World Cocoa Marketing Systems, Problems and Priorities: An Importer's Perspective[1]

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ABSTRACT

The current attitude towards cocoa and the cocoa market in the majority of exporting countries is archaic and must be modified through the introduction of more customer-oriented marketing policies, if revenues derived from cocoa exports are to be enhanced and farm income is to be improved. The price history for cocoa is discussed and the fundamental forces in price formation are identified. Various options in marketing cocoa and primary cocoa products are suggested. More attention must be paid to immediate post-harvest processing and quality control, farm and storage sanitation, individual contract performance and greater reliability of transportation. The need to diversity production and make it more price-responsive, as well as improving accessibility of overseas markets, is explained. Methods for training marketing personnel are suggested, and the long-term prospects of cocoa production and consumption are explored.

COMPENDIO

Si se pretende aumentar las divisas generadas con las exportaciones de cacao y mejorar los ingresos de los productores, habrá que modificar la actitud anticuada que actualmente se tiene con respecto al cacao y su mercado en la mayoría de los países exportadores del producto, introduciendo políticas de comercialización dirigidas al consumidor. En este trabajo se reseña la trayectoria del precio del cacao a través de los años y se identifican los factores principales que inciden en el establecimiento de los precios. Asimismo, se plantean algunas opciones para la comercialización del cacao y de sus derivados y se hacen varias sugerencias, entre otras, prestar más atención al procesamiento del cacao inmediatamente después de la cosecha, a las condiciones sanitarias en la finca y al almacenamiento, así como al comportamiento de contratos individuales y al mejoramiento del transporte. Se explica la necesidad de diversificar la producción, haciéndola más sensible a cambios de precio, y la de mejorar el acceso a mercados en el exterior. Se recomiendan métodos para la capacitación del personal de mercadeo y se analizan las perspectivas a largo plazo para la producción y el consumo de cacao.

Purpose of the paper

After a period of chronic undersupply, the cocoa market is now undergoing a period of relatively low cocoa prices, which is generally projected to continue over the next few seasons. While it is impossible to forecast the prices for cocoa in the world market, the structure of current world production and world consumption indicates a period of ample physical stocks in terms of yearly usage. These stocks and the relatively slow response of consumption to lower price levels will effectively prevent prices from increasing substantially over the forthcoming seasons.

Moreover, international or unilateral action to push prices to higher levels is unlikely to be taken, given the lack of funds available to the International Cocoa Organization, the current disarray among its members, the difficulties in finding a successor agreement, and the financial state of the major producing countries.

Thus, barring a major crop disaster, producers will have to come to grips with the need to optimize cocoa revenues under conditions of low world market prices.

This paper will examine current internal marketing systems in the major producing areas and describe some changes which might usefully be considered by these countries' producers to control further depletion of public funds and enhance both producer and fiscal benefits derived from cocoa exports, and to lessen the dependence on a single crop.

The historic background of current exporters' marketing policies

It is generally common for cocoa exporting countries to follow a marketing policy of distribution based on the concept of a strong demand from abroad and the need to allocate tight supplies to the most responsive market, at prices and terms of sales pri-

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* President, The Cocoa Merchants' Association of America, Inc., United States of America The opinions expressed in this paper are the author's own and do not necessarily coincide with those of the Cocoa Merchants' Association of America, Inc, which has no position on such issues as beans' versus products' exports and future cocoa prices. While Mr. Scheu is a Registered Commodity Trading Advisor with the U.S. Commodity Futures Trading Commission, nothing in this paper shall be construed as an offer to buy or sell commodities.

marily oriented towards the exporting country's fiscal and shipping policy needs. This philosophy is more pronounced the higher the rank of the country takes on the list of exporters

A short review of the commodity's price history may be helpful at this stage because it will set the background against which the marketing systems were developed, and it will also suggest what changes may be opportune.

