

# Cocoa Marketing

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## Pre 1918

Fifty years ago chocolate was still very largely a luxury. Raw cocoa came from hundreds of plantations all under different ownerships, chiefly in the Western Hemisphere. These plantations produced in general cocoa of high quality, with flavours varying from one country to another. Manufacturers blended these different cocoas to achieve precisely the flavour which characterised their chocolates.

The producers sent their cocoa to London and other consuming centres where it was sold by auction. Manufacturers received samples which they roasted and tested, and then bid for the parcels which suited their requirements. Auctions in their original form were known as "Sales by Candle", from the practice of having a lighted candle, with pins stuck at intervals down its side, set on the auctioneer's desk. The last bid before the pin fell out secured the cocoa.

Up to 1914, the bulk of world production was of these "flavour cocoas".

## 1918-1939

The greatly increased output from West Africa and Brazil which started in the 1920s brought about major changes in the cocoa trade.

In West Africa, cocoa became a small farmer's crop and prospered without official encouragement. There were no plantations, but thousands of small farms each produced a few bags of cocoa. Merchant firms and manufacturers set up buying agencies on the Coast, and their representatives went out into the bush and bought the beans from the farmers. The farmers, however, had no capital with which to buy the bags and other requirements, so these had to be provided in advance by the buyers, who also gave instructions as to how to prepare the cocoa for market.

The merchant firms brought the cocoa down to the ports, and their head offices in London and Paris sold the crop on the world markets.

The cocoa produced in West Africa was of a standard quality and flavour. No longer was it necessary for manufacturers to examine samples and test them before buying. The result was a revolutionary change in the industry, as the manufacturers in turn were greatly helped in their attempt at standardisation and their efforts to sell their chocolates at a reasonable price to the widest possible market.

The old and cumbersome methods of purchasing were no longer adequate to meet this ever-growing trade. Manufacturers were anxious to make contracts for their supplies many months ahead in order to ensure the steady flow of cocoa through the factories. This could even entail buying cocoa which had not yet been harvested.

The smallholders in Africa could not be expected to enter into contracts on this scale, and the merchant firms who bought the cocoa from them were not in a much better position, preferring, naturally, to sell only what they had in their warehouses.

Commodity dealers, especially those in London and New York, experienced in providing this sort of service in sugar, were prepared to provide a similar service in cocoa now that the conditions were ready for this expansion.

Terminal or futures markets, identical in form to those already existing in sugar and other commodities, were opened for cocoa trading in London and New York during the mid-twenties, which made it possible for dealers to carry out this function.

So far this article has been concerned mainly with West Africa as being the area of spectacular growth in cocoa production. The expansion was also considerable in several other areas, particularly Brazil. The development here, however, was on orthodox plantation systems, with landowners cultivating extensive cocoa farms, and the problem of marketing was simpler.

Flavour cocoas, as far as Europe was concerned, were mainly sold on the basis of examination of samples, and in London auctions were still held up to 1930. In the U.S.A. the tendency to buy flavour cocoas on description was far more prevalent.

## Post 1939

The system described above was operative up to the outbreak of the war. Then, in order to ensure the livelihood of the Gold Coast and Nigerian farmers, the British Government agreed to buy the West African cocoa and other crops. For this purpose Produce Marketing Boards were set up in London by the Colonial Office. In 1947 the Cocoa Marketing Boards in the Gold Coast and Nigeria were established.

The Cocoa Marketing Boards used the organisation of the firms already established in West Africa to buy the cocoa from the farmers at prices fixed for the season by the local Governments, and to bring it to port, for which services they were paid their expenses plus a commission. On the selling side, those firms who were engaged pre-war in the trading of cocoa in London were used by the Marketing Boards to sell the cocoa for them. Similar arrangements were made in the French territories and the system carried on virtually unchanged until the Gold Coast and Nigeria became independent after which the selling organisation was transferred from London to Accra and Lagos.

A few years after independence in Ghana the trading firms were superseded by local co-operatives and a Government organisation. In Nigeria, many more accredited buying agents were permitted.

In the Ivory Coast and Cameroon, Caisses des Stabilization set up by the Governments have a similar object to the marketing boards. However, the purchasing and selling of the cocoa is left to the individual shippers to carry out within the framework of the scheme. The Caisses set a minimum price to be paid to the farmers for the whole season. The shippers (directly or through their agents up country) purchase cocoa from the farmer and sell to the world market at prices authorised by the Caisses. The differences between the purchase and the sale prices, less agreed expenses, are settled with the Caisses.

