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## INTERNATIONAL COMMODITY PROBLEMS - INTERNATIONAL TRADE IN COCOA

The following communication, together with annexed note, has been received from H.E. Mr. Georges Bresson, Ambassador of the Republic of Upper Volta.

I have received a note drawn up by experts in developing countries concerning the cocoa market situation. In my capacity as Chairman of the Working Group on International Commodity Problems established by the Trade and Development Committee of GATT, I am forwarding this study to you as it seems suitable for inclusion among the documentation for the Group's studies and discussions.

I am informed that other studies concerning cotton, coffee and other products will shortly be completed. I shall forward them to you if and when they are communicated to me.

DEVELOPMENTS IN INTERNATIONAL TRADE IN COCOA

I. Alarming price situation

The disastrous decline in cocoa prices on the international market is the major concern of producing countries.

It is generally recognized that such a situation has not occurred since the last world war.

Between 1954/55 and 1964/65, cocoa lost more than 61 per cent of its value on the French market, with a drop in prices from 4.44 NF to 1.50 NF. Virtually, the same depreciation was recorded in the New York, London and Amsterdam markets. Between 1954 and 1963/64, the decline was in two stages: from 1954/55 to 1956/57 there was a steady and continuous decline. Prices rallied in 1957/58, reaching an average of 4.20 francs/kg. on the French market and 3.34 florins on the Netherlands market. During the first stage the decline was less than 20 per cent from one year to the next; between 1957/58 and 1962/63 there was again a more or less steady decline, prices falling from 36.6 cents/lb. in New York to 25.3, with a steep drop to 21.0 cents/lb. in 1961/62.

(In cents/lb.)

Years	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1964	25.7		23.8		22.3		23.5		23.7	23.6	23.1	23.8
1965	23.0	20.6	17.0	16.7	13.84				12.65			

Since 1964 the downward trend has quickened: on the New York market the price fell from 25.7 cents/lb. in January 1964 to 23.8 cents/lb. in December of the same year. The 1964/65 crop year, which began in a state of some confusion, brought unimaginable prices in September 1965: 113 sh./cwt. in London, 12.65 cents/lb. in New York, 111 florins/100 kg. in Amsterdam, 151 francs/100 kg. in Paris, representing a drop of nearly 50 per cent in the New York market in relation to September 1964. Thus, in one year, cocoa lost nearly one half of its value. The present situation holds out little hope for any improvement in these poverty-level prices for the near future. The difficulties of the producing countries are daily becoming more serious and they start the new crop year without any resources.

The Ghana Marketing Board, which is the best equipped of the cocoa price stabilization organizations among African producers, is almost penniless.

Togo has seen no alternative but to cut its support price by one half (from 70 francs to 35 francs per kg.).

Ivory Coast is desperately clinging to an artificial support price of 70 francs

As for Cameroon, its situation is disastrous. The price of bulk cocoa weighed at Douala fell from 73,700 francs per ton on 2 October 1964 to 12,300 francs on 7 July 1965 - a drop by 83 per cent in ten months. The reserves of the stabilization fund (amounting to nearly 2,000 million francs) were exhausted in a few months; faced with this calamitous situation, the Government reduced the support price from 85 francs to 50 francs and it may even be brought down further if this situation continues.

## II. Significance of cocoa in the economy of producing countries

Cocoa is one of the major exports of most of the producing countries. It accounts for nearly 60 per cent of Ghana's export earnings, 30 per cent for Cameroon and Togo, nearly 20 per cent for Ivory Coast and Nigeria. These five countries together account for nearly 80 per cent of total world production.

A 50 per cent drop in cocoa prices means a substantial drop in export earnings for these countries, with a consequent reduction in their foreign exchange receipts, thus limiting still further their investment capacity which is already too low.

In these conditions, the development of these countries is severely jeopardized; at the external level, the consuming countries are likely to suffer in turn from the persistent decline; shortage of foreign exchange due to the cocoa crisis will have a strong downward influence on imports by producing countries, so that consuming countries which produce goods imported by the cocoa-producing countries will see a decline in their exports to them; there are two aspects to the present crisis.

Apart from economic repercussions, the producing countries are faced with certain political difficulties due to the crisis. For example, how can the Cameroon Government claim its innocence in the crisis towards the Boulu or Bassa farmers who were selling their cocoa at 80 francs per kg. in October 1964, and ten months later can obtain only 10 francs per kg.?