Ironically, although cocoa has followed a pattern of more seasons with falling rather than rising prices, it is still being marketed as if it were a scarce commodity. This phenomenon has its roots in the period when cocoa was, indeed, a commodity in short supply. Although the cocoa market has often been touted as a "free market," it should not be overlooked that its history is one of ubiquitous government intervention in the producing countries internal marketing.

This intervention was originally aimed at providing a market for the commodity when normal commercial activity was suspended during World War II. In the period immediately following the war, the marketing philosophy was strongly influenced by a prevailing mood of socialism in Western Europe

As the European economy recovered from the war and cocoa could again be shipped freely to the major consuming markets, the stocks accumulated during wartime were quickly used up, and the then current production was no longer able to cope with an expanding demand, particularly as the crops in West Africa were hit by the swollen shoot disease. The resulting shortage caused prices to reach unprecedented highs of $1 300 per metric ton in 1954 dollars, or, assuming a 4.5 percent per annum inflation rate, of $6 300 per metric ton at current rates. These levels provoked strong buyers' resistance, which effectively reduced world demand for cocoa.

As West African production recovered in the face of declining consumption, world cocoa supplies again became abundant, and prices dropped to levels of $150 per metric ton in 1965 dollars, or $700 in current values

Low market levels encouraged consumption, and prices advanced again in 1978 to $5 500 per metric ton in 1978 dollars, or $9 327 in current dollars, only to drop again to the $1 100 range which we are currently experiencing (the values are approximate spot values in U.S. dollars for typical Grade I West African cocoa beans, basis ex dock U.S.).

Attempts to control world market prices have failed

During the initial period of major price increases and subsequent decline after World War II, there were several unilateral attempts to control prices; when the second cycle of ups and downs occurred, the International Cocoa Agreement was in place.

Clearly, neither unilateral attempts at price control nor international intervention to prevent price fluctuations were successful. For example, the 1957 attempt by Brazil's CACEX to withhold cocoa succeeded at first in reversing a period of falling prices, but it also set the stage for the cocoa glut which developed in the early 1960s. In the process, Brazil also lost millions of dollars, ended up having to discount cocoa butter exports to the U.S.S.R., and had to destroy cocoa cake which had gone bad, causing enormous financial losses to the international trading community

Ghana sold a major part of its crop to an international non-cocoa trading house with the understanding that the surplus would be disposed of through unconventional channels, but the deal fell apart in 1965, the cocoa reappeared on the traditional market, and this failure caused the market to drop further. In more recent history, the Ivory Coast's attempts to control important blocks of tonnage, also through the use of restrictive contracts with trade houses, had the same result.

Because of the repeated critical shortages of cocoa beans in the past and because of the complexity of the ultimate demand for cocoa in the consuming countries, cocoa processors and chocolate manufacturers tend to take a very long-term view in their procurement policies. It is not uncommon for these industries to have commitments for up to two years in the future. Clearly, a major chocolate manufacturer with an established consumer franchise must be certain of his supplies, so that he can maintain his presence on the shelf.

Except for Nigeria, which dismantled its Cocoa Marketing Board three years ago, the larger West African countries still generally follow cocoa marketing philosophies typical of the former colonial regimes. They consider the task of finding buyers as being one of allocation rather than one of business-minded merchandising.

Unfortunately, the actions taken by the Ivory Coast —reserving large quantities of its crop for exclusive marketing by one or two large trading

houses– in effect destroyed a very efficient distribution network. This network provided a multitude of outlets which were competitive with each other. It performed efficiently in finding customers for Ivory Coast cocoa, while, at the same time, it assured the buyers of reliable quality deliveries and diversified shipment and payment terms

Ivory Coast's decision had another result which the planners did not anticipate. As the set-aside of Ivory Coast cocoa came about relatively early in the crop season, world cocoa bean processors became concerned about the continuity of their bean supplies. They therefore looked actively for a replacement, which was available in the form of Malaysian cocoa; this source was relatively unknown in the markets, and suffered from a reputation of supplying small beans with high acidity. The Ivory Coast action changed all that, and Malaysian cocoa is now much more readily accepted by the bean processing industry. In addition, many trade houses, having been effectively blocked out of the market by the Ivory Coast, thus found another lucrative field of activity.

