

Changes in the world cocoa economy and their impact on Sri Lankan cocoa trade

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Cocoa, the principal ingredient of chocolate, is mainly grown in West Africa, Central and South America and Asia. World cocoa bean production in 2005 was estimated as 3.2mn.t and Côte d'Ivoire, Ghana, Indonesia, Nigeria, Cameroon, Brazil, Ecuador and Malaysia were major producing countries. Annual grindings comprised to 3.3mn.t for which US contributed to 32%, followed by Germany, France and UK with 11.6%, 10.3% and 9.2% respectively. Recent setbacks in the international cocoa market have largely influenced cultivation, processing and marketing aspects of the Sri Lankan cocoa industry and the objective of the study was to investigate such changes and their impact on Sri Lankan cocoa sector. The world cocoa production showed a steady growth from 1.5mn.t with annual growth of 28000mt. in 1970-83 to 2.62mn.t with 78000t. per annum in 1984-2005. Consumption also followed a similar pattern and annual grindings increased from 1.47mn.t in 1970-84 to 2.4mn.t in 1985-2005. Annual increase in consumption was 7144t. per annum in 1970-79 and 71320t. in 1980-2005. Increased supply and demand overlapped each other and created a stagnating market with low prices. International price dropped from US\$ 2.6 per kilo with annual growth of US\$0.09 during 1970-86 to US\$1.38 per kilo in 1987-2004 with annual decline of US\$0.03. Farmers in small producing countries like Sri Lanka suffered heavily from such negative influences and local markets collapsed due to lower prices which were below the cost of production, reduced exports and increased imports. Poor premiums caused to diversify small scale cultivations into other crops or other activities leaving only unattended, large scale, less productive and senile plantations which cannot even fulfill the local demand. The shortage of raw material to the local chocolate industry forced government to remove the import restrictions imposed on cocoa. Imports, comprising both raw materials as well as finished and semi finished products, increased by 450% from 342t. in 1992 to 1905t. in 2005. Farm gate prices fell from Rs.58 per kilo in 1970's to Rs.38 per kilo in 1986-93. The exports dropped from 1371t. in 1982-91 to 137.5t in 1992-05. The above situation was common for many producing countries hence

it was forecasted that if current market stagnation continues the world production would drop in a decade or two resulting increase in price. Most favorable sign in recent cocoa import to Sri Lanka is increased share of raw material rather than the finished and semi finished chocolate products. However, there are no quality barriers for imports and the reported per kilo import price of raw material, in bean equivalent, was 225% higher than the local price. Hence the local cocoa industry still can keep up its position in the industrial development by supplying adequate quantity through more organized and efficient production drive and through improved market linkages.

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