



# REPORT OF THE COMMISSION ON THE MARKETING OF WEST AFRICAN COCOA

*Presented by the Secretary of State for the Colonies  
to Parliament by Command of His Majesty  
September, 1938*

LONDON

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MAP—Gold Coast Cocoa Production, 1936-37.

*Note.*—All expenditure in connection with the Commission, other than the cost of printing the Report, has been borne by the Governments of the Gold Coast and Nigeria. The cost of printing and publishing the Report is estimated by H.M. Stationery Office at £188 10s. 0d.

The Right Honourable

THE SECRETARY OF STATE FOR THE COLONIES.

SIR,

The decision of your predecessor, the Right Honourable W. G. A. Ormsby Gore (now Lord Harlech), to appoint a Commission to examine and report on the marketing of Gold Coast and Nigerian cocoa arose in the following circumstances.

2. Early in November, 1937, as a result of Buying Agreements entered into in respect of Gold Coast and Nigerian cocoa by all but one of the important European firms trading in the two dependencies, a general hold-up of cocoa, accompanied by a boycott of certain European goods, was started by Gold Coast and Ashanti farmers. The hold-up and boycott were so effective as to bring both the export and the internal trade in the Gold Coast practically to a standstill; only small quantities of cocoa were marketed, and imported merchandise accumulated unsold in the firms' stores and in the Customs sheds. In spite of efforts made by Government to effect a compromise, neither the farmers nor the firms appeared to be prepared to withdraw from the position which they had taken up. No serious agitation against the Agreement occurred among producers in Nigeria and the Nigerian crop was marketed as usual: but in the Gold Coast the deadlock continued into the spring of 1938. At the instance of the Governors of the Gold Coast and Nigeria, therefore, your predecessor decided to appoint a Commission to inquire into the situation and at the same time to examine the whole question of the marketing of West African cocoa.

3. This decision was first announced to Parliament on the 14th of February, 1938, in reply to a question by Mr. Sorensen. The reply also gave the Commission's terms of reference as follows:—

“ To examine and report on the marketing of cocoa in the Gold Coast and Nigeria, with special reference to the situation which has arisen as a result of the Buying Agreement(s) entered into between certain firms; and to submit recommendations.”

4. The composition of the Commission was announced in the House of Commons on the 23rd of February, as follows:—

Mr. William Nowell, C.M.G., C.B.E. (Chairman),  
Mr. Rupert S. Thompson,  
Mr. C. A. L. Irving,

with Mr. E. Melville of the Colonial Office as Secretary.

5. In a subsequent statement in Parliament in reply to a question by Mr. Sorensen, your predecessor referred to the scope of the Commission's inquiry as follows:—

*House of Commons, 2nd of March, 1938. Question No. 33.*

“ The Commission have been appointed to examine and report upon the situation, but they have the fullest freedom to make any recommendations which they think fit.”

6. The Commission held three preliminary meetings in London on the 22nd and 25th of February and the 3rd of March, in order that members might discuss arrangements and furnish themselves with certain general information on the matters which they were called upon to investigate. No formal evidence was heard at this stage.

7. The Commission left England for the Gold Coast on the 9th of March, arriving in the Colony on the 23rd of March. Meanwhile, at the Commission's request, intending witnesses in the Gold Coast and in Nigeria were invited to prepare memoranda of evidence in anticipation of the Commission's arrival; and an announcement was made in both dependencies to the effect that the Commission would not allow witnesses to be represented by Counsel. The Government of the Gold Coast appointed Mr. T. R. O. Mangin (Deputy Provincial Commissioner) and Mr. H. Nicholas (Senior Superintendent of Agriculture), and the Government of Nigeria appointed Mr. R. L. V. Wilkes (District Officer), to be attached as liaison officers to the Commission. Further, in order that the Commission should possess the necessary powers for its inquiry, it was considered necessary to pass The Commissioners' Powers (Conferment of) Ordinance, 1938, (No. 3 of 1938) in the Gold Coast, and The Commissioners' Powers (Conferment of) Ordinance, 1938, (No. 10 of 1938) in Nigeria.

8. On the Commission's arrival at Accra, a communiqué was handed to the Press, in which the position of the Commission as an independent and disinterested body was emphasized and the hope expressed that there would be no reluctance in any quarter to give evidence and that all concerned would assist in creating an atmosphere in which the Commission's investigations could be carried out thoroughly and expeditiously. It was also announced that, while most of the evidence would be taken in private, the Commission would hold a certain number of public sessions.

9. The Commission held a preliminary meeting in Accra on the 24th of March, with the Governor and officials of the Gold Coast Government, for a general discussion of the situation. At this meeting the Commission put forward, for the Governor's consideration, certain tentative proposals for negotiating a truce between the farmers and the Agreement firms. The course of these negotiations is described in Chapter VI of the Report.



10. The subsequent activities of the Commission in the Gold Coast fall into the following categories:—

(a) Public sessions at Accra and Kumasi. (There was also a short meeting of introduction at Swedru, but no evidence was taken.)

(b) Private sessions at Accra, Kumasi, Koforidua, Aburi, Swedru and Winneba.

11. The total number of formal sessions held was about 30. Some 140 witnesses\* were heard (their names are listed in Appendix A) comprising Chiefs and representatives of farmers, Co-operative Societies, middlemen, Agreement and non-Agreement firms, as well as of Government and of the mercantile and professional community. In addition, much evidence was taken informally.

12. The Commission left the Gold Coast for Nigeria on the 27th of April, and arrived in Lagos on the following day. The only public sessions held in Nigeria were short formal opening sessions at Lagos on the 28th of April, and at Ibadan on the 3rd of May. All evidence was heard in ten private sessions at Lagos, Agege, Ibadan and Ife. About 60 witnesses\* were heard (see Appendix A) comprising Chiefs, representatives of farmers' and middlemen's Associations and of Co-operative Societies, and representatives of Agreement and non-Agreement firms, as well as Government officials and a number of independent persons.

13. The Commission concluded taking evidence in Nigeria on the 6th of May, and left for England on the 7th of May, arriving at Plymouth on the 20th of May.

14. The Commission began the hearing of further evidence in London on the 24th of May and completed the taking of evidence on the 28th of June. Twenty-seven sessions were held and about 40 witnesses examined (see Appendix A), comprising Government officials and representatives of the Agreement firms and of independent firms, as well as brokers and dealers (British and American) and independent persons.

15. A complete diary of the Commission's official proceedings is attached (Appendix B). Our Report is contained in the following pages.

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\* Deputations have been reckoned as single witnesses



## INTRODUCTORY.

## CHAPTER I.

**GOLD COAST AND NIGERIAN COCOA IN RELATION TO  
WORLD PRODUCTION AND CONSUMPTION.****(a) Descriptive.**

16. Cocoa is produced from the fruit of *Theobroma cacao* L., a small spreading tree indigenous to tropical South America. Many varieties are known, but two main types are cultivated. Gold Coast and Nigerian cocoa belongs to the "Amelonado" sub-variety of the coarser and more robust "Forastero" type. The finer "Criollo" type is now rare.

17. Cocoa is an exacting crop and its requirements as regards soil, drainage, rainfall and temperature must be met within relatively narrow limits if it is to do well. Under favourable conditions, which must include protection against drying winds, trees come into bearing from four to five years after planting. The crop is borne in pods attached to the trunk and thicker branches by short stalks, each pod containing a mass of some 20 to 40 seeds arranged in rows and covered in a white pulp. The seeds require only to be extracted from the pod, fermented with the pulp and dried to become the cocoa beans of commerce.

18. There are usually two cocoa crops a year. In the Gold Coast and Nigeria the main crop season is from September or October to January or February, while the small "mid-crop" (which accounts in the Gold Coast for only 5 to 10 per cent. of total annual production) comes in about four or five months later. The time of harvesting and sale of the crop varies in other producing areas. The Brazilian crop normally reaches the world markets slightly before the Gold Coast and Nigerian crops and its peak exports occur usually between October and March. In San Domingo exports reach their peak between May and July; in Trinidad between February and May; and in Ecuador and Venezuela between April and June. The months of heaviest arrivals of all cocoas on the world markets coincide roughly with the Gold Coast and Nigerian exporting season, and for statistical purposes the crop year is usually taken as from the 1st of October to 30th of September.

**(b) Production and Exports.**

19. Statistics of area under cocoa and of annual production in the various producing countries are not complete, but, since most of the cocoa produced is exported, figures of trade can be taken in most years as a fairly good indication of world production.

20. The world trade in cocoa is of comparatively recent growth. In 1895 total world exports were only about 77,000 metric tons.\* The main countries of production were then, in order of importance, Ecuador, the West Indies (Trinidad, Grenada and San Domingo), Brazil and Venezuela which together exported about 73 per cent. of the total. The only considerable single source of supply outside these areas was San Thomé (a Portuguese island in the Gulf of Guinea) with about 9 per cent. of total exports. World exports almost doubled in the next decade: they had doubled again by 1915, and in 1925 a figure of nearly 500,000 metric tons was reached. This remarkable increase over a comparatively short period of years was made possible by the extension of cocoa cultivation to West Africa and by the very rapid growth of production especially in the Gold Coast. In 1905, British and French West Africa contributed only about 4 per cent. of total world exports. By 1925 the Gold Coast alone contributed nearly 44 per cent., and the Gold Coast and Nigeria together about 52 per cent., of total world exports. Within a period of 20 years, therefore, the centre of production had shifted from South America and the West Indies to West Africa.

21. World exports of cocoa for the last 11 crop years are shown in Table I of Appendix C. It will be seen that, from 1926-27, total world supplies increased by 38 per cent. to a record total of nearly 720,000 metric tons in 1936-37. Brazilian production expanded by nearly 40 per cent. over the period and still accounts for about 15 per cent. of total world exports. But the importance of production in South America and the West Indies continued to decline relatively to that of British and French West Africa. This area contributed about 66 per cent. of total exports in 1936-37, as follows:—Gold Coast, 42 per cent.; Nigeria, 14 per cent.; the Ivory Coast, 7 per cent.; and the French Cameroons, 3 per cent.

### (c) Consumption and Stocks.

22. In the absence of adequate statistics of stocks in manufacturers' hands and elsewhere, it is difficult to obtain a close approximation to the true world consumption of cocoa. A satisfactory gauge is provided in the United Kingdom by the figures of removals of cocoa from bond; in the United States of America, the largest single consumer of cocoa, the position is complicated by the use of both licensed and unlicensed warehouses. At present the generally accepted estimate of world consumption is that made by *Gordian*.† It must be realized, however, that this is only an approximation to true

\* 1 metric ton = 2,204 lb.

† A fortnightly German publication devoted chiefly to cocoa.

consumption: we refer in our recommendations in Chapter XV to the desirability of more accurate statistical information being made available.

23. Tables II and III in Appendix C show estimates by *Gordian* of world consumption of cocoa by countries over the last 11 crop years, and total world stocks on 30th of September of each of these years. It will be seen that by far the largest single market for cocoa is in the United States of America. This market has increased in relative importance over the period, and took nearly 45 per cent. of total supplies of 1936-7 as compared with 38 per cent. in 1926-7. The United Kingdom has shown a considerable proportional increase as a consumer since the last industrial slump, and Canadian consumption is increasing rapidly: but in the important Continental markets there has recently been a tendency for consumption to fall either absolutely or relatively.

24. It is clear from these figures that the prosperity of the cocoa industry is closely linked with the trend of consumption in the United States which in turn depends very largely on general business conditions. The business setback which occurred in the United States at the beginning of 1937 had a serious effect on cocoa prices through a slump in demands from manufacturers. This decline was not apparent until late in the year and is revealed in the following Table:—

TABLE I\*

Countries.	Estimated true consumption.	
	1936.	1937.
	Tons.	Tons.
United States of America ... ..	290,000	232,000
Germany ... ..	75,000	71,000
Great Britain ... ..	103,000	96,000
Netherlands ... ..	67,000	53,000
France ... ..	47,000	41,000
Canada ... ..	17,000	15,000
All Others ... ..	110,000	119,000
Total ... ..	709,000	627,000

\* From Messrs. Wessels Kulenkampff & Company's Annual Cocoa Review, January, 1938.

#### (d) Prices.

25. Two main types of cocoa are recognized on the world markets; cocoa known commercially as "fine," which combines the rare "Criollo" cocoa with the better varieties of plantation "Forastero" and is the type produced in Ecuador,

Venezuela, Trinidad, Ceylon and the Netherlands East Indies; and that known as "ordinary" or "bulk", which is made up of the coarser "Forastero" varieties and is the type produced in West Africa, Brazil and San Domingo. The premium obtainable for fine cocoas over ordinary cocoas varies considerably from time to time. There are also price differences, which may be very considerable, between cocoas of the same type from different sources of supply.\* It will be seen from Table IV (b) in Appendix C that the premium for Trinidad Plantation, First Marks—a typical middle grade of fine cocoa—over Accra cocoa rose from an annual average of about 8s. per 50 kilos (roughly equivalent to £8 per ton) in 1932-3 to 20s. per 50 kilos in 1936-7.

26. From Table IV (a) of Appendix C, which shows the annual average price of Accra cocoa between 1921 and 1931 on the old basis of "Fair Fermented, f.o.b.", it will be seen that until the great depression prices were never lower than 30s. per cwt. and actually rose as high as 64s. per cwt. in 1927. Table IV (b) shows that the fall in price which began soon thereafter continued, with minor interruptions, until December, 1933. (The revision of the basis of Accra quotations to "Good Fermented, c.i.f. London" in 1931 disguises a further real fall in price of roughly four shillings per cwt.) The improvement up to the end of the 1935-6 season was very gradual but sound, resulting in part at least from the improved statistical position. The rapid rise in the first four months of the 1936-7 crop year was, however, of a very different kind; and all the market witnesses with whom we discussed the question agreed that the rise was unhealthy and, on a long view, undesirable in the interests of all parties engaged in the cocoa trade. There were many factors which united to cause this rise. The period was one of booms in all commodity markets, especially in the United States of America, and bull speculation was given its head. A continued increase in American consumption was predicted, and an excessively speculative view of the cocoa market was encouraged by the forecast of a small crop in the Gold Coast. The extent of speculative dealings in cocoa in New York at this period is referred to in detail in paragraph 398. Later forecasts of a heavy rather than a short crop in the Gold Coast, combined with the general business setback and a decline in cocoa consumption, especially in the United States, led to a sharp fall in price after January, 1937: by the end of June the whole of the earlier advance had been lost. The short rally in prices between June and September, it was explained to us in evidence, was due to the operations of the Hershey Chocolate Corporation which attempted to "peg" the market

\* The position of fine cocoas is described at some length in Section X of the *Twenty-second Report of the Imperial Economic Committee, 1932.*

at about 8 cents per lb. (roughly equivalent to 35s. per cwt.). The removal of this peg towards the end of September precipitated a renewed fall in price. These price movements had an important bearing upon the African reaction to the firms' Buying Agreements.

**(e) Organization of cocoa trade in Gold Coast and Nigeria.**

27. Cocoa is grown in West Africa by a large number of small farmers. Most of the cocoa is bought, on behalf of the exporting firms, by African middlemen employing money advanced to them by the firms. A fuller description of production and marketing conditions in the Gold Coast and Nigeria is given later in our Report; but in concluding this introduction it is desirable to give some account of the firms engaged in the West African cocoa trade and the nature of their business.

28. A list of all firms (and individuals) which exported cocoa from the Gold Coast during the crop years 1933-34 to 1936-37 is given, together with the tonnages shipped by each, in Appendix D. It will be seen that thirteen European firms shipped, in 1936-37, approximately 98 per cent. of the cocoa exported. All of these firms, with the exception of the English and Scottish Joint Co-operative Wholesale Society, Limited,\* whose exports were slightly under 4 per cent. of the total exports, entered into the Buying Agreement with which our inquiry is in part concerned. By far the most important shipper is the United Africa Company, Limited, a private Company formed in 1929 by an amalgamation of the Niger Company, the African and Eastern Trading Corporation and a number of other smaller firms, and controlled as to 80 per cent. of its share capital by Messrs. Lever Brothers Limited and Unilever Limited and as to the remainder by the African and Eastern Trading Corporation.

29. The firms exporting cocoa may be classified into three groups; (i) merchant firms with a business in imported merchandise; (ii) merchant firms with no import business at all; and (iii) manufacturing firms which themselves consume the bulk of the cocoa which they buy on the Coast, and do not engage in the merchandise trade. There are now no important firms belonging to group (ii) although we have been informed that the merchandise business of two of the smaller firms mentioned below as belonging to group (i) is so unimportant as to justify their being classified as traders in produce only. The 13 large European organizations fall into either group (i) or group (iii). In the former group fall, in order of the importance of their cocoa business, the United Africa Company, Limited

\* A joint subsidiary of the Scottish Co-operative Wholesale Society, Ltd., and the (English) Co-operative Wholesale Society, Ltd., known popularly on the Coast as "C.W.S."

(which also has by far the most important merchandise business); Messrs. G. B. Ollivant, Limited; the Compagnie Francaise de L'Afrique Occidentale; the Union Trading Company, Limited; Messrs. John Holt and Company (Liverpool), Limited; Messrs. Busi and Stephenson, Limited; the Swiss African Trading Company; the Societe Commerciale de L'Ouest Africain; Paterson, Zochonis and Company, Limited; and Messrs. W. Bartholomew and Company, Limited. In 1936-37 these merchant firms together exported nearly 76 per cent. of the total Gold Coast crop.

30. The manufacturer-consumers established in the Gold Coast (group (iii) ) are Messrs. Cadbury Brothers, Limited (who buy in association with Messrs. J. S. Fry and Sons, Limited); Messrs. J. Lyons and Company, Limited; and the English and Scottish Joint Co-operative Wholesale Society Limited. These manufacturers together exported nearly 22 per cent. of the 1936-37 crop, of which manufacturers within the Agreement exported about 18 per cent. To a limited extent manufacturers execute buying orders on behalf of other manufacturers not established on the Coast.

31. The bulk of the cocoa trade in Nigeria is in the hands (i) of the merchant firms established in the Gold Coast with the exception of the Swiss African Trading Company, Messrs. Busi and Stephenson, Limited, and Messrs. W. Bartholomew and Company, Limited, and with the addition of Messrs. G. L. Gaiser, Messrs. Witt and Busch, and C. Zard; and (ii) of Cocoa Manufacturers Limited (representing Messrs. Cadbury Brothers, Limited, Messrs. J. S. Fry and Sons, Limited, and Messrs. Rowntree and Company, Limited) and the English and Scottish Joint Co-operative Wholesale Society, Limited. The last-named was again the only important shipping firm outside the Buying Agreement.



**PART I.—THE GOLD COAST.****CHAPTER II.****POLITICAL CONDITIONS IN THE GOLD COAST.****(a) General.**

32. The territory known as the Gold Coast comprises four distinct sections; the Colony proper, Ashanti, the Protectorate of the Northern Territories, and Togoland under British Mandate. The more important statistics of the area, population, trade, revenue, etc., of the territory are contained in Appendix E. The Eastern and Central Provinces of the Colony and the Kumasi District of Ashanti are the most densely populated areas. These are, as will be seen from the map which accompanies our Report, the areas of the heaviest production of cocoa. The map further shows that, while cocoa growing is general over about two-thirds of the Colony, the Southern Section of Togoland and Ashanti, none is grown in the Northern Territories Protectorate or in the Northern Section of Togoland.

**(b) System of Government in the Colony and Ashanti.**

33. The laws of the Colony are made by the Governor with the advice and consent of the Legislative Council, on which there is an official majority. For Ashanti, the Northern Territories and Togoland, the Governor is empowered to enact laws.

34. For general purposes of administration, the Colony is divided into three Provinces—Eastern, Central and Western, the Southern Section of Togoland being administered as if it formed part of the Eastern Province. Each Province is under the control of a Provincial Commissioner, who is assisted by a staff of District and Assistant District Commissioners. Ashanti is administered, under the Governor, by a Chief Commissioner, with the assistance of an Assistant Chief Commissioner and a staff of District and Assistant District Commissioners.

35. The system of government, so far as concerns native affairs, may be described generally as “a mixture of direct and indirect rule, with a steady bias towards the latter.”\* By this is meant that Government’s policy aims as far as possible at adapting, for purposes of native administration, the indigenous African institutions. These institutions, as they have been evolved in the Colony and Ashanti, are described briefly in the following paragraphs.

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\* *Annual Report on the Social and Economic Progress of the People of the Gold Coast, 1936-37*, p. 6.

36. There are 63 native States in the Colony, each under a Paramount Chief who is styled Omanhene, Mantse, Fia or Konor, according to whether he belongs to the Akan, Ga-Adangme, Ewe-Krepi or Krobo race. There are also in each State a number of Divisional Chiefs, responsible to the Paramount Chief for the administration of smaller areas within the State; Sub-Chiefs and Village Headmen are again subordinate to the Divisional Chiefs. The traditional head of a State or of an area within a State is said to occupy the "Stool," which represents symbolically the unity of the people who owe allegiance to it. Chiefs are elected and installed in their Stools in accordance with native customary law; and their position is dependent upon the goodwill and support of their people. Abdications and "de-stoolments" of Paramount Chiefs occur, and Paramount Stools are sometimes vacant for appreciable periods. Under the Native Administration Ordinance,\* Paramount Chiefs are empowered, with the concurrence of their subordinate Chiefs and subject to the approval of the Governor-in-Council, to make by-laws for the good government and welfare of their African subjects.

37. In the administration of a native State, the Paramount Chief is assisted by a State Council. This constitutes the highest native authority in the State and consists of the Paramount Chief, with his Divisional Chiefs, Sub-Chiefs and Councillors. There are also native tribunals presided over by Paramount Chiefs and lower tribunals presided over by subordinate Chiefs, from which cases may, in certain circumstances, be transferred to the State Council. Except in land cases, where appeals lie to the Provincial Commissioner's Court, appeals from the decisions of a Paramount Chief's tribunal or a State Council lie to the court of a District Commissioner sitting as a Magistrate. Thereafter appeals may be taken to the Supreme Court and thence to the West African Court of Appeal; certain cases may finally reach the Privy Council. In the absence of any system of direct taxation and of properly run State Treasuries, court fines are often an important element in Chiefs' finances.

38. The Paramount Chiefs in each Province meet from time to time at the Provincial Councils and Joint Provincial Councils of Chiefs constituted under the Native Administration Ordinance. These Councils, in addition to providing opportunities for discussing matters of common interest, elect representatives to the Legislative Council of the Colony and exercise, through Judiciary Committees, certain judicial functions, such as the settlement of disputes between two Paramount Chiefs.

39. In Ashanti there is a Confederacy, revived in 1935, with the Asantehene (literally "King of the Ashanti") at its head.

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\* Native Administration (Colony) Ordinance, Cap. 76 of Laws.

The Asantehene is assisted by a Confederacy Council including the Head Chiefs of the Divisions constituting the Confederacy, and a Chief of each of the seven Kumasi clans. Under the Native Authority Ordinance,\* Native Authorities are appointed by the Governor, and have powers to promulgate local orders for prescribed administrative purposes and, subject to the approval of the Governor, to make rules providing for the peace, good order and welfare of natives within their area. Provision is also made for setting up Native Treasuries, and a number of such Treasuries are now in existence. There are native Courts, with varying degrees of jurisdiction, headed by the Asantehene's Court, and there is provision for appeals to higher Courts. Native institutions in the Southern Section of Togoland have been developed on lines broadly similar to those followed in Ashanti.

40. It will be seen that the system of native administration in Ashanti approaches more closely to the full system of indirect rule as found in Nigeria and Tanganyika, and presents a homogeneity which is absent from that of the Colony, with its various races and its numerous independent communities.

41. We have received, in the course of our inquiry into the cocoa hold-up, certain criticisms relating to the present system of native administration in the Gold Coast, particularly in the Colony. These criticisms were made with the object of showing, first, that the Chiefs forced the hold-up and boycott on their people against the will of the majority; and secondly that the Central Government was weak in dealing with illegal acts alleged to have been done by the Chiefs to enforce compliance with their orders. We discuss these matters in Chapter VI. It will be convenient here, however, by way of introduction, to describe briefly the practice of "swearing an oath", and the extent to which oaths are recognised as legally binding in the laws of the Gold Coast.

### (c) The "oath".

42. In native customary law, the idea underlying the swearing of an oath is, according to Rattray, to provide "a means of removing a dispute from the sphere of possible private settlement and securing a trial *in judicio*".† The oath used, as another authority states,‡ might be a fetish oath, a Chief's personal oath, or a national oath; its form would vary according to circumstances. In a boundary dispute between two members of the Akan tribe, for example, one might swear "Wukuda and Sokodee" (the oath of the Akim Akwapim

\* Native Authority (Ashanti) Ordinance, Cap. 79 of Laws.

† R. S. Rattray, *Ashanti*, p. 124.

‡ J. B. Danquah, *Akan Laws and Customs*, pp. 69-83.

State) that his farm extended to a certain tree, his neighbour swearing in return that a certain other tree marked the boundary between them. The two having been arrested as "oath prisoners", the dispute would be settled in the Chief's tribunal. In other circumstances, we understand that custom sanctions a number of clan members (e.g., a group of farmers) binding themselves, by an oath sworn by their representatives (e.g., Head-Farmers), to do or not to do a particular act (e.g., not to sell cocoa). A breach of the oath would involve the offender in a suit before the Chief's tribunal: but it would be for the Chief to decide, before punishing a breach of the oath, whether the representative, in swearing the oath binding on the group, had acted in accordance with the wishes of the group.

43. In addition, it is customary for Chiefs themselves to employ the oath as a means of giving legislative sanction to a new order or edict. The procedure is for the Chief, having decided upon an order with the advice of his Council, to send the Stool criers to publish it throughout the State or Division by beating "gonggong" (a tubular metal bell) and proclaiming, in a set formula which would include the use of the Chief's oath, that anyone who broke the order would have violated the oath and would accordingly be arrested and punished.\*

44. Under the Native Administration Ordinance of the Colony, prosecutions before native courts for breaches of oath are recognised only so long as the oath has been "lawfully sworn". No oath which involves violation of the laws of the Colony or is contrary to the principles of "justice, equity and good conscience" can be enforced. Further, since "the legislative power of Chiefs is entirely derived from the Ordinances of the Gold Coast, apart from which they have no powers of legislation, inherent or otherwise, and the prescribed method of such legislation is by means of by-laws which come into effect only if and when they have been approved by the Governor-in-Council,"† proclamations of Chiefs by beating gonggong and swearing the oath are not recognised as legally binding. There is nothing in the Ordinances to prevent a Chief from issuing an order to his people in this way; but should he or any other person attempt to enforce compliance with the order by threat or violence, or punish a breach of the oath by fine or imprisonment, he would be guilty of an offence. It follows that, so far as the Colony is concerned, the beating of gonggong by the Chiefs to forbid the sale of cocoa during the recent hold-up had no binding force on their subjects and that any steps taken to punish breaches of the oath or to enforce the hold-up by intimidation were illegal.

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\* R. S. Rattray, *Ashanti Law and Constitution*, p. 315.

† Judgment by late Chief Justice Sir George Deane on 2nd February, 1931, in case of *I.G.P. v. Asare Panyin*.

45. As regards Ashanti, it has been stated in paragraph 39 that Native Authorities have powers to promulgate local orders for specific administrative purposes. The promulgation of orders to forbid the sale of cocoa does not, however, fall within the competence of an Authority. At a meeting of Chiefs held in Kumasi in November, 1937, the Chief Commissioner said, with reference to such orders: "I am sure that it is not necessary to warn any Chief here that he must not attempt to enforce any law which has not been approved by the Governor." The position is thus not materially different from that in the Colony.

### CHAPTER III.

## THE COCOA INDUSTRY IN THE GOLD COAST.

### (a) History of development and present importance.

46. The history of the cocoa industry in the Gold Coast is covered by the memories of the older men who are still engaged in it. Its beginning is popularly attributed to one Tetteh Quarshie, a Fanti labourer in the cocoa plantations of Fernando Po, who in 1879 returned to Mampong with a smuggled cocoa pod. He is evidently destined to be a national hero, and we were somewhat embarrassed by the tendency of native witnesses to insist on beginning with this already somewhat legendary figure. We were told that the first pods produced in the Gold Coast were eagerly purchased for seed at 20s. each, and we found traces of a lingering belief that this should still be the basis of cocoa prices. We learned that the early farms, made in ignorance of the appropriate planting methods and conditions, were often far from successful. The results obtained were, however, favourable enough to attract official attention, and in 1887 there was a Government distribution in the Akwapim district of plants derived from imported San Thomé seed.

47. The established agricultural exports at that time were rubber, which was purely a forest product, and palm oil derived from semi-wild and more or less scattered trees. The attraction of an export crop capable of ordered production and commanding a ready sale proved irresistible, even though the plants took five to seven years to come into bearing.

48. The rise in exports of cocoa from the Gold Coast since the first shipment of 80 lbs. in 1891 has already been referred to in the introductory Chapter of our Report. The following

Table shows in more detail the rapid expansion, compared with that in Nigeria:—

TABLE 2.\*

<i>Quinquennial period.</i>	<i>Average annual export.</i>	
	<i>Gold Coast.</i>	<i>Nigeria.</i>
	<i>Tons.</i>	<i>Tons.</i>
1892-1896 ... ..	12	32
1897-1901 ... ..	329	144
1902-1906 ... ..	4,711	462
1907-1911 ... ..	20,934	2,375
1912-1916 ... ..	58,306	6,002
1917-1921 ... ..	118,290	17,294
1922-1926 ... ..	205,858	37,017
1927-1931 ... ..	225,732	49,749
1932-1936 ... ..	256,033	75,690

\* Compiled from Customs figures.

This development, remarkable enough in bare figures, may well be described as phenomenal when it is explained to be the sum of the production of small native farms, mostly of one to five acres.

49. As has been said in paragraph 20, world supplies of cocoa had, previous to the extension of the crop to West Africa, been derived almost entirely from organised plantation industries in tropical South America, the West Indies, and the Portuguese island of San Thomé. Plantation production is necessarily conducted on business lines, involving a balance sheet. By contrast the West African industry grew up as, and to a large extent still remains, an accessory to subsistence agriculture. It is only in more recent years, with the increasing demand for imported food and manufactures, the growing dependence on hired labour, and the tendency to acquire farms by purchase, that costs of production have begun to enter into the farmer's calculations. An illustration of the significance of this fact is afforded by the industry in Nigeria, where, at least in the older areas, the duration of a cocoa farm is limited by marginal conditions of soil and climate to a period of 15 to 20 years. It is nevertheless accepted by the Nigerian Department of Agriculture that cocoa will continue to be grown under these comparatively uneconomic circumstances, and an official investigation is being made of the long term rotation involved. Because there is no comparable export product available in these areas, the extra labour required has little weight against the necessity for a money crop.

50. The strength of the impulse in the Gold Coast to grow and market cocoa, reacting on a Government which naturally

welcomed an unexpected flow of wealth, brought about the building of railways, the construction of a system of excellent roads, and the provision of a first-class harbour. In step with the development of production, there has grown up the large marketing structure necessary to purchase, assemble, transport and ship the produce and, parallel with this, the equally large business of importing and distributing goods in exchange.

51. The increasing flood discharged by West Africa upon the cocoa markets of the world has hitherto been absorbed (it will be seen from Tables I and II in Appendix C) by a rapid increase in consumption. The quality of the West African product is at best mediocre, and it is only by slow stages that preparation has improved. The tendency of manufacturers has been to use African cocoa as a relatively cheap and abundant supply for bulk and to regard an admixture of the choicer plantation growths as necessary for flavour. Technical advances in manufacture appear to have largely reduced this need.\*

52. It will be realised from what has been said above that cocoa dominates the Gold Coast. In 1936 it represented 98 per cent. by value of all agricultural exports and 63 per cent. of total exports. Other agricultural products for export have, therefore, shrunk into insignificance. Exports of oil-palm products, which reached a peak in 1884 of about 20,000 tons of oil and 40,000 tons of kernels, were only about 11,000 tons in 1936. There are still small exports of copra, rubber and cotton. The important gold, manganese and diamond mining industries contribute materially to exports and to Government revenue; but these are European enterprises worked with hired labour, and their profits go in the main to shareholders outside the Gold Coast. As such they are extraneous to the traditional life of the African community. Misgivings about the eggs being all in one basket have of course been expressed, but so far have been almost unheeded in the face of obvious prosperity. Government is, however, fostering a small banana industry based on the port of Takoradi, the area exploited being one unsuitable for cocoa.