We see, then, that in the face of often erratic marketing philosophies of the producing countries, cocoa bean processors cannot normally assure their anticipated supplies by approaching exporters directly.

On the other hand, exporters must face the uncertainties of the current and future crop, the economic measures yet to be taken by their governments in such matters as export levies, exchange rates and support for the local processing industry, and possibly uncertain shipping schedules. For example, how can one expect that an exporter in Brazil is making a long-term binding shipment commitment considering the situation in which that country finds itself today

The role of international cocoa trade

The task of bridging the gap between the needs of the industry and those of the exporters falls to the international cocoa trade. It is thanks to the merchant-importers' community that exporters can sell when it is in their best interest, which most often is not at the time when the industry needs to buy.

Likewise, thanks to the international cocoa trade the industry can contract for its cocoa needs at a time and on terms which would be impossible for exporters to provide.

The function of the merchants' community is thus essential, but it can only be performed if the opportunities to transfer price risks continue to exist and contractual obligations between individual sellers and buyers are respected. Therefore, the existence of a futures markets for cocoa beans has become vital for the survival of the international cocoa trading community. The futures markets allow the transfer of price risks from distributors, who are not willing to assume market risks, to outside investors, who are. Because of this risk-transfer aspect, practically all cocoa sold from origin to the industry is direcly or indirectly linked to the use of futures markets.

The economic benefits of futures markets in the marketing of major commodities as a distribution cost-lowering device has been demonstrated amply elsewhere. In addition, the availability of a futures market tends to mitigate long-term price fluctuations rather than accentuating them, as is commonly believed, while in the short term, even daily, fluctuations help to attract investors' funds to the market.

Another vital requirement for the survival of a viable international cocoa trading community is the strict observance of contractual obligations entered into individually between buyers and sellers. In that respect, the introduction of standard contracts issued by the various national cocoa trade associations and the modalities set in place for the resolution of disputes have been very helpful.

Cocoa differs fundamentally from other tropical or subtropical produce. It has no competition from production in the consuming countries as is the case of synthetic rubber or oil crops. It is a complex food and flavor ingredient and not a simple beverage such as coffee and tea. Indeed, while approximately two-thirds of the bean equivalent in tonnage is being used by the world's chocolate industry, the remaining one-third, which ultimately is converted into cocoa powder, is an important flavor ingredient for food industries including baking, dairy, non-chocolate confectionery and biscuit manufacturing.

Another typical aspect of cocoa, which it shares with some of the more exotic spices, is the fact that it has historically been produced in the tropics and consumed in the temperate climatic zones (Mexico and other Central American countries, Western Samoa and Jamaica are notable exceptions). Only recently has there been a significant change in this tendency, in the form of an expansion of Brazil's internal consumption. However, we would suspect that southern Brazil, which enjoys a temperate climate, is the major contributor to this increase in domestic consumption.

The price elasticity of cocoa is inversely proportional to its flavor related use. For example, during the period of high cocoa bean prices in the late 1970s

the demand for cocoa powder greatly exceeded the demand for cocoa butter, which is used almost exclusively in the manufacturing of chocolate.

At that time, cocoa butter became a by-product in the manufacture of cocoa powder, with prices reacting accordingly. For example, while cocoa cake, the raw material for the manufacture of powder, is normally sold at a fraction of the price for cocoa beans, it reached prices of a multiple instead, and high quality cocoa powder was reportedly traded at $9 000 per metric ton, or at $14 600 per metric ton in current values. In contrast, the same powder is currently being sold for less than $1 200 per metric ton.

This phenomenon is explained by the fact that the amount of cocoa used as flavor in a finished product represents relatively little in terms of percentage of the overall cost. Even if the price of salt, for example, should quadruple, there would be little affect on its overall demand, because the cost of salt in a single meal is negligible. On the other hand, a drop in salt prices will not necessarily mean that people will use more because its price is lower.

