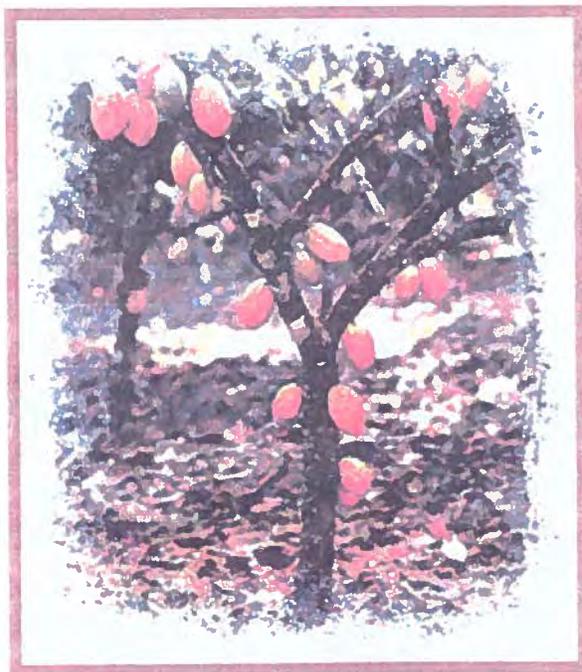


**THE USAID-INDUSTRY STRATEGIC ALLIANCE
FOR SMALL FARMER CACAO:**

**A "Win-Win" Opportunity For
Small Farmers, Traders and Exporters,
Private Cacao Processors,
the Research Community,
and USAID**

March 1999

Discussion Paper



By Chris Brown

**For the
USAID Global Center for
Economic Growth and Agricultural
Development
and the
Center for Environment**



SUMMARY:

The fundamental challenges of economic development and US foreign assistance in the new century will be, more than ever, trans-national in scope and scale. Global environmental questions transcend national boundaries. Economic interdependence between trading blocs continues to grow. The days of Cold War foreign aid competition are over. Private trade and investment flows will continue to overwhelm bilateral or multilateral aid funding as engines of prosperity.

These trends will make public-private strategic alliances more vital than ever to USAID's survival as a "premier international development agency." Few such alliances possess more natural logic, and are as solidly grounded, as the partnership for sustainable small farmer cacao¹ production and marketing between the U.S. buyers and processors (aided by various universities and research centers worldwide, as well as by the US Department of Agriculture's Research Service) and USAID.

All parties to this partnership share a **common goal: to help enable small farmers, processors and exporters secure lasting income gains from growing and selling a more environmentally sound and profitable product.**

¹ Cacao, is the name for cocoa most widely used internationally, and it derives directly from the cocoa tree's scientific name: *Theobroma cacao*.

Developed over the last year, this partnership has already proven its potential to benefit all concerned:

- **The world's cacao buyers and processors (often referred to as "grinders")** see small farmers as critical to assuring an adequate supply of high-quality cocoa beans in the coming century. They are indeed critical because of the way in which cacao's major pests and diseases inflict greater damage on large monocultural plantings than they do on cacao trees interspersed in a polycultural system.

This concern is sufficiently widespread that the major grinders from Europe and the United States have just launched,



Typical plantation in Central America (Young)

in March 1999, a global "Sustainable Cacao Program" in which they hope to invest, jointly with major aid donors including USAID. (See Annexes B and C.)

- **USAID** views those same tropical small farmers as a key element in both its economic growth and environmental strategies. Cacao prices are projected to rise for the next eight to ten years, providing a key window of opportunity for small-scale tropical farmers to raise productivity, reduce unit costs, and (through local private intermediaries) engage more aggressively in the world cacao market. Small cacao farms are also proving to possess greater environmental assets -- as retainers of topsoil, as carbon sinks, and as homes for migratory birds -- than coffee or most any other tropical farming system. Furthermore, the highly price-elastic demand for confectionery products, combined with the large amounts of dairy products, peanuts and almonds consumed by the chocolate manufacturers, help to intertwine the economic fortunes of small tropical cacao farmers and US dairy, peanut and almond industries.
- For the **small farmers, cacao buyers and exporters throughout the tropics**, the partnership promises a powerful combination of urgently needed

pest, disease and post-harvest processing/ and handling technologies, as well as assistance to improve marketing efficiency and expand local commercial financing. The "space," or margin, for farmers to improve their livelihoods through enhanced cacao production and sale is considerable. In West Africa, for example, where most of the world's cacao is grown, farmers receive scarcely half the world price for their product. Reducing production costs, raising productivity, and removing market and policy inefficiencies, can change that situation, as has been shown in Indonesia, where farmers earn over 80 percent of world price.

In countries as diverse as Indonesia and Peru, the **American Cocoa Research Institute (ACRI) -- the research arm of the American Chocolate Manufacturers' Association (CMA) -- has collaborated with USAID**, investing its funds, technical assistance and other in-kind resources to improve cocoa farming practices and to render processing and marketing more efficient. Working since 1947 with US universities and international research centers, ACRI has developed innovative on-farm production, pest management and processing techniques for small farmers. These "machete technologies" and research findings represent a valuable asset for USAID to distribute to the millions of small farmers connected to various USAID programs worldwide.

ACRI is an industry-wide, "multilateral" research group, but the partnership also has a vital, "bilateral," dimension involving individual cocoa processing firms. Just last year M&M Mars, Inc., an ACRI member, signed letters of intent to purchase cocoa directly with local farmer/exporter groups in Haiti, Peru and the Dominican Republic. (Hershey had a similar purchasing agreement with a Haitian project in the 1980s.) This kind of purchasing agreement is vital to the success of the fledgling cocoa export enterprises which are essential to many small farmer cocoa marketing programs.

With collaborative ventures now in design for the Dominican Republic, a dozen African countries (including Ghana), Peru, and possibly also Indonesia, the Philippines, Vietnam and Papua New Guinea, the cocoa industry-USAID alliance offers immediate and attractive potential for impact. The time has come to acknowledge and reinforce this emerging partnership.

USAID has a vital role to play at the vanguard of bringing small cacao farmers more fully into the world market:

- USAID is ideally placed as a leading donor to the international agricultural research network to help draw attention to the unfortunate dearth of regional or global research on cacao.
- USAID's various small farmer extension and agribusiness programs worldwide constitute a unique

opportunity to convey improved management practices to millions of tropical small farmers.

- USAID, as a bilateral aid donor, is in a position to pursue economic, sectoral and industry-level policy reforms with supplier country governments.
- USAID's collaborative research relationships with coalitions of US universities offer a unique opportunity to harness the vast agricultural research capability of internationally oriented research institutions across our country to pursue important issues in integrated pest management and sustainable agriculture, affecting cacao.

The next step in this relationship will be for the top levels of the industry and USAID to agree formally to reinforce, expand and better coordinate our complementary efforts on behalf of the world's small cacao farmers. (See the draft memoranda of understanding in Annex A.)



Ripe cacao pods (M&M Mars)

I. THE WORLD CACAO INDUSTRY FROM TREE TO TABLE

A. Cacao Production:

Cacao, or cocoa, refers to the fermented and dried seeds of tree *Theobroma cacao*. This tree generally grows to a height of five to ten meters, and bears flowers and fruit (formed directly on the trunk and larger branches) after it reaches the age of two or three years.

In the wild, these trees thrive in the rainforest understory, well below the upper leaf canopy. Even under human cultivation, young cacao seedlings require shade, and once mature, also appear to benefit from association with larger shade trees.² Cacao trees tend to have a productive life of 25-30 years, after three years of maturation.

Theobroma cacao originated in the Amazon basin, spreading first northward through Mesoamerica (13th century), and then to the European colonial territories of the Caribbean and tropical Asia (16th century), and West Africa (19th century). It consists of two principal varieties:

- the Criollo, which produces relatively soft, red pods, each bearing 20-30 light colored seeds with relatively high fat content and "fine" flavor; and

² For basic cacao botany and ecology, see Sarah Laird et al, An Introductory Handbook to Cocoa Certification, Rainforest Alliance, 1996, pp. 3-5, and *ibid.* pp. 26-30 for the important yield and disease resistance benefits cacao derives from shade and interplanting.



Drawing of *Theobroma cacao*, from F. Hernandez, "Rerum medicarum Novae Hispaniae thesaurus," 1651 (Young)

- Forastero, producing green pods bearing 30 or more relatively more astringent, darker seeds.³

In addition to the choice of variety, the grower's fermenting and drying methods

³ Allen Young provides a thorough history of cacao's evolution and cultivation, as well as particular insights into the tree's continued dependence on rainforest insects for optimal pollination and yield, in The Chocolate Tree: A Natural History of Cacao, Smithsonian Nature Books, 1994. See especially pp. 27-47.

help to determine the quality and flavor of the cacao. Cacao harvest is seasonal, occurring primarily between August and January in West Africa, for example. Farmers generally break open their pods themselves and either sell the "wet" seeds with their mucilaginous, sweet pulp or ferment them to reduce astringency and stabilize and enhance flavor before selling them to local buyers.

Over the last 50 years, cacao production has steadily shifted from a predominantly plantation-based to an overwhelmingly small-farmer dominated industry.⁴ Currently at least 70 percent of world production is grown by five to six million farmers averaging less than one or two hectares of cacao each.⁵ Nearly all of these farmers currently cultivate over-aged trees, rarely have contact with an extensionist of any kind, and often face powerful disincentives to investing in long-term tree crops due to the confused or highly skewed land distribution that characterizes much of the cacao-growing world.

The buyers must then finish drying the fermented beans to a moisture content between six and seven percent, and store and ship them in porous containers such

⁴ This trend away from plantation farming clearly began much earlier than that in some areas, as evidenced in Cameroon, where large-scale plantations had vanished in favor of small farms by the mid-1920s. (See James Gockowski et al, "Implications of Resource Use Intensification for the Environment and Sustainable Technology Systems in the Central African Rainforest," IITA manuscript, August 19, 1998, p. 6.)

⁵ Laird, p. 1.

as jute bags. Cocoa exporters generally fumigate with chemicals such as methyl bromide to eliminate insects, mold and rodents.