53. A survey made in Ashanti some years ago by the Department of Agriculture on farms of 1,250 farmers showed the average area per farmer to be  $2\frac{1}{2}$  acres. The size of farms varied from a fraction of an acre to 27 acres, and 60 per cent. were under one acre. For the cocoa districts as a whole, the number of farms is estimated by the Department of Agriculture at 300,000, and the acreage under cocoa at somewhere between 1,250,000 and 1,500,000 acres. With production at the 1936-7 level of about 300,000 tons, the average output per farm would

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\* See *Twenty-Second Report of the Imperial Economic Committee on Cocoa*, 1932, p. 155.

work out at one ton. These figures are, however, in the absence of a land survey, very rough and conceal considerable variations between individual farmers.

54. The general conditions in an area of heavy production are well illustrated in the following extract:—

“ In a typical cocoa village with a population of 1,181 in the Western Akim district of the Central Province 201 families, living in 153 separate compounds, produced and sold 5,451 loads of 60 lb. each in the crop year 1934-5. The number of farmers was 174 males and 180 females giving a production per head of 924 lb. of cocoa worth, at the then average season price of 7s. 7d. per load, about £5 16s.” \*

55. Cocoa is an important source of Government revenue. In 1936, when exports were 311,000 tons valued at £7,760,000, the revenue obtained from the cocoa export tax of £1 3s. 4d. per ton was, in round figures, £363,000, and that from duties on imports (most of which is indirectly derived from the cocoa industry) £2,140,000. There is no direct taxation. The wealth of the country is reflected in its excellent roads, its fine schools at Achimota and elsewhere and in the scale and style of the Government buildings in Accra; less so in the appearance of the provincial towns; and least of all in the amenities of the country villages.

#### **(b) Conditions of Cultivation.**

56. The primitive economy of the West African native followed the system common to the agricultural communities of the African tropics. He grew his crop mainly of food plants, on a system of shifting cultivation without the use of manures, and wholly for local consumption or internal exchange. Shifting cultivation involves the clearing of a patch of forest or other natural vegetation, the use of the plot so cleared for a period of not more than two or three years, followed by its abandonment to the encroaching weeds and bush, which in a longer or shorter time restores its fertility and renders it capable of being cleared and used again. The difficulty of fixed tenure under this system, and the need to make land for subsistence accessible to all members of the community, is met by tribal ownership of all the available land. Individual rights are based on occupation only and lapse as regards any particular plot as soon as its cultivation is abandoned. Occasional permanent fruit trees, as for example, an orange tree or a coconut palm, may remain the property of the man who planted them, although the land

\* *Annual Report on the Social and Economic Progress of the People of the Gold Coast, 1936-37*, p. 19.



on which they grow has passed to other cultivators. A modification of this general system, of considerable importance in relation to later developments in the Gold Coast, is that within the tribal lands, a certain area may be recognised as coming within the disposition of the Stool, and other areas as reserved to the members of certain influential families.

57. This is a very general statement of an intricate subject, and hides a multitude of local variations. Their study becomes exceedingly complicated in such a period of rapid transition as recent events have brought about in the Gold Coast. It is obvious that the introduction on a large scale, of a tree-borne crop such as cocoa, which may occupy the same land for 20 to 40 years or more, must destroy the balance of a system based on rotational occupation by short term cultures. Where the customary occupation of land has been extended by planting it with a permanent crop, the situation is comparatively simple and conforms to the unwritten rule that the continued use of land warrants its retention—although this right was established under conditions when long term occupation was not contemplated. How far land so held can be alienated under tribal custom is highly uncertain, and probably depends on local circumstances. The pledging and transfer of its usufruct seems, however, to be a common practice.

58. In contrast to the system of tenure described above, there has arisen in the Gold Coast a system which diverges much more widely from primitive forms and approaches more or less closely to private ownership, from which in many cases it becomes practically indistinguishable. By no means all the land in the country is equally suitable, or suitable at all, for cocoa cultivation. Land in the favoured districts has been in great demand. "Strangers," whether tribesmen from other districts or more or less de-tribalised people from the towns, have been willing to pay large sums for land on which to establish farms. The custodians of tribal, Stool and family lands, which no doubt, on a limited view, seemed inexhaustible, have welcomed the opportunity of easy money. With a complete ignorance of mensuration, and with no more than an oral indication of boundaries based on impermanent marks, land has been allotted to all comers who had money to offer. Cases are not infrequent of the same land, or parts of it, being sold twice over, and land titles are a most fruitful source of highly expensive litigation. The position of these immigrants in relation to tribal discipline is a subject which is still under dispute; the firmness of the footing they have established on the land seems not to be open to question.

59. The original conception of the Gold Coast cocoa farmer, still generally held except by those with personal experience of the present situation, is of a peasant cultivator who, with his

own labour and the help of his family, grows his food and tends an acre or two of cocoa trees. This picture is no longer true of more than a small minority of farms and these of the smallest size. The employment of labour has become a regular feature of cocoa growing, even where the owner resides on his farm. Multiple and absentee ownership has also developed, involving the complete use of hired labour. In actual fact very many so-called farmers neither grow nor market their cocoa.

60. There is little indigenous labour available for hire in the cocoa districts; and although there are now fairly large settlements of outside labourers in the districts of heavy cocoa production, farmers are dependent mainly on migrant labour which comes in from the Northern Territories, where money crops are inadequate, or from neighbouring French colonies, where money is a necessity to meet direct taxation. There is normally a great annual ebb and flow of such labourers, who tramp down to the cocoa districts from the north for the cocoa season and return by lorry to their homes and families in the food planting season.\*

61. Only the initial labour of clearing the bush and starting a new farm is paid on a piece-work basis. Once a cocoa farm is in bearing it receives little or no attention of any kind during a large part of the year and to that extent the hired labourers responsible for it seem to carry out the somewhat vague duties of retainers and custodians rather than those of employees who are expected to give their whole energies to manual work. Wages for cultivation vary considerably and are usually less in Ashanti than in the Colony. Rates of £6 to £12, together with food and shelter, or a maintenance allowance in lieu, were mentioned to us, but it appears that wages are sometimes based on the price realised for cocoa and may even be paid in cocoa.

62. Multiple and absentee ownership is now common. The native small capitalist becomes possessed, either directly by purchase of land as described in paragraph 58, or indirectly through the widespread custom of pledging farms for monetary loans, of numerous farms, often widely scattered. He may be a farmer who thus invests the proceeds of his initial successes, or more commonly a broker who has made money as a middleman. It is usual to say that most brokers are farmers as well, but which function typically precedes the other has not been made clear. We heard of one farmer who had in his possession no less than 79 widely scattered farms. Absentee proprietors may employ a head labourer and assistants under their own periodic or occasional supervision; more commonly they adopt some system of share-cropping. A usual

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\* See Appendix F.

arrangement is that a relative occupies the farm as tenant or bailiff, hires the necessary labourers and returns to the owner one-third of the crop or its proceeds. The system known as "Abusa", by which one-third goes to the landowner, one-third to the farmer, and one-third to the labourers, is apparently traditional, and tribal lands are often farmed on this basis without previous purchase beyond various dues to the Chief.

63. In the process of establishing a cocoa farm from forest, when the trees and other vegetation have been cut and burned and the seedlings planted, the land remains available for two or three years for the growing of food crops, after which the cocoa trees begin to close in and shade the ground. The staple foods are cassava, plantains, maize, yams and cocoyams. After about three years, food must be grown in separate clearings, the sites of which are shifted in the way already described. It is difficult to make any general statement as to the extent to which the cocoa farmer has ceased to be self-supporting. An internal trade in local foodstuffs exists. As regards imports, articles for personal consumption or use such as sardines and stock fish, cotton cloth,\* kerosene, gin, tobacco and matches, are in regular demand; while there is a considerable trade in imported galvanised iron sheets and cement. The fact that the recent hold-up of cocoa and boycott of imports (with minor exceptions) could persist for six months without visible strain demonstrates that the foundation of the natives' independence has not been seriously affected.

### (c) Technical.

64. A cocoa farm will normally bear a small crop at about five years from the time the trees are set out and bearing should increase fairly rapidly in the next two or three years. Subsequent history varies widely according to circumstances. Reliable and continuous observations are lacking for West Africa, but it is obvious that, in their prime, the farms have a high rate of yield.† Investigation of plantation cocoa in Trinidad‡ has shown that yields tend to increase up to 15 to 25 years from planting and then decline rapidly to a more or less permanent mean. In unfavourable conditions of soil and climate this decline is accompanied by dieback of the trees, with loss of resistance to pests and diseases, and ends in their extinction. In the Gold Coast, apart from these marginal cases, there is as yet little evidence regarding the maintenance of yield and the duration of the farms.

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\* Imports of cotton piece goods were valued at nearly £1½m. in 1936.

† "The average yield is probably between 500 and 600 lbs. of cocoa per acre per annum." C. Y. Shephard, *Report on Economics of Peasant Agriculture in the Gold Coast*, paragraph 16. Professor Shephard's Report refers to a visit made in 1933-34.

‡ *Ibid.*, paragraph 18.

65. Beyond the periodic cutting of the undergrowth necessary for access, and apart from the collection of the crop, the trees are left to nature. The measures which are standard on a well-conducted plantation—draining, pruning, manuring, and pest control—are unknown. There may be some casual overhead shade from surviving or intrusive forest trees: we saw little attempt at its ordered provision. Where, as is frequently the case, the farm is carved out of the natural forest, which still surrounds it, great advantage is derived from the lateral protection thus afforded.

66. An industry in the condition just described would seem to be ripe, in fact considerably over-ripe, for agricultural education. It would be a natural expectation to find a corps of native agricultural instructors moving among the farmers and raising, however slowly, their standards of husbandry. We found none, and as the idea is too obvious not to have been constantly in mind, we assume that there are reasons—which we did not feel it was our duty to investigate—considered sufficient to justify the omission. One serious difficulty is obvious. So many farms are left more or less completely in charge of migrant labourers, and so many are in the hands of receivers whose only interest is to gather the crops, that there is nobody, in a large number of cases, permanent enough to receive education or to apply it. Even where the farmer himself occupies his farm the incentive to careful cultivation and harvesting is frequently removed by his having pledged the usufruct as security for a loan. As the prospect of his ever being able to repay the loan diminishes, the farmer inevitably becomes more and more indifferent to the condition of the farm and to efforts by agricultural officers towards his education in proper methods.

67. There is one direction in which education has produced tangible results. The early Gold Coast cocoa was neither fermented nor properly dried. The efforts of the Department of Agriculture, reinforced by selective buying and the payment of premiums on the part of the more interested firms, notably Messrs. Cadbury Brothers, have gradually raised the standard. The introduction in 1934 of compulsory grading, coupled with the prohibition of export of cocoa below a certain standard of purity, has had recent effect: and we were assured by some important buyers that the quality, especially in the earlier months of the crop season, is now considered satisfactory. We refer to this subject and to the revised 1937 grading legislation in paragraphs III et seqq.

#### **(d) Loans and Agricultural Indebtedness.**

68. Indebtedness of cocoa farmers is dealt with in detail by Professor Shephard.\* Since we shall have certain recommenda-

\* Op cit. paragraphs 157 et seqq.

tions to make regarding credit, however, some reference to the question is required here.

69. Cocoa farmers do not require cash to meet direct taxation; but with the development of the industry as described earlier in this Chapter the need for ready cash for productive purposes has arisen. A farmer may purchase land to begin his farm. Most farmers now employ hired labour; and, while still producing most of their food requirements, have now become accustomed to a standard of life in which imported goods such as fish, cloth, tobacco and stimulants play an essential part. In addition, cash is required for such non-productive purposes as litigation, and the lavish solemnisation of funerals and marriages that social custom requires. Expenditure on funeral ceremonies—a matter which, since it profoundly affects prestige with the dead no less than with the living, over-rides any consideration of worldly prudence—has especially tended to increase with the development of the cocoa industry.

70. It might be expected that, since the farmer's income is concentrated into the few months of the crop season, he would save part of the proceeds to cover expenditure during the rest of the year. But thrift is rare in the Gold Coast. Partly from ignorance, which prevents the majority of farmers from understanding the relation between indebtedness and costs of production, and partly on account of the tradition of communal family ownership which gives all members of the family an equal claim on an individual member's wealth, saving has little attraction for the Gold Coast African. He prefers to spend lavishly, even foolishly, when he has money; and to borrow when he has none.

71. Naturally, credit facilities have expanded with the cocoa industry, since the crop provides the farmer with a security to offer: and most of the lending is done by cocoa buyers to whom "loans afford an opportunity of controlling supplies before they are actually available."\* The various types of buyers, including the money-lending "strangers", are described in Chapter IV.

72. The methods of borrowing vary considerably. The simplest type of borrowing is for the farmer to accept an advance from a buyer before the cocoa season in return for an assurance that he will sell his crop through that buyer. The loan is usually repaid in cocoa, either at the price ruling at the time of sale, or at a price fixed at the time of the loan. The latter really amounts to a forward purchase (see paragraphs 99 and 121). An African witness of great authority informed us that a buyer would never in any circumstances lend money without a cash consideration. Undoubtedly promissory-notes are often drawn up so as to conceal the amount of interest, which is

\* Shephard, loc. cit., paragraph 160.

added to the capital sum. We find it impossible, however, to discount entirely the statements of brokers that loans are made by them before the season without interest or other consideration except that the crop should be sold through them. It seems likely that this practice has developed to some extent owing to the keen competition among buyers for tonnage.

73. Apart from borrowing on the strength of the forthcoming crop, a farmer may raise a long term loan in one of the following ways:—

(i) He may agree with the lender to a bond under the terms of which the usufruct of his land belongs to the lender until such time as it is considered to have yielded sufficient to cover the principal of the loan and also the interest, which is seldom less than 50 per cent. and often more. Sometimes one-third of the produce is regarded as interest, one-third as repayment of principal, and the remaining third is given to the debtor. But in other cases the creditor seizes, by way of interest, the whole produce of the farm, including any additional crop there may be.

(ii) Occasionally, when a farm is pledged as security for a loan, the crop is treated as a perquisite of the lender, who is entitled to repayment of the principal in cash and also to interest calculated at 50 per cent. or more per annum.

(iii) A farmer who has already pledged his farm and has no other security to offer, may obtain a loan by entrusting a young daughter or a niece to the lender to act as his servant until the debt has been paid. Although this method of financing is illegal, one farmer volunteered to us the remark that he could always hand over four or five of his nieces when he needed capital. If a girl reaches marriageable age while in the lender's keeping and becomes his wife, or if he gives her in marriage to a relative, the loan is thereby extinguished.

74. Borrowing on one or other of the above methods is widespread in the Gold Coast and debts may remain outstanding for many years. Information as to the extent of total indebtedness and the cost of borrowing is lacking but Professor Shephard quotes an estimate by the Agricultural Department that 30 per cent. of the farmers have pledged one or more of their farms and states that, according to his inquiries, few farmers can, unless redemption is automatic, clear themselves of their rapidly increasing indebtedness.

75. The results of the extensive pledging of farms on the quality of the crop have already been referred to in paragraph 66. We deal in our recommendations with the importance of making improved facilities for credit available to farmers.

**(e) Future prospects.**

76. There is <sup>21801</sup> great difficulty in forecasting the future of Gold Coast cocoa production; so much depends on whether measures are taken to regulate the use of land and on the progress made in agricultural practice. We have outlined the picture of a wide and rapid development, spontaneous and irresistible, almost unregulated (the provision of forest reserves affords the notable exception), primitive and unprogressive in its methods. Before we reached the Coast we had read accounts of one area in the Gold Coast in which the destruction of forest for cocoa farms and food production has gone so far that exposure, helped by soil and climatic conditions below the optimum, is likely to extinguish cocoa production unless ameliorative measures are deliberately and generally adopted. Our apprehensions that a similar situation might develop generally in the not-distant future were not supported by such observations as we were able to make of the principal producing areas. But though such a prospect may be more or less distant according to local circumstances, it nevertheless exists. We include a reference to this subject in our recommendations in Chapter XV.

77. Such a survey would provide material for an answer to the first question arising in the attempt to forecast future production: how much scope remains for increasing the number of farms or, what may perhaps become more important, substituting new farms for old. At present nobody knows. Professor Shephard, basing his opinion on the Trinidad investigations already mentioned, anticipates a heavy falling off in yield when the trees have passed their early prime. The maintenance of the present level of production, on this view, depends largely on the answer to the question just stated.

78. The second question on which evidence is required relates to the duration of farms. Given first-rate conditions, including a deep well-drained soil, a cocoa tree may last 100 years, and under such circumstances a plantation field of cocoa, with due attention to renewals from suckers or by supplies, can remain in bearing for at least this period. On the other hand, as we have instanced above, established farms may fail in 20 years. The difference is brought about by (a) environment and (b) husbandry. It is impossible to foresee how long the essential factors in the present environment will be preserved and how far education will affect husbandry.

79. We can only say that there is at present no obvious reason why Gold Coast production should not be maintained, or increased, in the visible future, qualifying the statement with the caution that vision, in the absence of essential evidence, cannot penetrate far.

## CHAPTER IV.

**COCOA MARKETING IN THE GOLD COAST BEFORE  
THE BUYING AGREEMENT.****(a) Preparation for market.**

80. Harvesting normally takes place three to four times a season. After the pods have been split, the wet beans are extracted and collected into heaps, which are covered over with leaves and left for five to seven days to ferment. The beans are then headloaded in baskets to mats or trays near farmers' store-houses for drying, which takes about ten days. The dry cocoa is kept in bags or baskets in the stores which are of "swish" (i.e., wattle-and-daub) construction, roofed with thatch, shingles or galvanised iron.

**(b) Possible routes to market.**

81. The farmer's cocoa may be marketed in one of several ways. The alternative routes that the cocoa may take on its way from the farmer's store to the ship are shown diagrammatically in Appendix G. We reserve the treatment of Co-operative Societies' cocoa for the following Chapter.

82. The European firms that buy and export practically the whole crop (see paragraph 28) maintain a network of buying stations reaching far into the cocoa districts; but although it is possible for a farmer to sell direct to a firm's buying station, we were informed that only a negligible proportion of the crop is sold in this way. Most farmers sell in small lots and the cost of transport, plus a passenger fare, to the buying station would usually make this method of sale unprofitable. Some firms appear to have allowed the full price including commission to producers who sold direct: others did not. It was suggested by some witnesses that direct sale was formerly important, but evidence on this point was conflicting. The bulk of the crop therefore reaches the buying firms through one or more non-European intermediaries, who may be independent but are usually agents of the firms themselves or of other middlemen.

**(c) Middlemen.**

83. There are large numbers of intermediaries, ranging in importance from the farmer who sells his neighbour's crop along with his own to the large independent African or Syrian buyer, who may have a capital of some thousands of pounds and handle up to 5,000 tons a season. The various types of intermediary buyers shade into each other, and there are local



differences of practice and nomenclature: but for the purpose of our Report it is sufficient to recognize certain broad classes and to indicate briefly the functions performed by them.

(i) SCALE-BUYERS.

84. These are salaried employees of the buying firms. They are provided with a limited supply of cash and sent out with a scale into producing areas to buy cocoa brought to them at convenient points, frequently at the junction of bush tracks and main roads. This system of buying was devised by the firms with the object of getting into closer contact with producers. It is still used to a considerable though decreasing extent by Messrs. Cadbury, but agents of other firms have contended that in practice it has not been very successful, owing to the opposition of the brokers and to the fact that most of the scalemen's purchases are from other petty buyers rather than producers. The scale-man differs from other buying agents in that he gives out no advances, buys strictly for cash and receives no commission.

(ii) SUB-BROKERS.

85. These are agents engaged by other and larger middlemen, from whom they receive advances with which to purchase cocoa in the bush. Their purchases may amount only to about one or two tons a year: on the other hand, those who are attached to the large independent brokers may handle 300 tons a year, and may, in turn, engage their own sub-agents, distribute advances to them and collect the cocoa bought by them. Government evidence indicated that the smallest type of sub-broker tends to decline in importance as roads develop and the bush farms become more accessible.

86. The sub-broker's functions are to secure cocoa of acceptable quality up to the value of the cash advanced to him and to deliver it to his employer at a convenient point. The sub-broker who deals with the farmer frequently takes delivery at the farmer's store; the cocoa is then weighed and headloaded to the sub-broker's store, where it is redried if necessary. If the store is on a main road, the cocoa is put into service bags of 150 lbs. capacity for lorry transport to the sub-broker's employer; on arrival the cocoa is weighed in, and the sub-broker returns to the bush with a further advance. But further headloading may be necessary, and the cocoa may change hands again, before a road is reached. Sub-brokers receive from their employers the service bags used for internal transport and redistribute them to their own sub-brokers and even to farmers.

(iii) BROKERS.

87. Although this term is often used loosely for non-European buyers in general, it usually means those buyers who are

engaged directly by the European firms on a commission basis and operate mainly with funds supplied by the firms. Frequently they receive in addition a small salary or retaining fee. Brokers may be quite small agents mainly collecting the cocoa of their own village for delivery to a firm; some firms make a point of buying through such brokers. At the other end of the scale there are large brokers buying 1,000 tons or more. The evidence indicated that the larger brokers have become more important in recent years.

88. The functions of the broker are to collect and deliver to his employer conveniently large quantities of cocoa of acceptable quality. For that purpose he receives considerable advances from his employer for the purchase of cocoa, either direct from farmers or through sub-brokers. Further, the broker must distribute bags, tarpaulins and scales to his sub-brokers; the bags and some at least of the tarpaulins and scales are supplied by the firms. The broker has to have a store at which to receive supplies from sub-brokers, and keep them until reconsigned to his employer. Here cocoa is also redried, if necessary, and packed in service bags. Brokers' stores are frequently operated under the name of the firm to which they are attached; the employing firm may also pay the rent of the store and make allowances for labour where necessary.

#### (iv) FACTORS.\*

89. These are Africans or Syrians who receive special rates of salary and commission from the firms in return for special services. They have to deliver large quantities of cocoa, prepared ready for shipment, to the shipping stores of the employing firms. Their responsibilities therefore include, in addition to the normal functions of a broker, the performance of processes, such as grading and transfer to export bags, which would otherwise be performed under European supervision in one of the firms' buying stations.

#### (v) INDEPENDENT BUYERS.

90. These are Africans or Syrians who buy cocoa with their own capital and resell to the firms. Small buyers of this kind are known as "free sellers". There are others who have a very considerable business and who carry out the same processing functions as factors, delivering cocoa ready for shipment. An independent buyer of this type mostly operates under an agreement with a buying firm. We received evidence from an independent Syrian buyer who stated that he bought 5,000 tons annually, and had at that time £12,000 of his own money

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\* The word "factor" is sometimes used as the equivalent of broker; in this Report it is used strictly in the sense of a non-European agent in charge of a buying station where grading is done.

out in advances. But there are very few independent buyers of this class and the proportion of the crop handled by them is small.

91. Money-lenders often act as independent buyers and lend money before the season on the understanding that the farmer sells his crop to them at a fixed price (see paragraph 122). They are distinguishable from those brokers who use their own money to acquire cocoa only in that they are not tied to a firm and therefore receive no advances. Money-lenders are frequently "strangers" to the area in which they operate, and Lagosians (a term used vaguely for people of the Yoruba race from Southern Nigeria) appear particularly to favour this kind of business. Large farmers may also be money-lenders. There are numerous small money-lenders, and some with an extensive business. During the hold-up they are said to have bought considerable quantities of cocoa at low prices.

92. The Gold Coast census for 1931 indicated that there were some 1,500 persons in the country who claimed to be cocoa brokers. This number certainly cannot include the host of sub-brokers, money-lenders, free sellers, etc., described in the preceding paragraphs. One agent of a buying firm informed us that he engaged about 20 brokers in the purchase of 4,000 tons annually. Their purchases ranged from 50 to 1,000 tons. The number of their sub-brokers, some of whom might buy as much as 100 tons, was estimated at 500. If these figures can be taken as typical of the whole country, about 1,500 brokers and 37,000 sub-brokers are required to market the whole crop. Undoubtedly the number of persons engaged in the marketing of cocoa is very large; but it must be remembered that most of them, including the large brokers, also own cocoa farms.

#### (d) Exporters.

93. The 13 European firms which normally buy and export about 98 per cent. of the Gold Coast crop have already been described in the introductory Chapter of our Report. Between them they maintain some 130 buying stations with European agents, and a much larger number of stations operated by Africans. Some of the smaller firms depend entirely on establishments at main cocoa-buying centres from which brokers are sent out. Others have large numbers of up-country stations. Certain firms rely extensively on scale-buyers or small local brokers.

94. The main up-country buying stations and headquarters stations are, for the most part, directly under European supervision, but there are a few under the control of salaried African produce managers. These stations issue advances to brokers for the purchase of cocoa and employ graders licensed by Government. On delivery the cocoa is weighed and examined for quality

before a receipt is given. It is then sampled under the official grading scheme and if necessary, redried, graded, put into shipping bags and marked with the Government grades (see Appendix I) and placed in the store attached to the buying stations. As already mentioned, cocoa ready for shipment may also be supplied by African factors direct to a firm's shipping stores. On receipt of instructions from the port agents of the firm, cocoa is railed to beach warehouses where it is stored, sometimes for months, until required for export. The subsequent processes of marketing overseas are described in Chapter XII.

95. Besides the European firms, there are a few small individual African and Syrian shippers who operate rather intermittently and sell through brokers in London. Attempts at joint shipment have also been made by associations of farmers from time to time, and on more than one occasion farmers have suffered by placing undue reliance in some plausible but unscrupulous person who has undertaken to market cocoa on their behalf.

**(e) Agreements made between buyers and their employers.**

96. Buyers are engaged by their employers under agreements which may be more or less definite according to their importance and the status of the contracting parties. We were informed by some broker witnesses that they are not furnished with a copy of their agreements with the firm employing them. An example of an agreement between a firm and a large broker is given in Appendix H. The main points covered by it fall under the four following heads:—

(i) *Purchase of cocoa.*—The broker undertakes to buy and deliver cocoa of sound quality, exclusively for his employers and at prices fixed by them, and to render accounts.

(ii) *Advances.*—The employer undertakes to furnish advances to the broker exclusively for the purchase of cocoa; and the latter undertakes to be responsible for these, even if redistributed to sub-brokers, and to provide suitable security for the advances.

(iii) *Remuneration.*—The employer undertakes to pay commission, salary and a contribution towards expenses.

(iv) *Supply of Requisites.*—The employer undertakes to supply bags.

An agreement is frequently supplemented by a mortgage deed as security; alternatively trinkets, and in the case of the larger brokers and factors cash, may be deposited with the employer.

97. The larger brokers may use written agreements with their sub-buyers, drawn up on much the same lines as the

example quoted, or in less precise terms. The smaller buyers normally have unwritten understandings with their sub-buyers, although usually there is a written document relating to the mortgaging of any farm pledged as security.

**(f) Financing of buyers.**

(i) ADVANCES.

98. All brokers and sub-brokers from the largest to the smallest operate with advances made by their immediate employers, although in addition they may use their own capital. Thus the advances made by the firms reach the producer through one or more intermediaries. Advances by the European firms are essential so long as the African insists on cash payment for his cocoa and so long as the brokers have not sufficient capital of their own. The remarkable feature of the system in the Gold Coast is the amount of the advances issued by the firms.

99. The bulk of the advances are made during the crop season and are renewed as cocoa is returned by the buyer to his employer. Such advances may remain outstanding only for a day or two, or for several weeks according to the importance of the parties respectively supplying and receiving them and the difficulties of getting in the cocoa. Considerable sums are also given out by buyers before the season in order to obtain an option on cocoa, either by forward purchases or by loans entailing a more or less definite obligation to sell through the broker making the advance. It was suggested to us, for example, that in the Koforidua district as much as 50 per cent. of the crop might be purchased in advance at fixed prices.\* Producers have now become accustomed to having such facilities for obtaining funds in the lean months between main crops. A large part of the advances before the season is made by buyers from their own capital, but considerable sums are also advanced during the same period by several of the firms.

100. The firms themselves sometimes advance money direct to farmers through their European agents, but in evidence it has been admitted to us that this system has not been very successful since, in view of the type of security available, the firms are not prepared to offer as much direct to farmers as are the brokers. We had evidence indicating that farmers who approach a firm for advances may be directed to put their application through one of its brokers, who will then take the responsibility of repayment. Advances in kind (cement, iron sheets, etc.) are sometimes made by merchant firms to petty buyers or farmers.

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\* See also paragraph 121.

## (ii) REMUNERATION: COMMISSIONS, SALARY AND ALLOWANCES.

101. Brokers may be paid a salary by the European firms or by larger buyers; they are then considered as members of their employer's staff. A broker buying 1,000 tons may, if he has his own shed, get as much as £10 to £12 a month during the six months of the crop season; usually, however, the rate of salary would be less than this. Small retaining fees are sometimes paid to buyers during the off-season. The large buyer using his own capital may be bound, by accepting such a fee from a firm, to deliver exclusively to that firm.

102. More generally buyers are remunerated exclusively by commissions and allowances. The commission system is very complex and varies from firm to firm. The three following types of commission are recognised, but definitions of their scope and relationship are conflicting:—

(1) *Ordinary commission*, i.e., an agreed flat rate per ton of cocoa delivered, payable by the firm to the broker at the end of the season. The rate has normally been 18s. 8d. or £1 a ton, i.e., 6d. per load or slightly more.

(2) *Tonnage*, i.e., an extra payment per ton over and above commission and depending on the amount of the buyer's purchases. Tonnage may be based on a sliding scale at rates increasing with the quantity bought during the season; or it may be at a flat rate payable only on purchases in excess of a given quantity. Some firms charge this type of commission wholly or partly to their expenses: others consider it to be entirely taken out of the price which their brokers are authorised to pay: several do not pay it at all. In any case the tonnage due to a broker is reserved until the end of the season.

(3) *Overriding Commission*, i.e., an agreed addition per ton paid to the larger brokers. It may be purely a competitive addition to ordinary commission, but in some cases it is paid for exceptional services, e.g., high tonnages, bagging, grading, etc. The rate may be increased on purchases in excess of a given quantity. Overriding commission is charged by some firms wholly or partly to expenses; others deduct it from the price offered. The term "overriding commission" appears sometimes to be used by Africans in the broad sense of commission on a sliding scale including tonnage.

103. Apart from commissions, various allowances are made to brokers in cash or kind. They are supplied with scales, tarpaulins, drying mats and bags and may be provided with a store or an allowance for rent. Allowances may also be given for labour costs, for shrinkage of cocoa in store and for transport. It seems impossible to separate allowances from commissions and salaries, and the remuneration received by a

broker from his employers must be regarded as consisting of all three and as designed to cover his expenses and risks together with a margin for profit. Increased competition has no doubt tended to increase allowances.

104. The larger sub-brokers are similarly remunerated by commissions and allowances, but the smallest types may operate without a commission, being left to make what profit they can from the farmer.

**(g) The fixing of buying prices: stock declarations.**

105. From time to time the European agents of the firms receive cables from their Head Offices in Europe either naming a price at which they are authorised to buy or telling them to follow competition. When they fix limits the Head Offices must consider not only conditions in the world market but also their immediate requirements for shipment and the competitive conditions prevailing on the Coast. They are kept informed by their Coast agents of the prices that competitors are offering, or are *said* to be offering; the qualification is necessary, for European buying agents emphasised to us in evidence that prior to the Agreement their information about competitors' prices was often, if not usually, obtained through brokers. Agricultural officers have frequently found wide differences existing between the prices offered by the various firms at the same buying centre.

