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The political economy of international cocoa agreement by C. E. Nemedia: a comment

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"THE POLITICAL ECONOMY OF INTERNATIONAL COCOA AGREEMENT" BY C. E. NEMEDIA[1]

A COMMENT BY O. O. AKANJI (Mrs.)

I congratulate the writer on the effort put into writing the paper, especially for making a scholarly contribution to the Political problem of the most erratic world commodity trade —cocoa. However, I have a few remarks on the analysis of the paper.

Firstly the paper fails to do sufficient justice to the policy implications of the analysis for both the producing and consuming countries. The most obvious policy implication of the analysis is the need to utilize the bulk of cocoa supply in the main producing countries themselves. It can validly be asserted that the low level of consumption of cocoa by the producing countries has given rise to the agreement which does not effectively reflect the realities of the cocoa market. This in turn is explained by the undue influence of consuming countries in drafting the Agreement. An organization like the cocoa Producers Alliance should by now be in a position to manage or organize adequate storage facilities such that sales by producers can be more effectively controlled.

Secondly, the commodity agreement itself was not fully discussed in the paper. The paper discussed the objectives of the agreement which are long-term objectives and very general. But it is pertinent to know that the regulations attached to the international cocoa agreement (ICA), tend to be very complex. Apart from the general objectives, the main contents of the Agreement can be summed up in two statements:

(i) If an agreement is truly to stabilize prices on an international commodity market, someone somewhere must manage a stock of the commodity so as to even out irregularities in the quantity supplied.

(ii) Nearly every commodity agreement has eventually broken down because it finds itself attempting to stabilize market prices at a level which is either substantially below or substantially above the longrun equilibrium.

Thirdly, the statement of the author on the fiscal role of commodity boards is not totally correct, it may be correct for Ghana, but in Nigeria a commodity board is no more a revenue collector as it used to be before 1976.

The re-organization of the old marketing boards in 1976 made it open to all producers to sell to anybody, and the old system of paying well below the world market price has been abolished.

Table 1 shows the price ratios between the Nigeria producer prices, Ghana producer prices and the world prices. To some extent the Nigeria ratio reflects the re-organization in the marketing and pricing system of the boards. However, lack of information on marketing expenses by the cocoa board makes it impossible to determine their exact trading position.

Fourthly, the paper did not discuss what might have led to the inoperation of international cocoa agreement over its 6 years span of life. There were two main developments contributing to the inoperation. The first of these is the steady growth of demand from the consuming countries. Despite the steady rise in prices in the last few years, demand has risen steadily and this in fact tends to confirm the generally inelastic demand for cocoa at the world level. Secondly, the supply of cocoa has not grown as fast as demand. Besides the Ivory Coast, production of cocoa has more or less stabilised in the other producing countries. The resultant effect of the excess demand in the cocoa market has been the inability to make up the necessary buffer stock of the ICA.

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TABLE 1

RATIO OF PRODUCER PRICE TO WORLD PRICE IN NIGERIA AND GHANA

Year	Nigeria Producer Price in £ Sterling MT	Ghana Producer Price in £ Sterling MT	World Price F.O.B. in £ Sterling MT	Ratio Nigeria	Ratio Ghana
1973	201.19	135.65	585.35	0.3	0.2
1974	313.35	181.00	990.14	0.3	0.2
1975	443.39	226.29	722.74	0.6	0.2
1976	547.30	327.13	1,399.44	0.4	0.3
1977	637.39	486.05	2,943.87	0.2	0.2
1978	849.46	551.97	2,005.58	0.4	0.3
1979	849.46	551.97	1,998.18	0.4	0.3

Source: Gill and Dufus; cocoa market report.

N/B £ Sterling had to be used as there are currency differentials between Ghana and Nigeria.

[1] C. E. Nemedia, Economic and Financial Review. Vol. 16 No. 1 June 1978, pp. 18-25.