Over two thirds of the world's cacao is processed in buyer countries where little or no cacao is grown. This situation prevails primarily because of the relatively high energy and capital intensity of the final roasting, pressing, purification, recombining, texturing and mixing involved with producing chocolate and related confectionery, beverage and (to a much lesser degree) cosmetic products. Figure 2 below summarizes the processing cacao undergoes after being sold to a grinder.⁶

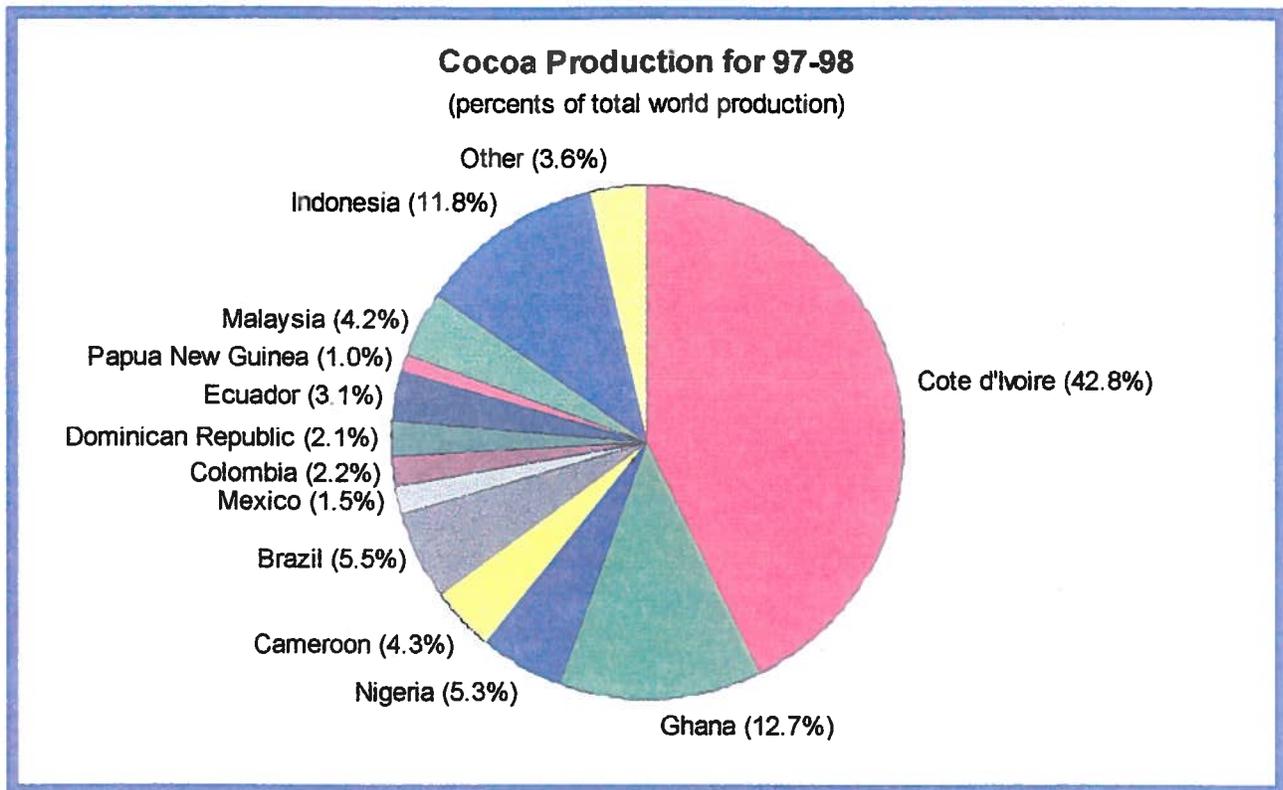
World cacao production has increased exponentially since the turn of the century, reaching a record 2.9 million tonnes⁷ in 1995/6 -- an average annual growth rate of 3.5 percent.⁸

As Figure 1 below shows, over half the world's cacao currently comes from Cote d'Ivoire (43 percent) and Ghana (13 percent), with Indonesia the third largest supplier at nearly 12 percent of world output in 1997/8. Next in line are Brazil (nearly 6 percent), Nigeria (5 percent), and Cameroon and Malaysia (both just over 4 percent). Detailed production figures for countries of interest to USAID are provided in Annex D.

⁶ Laird et al, p. 80.

⁷ Metric ton, or 2,200 lbs.

⁸ Mark Taylor, "The World Cocoa Situation," LMC International Ltd., unpublished working paper for the USAID-ACRI supported Peru National Cocoa Conference, 28-29 October 1998.



Source: ACRI web site, 11/98.

The world's dependence upon two neighboring countries for such a large proportion of global supply (two thirds of world supply if one considers all of West Africa) is a remarkable feature of the cacao trade.

From the cocoa farmers' and the producer countries' points of view, cacao fails to achieve its full potential as source of income and export earnings because of high losses to pests and diseases. In-country marketing inefficiencies and failures, combined with inefficient national policies, also inhibit cacao's beneficial potential.

In addition to the nearly 3 million tonnes of cocoa produced each year, roughly another million tonnes -- fully a third of the world's annual supply -- is estimated

to be lost to cacao's principal pests and diseases. Nearly half the lost production potential is due to black pod disease affecting West Africa, Brazil and Asia. Witches' Broom and Moniliophthora viruses inflict heavy losses in Latin America; Capsids (true bugs, Hemiptera) and the cocoa pod borer (Lepidoptera) are important insect problems in West Africa and Southeast Asia respectively.⁹

Regarding market and policy failures, national cacao marketing boards and other export restrictions, as well as poor rural roads and weak farmer organizations can lower the farmer's share of the world market cacao price. For example, farmers receive 80 percent of the world price in Brazil and over 75

⁹ Taylor, p. 10.

percent in Indonesia, but they obtain less than 50 percent in Cote d'Ivoire and 55 percent in Ghana.

Cacao's income-enhancing potential for small farmers, as well as for the entrepreneurs and laborers handling and exporting the product, are substantial. For example, in Ghana, the world's second largest cacao producer, liberalization measures are imminent which could substantially raise the world market price share for the farmers. Wherever USAID or other donors, working with the cocoa industry, could increase product quality and farm-to-port marketing efficiency, this too could substantially enhance sustainable income and foreign exchange earnings opportunities. Recent experience proves that producers' and exporters' groups and associations can play a vital role in effecting these marketing improvements.

B. The Cacao Market:

Market surveys in 1993 indicate that globally, the largest cacao buyers in descending order were Nestle Rowntree (Switzerland), Mars (US), Jacobs Suchard (Switzerland), Hershey (US), and Cadbury (UK). In the United States, the leading grinders, in order of market share, in 1993 were Hershey, Nestle, Mars, Cargill, Grace and World's Finest. In addition, the cacao market includes important producers focused almost exclusively on intermediate chocolate products, used by other confectioners. These firms include Archer Daniels Midland (ADM) and Blommer

Chocolate in the US and Cacao Barry in Europe and Canada.¹⁰

Those involved in the cacao trade must ride the boom and bust price trends that derive from a "cobweb cycle" of shortages, price increases, expanded plantings, gluts and price declines. The entire cycle seems to take about 22 years. International cocoa agreements and the International Cocoa Organization (ICCO) have attempted since 1973 to stabilize these price trends with a global buffer stock scheme, but to date, such efforts have proven a failure.¹¹

Currently the world market is slowly emerging from a price slump which lasted through the 1980s. Prices are still low, at about 65 cents per pound compared to a peak of over \$1.60 in 1975, with sluggish demand growth in Eastern Europe and more recently, among East Asian consumers, accounting for the slow rise. However, long-term prospects, assuming eventual economic recovery and growth in former Communist and East Asian countries, indicate favorable demand and world price trends for at least the next eight to ten years.

II. CACAO'S SIGNIFICANT ENVIRONMENTAL BENEFITS

Recent detailed trials and research emerging from the International Institute of Tropical Agriculture (IITA) and IRAD (Institute de la Recherche

¹⁰ Laird et al, p. 81.

¹¹ Laird et al, pp. 66-68 and Taylor pp. 14-15.

Agricole pour le Developpement) in Cameroon confirm what others have concluded more generally -- that cacao is a particularly environmentally sound crop. In research on the Congo Basin, small farmer shaded cacao cultivation generated total biomass of over 300 tonnes per hectare. Only tropical forest and long-term fallow land was found to have had a greater carbon absorbing (or carbon sequestering) quality.¹²

The soil-retaining qualities of tree crops on fragile hillside farmlands are widely recognized, and form the basis for countless soil conservation strategies around the world. It is also becoming abundantly clear, however, that small farmers and other economically disadvantaged users of natural resources will only conserve these resources to the extent that it is in their own financial



Worker splitting ripe cacao pods (Young)

¹² B. Duguma, J. Gockowski and J. Bakala, "Smallholder Cocoa Cultivation in Agroforestry Systems of West and Central Africa: Challenges and Opportunities," Occasional Paper, Smithsonian Migratory Bird Center, 1998, p. 6.

interest to do so. The environmental benefits, which usually accrue to those other than the farmers, thus add further justification to the search for remunerative tree crops for fragile lands in the tropics. Cacao is without a doubt one of the most promising of these crops.

Finally, the Smithsonian Institution's Migratory Bird Project, among others, has documented the considerable extent to which migratory birds seeking habitats similar to the vanishing tropical forests in the winter months have adapted to the shaded tree crop polycultures of cacao and coffee.

III. WHY FORM AN ALLIANCE?

A. There is a shared vision.

There is a shared vision for this partnership. It is one of cacao farmers worldwide cultivating a modernized crop in an environmentally responsible manner, and reaping a substantially larger and more stable income from it than has been possible to date. This vision is within our reach, and the methods for making it happen either exist already, or are within the grasp of conceivable research efforts.

As we achieve this vision, not only will tropical small cacao farmers benefit, but so will the supplier country buyers and exporters, as will dairy, peanut and almond producers in the United States. Industry estimates show, for example, that in 1997 U.S. chocolate

manufacturers consumed over 200,000 tons of powdered milk and milk products. For every pound of cacao solids used in making typical milk chocolate, the industry also consumes almost one pound of sugar. Peanuts and almonds are also important ingredients in chocolate-based products.

This situation ties dairy, sugar and nut producers to the fortunes of chocolate-based food products, whose demand, as a non-staple food, can be assumed to be relatively price- and income-inelastic. Consequently, there is ample cause for US farmers and agribusiness to take an active interest in improving reliability and quality of the world's supply of raw cacao.