106. The European agent in turn fixes limits up to which his brokers are authorised to buy, and the brokers again fix limits for their sub-brokers; these limits are subject to transport differentials, according to where the cocoa is taken over. The broker is supposed to be credited for his purchases at the authorised prices prevailing at the time when he is instructed to buy. If a broker chooses, in order to increase his purchases, to pay his sub-broker a higher price than is warranted on this basis, either by passing on a share of his own commission or by not deducting enough to cover transport, he is then supposed to bear the difference himself.

107. When the European agent is instructed to change his buying limit, he informs his brokers who must then furnish him with a declaration of their stocks within a fairly short period. Sometimes an agent may, as a precautionary measure, demand a declaration of stocks before any price change is announced. It is obviously reasonable that cocoa already purchased by sub-brokers should be included in stocks declared by the brokers employing them, since the latter, when advancing money to the sub-brokers, will have instructed them to buy at prices corresponding with the firm's buying limit, and this limit remains in force up to the time when the declaration is called for

In practice the firms have recognised this by allowing the broker a period of grace in which to communicate the change of price to his sub-buyers in the bush, to ascertain their stocks and to bring the cocoa in. The period allowed to brokers for delivering the cocoa has varied from district to district and has depended partly on the remoteness of the broker's sub-buyers, and partly on the attitude of the European agent concerned and the intensity of competition.

108. Such a system, operated under the conditions prevailing in the Gold Coast, where, in the full tide of the cocoa season, both African and European buying agents are all straining to buy the maximum amount of cocoa and at the same time to avoid the risk of losing their advances, is obviously open to various irregular practices. The firms accuse the brokers of false declarations, of holding stocks for a rise in price and of selling on a fall and declaring at the old price. They regard these practices as the most serious of the "abuses" which they alleged to have prevailed prior to the Buying Agreement and as the main justification for it. The brokers in turn bring counter-charges of unfair practices by the firms and their agents. These points are discussed in Chapter X.

#### (h) Weights.

109. We received a good deal of evidence from the firms, from producers and from Government officials that farmers are often defrauded by false weighing. Spring-balances are frequently used in bush sales and these are easily tampered with; but even the platform scales issued by the firms to their brokers are apparently often treated in the same way. Sealing is regarded as impracticable. Inspection of weights and measures is now the responsibility of the Police Department, but the Department has at present only 11 officers qualified for the purpose. Opinions differ as to the present extent of cheating over weights. Some witnesses thought that farmers were becoming more alert and were employing their own balances as a check; and that the Police inspection was adequate. Others, including Government officials, believed that false weighing had not decreased and regretted that the post of Inspector of Weights and Measures had been given up some years ago for reasons of economy. An officer of the Police Department expressed the extreme view that not more than 5 per cent. of scales used in the bush are correct. An agent of one of the firms, with whose evidence we were impressed, stated:—

" I have on several occasions seen sub-brokers buying in the bush with hand scales from which one coil of the spring has been cut out so that when a weight of 60 lb. is registered on the face the weight would in reality be about 80 lb. I should not like to estimate the amount of tare



taken in this way, but it may conceivably be anything up to 20 per cent. of the cocoa which is purchased in this manner."

110. We believe that farmers often accept short weight knowingly, preferring to sacrifice part of the price due to them rather than take the trouble of carrying their cocoa to some other buyer. One sub-broker witness stated quite openly that one pound in a load (60 lb.) was allowed to him by the farmer for transport costs. Moreover, the sub-broker may find short weight the simplest means of protecting himself against loss in accepting wet or otherwise defective cocoa.

### (i) Quality.

111. All cocoa exported from the Gold Coast must be inspected and graded under Government control. Compulsory inspection, coupled with the prohibition of export of cocoa below a certain standard of purity, was first introduced in 1934, after experience of a voluntary scheme. In 1937, as a result of recommendations made by Sir Frank Stockdale in a Report on his visit to West Africa in 1936, a revised system was introduced which provided for compulsory grading into four categories, viz., Grades I, II, III and "Sub-Grade." These Grades are described, together with the standards required in the United States of America and in the United Kingdom, in Appendix I.

112. Under the 1934 scheme inspection was carried out by sampling consignments at the ports. Under the revised scheme, grading is for the most part done at up-country stations. In addition to the graders employed by Government, provision is made for licensing employees of the firms as graders after special training; an arrangement which most of the firms prefer. Licensed graders are bound to keep special records and the Department of Agriculture retains the power to re-inspect cocoa at the ports.

113. The Government's hope is that the grades will come to be recognized in the world markets, and that the standardization will lead to an improvement in the general reputation of Gold Coast cocoa and therefore in its price. The firms' attitude towards the official grading system is one of grudging tolerance; but they do not conceal their view that it entails a waste of time and money especially as the larger firms at least have their own grades which cut across those of the Government. The producers and the brokers are at present not affected by the system since there is in general no payment of differential prices for quality, although an individual who brings in well-prepared cocoa to a firm's buying station may occasionally get a small premium.

114. The firms on the whole now appear to be hostile to differential payment for quality although it has in the past been supported by the largest manufacturing buyers. The principle is still supported by one firm and by individual agents. The reasons for the firms' objections appear to be (i) that they are already paying the top price for *all* cocoa; (ii) that on the average Gold Coast cocoa is good enough to meet market needs; and (iii) that differential payment for innumerable small deliveries would involve unjustifiable trouble and labour.

115. We agree that there are serious practical difficulties in arranging for the payment of differential prices and above all in ensuring that these reach the producer under existing conditions; and further that there are certainly limits beyond which it is not economic to improve the quality of a bulk cocoa like that of the Gold Coast. We do not, however, accept the suggestion that differentiation of prices to producers is superfluous. Sufficient proof that all cocoa is not "just cocoa" is provided by the facts that some of the firms attach importance to their own private grades and that differences in quality are recognized in the official forms of contract in use in the world markets. The point was also admitted to us in effect by some of the firms' representatives who complained that 25 per cent. or more of the cocoa tendered in a normal season was below Government Grade I.

116. We believe that if a practical system of differential payment to producers could be devised, it would not only be more just than the present system of a flat rate of payment for all cocoa, but that by encouraging producers to improve the preparation of their supplies it would raise the general level of quality and strengthen the reputation of Gold Coast cocoa in relation to that of other bulk cocoa. In this we are reiterating the views expressed by Professor Shephard, Sir Frank Stockdale and others who have made a recent study of the question.

117. Certain conditions of production and marketing are unfavourable to quality. We have already referred in paragraph 66 to the tendency for a farmer who has pledged his farm to lose interest in maintaining good standards. The farmer's need for cash during the crop season may induce him to ferment his cocoa in unduly small quantities. On the other hand, he may be lazy and prepare his cocoa at long intervals, mixing overripe and underripe beans; the results of fermentation are then unsatisfactory. The keen competition among sub-buyers leads to their accepting cocoa of poor quality. The inclusion in the grading Ordinance of the prohibition of the sale or purchase of wet cocoa has, however, probably done something to improve the quality of cocoa sold in the bush. It is unpopular with farmers, but is undoubtedly a wise measure.

**(j) Returns to Producers and Middlemen: incidence of up-country transport costs.**

118. It is not easy to form a clear idea of returns received by farmers and brokers under the complicated marketing system prevailing in the Gold Coast. Certain estimates which have recently been made by the Division of Statistics and Surveys of the Department of Agriculture are shown in Table 3. They are based on port prices furnished by the Bank of British West Africa, which are in turn based, we understand, on data supplied by as many as possible of the buying firms. From these prices, estimated carriage and handling charges between buying station and port have been deducted in order to arrive at the up-country price.

119. The average price at the up-country stations is regarded as the average return to the agricultural community as a whole, since even if farmers do not arrange their own headloading, the brokers and small lorry contractors who provide transport are closely connected with them.

120. Headloading is an expensive item costing about 4s. per ton mile. According to the official authority already quoted, the average distance so covered is 4.1 miles; on the average, therefore, each ton of cocoa bears a charge of 16s. 6d. for headloading. Although headloading accounts altogether for only 3 per cent. of the total ton mileage involved in the transport of cocoa from farm to port, it is estimated that it accounts for 24 per cent. of the total transport costs. By contrast local lorry transport costs only 7.1d. per ton mile. It is evidently greatly to the producers' interest that more bush roads adequate for light motor transport should be opened up.

TABLE 3.

	<i>Average total price to the agricultural community.</i>	<i>Average up-country transport (headloading and lorry).</i>	<i>Average price to the farmer.</i>
	<i>£ per ton.</i>	<i>£ per ton.</i>	<i>£ per ton.</i>
1927-28 ... ..	48.40	1.6	46.80
1928-29 ... ..	35.42	1.4	34.02
1929-30 ... ..	31.99	1.2	30.79
1930-31 ... ..	17.78	1.2	16.58
1931-32 ... ..	17.23	1.2	16.03
1932-33 ... ..	16.55	1.2	15.35
1933-34 ... ..	12.16	1.2	10.96
1934-35 ... ..	14.34	1.1	13.24
1935-36 ... ..	16.51	1.1	15.41

121. The estimated average price to the actual producer, arrived at by deducting local transport costs from the price at the up-country station, is admittedly optimistic since it takes no account of forward selling and mortgages. As regards forward selling the questionnaire conducted by the Department of Agriculture over a large and representative sample of cocoa districts in 1932-33 is instructive. This indicated that 25 per cent. of the crop had been sold in advance to money-lenders and speculative buyers at prices averaging 5s. 2d. per load as compared with an average price during the season of 9s. The actual returns to the farmer in the districts investigated were therefore estimated to average about 11 per cent. less than the local price level during the season.

122. We have not the slightest doubt from the evidence that we have received on this subject, both from Africans and Europeans, that buying in advance at reduced prices is still widely practised by brokers as well as by money-lenders. Although on rare occasions the buyer may make a bad speculation, as he apparently did before the 1937-38 crop season, this system of purchase is usually to the detriment of farmers. Another factor that must be allowed for in considering the producers' returns is the loss through fraudulent weighing. We have already suggested that this is important.

123. On the other hand, we are inclined to accept the brokers' contention, endorsed by the evidence of their rivals, the Co-operative Societies, that, wherever competition is keen, the full inclusive price less local transport costs is widely, perhaps generally, passed on to the producer; in other words, that at least the ordinary commission of 6d. and possibly more is surrendered to the producer.\* In conceding this, we do not suggest that brokers are actuated by any charitable motive, or that they forego opportunities of profiting by their knowledge of market movements at the expense of the more ignorant producer.

124. In view of these and other possible qualifications, Table 3 should not be taken as giving more than a rough estimate of average gross returns to farmers. It does, however, show clearly that these returns have varied enormously in the past ten years, ranging from nearly £47 in 1927-28 to about £11 in 1933-34. In 1936-37, it has been estimated, the price to the farmer rose to between £35 and £40. At the lower price levels a comparatively small movement in the world market price may mean an important difference to the farmer, owing to the incidence of fixed charges. For example, if the world price is £25, farmers in outlying parts of Ashanti may get only £12; so that, if the world price rises or falls by £3, they benefit or lose by 25 per cent.

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\* See paragraph 30 (e) of Gold Coast letter of instructions in Appendix J.

125. To estimate the average cocoa farmer's *net* returns would entail the impossible task of estimating average costs of production. A good deal of evidence on costs was submitted, but in the limited time at our disposal we have not been able to consider it closely. It is clear, however, that costs vary widely. A farm may be inherited or it may be acquired by purchase, the effect of which on costs may be increased by excessive interest rates on borrowed capital. It may be worked chiefly with family labour, or exclusively with hired labour; and there are considerable differences in yields due to conditions of soil and shelter and to the age of trees. The costs of farm equipment are unimportant.

126. The income of brokers, however derived, might properly be regarded as part of the income of the agricultural community. It seems therefore that the estimate of the gross income of the agricultural community given in the Table above should be supplemented by the gross income of brokers in so far as this is met out of the firms' expenses and not from the producers' price. We have heard much confusing evidence about the rates of brokers' commissions, salaries and allowances and it is not easy to draw conclusions with any confidence. On the whole, however, we think that the rates of commission cited to us by the Association of Ashanti Cocoa Brokers as those usually prevailing before the Agreement are probably fairly representative. They are as follows:—

TABLE 4.

Commission and Tonnage ...	1s. od. per load of 60 lb. of cocoa.
Overriding Commission ...	7s. 6d. per ton for 50 tons bought.
	12s. 6d. " " " 100 " "
	15s. od. " " " 500 " "

These rates represent charges varying from about 37s. 6d. per ton or 1s. per load, to 52s. 6d. per ton or 1s. 5d. per load: even higher overriding rates than those given in the above Table may be paid to very large buyers. In addition the larger brokers receive varying sums in the form of salaries and allowances.

127. To arrive at the net income of any broker it would be necessary in the first place to deduct the amount of any commission passed on to sub-buyers or to farmers from whom he purchases direct: we have little doubt that the large brokers are working on fairly small net margins per ton from their commission. Other deductions to be made are working expenses and losses through bad debts and unsuccessful speculative purchases. On the credit side there would have to be added the profits of successful speculative purchases. We asked a number of broker witnesses what net income they actually received. Some, claiming to market 700 to 1,000 tons said, apparently with sincerity, that they would prefer a guaranteed net income of about £80 to the commissions and allowances they

received at present. On the other hand a disinterested witness having great experience of the Gold Coast and of African marketing practices expressed the view that the income of a broker of this size would be about £300. Whichever of these figures is nearer to the truth, we are inclined to discount the suggestion frequently put forward by the firms that the brokers in general make very large profits. We think it probable that their total share of the returns received by all Africans in the Gold Coast from the cocoa crop is excessive, but that this is due rather to their great number than to their high income per head. The smallest types of sub-broker, who buy direct from farmers, perhaps make the highest rate of profit, with the aid of forward purchases at fixed prices and the manipulation of weights.

## CHAPTER V.

### **COCOA FARMERS' CO-OPERATIVE MARKETING AND CREDIT SOCIETIES.**

#### **(a) General.**

128. The evidence tendered to us on behalf of the Co-operative Societies in the Gold Coast covered wider issues than the Buying Agreement, and their general position may conveniently be considered at this point. A fuller account of the Societies will be found in the Reports of Professor Shephard\* and of Sir Frank Stockdale† on their recent visits to West Africa.

129. Co-operative Societies first received statutory recognition in an Ordinance of 1929 when they were still in an experimental stage, but their general development dates from 1931. The movement has been fostered and closely supervised by officers of the Department of Agriculture, with the Director acting as Registrar, and to a limited extent by administrative officers. Each of the Societies is administered by an elected committee and a Secretary, but small Societies may share the services of the same secretary. An Ordinance of 1937 recognized a form of secondary organization that had already developed, namely, District Unions of Co-operative Societies operating through Joint Marketing Committees, which consist of delegates from the affiliated Societies. There were 385 cocoa producers' Co-operative Societies in the Gold Coast Colony and Ashanti in March, 1938; the total membership was 9,711 and the total paid-up share capital £26,422.

130. The Societies are essentially small local organizations; the average number of members per Society in 1937 was 24,

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\* Op. cit. paragraph 105 *et seq.*

† Op. cit. page 47 *et seq.*

and the membership varied from seven in the smallest to 142 in the largest Society. The average sales per Society in 1936-7 were 20 tons, and two-thirds of the Societies sold less than this quantity. Of the total membership of all Societies 22 per cent. sold no cocoa through them, and a further 54 per cent. sold one ton or less; the average sales per selling member amounted to slightly over one ton. During the financial year 1936-7 the Societies marketed 7,807 tons of cocoa for their members, the value (in a year of exceptionally high prices) being £318,371; these sales represented 2·6 per cent. of the total Gold Coast crop.

**(b) The system of marketing Co-operative cocoa.**

131. Cocoa supplied by farmers belonging to Co-operative Societies follows a different course in the early stages of marketing from those already described. The cocoa, already fermented and dried, is tendered by members to the Society whenever it is convenient to them. A Society may have its own small store, sometimes of concrete or galvanized iron but usually of the cheaper swish construction. Most Societies, however, have no store of their own and members keep their cocoa in their own stores or those of the richer members of the Society pending its sale. Before it is accepted the cocoa is graded as "Co-operative" or "Special Co-operative" by an agricultural officer. Formerly rejected cocoa had to be taken away by the supplier; but under a rule introduced in many Societies in 1937, especially in the Eastern Province, members are now required to sell all their cocoa through the Society, a penalty of 2s. 6d. or 5s. per load being payable on cocoa sold outside. Cocoa found to be below grade is sold without guarantee in separate lots.

132. Sales of graded cocoa are usually made once a fortnight. Most of the Societies are now attached to District Unions and the bulk of Co-operative sales are made jointly through the Joint Marketing Committees of the Unions. In any case the procedure is that a Co-operative Officer of the Department of Agriculture invites secret tenders from European firms for the supplies offered. The tenders are then passed on to the committee of the Society or of the Union which is offering the cocoa, for its decision. When sold, the cocoa may be delivered by the Societies to the buyer's grading station by means of hired lorries, or it may be fetched by the buyer. The proceeds are available for distribution soon after sale; but we were informed that producers often leave the sums credited to them with the Society for several months. For every load of cocoa sold each producer receives an average price, a deduction being made for expenses.

133. We received evidence from several Coast agents of the firms to the effect that buying through the Co-operatives was a

convenient method of obtaining cocoa; in particular it was pointed out that this method avoided the trouble and risk of loss inseparable from advances made to brokers. At the same time a number of criticisms were made. Some witnesses suggested that the system of tenders was unbusinesslike, and was not always properly conducted: for example, the secrecy of tenders was not always observed in an attempt to get a higher bid. Objections were made to the heavy expenditure of Government money entailed in the close supervision of Societies and their business. It was suggested that non-members, e.g., brokers, were sometimes permitted to pass cocoa through Societies, and to obtain the premium. As regards quality, a number of witnesses said that the difference between Co-operative and ordinary cocoa was not as marked as it used to be, partly on account of a rise in the general standard of quality, partly because Co-operative quality had declined. Cases of mixing graded Co-operative cocoa with inferior cocoa were cited.

134. In general the present attitude of the buying firms to the Co-operatives was stated by their witnesses to be one of neutrality. Some of the smaller firms, however, gave indications of a more positive attitude of support. Much of the evidence from firms on this subject was directed to rebutting the contention made by the Societies, and supported by Government officers, that an inadequate premium was paid for Co-operative cocoa.

135. From the producer's point of view the main advantages of sale through a Co-operative Society appear at present to be that he is assured of fair weighing, and of not being deceived by intermediaries as regards the prices offered by the firms. One of the chief original objects of Co-operative selling was, however, that it should enable producers to secure a definite premium for their cocoa on account of superior quality and of the saving to the firms in marketing costs. We received much evidence from Co-operative Societies and their members as well as from Government officers that of late the premium received by Societies has not been sufficient to repay the extra expense and trouble involved in preparing fine quality cocoa and in supplying it in bulk lots. In their joint evidence the Co-operative Societies stated:—

“ During the six year period 1st of May, 1931 to 30th of April, 1937, the Societies supplied direct to the buying firms 30,907 tons of cocoa of over 95 per cent. weighted mean purity. For this service the firms paid at the rate of 6d. per load which is just about the average overriding commission of the brokers. During this period the Societies never failed to fulfil a contract, and any cocoa supplied which was found to



be below the stated purity was either replaced or sold to the buying firm at market price.”\*

136. The case of the Co-operative Societies can be summarized as follows. Unlike the brokers, the Societies bind themselves to supply high quality cocoa and always fulfil their contracts; they also save the firms the costs of depreciation on bags, scales and tarpaulins supplied to brokers, of interest on advances made to brokers and of costs of reconditioning brokers' cocoa. For these services they received a premium over the full inclusive market price of only 6d. a load, equivalent to the brokers' over-riding commission and tonnage. Since brokers pass on the "ordinary commission" to producers who sell to them, a Co-operative Society receives for its cocoa only 6d. more than is obtained by outside producers. From the price received by the Society an allowance for operating costs must be deducted in order to arrive at the net price received. In efficient Societies operating costs actually average 2·8d. per load, but this should be increased to 4½d. to allow for various services provided for by members—i.e., use of stores, weighing machines and labour; and a further allowance of 7¼d. should be made to cover producers' costs of picking out defective beans, and the loss in weight due to their removal. The Co-operative producer thus makes an average loss of 5¾d. per load (i.e., 6d. less 4½d., less 7¼d.), or 16s. 4¾d. per ton, as compared with the ordinary producer. Co-operative members are therefore encouraged to be disloyal; and there is no price incentive to induce non-members to join Societies.

137. In the limited time at our disposal, we were not able to verify the details of this case, which it should be mentioned, was backed with the authority of the Co-operative officers of the Department of Agriculture. Certain points would appear to require some modification; for example, by no means all producers are likely to benefit to the full extent of the brokers' ordinary commission, and we doubt whether defective beans have always been thrown away. We accept as proven, however, that on the whole Co-operative producers have not profited by their additional expenditure and labour, as compared with intelligent and well-informed producers selling to brokers, provided that such producers are in a position, as many are, to benefit from the keen competition among brokers. To admit this does not necessarily imply that the firms have paid too little for Co-operative cocoa—still less that they have been deliberately hostile and unfair to the Societies, as has been represented to us by some of the Co-operative witnesses. For

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\* It was explained that the average premium was calculated by taking the difference between the ex-store price received by a Co-operative Society, and the price obtained by farmers from local brokers at the time of the Society's sale.

it is possible, and indeed it is the firms' contention, that they have been paying too much for *all* cocoa, and that the price paid for Co-operative cocoa is the highest price justified by the world market. This raises the question of the Coast price level, which is discussed in Chapter XIII.

138. The firms' case, however, goes still further. It has been contended that, after due consideration has been given to the higher quality (not always admitted) and any savings entailed in buying (against which must be offset the "unbusinesslike methods" sometimes alleged), a premium of 6d. above ordinary cocoa is as much as Co-operative cocoa is worth to them. It is claimed that there is no premium in the world market for cocoa above "A" Clause standard to warrant the payment of especially high premiums for Co-operative cocoa; alternatively, or in addition, it is pointed out that since Co-operative cocoa forms such an insignificant part of the total supply, it cannot be treated in separate lots after it has reached the firms' hands, but must be bulked with other cocoa. The smallness of the Co-operative supplies also means that the firms buying from them do not save in establishment charges, as their organization must be adequate to deal with purchases through the more normal medium of brokers.

139. We think there is force in the last contention, although it could scarcely be denied, and some of the firms' representatives have admitted, that a general system of purchase through Co-operatives would be both easier and more economical than the present system. It is obviously impracticable for the firms to segregate the present small quantities of Co-operative cocoa from the general mass of supplies pouring into their depots during the buying season. Even so the firms may derive an advantage from the high standard of Co-operative cocoa that may justify a higher premium than is normally offered. A senior agent of one of the largest firms admitted in evidence that "Co-operative cocoa has been purchased in the main for the purpose of mixing and thus raising the standard of lower grades, the premium paid [viz., a maximum of 6d.] being justified in consideration of the services rendered by the Co-operative Societies."

140. The questions at issue appear to be (a) whether Co-operative cocoa is as much superior as the Societies claim; (b) if so, whether such cocoa commands a special price in world markets; and (c) whether in any case small lots of superior cocoa which in practice must be mixed with other cocoa ought to command a similar premium.

141. We are convinced from evidence received (a) that much, although not all, Co-operative cocoa reaches a very high

standard, and (b) that such cocoa if offered in bulk lots on world markets could frequently command a special, though not large, premium.\* (c) We also see no reason why superior cocoa, although used only for grading-up, should not receive a special premium. (d) Finally we think there is substance in the Co-operative Societies' claim that on the cocoa sold by them they save the firms certain risks and costs involved in purchases through brokers, especially by dispensing with advances, and that this service should receive more recognition.

142. We feel therefore that the Co-operative Societies' cocoa is worth on the average a premium of more than 6d. as compared with the average run of cocoa bought by the firms. The chief reasons why it has not received more, appear to be (i) that the firms think they are paying too much for ordinary cocoa; (ii) that they consider that high premiums for Co-operative cocoa tend to raise the general price level; (iii) that they do not fully appreciate the services rendered by the Co-operative Societies; and (iv) that Co-operative cocoa is regarded as too insignificant in quantity to justify exceptional treatment. In addition some representatives of firms have admitted that they are afraid of offending their brokers by appearing to favour Societies. It is also possible that in some stations the firms' agents dislike the Co-operatives, and fear a general growth of the movement; in some areas, also, the Co-operatives may suffer from lack of competition among buyers, especially where only one or two firms are represented. But without more tangible evidence than has been offered, we cannot accept as proven the suggestion submitted by some Co-operative witnesses that the Societies are victims of an organized and deliberate opposition on the part of the firms.

### (c) Credit.

143. The credit and banking activities of the Co-operative Societies have developed rapidly. Although between 1934 and 1937 the total membership of Societies increased by only 11 per cent., the deposits by members increased in the same period from £435 to £22,057, paid-up share capital from £7,528 to £25,048, and loans from £3,712 to £11,193, excluding advances on cocoa in stock. Bad debts written off in 1937 amounted to only £11 4s., and arrears to only £43 4s.

144. In March, 1938, the Societies had nearly £19,000 out in loans to members apart from £1,320 advanced against cocoa in stock. Of the loans granted in 1936-7, three-quarters in numbers, and nearly half in value, were stated to be for expenses of cultivation, i.e., labour; the average amount lent

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\* The latter contention was however denied by the witness quoted in paragraph 139.

for this purpose was £2 3s. od. About a third was lent to one hundred and sixty-three borrowers for the redemption of mortgages, the average amount lent being £22 11s. od.; other loans were for miscellaneous purposes. Loans, as distinct from advances on cocoa, must be backed by cash in the Societies' funds. If a member requires a loan in excess of his share capital, it can only be granted on the guarantee of two other members who have unallocated share capital or deposits. Except for loans for mortgage redemption, which are increasing, loans are usually for periods of a few months.

145. The Co-operative Societies claim that their loan service " is the only attempt which has been made to solve the problem of agricultural credit in the Gold Coast and Ashanti *and it is this attempt on the part of the Societies which has influenced members to remain loyal and outside farmers to join the Societies* " (their italics).

146. We were entirely convinced by the evidence we received that Co-operative members, profoundly disappointed by the prices they have received relatively to those obtained by other producers, now find the chief advantages of membership in the credit and banking facilities offered; and further that there might be a large influx into the Co-operative movement in order to secure these advantages, if it were not widely believed that Co-operative selling meant much more work for little, if any, more money.

147. As regards the first part of their claim, the Co-operative Societies are undoubtedly doing most valuable work in providing credit at reasonable rates when the only alternative sources are the money-lenders who undoubtedly charge extortionate rates, and the brokers, whose terms probably vary considerably but who in any case are largely using the money of the European firms. The development of Co-operative loans for mortgage redemption may ultimately be of the utmost value to the Gold Coast.

#### **(d) General conclusion on the Co-operative Societies.**

148. Our views on the Co-operative Societies as they have developed up to the present may be briefly summarized. The Societies have performed a valuable service in educating their members in better methods of preparing their cocoa. The Societies have also given their members a sense of solidarity which they undoubtedly value. We were struck by the good sense and appreciation of Co-operative principles generally shown by their witnesses. As credit and thrift societies we consider that the Co-operative Societies have already done invaluable pioneer work, the general extension of which would

be of enormous benefit to the farming community. The Societies have not, however, assured members of a return for their efforts in the preparation and marketing of their crop commensurate with what they might have obtained by marketing in the usual way.

149. We think that propaganda in the early stages of the Co-operative movement laid undue emphasis on very high standards of quality, and that hopes not justified by marketing conditions were raised. Some of the firms must, we think, share responsibility for this, as their representatives have certainly in the past promised a good reward for high quality. At the same time we do not think that an average margin of 6d. over ordinary cocoa is a sufficient price differential, having regard to the better quality of Co-operative cocoa and the savings afforded by the elimination of certain expenses and risks incurred in the purchase of cocoa through the usual channels. We recognize, however, that the question of the general price level for cocoa in the Gold Coast which will be discussed later, is of vital importance in this connection.

150. Credit for the achievements of the Co-operative Societies is due to the officers of the Department of Agriculture. At the same time we think that there is force in the criticism advanced by the firms that supervision is much too expensive. Even granting that the movement might, after eight or nine years, still be regarded as in its infancy, and that the value of the credit side of its work must be taken into account, we consider that the supervision is excessive, and imposes an unnecessary burden on officers of the Department of Agriculture. It is regrettable that highly qualified agricultural officers should continue to be responsible for detailed work of this kind. In making this criticism we are aware that we repeat what has already been said by Sir Frank Stockdale.\* Some progress has been made since his visit to the Gold Coast, but much remains to be done.

151. We were informed that in some areas, possibly most, a luke-warm or even hostile attitude on the part of the Chiefs exists towards the Co-operatives; and that in others the Chiefs were strong supporters of the movement. The attitude of some of the more important Chiefs might perhaps best be described as one of uncertainty. Whatever be the present position, however, we are convinced that a Co-operative movement can only flourish in the Gold Coast if backed by the whole-hearted support of the Chiefs. This has been tacitly recognized in the last Co-operative Ordinance which provided that applications by Societies for registration and also amendments of by-laws must first be sent to the local Paramount Chief for observation.

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\* Op. cit. page 90.

## CHAPTER VI.

**HISTORY OF INTRODUCTION OF AGREEMENT AND HOLD-UP.****(a) Introductory.**

152. It is only comparatively recently that the raw material resources of West Africa began to be developed: its commercial history has nevertheless been a very stormy one, and is strewn with the wrecks of concerns, large and small, which were unable to withstand the fierce competition of more powerful rivals. Partly owing to the climate and geography of the country, which make for large capital outlay\* and heavy overheads, and partly to the prestige which attaches to a long-established firm, the advantage has always lain with the big concern. Periods of intense competition amongst companies attempting to increase their business in order to spread overheads have frequently ended, after a number of liquidations, either in amalgamations or in trade agreements between the most powerful of the remaining competitors.

153. An early amalgamation of the trading firms operating in the Niger delta produced the company which afterwards became, under its Charter, the Royal Niger Company, and which succeeded in maintaining a virtual monopoly in the area until the beginning of the 20th century. From 1900 until the end of the Great War, such firms as F. and A. Swanzy and Miller Brothers, whose names are still household words in the Gold Coast, were the main competitors of the Niger Company (as the Royal Niger Company became after the termination of its Charter in 1899); but trading agreements designed to limit excessive competition by fixing the prices of produce and merchandise were frequent. "Before the War," according to one authority,† "the whole trading community was honey-combed with understandings", mostly of a confidential nature.

154. In 1919 the African and Eastern Trading Corporation was formed by an amalgamation between F. and A. Swanzy, Miller Brothers and a number of smaller firms; and for ten years was, in spite of negotiations for amalgamation and trade understandings, the main rival of the Niger Company, which passed in 1920 under the control of Lever Brothers, Limited. An amalgamation was eventually achieved in 1929 after a period of fierce competition, and the United Africa Company, Limited, came into being. That Company is now, as we have already stated, the largest concern engaged in the produce and merchandise business in West Africa.

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\* The total capital expended in the Gold Coast and Nigeria by the existing trading firms was given to us in evidence as £9½ million and £13 million respectively, of which 53% and 72% respectively is for produce business.

† A. McPhee. *The Economic Revolution in British West Africa*, p. 74.

155. We were left in no doubt by our African witnesses as to the fear and suspicion with which they view the concentration of business in the hands of this one large concern. We refer later in our Report to the existence of a Merchandise Agreement in the Gold Coast and to its place in the African case against the cocoa Buying Agreement: here it is sufficient to state that the origin of the cocoa hold-up can, in a large measure, be traced back to the Gold Coast African's deep-seated resentment against anything in the nature of a combine, or "pool" as he has come to call it, which restricts his freedom of trade. By nature he loves to bargain.