In Brazil, the remaining major producer of bulk cocoa, production is on plantations as well as on smallholdings. Selling arrangements are governed by the Foreign Trade Department in the Bank of Brazil, which is known by its Portuguese abbreviation "CACEX" and operates in a manner somewhat similar to the Caisses.

Cocoa proves no exception to the trend towards standardisation, and the demand for the top-quality flavour cocoa diminishes yearly. Occasionally a small manufacturer will pay high premiums for a parcel of some fine-flavoured cocoa, but in general the cocoa now produced in Venezuela, Ecuador, Trinidad and Grenada, whilst retaining its characteristic flavour, is sold entirely on description by local shippers and merchants.

### Conditions of Sale

The marketing companies or shippers sell their cocoa to reputable trading firms throughout the world, and the terms and conditions of these sales are governed by standard contract forms issued by the Cocoa Association of London, the Cocoa Merchants Association in New York and the Association Francaise du Commerce des Cacaos in Paris. These bodies, consisting of all interests in the trade, were formed in order to regulate disputes and generally look after the interests of all the parties concerned.

In general, most countries prefer to sell their cocoa on a C.I.F. (Cost, Insurance, Freight) basis, although Brazil sells F.O.B. (Free on Board). Various recognised definitions throughout the world are used in the selling of basic cocoas to describe their quality. Over 80 per cent of all West African cocoas are sold on the description of Good Fermented, which permits of not more than 5 per cent mouldy and/or wormy beans and not more than 5 per cent slaty. The lower quality is described as Fair Fermented, where the tolerances are 10 per cent mouldy and/or wormy beans and 10 per cent slaty. Bahia cocoa is sold on the description of Superior, which permits of not more than 2 per cent wormy and/or mouldy beans. Fine grade cocoas have various descriptions. The top qualities of these may not contain any defects whatsoever. In order to ensure that the cocoa on arrival is of the quality described, samples are drawn by independent supervisors appointed by both the buyers and the sellers. If the cocoa is not of the quality described, then failing an amicable settlement, arbitrators are appointed by both parties. Weights are also checked on arrival.

### Futures or Terminal Markets

It is not the intention here to explain in detail the many uses that can be made of terminal markets by all sections of the cocoa trade. By their opening, it became possible for cocoa traders to offer manufacturers cocoa for any deliveries, even a year ahead, which they might require, by making hedges on the market.

Hedging is such an important function in the trading of cocoa that a simple example is given to show how the risks of fluctuations can be minimised.

A dealer sells to a manufacturer a certain type of cocoa for delivery twelve months ahead at a premium of 10s. 0d. over the price quoted on the terminal for the same position. At the time of making his sale, he purchases the same quantity of terminal. The sale is now hedged and his position is then as follows:

Sale to manufacturer	..	200s. per cwt.
Purchase of terminal	..	190s. per cwt.

Having now a sale and purchase, he has no worries about whether the market goes up or down. His only interest now is to "undo his hedge", i.e. to purchase the actual cocoa he has to deliver to the manufacturer and sell his terminal at a profitable differential.