Furthermore, USAID, through its worldwide network of field missions and

programs, provides a number of vital contributions to the effort of enhancing small farmers' earning potential from cacao which industry could not afford to replicate. These assets include dozens of agricultural initiatives providing various forms of extension, credit and research findings to millions of small-scale tropical farmers. USAID and other bilateral and multilateral aid donors, also engage in direct policy and regulatory reform programs with source country governments and stakeholders -- a role that would be impossible for most any other type of organization to play. These economic reform programs are removing important policy and market inefficiencies that, in many countries, have contributed to reducing the percentage of the world price earned by small cacao farmers.



Drying cacao on cement floors in the Dominican Republic (Young)

B. The partnership already exists in practice.

The US cocoa industry, represented by the Chocolate Manufacturers' Association (CMA), has recognized the need to research cacao production since it formed the American Cocoa Research Institute (ACRI) in 1947. It was in 1998, though, that ACRI concluded definitively that environmental, pest and disease imperatives affecting cacao production argued strongly for a global strategy aimed at improving the productivity, yield and profitability of small farmers, whose mixed tree stands tend to be inherently more resistant to pests and diseases.

Consequently, ACRI adopted its Sustainable Cocoa Program which aims "to develop a comprehensive, integrated approach to cocoa research in order to a sustainable cocoa supply." The program has since been refined to its present focus on the five following "project area priorities:"

1. **Integrated crop management** (disease and pest control);
2. **Smallholder economics** improvement (post-harvest handling and farm-to-port marketing);
3. **Breeding** for improved yield and pest resistance;
4. **New plantings** in extended regions; and
5. **Agro-ecology** (to maximize biodiversity and sustainability of tropical ecosystems).

ACRI has been investing roughly \$1 million per year in a variety of grants to US universities (notably in Pennsylvania and Ohio) for research into various diseases and pests. It has also funded a portfolio of specific "source country" activities such as the Indonesia cocoa pod borer control pilot program in Sulawesi, which USAID helped ACRI to negotiate with the Indonesian government in the mid-1980s.

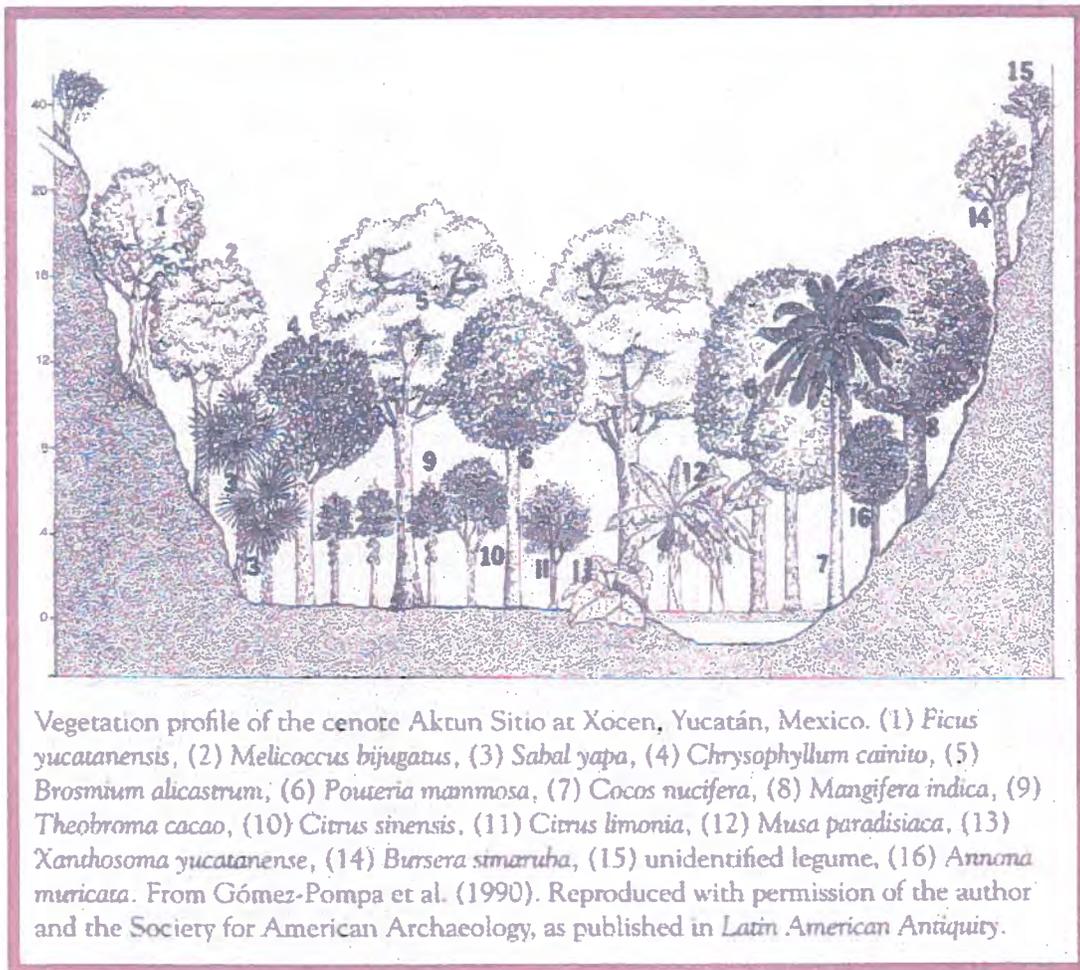
ACRI, and some of its member companies (M&M Mars in particular) was also instrumental in 1998 in building Congressional support for agricultural research funding now approved for the US Department of Agriculture (USDA). This supplemental allocation includes an initial \$5 million FY1998 tranche for cocoa research through USDA's Agricultural Research Service (ARS) as part of a significantly larger multi-year initiative focused on eradicating cocoa and opium poppy production and promoting alternative cash crops.¹³

USDA's Research Coordinator for this program has already suggested to USAID that he would consider transferring a portion of these funds to any USAID program which could help achieve those objectives. Given USAID's extensive investments in agricultural extension in Peru and other priority narcotics source countries, this inter-agency partnership could prove worthwhile.

¹³ See Annex D, ACRI letter to Secretary of Agriculture Daniel R. Glickman of October 14, 1998.

To achieve these efficiency gains, two critical elements must converge: new technologies and the means for making them available to producers and handlers. This convergence has already occurred in several countries where direct USAID-ACRI collaboration already exists. They include the following initiatives:

1. **Indonesia Cocoa Pod Borer Pilot Control Program:**
ACRI: \$75,000/year since 1985
USAID: negotiations with GOI at outset, and now considering limited future support to replicating the pilot effort.



Above: typical multistory canopy involved in small farmer (Young)

Result: Over 1,000 farmer-extensionists practicing improved harvesting/pruning/clearing which dramatically reduce pest damage from this moth, and have sustained tripled cacao earnings for them and their neighbors.

2. **Haiti Cocoa Marketing ServiCoop:**

Mars Corp.: purchasing agreement and free technical assistance to local cocoa purchasing/export venture (ServiCoop) worth over \$350,000 per year.

USAID: \$100,000 in start-up capital and equipment for ServiCoop, and \$46 million, ten-year, Productive Land Use Systems small farmer extension program reaching over 150,000 hillside farm families, many of which grow cacao.

Result: Over \$300,000 in cocoa sold to Mars in the first year, and a sustained doubling of the farmgate price for all Haiti's cacao farmers as competitors have met and exceeded ServiCoop's favorable purchasing prices.

3. **Peru Cacao Promotion:**

ACRI: \$50,000 in advisory and conference logistics support

Mars Corp.: a letter of intent to purchase, on favorable terms, up to the entire amount of cacao which participating local producer groups wish to offer on the world market.

USAID: two small-farmer alternative crop extension programs involving thousands of Peruvian farmers and US grant funding set to expand significantly from its multi-million dollar, multi-year current scope, with cacao a key crop in both programs.

Result: the Peruvian government has adopted a national Cacao strategy and is strongly supporting the expanding USAID-ACRI effort to encourage improved productivity and market efficiency for the local cacao industry.



Collecting seeds (Young)

C. There is enormous potential for further partnership.

Numerous USAID regional and country-level initiatives promise considerable additional opportunity for partnership with small farmers and the US chocolate manufacturers. In each of these instances, as with most any USAID-funded undertaking, there are implementing partner organizations (be they consulting firms, foundations or universities) that actually provide the technical advisors and much of the operational project support. Particularly in the case of certain non-governmental foundations (or NGOs), they have built up considerable expertise and a demonstrated track record of innovation in working with small farmer cacao. Conservation International, CARE, Technoserve and the Pan American Development Foundation, are all examples of such potential partners.

One particularly promising opportunity for future private-public partnership is the **Africa Bureau's Regional Tree Crop Initiative**. It plans to use its own funds to leverage considerably more in USAID Mission investment, to facilitate enhanced production, marketing and export of, initially, selected key commodities, of which the first two priorities are cacao and cashews.

The **USAID/Philippines** rural enterprise promotion effort in Mindanao, known as the GEM Program, also focuses on cacao as one of its target industries. Also, in the **Dominican Republic**, Mars has already participated, at its own expense, in designing a post-hurricane

cacao rehabilitation effort to be carried out by local foundations (NGOs). Mars has also issued a letter of intent to purchase, again on favorable terms, whatever cacao the participating Dominican farmer groups may wish to export through them.

ACRI is already heavily engaged with the Government of **Vietnam** in rebuilding commercial small-farmer cacao there, and has expressed interest in the possibility of reinforcing the efforts of a USAID-funded environmental NGO program promoting sustainable rural enterprise as part of a biodiversity conservation effort in **Papua New Guinea**.

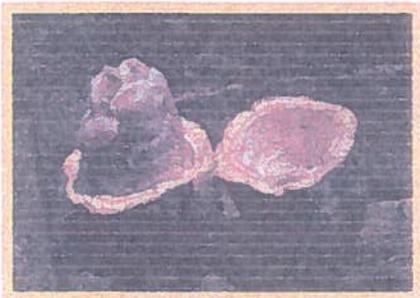
The December 14, 1998 letter from ACRI Chairman and Hershey Foods President Joseph Viviano (Annex C) indicates the extent to which the Sustainable Cacao Program is now poised to expand. The next major development will be in early March, at the Paris Agricultural Conference, when the world's major grinders will announce a global Sustainable Cacao Program coordinated initially by ACRI. This industry initiative will receive corporate funding, but will also seek to encourage complementary international donor investment in priority source countries' small farm cacao production and export.