156. It is natural, in view of the many trade understandings which existed on the Coast before the War, that cocoa should have been included within their scope. We have had described to us in evidence a cocoa Agreement,\* entered into in 1903 by the leading exporters in the Gold Coast, which had certain similarities, including the division of purchases, to the Buying Agreements with which we are concerned. Although the 1903 Agreement was apparently limited to one year, subsequent agreements were made in 1904, 1905 and again for a period of five years in 1906. From 1910 there followed a period of cocoa buying and selling agreements (i.e., agreements including provision for the pooling of sales as well as of purchases) which lasted until 1917. After the War, probably owing to the efforts at amalgamation between the two largest concerns, agreements were less common, but a cocoa Agreement of the earlier type was in force between 1925 and 1927; and a cocoa buying and selling Agreement operated during the first three years of the United Africa Company's existence.

157. We have been told that Gold Coast producers resorted to a hold-up of supplies on several occasions before the War; and we have taken evidence on the attempted hold-up and boycott which occurred in 1930-1. The latter was organized at the start of the 1930-1 crop season, when low prices had succeeded a period of high prices as in 1936-7, by a "Gold Coast and Ashanti Federation"; but it was not fully effective, especially in Ashanti, and collapsed early in 1931. The Federation was dissolved shortly thereafter.

158. During the periods in which agreements were current, competition between the parties to them was reduced or eliminated: but it appears from admissions to us in evidence that agreements have tended to be regarded as "breathing spaces" between bouts of fierce competition, and that they have invariably broken down through competitive forces re-establishing themselves.

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\* Rubber and oil palm products were also included. Produce Agreements in respect of Nigeria are referred to in Chapter VII.

**(b) The 1937 Buying Agreements.**

159. In the autumn of 1937, all the large European firms purchasing cocoa in the Gold Coast and Nigeria, with the exception of the English and Scottish Joint Co-operative Wholesale Society Limited, entered into Agreements to operate for four years from the 1st of October, 1937, one in respect of the Gold Coast and a second in respect of Nigeria,\* and to control their cocoa-buying operations. These Agreements, which are in very similar terms, are printed with certain omissions in Appendix J, together with descriptive letters of instructions to local agents dated the 18th of September, 1937. A detailed discussion of the Agreements is contained in Part III of our Report.

160. The cardinal principles of the Buying Agreements were: (i) the division of the total purchases of cocoa by all members and the allocation to each of an agreed proportion, based on past performance; and (ii) the payment, subject to certain specially permitted exceptions, of a uniform "limit" price by all members, based on the world price ruling from time to time less an agreed amount to cover costs of collecting, handling and shipping cocoa from the Coast to the world markets, and a reasonable profit to the firms. There was nothing in the Agreements to prevent individual members overpaying the calculated buying limit: but overpayment by any firm with the object of acquiring tonnage in excess of its agreed share was rendered unprofitable by the provision for compulsory transfers at intervals of cocoa from firms which overbought to those which did not attain their agreed share, a formula for calculating the transfer price being included in the Agreements. In practice, therefore, the Agreements removed the incentive of competition between the member firms. It is, however, the contention of the parties to them that the producer was assured the highest possible price for his cocoa by the method of price-fixing adopted.

161. We have been told in evidence that negotiations for the conclusion of the Agreements, started earlier in the year, began to show promise of successful issue only in the autumn of 1937. Rumours of discussions between the parties were current in the English Press in the first weeks of September: and on the 18th of September, the day on which the letters of instructions were sent to local agents, a leader in *West Africa* stated:—"It is expected that full agreement will be reached in the course of the next few days so that the full scheme will be in action on 1st of October". This expectation was in fact realized, although formal signature was not completed until the 10th of November.

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\* An Agreement was also concluded for the Ivory Coast, but we have not thought it necessary to consider that Agreement in our inquiry.



162. No approach had yet been made by the Agreement firms to the local Governments or to the Colonial Office. The discussions leading up to the Agreements were conducted in Europe by the principals of the various signatories, and we formed the impression that Coast agents were not consulted to the extent that their special knowledge of local conditions rendered desirable, in view of the importance of the change proposed and the well-known distrust of trade agreements by Africans. It is, in our opinion, regrettable that more did not have a full opportunity of expressing their views as to what would have been the proper method and time of introduction. It is true that, as we have said above, cocoa agreements have been successfully operated in the Gold Coast in the past; but the 1929-31 Agreement had resulted in a hold-up which, in spite of its having been largely ineffective, demonstrated the Gold Coast farmer's growing dislike of anything which restricted free competition, and which might be called a "Pool". That this was appreciated by some of the firms' employees was made clear to us in a statement by one important Gold Coast agent that "ever since [1931] any scheme, regardless of its character, described as a 'Pool', is anathema to the people of this country." We had further admissions from firms' agents in the Gold Coast that, had they been consulted before the Agreement was signed, they would have advised their principals to delay its introduction until it had been fully explained to the Africans. A witness of one of the largest firms said, in explaining this view: "The African hates change and is exceptionally suspicious of anything in the nature of a quick change." This is certainly the advice which the Gold Coast Government would have given, had it been consulted.

163. We reserve for consideration in Part II of our Report the different reception given to the Nigerian Agreement; we wish to record here, however, the view that, so far as the Gold Coast was concerned, the signatory firms committed an error of judgment in attempting to introduce the Agreement in such haste, particularly in view of the fall in the price of cocoa which had taken place since the end of the previous main buying season (see paragraph 26). We believe that, but for this error of judgment, the loss of prestige and goodwill which the firms—especially Messrs. Cadbury—have suffered, and also the African's mistrust of the Agreement, would have been much less serious.

164. Even after the Agreements came into effect, the firms appear to have done little to make their intentions known to African producers. We received evidence from a number of agents in the Gold Coast to the effect that they were not directed to explain the Agreement to producers, nor were they provided, apart from the description given in the letter of instructions,

with any brief on which they could base such explanations. In the majority of cases some information was passed on to the brokers by the agents employing them and thus filtered through to producers: but we heard of few instances in which agents took steps to explain the Agreement direct. One of the firms' witnesses explained this as follows:—"The question of giving publicity to the scheme was carefully considered and it was decided not to publish anything, in the first instance, in order to give Government every opportunity of examining the scheme." At the same time the view most commonly expressed on behalf of the firms was that the Agreement contained nothing to warrant a general explanation and that, in any case, no difficulties were foreseen in introducing it. A principal of one of the larger firms said in evidence: "I would not have attempted to correct the man in the bush until there was some indication that he was not happy. In the ordinary way you do not indulge in propaganda to satisfy people as to the correctness of a thing if they do not think it is incorrect."

165. We refer to this question again in paragraph 220 in considering the firms' criticisms of the attitude of the local Government towards the hold-up.

#### (c) Approach to Government.

166. When Mr. Frank Samuel, a Director of the United Africa Company, Limited, and Mr. John Cadbury of Messrs. Cadbury Brothers, Limited, called at the Colonial Office on the 24th of September, 1937, they emphasized that the object of their visit was not to solicit Government support for the Agreements but merely to offer an explanation of their contents and the objects which they sought to attain, and to request that the information might be conveyed to the West African Governments concerned, in order that they should be in a position to answer any enquiries that might arise from the Chiefs and people. The firms' representatives did, however, also emphasize their desire to satisfy Government that the Agreements were being operated fairly to producers, and to this end suggested that an official observer should be appointed to sit on the General Committee in London responsible for fixing the limits cabled to the Coast. *No copy of the Agreements was produced at this meeting*; but after a general discussion in which the Colonial Office representatives expressed some fears that the Agreements might be unpopular, especially with middlemen whose opportunities of speculation would be curtailed, the firms' representatives undertook to send to the Colonial Office a copy of the letter of instructions to Gold Coast agents and to put into writing the explanation which they had given of the intentions of the Agreements.

167. The firms' letter was received on the 28th of September, and airmail despatches were sent to the Governors of the Gold

Coast and Nigeria on the 7th of October. In these despatches the Secretary of State, in addition to transmitting a copy of the firms' letter and of the letter of instructions to Gold Coast agents which accompanied it, expressed the view that the Agreements were justifiable on economic grounds and that "on a long view . . . the new arrangement will be as beneficial to the producer as to the exporting merchant." He further suggested that the Governors should consider issuing a short circular to District Officers and others likely to be interested, outlining the main points of the scheme; and asked for their view on the firms' offer to have a Government observer on the General Committee.

168. When the firms' representatives were told of the action taken by the Secretary of State they assumed, we were informed in evidence, that he had found nothing objectionable in the Agreements; and his acquiescence in them was later used by certain agents of the firms in efforts to secure their acceptance in West Africa. A circular letter written on the 29th of October by a senior Gold Coast agent to local Produce Managers, which soon reached the hands of the Chiefs, stated: "Government has been informed of the whole scheme and . . . there is certainly no opposition from that quarter." We are not surprised that the fact that the Colonial Office expressed no opposition was taken to mean that no threat was seen in the Agreements to native interests. Indeed, in a telegram sent to the Governor of the Gold Coast later in the dispute the Secretary of State supported the firms' assumption that, had he thought that the Agreements would be detrimental to growers' interests, he would have said so when they were first outlined to him.

169. Our consideration of the Agreements in Part III will show to what extent we accept the view expressed by the Secretary of State regarding their fairness on economic grounds. There appear to us to have been other factors which should have been taken into account in forming a judgment on their expediency; and we think that it was unfortunate that the Secretary of State should have committed himself in any degree to supporting them without first having consulted the local Governments and without having seen either the Agreements themselves or the Schedules of marketing expenses which were annexed and which formed an essential part of them. We are informed that it is usual for the views of local Governments to be invited on important questions affecting their internal trade, and we do not think that considerations of urgency should in this case have been allowed to stand in the way of consultation. This criticism was expressed to us very forcibly by Nana Sir Ofori Atta, Omanhene of Akim Abuakwa, as follows:—"I cannot believe that, in accordance with the policy of the Colonial Office, the Secretary of State would accord his approval to a scheme which is to operate in a country where the people had

no knowledge of it and where the local Government knew nothing about it". We had evidence from the Governor of the Gold Coast to the effect that, had his views been asked at this stage, he would have returned an uncompromising reply advising the Secretary of State against committing himself in any way to an Agreement which was bound, in its very nature, to arouse serious objections from the Africans.

**(d) Reception of the Agreement in the Gold Coast.**

170. Rumours of the Agreement were current in the Gold Coast towards the end of September. A hostile Press campaign began about the 30th of September in which a "Pool" was stated to have been formed to fix the price of cocoa at the firms' figure and to exploit the natives. In a letter to the Colonial Secretary dated the 9th of October, Sir Ofori Atta expressed concern at the news of "the formation of a Pool . . . . for the purpose of controlling the sale of cocoa in the Gold Coast". On the 11th of October, the Governor addressed a despatch to the Secretary of State asking for information on the aims and objects of the Agreement. It crossed the Secretary of State's despatch of the 7th of October, which was received in the Gold Coast on the 13th of October. By this time the formation of the so-called "Pool" was becoming widely known, and in a circular letter dated 14th of October, the President of the Provincial Council of Chiefs of the Central Province called an emergency meeting of the Council to "protest against this selfish and inimical policy enunciated by the trading firms".

171. Before discussing in detail the development of native feeling in the Gold Coast against the Agreement, there are certain questions arising out of the Secretary of State's despatch on the 7th of October which have been brought out in evidence. As already stated, the firms' representatives submitted, at the meeting in the Colonial Office on the 24th of September, the suggestion that the West African Governments should be asked to issue a short circular on the Agreement to District Officers *so that they might be able to answer enquiries from the Chiefs and others*. When the firms' principals were informed that the despatch of the 7th of October had been sent to the Governors suggesting that they should "issue a short circular outlining the main points of the scheme", they naturally assumed that the despatch had conveyed that the proposed circular should provide District Officers with material for answering enquiries. In later correspondence the Secretary of State informed the Governor of the Gold Coast that this was indeed his intention; the wording of the despatch was, however, not explicit and could reasonably be interpreted as meaning that a circular should be sent to District Officers for their private information

only. This was in fact the interpretation adopted, after consultation with the Attorney-General, by the Governor of the Gold Coast.

172. It was on the fundamental question of the general desirability of the Agreement, however, that the Governor's view diverged most from that expressed in the Secretary of State's despatch. Neither Sir Arnold Hodson nor his advisers felt able to lend their support to the Agreement as explained in that despatch for three main reasons, namely:—(i) The existence of a Buying Agreement in respect of Gold Coast cocoa, which constitutes such a large proportion of the total world output must, in their opinion, have a depressing effect on world market prices; (ii) a deliberate suppression of local competition was bound to remove influences which had tended in the past to raise prices locally to the advantage of farmers; and (iii) the economic fairness of the Agreement apart, its continuance was certain, in the existing circumstances, to embitter the relations between Europeans and Africans and disorganize trade.

173. The above views were not communicated to the Secretary of State until more than a month after the receipt of the despatch of the 7th of October. The Secretary of State assumed, in the absence of a reply, that the Governor accepted his view of the Agreement and had put into effect his suggestion regarding a circular to District Officers. Valuable time was therefore lost in which the differences of opinion between the local Government and the Colonial Office might have been resolved. Government's reasons for delaying action on the Secretary of State's despatch were explained to us in evidence as follows:—(i) As regards the Agreement itself, Government deferred commenting on it until the views of the Government of Nigeria had been obtained on the suggestion that an official observer should be appointed to the London Committee. (ii) As regards the suggested circular to District Officers, Government had formed the view that the Secretary of State's intention was that this should be for their confidential information; there appeared, therefore, to be no urgency in distributing information of this kind. (iii) Further, in view of the specific request that the letter of instructions, which accompanied the despatch, should be kept "for the confidential information of the Secretariat only", Government did not feel justified in using its contents to prepare the circular. The wording was therefore a matter of extreme delicacy: and the Governor having gone on tour shortly after a first draft was considered, the despatch of the circular was delayed until after his return. It was pointed out to us in this connection that the corresponding circular prepared by the Government of Nigeria was not sent until the 25th of November. We consider that the wording of the Secretary of State's despatch of the 7th of October was open, on

both points mentioned in (ii) and (iii) above, to the interpretation which the Government of the Gold Coast put upon it. In view of the admitted doubts, however, an early reference to the Secretary of State for a ruling on these points would seem to have been both natural and desirable.

174. The delay in issuing the circular was not, in our view, important in itself: we do not, for example, share the opinion expressed by a number of firms' witnesses that it was a material factor in encouraging the hold-up. It did, however, have the unfortunate result that the Chief Commissioner of Ashanti had no official information about the Agreement until some time in November. This was not unnaturally criticised by the firms.

**(e) Development of feeling against the Agreement: the hold-up.**

175. The accuracy of the Governor's first estimate of the Africans' reaction to the Agreement was fully borne out by events. Feeling against the Agreement, which had already reached considerable proportions when the Secretary of State's despatch was received, grew with great rapidity in the latter part of October. There were mass meetings at Suhum on the 28th of October and at Nsawam on the 4th of November, attended by farmers' delegates from the various cocoa areas in the Colony and also from Ashanti, at which the "Pool" was strongly criticized as designed to depress the price of cocoa and ruin the farmers. Resolutions were passed in favour of a hold-up of cocoa and a boycott of European goods; and the representatives swore a fetish oath to cease marketing their crop and to buy no imported goods except "necessities" like sardines, kerosene, candles, tobacco and matches. Similar meetings were held in Ashanti, where a Farmers' Union had been formed to handle the situation, at Bompata on the 11th of November and at Kumasi on the 17th of November. By-laws were adopted by the Farmers' Union forbidding the sale of cocoa and the purchase of European merchandise (with certain exceptions), and fetishes were invoked to punish a breach of these by-laws. By the middle of November a more or less complete hold-up and boycott had begun in the Colony (with the exception of certain areas in the Western Province) and in Ashanti.

176. It was maintained to us in evidence by a large majority of the firms' representatives, both on the Coast and in London, that the hold-up did not originate in a spontaneous popular movement of the farmers but was engineered and forced on the people, in the Colony mainly by the Chiefs and brokers, and in Ashanti by a band of "agitators" who controlled the Farmers' Union, with the acquiescence and later with the positive support of the Chiefs. We reserve this question for consideration at the end of the Chapter.

**(f) Negotiations between Government and the two parties.**

177. Before the hold-up and boycott became general, Mr. John Cadbury, who had arrived in the Gold Coast on the 21st of October, had several interviews with the Colonial Secretary and the Financial Secretary and, on the 1st of November, with the Chief Commissioner of Ashanti. The Colonial and Financial Secretaries also saw two representatives of the Agreement firms on the 13th of November. Two days later the Governor had an interview with a deputation of Chiefs representing the Provincial Councils of the Eastern and Central Provinces. The Chiefs, using Nana Sir Ofori Atta as their spokesman, stated their case against the Agreement and urged Government to "come to the rescue of the defenceless farmer." The Governor in reply read them, in confidence, an extract from the Secretary of State's despatch of the 7th of October, explaining the objects of the Agreement, and said that he proposed first to ask the firms to state their case and later to arrange a meeting at which both sides would be represented.

178. Three private meetings were held with firms' representatives between the 16th and 18th of November. The firms' representatives, one of whom was Mr. John Cadbury, made much of the point that the scheme had been carefully explained to representatives of the Colonial Office and the Secretary of State had taken a favourable view of it, and suggested that the Governor should announce to the farmers that the Agreement was as much for their benefit as it was for that of the firms. The Governor, having explained the position of neutrality which his Government felt bound to adopt, expressed the view that, whatever its merits, the present scheme would never be accepted by the farmers. He foresaw widespread unrest which could not but react unfavourably on the firms themselves; he therefore advised abandonment of the scheme. At the request of the firms' representatives, Government undertook to examine the Schedule of expenses attached to the Agreement and used in determining the Coast price; this was done and Government later expressed itself as satisfied that the costing of the Schedule was fair and reasonable. The firms' representatives also put forward the suggestion that, as a preparation for the joint meeting with the Chiefs, the latter should submit a questionnaire on the various points concerning the Agreement on which they required information. The Chiefs later replied to this suggestion that they would gladly adopt it if they were shown the Agreement; but this the firms' representatives said could not be done since they did not possess a copy on the Coast. On the whole, therefore, these meetings were unproductive of results; and the Chiefs and the firms' representatives met at Accra on the 19th of November with slender hopes of a solution being found.

179. Little or nothing was in fact achieved by the meeting beyond making it quite clear that the resistance of the Chiefs and farmers to the Agreement was unlikely to be overcome by mere reiterations on the part of the firms that the Agreement was a fair one and would operate to the farmers' benefit. Nana Sir Ofori Atta put forward at some length the farmers' case against the "Pool": Mr. Cadbury in turn explained on behalf of the firms the objects and method of working of the Agreement with special reference to the Nana's criticisms. In closing the meeting the Governor again referred to his position of neutrality but urged the farmers, in view of the serious dislocation of trade which the hold-up and boycott were causing, to give the Agreement a trial for one season, on the understanding that if it failed they would be at liberty to submit their case once more.

180. The Secretary of State, to whom the substance of the proceedings had been communicated by telegram, suggested in reply that the Governor should, if he thought it would help, publish a message incorporating his (the Secretary of State's) views on the Agreement and urging farmers to sell their cocoa. The Governor adopted this suggestion. The text of the Secretary of State's message as published on the 26th of November in the *Gold Coast News* (a semi-official publication) and in most of the Gold Coast newspapers, as well as through wireless broadcasts, is printed in Appendix K. Its substance was that the Secretary of State was satisfied that the Buying Agreement could not materially affect the world price for cocoa, while it would give producers a price nearer the world price than previously; a hold-up was unlikely to raise prices; the Secretary of State therefore advised the orderly sale of the crop as it came forward. In the same issue of the *Gold Coast News* the Governor published a statement setting forth plainly the right of every member of the public to conduct his business without let or hindrance and indicating the legal position with regard to the legislative powers of Chiefs.

181. These efforts to induce the farmers to abandon the hold-up met with no success. Resistance to the Agreement appears, if anything, to have been stiffened by them. The view that Government was taking sides with the firms was encouraged and considerable resentment came to be felt against the Government. This reaction on the part of the Chiefs and farmers was stated plainly in a letter from Sir Ofori Atta to the Secretary for Native Affairs dated the 30th of November, 1937, which communicated, with detailed reasons, the farmers' decision not to accept the Governor's suggestion that the Agreement should be given a trial for one season.

182. We received in evidence from a number of firms' representatives certain criticisms of the local Government on the score that, through failing to associate itself with the Secretary



of State's advice to sell and through giving that advice inadequate publicity, it had materially weakened the effectiveness of the message. We shall examine these criticisms at the end of this Chapter: meanwhile it is sufficient to record that, as a result of the dissatisfaction felt by the firms, they themselves organized the distribution amongst Africans of 10,000 copies of the Secretary of State's message. This was not well received. We heard, for example, of one instance of a firm's agent being pelted, in a half-friendly spirit, with copies of the message which he had distributed, pressed into a ball or wrapped round small stones.

183. After a further meeting with the Governor on the 2nd of December, in which they reaffirmed their determination not to abandon the Agreement, and rejected the suggestion that its contents should be published, Mr. Frank Samuel (who had just arrived in the Gold Coast) and Mr. John Cadbury went to Ashanti. The course of events there since the meeting of the Farmers' Union at Kumasi on the 17th of November may be briefly described.

184. On the 23rd of November an account of the proceedings of the conference held at Accra on the 19th of November was broadcast from Kumasi; printed copies were distributed on the 25th of November, and the Governor's message, incorporating the Secretary of State's advice to sell, was broadcast on the following day. At a large meeting held in Kumasi on the same day the Chief Commissioner addressed the Asantehene and Chiefs and representatives of the Ashanti Farmers' Union on the situation. While assuring them that he did not wish to take sides in the dispute, he urged them to "review the whole situation with calm minds and think what will be the result of the present situation if it is allowed to continue"; and warned them that the by-laws of the Farmers' Union had no legal effect and that any attempt to enforce them would involve serious consequences. In replying, the Chiefs adopted the attitude that the quarrel was between the farmers and the firms; they did not conceal their sympathy with the farmers but intimated that as it was a trade and not a constitutional dispute they were not protagonists. The Chiefs said that it was the duty of Government to mediate between the contending parties, but they made it clear that their people mistrusted the Agreement because it restricted freedom of trade and added that, in their opinion, the mistrust was not unfounded because the terms of the Agreement were kept secret. They asked for publication. They further emphasized the fact that it was the Agreement and not the price of cocoa which had aroused so much feeling. Before the meeting ended the Chief Commissioner promised to do all in his power "to restore the good relations between the farmers and the merchants" and to report to the Governor what the Chiefs had said.

185. Two further meetings were held, one with representatives of the Farmers' Union on the 29th of November and the other with representatives of the firms on the 30th of November, before Mr. Samuel's discussion with the Asantehene on the 5th of December. At that meeting, and at a meeting two days later at which the Chiefs and the Farmers' Union were represented as well as all the Agreement firms, it became apparent that the farmers would not sell cocoa until they were satisfied that the principle of non-competitive marketing, as embodied in the "Pool", had been abandoned. The failure of Mr. Samuel to explain to the farmers' satisfaction the division of purchases under the Agreement appears to have hardened their opposition and to have tightened the bond between the farmers and the Chiefs who, in the early stages, had endeavoured to hold aloof from the dispute.

186. Thus the deadlock continued throughout December, both in the Colony and in Ashanti. At a meeting held in the Colonial Office on the 7th of December between the Secretary of State and his advisers and representatives of the main Agreement firms, the whole situation was discussed and the suggestion made that, in an effort to end the deadlock, the firms should consider requesting Government to publish the Agreement in full in the Government Gazette together with any explanation by the firms that they considered desirable. The firms' representatives undertook to consider the suggestion, but after communicating with Messrs. Samuel and Cadbury on the Coast they informed the Secretary of State that they were unable to adopt it. The reasons given were as follows:—

(i) The Agreement was not in itself fully explanatory; it would be difficult to convince African critics, especially lawyers, that it was the firms' intention to operate the Agreement in the manner in which they had explained to the Colonial Office that they would; and even if the letter of instructions were also published to explain the abuses which the Agreement was intended to eliminate, critics would rightly reply that the letter was not binding upon the parties.

(ii) The publication of the Nigerian Agreement would also be required in view of the cross references.

(iii) The disclosure of the clause referring to Messrs. Cadbury Brothers' right to withdraw on the 31st of May, 1938, would put the complete onus of continuing the Agreement after that date on the shoulders of that firm.

(iv) The Schedule of marketing expenses referred to in the Agreement would also have to be published.

(v) Clauses 17 and 19 of the Agreement would be interpreted as having the intention of making direct marketing of cocoa more difficult and of throttling all competition.

(vi) Publication was unlikely to lead to a solution of the deadlock; indeed it was more likely to harden opinion against the firms.

187. After taking this decision, the firms felt the time had come for them to state as a body that, having given the matter their fullest consideration, they had decided that the Agreement must continue. A joint statement to this effect was published in the *Gold Coast News* on the 14th of December reiterating the good intentions of the firms and their willingness to buy cocoa whenever the farmers were prepared to sell. This had, however, no effect, and the hold-up and boycott continued.

188. We are inclined to agree with the firms that publication of the Agreement at this stage would merely have hardened the farmers' resistance to it. At the same time we feel that, by refusing all along to make the actual contents of the Agreement known, the firms provided the Chiefs and farmers with strong grounds for their suspicion that it must contain something which was prejudicial to their interests and which the spoken explanations of firms' representatives were intended to conceal. In evidence before us, Chiefs and farmers laid much emphasis on the refusal early in the dispute of their request to be shown a copy of the Agreement, especially in view of the repeated assurances of the firms that the Agreement was to the farmers' benefit as well as to their own. Many of our African witnesses said, in effect: "If the Agreement were good and in the interests of farmers, the firms would never have hesitated to show it to us; it cannot, therefore, be for our good." It is true that the firms expressed their willingness later in the discussions to show a copy to Sir Ofori Atta alone; but it was so obviously against traditional practice for a Chief to accept such an offer that little importance can be attached to it.

#### **(g) The appointment of the Commission.**

189. The hold-up and boycott continued over Christmas and throughout January. The only important incident in the Colony was the visit of a delegation from the Nigerian Produce Traders' Union to Accra on the 17th of January which attended a meeting of Chiefs and farmers' representatives, expressed sympathy with the hold-up and promised assistance in resisting the "Pool." In Ashanti an important meeting was held between the Chiefs and the Chief Commissioner on the 13th of January. The Chiefs said that the only result of the meeting on the 7th of December had been to increase the mistrust of the Agreement; they referred to the distress caused by the hold-up and said that, as it was realized that neither the Chief Commissioner nor the Governor could force the firms to abandon the Agreement, they wished a message to be sent to the Secretary

of State on their behalf asking him to take action. They added that they would wait in Kumasi for a reply. At this meeting the Chiefs ranged themselves more definitely on the side of the farmers than they had done at any of the previous meetings. They intimated that, the firms having failed to prove their case, they considered that the farmers were in the right and should be supported.

190. The Chiefs' message was conveyed to the Secretary of State. While it was under consideration the Colony Chiefs addressed a letter to Government early in February proposing that it should "introduce legislation to abolish the formation and existence of the present combination of capitalists or merchants known as the 'Pool' to manipulate a Buying Agreement in respect of cocoa in West Africa". These representations were also transmitted to the Secretary of State, who then revived a suggestion made earlier in the dispute that an independent Commission should be appointed to examine the whole situation. Both the Governor of the Gold Coast and the Governor of Nigeria having accepted this suggestion, the decision was announced on the 10th of February in a message from the Secretary of State to the Ashanti Chiefs. In this message, and in a similar announcement in the Colony, the Secretary of State again advised the farmers to start marketing their cocoa; but this advice was again resented by the Africans and had no effect on the situation. In a letter to the Secretary for Native Affairs dated the 24th of February, the Colony Chiefs stated that "the farmers consider it extremely unfortunate that the announcement of the appointment of the Commission should be coupled with advice which seems to forestall the Commission in the issue before them and which advice the farmers consider prejudicial to their interests."

191. During February and March, while the hold-up and boycott continued practically unabated, there were rumours, which received some attention in Parliament, to the effect that farmers were burning their cocoa. Some burning did in fact take place in the cocoa-growing areas of the Colony, but the amounts of cocoa destroyed were greatly exaggerated in the local Press. We were informed that the total was only about four hundred tons. No destruction of farms occurred, although reports to this effect appeared in the Press.

#### **(h) Negotiation of the truce.**

192. When we arrived in the Gold Coast on the 23rd of March we found the situation unchanged. There were rumours of an early break in the hold-up but these turned out to be unfounded. Anticipating the probable continuance of the hold-up in the Gold Coast, we had given some thought on the voyage to the possibility of proposing a truce between the two

parties, partly in order to facilitate our investigations but chiefly to avert the serious loss which farmers would suffer if they allowed their cocoa to rot on their farms. It appeared to us to be essential that, if and when sales of cocoa began, the flow of exports should be regulated in order to avoid flooding the market and thus causing a severe fall in price.

193. We took an early opportunity of discussing the possibility for a truce with the Governor and his advisers, who welcomed the idea. We do not propose to describe the detailed negotiations which followed, and which lasted throughout our stay in the Gold Coast; but in view of the considerable dissatisfaction which the operation of the truce has caused, we wish to make our intentions clear.

194. Our object was to bring a truce into effect with the least possible haggling over terms. The firms were responsible for what we regard as an unnecessarily long delay; we do not know how far their attitude may have been influenced by a renewal of reports from the Coast that the hold-up was cracking. When the terms on which the firms were prepared to accept the truce were at last made known to us through the Secretary of State, they included the stipulation that, while the Gold Coast Government should remain free to allocate licences covering six per cent. of the crop amongst Africans and other shippers with a special claim for consideration, licences covering 94 per cent. of the crop should, throughout the period of the truce, be issued to the regular shippers on the basis of their shipments in the past two years.

195. We are not convinced that this was technically the only practicable basis of export control. It was open to the grave objection that, in effect, it not only continued with statutory sanction the sharing of purchases among the Agreement firms, which was the essential feature of the Buying Agreement, but also precluded any development of independent competition. Whether the firms could have been persuaded to agree to less, we cannot say. The Chiefs and other representatives of the Africans had committed themselves at an earlier stage to the extent of accepting in principle the proposal for a truce coupled with Government export control. In explaining to them the detailed conditions of export control arrived at in the negotiations between the Secretary of State and the firms, we expressed our view that the Africans' previous acceptance in principle did not bind them to accept these particular conditions; but we tendered no advice. The African representatives decided to accept the firms' conditions; the widespread knowledge of the negotiations, reinforced by rumour, would indeed have made refusal difficult. The truce came into effect on the 28th of April, and sales of cocoa began immediately thereafter.

196. As we have said, the operation of the truce has caused considerable dissatisfaction. When the implications of the legislation came to be fully understood, violent criticisms of it were expressed in the Gold Coast Press, and the Secretary of State was petitioned by the Chiefs to withdraw it as detrimental to producers. Strong complaints of the unfairness of the system of export control were also received from European and African shippers who had not been members of the Agreement, and these have been the subject of questions in Parliament. Government has taken the view, however, that the legislation was a temporary measure designed to meet an extraordinary situation and formed an essential part of the terms on which the truce was arranged; while the legislation perhaps inevitably caused hardship in certain cases, Government could not, without breach of faith, repeal it before the term set to it, namely the 1st of October, 1938.

**(i) Exports under the hold-up and the truce.**

197. Total exports of cocoa up to the time when the truce was declared had been, as the following Table shows, only about 52,000 tons, as compared with 246,000 tons in the corresponding period of 1936-7.

TABLE 5.

MONTHLY EXPORTS OF COCOA FROM THE GOLD COAST DURING THE MONTHS OCTOBER TO APRIL 1936/37 AND 1937/38.

