



Pacific Cocoa Export Industry Overview

Background

Cocoa production in the Pacific has a long history and was once a thriving industry, with Pacific cocoa sought for its fine flavours and unique qualities. However, global competition, natural disasters, cocoa diseases and under-investment have led to progressive long-term decline of the industry.

Today, cocoa remains an important cash crop in PNG, Samoa, Solomon Islands and Vanuatu and a significant source of livelihood income for thousands of families. Global demand for chocolate is expected to grow steadily over the medium-long term, particularly in Asia. Consumer tastes are also becoming more refined, with growing demand for niche and single origin chocolate. This

offers an exciting opportunity for Pacific cocoa producers as premium and niche markets provide higher prices for fine flavoured, good quality cocoa. This price premium provides an incentive for Pacific producers to invest in quality and to compete on the basis of flavour, organic or Fair Trade certification and country of origin rather than simply price and volume. Industry rehabilitation will be further supported by developing pathways for commercialisation of cocoa from smallholder farming systems and linking them to higher value global markets.

PHAMA Action

The PHAMA Program is supporting Pacific cocoa industries in Samoa, Solomon Islands, Vanuatu and potentially Papua New Guinea. Cocoa quality improvement is a key focus for the Program with a view to accessing price premiums from high end buyers, and assisting Pacific farmers and exporters to link with those buyers. The Program has focused

PHAMA
**Pacific Horticultural & Agricultural
Market Access Program**
An Australian Government initiative





its efforts on addressing smoke contamination of cocoa beans from wood fired driers, which are used widely across the region. A combined activity across Vanuatu, Samoa and the Solomon Islands has been implemented to investigate current drying practices and to trial a solar drier design. Initial results are promising showing high quality beans can be produced without smoke taint.

To assist industry to better understand potential market opportunities and identify potential buyers for higher quality bean, a survey has been commissioned to examine the Australian, European, New Zealand and United States markets for boutique cocoa. Initial results from this survey show that significant price premiums are available for high quality cocoa, and that there is interest in buying single origin cocoa from Pacific countries.

Further information on how PHAMA is working to address quality issues and secure niche markets for quality cocoa beans is outlined in the individual country cocoa fact sheets that follow.

About PHAMA

Established in 2011, PHAMA is an aid-for-trade program, funded by the Australian and New Zealand Governments through to June 2017. It aims to promote Pacific exports of primary and value added produce by helping exporters to meet trading partners' regulatory requirements and quality standards. PHAMA operates in six countries: Fiji, PNG, Samoa, Solomon Islands, Tonga, and Vanuatu. PHAMA is implemented by AECOM.



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Samoa

The Industry and its significance

In the early 1960s, cocoa was the country's second largest export earner with annual production of around 5,300 tonnes. Unfortunately, the impacts of cyclones, lack of replanting and unfavourable global market conditions led to the progressive, long-term decline of the industry. However, the situation has changed for the better, and real interest is being shown by overseas buyers in Samoan cocoa, long known for its highly desirable varieties. As a result, there is increasing interest by the government and the private sector to re-invigorate production and export. Most cocoa is produced by smallholder farmers. Many households are involved in cocoa production along the value chain and it is an important source of rural income. Currently, most Samoan cocoa is sold and consumed locally in the popular drink 'koko Samoa', which is usually manufactured and sold by the farmers and their families in local markets. Exporting cocoa provides a different avenue for marketing and increased opportunity for income returns along the value chain to support rural livelihoods and contribute to increased economic growth.

Market Access Issues

The Trinitario and Criollo varieties grown in Samoa are well known for their inherent high quality and are sought after by chocolatiers for their fine flavor. For this reason, there is increasing interest from boutique chocolatiers in New Zealand and Australia, who are looking to produce gourmet chocolate bars. Although there is demand for Samoan cocoa, supply side constraints are preventing growth in exports. Maintaining consistent supply of quality cocoa is a must for overseas buyers. There is significant variability in smallholder fermentation and drying practices, often resulting in variable cocoa bean quality, including smoke contamination from wood fires.

In addition, the industry faces difficulties in supplying enough quality beans of the desirable varieties for export. Limited awareness of, and information about, the roles and responsibilities, and opportunities and incentives along the value chain are hindering the development of strong market linkages and industry development.