IV. HOW WILL THE PARTNERSHIP WORK?

Figure 3 below provides a schematic to summarize how USAID, ACRI, and other key partners (notably USDA,

various US/source country/international universities and research centers, and local producers' associations) complement each other to achieve measurable income and export gains for cacao producers, handlers and exporters in the source country. It indicates that :

- ACRI and its constituent firms will focus primarily on funding research solutions, providing in-kind technical expertise and (through independent actions by individual firms) purchasing arrangements for small farmer cacao.
- USAID, for its part, will conduct macroeconomic and sectoral policy dialogue; build upon its extensive outreach mechanisms to farmer and industry groups to put the ACRI supported innovations into practice; support cacao producer, buyer and exporter groups' and firms' efforts; and work with other donors to the international agricultural research centers to encourage more sustained and systematic cacao research in that system.



Open cacao pod (Young)

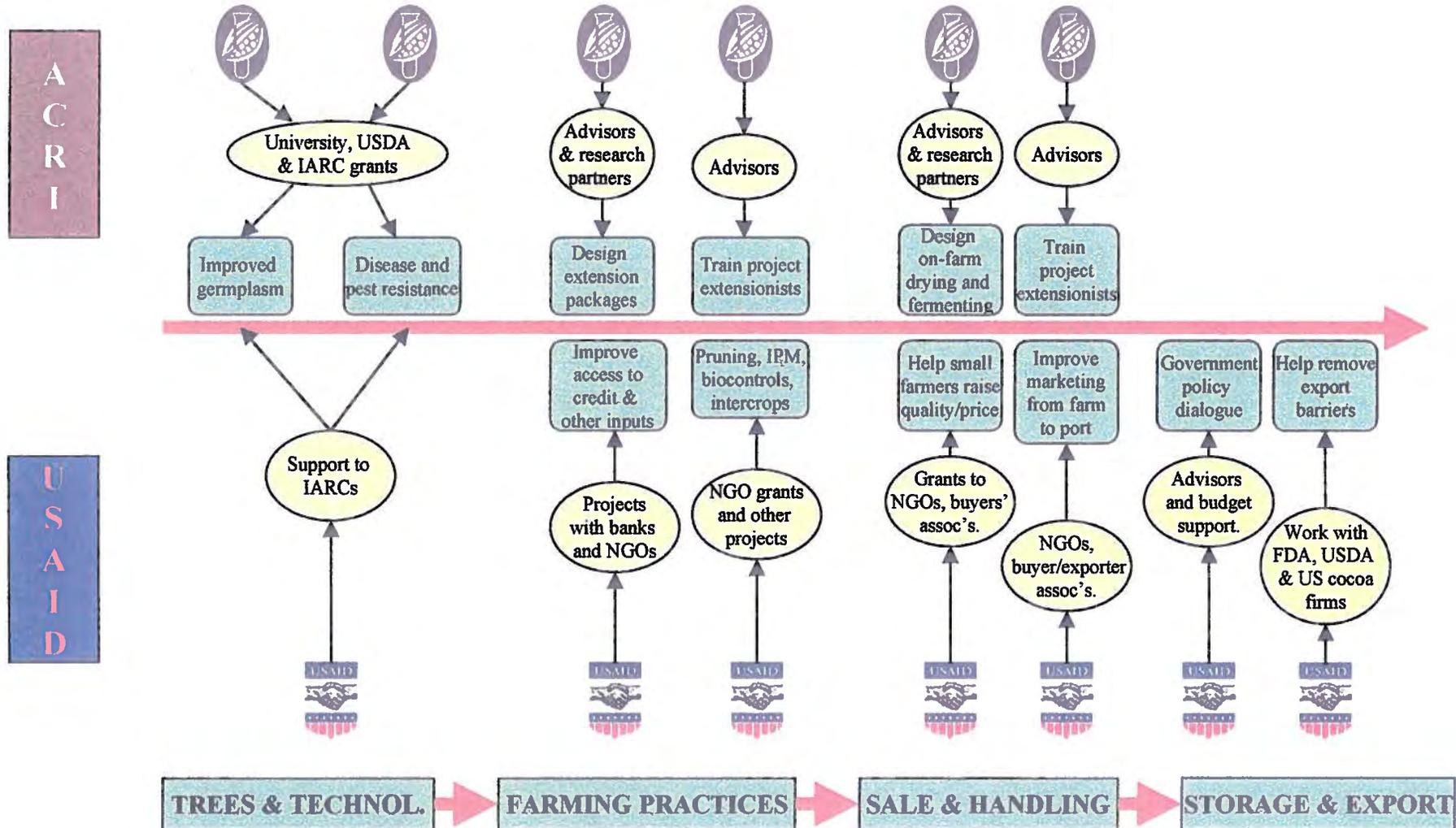
V. NEXT STEPS

Annex A provides the draft of a memorandum which USAID should sign with ACRI to provide an "umbrella" understanding on which more firmly to base this partnership. While committing no funds, it clearly outlines the types of activities which both parties will pursue in the interest of promoting sustainable cacao production and export for USAID client countries.

That MOU will refer to the possibility that USAID may sign a different type of memorandum of understanding with any eligible US cacao processing firm which is interested in providing appropriate direct assistance to any of the farmer, buyer or exporter groups participating in a USAID program. The draft for such an MOU is also included in Annex A.

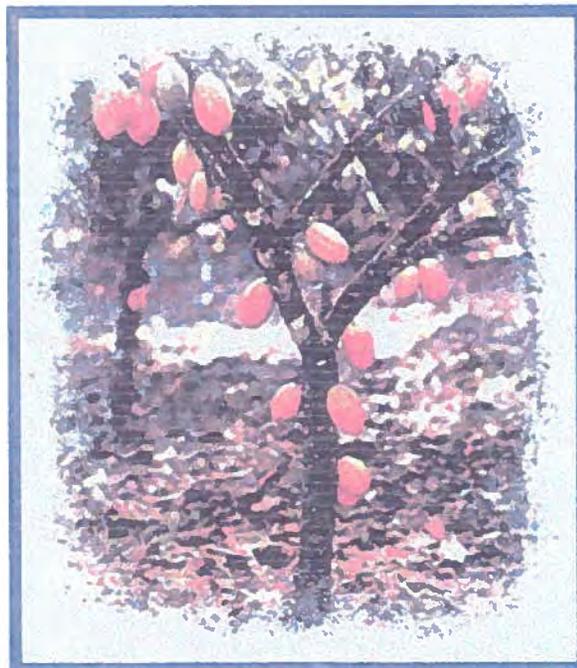
Finally, USAID should continue to work with ACRI, and with the proposed new Global Sustainable Cacao Program, to provide the leadership which will be needed to assure that this partnership extends beyond USAID or any single bilateral or multilateral aid organization. Should USAID meet these three challenges, it will have built a highly innovative and promising public-private strategic alliance which would serve as a model for development assistance initiatives in the next century.

**FIGURE 3: SMALL FARMER CACAO PRODUCTION;
THE CHAIN FROM TREE TO MARKET
and How ACRI, USAID and Others can Contribute**



Annexes

- A. Draft ACRI and Processor Memoranda of Understanding (MOUs)
- B. Text in English of International Declaration of Intent signed in Paris on 1 March 1999
- C. Letter to Chris Brown of 10 March 1999 from worldwide, European and US chocolate manufacturers' associations, and notes on Paris deliberations on worldwide Sustainable Cocoa Program
- D. Joseph Viviano/ACRI Letter to Chris Brown of 14 December and John Lewis reply of 22 December 1998
- E. ACRI to Agriculture Secretary Glickman letter of October 14, 1998
- F. World Cacao Production in 1997-1998 (table)



Fully bearing cacao tree (M&M Mars)

(deliberative process; privileged document; do not cite, quote or release)

MEMORANDUM OF UNDERSTANDING

BETWEEN THE

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

AND

THE AMERICAN COCOA RESEARCH INSTITUTE

I. PURPOSE AND SCOPE

The United States Agency for International Development ("USAID") and the American Cocoa Research Institute ("ACRI") (hereafter "the Parties") share the goal of promoting sustainable development in the cacao production of small farmers and small farmer organizations in developing countries.

The purpose of this Memorandum of Understanding ("MOU") is to set forth the understandings and commitments of the Parties with regard the joint implementation of this shared goal and to establish the terms and conditions for collaboration between the Parties.

Each Party specifically acknowledges that this MOU is not an obligation of funds by any Party and shall not be construed as an obligation of funds, nor does it constitute a legally binding commitment by any Party.

The scope of this MOU is specifically limited to the areas of collaboration and activities identified herein.

USAID expressly states and ACRI specifically acknowledges, that USAID programs and activities under this MOU are governed by the Foreign Assistance Act of 1961, as amended, and other applicable Federal law.

II. UNDERSTANDING AND COMMITMENTS OF PARTIES

A. Mutual Understanding

This MOU constitutes the full agreement of the Parties. In addition to the understandings and commitments of the Parties set forth herein, USAID is willing, on a non-exclusive basis, to enter into direct, individual memoranda of understanding with ACRI's member firms, and with other US cocoa manufacturers, which are interested in pro bono efforts to advance the goals stated above. Further, ACRI and USAID agree to share information from time to time with this purpose in mind.

B. USAID

USAID, in consultation with ACRI, will seek to identify suitable opportunities for collaboration between the Parties in areas under USAID agricultural development programs involved in cacao production for small farmers and small farmer organizations in developing countries ("eligible beneficiaries"). Upon the identification of a suitable opportunity for collaboration, USAID will work with ACRI to initiate, enhance, or facilitate sustainable cacao production for eligible beneficiaries by providing technical assistance, research, or other support in the following areas:

- small farmer extension, production and marketing programs which address cacao;
- biotechnology technical assistance, particularly in the area of intellectual property rights and biosafety;
- technology transfer and technical assistance in the areas of Integrated Pest Management (ie. through USAID's "IPM" Program), and Sustainable Agriculture (ie. through USAID's "SANREM" Program);
- research and related support to other USAID administered Collaborative Research Support Programs ("CRSPs") and the International Agricultural Research Centers; and,
- sector analysis, market assessment, and technical support through programs such as USAID's new Raising Agricultural Incomes With a Sustainable Environment ("RAISE") Program, through which USAID Missions, Bureaus, and other organizational units can form partnerships with ACRI.