<i>Month</i>	<i>1936/37</i>	<i>1937/38</i>
	<i>Tons</i>	<i>Tons</i>
October ... ..	24,534	9,856
November ... ..	32,953	13,678
December ... ..	46,039	11,619
January ... ..	34,363	5,578
February ... ..	38,913	3,311
March ... ..	36,790	4,545
April ... ..	32,101	3,462*
Total ... ..	245,693	52,049

\* Provisional

198. It was estimated at the end of April that, taking into account loss through deterioration in storage, about 220,000 tons of cocoa (including 18,000 tons of mid-crop) would be available for export. The quotas were fixed successively under the new Ordinance at 55,000 tons for May, June, July and August. Actual exports up to the 31st of July totalled only about 125,000 tons. According to a calculation made in July by the Department of Agriculture, the local movement of the

1937-8 main and mid-crops up to the end of that month may be shown as follows:—

TABLE 6.

				<i>Tons</i>
Cocoa marketed up to end of April, 1938	...	...	...	43,000
„ „ in May, 1938	...	...	...	75,000
„ „ in June, 1938	...	...	...	60,000
„ „ in July, 1938	...	...	...	40,000
Total up to 31st July, 1938				218,000

Stocks of cocoa remaining in farmers' hands on the 31st of July were estimated, after allowing for a further wastage of 16,000 tons, at 22,000 tons and stocks in firms' stores at 55,000 tons. It was therefore considered unlikely that the whole of the 1937-8 season's production would be marketed and exported before the 1st of October.

199. The deterioration in quality as a result of prolonged storage up-country, although perhaps not so serious as was anticipated, became increasingly marked in the standard of exports during June and July. In November, 1937, check samples made at the ports by the Department of Agriculture showed that nearly 75 per cent. of the cocoa exported passed Government Grade I standard. By June, 1938, the proportion of Grade I had fallen to 40 per cent.; and by July to about 25 per cent. The bulk of the remainder in these two months was classified as Grade II, only 4 per cent. and 6 per cent. respectively being Grade III.

#### (j) Origin and maintenance of the hold-up.

200. As already stated, the great majority of the firms' witnesses expressed the view that the hold-up was not a spontaneous movement of the farmers. They attributed it on the one hand to the activities of the Chiefs, backed or led by influential brokers and "agitators" and by a hostile Press campaign, and on the other to the Gold Coast Government's failure to perform its duties of giving the people a lead and of suppressing lawlessness. In Ashanti it was generally conceded that the Chiefs remained outside the dispute at the start, and most stress was laid on the part played by the "agitators" who were responsible for organizing the Farmers' Union. The coincidence of a falling price for cocoa with the introduction of the Agreement was considered by firms' witnesses to have been a powerful weapon in the hands of the leaders of the hold-up and indeed to have provided the only motive for the farmers' opposition. "The price and not the Pool was behind all the trouble." The same witnesses held that the long duration of the hold-up was made possible only by the abuse of the Chiefs' oaths and by widespread intimidation. We consider these contentions in the following paragraphs.

## (i) THE PART PLAYED BY THE CHIEFS.

201. The firms' witnesses, in alleging that the Chiefs engineered the hold-up, suggested that they had two important motives. One was that "the majority of Chiefs are directly interested in the cocoa trade, many are themselves actual middlemen, many indulge in large-scale loans on the farmers' crops and conversely others are heavily in middlemen's debt. Very largely then their interests are identical with those of the middlemen—i.e., to force up the price of cocoa." The fall in the price of cocoa which preceded the 1937-8 season and continued throughout the first months of that season threatened considerable losses, the argument runs, to those middlemen who had made advance purchases of cocoa from farmers on the basis of the previous season's high prices; the Chiefs therefore declared the hold-up in the expectation that the price would be forced up thereby. A second motive suggested by the firms was that the Chiefs seized this opportunity of making a display of their strength in order to dissuade Government from embarking on certain reforms of the political system which are known to be under consideration. One important firm's witness said: "Although outwardly the present crisis appears to be a commercial dispute, my personal view is that the root cause of all recent trouble is the reinforcing of the power of the Chiefs under the Native Administration Ordinance." The absence of a comparable movement in Nigeria was attributed, in part at least, to the different political status of the native rulers in that dependency.

202. We do not doubt that certain Chiefs have a considerable financial stake in the cocoa industry and were naturally disappointed at the low price of cocoa at the beginning of the 1937-8 season. We do not, however, believe, in view of the considerable body of responsible evidence which we have had to the contrary, that the Chiefs would be prepared to risk losing the support of their people by attempting to force on them an unpopular policy, especially one which intimately concerned the livelihood of practically the whole community. Evidence has led us to the view that in the present instance, so far from forcing the hold-up upon the people, the majority of the Chiefs lent their personal support to it, some of them even against their will, only after it had been widely adopted by the farmers themselves. In the Colony, it is true, the Chiefs made an early protest to Government against the Agreement; but the meetings at Suhum and Nsawam appear to have been genuine farmers' meetings and the resolutions taken at them to have expressed the wishes of the farming community. In Ashanti, as most firms' witnesses themselves admitted, the Chiefs at first held aloof from the dispute.



203. When the people had adopted the hold-up, it was clearly impossible for the Chiefs to do otherwise than support them in it; for, as Sir Ofori Atta said, "the Chiefs cannot divorce themselves from the people. . . . They must concern themselves with the hardships and anxieties of their people." Once they had done so, there is no doubt that they employed the full weight of their traditional authority to hold the farmers together and to maintain the resistance to the Agreement. We have already described how in Ashanti the Chiefs were gradually forced to adopt the farmers' cause when Government failed to find a solution of the deadlock. It was inevitable that a widespread movement embracing some 300,000 illiterate farmers without any previous experience of organized action on a basis wider than that of their village community should require leadership; and the Chiefs are the natural leaders of the people.

204. We do not consider that the Chiefs acted otherwise than as interpreters of the will of the majority of their subjects. To quote from a report dated the 16th of December, 1937, by an official who in the course of his duties travelled widely in the cocoa districts and was in close touch with farmers:—

"Merchants generally appear to be of the opinion that the hold-up will break down in January and that it is only the coercion of the Chiefs that is preventing the farmers from selling now. Personally I do not share these views and in my opinion the attitude of farmers, as a whole, has never been so determined. Certainly there would be a small amount of selling if the Chiefs were not behind the scheme but the majority of farmers appear adamant in their determination to hold up the bulk of the crop. Another aspect is that never have the farmers been so well organised and I found that even in the remote parts of the Western Province the Chiefs and prominent farmers were in direct communication with organizing bodies in the province and Accra. They are kept *au fait* with every daily development of the situation and in this respect the power of the local daily press is growing tremendously. In both Provinces the hold up is virtually complete and the boycott of all stores is gaining in intensity rather than diminishing".

(ii) SANCTIONS USED TO ENFORCE THE HOLD-UP.

205. In describing the course of the hold-up earlier in this Chapter we made references to the invoking of customary sanctions, by the Chiefs and by farmers' organizations, as a means of enforcing the resolutions taken at the various farmers' meetings. The actual sanctions employed varied from threats of withdrawal of funeral rites and refusal of claims to adultery fees to the swearing of fetish oaths and the beating of gong-gong to enforce the Chiefs' orders; where these were ineffective, intimidation leading in some cases to physical violence was adopted. We had copies of the by-laws passed by the Ashanti Farmers' Union; we were given by firms' representatives actual summonses before a Chief's tribunal for alleged breaches of an order forbidding the sale of cocoa; we also received a considerable amount of evidence of intimidation to prevent the sale or

transport of cocoa; some cases of physical violence were brought to our notice; and copies of orders purporting to have been issued by a prominent Chief which gave direct incitement to bloodshed were submitted. That Government was aware of the position is shown by the issue of an official statement on the 25th of November regarding "the fundamental right of every member of the public to proceed about his business and conduct his affairs freely without let or hindrance", and recalling the Asare Panyin judgment with regard to the legislative powers of Chiefs under the laws of the Gold Coast (see paragraph 44).

206. The firms' witnesses laid great stress on the widespread use of these sanctions as demonstrating that the Chiefs forced the hold-up on the people and maintained it throughout against the will of the vast majority of the farmers. One witness with long experience of the Colony said: "My firm opinion is that a large proportion of owners of cocoa wanted to sell at all times . . . and that they were prevented from doing so by fear of the consequences of orders or oaths of Chiefs". Another firms' witness said with reference to Ashanti:—"Early in the new year at least 90 per cent. of the farmers were begging for permission to sell but were not allowed to do so."

207. We have been impressed by the unanimity of the firms' evidence on this point. We have, however, received equally unanimous evidence from Government officials and from African witnesses to the effect that illegal actions on the part of Chiefs and other African leaders were not so widespread, nor the forms of pressure which we have described so common, as to be decisive factors in causing and maintaining the hold-up. The conclusion which we have reached, after carefully weighing this evidence, is that traditional, but not infrequently illegal, sanctions were undoubtedly employed by the Chiefs or, with their connivance, by other African leaders especially in the later stages of the hold-up; but that the majority of the farmers were throughout in full sympathy with the Chiefs' efforts to organize resistance to the Agreement. Having themselves taken the decision that the "Pool" must be combated by a hold-up of cocoa and a boycott of merchant ships, they put the matter into the hands of their traditional leaders and left it to them to organize the resistance so long as the "Pool" continued. Naturally, as time went on, some farmers, particularly the poorer ones, became restive and may have been genuinely anxious to sell. The majority were, however, prepared for a fight to the finish. We therefore regard the incidents of intimidation which have been brought to our notice as no more than the natural concomitants of a prolonged strike. Every strike has its blacklegs, and when feeling runs high the distinction between lawful picketing and illegal coercion is apt to be disregarded.

## (iii) " FARMERS' GROUPS."

208. While traditional sanctions were employed to enforce the hold-up, a genuine form of organization was attempted by the farmers' leaders with, in the Colony, the assistance and participation of the Chiefs. We were told in evidence that it had long been the practice, at least in certain cocoa districts, for " Head Farmers " to be chosen by the farmers themselves as their advisers and as arbitrators in cases of dispute, and that the organization of farmers into definite groups or unions under the Head Farmers had been adopted in previous emergencies, mostly in connection with efforts to sell cocoa direct to overseas markets. This farmers' movement received a great impetus from the formation of the 1937 Buying Agreement. In the Colony the Head Farmers were responsible for organizing producers into local groups and for collecting information regarding stocks, etc., as well as for preventing surreptitious sales of cocoa. We heard of Head Farmers of groups in Togoland, for example, passing by-laws with the consent of the Chiefs to prohibit cocoa sales. Groups were supervised by district and provincial committees which in turn were responsible to a central committee. Out of this organization was later formed a federation known as the Gold Coast Cocoa Farmers' Federation Limited, which had the object of securing membership of as many farmers' groups and individual farmers as possible and of disposing of members' cocoa by direct sale to overseas buyers. A prominent Colony chief was largely responsible for the Federation's formation; we discuss it with our recommendations in Chapter XV.

209. In Ashanti the position was rather different. A Farmers' Union was revived with the dual object of resisting the " Pool " and organizing collective marketing. In practice little, if any, progress seems to have been made with the latter object; the Union's activities centred almost entirely on the organization of the hold-up. As we have said, it was responsible for taking resolutions and passing by-laws, enforced by fetish oaths, prohibiting the sale of cocoa and the purchase of merchandise. The Union was controlled by a council which comprised the Head Farmers of each division elected, we were informed, by the farmers themselves. The Union had a president, a secretary and committees, and held regular meetings in Kumasi. In contrast to the groups in the Colony, the Farmers' Union was worked independently of the Asantehene and the Ashanti Chiefs; and although the Chiefs later threw in their lot with the Union and worked together for the maintenance of the hold-up, we formed the impression that they were suspicious and even afraid of the growing power of an organization which had no place in the traditional system of authority.

210. The farmers' organisations both in the Colony and in Ashanti played an important part in financing the hold-up.

While most farmers, as we have said, grow sufficient food crops for their subsistence, cash has become a necessity for a number of purposes. A certain amount had been put into circulation by brokers in the shape of pre-season advances and forward purchases before the hold-up began; and speculative purchases at low prices were extensively made during the season, for sale after the hold-up, by brokers, moneylenders and private persons. Moreover, the Chiefs assisted by arranging for a moratorium on debts and on certain fees; and the wages of labourers were simply withheld. Thus the cash requirements of the farmers were reduced to a minimum. At the same time some cash was required, especially by the smaller farmers. We were told that levies were raised by the farmers' groups and the Ashanti Farmers' Union for meeting the costs of organisation; and although we heard of one instance in which funds were improperly administered, it seems probable that a considerable amount of assistance was given to the more needy farmers through the organisations.

(iv) THE INFLUENCE OF THE BROKERS AND "AGITATORS."

211. It would not have been surprising had the larger brokers, whose incomes were most directly threatened by the Agreement, been the first to criticise the scheme and to incite the farmers to strike. This was in fact the contention of a number of firms' representatives. A senior agent of one of the largest Agreement firms said: "The people behind the hold-up are not the farmers as a whole, but the larger farmer, farmer-broker, moneyed broker and moneylender, who have no actual interest in cocoa other than financial. These people advance money to the financially embarrassed farmer during the off-season at a rate fixed on the expected price of the season to come." An important African witness in Ashanti stated that the brokers were amongst the first to criticise the Agreement there and to draw the farmers' attention to it. On the other hand we had repeated statements from brokers themselves that they were not in favour of the hold-up when it started. As one broker witness stated, "It is argued that the brokers are responsible for the cocoa hold-up. This is not true. The farmers are holding up their cocoa because they do not want the Pool. . . . The brokers are rather anxious that the farmers should sell, for it is only by the farmers selling that the brokers can collect from the farmers cash advances given to them through their sub-brokers." Both money advanced by the firms and brokers' own capital were involved.

212. We do not doubt that, since the brokers played an important part in disseminating news of the Agreement amongst the farmers, their attitude had an important effect on

the way in which the farmers received the Agreement. Even assuming, however, that the brokers were, from the beginning, wholeheartedly opposed to the Agreement, we are not convinced that they considered it in their own interests to encourage a hold-up. Later they undoubtedly did support the movement. Several European witnesses explained this change of front by referring to the continued fall in price after the beginning of the cocoa season, which would in any case have made it impossible for the brokers to recover the full value of fixed purchases made by them on the basis of the previous season's high prices. The explanations given by broker witnesses were various, but their chief contention was that brokers did not at first discover that an important object of the Agreement was "to clip their wings." One witness said: "It was Mr. Cadbury's speech [at the conference in Accra on the 19th of November], with all its implications against brokers, that incited them to join the chorus against the Agreement." It must also be borne in mind that the majority of the brokers are farmers. We are inclined to agree with one witness who said: "The simple fact was that the Chiefs, farmers and everybody were against the formation of the 'Buying Agreement' or 'Pool.'" This would at any rate account for the united front presented to us in evidence.

213. The part played by "agitators" in fomenting the hold-up in the Colony was emphasized by the firms in evidence; but it was chiefly in regard to Ashanti that their witnesses made allegations of this kind. There, as has already been stated, a Farmers' Union was formed—or revived, since the organization had existed several years before—with the double object of resisting the "Pool" and organizing collective marketing. According to firms' witnesses, the Union was organized and run by a band of "agitators"—defined in cross-examination as being chiefly out-of-work clerks and brokers closely connected with the movement in the Colony—who used the fall in cocoa prices in propaganda against the "Pool," and enforced compliance with their policy by beating gonggong and swearing the Chiefs' oaths.

214. The term "agitator" is somewhat tendentious, being freely used by those who hold a particular belief to indicate an improper motive in others who presume to oppose them. We have described the type of organization which was evolved by the farmers' leaders to meet the situation created by the hold-up. That organization admittedly provided a field for the demagogic activities which certain witnesses have attributed to "agitators"; but we do not consider that these played a part in the movement at all commensurate with the attention which they received from our witnesses.

## (v) THE PRESS.

215. Detailed evidence was submitted to us on behalf of the Agreement firms to the effect that a misinformed and misleading Press campaign was an important factor in causing the hold-up. We were provided from official files with a complete series of Press cuttings from the chief Gold Coast newspapers, beginning with an extract from the *African Morning Post* of the 30th of September, 1937, in which farmers are warned that "all the important firms, with the exception of C.W.S., have formed a Buying Pool to buy cocoa at their figure." We agree that the views expressed in the majority of these cuttings were partisan and based on a very sketchy knowledge of the *modus operandi* of the Agreement and of the factors which determine prices in world commodity markets; we have it on the authority of an African witness of great standing that these misinformed comments received wide attention throughout the cocoa districts and played an important part in working up opinion against the Agreement and in linking it with the Merchandise Agreement. As we state in Chapters X and XI, however, the Africans' case against the Agreement rests on a number of objections which owe little or nothing to Press encouragement. The most important conclusion which we draw from the conduct and influence of the Press in the first stages of the dispute is that the firms ought to have taken earlier steps to correct misstatements, or to have anticipated them by a full explanation of the scheme.

## (vi) LOW PRICE OF COCOA.

216. The continued and rapid fall in the price of cocoa which began in January, 1937, is shown in Table IV (b) of Appendix C, and has been commented on in paragraph 26. In the 1936-7 season the local price of cocoa had risen as high as 26s. 6d. per load. The 1937-8 season opened with a price of 12s. per load, which declined to a low point of 9s. 3d. per load towards the end of November. Many firms' representatives expressed the view in evidence that "the low price of cocoa and not the Agreement was at the bottom of the trouble." One witness in Ashanti said: "I maintain that, had the price of cocoa in October, 1937, been 20s. per load, no one would have worried whether the firms had signed a Buying Agreement or not. It was the sharp fall in price and not the Buying Agreement which started this racket." Other firms' witnesses pointed to the precedent of the 1929-31 Agreement. During the first season of that Agreement marketing continued as usual, at good prices, but when the local price fell from 17s. 9d. per load to 11s. per load at the beginning of the 1930-1 season, a hold-up ensued.

217. We do not feel competent to express a view on the hypothetical question whether a hold-up would have occurred had the price of cocoa in October, 1937, been a satisfactory one. A number of Ashanti farmers admitted to us that they were induced to hold up their cocoa by information got through the Ashanti Farmers' Union that the Agreement had brought the fall in price. One witness said: "We asked for the reason [of the low price] and we were told that the firms had formed an Agreement that no firm should pay a higher price than the other. We found that the firms were cheating us; so we bound ourselves not to sell our cocoa." At the same time we had repeated assurances from African witnesses that they would not sell however high a price was offered, if the "Pool" remained. At the various meetings held during the hold-up the African leaders were insistent that the farmers would not sell "even if the price rose to £2 or £3 a load"; these assertions were reiterated to us in evidence.

218. We have no doubt that the hold-up obtained part of its first impulse both in Ashanti and in the Colony from a mistaken association of the current low price of cocoa with the introduction of the Agreement; and that this was certainly used, with what sincerity we cannot judge, by farmers' leaders and by the Press in uniting African opinion against the Agreement. To that extent it may be recognized that "*price* was at the bottom of the trouble". But when the nature of the Agreement came to be better understood and when the attention of Africans came to be drawn to the Merchandise Agreement under which the trading firms fixed uniform prices for certain goods, the price of cocoa became a secondary matter. To admit the confusion to which we have referred does not invalidate our view that the decision to hold was taken by the farmers themselves.

(vii) ATTITUDE OF GOLD COAST GOVERNMENT.

219. In the evidence which we received from firms' representatives on the Coast much weight was attached to the responsibility of the local Government both in connexion with the start of the hold-up and with its continuance for such a prolonged period. A memorandum of evidence submitted to us in London by the principals of two of the largest Agreement firms supported the local criticisms and stated that, in the opinion of the witnesses, "the attitude of the Gold Coast Government . . . was more conducive than any other single factor to the prolonged and general hold-up of cocoa". The firms' criticisms of Government may be summarized under the following heads:—

(a) Government's failure to inform its officers of the outline of the Agreement as was suggested by the Secretary of

State in his despatch of the 7th of October, 1937 (see paragraph 167), so that "enquiries from the people could have been properly and promptly answered"; and its failure to give "wide and sufficient currency" to the Secretary of State's message on the 26th of November advising the farmers to sell.

(b) Government's failure to give the people a lead in their attitude towards the Agreement by associating itself with the Secretary of State's views, by informing the people that the prices offered by the merchants under the Agreement were fully in line with world prices, and by correcting misrepresentations of the intentions of the Agreement at public meetings and in the Press.

(c) Government's failure "to maintain the position of Government or carry out its primary functions", viz., the maintenance of law and order in the face of acts of intimidation by Chiefs and others, and the provision of adequate police protection for merchants desirous of moving cocoa; and

(d) Government's failure "to appreciate the true temper of the people, and its consequent attempt to coerce the firms to abandon the Agreement by prophecy of riot and bloodshed".

(a) *Publicity.*

220. We have already criticised in paragraph 173 the delay which ensued, after the receipt of the Secretary of State's despatch of the 7th of October, 1937, in issuing a circular to District Officers. We also explained the misunderstanding regarding the terms of the circular and the use to be made of it by the officers to whom it was issued. As regards the publicity given to the Secretary of State's message of the 26th of November, we have examined carefully the detailed charges made by firms' witnesses. We are satisfied that Government took all normal and reasonable steps to make the message widely known with the least possible delay. When it is remembered, as an official witness put it to us, that in the Gold Coast, with its almost entirely illiterate rural population, the printed word plays little part in the dissemination of news, which is spread with remarkable speed by word of mouth, the firms' criticisms of the small circulation of the *Gold Coast News* (a semi-official publication in which the message was printed) and of the small number of wireless licences held by Africans lose much of their weight. The view was in fact expressed to us, and we accept it, that for Government to have taken any measures to promulgate the message beyond those actually taken (which conformed to precedents in the dissemination of important news) would merely have aroused suspicion and have given the impression that Government was attempting to foist something upon the people.



*(b) A Government lead.*

221. The criticism that Government failed to give the people a proper lead was put to us by one witness as follows:—"It was fully expected that Government would, from information within its knowledge, have made some reassuring statement concerning the effects of the scheme on African interests. But no statement was forthcoming, and Government's silence was interpreted by each side as condemnation of the scheme. . . . . In my opinion Government's decision to remain neutral in the dispute was a calamitous one for the Gold Coast and Ashanti." Another firm's witness in Ashanti said:—"If Government had maintained a strong policy at the beginning with the Asantehene and given him a definite lead, I am of the opinion that all this suffering would have been prevented." It was also maintained in evidence that if, at a later stage, Government had been prepared to associate itself with the Secretary of State's views, and to state categorically and publicly, first, that the Agreement contained nothing harmful to the farmers and to the industry generally, secondly, that the price being offered by the merchants was the highest price which the world market permitted, and thirdly, that Government would make itself responsible for watching day-to-day prices as determined under the Agreement, the hold-up would have been speedily at an end.

222. We have already explained that the local Government had doubts regarding the expediency of the Agreement and that official information was not available through the Secretary of State until some time after its introduction, when a considerable amount of dissatisfaction had already been publicly expressed. In these circumstances we consider that it was inadvisable for the local Government to adopt any other attitude than one of neutrality. The firms' principals have emphasized that they had no desire to press the local Government to undertake propaganda on behalf of the Agreement. We find it difficult to distinguish, in the circumstances of the introduction of the Agreement, between a Government lead in favour of the Agreement and propaganda on its behalf; and in fact a number of Coast witnesses spoke of the need for "Government propaganda." It appears to us to be unreasonable for the firms to have expected that a Government which they had not thought fit to consult before the Agreement was introduced and which was not persuaded of its desirability should be ready to defend it in the face of evidence of growing opposition. We have been assured by Colonial Office witnesses that it was never the intention to instruct the Gold Coast Government to throw its weight behind the Agreement; and we accept the local Government's view that for Government to have argued the firms' case

would merely have aroused suspicion. Short of definite partisanship, we think that every assistance which it was proper for Government to give was afforded to the firms in order that they might themselves make a full statement of their case to the Africans. After preliminary talks with the Chiefs and farmers' representatives, in which Government departed so far from neutrality as to urge the trial of the Agreement for one season, meetings of both parties were arranged in the Colony and in Ashanti. The fact that the firms' representatives completely failed to convince the Chiefs and farmers is significant in our opinion of the strength of the African determination to "fight the Pool" to a finish. Against that determination we fail to see what further steps Government could properly have taken.

223. It must be remembered that the firms were not alone in criticizing Government's attitude towards the dispute. The farmers deeply resented the attempts made to induce them to sell while the "Pool" remained, and even a guarded policy of neutrality failed to maintain intact their confidence in Government.

224. As regards the firms' criticisms that Government failed to check "the lying propaganda circulated by the Press" and to "force" certain newspapers to publish the Secretary of State's message, we cannot agree that it is part of Government's duty to censor the Press and to dictate what should and what should not be published in it. We cannot imagine anything more calculated to arouse justifiable resentment amongst Africans than an attempt by Government to restrict the freedom of their Press. We feel rather that greater efforts might have been made by the firms themselves to present their case through the medium of the Press. Their attitude was indicated by one witness as follows:—"The nature of the Press (in the Gold Coast) is such that propaganda through that medium might easily do more harm than good. Anything we said must be suspect." Another firm's witness, in stressing the difficult position which the firms were faced with on the conclusion of the Agreement owing to "the virulent attacks in the local Press," said: "The advisability of counter-propaganda was carefully considered from all angles, and any communication with the Press was considered undesirable"; adding that in any case Press publicity would merely keep the controversy alive and embitter feeling.

225. We appreciate the Agreement firms' difficulties in obtaining a fair hearing of their case at this stage. We are far from satisfied, however, that adequate steps were taken, especially at the time when the Agreement was introduced, to give publicity to its intentions and its method of operation through the Press or otherwise.

(c) *Law and order.*

226. We have already referred to the firms' contentions regarding the part played by the Chiefs in the hold-up and the widespread use of oaths and intimidation to enforce it. We have stated our view that lawlessness was not so widespread or serious as the firms' witnesses contended. We do not regard as established the firms' charge that Government, by failing to maintain law and order, was in a large measure responsible for the hold-up.

227. As regards the provision of police protection for transporting cocoa, we received evidence from firms' witnesses of a few cases in which it was alleged that such protection had been refused. Generally, however, the firms' witnesses maintained that, while their right to have police protection was in most cases conceded, Government attempted to dissuade them from insisting on it, and indeed from moving cocoa at all, by pointing to the possible consequences. We agree with the official view that the provision of police escorts on a large scale would have been impossible in view of the limited forces available; and further that any attempts made by Government to assist the firms in this way would have been regarded by the Africans as tantamount to Government's taking sides with the firms.

(d) *Popular feeling.*

228. The criticism that Government failed to appreciate the true temper of the people was coupled with the argument that there was no real feeling amongst farmers against the Agreement and that Government was mistaken in its view that the hold-up was spontaneous and popular. One witness said: "Had the hold-up been a movement genuinely backed by all farmers, then we might have expected ugly incidents . . . Stoning might have been looked for." Several witnesses testified that although they had driven for many miles through the cocoa areas during the hold-up, hostile demonstrations by Africans had seldom, if ever, been encountered. The firms also criticized Government's prophecy of "riot and bloodshed" as exaggerated, and resented the use of it in attempts first to persuade them to abandon the Agreement and later to dissuade them from moving cocoa. They represented that this in effect transferred to them the chief burden of responsibility for the maintenance of good order.

229. It is difficult for us to assess the dangers of disorder which may have existed at various times during the dispute; but we had direct experience of the feeling which existed and we see no reason to doubt Government's view that at times the situation was critical and fraught with serious possibilities. The fact that so little disturbance actually occurred

reflects credit, in our opinion, upon the ability of Government officers on the spot and the inherently peaceable disposition of the Africans, as well as upon the restraint shown throughout by the firms' agents in not moving cocoa against the advice of Government.

230. To sum up: we regard the majority of the firms' criticisms of the local Government as based on a fundamentally mistaken view of the nature of the situation which developed in the early weeks of the operation of the Agreement and continued throughout the dispute. In the face of a deep and widespread resistance on the part of the farming community, the policy of neutrality which Government adopted, without excluding attempts to persuade both parties to make concessions in the interests of the country's prosperity, was in our view the only possible one. In the circumstances, any attempt by Government to break the Africans' resistance by stronger measures than were in fact taken would, we consider, have had the opposite effect to that expected by the firms; resistance to the Agreement would have hardened and Government's prestige with the Africans would have been jeopardized. The difficulties of maintaining such a policy in the face of pressure and criticisms from both sides are apparent; and we consider that the local Government acted throughout with tact and that credit is due to Sir Arnold Hodson and his officers for their handling of a very delicate situation.

## PART II.—NIGERIA

### CHAPTER VII.

#### POLITICAL AND AGRICULTURAL CONDITIONS IN NIGERIA.

##### (a) Political.

231. The territory known as Nigeria comprises three sections; the Colony proper, covering a small area round Lagos; the Protectorate, made up of two groups of provinces, the Northern and Southern Provinces; and the mandated area of the Cameroons under British Mandate. The total area of the territory is about 373,000 square miles. The total population was estimated in 1936 at slightly over 20 million. The most important tribe in the cocoa belt of the Southern Provinces is the Yoruba.

232. A Legislative Council on which there is an official majority passes laws for the Colony and for the Southern Provinces of the Protectorate and the Cameroons; the Governor is empowered to enact laws for the Northern Provinces. For purposes of administration the Protectorate, including the Cameroons, is divided into 23 provinces each under the immediate control of a Resident. The Northern and Southern Provinces are each administered by a Chief Commissioner, the Cameroons Province of the mandated area being regarded as part of the Southern Provinces. The Colony is administered by the Governor through a Commissioner.

233. Broadly speaking the system of native administration in Nigeria is one of indirect rule. Under the Native Authority Ordinance, Native Administrations are constituted for defined areas under the control of the chiefs, or confederation of chiefs. Each Chief is assisted by a Council to which in certain cases a number of co-opted members are added, chosen by virtue of their education rather than their traditional prerogatives. The Native Administrations exercise a considerable degree of control over their treasuries and, although Government Ordinances apply in their areas, responsibility for enforcing many provisions of the laws is now being assumed by them. They also carry out minor legislation by means of rules; we refer below to by-laws by the Abeokuta Native Authority to control markets. "Gradually with increased experience, efficiency and confidence, Native Administrations are assuming part of the responsibility which has hitherto been borne entirely by Government."\*

\* *Annual Report on the Social and Economic Progress of the people of Nigeria, 1936*; paragraph 25.

**(b) Agricultural.**

234. The cocoa industry in Nigeria occupies no such prominent position as in the Gold Coast, cocoa being only fourth in importance among agricultural exports. In 1936, when total agricultural exports were valued at £12½ million, exports of cocoa were valued at only £2 million or 16 per cent. of the total. Palm kernels, groundnuts, and palm oil preceded cocoa in order of importance, palm products together accounting for nearly £5¼ million. Of the minor agricultural exports, cotton, bananas and beniseed are the most important. There is also an important internal trade in kola nuts.

235. The production of cocoa is confined to a small area in the west of the Southern Provinces and to the Cameroons Province of the mandated area. In the latter area there is some 40 per cent. of plantation production; all the rest is grown by native farmers similar to those of the Gold Coast. The development of the industry is shown in Table 2 in paragraph 48. The following Table shows the quantities of cocoa marketed in the principal marketing areas (excluding the Cameroons) during the six months of 1937-8 main season:—

TABLE 7.

COCOA MARKETED DURING SIX MONTHS ENDING 31ST MARCH, 1938

<i>Area</i>						<i>Tons</i>
Lagos ... ..	...	...	...	...	...	9,538
Abeokuta ... ..	...	...	...	...	...	11,466
Ijebu-Ode ... ..	...	...	...	...	...	8,027
Ibadan ... ..	...	...	...	...	...	25,674
Ilesha-Ondo ... ..	...	...	...	...	...	17,035
						<hr/>
						71,740

## LAND TENURE.

236. The use of land is based on communal ownership, but inevitable changes have followed occupation by a permanent crop. There is a tendency for families to hold land indefinitely, and development has gone as far in some instances as the sale of freehold rights. An intermediate stage is the sale to strangers of usufruct—indefinite occupation—without the freehold passing to the purchaser. Mortgages involving change of ownership do not appear to be common, but the pledging of the whole or part of successive crops as interest on a loan is a frequent practice.