Cocoa flavor is unique, and it is not easily substituted, which only reinforces this aspect of lower price elasticity. Various attempts have been made to quantify cocoa's price elasticity. We tend to view these attempts with suspicion given the general quality and trustworthiness of international cocoa statistics. Indeed, they may have led to quantifications and projections that are unreliable.

While chocolate consumption is strongest in the coolest and most affluent parts of the globe, the consumption of cocoa and chocolate-flavored products other than chocolate tends to be greater in the warmer and less economically privileged markets.

Consequently, demand for cocoa butter and cocoa liquor is strongest in northwestern Europe, while the United States tends to be a net user of cocoa cake.

It has been amply demonstrated elsewhere that world cocoa consumption is responsive to economic conditions in the consuming countries, climate and price levels. The first two factors tend to change slowly, but there is also a lag in consumers' response to prices, as cocoa bean usage depends not only on the demand for chocolate.

While consumption is thus relatively stable, production tends to show greater variations from season to season. There has been a strong increase in production primarily from the Ivory Coast and the Far East. These areas produced the quantities shown in the following Table 1.

During this time, estimated world consumption has increased from 1 630 000 metric tons to around 2 200 000 metric tons, which is an average percentage annual increase of 5.1 percent. Given these parameters, it was inevitable that a major crisis developed; following are the fundamental reasons for it.

It should be obvious that it is not possible for world-wide demand for a food product of general consumption with the complex outlets of cocoa to develop a 16.6 percent annual growth rate over six years. In fact, 5.1 percent is a respectable increase and is in excess of the combined population increase and economic growth in the cocoa-consuming countries.

An additional consideration is that even the large cocoa-consuming countries have not reached their full potential in *per capita* consumption. The country with the highest *per capita* consumption is Switzerland with 4.29 kg/yr. West Germans consume only 2.74 kg of cocoa beans per year, the U.S. 1.98 kg, the U.S.S.R. 0.72 kg, and Japan 0.67 kg/yr. While one should not expect that the Japanese will turn into Swiss overnight, these figures clearly illustrate that the world has not reached its saturation point as far as cocoa bean consumption is concerned.

Contrary to other tropical food commodities, cocoa has also received recent good reviews on its health aspects, notably in the area of dental caries prevention, the suppression of the lactose allergy factor, and its suspected beneficial affect on blood cholesterol.

Such considerations are difficult to quantify. They make it impossible, therefore, to forecast either the magnitude or the timing of the next bullish cocoa bean price cycle, but they also provide justification for the belief that such a trend will be forthcoming. When it comes, producers should be ready for it.

Table 1. Cocoa production in thousands of metric tons.

	1982/83	1988/89	Average annual rate of increase (%)
Ivory Coast	355	800	14.5
Malaysia	70	230	21.9
Indonesia	9	60	37.2
The three countries	434	1 090	16.6

Criteria for a new marketing policy

It is always good commercial policy to find out what the customer needs and then give it to him. The more these needs are filled, the more willing the customer will be to pay a fair price. It is suggested that current marketing practices by the producing countries do not generally cater to the most important needs of the customers.

If, then, a modification of the marketing philosophy in the producing countries becomes necessary, what aspects should be considered, and what objectives should be set?

Barring a major crop disaster, one must face the probability that cocoa prices are not going to improve rapidly to the levels experienced in the late 1970s. Smaller cocoa-exporting countries must address the question of how they can survive in a climate of increased competition from very large and potentially low-cost producers, at a time when their reserves for price stabilization, if any, are dwindling.

Given the above criteria, an exporting country would want to establish a long-term production and exporting policy which would address the following options:

- Export cocoa beans
- Process the beans locally into cocoa liquor
- Process the beans into cocoa butter and cocoa cake
- All of the above

Once a decision has been made on which of these options should be adopted, a channel of commercialization from the farm to the exporter or the domestic processor, and a channel of export marketing for the beans and/or the products must be developed.