Speaking in London on 7 May last, Mr. Ouahara, Secretary-General of the Alliance of Cocoa Producers, illustrated the political consequences which might result from the cocoa crisis. "Indeed, what human heritage shall we, shall you, have left to rising generations if, on the basis of short-term and selfish considerations, we overthrow existing social structures and established alliances and promote other social organizations and other ways of life? What will you have gained from it?"

This statement clearly shows that internal political difficulties can take other forms on the external plane; more serious consequences are to be feared and the producing countries would not be the sole victims.

A solution must be found. The Alliance of Cocoa Producers has almost been a failure. At the beginning of the 1964/65 crop year it hoped to be able to maintain the price at 190 sh./cwt. by means of sales quotas; but in April 1965 the

price was 125 sh./cwt., i.e. 34 per cent of the expected price. Is that not defiance of the producers' endeavour? The trend on the cocoa market has been a decline which is constant in the medium term, sharp and steep in the short term.

In 1964, prices varied from 25.7 cents/lb. in January to 23.8 cents/lb. in December, with a drop to 22.3 in May, which was the lowest monthly average price for the year.

In 1965 prices dwindled from 23 cents/lb. in January to 12.65 cents/lb. in September. Unlike preceding years when there were fluctuations in the short term, in 1965 there was a steady downward trend (see graph hereafter).

How can one account for this trend?

#### Cause of the crisis

The decline in cocoa prices is generally made out to be a direct consequence of over-production; in principle this is true, and the year 1965 with a record production of 1,560,000 tons as compared with consumption of 1,300,000 tons is a striking example. Some anomalies may be seen, however, from a comparison between production and consumption and price levels.

Year	Production	Consumption	Balance	PRICE			
				New York	London	Paris	Amsterdam
				cts./lb.	sh./cwt.	fr./kg.	florins/kg.
1954/55	798,000	720,000	+ 76,000			3.04	3.12
1955/56	840,000	822,000	+ 118,000			2.14	2.18
1956/57	893,000	908,000	- 15,000			2.46	2.20
1957/58	768,000	840,000	- 72,000			4.20	3.34
1958/59	905,000	871,000	+ 24,000	36.6	285/6	3.83	2.91
1959/60	1,035,000	929,000	+ 106,000	28.4	225/10	3.50	2.33
1960/61	1,165,000	1,014,000	+ 151,000	22.6	179/11	2.36	1.68
1961/62	1,134,000	1,028,000	+ 106,000	21.0	170/1		
1962/63	1,165,000	1,141,000	+ 24,000	25.3	208/2		
1963/64	1,235,000	1,188,000	+ 47,000	23.4	190/8		
1964/65	1,560,000	1,316,000	+ 189,000	- 20	90/9-96/3	1.60	

Fluctuation: France 1954/55: 4.44  
1964/65: 1.70

i.e. 61 per cent of value.

New York: from 23.0 cents/lb. to 13.84 cents/lb. in May.

i.e. 42 per cent.

As one can see, in 1954/55 when production was 76,000 tons greater than consumption the price of cocoa in the French market was 3.04 francs as compared with 3.50 francs in 1958/59 when production exceeded consumption by 106,000 tons; if one compares the same period 1958/59 with 1963/64, the price in the first period can be seen to be well above that for the second, despite surpluses three times greater than in the second period.

In addition, there is no proportional variation between surpluses and prices. Surpluses declined from 106,000 tons in 1961/62 to only 24,000 tons in 1962/63 - a 77 per cent drop; during the same period prices rose by only 20.2 per cent.

These few comments seem to indicate that apart from the factor of supply uncertainty, which generally speaking determines cocoa prices, there are other no less decisive factors among which we may mention the sugar market; depending on whether sugar prices are low or high, industry and trade are more sensitive to cocoa prices and act with less or more caution. This factor undoubtedly affects the price of cocoa, but its importance must not be exaggerated; on the other hand the behaviour of commercial agents and the organization of the market play a decisive rôle in price determination.

### III. Organization of markets and behaviour of commercial agents

The cocoa market is characterized by a concentration of importers on the one hand and exporters on the other. This is reflected in the predominant position of a small number of firms who dictate terms on the market; thus, there is one major purchaser in the United States, while three firms account for more than 70 per cent of United Kingdom purchases; in Germany 75 per cent of the market is in the hands of twelve firms; in France and the Netherlands five firms hold 50 per cent of the market; the same percentage is handled by two firms in Belgium.