## LABOUR.

237. The method of establishing farms is closely similar to that already described for the Gold Coast. Practically all farmers employ labourers even during periods of low prices.

The Yoruba are a town-dwelling people and absentee farmers own a large proportion of the cocoa farms. They employ a headman to supervise the labourers, and themselves pay only periodic or occasional visits to their farms. The small farmer more frequently lives on his holding but even he employs at least one labourer.

#### FOOD CROPS.

238. Food crops are always grown on the farms, and to some extent they are bought and sold. Even the absentee owners grow most of what they require. The small cocoa farmer buys little food beyond meat and fish, which may cost him 10s. a month. Cocoa was originally adopted as a supplement to subsistence farming, and has developed gradually to the position of a staple crop. Under the former circumstances any return was looked upon as profit, and there was no concern as to cost of production and little effort to obtain a maximum price. The influence of this attitude is still widely operative, as shown by reluctance to take trouble in the preparation of the beans and by casual methods of disposal.

#### CONDITIONS OF CULTIVATION AND FUTURE PROSPECTS.

239. Even in the comparatively small areas in Nigeria to which production is restricted by soil and climate the conditions are distinctly less favourable to cocoa-farming than in the Gold Coast. The soils are lighter and therefore less retentive of fertility, and dry-season conditions more severe. The effect is seen in the limited duration of cocoa farms. In the Agege district of the Colony, the oldest cocoa area, cocoa has already been largely superseded by the more tolerant kola. Where the farms are old enough to have completed the cycle the period occupied by their rise and decline seems to be of the order of fifteen to twenty years. In view of the convenience of cocoa as a cash crop, the policy of the Department of Agriculture is to explore the possibilities of regeneration of farms which have gone out of cultivation. These farms would presumably have been made on the site of virgin or old secondary forest, and it remains to be seen (*a*) how far decline may be delayed by the maintenance of shade and shelter and the use of mulch to protect the soil (if the farmer can be induced to adopt these measures); and (*b*) what period of reversion to some type of forest growth is necessary before the cycle can begin again. A scheme of cocoa research of an advanced type, making use of the latest knowledge of the subject, has been commenced.

240. Increases in production in the past have been due to new farms coming into bearing and not to increases in yield in established areas. In the Southern Provinces expansion is practically at an end. The untouched forest is mainly included in the forest reserves. Only the country bordering on the

Cameroons is left as a new area. Summing up the position as it was explained to us, the prospect seems to be that while no immediate decline and no great expansion are to be expected, there will be an eventual steady decline unless the policy mentioned above produces successful results. The difficulties imposed by natural conditions and social organisation combined are severe; but if farmers can be persuaded to face the extra labour involved, they may be overcome.

### (c) Reception of the Agreement in Nigeria.

241. Agreements between the main European buying-firms to control the purchase and sale of native produce have been much more common in Nigeria than in the Gold Coast. Agreements concerning the purchase of palm oil and palm kernels have been in force from time to time for nearly half a century; and a groundnut agreement has, we understand, been operated for at least the past ten years. The agreements for palm oil and groundnuts do not appear to have been fully effective owing to competition from outside buyers, including Syrians. The purchase of minor products such as cotton and beniseed is also governed by agreements. As in the Gold Coast, efforts to conclude cocoa-buying agreements have been made in the past; an agreement between three of the important buying firms was in operation for several seasons up to 1935, when it was abandoned.

242. The recent Cocoa-Buying Agreement for Nigeria came into operation, like that of the Gold Coast, on the 1st of October, 1937. Prior to the receipt of the Secretary of State's despatch of the 7th of October, there had been comments in the Press; but their tone was much milder than in the Gold Coast. In the weeks following the receipt of the Secretary of State's despatch the Press became more critical; there was a considerable outcry—notably in the *West African Pilot*—against the Agreement, which was stigmatised as a “pool” designed to achieve a monopoly in the cocoa trade and to exploit the African producer. It seems likely that this attitude was largely inspired by the attitude taken by the Press in the Gold Coast.

243. On the 25th of November, the circular proposed in the Secretary of State's despatch was issued to administrative and agricultural officers telling them, for their own information only, of the conclusion of the Agreement and outlining the scheme. On the same day the Governor replied to the Secretary of State's despatch of the 7th of October accepting the firm's suggestion that a Government observer should be appointed to sit on the London Committee. This despatch expressed the fear that, while on a long view the operations of



the scheme would probably be beneficial to the grower, there was a danger that the middleman, whose income was most directly affected, would attempt to recover the loss by reducing the price to the grower.

244. On the 14th of December the Nigerian Produce Traders' Union asked Government for an opportunity to discuss the Agreement; a meeting was accordingly arranged and took place in Lagos on the 29th of December, presided over by the Governor and attended by representatives of the Union, the Agreement firms and the Press, in addition to two African unofficial members of the Legislative Council and certain officials. The Union expressed themselves as apprehensive of the effect of the Agreement and gave a reasoned statement in support of their views.

245. In reporting the result of this meeting to the Secretary of State, the Governor stated that feeling was not so strong in Nigeria as in the Gold Coast, and expressed doubts whether producers felt strongly against the Agreement or were backing the Produce Traders' Union in their criticisms of it. Protests were, however, appearing in the Press and there was some danger that the agitation in the Gold Coast might spread to Nigeria. He therefore urged that the terms of the Agreement and of the Schedule of marketing expenses should be made public. As a result, however, of the discussions between the Secretary of State and the firms' representatives which have been described in paragraph 186, the Governor was informed on the 19th of January that publication was not possible. At the same time copies of the Agreement and of the letter of instructions to local agents were sent for the Governor's own information. The firms' representatives had urged that the Governor should be asked to examine the Agreement, and, if he felt satisfied that it contained no threat to the African farmers, to make a public statement accordingly. In communicating this suggestion, the Secretary of State asked that in view of the possible repercussions of a public statement in Nigeria upon the situation in the Gold Coast no such action should be taken without prior consultation with him.

246. On the 15th of January the Nigerian Produce Traders' Union sent a delegation to the Gold Coast to discuss the situation in both countries. After meetings in Accra, to which reference has already been made (paragraph 189), the delegates returned to Nigeria. On the 22nd of January, at a "mass meeting" held in Lagos, the Nigerian Youth Movement pledged its support against the "Pool." A resolution recording this was forwarded through official channels to the Secretary of State on the 30th of January. Meanwhile the Governor had informed the Secretary of State that he considered that it would be a very grave error for Government to

appear to defend a suspected document the publication of which had been refused. The only effect of such action would in his opinion be to undermine confidence in Government.

247. In spite of the resolutions of the Nigerian Produce Traders' Union and the Nigerian Youth Movement, the farmers' resentment against the Agreement was not deep enough to affect the steady marketing of their crop. Exports of cocoa by months during the main-crop season as compared with the 1936-7 season are shown in the following Table:—

TABLE 8.  
EXPORTS OF COCOA FROM NIGERIA IN THE MONTHS OCTOBER TO MARCH 1936-7 AND 1937-8.

	1936-1937	1937-1938
	<i>Tons</i>	<i>Tons</i>
October ... ..	3,540	3,421
November ... ..	6,209	5,116
December ... ..	8,531	11,256
January ... ..	13,381	14,835
February ... ..	18,353	16,296
March ... ..	12,422	13,059
Total ... ..	62,436	63,983

248. The subsequent negotiations between the Secretary of State and the Governors of the Gold Coast and Nigeria, which resulted in our appointment, have already been described in Chapter VI. When the truce between the Gold Coast farmers and the firms was finally arranged on the 28th of April, the firms undertook to suspend the Nigerian Agreement as well as the Gold Coast Agreement.

## CHAPTER VIII.

### COCOA MARKETING AND CO-OPERATION IN NIGERIA.

#### (a) Conditions of marketing before the Agreement.

249. The conditions of cocoa marketing broadly resemble those in the Gold Coast and can be described more briefly. The cocoa belt in Nigeria is fairly compact and accessible, by contrast with some areas in the Gold Coast, and collection is therefore relatively easy. Cocoa buying appears to be a less specialized, but it is certainly a no less crowded, business than in the Gold Coast. While trading is a traditional occupation of the Yoruba, really large buyers are probably more rare. In general, buyers appear to be in a stronger position relatively to producers than in the Gold Coast. The so-called Farmers' Unions which gave evidence to us appeared to be led by buyers, and we had no little difficulty in reaching the opinions of farmers

themselves. For the following brief account of the buying agents and their methods of operation we are indebted largely to a memorandum supplied by our liaison officer, which was supported in general by evidence received.

250. Direct selling by farmers is not usual, but some firms buy not inconsiderable quantities in this way through their depots at the various markets. The bulk of the crop is sold through African middlemen of various types, comparable with those found in the Gold Coast. The smallest type of buyer is the "pan-buyer" or "basket buyer," who purchases cocoa at the farm by measure—baskets, tin pans or kerosene tins being used for the purpose. The spring-balance is not used. Pan-buyers usually buy only from a few regular "customers"; these may be relatives, or be bound by loans to buyers, most of whom are also money-lenders. The women pan-buyers, who are numerous, also conduct a retail business in merchandise, and as money-lenders they appear to share the same ill-repute as the "Lagosians" of the Gold Coast. Pan-buyers operate chiefly on small advances made by "scalemen."

251. The scaleman has a store at a fixed point, frequently in a market.\* He is either a petty buyer operating independently or with advances from a firm, or more often, like the sub-brokers of the Gold Coast, with advances from a larger buyer; he buys from pan-buyers and from regular farmer "customers" to whom he gives advances. The numbers of scalemen and pan-buyers appear to have increased in recent years.

252. The system of markets in the Abeokuta and Ibadan districts deserves mention. In these districts the sale of cocoa in the bush is prohibited; it must be brought into one of the many authorized village markets, at which scalemen are established. This arrangement was instituted under by-laws made by the Native Authorities, it is said at the request of middlemen, who found that their buying arrangements were becoming too complex. On the whole the system seems to have worked quite well, although bush sales cannot have been entirely eliminated.

253. The larger buyers, collectively referred to as "produce buyers," may be divided into two types, viz., the commission buyer who relies mainly for his capital on cash advances from a European firm, to which he is bound by cash security or bond; and the independent middleman who operates with his own capital and who is entitled to pursue a speculative policy unless he is under a special agreement with a firm. In recent years the commission buyer is said to have increased in numbers and importance and the independent middleman to have declined.

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\* In the Gold Coast "scaleman" usually connotes a small salaried employee of a firm, who is sent out to buy cocoa.

254. The exporting firms maintain a system of buying stations broadly similar to those in the Gold Coast. Some are directly controlled by Europeans, others are left in charge of salaried African produce clerks. Most of the cocoa is probably bought through produce buyers; but certain of the firms, and notably Cocoa Manufacturers, Limited, have established depots in village markets and buy extensively from scalemen. It appears that this system tends to increase the number of pan-buyers and scalemen. The produce buyers have opposed the granting of further leases in the markets to the firms, and in some cases Native Authorities have refused them. Some of the firms also dislike the system and are anxious not to be driven by competition into extending it.

255. The system of giving cash advances is undoubtedly far less developed, and the firms evidently consider that it presents a less serious problem than in the Gold Coast. Several firms buy almost exclusively on the basis of cash or day-to-day advances. One firm buying nearly 15,000 tons in 1936-7 gave out only £100 in advances and bought very largely from farmers. Another, recently established in Nigeria, has been very successful with a policy of limiting advances to small amounts and of giving them only to regular and trusted buyers without requiring security.

256. Changes of price are effected in the same way as in the Gold Coast, but the period for declaration of stocks appears to have been shorter; on the whole, produce buyers can probably keep in touch with their sub-buyers more easily. Nevertheless in Nigeria abuses of the declaration system were again the most serious of the firms' allegations against the middleman.

257. The arrangements regarding commissions and remuneration of buyers engaged by the firms, whether produce buyers or scalemen, appear to be far less complicated than in the Gold Coast. The intricacies of "tonnage" and "overriding commissions" have not developed, and buyers seem to have always received a flat rate per ton agreed between themselves and their employers. Before the Buying Agreement there had apparently been a tendency for rates of commission to rise. In 1936-7 10s. to 15s. per ton might be paid, and one produce buyer mentioned £1; presumably the larger buyers would have been able to stand out for the higher figures. An allowance of 2s. 6d. per ton for grading and bagging was included in the commission and was deducted if these functions were not performed. Although some firms gave only commission, salaries were commonly paid. Rates of £1 to £3 per month were usual, but the larger buyers might receive £5 per month and even more. Owing to keen competition, we are doubtful—in spite of certain allegations made by the firms—whether the produce buyer is often able to make a large profit at the expense of sub-buyers.

258. Remuneration of sub-buyers seems to be on a less definite basis than in the Gold Coast. On the whole it appears that they depend mainly on profits, although a small commission may sometimes be paid by the produce buyers engaging them. The scaleman's profit was estimated by one of their witnesses at 5s., but by other witnesses at from 10s. to 40s. a ton. The pan-buyer gets no commission and has to depend entirely on what profit he can make. A pan-buyer witness estimated his profits at 2s. 6d. a cwt., but an official report quotes the opinion of a middleman that it is as high as 3s. to 4s. a cwt.

259. The total margin taken out of the firms' price by buyers has been estimated at various figures from 30s. to £4 per ton. No doubt the amount depends partly on the transport costs and partly on the price of cocoa; the various grades of buyer could scarcely make the extreme rates of profit mentioned when Coast cocoa prices were down to £10 or £12 a ton. Moreover, losses on account of short weight, poor quality and bad debts would have to be taken into account in any attempt to estimate the net profit of buyers.

260. It seems certain that middlemen, and especially perhaps the smaller types, depend for much of their income on interest from loans given during the off season. The pledging of cocoa in one form or another is very common and high rates of interest are usual. Officials have referred to rates varying from 50 to 500 per cent. On the other hand, there is evidence that the intense competition between produce buyers has led them in some cases to offer advances at low rates or even without interest in order to secure an option on cocoa. Indebtedness among farmers is undoubtedly widespread and serious.

261. Conditions with regard to quality and grading differ markedly from those in the Gold Coast. Probably the greater part of the crop is delivered graded to the firms' buying stations by produce buyers or even by the larger farmers, the remainder being graded at the firms' buying stations. Even before grading, middlemen have a greater responsibility for the quality of cocoa than in the Gold Coast, owing to the poor standard of preparation by farmers. In recent years an unofficial system of inspection has been operated by various produce traders' Unions as a means of protecting their members. The object is to prevent wet cocoa being brought by pan-buyers and farmers to the village markets, where it might be passed on to produce buyers. Under these schemes inspectors engaged at a small salary intercept and inspect cocoa on its way to market and even in markets. They are authorized to exact a small fee, usually 1d. a bag, to defray the cost of inspection, after which a certificate of inspection is given. Opinions differ as to the value of this service. Some witnesses for the firms said

it had been useful; other witnesses said that it was useless as a means of improving quality and had led to petty extortion by the inspectors, made easier by their assumption of a uniform commonly mistaken for that of Government officials. Government's attitude is that it is at least a step in the right direction.

262. The firms buy on the basis of the official grades, a premium of 10s. to 15s. per ton being paid for Grade I. The African middlemen do not normally recognize any similar differentiation in the prices which they offer. We were told that in practice this is not as unfair as it might sound, since Grade I cocoa is for the most part produced in well-defined areas where the farmers insist on a higher price. But it is evident that under these conditions there is no incentive to the farmer to improve his cocoa, and that the willingness of the pan-buyer to accept poorly-prepared cocoa also militates against any improvement. One of the reasons why Cocoa Manufacturers, Limited, began to set up buying depots in bush markets was to provide a more direct incentive for quality improvement.

263. Cocoa is for the most part inspected at produce buyers' stores at "gazetted stations," which include almost all towns where export firms are established. After grading, the cocoa is sealed in shipping bags and transferred to the firms' stores, check tests being made at the ports. It is claimed that compulsory grading, which was first introduced in 1928, has been responsible, together with the prohibition of the sale of wet cocoa, for the improvement in the standard of quality in recent years. Details of the grades are given in Appendix I. Local representatives of the firms now generally appear to accept the compulsory grading system, but Cocoa Manufacturers, Limited, consider that it does not meet their requirements and regard the extra cost as wasted. This firm appears to acquire most of the Grade I cocoa, either directly or from other firms.

264. Abuses with regard to weights seem to be as common as in the Gold Coast. The farmer himself probably suffers most from short measure given by pan-buyers, whose pans or baskets are not standardized. Inspection of weights is carried out under the Weights and Measures Ordinance but is admittedly not very effective; it is regarded as particularly difficult to apply any control to measures.

### **(b) The Co-operative Movement.**

265. Co-operative Cocoa Sale Societies in Nigeria were until recently supervised entirely by the Department of Agriculture. An Ordinance of 1935 established the independent post of Registrar of Co-operative Societies. Societies in Nigeria proper are now under the supervision of the Registrar, while those in the Cameroons remain under the Department of Agriculture.

There are 70 societies in Nigeria and 100 co-operative fermentaries in the Cameroons. In recent years there has been a satisfactory rate of increase both in membership and in the tonnage sold. In 1936-7 there were 6,509 active members, who marketed through their Societies 3,698 tons of cocoa to the value of £158,240. This was rather less than 4 per cent. of the total Nigerian crop.

266. The societies in Nigeria proper are larger than in the Gold Coast. In 1936-7 their average sales were about 45 tons, and their average membership about 70. Efforts are being made to increase the size of Societies in order to reduce their overheads and promote efficiency. Each member must take up one 5s. share and may not hold more than four such shares; there is also an annual subscription of 1s. The total resources of Societies, i.e., the excess of assets over liabilities, were £3,723 at the end of the financial year 1936-7. The Societies are evidently much poorer in cash resources than those of the Gold Coast; it is uncertain how they would compare in point of equipment.

267. The cocoa supplied to purely local Societies not yet affiliated to a Union is sold locally by secret tender; it is usually graded by the buyer. The Ibadan Co-operative Cocoa Union illustrates the more advanced type of selling organization which it is hoped to develop generally. It includes 40 affiliated local Societies, and in 1937-8 marketed 1,330 tons, or over a third of the total co-operative cocoa. The affiliated Societies check the quality of the cocoa supplied by their members and transport it to the Union's store in Ibadan, where it is bulked and officially graded; sales are made twice weekly by secret tender. In 1937-8 the Union sold cocoa to the value of £42,632. It conducts its business through a Joint Committee and employs a secretary, an assistant secretary, and labourers. The usual selling commission charged to Society members appears to be 6d. per cwt.; but at least in some of the larger Societies this leaves a profit, which hitherto has been carried to capital.

268. The co-operative fermentaries in the Cameroons, about which we obtained no detailed evidence, appear to meet fairly satisfactorily the special problem of that area. They are quite small, with an average membership of 17 and average sales of five tons in 1936-7.

269. The attitude of the firms' representatives towards the Societies varied from neutrality to positive approval. Several of their witnesses stressed the value of the Societies in improving quality, in protecting the producer, and in reducing the trouble and risk of buying. Some criticisms were made of the manner in which sales by tender were conducted. Certain witnesses for the firms also suggested that co-operative cocoa was

not as good as it was claimed to be and that in any case the premium for Grade I cocoa, whether co-operative or not, had in the past been excessive.

270. The Co-operative Societies' witnesses made a general complaint that the firms had not given them a sufficiently high premium for their services; but their main complaint was directed against the Buying Agreement.

271. The deposit and credit side of the Societies' work is in a much less developed stage than in the Gold Coast. Deposits are still very small. Producers seem to be less well off, and the savings banks, paying interest at  $2\frac{1}{2}$  per cent., provide an attractive alternative to the Societies, which pay no interest on deposits. Short-term loans are made on a small scale at the rate of 15 per cent. per annum on the security of members' cocoa; but we heard of no attempt to deal with the mortgage problem. Co-operative witnesses, in stating what they considered to be the chief advantages of their Societies, laid most stress on the protection afforded by them against the middleman. They also mentioned the facilities for cheaper credit and the educational advantages of membership.

272. The factors working against the more rapid development of the Co-operative movement appear to be (i) the opposition of the African middleman and of native authorities interested in cocoa trading; (ii) the competition of the "Farmers' Unions"; (iii) the ignorance of farmers; and (iv) the influence of money-lenders. Moreover the staff of the Department of Co-operation is small, and the results obtained so far have been achieved at small expense: the present annual cost of Co-operative work is put at £4,800.

273. On the whole the progress of the Co-operative movement, although not strikingly rapid, seems to have been fairly satisfactory under these circumstances. The quality of members' cocoa has been considerably improved; Societies have shown that they can manage their own affairs reasonably efficiently and honestly with a minimum of official supervision, and in the Ibadan Union a fairly advanced form of sales organization has been developed. The creation of a separate Department of Co-operation seems to have been fully justified by experience. It has secured the advantages of specialized administration without losing those of close contact with the Department of Agriculture.



## PART III.—THE BUYING AGREEMENTS

### CHAPTER IX.

#### DESCRIPTION OF THE PROVISIONS AND APPLICATION OF THE AGREEMENTS.

##### (a) General.

274. The history of the Buying Agreements\* has already been outlined in Chapter VI of our Report. It was explained that, on the 28th of April, 1938, as a result of a truce arranged in the Gold Coast between the farmers' representatives and the Agreement firms, both Agreements were suspended until the 1st of October, 1938. The texts of both Agreements (with certain omissions) and of the letters of instructions sent on the 18th of September, 1937, to the principal agents of all the signatory firms are printed in Appendix J.

275. Two omissions have been made from the texts of the Agreements. The first is that of figures contained in the Schedules of marketing expenses which were used in arriving at the daily buying limits cabled to the Coast. The Agreement firms have represented to us that it would be contrary to their business interests for the details of the Schedules to be made public. We have, therefore, withheld them as confidential but discuss their contents in general terms in Chapter XIII. The second omission, which was again made at the request of the Agreement firms, is that of the percentages in accordance with which the total tonnage bought by members as a whole was allocated amongst them (Clause 3). We have not been provided with the details of the allocation; but the letters of instructions state that it was "based on past performances", that is, on the actual tonnages bought by each member firm during a period of years prior to the introduction of the Agreements.† It is generally believed that, although concessions were made to the smaller firms in order to obtain their co-operation in the Agreements, the purchases controlled by the United Africa Company, Limited, under the Gold Coast Agreement were roughly half the total tonnage bought by all members; while the combined shares of the manufacturers—Messrs. Cadbury Brothers Limited (who also buy for Messrs. J. S. Fry and Sons Limited) and Messrs. J. Lyons and Company, Limited—would amount to approximately one-half of the remainder. Under the Nigerian Agreement it may be assumed, in view of the previous trade position of the member firms, that the bulk of total purchases was again secured to the

\* Better known perhaps on the Coast as the Cocoa Division Schemes.

† See Appendix D.

United Africa Company, and a considerable part of the remainder to the one manufacturing concern, Messrs. Cocoa Manufacturers Limited (a joint subsidiary of Messrs. Cadbury Brothers Limited, J. S. Fry and Sons Limited, and Rowntree and Company Limited).

276. It will be seen from Appendix J that, while the Gold Coast and Nigerian Agreements and the respective letters of instructions to local agents follow closely similar lines, there are a few points on which they differ materially. In describing the objects, main provisions, and application of the Agreements in the following paragraphs we shall draw attention to these differences as they arise.

### **(b) Objects of the Agreements.**

277. The Agreements were intended to continue for four years from the 1st of October, 1937, except in special circumstances (Clause 1). The preambles and the first paragraph of the letters of instructions explain that the Agreements aimed at "eliminating harmful competition and the abuses hitherto associated with cocoa buying" in the territories covered by them, and state the intention of members to pay the full current market price, subject only to deductions of "actual out-of-pocket expenses and a reasonable allowance to cover overhead charges and a reasonable profit". It is to be noted that no mention of a deduction for profit occurs in the letters of instructions.

### **(c) Provisions of the Agreements.**

#### **(i) ADMINISTRATION.**

278. In order to understand the administrative arrangements under the Agreements it is necessary to read them in conjunction with the letters of instructions. These state that "it is the intention to operate the Agreement as much as possible from Europe." The machinery provided was, first, a General Committee in London which, in addition to supervising the general application of the Agreements, was responsible for fixing the buying limit cabled to the Coast and for determining the amounts of cocoa to be handed over under the division scheme (see paragraph 280); secondly, committees in Accra and Lagos; and, thirdly, committees in up-country centres. The channel of communication both as regards the buying limits and the amounts purchased by each Member between the London Committee and the Accra and Lagos Committees was the Secretary or Relay appointed as in paragraph 12 of the Gold Coast letter of instructions. The duties of the Accra and Lagos Committees were various. In addition to putting into effect the buying limits cabled from London, both Committees were directed to prepare tables of transport differentials to be deducted from the

price paid at the various up-country centres (Clauses 13 and 12 of the Gold Coast and Nigerian Agreements respectively). These tables are described in the letters of instructions as providing "for all varieties of charges of every description between naked ex-scale port of shipment and each of the buying centres." The Accra Committee was instructed under Clause 12 of the Gold Coast Agreement to fix a time limit for declarations, the maximum period subject to special extension being fixed at 48 hours: in the letter of instructions it is stated that "ultimately no time at all shall be allowed." Local committees were set up to carry out the instructions of the Accra and Lagos Committees but having powers to deal with matters as they arose with a report to these committees. In the Nigerian Agreement only two such local committees were recommended.

(ii) THE SHARING OF THE CROP.

279. Under Clause 3 of each Agreement members agreed to share their total purchases in the respective territory in accordance with allotted percentages "fixed and immutable during the continuation of the Scheme" (Gold Coast letter of instructions, paragraph 4*b*). For reasons already explained, the actual figures cannot be quoted.

(iii) THE "HAND-OVER" ARRANGEMENTS.

280. The arrangements for effecting the sharing of the total purchases among the firms are stated in Clauses 4 and 7. Members were required to declare the tonnage purchased by them in each week, and once a month there was to be a settlement in which the total purchases would be shared out among the members according to the agreed percentages and on a prescribed price basis. Members who had bought more than their percentages during the month were required to hand over the excess to those who had underbought. The price equalization arrangements were somewhat complicated (Clause 6). It was to be assumed that all purchases of cocoa in any week were made at the average of the daily limits cabled during the week. At the monthly settlement the average value of each member's purchases during the month was to be calculated on this basis, and compared with the similarly calculated average price of the *total* purchases of members: and each member would then be credited or debited accordingly. Following this arrangement, the transfer of any excess tonnage from one member to another was to be effected at the calculated average price of total purchases during the month. The grades of cocoa to be handed over are defined in Clause 5 of the Agreements as Government Grade I in the case of the Gold Coast and Government Grade II in the case of Nigeria.

## (iv) FALSE RETURNS.

281. Clause 8 of the Agreements provides that a penalty of £200 should be paid by any member who was found to have made a false return of his purchases.

## (v) SCHEDULE OF MARKETING EXPENSES.

282. The heads of expenses in the Schedules are given in Appendix J; but, as has already been explained, the figures are omitted. The item "Coast Establishment Charges" is further analysed in paragraph 32 of the Gold Coast letter of instructions. Clause 9 of the Agreements provided that the Schedule could be varied from time to time "so that it shall represent the current cost of marketing."

## (vi) CO-OPERATIVE COCOA.

283. Members of the Gold Coast Agreement were authorized in Clause 15 to pay for Co-operative cocoa a premium not exceeding 6d. a load above the ruling limit. Under Clause 14 of the Nigerian Agreement "the price to be paid for Co-operative Cocoa shall not exceed the limit ruling from time to time for Grade I cocoa."

## (vii) RE-SELLING ON THE COAST.

284. Under Clause 16 of the Gold Coast Agreement and Clause 15 of the Nigerian Agreement it was provided that, if one member sold cocoa to another, such cocoa would not be declared by the purchasing member for the purposes of the division but would be treated as a purchase by the member who had bought it from a producer.

## (viii) HANDLING COCOA ON COMMISSION.

285. Clause 17 of the Gold Coast Agreement and Clause 16 of the Nigerian Agreement prohibited members from selling cocoa in the territory covered by the Agreement on behalf of any party not a member of the Agreement.

## (ix) COCOA BUYERS AND COMMISSIONS.

286. Members of the Gold Coast Agreement undertook in Clause 18 not to offer employment to the recognized buyers of another member nor, without consultation, to engage a buyer dismissed by another member. A similar provision was included as Clause 17 of the Nigerian Agreement. In addition the latter Agreement provided in Clause 18 that the commission paid to middlemen should not exceed 10s. a ton and that such commission should at all times be deducted from the authorized ex scale limit (i.e., should not be charged to expenses).

## (x) MISCELLANEOUS.

287. Those members of the Gold Coast Agreement who were not already engaged in buying cocoa in Nigeria undertook in Clause 19 not to establish themselves there during the period of the Agreement. A similar provision was included *mutatis mutandis* in Clause 19 of the Nigerian Agreement.

**(d) Application of the Agreements.**

288. The details of the local application of the Agreements were left to be worked out on the Coast by local committees of the firms. Our information on the working of local committees is drawn mainly from copies of minutes from the Gold Coast, which were submitted only as examples and were not supposed to be comprehensive. Committees in Nigeria presumably worked on similar lines.

289. The first action of each local committee was to appoint a Secretary or Relay whose main duty was to pass on the price limits received from London, or in the case of inland stations, from Accra or Lagos. The chief duties performed by local committees were to fix the basis of local prices, the rates of remuneration to buyers, the period allowed for declarations, the amount of stocks permitted to be declared and local transport differentials.

290. Prices at the various buying stations were determined by the deduction of a transport allowance from the buying limits cabled to Accra and Lagos. In the Gold Coast a further deduction for overriding commission was made, at least at some stations.

291. In the Gold Coast there appear to have been considerable differences from place to place as regards remuneration to buyers, although we understood from the public evidence at Accra given by the senior Coast representatives of the firms that the rate of commission had been standardized at 18s. 8d. per ton, which was to be payable to all buyers and also to free sellers including producers. In certain important districts of the Gold Coast—e.g., in the Swedru, Kumasi, Bekwai and Cape Coast districts—sliding-scale commissions still continued. In certain other districts flat rates of commission were introduced. As appeared from the answer to a questionnaire, some firms were under the impression that “tonnage” and “overriding commission” were abolished under the Agreement; others said that they continued, but among these there was a difference of opinion as to whether such commissions were to be deducted from the price or charged to expenses, under Agreement conditions. The Swedru local committee, for example, explicitly agreed that all companies would “deduct 6d. from the price given by the Accra committee to cover commission, known previously as ‘overriding’.”

292. The committees reached understandings about the allowances permissible under certain conditions, and lists of buyers qualifying for them were submitted for approval. The amount allowed appears to have been 3s. per ton in most cases, but certain large buyers were permitted to have a salary, overriding commission, rent and various allowances.

293. The arrangements as regards payment to free sellers, including producers who sold direct, also appear to have varied. In general it seems that free sellers were supposed to receive the full local price; but from evidence it appeared that owing to difficulties with brokers this did not always occur. In certain places where 6d. per load was deducted in order to provide for overriding commission before the local price was fixed, the free seller was not usually entitled to receive overriding commission; but at Swedru a free seller of twenty ton lots might receive 3d. per load in this way.

294. As regards Co-operative Societies' sales in the Gold Coast, a minute of the Nsawam committee is of interest. This records that "it was pointed out that London's instructions are that all members have the option to buy at a premium of not more than 6d. per load, but no member shall be obliged to buy such cocoa." Although representatives of the firms in London assured us that Clause 15 of the Agreement was intended to be permissive and not restrictive, the Nsawam committee evidently interpreted their instructions literally.

295. The local variations under the Gold Coast Agreement in the arrangements regarding commissions, premiums and allowances, of which some indication has been given above, and their apparent inconsistency with certain public statements of firms' representatives, caused some bewilderment amongst Africans.

296. The period for delivery of declared stocks was fixed by the Accra committee at the maximum of 48 hours for all cocoa districts in the Gold Coast; and the amount permitted to be declared by a buyer was similarly restricted to one-third of his purchases in the preceding six days.