C. ACRI

ACRI will, upon the identification of a suitable opportunity for collaboration, as determined or otherwise to agreed to by USAID, work with USAID to initiate, enhance, or facilitate sustainable cacao production for eligible beneficiaries by providing technical assistance, research, or other support in the following areas:

- eligible beneficiary access to industry experts and world market analysis;
- technical assistance and technology transfer related to improved technologies and techniques to combat cacao diseases and pests which could be extended through USAID programs; and,

-- matching funds for joint research undertakings between the Parties and information sharing in areas such as cacao germplasm conservation and improvement, integrated pest management, disease control and domestic or international biotechnology.

III. Authorized Representative; Effective Date; Modification and Termination

Each Party specifically represents that the designated signatory to this MOU, as set forth below, is a legally authorized representative of the Party.

The effective date of this MOU is the date of last signature by an authorized representative of a Party. This MOU will terminate five (5) years from the effective date, or ninety (90) days following the date of a written request by either Party to terminate the MOU.

No modification of this MOU shall be considered valid unless the modification is in writing and signed by the authorized representative of each Party.

Agreed to by the American Cocoa Research Institute (ACRI):

President, ACRI
Authorized Representative for ACRI

_____ Date

Agreed to by USAID:

J. Brian Atwood, Administrator, USAID
Authorized Representative

_____ Date

USAID and ACRI -- A Partnership in Action

Collaboration between ACRI and USAID is already a reality. The ten following instances of explicit cooperation have already taken place or are currently under way. They represent only examples of numerous other opportunities which both parties are now discussing.

1. **USAID/Indonesia** collaborated with ACRI to introduce a highly successful set of improved management practices to help control the cocoa pod borer in Sulawesi and, by cutting losses from over eighty percent to less than 20 percent in many cases, helped raise farmers' earnings there substantially.

2. In **Peru**, ACRI advisors are working with small farmer alternative crop promotion teams, under USAID funded projects managed by Winrock and Chemonics, in critical zones to improve cacao farming and launch a national cacao policy and promotion campaign.

3. The **USAID Africa Bureau's regional tree crop initiative** has selected cacao and cashew as their two initial targets for promotion across the relevant zones of the continent. ACRI and USAID will kick off collaboration with a joint visit to three countries early in 1999.

4. ACRI helped fund **research in Cameroon** by the International Institute of Tropical Agriculture (IITA) and the International Center for Research in Agroforestry (ICRAF) that showed significant net environmental and economic benefits when short fallow land use systems are converted to cacao agroforests. Several long term experiments are planned to investigate solutions to the agronomic constraints encountered in effecting this land conversion. The major issues are likely to be soil fertility and microbial status, and performance of improved varieties of fruit trees and timber species as shade trees. The potential carbon sequestration occurring with such a conversion is estimated to be 70 tons per hectare. If such land conversions were to occur on a significant basis this might be an important sink to consider in the current global discussions on carbon emissions trading.

5. **USAID/Dominican Republic** teamed with ACRI to co-finance a cacao marketing/extension initiative. This joint design effort, which both sides have been funding, is going to result in cacao small farmers in the DR getting a significant part of the \$12 million in post-Hurricane-Georges reconstruction effort. ACRI would provide training and technical assistance at their own expense while the USAID grant would support the reforestation and extension effort itself, working through local NGOs, industry groups and small farmer organizations. Also, one of ACRI's member companies has already agreed to purchase the cacao at a premium reflecting the higher quality we expect from the assisted farmers.

6. In the Philippines, USAID's GEM effort in Mindinao has already targeted cacao as a key business to reinforce in the communities with which they work.

7. ACRI is working directly, and independently, with the Government of Vietnam on a cacao small farmer strategy involving reforesting bare hillsides as well as rehabilitating existing stands. This will be an excellent opportunity for partnership if USAID establishes a Mission there.

8. The Guatemala and Nicaragua missions are also contemplating calling on ACRI expertise to scope out strategic potential for small farmer cacao in their programs.

9. USAID/Indonesia is considering a partnership with ACRI to use food aid local currency which they may soon generate, to invest in replicating the Sulawesi success throughout the island and elsewhere across the archipelago.

10. Plans are under development for collaboration between the USAID-funded Agricultural Biotechnology Support Program (ABSP), and the ACRI-funded biotechnology research program at Pennsylvania State University for field testing and extension of an improved cacao propagation system as well as management of intellectual property and biosafety concerns in target developing countries.

DRAFT ANNOUNCEMENT FOR THE COMMERCE BUSINESS DAILY

The United States Agency for International Development (USAID) is working in numerous tropical countries around the world with small farmer cooperatives, groups and organizations engaged in growing, selling or exporting cocoa beans (cacao). USAID assistance efforts in many of these countries indicate that providing research, extension and marketing advice or assistance to such groups can help improve not only environmental and natural resource management by promoting an environmentally sound tree crop, but can also enhance the farmers' incomes both in the short and long term.

In several of these countries, USAID has found that it shares common goals with elements of the United States cocoa industry in areas such as promoting sustainable development in the cacao production of small farmers and small farmer organizations in developing countries; increasing investments in such production; and, improving market access for these producers so as to increase their cacao distribution resulting in increased income.

Both the American Cocoa Research Institute (ACRI, the research arm of the American Chocolate Manufacturers' Association), and individual US chocolate manufacturing firms, have provided valuable in-kind agricultural research, extension and advisory contributions to the same farmer groups with which USAID has been working.

Hence, USAID is now willing, on a non-exclusive basis, to enter into direct, individual Memoranda of Understanding with ACRI's member firms, and with other US cocoa manufacturers, which are interested in pro bono efforts to advance the goals stated above. The purpose of such a memorandum of understanding ("MOU") would be to set forth the understandings and commitments of the Parties with regard the joint implementation of these shared goals and to establish the terms and conditions for collaboration between the Parties.

Any interested firm which shares these goals and is willing to contribute to their achievement is encouraged to contact Dr. Christopher M. Brown, Economic Growth and Agricultural Development Center, Suite 2.11 RRB, Washington, DC 20523-2110. He can also be reached by telephone at 202-712-1915, by fax at 202-216-3579, or by email at ChBrown@USAID.GOV.

USAID DRAFT 17 March 99

(deliberative process; privileged document; do not cite, quote or release)

MEMORANDUM OF UNDERSTANDING

BETWEEN THE

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

AND

THE _____ CORPORATION

I. PURPOSE AND SCOPE

The United States Agency for International Development ("USAID") and the _____ Corporation (hereafter "the Parties") share the goals of promoting sustainable development in the cacao production of small farmers and small farmer organizations in developing countries; increasing investments in such production; and, improving market access for these producers so as to increase their cacao distribution resulting in increased income.

The purpose of this Memorandum of Understanding ("MOU") is to **describe the basis** for commitments of the Parties with regard the joint implementation of these shared goals and to establish the terms and conditions for collaboration between the Parties.

Each Party specifically acknowledges that this MOU is not an obligation of funds by any Party and shall not be construed as an obligation of funds, nor does it constitute a legally binding commitment by any Party.

This scope of this MOU is limited to the following activities:

A. The provision of technical assistance and technology transfer to small farmer and small farmer organizations cacao producers in developing countries (hereafter "the eligible beneficiaries");

B. The provision of education and information on sustainable agricultural practices, including improvements in investments and market access associated with the production and distribution of cacao to eligible beneficiaries so as to improve their incomes; and,

C. Research, which may supplement work carried out by USAID and or the American Cocoa Research Institute ("ACRI").

USAID expressly states and _____ specifically acknowledges, that USAID programs and activities under this MOU are governed by the Foreign Assistance Act of 1961, as amended, and other applicable Federal law. USAID further states and _____ further acknowledges that USAID will not promote, facilitate, or otherwise participate, either directly or indirectly, in any arrangement or agreement to market, sell, buy, or otherwise procure cacao as a result of any relationship which arises under this MOU amongst USAID, _____ Corporation, and any small farmer or small farmer organization in a developing country.

II. UNDERSTANDING AND COMMITMENTS OF THE PARTIES

A. Mutual Understanding

This MOU constitutes the full agreement of the Parties. In addition to the understandings and commitments of the Parties set forth herein, the Parties agree openly exchange information -- except that deemed privileged or proprietary -- concerning their respective contributions to programs or activities under this MOU. Such information includes, but is not limited to, funding to implement programs and activities, consultation in the development of work plans, and major technical assistance efforts contemplated.

B. USAID

USAID, in consultation with the _____ Corporation, will seek to identify suitable opportunities for collaboration between the Parties in the USAID small farmer development programs involved in cacao production for eligible beneficiaries. Upon the identification of a suitable opportunity for collaboration, USAID shall request that the _____ Corporation provide a written expression of interest in working on the specific program identified. Upon receipt of the written statement of interest, USAID will work collaboratively with the eligible beneficiaries and the _____ Corporation to develop a Workplan and Schedule for implementation of the proposed program.

B. _____ Corporation

In each instance where the _____ Corporation is interested in collaborating with a USAID on a cacao activity, it shall provide a written expression of interest to the USAID office managing that activity. The nature of the assistance which the _____ Corporation might offer to provide will vary according to the particular circumstances and context of each instance. It may, however, consist of specific types and amounts of in-kind technical assistance or funding for: local or international research institutions, or local cacao producer, processing, handling or exporting associations or firms. The support may be intended to enhance those eligible beneficiaries' ability to

grow, process, transport or sell cacao more efficiently, productively or at a higher level of quality.

III. Authorized Representative; Effective Date; Modification and Termination

Each Party specifically represents that the designated signatory to this MOU, as set forth below, is a legally authorized representative of the Party.

The effective date of this MOU is the date of last signature by an authorized representative of a Party. This MOU will terminate five (5) years from the effective date, or ninety (90) days following the date of a written request by either Party to terminate the MOU.

No modification of this MOU shall be considered valid unless the modification is in writing and signed by the authorized representative of each Party.