Here again, the country has various options:

- Allow individual private enterprise to purchase cocoa from the farmers at the market price of the day and let these enterprises sell the beans –or the products, if a domestic processing industry exists– for export at world market prices.
- Allow the above system, but introduce an internal stabilization device to shelter the producer from the fluctuations in the world market for cocoa.
- Establish a central marketing body which purchases the cocoa from the producers at a predetermined and stable price and have the same body market the cocoa at world market prices.
- A combination of some or all of the above.

Bean exports versus product exports

There has been great attention paid to the transformation of cocoa beans into primary products, so as to recapture the "processing margin" for the exporting country and to provide opportunities for industrial investment, technology transfer and employment.

As we described above, there is a certain logic that cocoa beans should be transformed into cocoa cake to be exported to the U.S. and into cocoa butter, to be exported to Europe, rather than having the beans sent to either destination and then shipping the less-desirable product across the North Atlantic.

However, an unbiased analysis of all the factors involved will reveal that such processing activities are generally economically less interesting than the simple export of cocoa beans, particularly in the smaller producing countries. The manufacturing process of transforming cocoa beans into cocoa liquor, cocoa cake and cocoa butter is relatively simple, and no great transfer of technology is involved, as these machines respond more readily to good foremanship and *ad hoc* processing modifications than to the latest technological improvements. Rather than cutting edge technology, strong emphasis on sanitation and an efficient operation is the key to success.

The efficiency per dollar invested increases with size of operation. Therefore, the most efficient cocoa processing plants are units which grind in excess of 50 000 metric tons of beans per year, and are located in the hub of European consumption, where factory inventories can be minimized and delivery to customers is made in bulk form literally overnight. These plants can add capacity on an incremental basis at a fraction of the cost of processing one ton of beans at a new processing plant to be installed in a small producing country. Moreover, to be economical, a cocoa processing plant must be operated on a three-shift-a-day and fifty-weeks-a-year basis. Bean supply for such an endeavor in a small country with seasonal crop availabilities would simple not be there.

It should also be borne in mind that the marketing of cocoa products is infinitely more complex than the marketing of raw beans, as sanitation aspects, particularly in processing, product specification, consistent availability of the merchandise, and greatly decreased fungibility are important ingredients in the marketing mix.

On the other hand, if there exits a good (or even modest) domestic market for cocoa products in the producing country or in the immediate economic sphere of influence, then the economic feasibility of installing a small processing facility to meet this local demand can be more easily demonstrated. It could be attractive to add production for export on an incremental basis to take advantage of existing excess capacity. Such a facility would also be available for the processing of inferior cocoa, which while still sound, may not meet the export grade quality levels, for example, because of bean size. By eliminating these beans from the market at an economically attractive price, the development of a black market and subsequent adulteration of export qualities can be effectively prevented.

The point is that, at least in cocoa, the concept of capturing the processing margin by cocoa producing countries is not a firm and fast doctrine, but must be explored on a case-by-case basis. Ample experience with such endeavors exists elsewhere, and in every instance these industries depend on either a strong internal demand for their product, or on tax advantages and other disguised direct and indirect government subsidies, while they reduce rather than enhance the country's foreign exchange earnings capability.

Given the political realities existing in every country, realities that will differ from case to case, the considerations in the evaluation of the advantages and disadvantages of each of these options cannot all be purely economic. Indeed, as all of the above options are currently in existence in the cocoa-producing countries, it is interesting to observe which priorities were addressed in the choice of these systems, and how these systems have fared over time in the witches' cauldron of the world cocoa market.

However, regardless of the option chosen by a country, one of the first priorities clearly must be the reduction of production and marketing costs and the diversification of farm income. In those areas where cocoa cultivation has been modified from the traditional high shade-low farm input growing method to a system of low shade-high fertilizer and insecticide input, the return to the former practices may be considered. In a period of increased concern about the overflow of farming chemicals into the public water supply, the danger of chemical residues in the product, and the depletion of the world's tree canopy, a return to the classical cocoa culture may be ecologically beneficial and particularly well-suited to smaller subsistence farmers.