297. As regards advances to buyers, we were informed by one witness in the Gold Coast that it had been agreed to limit advances to buyers to 15s. per ton of their purchases in the previous season; it is not clear whether this was a local or general rule.

298. The rate of buyers' commission in Nigeria appears to have been standardized at 7s. 6d. per ton for graded cocoa and 5s. per ton for ungraded. These rates were payable to all buyers under agreement with a firm. The same amounts were apparently supposed to be allowed to independent sellers; but

certain agents informed us that they did not make these allowances to producers selling direct except in special cases. We received no detailed information about understandings regarding salaries and allowances, but it would seem that these were reduced. The period for delivering declared stocks was apparently fixed at 24 hours and the amount permitted to be declared by a buyer was restricted to one-sixth of his purchases in the preceding six days.

299. The local transport differentials for the minor up-country buying points were fixed by the local committees and agreements were also made as regards carting in towns; it was agreed that no payments for transport should be made to brokers.

300. The more controversial aspects of the Agreements are discussed in the remaining chapters of this Part. For the following account of their actual working during the 1937-38 season we rely chiefly on the evidence of the Agreement firms, which relates especially in Nigeria, where there was no interruption of marketing.

301. The firms' Coast agents claimed that the Agreement was operated locally more or less according to plan, so far as they were concerned, although with some latitude as regards declarations; and that no serious difficulties had been encountered. Certain head office representatives of the firms said that the Nigerian Agreement had even worked "too well" because, under the conditions of reduced competition, the local agents were inclined to think that they need not "pay the price," and had to be pressed by the head office to keep up to the authorized limits. The same witnesses said, however, that the declaration arrangements under the Agreement were not working at all satisfactorily, and described the practice of certain agents in dealing with their buyers as follows:—

"They gave him a day's notice; they wrote to him to bring all the cocoa he wanted in 48 hours, and for one day they gave him one-third of his previous deliveries tacked on to the end of the 48 hours."

The witnesses pointed out that the attention of head offices had been somewhat distracted from Nigeria to the Gold Coast; and in general it was emphasized that the scheme could hardly be expected to operate perfectly at once.

302. We did not examine the operation of the hand-over arrangements, but we were told that they worked without difficulty as provided in the Agreements. It is of some interest that a small firm withdrew from the Nigerian Agreement on the ground that the conditions of the hand-over imposed risks greater than it was prepared to undertake.

303. The effect of the Agreements on the sharing of the price paid by the firms between buyers and producers is a controversial point and is discussed later. It was generally recognized, however, that the rates of remuneration paid to buyers were in many cases considerably reduced. The prices being offered by the firms on the Coast were more widely known than before the Agreements. Prices payable at the main centres in Nigeria were published in the Press. It was claimed that this was of value to producers.

304. The price limits cabled from London were changed at frequent intervals; the prices for Lagos Grade II were changed on 79 out of 153 buying days from the 1st of October to the 31st of March. On some days the cabled price limits were changed more than once. The relation between Nigerian and world market prices was generally considered to be more favourable to the firms than in preceding years. Independent evidence suggested that the improvement from the exporters' point of view was considerable. A witness who had previously exported on a small scale stated his belief that he could make "good profits", i.e., from £1 to 30s. per ton, by shipping under Agreement conditions. Evidence of the same tenor, but without any estimate of profit, was given by an English witness having great experience of the trade.

305. The firms themselves supplied a detailed comparison of the daily authorized buying prices under the Nigerian and Gold Coast Agreements with the corresponding daily market values during the season. The Nigerian daily authorized prices for Lagos Grade II cocoa, brought up to a c.i.f. Hamburg-Amsterdam basis by the addition of the Schedule of marketing expenses, varied between about 23s. 6d. per ton above, and the same amount below the actual market value c.i.f. Hamburg-Amsterdam. Over the season the average of the daily margins, calculated in this manner, was 5s. 1d. in favour of the firms.

306. A similar comparison applied to the daily prices for the Gold Coast showed an *adverse* average margin of 5s 2d. per ton over the season; and the extreme variations in the daily Gold Coast price, adjusted as above, were 74s. per ton above and 21s. 6d. below the actual market values c.i.f. Hamburg-Amsterdam. For about nine days towards the end of the season the adjusted Gold Coast price was maintained between 40s. and 74s. per ton above parity with the Hamburg-Amsterdam market value, and was considerably more above parity with the New York value. The authorized prices were admittedly fixed at levels less favourable to the firms in the Gold Coast than in Nigeria, with an eye to the hold-up. The quantities bought in the Gold Coast were of course very small.



307. These price comparisons were made by the firms, and are quoted here, only for the purpose of general illustration. Great caution is needed in interpreting them. Certain comparisons made by critics of the Agreement in Nigeria and the Gold Coast between the authorized Coast prices and quotations of London prices purported to show that no strictly regular principle of price fixation had been adhered to. We are satisfied that the market price quotations used in some of these comparisons were not entirely satisfactory; and the firms themselves freely admit, and justify, a certain elasticity in the price-fixing arrangements.

308. We cannot claim to have investigated in detail the daily price limits calculated by the firms, or the data on which they were based. This alone would have been a long and intricate task which would entail examination of a large quantity of data. We consider that the main questions at issue relate to the system of price-fixing regarded as a whole and in principle rather than the manner in which it has been applied from day to day during the past season; and we deal with these questions in Chapter XIII.

## CHAPTER X.

### **THE CASES FOR AND AGAINST THE AGREEMENTS.**

309. The general case for the Agreements was very clearly presented to us in written statements and in the oral evidence of directors of the firms concerned. The corresponding case against the Agreements was ably presented by African leaders of recognized authority in the Gold Coast, notably Sir Ofori Atta and the Asantehene, and also by delegates of representative organizations, such as the Co-operative Societies in both countries, the Brokers' Unions and the Ashanti Farmers' Union in the Gold Coast, and the Nigerian Produce Buyers' Union and the Nigerian Youth Movement in Nigeria. The general case of each side was supplemented by a mass of subsidiary evidence given by individuals at both public and private sessions, and in written statements.

310. It seems desirable to mention that the chief African spokesmen felt themselves somewhat hampered in presenting their case by not having seen the Agreements; possibly as a result of this, the main African case was expressed in rather general terms. Practically, however, it did not suffer thereby; the essential features of the Agreements, having been either revealed or guessed, were all covered by the various witnesses.

311. A general feature of the African evidence in the Gold Coast was the common front of producers and brokers, which, in view of the hold-up, was perhaps to be expected. In Nigeria the strong organization of the produce buyers in local and

central representative unions permitted them to play an important and perhaps unduly important part in the presentation of the African case. In forming our own conclusions, however, we have not accepted the view that the interests of producers and buyers are necessarily identical.

312. We have been assisted in our consideration of the two cases by having access to the relevant documents, including, of course, the Agreements themselves, by the evidence of Government officials in the two dependencies and at home, and also by that of a number of independent witnesses with intimate knowledge of West African conditions and of world cocoa markets.

313. The firms' case for the Agreements, briefly stated, is (i) that conditions prevailing in the West Coast Cocoa market made drastic reform necessary, in order to protect the firms against continued losses and to promote the efficient conduct of their business; (ii) that the Agreements were the only practicable solution; and (iii) that they are fair to all classes of Africans concerned, and will actually benefit producers; in addition they contend (iv) that the Agreements represent a perfectly normal form of business arrangement, and that they do not establish monopoly conditions. It was also suggested by the firms at the outset of the Agreements that fluctuations in world prices would be reduced by them; but this contention was subsequently withdrawn.

314. The Africans' case, in brief, is (i) that no such drastic and sudden alteration of marketing conditions was necessary; (ii) that even if reform were needed, other and less objectionable methods could have been adopted; (iii) that the Agreements are unfair both to farmers and to the middlemen; and (iv) that they established conditions in the buying of cocoa which approximate to monopoly, and which, coupled with existing agreements for the sale of merchandise, place the cocoa farmers of both countries too much under the economic dominance of the European firms.

315. In this and in the following Chapter we set forth in some detail the arguments of the contending parties on the four main questions covered by their respective cases, and state certain conclusions. On some important points, however, no conclusion can be reached without reference to the conditions of the disposal of West African cocoa in world markets, a subject dealt with in Chapter XII.

### **Was reform urgently required?**

316. The Agreement firms have represented to us that drastic reforms were required in the conditions of purchasing the West African cocoa crop because

- (i) serious abuses had developed as a result of "insane competition" between the buying firms;

- (ii) these abuses had inflated the cost of buying cocoa to such an extent that it was usually impossible to make an immediate sale in world markets except at a loss; and
- (iii) cocoa buying in West Africa had for these reasons normally been an unprofitable business in recent years.

317. As regards the profits of cocoa buying, to take the third point first, both Africans and certain independent witnesses doubted whether the position of the firms was as bad as it was painted. It was suggested, for example, that the manufacturers gained by direct buying, that speculative transactions in cocoa by the merchant firms had given good profits, and that in any case the combined profits of cocoa buying and merchandise selling were very satisfactory.

318. The selling policy of the merchant firms is discussed in Chapter XII. Here we shall only state our belief, based on the evidence of disinterested and competent witnesses, besides that of the firms themselves, that the West African cocoa business, considered over a period of recent years, has not been a profitable one. The United Africa Company has informed us in evidence that during the period 1930 to 1937 inclusive, the trading results of their cocoa operations showed a net loss of £1,338,000. Even granting that a large part of this loss occurred in the abnormal year 1936-7, and that in one or two years a fair profit is admitted, the results cannot be considered as satisfactory. The combined business of merchant firms who import goods as well as export cocoa would certainly show more satisfactory results. We were informed that the average earnings of the United Africa Company over the first eight years of its existence were  $4\frac{1}{3}$  per cent. on its written-down capital; in the boom year of 1937, when losses on cocoa trading were heavy, a dividend of 11 per cent. was paid. But the numerous casualties since 1920 among cocoa exporting firms on the Coast, and the virtual disappearance of those dealing exclusively in cocoa, suggest that cocoa buying has not been a very remunerative business.

319. One general contention made by Africans is that the world price of cocoa beans ought to be higher in relation to that of the finished product and by implication, at least, the Coast firms are blamed for the disproportion. We do not consider that this is a reasonable charge, even though it may be regretted that world prices for cocoa beans are not higher in relation to the price of chocolate. Unless and until the world markets are organised very differently, the merchant shippers who buy and sell most of the crop cannot get more for the cocoa they sell than the price determined in a more or less free market; in any case, it is obviously in their interest, as sellers of merchandise to the Africans, that the general level

of prices for cocoa should be high. Nor can one expect the chocolate manufacturers buying on the Coast to pay appreciably more than the prices justified by world market values, so long as their competitors are free to buy at that level. It seems probable that the manufacturing firms buy on the West Coast primarily in order to secure cocoa of good quality and to safeguard themselves against anything in the nature of a "corner," rather than on account of the cash advantage, if any, of this method of purchase.

320. Our first conclusion therefore is that the West African cocoa trade has not in general been a profitable business in recent years. Before considering the causes for this state of affairs we have to dispose of another question of fact, viz., whether the cost of cocoa bought on the Coast has usually been above parity with the current world market price. Detailed evidence was given on this point by the Agreement firms. In particular, graphs were submitted with the object of showing that the buying price of the United Africa Company's cocoa purchases in the Gold Coast, plus marketing expenses, exceeded the current market price c.i.f. Hamburg on almost every day during the main-crop seasons 1934-5 to 1936-7, by sums varying from 6d. to 2s. per cwt. or more. During this period, it was claimed, the average "overpayment" to Africans was 26s. per ton, amounting over the whole purchases of the firm to £352,291.

321. The Africans' case did not deal in detail with this specific question of fact; but we obtained independent evidence, part of which came from witnesses who were by no means uncritical of the Agreements. As a result we are quite satisfied that for several years prior to the Agreement the cost of cocoa bought on the Coast was very frequently, probably even usually, at a level that would mean loss to most, if not all, exporters who made immediate sales in the ordinary markets.

322. African and other witnesses have pointed out that even if the existence of an adverse margin relative to the current world price be accepted, this is not a fair index of loss on the cocoa purchased, since it may be used in fulfilment of a forward contract previously made, or may be held for a rise. This contention is certainly valid and is admitted by the buying firms. The United Africa Company's "overpayment" of 26s. per ton, already mentioned, should not, therefore, be regarded as an index of loss; actually their loss per ton in 1936-7 was far greater, while in 1935-6 there was admittedly a profit. The more or less constant existence of an adverse margin does, however, mean that a conservative merchanting business becomes well-nigh impossible.

323. The causes of the intense competition to which the firms attribute the unremunerativeness of the cocoa trade and the

existence of the Coast premium are best expressed in their own words:—

“ Apart from the all-important question of buying as large a tonnage as possible for the purpose of giving a wide spread to overhead charges, there is the additional consideration of the loss of prestige, eventually translatable into terms of trade, in the case of any shipper who did not at least fight to retain his previous tonnage. Prestige bulks large in the native mind, especially in West Africa.”

324. As regards overhead charges, it has been stated to us by witnesses with experience of produce buying in other tropical countries that expenses in West Africa are abnormally high. One of the firms concerned only with cocoa-buying has one European employee for every 2,000 tons bought. A Coast representative of the United Africa Company estimated in evidence that the overheads of the Company's cocoa business amount to £110,000 if the normal share of the crop is bought and to £70,000 if no cocoa at all is bought.

325. As regards the prestige acquired by buying a large tonnage, it must be remembered that the firms believe that this affects their position not only as cocoa buyers but also in the much more profitable business of importing and distributing merchandise. Merchants have indeed represented to us with considerable emphasis that their business as buyers of cocoa is largely carried on in order to assist them indirectly as importers.

326. The intense competition in cocoa buying has been variously described in the firms' evidence as “ cut-throat ”, “ unbridled ”, “ insane ” and “ competition gone mad ”. The general willingness of merchant shippers to buy cocoa at prices out of parity with those of the world markets was, as the firms have explained, in part due to the fact that the history of cocoa buying in West Africa is punctuated with agreements which aimed at stabilizing the total tonnages bought by individual firms in accordance with past performances. During periods of free competition there was consequently a general expectation that a fresh agreement based on this principle would be introduced sooner or later. In these intervals between agreements, the firms felt that to refrain from paying what must be regarded as speculative prices would jeopardize their position in the future. Current losses were regarded as being offset by future advantage, and the fact that the firms were willing to buy cocoa even though it might involve a loss imbued agents with the idea that nothing else greatly mattered so long as their tonnage was maintained or increased. In the years immediately preceding the Agreements, it was pointed out, certain firms were expanding their tonnage and new shippers had invaded the market.

327. How far such competition should be described as "insane" depends on the point of view. To the smaller shipper, wishing to pursue a steady and conservative type of business, it may well have appeared so. But the competition of new-comers to the trade, or of firms with a definite policy of expansion, may have been based at least as much on method as on madness.

328. According to the firms' evidence, competition manifested itself in certain practices, frequently termed "abuses", which together raised the cost of buying cocoa to an unduly high level. They comprised (a) the overpayment of the price justified by the home markets and the acceptance of false declarations; (b) the offer of ever-increasing inducements to middlemen; and (c) the granting of excessive cash advances. The firms themselves described the position in the following words:—

"Shippers attempted to overreach each other by offering successively higher prices than were being bid by their competitors, or alternatively endeavoured to attract to themselves increased quantities of cocoa by maintaining prices at the same level as were being offered by their competitors but offering constantly increasing inducements to large middlemen who, by reason of their connections, were in a position to purchase substantial parcels of cocoa for them."

(a) *Overpayment and false declarations.*

329. It is claimed that the buying prices offered by the firms on the Coast frequently exceeded the level justified by the current world price for cocoa of corresponding quality, allowing for necessary out-of-pocket and overhead buying expenses. We have received evidence from independent sources which confirms this contention, and we accept it as true. The principals of some of the firms recognize that their competitive policy has in part been responsible for overpayment. We were informed by one witness that few definite price instructions had been sent from London in recent seasons; the order usually ran: "Follow competition". At the same time Coast managements were blamed in that they often pursued a speculative buying policy not endorsed by their principals. For example, for ward contracts might be made at a definite price, sometimes without a definite delivery date, and on a falling market these tended to keep up prices generally. Some Coast managements would take a view of the price and on a rising market pay ahead of the current limit authorized by their home office. Again, when there was a fall in price, Coast managements might report larger purchases at the expired prices than were actually made, so as to have "surplus value" to be utilized later for overpaying the Coast price. Certain agents on the Coast who commonly used such practices came to be known as "tonnage

hunters" among the English community, "abatteurs de tonnage" among the French, and "Tonnage-jäger" among the Germans.

330. In spite of these admissions by the firms, a large part of the blame for overpayments was attributed by them to the abuse by African middlemen of the strong position which they had acquired as a result of the firms' keen competition for their services and for tonnage.

331. We received much evidence on the subject of abuses of the declaration system. Briefly, the firms allege that the middlemen engaged by them speculated with cocoa bought on behalf of their employers and with money advanced by them. On a price rise, it is alleged, buyers would insist on being credited at the increased price for purchases made at the previous lower price, and if refused this, they might take the cocoa to another firm, although under contract not to do so; or they might even declare smaller purchases at the lower price than they had actually made. Conversely, on a price fall, buyers would frequently declare cocoa in excess of their purchases and make a profit by buying in at the lower price such quantities as were necessary to make up their declarations; and if the price rose again before they had time to cover their declarations by buying at the lower price, they might default.

332. According to a written statement of the firms' case "the native mind on this point of 'declarations' is very naive. He really considers that it is his right to have the market option both ways, and is genuinely indignant if it is not given to him. He regards it as a perquisite and he often . . . asks to be allowed a 'declaration' at the old price a week or more after the market has fallen."

333. On this statement of the firms' case the obvious question arises, why the firms' agents do not verify buyers' declarations carefully and refuse to make the concessions demanded without having satisfied themselves of their reasonableness. The firms' reply is, first, that the difficulties of verifying the stocks of cocoa which buyers may claim to hold in various parts of the bush are so great that European agents could not spare the time to attempt it, or if they did, might be "led round the bush farms in useless pursuit with fresh excuses offered at every point"; and secondly, that in the competition for tonnage the agent dared not risk losing the services of the buyer or the advances entrusted to him, by being too meticulous.

334. This we believe to be a fair though summary statement of the firms' case against the buyers in respect of overpayments and declarations. The public and written evidence of the leading African spokesman and of certain of the leading broker

witnesses in the Gold Coast and of the Nigerian Produce Traders' Union rebutted these charges and brought counter-charges against the firms. The individual evidence, however, of local representatives of the firms and of buyers, especially in cross-examination, gave us a much clearer picture of the working of the declaration system, and we are confident in asserting that the truth lies somewhere between the extreme statements of the two sides.

335. In the first place it must be recognised that a period of grace after a price change is necessary under the existing conditions; that is, so long as purchases are made through a system of buyers and sub-buyers, many of whom are operating at a considerable distance and out of reach of telephones or telegrams, and all of whom are using cash advances made to them by their employers. Several of the firms' Coast agents, especially in the Gold Coast, freely admitted this; in Nigeria, the distances between buyers and sub-buyers seem generally to be smaller; but even there some period of notice before a price change takes effect is necessary, as the experience of the first year of the Agreement confirms (see paragraph 301). The initial arrangements under the Agreements provided for a period for declarations. It is true that the Gold Coast letter of instructions suggests that the ultimate intention was to eliminate this entirely; but we are at a loss to understand how this could be done without fundamental changes in the marketing system.

336. Secondly, the difficulties of the buyer must be recognized. Exactly the same charges as the firms make against buyers have been made by the latter either directly or by implication against sub-buyers and have been supported by the evidence of many of the Coast agents. The buyer, being anxious to increase his tonnage and not to risk the advances to sub-buyers for which he is held responsible by the firms, is in a weak position relatively to his sub-buyers and may be forced to make concessions to them. Moreover it is often difficult for him to check stocks declared by sub-buyers, who may be operating at a considerable distance; in the Gold Coast distances up to 50 miles were mentioned. The sub-buyers, in their turn, may not dare to refuse concessions to the farmers supplying them for fear of losing both their supplies and the advances made in anticipation of them.

337. Thirdly, the vagueness of the obligations of the buyer under the declaration system is very striking. Although the buyer may be required by the terms of his contract or agreement with his employer to render accounts and declare his stocks, we have heard of no attempt to define what is meant by stocks. One example is sufficient to illustrate the effect of this vagueness. A buyer may secure an option on the crop of a farmer by giving



him an advance; in reply to the question whether he would then be entitled to declare this at any time that he wished, one broker witness said that he *thought* so, while another witness, the agent of a European firm, said that he *thought* not. Nor did contracts ever appear to define within what period cocoa should be delivered. On the other hand, buyers have explained to us that a farmer will frequently ask them to store his cocoa for sale at a favourable moment. In these circumstances they do not consider themselves bound to declare such supplies as a part of their own stocks. If a custom of this sort exists, it is obvious that it would at least give opportunities for irregular practices in declaration.

338. Fourthly, it is evident that in many cases European agents accept as a matter of course that there should be considerable elasticity in working the declaration system. As the firms' case admits, agents might themselves over-declare to their home office when the price fell and thus be in a position to "overpay". We do not know how common this practice was, but the evidence certainly suggests that many European agents, appreciating the difficulties of buyers in collecting stocks from sub-buyers, and anxious to increase their tonnage, were quite willing to allow considerable latitude to the buyers. A buyer witness stated to us that his firm allowed him two or three days to bring in as much as he liked at the old price. Another case was quoted of a buyer who was asked to declare a quantity and then was supplied with cash to buy it; this instance, if correctly stated, shows that the firm concerned was itself actually inviting a speculative declaration.

339. The evidence as a whole suggests that there were no clearly defined obligations as regards declarations, but that certain accepted practices or conventions had developed in different areas and with the various firms, which might properly be described as "implied terms" of contracts, if not actually as "customs of the trade". If this is so, much of the blame laid at the buyers' door as regards declarations must at least be shared by the firms.

340. We have no doubt, however, that the declaration system operated so that both firms and buyers tended to receive heavier supplies on a price fall than on a rise. So far as the firms are concerned, it is maintained that this tendency is most serious in periods of considerable price fluctuation, as for example in 1936-7. Graphs of the United Africa Company's purchases in the years 1934-5 to 1936-7 appear to confirm this. It is evident that when prices were marked down in the 1936-7 season large supplies had to be accepted at the previous price level. This must certainly have been a serious source of loss to the firm, and probably was largely due to the declaration system.

341. Great weight was attached by the firms to the question of declarations, and we have therefore dealt with it rather fully. An important witness on their behalf stated in evidence:—

“ We have no control whatsoever over the volume of our purchases, with the result that the greater our ability to sell, the less our ability to buy and *vice versa*. On a rising market when we could sell freely our purchases were negligible, but when the turn came and buyers [in the world markets] completely withdrew we were deluged with purchases at pounds per ton over anything we could make.”

At least as regards 1936-7 we accept this statement. The same witness said:—

“ A lack of margin or rather the adverse margin on a steady market without fluctuations is not too serious a matter . . . . . we could get over that . . . . . It is the declaration system.”

342. It may safely be assumed that, in considering how far a reform of marketing was necessary when the Agreement was introduced, the main question is whether the declaration system had developed to a dangerous extent. This we believe to have been proved. There is no need to attempt to apportion the responsibility or blame exactly. Undoubtedly there have been malpractices among buyers; but it is no less certain that these have been in part connived at by European agents and even by their principals in Europe; we have the authority of independent witnesses of great experience that a firm's agent can, if he wishes, exercise a fairly effective control over his buyers' declarations. The buyers in their turn have accused the firms of practices which can at best be described as dubious. For example, we accept the statement frequently made to us that agents desiring to draw out supplies will announce a fictitious price fall and invite declarations. When these have been made a price rise is announced, which may place the honest as well as the less scrupulous buyer in a difficult position. It was stated that a “ false drop,” as this manoeuvre is described, was sometimes directed from the home office of firms.

343. It would be superfluous to enlarge upon other abuses in selling or on the various devices of which either side accuses the other, still more to attempt to answer the question who started them. Wherever the chief responsibility lies, they afford evidence of the unsatisfactory condition of the trade. The intense competition prevailing on the Coast had unquestionably created conditions of great strain and anxiety for many of the firms' agents and for the buyers. The agents were admittedly often harried for tonnage by their principals and in their pursuit of it were forced to take risks on advances and on declarations. The buyers were held responsible by the firms for advances

to sub-buyers, often amounting to considerable sums, and had to conduct their business under circumstances which were sometimes inevitably speculative.

(b) *Inducements to Middlemen.*

344. The firms contend that competition for tonnage has been accompanied by competitive bidding for the services of middlemen. As a result, it is claimed, the remuneration offered to buyers, the other inducements in the shape of various allowances, and the amount of the advances issued to them developed to an unreasonable degree. It is also suggested that middlemen were able "to exact a greater share of the money paid out by the shippers than was their due."

345. The methods of remuneration and the system of allowances to buyers have been described in Chapters IV and VIII, where some observations on their returns from these were made. There is little doubt that the gross income of all kinds including allowances received by buyers as a class has expanded owing to the competition for their services. But it also seems certain that their numbers have increased considerably, and for this the firms were partly responsible, by encouraging small buyers who purchase more directly than the larger buyers. At first, small buyers of this type were able to outbid the agents of the larger buyers, but the latter in turn contrived ultimately to secure higher rates from the firms, in order to compete with the small buyers.

346. On the whole it seems likely that the firms' increasing expenditure on commissions, salaries and allowances was accounted for less by increases in the net incomes of individual middlemen than by the increase in their numbers and by the handing over of a part of their commissions to producers. The producers as a body would seem to have gained. The firms as a whole have lost; but those of them who set the pace in competitive bidding for buyers' services presumably had an object in so doing and were prepared to pay a price for it.

(c) *Advances.*

347. The development of the advances system described in Chapter IV was probably more serious. It enabled the buyers and sub-buyers to obtain a strong hold over producers, particularly the more improvident. It is admitted by both firms and buyers to have been one of their chief sources of anxiety and a factor encouraging over-declarations. We are satisfied that both the amount of advances made by firms and the length of the period over which they were permitted to remain outstanding had increased in recent years. The representative of one firm of medium size stated that until about four years ago their advances had been small, but that in 1936-37 they had lost £20,000 on them.

348. The firms themselves, and especially certain firms, were responsible for the exaggeration of this system in competing for the services of buyers and in attempting through them to secure an option on tonnage. We are satisfied that under conditions of cocoa farming on the West Coast little financing of the crop is really necessary, since labour appears usually to be paid by a share in the proceeds of the crop or by wages as the crop is harvested. We received evidence from certain witnesses that it is possible to buy successfully with small short-term advances. Both the increase of remuneration and allowances and the exaggeration of the advances system must have helped materially to raise the cost of cocoa bought on the Coast.

349. We accept the general contention of the firms that there was need for fairly drastic reform in the arrangements for buying cocoa inasmuch as the trade had become in general unremunerative and unduly speculative conditions of buying had arisen. We agree also that it is particularly regrettable that the system of giving advances should have been developed to the present extent.

350. We do not accept the suggestion made by the firms, at least in parts of their evidence, that the chief blame lies with the buyers, since we think that the policy of the firms themselves and to a less extent the customary practices of their agents were primarily responsible.

### **Was a buying agreement essential to achieve reforms?**

351. The firms claimed that a buying agreement was the only possible means of achieving the reforms already discussed and also that it would "promote greater efficiency." In reply to questions on this subject, they stated that a number of "Gentlemen's Agreements" with regard to trade practices in cocoa-buying have been drawn up from time to time both locally between agents and by the West African Merchants' Association. These, it was stated, have invariably failed. The reasons given are connected with the mentality of the local agents and the rivalry among them, the intensely competitive nature of the trade in general, and the difficulty of proving breaches of the rules.

352. It was stated that Coast agents could not be persuaded really to accept the idea of combined effort to set up more reasonable conditions of trading. Penalty clauses were impracticable, since to enforce them it would be necessary to have books inspected, which no firm would allow, especially as acceptable arbitrators were not available. Evasion would be

suspected and would actually occur, and accusations, followed by counter-accusations, would quickly bring the agreement to an end. An important witness asserted that 48 hours was the longest any such agreement would continue to be observed.

353. While attributing the difficulty of working a trade practices agreement chiefly to local conditions and to the attitude of Coast agents, the spokesmen for the firms admitted that pressure from head offices for tonnage was an important contributing factor. They insisted that no agreement unsupported by sanctions was of any use and that experience in the West African produce trades generally had proved that the only practical form of sanction was to make breaches of rules unprofitable, by means of a buying agreement. To quote one witness, "We are not trying to prove that a man has broken the rule [i.e., under buying agreement conditions] but that it does not pay."

354. We are satisfied from this and independent evidence that, given the existing attitude of mind of the firms and of their Coast personnel, a trade practices agreement would not be really effective. We are not entirely convinced, however, that, given a real will on the part of all concerned, such an agreement would not materially improve matters. This will does not exist; instead, complete scepticism and distrust prevail. Under these conditions, which are not likely to alter in the near future, no mere trade practices agreement could be expected to succeed.

355. Although African witnesses did not mention a trade practices agreement as a possible alternative to a buying agreement, certain of the larger buyers in the Gold Coast said that a buying agreement was unnecessary because it was in the power of the firms to alter the terms offered to the buyers in any case. The Nigerian Produce Traders' Union, discounting the firms' statement that abuses were serious, said that if they had been approached, the middlemen would have been prepared to discuss alterations in trading arrangements.

356. An independent witness well qualified to judge also stated his belief that although a buying agreement would be necessary in order to eliminate a number of abuses, those connected with declarations, of which firms chiefly complained, could be cured to the extent of perhaps 80 per cent. by greater efficiency on the part of agents, and by requiring the buyer to furnish proof of stocks.

357. The possibility of Government action to regularize trade conditions has also been mentioned by one or two witnesses.

The firms stated that they would have been pleased to discuss matters with the local Governments, but they did not mention that they had ever taken the initiative.

358. Assuming for purposes of argument that a buying agreement is at present the only workable type of agreement, the question remains whether it is likely to achieve the objects claimed for it, viz., the elimination of abuses and the promotion of greater efficiency. It would undoubtedly remove the main incentive for "insane competition", since the purchaser "overpaying the market" or buying in excess of his stipulated tonnage would be likely to lose rather than to gain thereby. Firms' agents would therefore be more willing to make and to conform to local agreements on trade practices. In fact, the local committees of the firms' agents did make a beginning in this direction in the 1937-8 season, as we stated in Chapter IX.

359. We think that such local agreements, under the protection of freedom from competition, might do something to regularize trade practices in the directions desired by the firms; the question of the equity of the local arrangements actually made under the Buying Agreements is discussed in the following Chapter. The firms themselves acknowledged that progress would have to be made gradually. A senior agent of one of the firms recognized that "the abuses of holding cocoa on a rise and of declaring it only after a fall in price is minimized only and not entirely eliminated by the Buying Agreement". We have already referred to the unsatisfactory operation of the rules regarding declarations in Nigeria (paragraph 301). In our opinion it would be extremely difficult to avoid speculative dealings by middlemen so long as advances continued to be given out.

360. As regards the firms' claim that greater efficiency would be promoted by the Buying Agreements, we learned in oral evidence that this was hoped for primarily through the saving of time and trouble to Coast agents and to the headquarters staff of firms. The firms' representatives in general did not anticipate a reduction of the total number of buying points, although one firm would apparently welcome rationalization of this sort. We gathered that it was unlikely that most firms would be prepared to give up ground already gained, in view of their experience of the transitory nature of previous agreements and of the importance they attach to maintaining prestige with the Africans.

361. From the point of view of the firms, a buying agreement was undoubtedly the easiest way of beginning to introduce certain reforms. Such an agreement might increase the efficiency of the firms as individual concerns to some extent; it would be unlikely to produce any appreciable alteration in the general organization of cocoa-buying.