PHAMA Action

- **Improving quality:** PHAMA is providing support to improve the quality of Samoan cocoa, and demonstrate what is required to consistently produce export quality cocoa that meets the requirements of discerning overseas buyers. PHAMA has provided support to the Scientific Research Organisation of Samoa (SROS) for initial investigations and applied research into cocoa bean fermentation and drying practices.
- **Industry development:** PHAMA is also supporting improved buyer and seller relationships through increased awareness of market and export opportunities and the related value chain requirements. This started by working with stakeholders to identify the current status of the structure and organisation of the cocoa industry in Samoa, opportunities to strengthen it and incentives for increased collaboration. An opportunity was identified to focus on two groups that are developing supply relationships with buyers in New Zealand. Working directly with these two groups, the Program intends to support the growth of these export opportunities and provide pilots to illustrate an approach to industry development in Samoa.
- **Market survey:** PHAMA is undertaking an international survey of cocoa buyers in Australia, New Zealand, USA and Europe, with a particular

focus on boutique cocoa buyers. The aim of this survey is to understand buyer requirements and potential pricing for high quality cocoa, as well as gauge their level of interest in sourcing single origin cocoa from the Pacific.

- **Gender analysis:** PHAMA has commissioned a gender analysis of the cocoa value chain, aimed at better understanding the different roles of men and women and providing recommendations on how programs like PHAMA could help in empowering women involved in cocoa.

Progress

There is now a clearer understanding about the fermentation and drying practices for processing Samoa cocoa beans to achieve the quality needed for export and further value adding. Consultations and analysis to date have provided background on the cocoa industry in Samoa, likely research needs, market and export arrangements, how production might need to change to meet the requirements of new markets, and the types of assistance that would benefit the industry. PHAMA continues to work towards strengthening the cocoa industry by working directly with farmer groups, and facilitating these groups to work together to establish industry representation, promote coordination and engage with the public sector, buyers and other relevant stakeholders to improve national market access outcomes.



Future Actions

PHAMA will focus future work on gaining a better understanding of the existing and potential markets for Samoan cocoa, and improving the capacity of farmers to consistently produce cocoa (quality and supply) that can meet the requirements of these markets.

Deepening our partnership with SROS will be a key focus going forward. The Program will help build SROS's capacity so that it can routinely conduct the required laboratory analysis to assess the quality of cocoa beans and related products. In this way, buyers will have more confidence in the quality of Samoan cocoa.

Support will also be provided for SROS applied research into identifying cost efficient processes and affordable cocoa processing technology that can be scaled up across the industry.

Further activities will also include:

- demonstrating and trialing best practice fermentation and drying techniques,
- quality assessment of beans,
- production and evaluation of finished chocolate products,
- documentation of fermentation and drying processes and cost analysis, and
- preparation of technical and extension focused publications and awareness materials.

Research results will be applied to actual farmer practice and implementation of an export trial with the resulting cocoa.

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Solomon Islands

The Industry and its significance

Cocoa is an important export earner and source of rural livelihoods with 75% of export returns retained by producers. 20-25,000 small holder farmers and their households are involved in production. More than 50% of producers and processors are women, who are involved in growing and harvesting, but have a more limited role in the fermenting and drying of cocoa beans. Several thousand people operate processing units to ferment and dry beans, and trade wet and dry beans before their aggregation by exporters. Currently there is no value adding and only dried beans are exported. 4000 –5000 tonnes are produced annually, mainly by smallholders. Cocoa is one of Solomon Islands' biggest agricultural export earners, generating around USD15 million in exports per year. Most exports go to the lower quality and priced, bulk processing markets in Asia, although small exports to niche chocolate makers in Australia and New Zealand are increasing. Rising global demand, particularly in Asia, is expected to mean international prices continue to increase over the long term. As consumer tastes change, there is also growing demand for high quality, single origin cocoa to make dark chocolate bars.

Market Access Issues

The main market access issue for SI cocoa is quality. Bean characteristics of flavour, fat content and freedom from taints such as smoke or mold are important, and countries with a reputation for poor quality have limited market options. Unfortunately, this is the case for SI cocoa. Current SI quality control systems are weak and contamination of beans with smoke from wood fired driers is common. This limits the ability of SI exporters to improve terms with buyers or access new markets based on quality. Currently 80-90% of SI cocoa is exported to

the lower quality and priced bulk grinding market in Asia. These importers factor expected poor quality into their discounted pricing. In addition, the majority of SI beans are actually sold to a very limited number of middlemen, cocoa trading houses which provide no pricing incentives to improve quality. A lack of trade finance facilities in SI means exporters are often reliant on these trading houses for pre-financing purchases of cocoa beans, which locks them into unfavourable commercial arrangements and results in export prices being discounted against world prices.

