



Fact Sheet: Solomon Islands Cocoa Export Industry

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.

PHAMA

Pacific Horticultural & Agricultural Market Access Program

An Australian Government initiative



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 middle-men, 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.

Contact Us



Andrew Sale

t: +677 22 365

m: +677 749 5736

e: a.sale@phama.com.au

www.phama.com.au

The Pacific Horticultural and Agricultural Market Access program (PHAMA) is an Australian aid project, funded by the Australian and the New Zealand Governments.

PHAMA is implemented by AECOM.