Likewise, the diversification of present cocoa acreage into additional crops, preferentially with a different cropping pattern than cocoa, may have the added attractive aspect of using farm labor on a full-time yearly basis. These complementary crops may, in some instances, even be used as shade, and thus increase the overall farm income per acre. Successful recent introductions of such practices involving rubber have been reported from Brazil, while intercropping with coconut, for example, has a long tradition in the Pacific Islands.

In an environment of increasing population and concomitant demand for more fresh food, the production of locally marketable crops, including small farm animal husbandry, should also be considered.

In other words, as a measure to stabilize farm income, we favor diversification over systems of price supports during low price periods and excess payments during periods of high cocoa prices. In a minimally controlled economy, producers will find it advantageous to adapt quickly to buyers' needs. Crop diversification also allows the price to fulfill its task, namely to allocate resources where they are most urgently needed. Thus, a drop in cocoa prices could induce farmers, particularly small family farms, to spend more time on raising pigs, bananas, beans or cassava, thereby reducing the supply of cocoa and increasing the supply of more urgently needed commodities.

If we consider the alternative of firmly locking cocoa farmers into a marketing board system, where prices remain stable over a period of seasons, cocoa price would have no effect on the supply side of the equation, and economic distortions will inevitably result. As experience in many countries has amply shown, these economic distortions then give rise to an entirely new set of economic and political problems, the solution of which often exacerbate rather than assuage a complex situation.

Unfortunately, in ranking priorities in the identification of objectives to be met by the applicable internal marketing systems, the buyer's need has often been removed from the exporters' direct area of influence and has been subrogated to internal political objectives and or to ideological considerations.

The justification often given for the existence of price stabilization mechanisms in the producing countries is the perceived need by the "small, primitive" farmer to be relieved of the worry caused by an unpredictably fluctuating income, and to protect him

from the exporters' predatory commercial and credit practices in purchasing his cocoa. We rather suspect that these comments are *ad hominem* arguments rather than supportable facts, and are, therefore, inclined to discount them

In practice, some countries, such as the Ivory Coast in 1985, 1986, 1987 and 1988, the income earned by the cocoa farmers was unrealistically high, thus leading to a vast overexpansion of production at a time when the world market had already begun to fall. Consequently, the lower world market prices were not allowed to exert their deterrent affect on production until it was too late.

In other countries, the difference paid to the farmer and the revenue obtained by the central marketing authority was such that, even during periods of high world cocoa prices, there was no incentive for the farmers to produce more. Thus, the world market prices did not encourage increased output in this particular area, but they did open incentives for newcomers to cocoa in other areas of the world using advanced technology and aggressive marketing techniques to fill the gap.

It should also be noted that, regardless of the specific needs of the cocoa-producing and exporting community, significant incentives or deterrents can be created through management of domestic currency

In theory, all domestic marketing systems are meant to optimize income for the producers. In practice, they often create instability, uncertainty, lessen the incentive to produce high-quality material, impede long-term marketing strategies, interfere with the use of the cocoa exchanges, alienate buyers, and divert revenue to areas unrelated to cocoa

In the determination of a new marketing strategy for cocoa, the responsibility for current low prices should be faced realistically. While it is easy to blame the international chocolate industry (quite unjustly) for not doing enough to expand demand, the well-documented slow response to lower prices and relative price inelasticity of cocoa must be accepted to be an economic fact of life. Indeed, if it were possible to expand consumption more rapidly, the processing industry surely would have done so in the quest for additional profits.

