa. PBC has never lacked for funds for cocoa purchases. Neither has it had to face problems with transport for hauling purchased cocoa from the cocoa growing rural communities to the ports at Tema and Takoradi. When PBC is privatized, it would then have to operate (that is, source for and compete for funds to purchase cocoa in the financial markets) as the other privately owned licenced companies do. This would release the 'competitive spirit' in the various cocoa buying companies, and provide an incentive to increase efficiency.

The privatization of PBC could also come with some problems. There are some remote areas in some marginal cocoa producing areas in the Volta and Eastern regions of Ghana where the privately owned licenced cocoa buying companies have never operated; they see these areas as not being economically feasible for their operations. PBC, being a state-owned enterprise, is obligated to operate in these areas. To continue to support such production, some incentives, such as higher commissions, may be needed to attract the licenced companies to operate in these tough to service communities.

CSD (a virtually an autonomous body), the extension wing of Ghana COCOBOD, is to be absorbed into the main Extension Services wing of the Ghanaian Ministry of Food and Agriculture (MOFA), a move GOG says will lead to cutting down on waste in the two separate bodies, and also avoid duplication of services. A pilot phase for this merger has started in five cocoa growing districts in Ghana where the two bodies have been merged. The merger, according to GOG, is aimed at boosting productivity in animal husbandry and mixed crop farming. The personnel will for now continue to draw their salaries from their former and parent organizations. MOFA officials indicate that the merger would lead to an increase in agricultural production, as a result of an increase in the delivery of extension services to the farmer, who in most cases may be cultivating cocoa and other crops in addition to cocoa, and may even be rearing some livestock. CSD officials however are wary of any decrease in services provided to cocoa producers as a result of bureaucratic-induced slowness at MOFA in the release of operational resources.

On the other hand, GOG has indicated that it acknowledges the unique role CSD plays in the cocoa industry through the production of high-yielding early-maturing cocoa seedlings, and pest and disease control. GOG has attempted to assure cocoa farmers that adequate steps are being taken to ensure the quick delivery of these vital services. However, the staff at CSD, is showing signs of low morale. They are particularly concerned about their pay grades, which are well above those of MOFA extension officers.

The negative effects of the privatization of PBC and the merger of CSD with the Extension wing of MOFA on cocoa production in Ghana may be felt after about four or five cocoa seasons due to the peculiar physiology of

the cocoa tree. Cocoa trees usually takes a significant time to recover from stress. In the event of a slow response to an attack of the black pod disease, or any other epidemic affecting cocoa, perhaps as a result of delays in the release of operational funds by the Ministry (MOFA), Ghana's cocoa industry could suffer.

Ghana's cocoa still fetches a premium for spot delivery over that from other producing countries. This premium on spot delivery of good quality cocoa beans ranges between US\$ 50 (£ 30) and US\$ 129.5 (£ 77) per metric ton. GOG/ Ghana COCOBOD have traced the lower rates for the premium to a drop in the quality of the dried cocoa beans purchased by some of the licenced cocoa buying companies. These companies may have sacrificed quality for the commission they would receive from the higher tonnage delivered to the COCOA MARKETING COMPANY (CMC) Limited (the export marketing arm of Ghana COCOBOD) at the ports in Tema and Takoradi. GOG/Ghana COCOBOD have continued to insist upon punitive measures for the delivery of poor quality cocoa beans in an attempt to maintain the quality in export markets which being high premium.

Because of export quality concerns (and certainly augmented by the known ability of cocoa exportation to produce significant revenue for the GOG), GOG/Ghana COCOBOD is not supportive of proposals to privatize the external marketing of Ghana's cocoa. Lacking such support, privatization of the external marketing of Ghana's cocoa continues to be problematic.

The COCOA PROCESSING COMPANY (CPC)limited, PORTEM, at Tema, has still not been divested as promised by GOG. GOG insists that PORTEM is a very unique national asset and therefore should not be privatized. PORTEM has an installed capacity of 25,000 metric tons, and has been operating at a budgeted capacity of 24,000 metric tons. There is ample room for expansion in the installed capacity. If PORTEM were privatized, it might be able to increase capacity to as much as 100,000 metric tons, adding significantly more value to Ghana's cocoa exports.

TRADE

Ghanaian estimates indicate that cocoa exports will earn as much as US\$ 650 million from the export of cocoa beans in the forecast year. Post estimates that a little over 300,000 tons of bean exports will take place, reduced from the previous year because of the reduction in the forecast production level.

	Global Agricultural Information System						
Commodity: Cocoa Beans (0721000) (1000 HA) (1000 TREES) (MT)							
Beg.Month/Year of Marketing Year:		10/96		10/97		10/98	
GHANA	Revised 1997		Prelim 1998		Forecast 1999		
	Old	New	Old	New	Old	New	
Area Planted	1070	1070	1075	1075	0	1075	
Area Harvested	1060	1060	1065	1065	0	1065	
Bearing Trees	1505000	1508000	1508000	1508000	0	1508000	
Non-Bearing Trees	75000	75000	80000	80000	0	80000	
Total Tree Population	1580000	1583000	1588000	1588000	0	1588000	
Beginning Stocks	3930	3930	2930	2930	0	2930	
Main Production	299000	299000	340000	360000	0	320000	
Mid&Other Production	25000	25000	40000	60000	0	40000	
Total Production	324000	324000	380000	420000	0	360000	
Bean Imports	25000	25000	15000	15000	0	10000	
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	25000	25000	15000	15000	0	10000	
TOTAL SUPPLY	352930	352930	437930	437930	0	372930	
Bean Exports	285000	285000	330000	370000	0	305000	
Liquor & Paste Exports	25000	25000	25000	25000	0	25000	
Butter Exports	25,000	25000	25000	25000	0	25000	
Powder,Cake,Choc.Exp.	10000	10000	10000	10000	0	10930	
TOTAL Exports	345000	345000	430000	430000	0	365930	
Domestic Consumption	5000	5000	5000	5000	0	5000	
Ending Stocks	2930	2930	2930	2930	0	2000	
TOTAL DISTRIBUTION	352930	352930	397930	437930	0	372930	
END OF REPORT							