PHAMA Action

- **Cocoa quality testing:** PHAMA has assisted the Commodities Export Marketing Authority (CEMA) to establish a cocoa testing lab to meet international requirements. Integral to this, PHAMA is assisting CEMA to collaborate with the Cocoa Coconut Institute Ltd (CCIL) in PNG so that it can improve its capacity through benchmarking and training exchanges.
- **Market Survey:** PHAMA has also examined the quality control systems and, via an international survey, the requirements of boutique cocoa buyers. Findings of that work have informed industry on potential quality improvements and the premium prices available for high quality cocoa.
- **Improving quality:** Solar driers have been trialed with initial results showing high quality beans with reduced moisture content and without smoke taint.
- **Gender analysis:** PHAMA commissioned a gender analysis of the cocoa value chain, which has provided recommendations on how programs like PHAMA can help in empowering women involved in cocoa. An

immediate entry point is the involvement of women in the solar drier trials.

- **Access to Finance:** Work is underway to facilitate the establishment of trade finance facilities for exporters so that they can export directly to a range of international buyers, and so secure better pricing.
- **Industry development:** PHAMA is also promoting collective action in the industry. It has helped establish a Cocoa Industry Working Group (IWG), which brings representatives of the private and public sectors together. They then collaborate on identifying priority market access issues and to develop an industry specific plan to guide future assistance by PHAMA, government and other donor programs. The IWG has identified trade finance, improvements in quality and better access to market information as key priorities.

Progress

Establishment of testing capacity will support the negotiation of improved terms with overseas buyers by providing assurances to them on cocoa quality. It will also help drive improved quality assurance down the value chain, and facilitate research improving cocoa varieties and processing. PHAMA's work to better understand market opportunities around quality and potential modalities for trade finance is expected to lead to improved export pricing and provide opportunities for selling direct to chocolate manufacturers. In 2015, beans from one of the SI farmers participating in PHAMA's quality improvement work were submitted to the international "Cocoa of Excellence" Program in Paris and attained an award as one of the top 17 of the 145 samples submitted internationally. It is hoped that this sort of marketing exposure will lead to increased buyer interest from higher priced niche markets, which can then be matched to increased production of high quality, sun dried cocoa as a result of drier improvements.



Industry example

Company: Solomon Komoditi Ltd (SOLKOM)
Exporting: Dried fermented cocoa beans
Markets: Malaysia & Singapore and two niche buyers in Australia
Export Earnings: SBD4,200,000 (AUD740,000)
Return To Producers: SBD3,700,000 (AUDD650,000)

SOLKOM was started by four exporters from Guadalcanal, Malaita, Western and Makira provinces as an entity to supply cocoa direct to manufacturers in Asia. The company works with over 100 small holders and processors. It is focused on improving terms with its buyers through improved quality and has achieved increased prices in 2014 in sales to its niche markets.

VIEWS ON PHAMA SUPPORT

"Our niche buyer is looking at buying cocoa at a premium over London pricing if we can guarantee quality -this laboratory will help us to meet that need and we are prepared to pay for tests." Michael Chite, Director SOLKOM Ltd

"With a functional laboratory, CEMA can test cocoa products to meet changing market demands and specifications." Alfred Ramo, manager, CEO CEMA

Future Actions

Once solar drier trials have been completed and the driers have been shown to be effective in producing high quality cocoa without smoke taint, the intention is to scale up adoption of these driers across the country through a combination of donor and commercial bank financing. PHAMA will also work with the IWG to facilitate overseas contracts with boutique cocoa buyers, willing to pay premium prices.

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Vanuatu

The Industry and its significance

Cocoa is one of Vanuatu's main exports, with more than 1,500 tons exported annually. It is an important cash crop: 25% of rural households in Vanuatu are involved in cocoa production. Most cocoa is produced by smallholder farmers based in the northern islands of Vanuatu and then exported by three licensed exporters. The annual export value is above VUV454 million (AUD5.5 million). Most of this cocoa is exported to the bulk grinding markets in Singapore and Malaysia, which deal in lower quality and lower prices. Cocoa export figures have been growing over the past years, however, impacts from Cyclone Pam (2015) will likely see a decline in export figures over the coming years. With rising global demand, particularly in Asia, it is expected that international prices will continue to increase over the long term. As consumer tastes change, there is also growing demand for high quality, single origin cocoa to make dark chocolate bars.