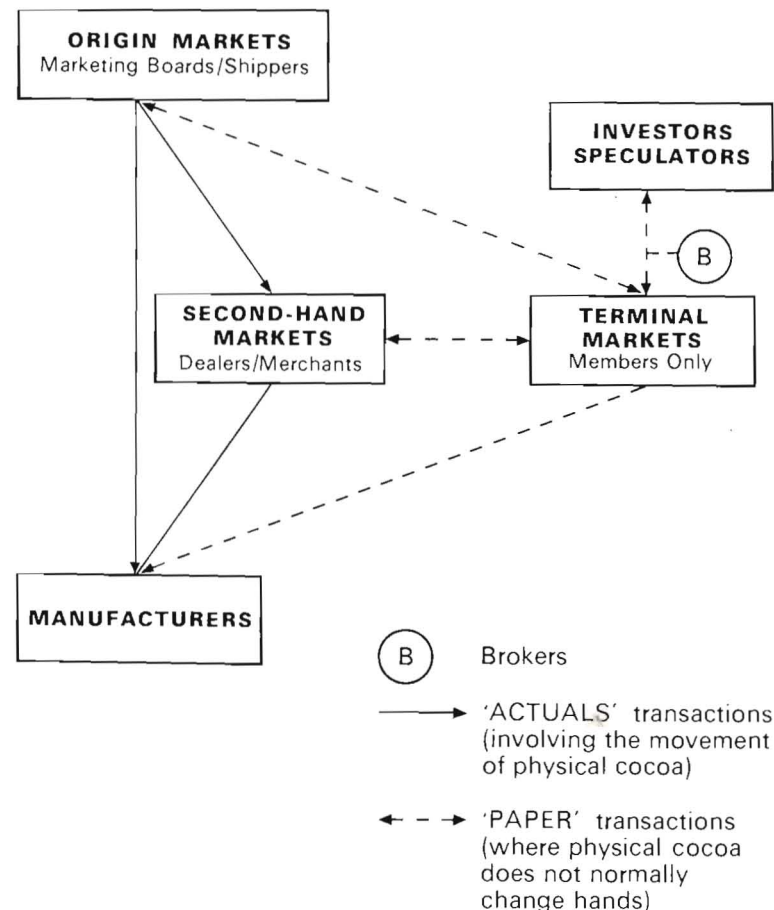
The market has in the meantime moved upwards and he eventually purchases the cocoa he needs to deliver to the manufacturer at 250s. per cwt., and at the same time he sells his terminal at 245s. per cwt.

Thus, his final result works out as follows:—

Sale to manufacturer	..	200s.	Purchase of Terminal	..	190s.
Purchase of cocoa to fulfil sale	..	250s.	Sale of Terminal	..	245s.
		Loss 50s.			Profit 55s.

Net profit .. 5s. per cwt.

## THE PRINCIPAL MARKETING CHANNELS



### NOTE:

Brokers are only shown as involved in investor and speculator dealings on the terminal market. They have to be employed in such cases but they may be involved in all the other types of transaction shown.

The process works identically where a dealer purchases first from the producer and eventually sells to a manufacturer.

In London, trading is from 10 to 5 from Mondays to Fridays; the market is open continuously for business but trading may only take place on the market and between members. A London terminal contract stipulates a quantity (in multiples of five-ton lots) of a standard grade (e.g. Good Fermented Ghana) and also the month of delivery and the price. For convenience, the months of delivery, which may be up to 18 months ahead, are limited in number, the positions normally used being March, May, July, September and December. Whilst Good Fermented Ghana is specified in the contract, the seller may deliver other cocoas at a premium or discount, as laid down in the market rules. He also has the option to tender cocoa in main U.K. ports or in Amsterdam and Hamburg. Buyers and sellers must register their contracts with the London Produce Clearing House, an independent body, who on registration issue certificates guaranteeing the fulfilment of each contract. The certificates are returned to the Clearing House when the member liquidates his contract.

Because of the uncertainty about the type of cocoa that will be tendered, and since it is almost entirely used for hedging, the great majority of contracts are liquidated before the date on which delivery is due—a purchaser of one lot December cocoa will normally have sold it before the time for delivery. The two transactions cancel each other out (remembering that it is the Clearing House with whom he has the contract in each case and not two different members), and his position is then liquidated. Of course, a seller may tender cocoa if he wants, and a buyer may hold the contract and take delivery.

New York is the other major terminal market, and there are smaller ones in Amsterdam and Paris. All operate on similar basic principles.

## Conclusion

It is not possible to deal with all the different aspects of marketing, but this article would not be complete without mentioning two other important methods which producing countries use at the present time:—

1. *Trade Agreements.* Considerable quantities of cocoa have been sold under trade agreements with the U.S.S.R. and Eastern Europe.
2. *Local Industries.* Over the past years, there has been a growing tendency for producing countries to start their own cocoa butter factories. Beans are sold to the factory and the resultant products are sold either by the marketing company or by the factory concerned. In most cases, in order to prove economical, some form of internal financial assistance is necessary.

Sellers should secure the maximum income for their products through good marketing, and the success or otherwise of their endeavour must be judged by this.

Opposite me as I write this article is a cartoon drawn in 1817 of a fat and extremely prosperous individual, and the inscription underneath him reads "Sell and Repent". His counterpart is an emaciated, white-faced individual and over the caption "Hold and grow fat".

The basic principles of marketing do not seem to have changed over the years.