Agreed to by _____ Corporation:

President, _____ Corporation
Authorized Representative for _____ Corporation

_____ Date

Agreed to by USAID:

J. Brian Atwood, Administrator, USAID
Authorized Representative

_____ Date



American Cocoa Research Institute

7900 Westpark Drive • Suite A-320 • McLean, Virginia 22102-4203 • Telephone: 703/790-5011 • FAX: 703/790-5752

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BETSY LIBBEY, C.P.A.
DIRECTOR OF FINANCE
& HUMAN RESOURCES

March 10, 1999

Christopher M. Brown
Senior Agribusiness Economist
Agricultural Enterprise and Marketing Division
Office of Agriculture and Food Security
U.S. Agency for International Development (USAID)
G/EG/AFS/AEMD
RRB Room 2.11
Washington, DC 20523-2110

Dear Chris:

Thank you so much for your very important contribution to the success of the International Sustainable Cocoa meeting on February 28th in Paris. Your meaningful input helped focus the critical importance of your efforts in creating a true public/private partnership for the sustainable cocoa initiative.

USAID is to be congratulated for pioneering this partnership through your leadership efforts.

Very best regards.

Carol Knight
ACRI

Ian Taylor
CAOBISCO

Tom Harrison
IOCCC

/mm

50th
ANNIVERSARY

1948 50 Years of Cocoa Research and Education 1998

DECLARATION OF INTENT

AN INTERNATIONAL RESEARCH INITIATIVE ON COCOA SUSTAINABILITY

Various representatives of the cocoa and chocolate industry, the governmental and non-governmental development groups, and the scientific community met on February 28, 1999 to address the growing interest in the cocoa tree as a profitable and economically beneficial rainforest crop. Cocoa is vital to the smallholder in many tropical countries as a source of sustainable income, and also to the producing countries as a source of foreign earnings. The meeting attendees gathered to share their commitment to promote sustainable cocoa production as an engine of economic development, tropical forest conservation and a sustainable supply of high quality cocoa.

While projections indicate the strong potential for increasing demand for chocolate products, new challenges and opportunities for the small producer and the global industry have arisen. Disease and pest control issues, land use, and a changing global business environment require a dynamic, positive response from those involved in all aspects of the cocoa chain - from the smallholder to the manufacturer.

Research efforts must focus on environmentally sound measures which can be adopted by smallholders worldwide to mitigate the effects of pests and diseases, including witches' broom, cocoa pod borer and black pod. Other issues facing the small farmer, including development incentives, yield improvement and new global marketing opportunities must also be addressed. Meeting participants agreed that a collective approach to these challenges facing rural populations engaged in cocoa production is critical.

Accordingly, an international initiative for the creation of a coordinated research and development global programme on cocoa sustainability was developed. Its purpose is to work in public and private partnerships, in both the North and South, for the creation of cocoa-based farming systems. These systems will offer stable development prospects and long-term economic incentives to the smallholders through technology transfer and education/training programs to promote environmentally beneficial sustainable production of cocoa.

**IOCCC**

**International Office of Cocoa Chocolate &
Sugar Confectionery**

**CAOBISCO**

**Association of the Chocolate, Biscuit &
Confectionery Industries of the EU**

**CMA**

Chocolate Manufacturers Association

To : Attendees of International Sustainable Cocoa Program (ISCP) Inaugural Meeting on February 28, 1999 held at CIRAD offices, Paris, France

From : Carol Knight PH: 703-790-5011 FAX: 703-790-0168

Date : March 17, 1999

Celine Anselme, CAOBISCO	-	FAX: +32 2 539 1575
Jacqueline Balk Tusa, Andrews	-	FAX: 202-785-0480
Christopher Brown, USAID	-	FAX: 202-216-3010
Jerry Brown, USAID	-	FAX: 703-235-5423
John Claringbould, Mars, Inc.	-	FAX: +61 3 9755 2947
Alain Derevier, GFAR	-	FAX: 202-522-1142
Denis Despreaux, CIRAD	-	FAX: +33 4 6761 5659
Michelle End, University of Reading	-	FAX: +44 1189 750630
Albertus Eskes, CIRAD/IPGRI	-	FAX: +33 4 6761 0334
Ron Fotheringham, Tandem Int'l	-	FAX: +416-960-7107
Mark Fowler, Nestle, York	-	FAX: +44 1904 604 887
Emile Frison, INIBAP	-	FAX: +33 4 676 10334
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Karsten Keunecke, Bundesverband der Deutschen Susswarenindustrie	-	FAX: +49 228 260 0789
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Tony Lass, Cadbury Limited	-	FAX: +44 1214 514333
Marianne Lindblom, KJS	-	FAX: +46 8627 5628
Thomas Lovejoy, Smithsonian	-	FAX: 202-786-2304
John Lunde, M&M/Mars	-	FAX: 908-850-2697
Jeff Morgan, M&M/Mars	-	FAX: 717-361-4608
Ghislain de Ginestel, Barry Callebaut, France	-	FAX: +33 1 3022 8756
Eric Rosenquist, USDA	-	FAX: 301-504-4663
Philip Sigley, Cocoa Assn of London	-	FAX: +44 171 379 2389
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Joe Thompson, Mars Confectionery	-	FAX: +44 175 355 0111
Jeff Waage, CABI Bioscience	-	FAX: +44 149 182 9123
Nathalie Mercier, CIRAD France	-	FAX: +33 4 67 61 56 59

March 17, 1999

TO: FEBRUARY 28TH ISCP MEETING PARTICIPANTS

Once again, we would like to thank you for your contribution to our February 28th meeting in Paris on the International Sustainable Cocoa Program (ISCP). The meeting was both challenging and highly productive.

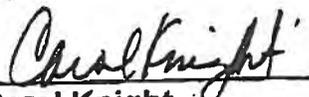
Attached are the minutes from Mr. Ron Fotheringham. While these are an excellent summary of the discussions in Paris, we recognize that there are important follow-up activities that must occur to identify methods for involving all stakeholders in the ISCP initiative. You told us that in Paris, and we will be considering ways of going forward together in partnership.

Remembering the words of Tom Lovejoy at our meeting, we will all "learn by doing". The Sustainable Cocoa Program is an important global cocoa initiative and it will continue to get the industry's highest attention.

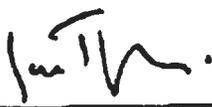
Before all the cocoa stakeholders get together again, the industry would like to do a little homework to develop an inventory of current research projects (on sustainability areas), and investigate ways of getting farmer/smallholder involvement in our initiative. When we finish this, we would like to call on you again for your input.

Thanks again.

Our best regards.



Carol Knight
ACRI



Ian Taylor
CAOBISCO



Tom Harrison
IOCCC

Tandem

A Towers Perrin Company

175 Bloor Street East
South Tower, Suite 1501
Toronto, Ontario M4W 3T6
416-960-2700
Fax: 416-960-2819

March 4, 1999

Our Ref: 80975/002

Dr. Carol Knight
American Cocoa Research Institute
7900 Westpark Drive
Suite A-320
McLean, VA 22102 USA

Dear Carol:

PARIS ISCP STRUCTURE WORKSESSION

This is to provide a summary/"minutes" of conclusions arising from the worksession portion of a meeting which involved a broad group of international participants held at CIRAD's offices in Paris on February 28, 1999.

The main purpose of the worksession portion of the meeting was to achieve understanding and agreement to a "structure" for the ISCP undertaking, including participation and responsibilities for the structure elements.

The conclusions from each step of the session were:

1. Presentation

A draft "ISCP Structure Proposal" was presented in both diagram and written form (original presentation materials will be included in "Worksession Notes" which follow).

2. Identification of Strengths

The draft structure proposal was seen to have "strengths" as follows:

- Global Forum enables *all* interested stakeholders to participate.
- While inclusionary, the structure is efficient/focused/practical in that it does not involve all stakeholders, at all times, on all matters ... It embraces different stakeholder groups for different purposes/needs.
- Structure allows for global strategy/initiatives development while still allowing regional/local execution.
- Key industry leadership bodies work together closely and overlap is reduced in this structure.
- Structure is flexible/"porous" - ideas can flow in all directions.
- Structure builds on/uses existing structures.

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Dr. Carol Knight
March 9, 1999
Page 2

3. Identification of Concerns

The draft structure proposal was seen to have "weaknesses" as follows:

- The executive group (called ISCP Industry Group in the draft proposal) lacks formal representation from key, non-industry interests and therefore:
 - misses opportunity for relationship development among industry and interest groups
 - opens up the potential that executive group might not be perceived as fully legitimate
 - global forum members might be concerned that their interests might not be fully reflected in final strategies/decisions
- ISCP Industry Group and Global Forum names are not appropriate.
- Identified consultation forums/formal worksession events do not address breadth of collaboration needs. In addition to research, funding and implementation needs, additional forums should address the needs of farmers, producing countries and environmental groups.
- It's unclear who should be represented in the consultation forums/formal worksession events.
- The executive group should be an "initiating group", not a "policy group".
- Is there sufficient "staff" to do the work?
- Is there real advantage/value to *any* new structure vs. just improving communication among current parties?
- We need more detail on "who does what and how".

4. Structure Proposal Rating

The group was asked to "rate" the draft structure proposal overall, with results as follows:

- A** : "Yes", overall agree with proposal, let's get on with it, try it/fix it, learn by doing: 8
- B** : "Yes But", agree with proposal but think there's something important which is wrong or missing and is a "deal-breaker": 20
- C** : "No", don't agree with approach, needs fundamental rework/ revision: 0

5. Structure Proposal Changes

The ratings strongly indicate that the structure proposal should be proceeded with; however, participant input suggests the following changes must be incorporated.

- i) An executive body of approximately 10 members, involving both industry and non-industry interest groups, should replace the proposed "ISCP Industry Group". ICCO should be one of the members.

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Dr. Carol Knight

March 9, 1999

Page 3

- ii) "Circles"/consultation groups/formal worksession events should additionally address farmer needs, environment needs and industry needs (in addition to research, funding and implementation needs).

5. Next Steps

A listing of the identified next steps is as follows:

1. ISCP "Steering Committee" should create an agenda for a follow-up meeting of key stakeholders, ideally to be held in June, perhaps in coordination with scheduled ICCO meetings.
2. Finalize and communicate a recommendation regarding a revised ISCP structure proposal.
3. Ideally, prior to the next meeting, the following work should be done:
 - a) Develop inventory of current research projects and preliminary identification of gaps and overlaps.
 - b) Conduct a "poll" of research fund availability.
 - c) Identify farmer representation. (e.g. through ICCO, through Donor facilitation, or IOCCC poll of partners).
 - d) Conduct a farmer consultation meeting to identify needs.
4. Undertake preparation for a Global Forum meeting.