Cocoa has historically shown a cyclical price behavior. There is nothing in the current situation which indicates that this cyclical nature has disappeared, although the periods between the highs and lows may be longer than in the past. A contributing factor may have been the actions taken by the various producing countries, as discussed above, and by the existence of the International Cocoa Organization's buffer stock, which appears to act as a psychological price depressant in the eyes of many

The prospect of lower cocoa bean prices is an incentive to place cocoa production and marketing on a more sound commercial basis. Wasteful practices should be eliminated, and a more customer-oriented marketing philosophy and more professionalism must be applied to the selling of cocoa. There are ample opportunities for exporters to familiarize themselves with the workings of the international cocoa market. With very few exceptions, exporters tend to shy away from the use of the international commodity exchanges, either out of fear of the unknown, or because of the closely related belief that these exchanges are casinos, which they are not. This attitude is simply wrong, harmful and, above all, costly. Moreover, it is easy to correct, if the will to do so exists

Among the more practical measures to be adopted is greater reliability of contract performance and improved quality control. Receiving cocoa on the docks in Amsterdam or in Norfolk should not be a surprise party, where nobody knows what to expect. Shipping practices, preshipment storage conditions and post-harvest treatment and sanitation must be improved.

Bean size must be standardized, extraneous matter and waste must be eliminated, and grading and fumigation certificates must be authentic, if the exporter is to optimize his return. Furthermore, the still-shocking record of maritime claims must be significantly improved

Admittedly, these are difficult concepts to adopt during periods of lower prices. It is at this time, however, when the buyers are in a position to choose the best offer, that they will favor those origins and exporters which give them more value for their money. This choice does not exist when cocoa is in short supply.

Another important aspect in improving an exporter's ability to optimize his return is the relationship he is able to build up over a period of time with his buyers. It is for this reason that the Ivory Coast action of favoring one or two big trade houses at the expense of literally dozens of smaller firms is tragic, because it has eliminated the country's access to a multitude of special selling opportunities which can only be taken advantage of by specialized and established trading firms

Experience has shown that, in cocoa, bigger is not necessarily better. While there may be less glamour in selling smaller quantities (at modest profit margins, but with clearly definable and affordable risks) than in the movement of big blocks which attract global attention, many years of experience have shown that is is the professional operator with a good, solid knowledge of the market who will eventually prevail.

A cocoa exporter would, therefore, find it of great advantage to identify such a firm or firms, which may be agents or importers, and establish a personal relationship. Young people with the potential of becoming export managers should be allowed to work over a period of time in the overseas offices of cocoa importers and dealers, both in the U S and in Europe. Many firms are quite ready to accept such trainees.

However, perhaps the most important change required is a change in the attitude of both seller and buyer. Exports and importers form part of the same distribution chain —one cannot exist without the other. The cost of distribution of a commodity is as important as its production, as the ultimate formation of price is at the processor's factory door. In the competition with other producing countries, the exporter with the most efficient cost structure will be the one who can provide his supplier – the farmer -- with the highest revenue. Transportation and other distribution costs, such as insurance, finance and import formalities from f.o.b. exporting country to factory door, even for a product which is exempt from import duties, may now amount to more than $250 per metric ton, not including the importers' profit – if any. This is a lot of money.

This consideration begs the question whether the many attempts by the producing countries' governmental agencies at interfering with the free market structure are not economically self-defeating. We are thinking especially of such common measures as exporters' quotas, restricted access to foreign funds and other *de facto* or *de jure* impediments to trade on foreign cocoa exchanges, and the imposition of totally self-destructive cargo sharing arrangements such as limiting shipment to certain flag vessels only.

By restructuring the cocoa market in all its segments, so that it is as free as possible, and hence is allowed to respond to price immediately, we not only enhance farmers' income during the periods of low prices, but we also support a trading and distributive community essential to the efficient distribution of the product. Moreover, we assure a continued supply to the processing industry, a supply which will be increasingly needed as we inevitably move towards increased *per capita* consumption throughout the world. Finally, a quicker response of production to price will mitigate rather than exacerbate price extremes, the inevitable result of what are ironically called "price stabilization" measures.

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