The vast majority of Vanuatu cocoa exports is in the form of dried beans. There is, however, a small chocolate factory owned by Alternative Communities Trade in Vanuatu (ACTIV), which is the only value-adding company producing chocolate in Vanuatu. Chocolate produced by ACTIV is sold domestically and within the tourist industry.

Market Access Issues

The main market access issue for Vanuatu cocoa is quality. Bean characteristics of flavour, fat content and freedom from taints (such as smoke or mould) are important, and countries with a reputation for poor quality have limited market options. Unfortunately, this is the case for Vanuatu cocoa. Current quality control systems in Vanuatu are very weak, and contamination

of beans with smoke from wood-fired driers is common. This limits the ability of Vanuatu exporters to improve terms with buyers or access new markets based on quality. Currently, as mentioned above, a very high percentage of Vanuatu cocoa is exported to the bulk grinding markets in Asia. These importers factor expected poor quality into their discounted pricing. In addition, the majority of Vanuatu beans are sold to a very limited number of middle-men, cocoa trading houses that provide no pricing incentives to improve quality. A lack of trade finance facilities in Vanuatu means that exporters are often reliant on these trading houses for pre-financing purchases of cocoa beans, which locks them into unfavourable commercial arrangements and results in export prices being discounted against world prices.

PHAMA Action

- **Cocoa quality testing:** PHAMA has connected cocoa testing authorities in Vanuatu with those in Solomon Islands and Papua New Guinea in order to learn from their experiences and build Vanuatu's capacity.
- **Market survey:** PHAMA has carried out a market survey to identify potential niche and boutique markets that could be interested in buying high quality cocoa from Vanuatu.
- **Improving quality:** PHAMA implemented a study on the existing drier facilities in Vanuatu, which identified limitations to current technologies. By exploring technologies used in the neighbouring countries of Solomon Islands and Papua New Guinea, and trialling similar technologies in Vanuatu, PHAMA plans to adapt appropriate technologies to Vanuatu's local context so as to improve quality outcomes.

➤ **Industry development:** PHAMA is also promoting collective action in the industry. It has helped establish a Cocoa Industry Working Group (IWG), which brings representatives of the private and public sectors together. They then collaborate on identifying priority market access issues and developing an industry-specific plan to guide future assistance by PHAMA, government and other donor programs. The Cocoa IWG has identified its key priorities as being further improvements in quality, quality testing, and traceability and certification systems.

Progress

Through trials, PHAMA is introducing improved solar drier technologies that are adapted to the Vanuatu context and have the potential to improve cocoa quality. This will assist cocoa exporters and producers to receive premium prices by allowing them to tap into higher quality markets identified from the market survey. PHAMA will specifically target women farmers for involvement in the trials. It is hoped that sharing lessons between Vanuatu, Solomon Islands and Papua New Guinea will result in capacity development and increased marketing opportunities for all.

Future Actions

Once solar drier trials have been completed and the driers have been shown to be effective in producing high quality cocoa without smoke taint, the intention is to scale-up adoption of these driers across the country through a combination of donor and commercial bank financing. PHAMA will also work with the Cocoa IWG to facilitate overseas contracts with boutique cocoa buyers who are willing to pay premium prices.



Industry example

Company: Cocoa Growers Association (CGA)

Exporting: Dried fermented cocoa beans

Markets: Local: ACTIV mini-factory; International: Singapore, New Zealand and Australia (recently)

Export Earnings: VUV40 million (AUD485,000)

Return to Value Chain of Smallholders, Processors: VUV 20 million (AUD240,000)

CGA originated from the Vanuatu Organic Cocoa Growers Association (VOCGA), which was established to provide organic cocoa to the French organic chocolate manufacturer, KAOKO. VOCGA initially had more than 1,200 producers and 25 primary processing cooperatives. This number has dropped; CGA now has only 9 cooperatives, based primarily on the northern island of Malekula. CGA mainly exports to Singapore, New Zealand and Australia. CGA also sells some of its beans to ACTIV's mini-chocolate factory in Port Vila. CGA currently works with 360 (member) smallholders and processors and up to 400 (non-member) smallholders in the supply chain. Its focus is on maintaining its export status while exploring new opportunities to improve cocoa driers, fermentation systems and cocoa genetics.

VIEWS ON PHAMA SUPPORT

"Our current buyers are buying at prices that could be higher and we would like to improve the quality of our cocoa in order to tap into the higher end market while also enabling our product to undergo value adding, an opportunity CGA would be happy to be involved with in revolutionising the cocoa industry in Vanuatu."

Basile Malilee, Director, CGA.

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