On the basis of input from the worksession, I've attached as Exhibit I my "best shot" at a revision to the draft Structure Proposal, which reflects the changes decided at the meeting.

Thank you once again for the invitation to participate in a highly intense, challenging meeting, which I also believe was highly productive. It was a personal pleasure working with the group and I hope we'll meet again.

Best regards,



Ron Fotheringham

Direct Dial: 416-960-6865

P.S. I'll send along "Worksession Notes" (type-outs of the flip charts which were generated at the worksession) along with another copy of the original Structure Proposal and Diagram as soon as they're typed in the next 1-2 weeks.

**EXHIBIT 1: INTERNATIONAL SUSTAINABLE COCOA PROGRAM - STRUCTURE
PROPOSAL (REVISED 2/28/99)**

1

1. Purpose

Our overall purpose is to achieve sustainable cocoa supply. International support and involvement in SCP implementation is critical for the following reasons:

- To ensure that world-wide SCP research effort is properly coordinated and prioritized behind common objectives and that synergies are realized among research projects.
- To avoid duplication of SCP research projects around the world and to reduce conflicting recommendations.
- To help ensure that there is "buy-in" and agreement to common direction from local stakeholders (e.g. national development organizations, research institutes).
- To raise funds on a global basis.

The purpose of our work is to meet the needs of the total cocoa chain:

- Chocolate Manufacturers, whose key needs include:
 - Availability of quality cocoa
- Cocoa farmers, producing countries, and trade, whose key needs include:
 - Education/training to improve yields
 - Marketing support/advice
 - Financial support and economic development
- Developmental organizations, whose key needs include:
 - Environmental protection/improvement
 - Public/private alliances
 - Economic improvement for growing countries

2. Structure "Principles"

- *Inclusionary*: involving, participating among all major interested parties.
- *Communicative*: facilitating strong communication among all interested parties.
- *Clear Responsibility Identification*: "who does what"
- *Efficiency*: operating ease, practicality, "realistic focus"

3. Structure "Diagram" and Proposal

Diagram: See Exhibit 1

Note: These structure depictions to *not* represent "reporting-to relationships" (as in traditional organizational structures), but rather inter-relationships among cocoa interested parties, each with specific responsibilities in achieving an internationally sustainable cocoa supply.

**EXHIBIT 1: INTERNATIONAL SUSTAINABLE COCOA PROGRAM - STRUCTURE
PROPOSAL (REVISED 2/28/99)**

A. ISCP Global Forum

Participants

All cocoa-interested parties/stakeholders, including:

- Industry Companies
- Industry Associations
- Development Organizations
- Donors
- Trade
- Researchers and Research Institutes
- Producer Organizations and countries
- Conservation/Environmental organizations
- Farmer representation

Purpose/Responsibilities

- Overall*
- Act as overall "Board of Directors" for ISCP effort
 - Review Progress
 - Provide international guidance, new direction
 - Provide learning/communication forum on latest developments
- How Achieved?*
- Once-per-year meeting of all cocoa interested parties to maintain and enhance international cocoa research coordination, interest and momentum.

B) ISCP Executive Group

Participants

A body of approximately 10 members, including:

- IOCCC
- Europe -- CAOBISCO
- North America -- CMA/ACRU
- ICCO
- Other cocoa-interested parties/representation ("Industry Partners")

Note: Participants would *not* include Development Agencies/Donors (at their request).

Purpose/Responsibilities

- Overall*
- Research strategy development and prioritization/allocation decision-making.
 - Overall SCP research coordination

**EXHIBIT 1: INTERNATIONAL SUSTAINABLE COCOA PROGRAM - STRUCTURE
PROPOSAL (REVISED 2/28/99)**

3

Specific

- Establish SCP research agenda which includes:
 - Identifying research gaps
 - Prioritizing and coordinating research needs to achieve research synergies
 - Reducing research duplication
 - Defining/recommending new research programs and projects
 - Monitoring status of research agenda
- Expanding existing and developing new donor relationships in order to:
 - Identify and guide funding organization resources to priority research and development projects on a global basis
- Developing global communications strategy in order to promote the concept of sustainability in origin countries, with development organizations, and with the environmental community
- Promoting SCP vision, strategies and directions to encourage implementation among local stakeholders

How Achieved?

- Executive Group to hold a series of annual "formal worksession events" with appropriate collaborator groups to develop relationships, identify/understand mutual needs and views, and develop action plans regarding:
 - Research needs
 - Funding needs
 - Implementation needs
 - Farmer needs
 - Environmental needs
 - Industry needs
- Participation in each worksession is "open" to all subject-interested parties.

C) ISCP Coordination and Administrative Support

Participants

- Initially, CAOBISCO and CMA/ACRI
- Depending on unfolding workload requirements, we might identify future funding sources and additional resources that might be built upon CAOBISCO and CMA/ACRI base structures.

3/8/98

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**EXHIBIT 1: INTERNATIONAL SUSTAINABLE COCOA PROGRAM - STRUCTURE
PROPOSAL (REVISED 2/28/99)**

Purpose/Responsibilities

- Overall* ■ Provide coordination and administrative services as required, being directed by the ISCP Executive Group to perform identified administrative, technical, research, implementation and communication tasks.
- Specific* ■ Developing, maintaining global database of cocoa research programs/projects and status
- Communicating with program managers and concerned parties about ISCP directions and project status
- Liaising with media
- Preparing and distributing ISCP documents to relevant audiences
- Coordinating meetings and "formal worksession events" and preparing agendas and briefing documents
- Identifying resources to support ISCP requirements
- Preparing budgets

D) ISCP Program Management

Participants

- Organizations/bodies which "own"/are responsible for successful management of designated projects:
 - Industry e.g. CMA/ACRI, CAOBISCO
 - "Partners" e.g. CIRAD, CAB, IOCO, USDA, Smithsonian, USAID, CPA, IPGRI, World Bank, Research Institutes

Purpose/Responsibilities

- Overall* ■ To manage projects to successful completion

E) ISCP Project Implementation

Participants

- Development Organizations/Donors, e.g.:
 - World Bank
 - USAID
 - EU
 - DFID
 - GTZ
 - USDA
 - CFC
 - Winrock
- Research Institutes/Researchers

Purpose/Responsibilities

- Overall* ■ To conduct projects to successful completion

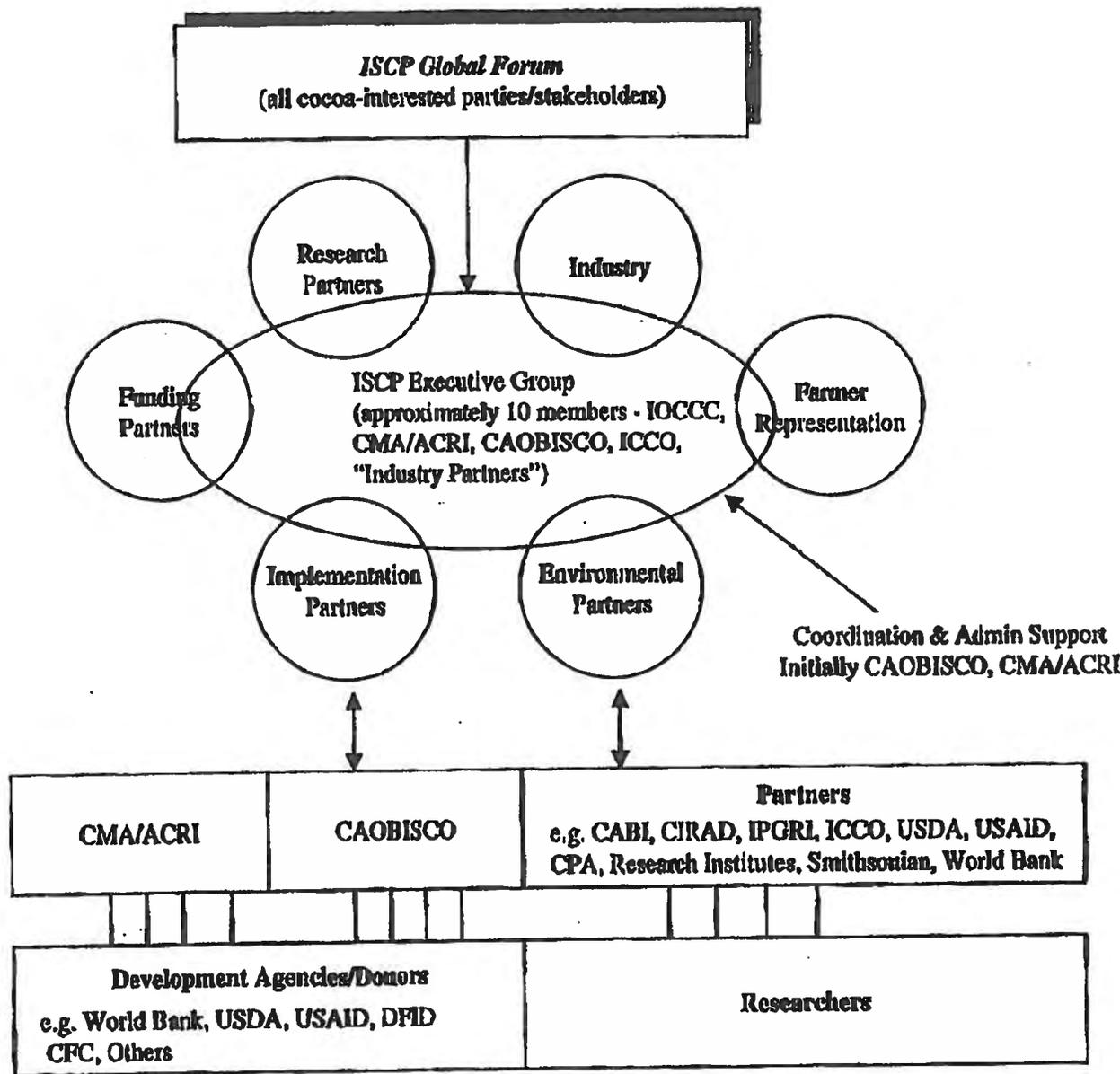
EXHIBIT I: REVISED STRUCTURE DIAGRAM 2/28/28

Overall Direction

Research Strategy
Developmental Direction

Research Program
Management

Research Project
Implementation





U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

December 22, 1998

Mr. Joseph P. Viviano
President and Chief Operating Officer
Hershey Foods Corporation
100 Crystal A Drive
Hershey, PA 17033

Dear Mr. Viviano:

On behalf of USAID's Global Economic Growth and Agricultural Development Center, I want to thank you for the opportunity you afforded my colleagues, Drs. Chris Brown and Bob Hedlund, to work with you and the other partners to consolidate our sustainable cocoa program. We stand by the intent expressed at that meeting to strengthen our on-going rural development, agricultural market promotion programs around the world to facilitate small farmer access to these new cocoa opportunities.