The same concentration is found on the selling side (Marketing Board, marketing organizations, "Instituto de cacao" in Brazil).

At first sight the price of cocoa is the result of a confrontation between the two groups. It is nevertheless subject to speculation in the futures market which is encouraged by the compactness of production periods and the spreading out of sales, thus obliging merchants to maintain more or less sizeable and very costly stocks for some time.

Because of this the London marketing companies have a decisive influence on the selling price which they fix either arbitrarily or after consultation with the importers; in most cases the ruling price applied by the marketing companies determines the trend in other markets.

At the same time the major purchasers constitute a kind of obstacle to the determination of prices; the price varies according to their demand from the marketing companies. Now these purchasers try to influence the market to their own advantage; they build up stocks when prices are low and release them afterwards;

they may present a large part of their forward demand in the event of a bumper harvest, or they may delay it, or again agree to the offering terms of the marketing companies.

The size of stocks also influence the price level. In brief, the behaviour of the various agents who intervene in the cocoa market largely determines price formation.

Facing the well-organized and well-equipped body of purchasers are the suppliers with no adequate means of defence. Since action by producing countries can also influence prices, it is limited to the manner in which supplies are offered on the market.

For example, apart from the normal interplay of supply and demand they could, in the event of a sharp drop, put a brake on prices by means of regular and adjusted offers; the failure of the measures selected by the Alliance of Producers shows how difficult it is for producing countries to influence price trends by themselves. They are in difficult situations which place them at a disadvantage in relation to purchasers:

- The lack of stock-piling installations prevents them from following a policy of quota restriction on a medium-term, or sometimes even short-term basis.
- The highly perishable character of cocoa cannot be reconciled with a policy of lengthy stockpiling, particularly in countries with a hot, humid climate, such as the cocoa-producing countries; the alternative would be very costly installations which would in turn affect the selling price.
- The importance of this commodity in the economy of producing countries obliges the latter to deliver to the market as rapidly as possible in order to ensure financial resources to cover their investment projects.

These various restrictions leave the producing countries at the mercy of speculation by purchasing countries, so that any improvement in cocoa prices depends on agreement between producers and consumers.

#### Possible remedial measures

At the international level a number of possible solutions have been proposed in order to improve the cocoa market; they may be summarized as follows:

- Extension of outlets through the elimination or at least reduction of the numerous duties and charges levied on cocoa and cocoa products in consuming countries;

- Revalorization of the price of cocoa and its establishment at a level remunerative for the producer and advantageous for the consumer, implying a price negotiated within a joint organization or under an international agreement;
- Assurance of stable cocoa prices;
- Institution of a system of compensatory financing with provision for the establishment of a United Nations fund to afford financial resources for producing countries.

While strongly supporting these solutions, which would restore the cocoa market to a sound footing, it is necessary in the present situation to resort to emergency measures.

Such measures might be:

1. Before the opening of the next cocoa crop year, to fix a temporary floor price in order to halt the downward trend and revalorize current price rates. Such a floor price at a remunerative level should not in principle affect the price of cocoa-based manufactures, in particular chocolate, which lags well behind the trend in cocoa bean prices. On the contrary, it would help to stabilize prices.
2. Nevertheless, in order to avoid making importers bear the burden of this revalorization, a second emergency measure is necessary, namely, to eliminate the charges and duties applied on cocoa and cocoa products, whether on importation or within the producing countries.

The second measure will have a two-fold effect; it will reduce the price of cocoa products and release additional revenue. The benefit accruing from this elimination should be made available to producing countries, either in the form of a revalorization of purchasing prices or in the form of a price stabilization fund. The second consequence will be the resulting increase in consumption which would help to reabsorb present stocks.

3. The third urgent measure which must be taken would be to create an international support or regulation fund for cocoa prices, having as one objective to make short-term credit available to producing countries during pre-sales periods, so as to enable them to continue with current investment projects which would otherwise be brought to a halt through lack of financial resources, or would oblige producing countries to place their cocoa on the market on unfavourable terms.

Starting from these urgent measures, the Working Group should draw up a long-term policy culminating in an international cocoa agreement drawn up on an equitable basis.