As we enter the next century, and as public sector overseas development assistance continues to get less and less Congressional attention, we at USAID welcome the increasingly important role which private trade and investment flows are playing in helping the cocoa source countries achieve lasting income and export gains. We are therefore enthused by this opportunity to forge an exemplary, and highly contemporary, public-private partnership through our work together.

May you, your family and your colleagues enjoy a holiday season blessed with peace and joy, and may we jointly make 1999 a year to remember!

Sincerely,

John V. D. Lewis
Director, Office of Agriculture and
Food Security
Global Bureau



American Cocoa Research Institute

7900 Westpark Drive • Suite A-320 • McLean, Virginia 22102-4203 • Telephone: 703/790-5011 • FAX: 703/790-5752

December 14, 1998

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Burlingame, CA

MARTIN L. ANDREAS
ADM Cocoa
Decatur, IL

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Nestle Chocolate & Confections
Glendale, CA

HENRY BLOMMER, JR.
The Blommer Chocolate Company
Union City, CA

MICHAEL L. COLTART
Brach & Brach Confections, Inc.
Delavan, WI

MICHAEL MURPHY
M&M, Mars
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& HUMAN RESOURCES

Dr. Christopher M. Brown
U.S. Agency for International Development
G/EG/AFS/AEMD
Room RRB 2.11
Washington, DC 20523-2110

Dear Chris:

We would like to take this opportunity to thank you for your valuable participation in our Sustainable Cocoa Program work session on December 1 in Hershey. We know that many of you came a long way to be with us and we appreciate this effort on your part. Those of you who have made recent commitments to funding some of our important cocoa research initiatives, we especially thank you for your involvement.

As you know from our meeting, we all agreed that the Sustainable Cocoa Program is an important research priority for the cocoa and chocolate industry. The four key rationales for this program to be "international" were:

- To avoid duplication of SCP research programs around the world and to reduce conflicting recommendations
- To ensure that world-wide SCP research effort is properly coordinated and prioritized behind common objectives and that synergies are realized among research projects
- To help ensure that there is a buy-in and agreement to common direction from local stakeholders
- To raise funds on a global basis

Information summarizing our agreement about the International Structure and the SCP Implementation Plan is included in the attached report from Ron Fotheringham, our superb facilitator.

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Following our morning discussion of a proposed international SCP structure, Joe Viviano surveyed all of you about your overall reaction to SCP and what you were willing to do. We at ACRI were impressed by the strong expression of commitment and support that we heard from all of you—industry, donors, researchers, and conservation organizations alike. This made our afternoon Executive ACRI session an easier job!

In this ACRI session we agreed to take on three distinct responsibilities in the SCP effort:

1. To manage implementation of ACRI's on-going SCP research program
2. To provide short-term leadership in identification and installation of an International SCP structure (Steering Committee and support function)
3. To take on additional "new" responsibilities related to the International SCP program, specifically playing an active role in the SCP Steering Committee and acting as an interim support function (secretariat) for the International effort.

As immediate Next Steps, ACRI (Larry and Carol) will develop a possible approach to an organizational structure and funding mechanism for the International SCP program, as well as a new name for this body (e.g., International Cocoa Research Institute).

An organizing meeting for the SCP Steering Committee has been proposed for March 1, 1999 in Paris in conjunction with the Salon International de l'Agriculture, and CIRAD's presentation "Les Mondes Du Cacao". At that time, we hope to finalize a Steering Committee to begin the important tasks ahead.

As we at ACRI begin this process, we hope to call on you informally over the next few months to help us in this process. Once again, we appreciate your commitment to the SCP program and look forward to working with you in this effort.

Sincerely,



Joseph P. Viviano
President and Chief Operating Officer
Hershey Foods Corporation

/mm



American Cocoa Research Institute

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October 14, 1998

Daniel R. Glickman
Secretary of Agriculture
Department of Agriculture
1400 Independence Avenue, S.W.
Washington, DC 20250

Dear Secretary Glickman:

As Vice president of the American Cocoa Research Institute, the scientific research arm of the Chocolate Manufacturers Association, I would like to acknowledge the importance of the biocontrol research program on cocoa plant diseases currently underway at Beltsville and its long-term importance for the US chocolate industry, its employees, raw material suppliers (dairy, peanut, sugar) and consumers. Additionally, Beltsville's biocontrol studies have significance far beyond domestic agriculture and commercial considerations -- specifically to small holder cocoa farmers around the globe, tropical environments, rainforest sustainability, biodiversity preservation and even global warming.

As a major agribusiness, US chocolate manufacturers have total domestic sales in excess of 12 billion dollars and exports of over 600 million dollars. The principle raw ingredients in chocolate confectionery include sugar, milk, cocoa butter, chocolate liquors, and peanuts. Typically, milk chocolate will have 20 to 30 percent cocoa solids (cocoa butter, chocolate liquor), 20 to 30 percent milk solids and 40 to 50 percent sucrose. For every pound of cocoa solids utilized, the industry consumes almost one pound of milk and two pounds of domestically produced sugar. Significantly, the chocolate confectionery industry -- excluding chocolate milk, ice cream, cake, cookies, drinks -- utilized over 200,000 tons of ^{powdered!} milk and milk products in 1997.

While there is no immediate shortage of cocoa beans, production currently lags consumption by about 3 percent and a shortfall, accompanied by a considerable rise in prices, is forecast for 2003 and beyond. Anticipated price increases will be accompanied by a decrease in consumption and a concomitant decline in milk, peanut and sugar purchases. This problem will not be unique to the United States. Indeed, in Europe where chocolate consumption far exceeds that of the US, unused inventories of sugar and milk will create even more significant problems for the agricultural sector.

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Secretary Glickman Letter
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The short fall in cocoa bean production is largely caused by losses from cocoa plant diseases and pests. If the right research was funded at appropriate levels and its results implemented expeditiously through farmer extension training programs, shortages could possibly be avoided while, at the same time, improving and stabilizing farm income levels. Perceived as a luxury food, chocolate has never enjoyed serious government funded research support or aggressive extension services consideration. However, recent events have focused important new attention on cocoa's role in rural economic growth and tropical conservation in the third world - changing both the perception and recognition of its value to emerging free market economies.

This past April a major workshop on sustainable cocoa farming was convened by the Smithsonian Institute. One of our member companies, Mars, Incorporated, funded the conference. The Smithsonian workshop found traditional cocoa farming to be one of the few ecologically sustainable tropical agricultural practices that can support a high level of biodiversity, sequester carbon and produce a cash income. Numerous environmental groups present at the workshop have since embraced cocoa farming as essential to preserving tropical forests and at the same time producing incomes critical to rural families.

At one time cocoa beans were sourced from large plantations in South America, Africa and Asia. In the last two decades the number of large plantations has fallen dramatically and, today, small farmers provide over 85 percent of the crop. Since the cocoa tree is prone to a number of plant and pest diseases, small farmers in South and Central America, in particular, struggle against an array of fungal diseases. Traditional chemical fungicides have proven ineffective, environmentally damaging and too expensive for small holders. The most promising research to control these diseases seen in years is the very modest biocontrol research program run by Eric Rosenquist and Robert Lumsden at the ARS center in Beltsville where USDA scientists have isolated and grown natural fungal antagonists and then used them to control the fungal pathogens.

For the past 16 months, ACRI has helped fund the salary for Dr. Prakash Hebbar, a member of the Beltsville biocontrol team. The industry feels that the work in progress at Beltsville is critical and should be expanded. Since the Panama conference on sustainability, the chocolate industry has also been working with USAID to promote cocoa farming as a potential key strategic economic, environmental and development tool for Africa, Asia and Latin America.

The chocolate industry looks forward to the opportunity to expand its collaborative efforts with both USAID and USDA. Accordingly, I would welcome the opportunity to join with some of my industry colleagues in discussing with you, at your earliest convenience, future partnership efforts to further broaden the Department's biocontrol research portfolio.

Sincerely,



Carol Knight, Ph.D.

Vice President Scientific Affairs

**Annex D: World Cacao Production
in 1997-98
(Featuring Countries of Interest to USAID)**

Region/Country	Production (000 tonnes)	Percent of World Total
AFRICA		
Cote d'Ivoire	1,180.0	42.8%
Ghana	350.0	12.7%
Nigeria	145.0	5.3%
Cameroon	120.0	4.3%
Togo	5.0	0.2%
Equatorial Guinea	4.5	0.2%
Sierra Leone	3.0	0.1%
Congo Republ.	3.0	0.1%
Sao Tome/Principe	3.0	0.1%
Madagascar	2.6	0.1%
Tanzania	2.5	0.1%
Uganda	1.0	0.0%
Liberia	0.7	0.0%
ASIA		
Indonesia	325.0	11.8%
Malaysia	115.0	4.2%
Papua New Guinea	28.0	1.0%
India	6.0	0.2%
Philippines	5.0	0.2%
Sri Lanka	1.4	0.1%
LAC		
Brazil	152.0	5.5%
Ecuador	85.0	3.1%
Colombia	60.0	2.2%
Dom. Republic	57.0	2.1%
Mexico	42.0	1.5%
Peru	15.0	0.5%
Costa Rica	4.0	0.1%
Haiti	3.5	0.1%
Bolivia	3.5	0.1%
Jamaica	2.5	0.1%
Honduras	2.0	0.1%
Panama	1.0	0.0%
Other Countries	31.1	1.1%
TOTAL WORLD	2,759.3	100.0%

Source: ACRI Web Site 11/98