## CHAPTER XI.

**CASES FOR AND AGAINST THE AGREEMENTS (Contd.).****Were the Agreements fair and not prejudicial to legitimate African interests?**

362. The main issue between the firms and the Africans, to which the question of monopoly is supplementary, concerns the fairness of the Buying Agreements and their effects on African interests. Our final conclusions on this issue cannot be stated until we have considered in the following Chapter the conditions in the world market for cocoa. Here we confine ourselves to the case for each side and to certain preliminary observations.

363. The firms in their main statement claimed that a principal object of the Agreements was

“ the assurance, despite the elimination of competition between the principal shippers, of a fair price based on world market value to the African, of which a reasonable proportion should go by way of remuneration to the middleman for the services rendered by him, and the balance, being the fullest possible price, should reach the farmer.”

364. The firms also claimed that producers would actually benefit from certain conditions which would result from the Agreements, although it was admitted that some of these could only be gradually realized. They anticipated that

“ the producer would benefit by securing a bigger proportion of the price paid owing to the elimination of over-remuneration to the middleman; by smaller advances being made by the merchants to the middleman thus leaving less power in the latter's hands to exploit the producer by way of loans or purchases of standing crop; and by the general over-riding conclusion that as the world's market price was being paid, any economies realized in local marketing must of necessity result in the producer obtaining the benefit thereof.”

365. A further point, of which much was made in the public evidence of the firms in the Gold Coast, was that they intended to allow the full amount of commission to producers who sold their cocoa direct, and that this form of purchase would be developed under the Agreement. The firms also considered that producers would benefit by the greater publicity given under the Agreements to the prices offered by them.

366. In the Agreements themselves three factors are mentioned as the basis of the limit price, namely (i) “ the full current market value ”, (ii) “ actual out-of-pocket expenses ” and (iii) “ a reasonable allowance to cover overhead charges ” and

“ a reasonable profit ”. The firms contend that the basis so arrived at is fair, and both has been and must be operated fairly. The Africans, it is claimed, were “ amply safeguarded ”

(a) by the invitation to the Colonial Office to nominate an observer to the Merchants' Committee in London, who could satisfy himself that the prices offered were fully in line with world prices;

(b) by the firms' willingness to accept a proposal made in the Gold Coast in November, 1937, to constitute a Joint Committee of representatives of the merchants together with a representative Chief, farmer and middleman, with a view to verifying day-to-day prices;

(c) by the fact that there was an open market and that any attempt by the Agreement firms to buy cocoa below its real value would encourage competition from outside firms and from Africans selling direct; ✓

(d) by the fact that the scheme was submitted to the Secretary of State, and by the terms in which he commented upon it in his message to the Gold Coast at the end of November (see Appendix K);

(e) by the fact that the Gold Coast Government examined and approved the Schedule of marketing expenses to be deducted from the world prices; and

(f) by the Secretary of State's confirmation on 10th of November that up to then the prices paid had been full world market prices subject only to the schedule deductions.

The firms also referred to the smallness of their average daily margin on Nigerian cocoa in the first season of the Agreement's operation, and to the adverse margin on Gold Coast cocoa (see paragraphs 305-6).

367. A more general argument adduced by the merchant firms was that the prosperity of their merchandise trade, which is a far more important part of their business than the export of cocoa, depends on the purchasing power of the Africans and that it would therefore be against their own interests to depress the world price of cocoa, even if it lay in their power to do so.

368. The Africans' case against the Agreements did not deal in detail with their price arrangements, partly because these had not become fully known. But in support of their general contention that the price arrangements would operate inequitably and against the interests of Africans, a number of important points were raised. We deal with these in Chapter XIII, and they need only be enumerated here.

(a) *Profit*.—Sir Ofori Atta in his public address to the Commission expressed forcibly the belief that the price



terms provided for a good margin of profit. (As already explained, profit was not mentioned in the letters of instructions, of which the Africans had some knowledge, but only in the preambles to the Agreements.) He further stated that the Africans would want to know how the profit was arrived at and how it would be made.

(b) *The Schedule of Marketing Expenses.*—It was pointed out that different firms had different operating costs but that under the Agreements all would be credited with the same costs.

(c) *Forward contracts and post-season sales by the firms.*—The possibility of special profits from these was mentioned.

(d) *Special markets.*—Certain firms might have special markets; manufacturers used their purchases directly in the manufacture of expensive products and could afford to pay more.

(e) *Price manipulation.*—The firms were already able to manipulate prices both locally and on world markets against producers; the Agreements would make this still easier. A fair price had been paid in the past, a relatively lower price would eventually be paid in future.

369. The African case also dealt with certain specific points in which African interests would be affected, including some of the benefits to producers which the firms anticipated as a result of the Agreements (see paragraph 364). It was contended that the reduction of the buyers' commission would be reflected in the payment of a lower price to producers, since buyers had previously passed on a share of their commission. We have already expressed our belief that this was probably a frequent and perhaps a general practice in the Gold Coast. The Gold Coast letter of instruction admits (in paragraph 30 e) that it occurred in certain circumstances. In Nigeria it was probably less common. In any case it seems reasonable to suppose that the middleman, finding his commission reduced, would try to "squeeze" the producer. At least one agent of the firms believed that this might occur.

370. The reduction of advances anticipated by the firms was not considered by the Africans to be in the interest of producers or of buyers. We feel, however, that there is some force in the contention of the firms that producers would benefit in the long run if advances were reduced, for the lavish offering of advances has provided a temptation to improvidence both in farming and in the disposal of the crop.

371. The last point made by the firms in the passage referred to may not have been fully explained to the Africans. Its significance is that the firms intended to reduce the Schedule

of marketing expenses as actual costs were reduced. We discuss this in dealing with the Schedule in Chapter XIII. African witnesses did not seem to take very seriously the firms' claim that the Agreements would benefit producers by promoting direct sales. It appeared to us that the point was somewhat exaggerated in the firms' Gold Coast evidence, whereas in Nigeria direct selling did not appear in practice to be given any particular encouragement under the Agreement. ✓

372. The greater publicity given under the Agreements to the firms' prices was not recognized in the African evidence as being of value to producers. We consider, however, that in itself the publicity would be useful in affording farmers a means of checking the prices offered locally by middlemen.

373. A number of complaints regarding the effect of the Agreements on middlemen were made in the African case. The following were the more important:—

(a) *The firms' attack on buyers.*—The firms had made unwarranted and unjust attacks on buyers as a class and did not recognize their services.

(b) *Lack of notice of the Agreements.*—The Agreements were introduced without warning and buyers had put out considerable advances before the season which they would not have risked had they known of the impending radical change in conditions. As a result they had been placed in a difficult position financially.

(c) *Elimination of buyers.*—The firms avowedly aimed at reducing the number of buyers and would thereby create unemployment and hardship, especially if the minor firms delegated all buying to one or two of the larger firms. The firms were trying to eliminate the large buyer who was on a more equal business footing with them so as to be able to deal only with "small boys", i.e. minor buyers, whom they could exploit.

(d) *Restrictions on employment.*—The Agreements placed restrictions on the offering of employment to buyers by the firms; it might be made impossible for a dismissed buyer to find another post.

(e) *Declarations.*—The regulations introduced with regard to declarations were unfair and would place great hardship upon buyers. The period of grace permitted for declarations, namely forty-eight hours in the Gold Coast and twenty-four hours in Nigeria, was too short, especially for buyers whose sub-buyers were operating at a distance. Buyers would be forced to take very serious risks with money put out in advances to sub-buyers, for which they were held responsible by the firms. They could never be sure, when a declaration was demanded, that much heavier

supplies would not be declared by sub-buyers than they in turn would be permitted to declare under the new conditions. The buyer would constantly be faced with the alternatives of accepting declarations in excess of what he was entitled to declare himself or of refusing them and risking the loss of the advances given out by him.

(f) *Remuneration*.—Unjustifiable reductions in the rates of commissions and other remuneration had been made. The granting of commissions to small buyers equal to those payable to large buyers was unjust to the latter. The granting of an equal commission to producers who sold direct was unjust to all buyers; a levelling-up on these lines would tend to force buyers and sub-buyers out of business.

(g) *Price changes*.—Prices had been changed too frequently under the Buying Agreement in Nigeria. It was alleged that changes were much more common than before the Agreement, sometimes occurring two or three times a day, and that they were effected in such a way as to induce buyers to bring in their cocoa only to find that the price had been lowered.

374. On the first and most general complaint of the buyers (*a* above), we think that the firms sometimes understated the importance of the buyers' function. It was suggested in parts of the firms' evidence that they are a recent and unnecessary growth upon the industry. In other parts, however, it was admitted, expressly or implicitly, that the services of buyers are at present quite indispensable. We received convincing evidence, moreover, from both Europeans and Africans of authority, not only that cocoa buyers had existed in the Gold Coast since the earliest days of the trade, but that they are in direct descent from buyers or brokers in the rubber trade and even from the "trade boys" who, at a still earlier date, acted as middlemen between merchant firms at the ports and African tribes up-country.

375. As regards advances made before the 1936-7 season (*b* above), we formed the conclusion from a considerable amount of evidence that the buyers' complaint was justified, at least in some areas, and probably generally as regards their own advances. The feeling of grievance may have been increased in some cases by the fact that buyers had made forward purchases on a basis influenced by the previous season's high prices, which the fall in prices rendered unprofitable. Apart from this, buyers might well have been more cautious in making advances had they known that the terms of their engagement were to be radically altered. It has been represented to us by the firms that where buyers had received advances from them before the Agreements were announced, they were permitted

to continue on the old terms. We do not believe this concession to have been made by all firms in all areas, notably Ashanti; in any event it does not cover the case of buyers who had advanced their own money.

376. As regards the reduction in the number of buyers (*c* above), we believe that, in practice and whatever the firms' intentions, this would not have been very serious, since we think it unlikely that there would have been any very material change in the organization of buying.

377. The other complaints made by buyers concern the actual operation of the Agreements. We think that in part they are justified, and that the agreed practices complained of might well cause hardship, if applied suddenly and with undue rigidity. We have not been able to ascertain how far concessions were made to mitigate the impact of the changes and to meet special cases; the evidence was somewhat confusing on this point. For example, as regards rates of commission (*f* above), it was suggested by important spokesmen of the firms that a flat rate of 18s. 8d. for all tonnages was to be paid. Yet the minutes of the local committees of the firms indicate that sliding scales were still to be operative at certain Gold Coast buying centres. It is probably true, however, that the larger buyers would generally suffer a reduction in their remuneration and that some of the smaller buyers dealing direct with the firms would gain. As regards the payment of commission to producers, at least one agent in the Gold Coast declared that he had not felt able to pay the full commission to producers who sold direct for fear of brokers' opposition and the risk of losing advances. In Nigeria also the full commission was not always paid.

378. The most serious objections of buyers were undoubtedly those connected with the changes in the declaration system (*e* above). We have little doubt that if rigidly applied these changes would cause hardship. In effect they would throw upon buyers the greater part of the risk entailed in bringing about a price change. Unless and until buyers were as effectively organised as the firms, it would be difficult if not impossible for them to induce sub-buyers to accept equally strict conditions with regard to the period of grace and the quantity of declarations allowed. The position of the buyer was succinctly put by an independent European witness who said that under the old system the buyer was encouraged to speculate; under the Agreement he was compelled to do so.

379. The restrictions on the offer of employment and on the re-engagement of dismissed buyers (*d* above) was another important subject of complaint especially in the Gold Coast. There is no evidence that the firms either operated or intended

to operate the provisions under this head unfairly; but in view of their possibilities we are not surprised that they were regarded with apprehension.

380. As regards the frequency of price changes about which the buyers complained (*g* above), the evidence was conflicting. The cabled limits were changed on the average once in every two days. Several witnesses for the firms said that price changes were less frequent than before the Agreement.

381. With regard to all these local rules affecting buyers, there was uncertainty and suspicion among the broker witnesses whom we heard on the Gold Coast, where, however, marketing was never in full swing under Agreement conditions. We think that in both countries the buyers have a legitimate ground of complaint in that they were not consulted in advance. In Nigeria, at least, consultation with a fairly representative Union would have been possible.

382. The chief complaints made to us by the Co-operative Societies in the Gold Coast were against the general attitude of the firms apart from the existence of the Agreement; these have been discussed in Chapter V. Undoubtedly the Societies' support of the hold-up in the Gold Coast was due chiefly to a sense of solidarity with producers as a whole and to a suspicion of the effects of combination among shippers. Certain special points were, however, raised by the Co-operative Societies. They appeared to welcome the principle of paying the full commission to producers, which would, or should, allow the Societies to benefit; but they said that in practice this principle was not being applied and that brokers were still being allowed a commission above the price paid to farmers selling direct. They also indicated that if the firms really wished to buy direct, the Societies provided the best means for the purpose; and that, had the firms consulted them in advance, an arrangement might have been reached advantageous both to the firms and to the co-operative movement. The case of the Nigerian Co-operative Societies was also in line with that of producers in general, and referred to costs of production, low prices and the danger of monopoly. It was argued also that the producer was not to blame and should not be made to suffer for the malpractices of middlemen and that if the firms were sincere in their decision to protect producers against them, they should pay an encouraging price to Co-operative Societies.

383. So far we have referred only to more or less specific points raised by the Africans in their general contention that the Agreements were inequitable. There is no doubt, however, that the strength of their feeling against the Agreements was due chiefly to their intense suspicion of the motives behind them. The heavy fall in price since the season previous to the

Agreements, and particularly the drop that occurred almost simultaneously with the first news of the Agreements, certainly increased this suspicion. The firms contend that if prices had been favourable there would have been no effective hold-up in the Gold Coast and no real dissatisfaction in either country. The truth of the first of these contentions is uncertain; in any case we have indicated our belief that the firms gravely underestimated the importance of the suspicions felt by the Africans with regard to the Agreements.

384. For our part we have been impressed by the force and apparent sincerity with which these suspicions have been expressed, whether or not they were justified. They were based on the circumstances of the introduction of the Agreements, the refusal of the firms to publish them, and, in the Gold Coast, on the unwillingness of Messrs. Samuel and Cadbury to explain important provisions during their visit. It seems desirable to refer in this and the following section to the actual words used by some of the more important African spokesmen.

385. In his speech at the opening session at Accra, Sir Ofori Atta said:—

“ We have lost confidence in our merchants and we refuse to give credence to anything they say in regard to this Pool as being on our behalf . . . . We know they may be able, in fine language, to say that the Buying Agreement is a good thing; that they will use it in such a way that it will not be prejudicial to the interests of the people. We do not believe that. We have experience of their actions and we believe them not.”

The Asantehene, speaking at Kumasi at the joint meeting of Ashanti Chiefs with Messrs. Samuel and Cadbury, said, with reference to a question that had been put to the merchants' representatives about the division of purchases:—

“ My people are still suspicious about the conditions embodied in the Agreement . . . . If you find it impossible to explain unless a committee is set up, then we cannot understand the situation . . . . If you cannot explain that clause to the meeting people will leave with a doubtful mind . . . . You have wide knowledge of business affairs, therefore do not take advantage of our little knowledge in business affairs.”

This episode was referred to by the Asantehene in his public evidence before us.

386. Similar suspicions were expressed in the Nigerian evidence. The Nigerian Produce Traders' Union stated:—

“ We are unable to accept the assurance . . . . that the Pool and the Buying Agreement were designed to benefit

the trade as a whole, including the producer. If the interest of the producers was ever considered it is strange that the Pool firms should have been so slow in bringing to general notice the specific clauses in the Agreement providing for this: the terms of the Agreement have been treated with the utmost secrecy, and all requests that same be made public have so far been rejected."

The Ibadan Co-operative Marketing Union stated:—

"By the commercial activities of the United Africa Company, Ltd., the producer regards himself encompassed, and any measure introduced ostensibly to better his condition by this great and influential combine, he regards as a design to subject him to economic enslavement."

387. The Africans' suspicions were crystallized in the fear that the Buying Agreement, or "Pool", would eliminate all competition and establish monopolistic conditions.

### **Would the Buying Agreements eliminate competition and create a monopoly?**

388. In the African case it was submitted that the combination of nearly all the European firms buying cocoa on the West Coast under the Buying Agreements meant the virtual elimination of local competition, and was tantamount to a monopoly in that it gave the Agreement firms a dominant position which they would exploit both against the cocoa producers and brokers and also in world markets; and that this, coupled with the firms' control over merchandise prices, especially under the Merchandise Agreement in the Gold Coast, would place Africans too much in the economic power of the firms.

389. We were left in no doubt of the strength of African feeling on these points. It is sufficiently indicated in the following quotations from oral evidence or documents submitted in evidence:—

"Now, it is said definitely that the object of the Pool is to eliminate competition. Competition . . . is the soul of trade, and in view of the fact that the majority of the farmers of this country are illiterate they have always taken whatever advice has been given to them by the merchants . . . They have told us in this Chamber and elsewhere many a time 'Don't be afraid for the price you are getting. Competition is your safeguard and you will never be deceived.' By this Pool, or the Buying Agreement, competition is going to be killed." (Sir Ofori Atta.)

"We believe . . . that the objects for the formation of the Pool are to control the price of our stocks and eliminate the little broker, so that European capitalists may have free and unrestricted access to the real exploitation of the poor farmer." (Sir Ofori Atta.)

"We have our fear and that fear, I believe, is very well grounded, that if this Pool does exist, it will lead to one firm only taking absolute control of the cocoa in this country and doing what it likes with it." (Sir Ofori Atta.)

" I, as a representative of the Chiefs and people of Ashanti, feel that the Pool, with a very large capital at the back of it, makes for a direct control of the cocoa situation in Gold Coast and Nigeria."

" It is believed that this policy is an outcome of the programme which is alleged to have been laid down by the Empire Resources Development Committee shortly after the last Great War. The policy was that the African Colonies of the Empire were to be developed for the benefit of England . . . . The Agreement firms with a very large capital at the back of them, it is feared that it gives them an unbounded liberty to dictate prices in the market to the detriment of the producer as also the consumer . . . . The Pool aims at eliminating the smaller firms from the market. This is selfishness and is diametrically opposed to the policy of 'live and let live'." (The Asantehene.)

" This country strongly and persistently manifests its profound dislike of, and deep resentment for, combinations of big companies or capitalists in dealing with the farmers of this country." (Sir Ofori Atta.)

" The Pool and Buying Agreement could have no other object than the artificial control of prices by the elimination of free competition which is an essential feature in all normal and healthy trade . . . . mere knowledge of the existence of such pact among the cocoa interests in a region where about two-thirds of the world's supply is produced, cannot fail to cause the most serious reaction in the world market of so sensitive a commodity as cocoa." (Nigerian Produce Traders' Union.)

" It is our unshakeable conviction that the Pool is nothing short of a monopoly designed to control prices for the benefit of the interested firms and the disadvantage of the producers and others interested in the cocoa trade. The weight of the monopoly is felt not only in the export but also in the import trade . . . ."

" There is a clause in the Buying Agreement referring to the distribution of cocoa purchases among the Agreement firms, the aim of which would appear to be ultimately to centralise all activities under a single Buying Agency, a most undesirable development." (Nigerian Produce Traders' Union.)

" It seems almost inconceivable that such powerful combination of interests as is represented by the Pool firms who handle practically two-thirds of the world's cocoa supply should fail to influence to a very considerable extent the movement of world prices in this commodity. The formation of the Pool is obviously to create a monopoly for the firm members, who by agreeing not to compete among themselves and centralising their buying activities placed themselves in a position to exercise complete control over the local market. At the same time protection is given to firms some of whom will use such privilege to cover up their inefficiency and mismanagement the burden of which is transferred to the poor farmers. This is oppression of the gravest kind. The farmer was helpless enough even when the various European firms were operating separately and in competition with one another, under the conditions introduced by the " Pool " the farmers' position can best be described as desperate . . . . The local farmer cannot easily be persuaded to accept the theory that the " Pool " which is based on monopolistic aims could ever operate to his advantage." (Nigerian Youth Movement.)

" Since July, 1934, a trading Pool has been in existence . . . . It has for its object the fixing and agreeing of prices of staple articles and keeping out competition amongst themselves . . . . thus a monopoly is created and the consumer is exploited. The consumers of manufactured goods in this country, it may be observed, are the peasant



farmers. They are bound to buy from these same firms—the cocoa Pool and the trading Pool . . . . When cocoa price is raised generally the merchants increase the price of staple goods which are most in demand irrespective of cost price.” (Sir Ofori Atta.)

“ In buying from the merchant and in selling to him, he has no option but to accept the prices quoted by the firms . . . . thus it would be seen that the European merchant holds the key of the two positions running both sides to his advantage.” (Ibadan Co-operative Marketing Union.)

“ We could not but view with disfavour and alarm the invitation extended to manufacturers to join middlemen or distributors, and we are confidently of the opinion that any such monopoly will cripple free trade.” (Agege Planters’ Union.)

“ It is most sorrowful that when they start to buy the cocoa all the firms formed themselves into a Pool and decided to offer one price for cocoa produced by us, but for their own commodities they have the right to increase their prices. Having increased the price of their commodities, they offer us 7s. for a load of cocoa.” (J. Mensah Kwabi, an Akwapi farmer.)

390. The firms’ reply to the suggestion that the Buying Agreements create a monopoly has already been quoted in their statement of the safeguards which, they claim, will protect the producer from exploitation. They laid special stress on the existence of an open market (see paragraph 366). In addition they have said:—

“ In principle, the Agreement is not dissimilar from agreements previously operated in West Africa and in other parts of the world. Oil products agreements were operating in Nigeria certainly 45 years ago and have, subject to temporary interruptions, continued ever since. Cocoa agreements in the Gold Coast operated from 1911-1916, and again from 1925-1927. Price as well as quota agreements of this kind are now widely recognised as being necessary to eliminate the waste and inefficiency arising from unbridled competition. We believe that agreements of this nature have obtained world-wide general approval, not excluding British Governmental approval, and we would instance (1) the Conference Agreements which exist throughout the shipping industry (not excluding West Africa) in order to maintain freight rates at a reasonable level and to remove from the structure of the industry the dangers inherent in uneconomic competition; (2) the world wide quota selling agreements of the leading oil companies; (3) the steel, cement and other cartels for similar purposes.”

391. The elimination of competition among the Agreement firms and the allegations that the Agreements constituted a monopoly and would tend to concentrate buying in the hands of one firm are dealt with in Chapter XIII and in our conclusions in Chapter XIV; but it seems desirable here to comment briefly on the Merchandise Agreement, and the control of merchandise prices, referred to in the African case.

392. We gathered from evidence, of which the passages quoted form only a small part, that widespread resentment had been aroused on this point. We were told on good authority that the existence of a Merchandise Agreement only became generally known in the Gold Coast as a result of Press articles when the campaign against the Buying Agreement began, but

that the idea has now taken deep root. The Africans attribute to the Merchandise Agreement the general rise which, they claim, took place in merchandise prices in 1936-7; and they have pointed out that in spite of losses that the firms claim to have made in cocoa in that season, the total profits from West African trade were considerable.

393. The merchant firms have submitted evidence to the effect that the articles covered by the Agreement, which include such staple lines as galvanized iron, sugar, flour, cabin bread and rice, constitute under 15 per cent. of their total merchandise trade; they have also submitted statistical data to show that the price rises in 1936-7 barely kept pace with rising costs. They deny that merchandise prices have been raised on account of high cocoa prices, and point to the keen competition maintained by Syrian traders in some lines.

394. It is not within our terms of reference to submit any conclusions on this issue, even if we considered that the evidence at our disposal was sufficient to enable us to do so. It is certainly true that the merchant firms made good profits in 1936-7 on their trade as a whole; but it was of course a boom year in West Africa as elsewhere. We should be surprised if in a year of prosperity there were not some marking up of prices or, as it might be expressed, if cut prices were not restored to a normal level. This is common practice in all countries and was certainly considered normal in West Africa by certain witnesses engaged in the merchandise trade, and by a store-keeper of one of the Agreement firms with whom we had conversation.

395. Although offering no opinion on the validity of the African complaints we wish to emphasize their importance. If harmonious relations are to exist between the African community and the trading firms, it is vital not only that the African should get a square deal but that his present suspicions that he does not should be allayed. We are aware that these matters have recently been receiving the attention not only of the local Government and the Colonial Office but also of the merchant firms.

## CHAPTER XII.

### **THE COCOA MARKETS OF NEW YORK AND LONDON AND THE MARKETING POLICY OF WEST AFRICAN MERCHANT SHIPPERS.**

#### **(a) Description of New York and London market conditions for cocoa.**

396. In Chapter I of our Report we referred to statistics of the world trade in cocoa over a period of years, and we discussed (with reservations as to the accuracy of consumption

figures) the relative importance of the various consuming countries. The statistics show that the United States of America provides by far the largest single market of cocoa and now consumes about 45 per cent. of total world production; the remainder being taken, in order of importance, by the United Kingdom (14 per cent.), Germany (10 per cent.), the Netherlands (8 per cent.), France (6 per cent.), Canada (2.5 per cent.), and a number of other countries. The following paragraphs relate chiefly to the two most important markets—New York and London.

(i) THE NEW YORK MARKET.

397. There is no official record of the volume of business in actual cocoa which takes place in the world's consuming markets. The importance of the market in New York, as might be inferred from the tonnage consumed in the United States, greatly exceeds that of any European market and there is no doubt that the current value of cocoa is determined in New York to a much greater extent than in any other marketing centre. The Hershey Chocolate Corporation is the largest consumer of cocoa beans in the world; its annual requirements are said to amount to some 100,000 tons.

398. Owing to the transactions of merchants, brokers and speculators, the tonnage bought and sold annually in the New York terminal market, conducted by the New York Cocoa Exchange Incorporated, far exceeds the amount imported into the United States. The following statistics\* show the tonnages bought and sold in the terminal market during the ten years 1928 to 1937 as percentages of annual world "production" (i.e. exports) and of United States estimated consumption during the same period:—

TABLE 9.

<i>Year.</i>	<i>Total World Production.</i>	<i>Estimated Total U.S. Consumption.</i>	<i>Quantities bought and sold on New York Cocoa Exchange.</i>	<i>Percentage of (iv) to (ii).</i>	<i>Percentage of (iv) to (iii)</i>
(i)	(ii)	(iii)	(iv)	(v)	(vi)
	<i>Tons</i>	<i>Tons</i>	<i>Tons</i>	<i>%</i>	<i>%</i>
1928	511,000	152,000	514,044	100.6	338.2
1929	530,000	185,000	632,250	119.2	341.8
1930	479,000	175,000	364,419	76.1	208.2
1931	550,000	185,000	374,920	68.2	202.7
1932	564,000	178,000	466,045	82.6	261.8
1933	555,000	192,000	658,125	118.6	342.8
1934	590,000	215,000	731,866	124.0	340.4
1935	676,000	265,000	552,321	81.7	208.4
1936	702,000	290,000	1,038,738	148.0	358.2
1937	657,000	232,000	1,808,022	275.2	779.3

\* From Messrs. Wessels Kulenkampff and Company's Annual Review, January, 1938.

399. While there is a large volume of day to day buying of cocoa by consumers for near delivery to meet the ordinary needs of the chocolate factories, from time to time the leading manufacturers come into the market as large buyers for future deliveries extending, it may be, as far as nine months or even a year ahead. The forward buying by consumers arises in part from the nature of their trade, which obliges them to enter into forward commitments for the delivery of finished or semi-finished goods. At the same time, according to traders of experience whose evidence we accept, the buying policy of manufacturers has on occasions appeared to be largely speculative, and has even been described to us as perhaps the most important of the various speculative elements which have together been responsible for excessive fluctuations in the value of cocoa. On the other hand, it has been pointed out to us that abnormally heavy purchases made for factory account, which exerted an important influence over prices in the latter half of 1937, can hardly be explained except as an endeavour to accumulate stocks as a safeguard against another period of high prices caused by speculators and also to stabilize the market.

400. It seems clear, in fact, that the buying policy of consumers is affected at times by purely speculative and at times by other considerations, of which one may be the desire to make a competitor pay dearly. The daily published statements of stocks in licensed warehouses are recognized as having an important influence on speculative sentiment, and we have had evidence of a manufacturer's stocks being transferred to and fro between licensed and unlicensed warehouses apparently for the purpose of misleading other operators and of creating false movements in price. To quote an American witness: "Large quantities changed from Visibles to Invisibles merely to bob up as Visibles a short time later."

401. Operators in the New York market, apart from the consumers, consist (a) of merchants and dealers whose business, although based on the carrying of stocks with which to supply factory requirements, involves extensive use of the terminal market; (b) brokers who act on commission as intermediaries between shippers and the various classes of buyer operating in the market and who carry out speculative orders; and (c) specialized dealers, frequently referred to as "cash and carry houses," who are mainly concerned with market differentials and carry stocks against forward sales. The outside speculator is not necessarily in direct contact with market operators: as is normally the case with commodities for which there is a sufficiently wide market in futures, speculative orders for cocoa are collected by commission houses and others, specially organized for the purpose, and are transmitted by them to the market for execution.

402. It has been pointed out to us that cocoa, which is of relatively small importance as compared with leading commodities such as wheat or cotton, probably receives rather more than its due in the way of advertisement and publicity and that in a market of this kind an inrush of speculative orders might reasonably be expected to have an excessive influence on prices. The expert evidence we have received, however, would seem, on balance, to indicate that the various factors which together determine the value of cocoa are so complex as in all normal times to preclude the course of the market being very greatly influenced by outside speculative interest. Owing to a drastic change in the general economic outlook which occurred in 1936-7, an exceptional condition prevailed for a time, and speculation, showing its full force, took temporary charge of commodity markets, cocoa included.

403. Transactions done in the terminal market are all publicly known, but an operator can always conceal his identity by employing some other party to act on his behalf. The forms of contract are so worded as to permit of deliveries of various grades of cocoa, subject to appropriate premiums and discounts for quality. While the main function of the terminal market is to provide facilities for hedging and arbitrage transactions and for speculation, manufacturers are reported to be making an increasing use of it, and in 1937 to have used it to a substantial extent, for the acquisition of actual cocoa. In that year deliveries of actual cocoa to buyers on the terminal market rose to 64,567 tons as compared with 16,995 tons in 1936. Buying of this type is, we are informed, somewhat restricted by the fact that the expenses involved in accepting a terminal delivery exceed those incurred by a consumer who takes delivery at the port of arrival.

(ii) THE LONDON MARKET.

404. While the cocoa markets of London and New York react closely in sympathy with each other, the stronger influence is inevitably that of New York, with the result that in normal times the London market can usually be relied upon to open at approximately the level of the closing price in New York and to follow American quotations as they become known during the day. The relative dependence of the London market upon New York, which is primarily due to the smaller volume of factory demand in the United Kingdom, has been accentuated by the establishment of the leading British manufacturers in West Africa and also by the special conditions which have rendered normal trading with Germany impossible. Other continental countries, however, including Holland, where cocoa is bought largely for the manufacture of cocoa butter, look to the United Kingdom as a principal source of supply.

405. The trading in actual cocoa both for shipment and delivery is regulated by the Cocoa Association of London, a body which has no official connection with the London Cocoa Terminal Market Association. The chief functions of the Cocoa Association of London, which includes in its membership manufacturers, shippers, merchants, dealers, brokers, warehouse-keepers and ship-owners, are to formulate suitable forms of contract, to provide for the settlement of disputes by arbitration, to promote the accurate sampling and the proper storage of cocoa, and generally to establish uniformity of commercial usage in the trade.

406. As in New York, all transactions other than those which are effected on the terminal market are by private treaty, the practice of holding public auctions at regular intervals having been abandoned owing to the reduced proportion of tonnage available for spot sale. An attempt which was made a few years ago to delimit more accurately the functions of the various classes of traders in the market was unsuccessful. It appears to be the generally accepted view in the trade that the market suffers, in the sense of being rendered unduly narrow, from a certain shortage in the number of merchants and dealers with capital prepared to carry stocks and also from the concentration in the hands of a single shipper of an unduly large tonnage of the Gold Coast and Nigerian crops. Another development which is regarded with concern by brokers and dealers alike as having seriously curtailed the general prosperity of the London market is the alleged tendency amongst shippers to increase their direct sales to consumers. The fact, to which we have already alluded, that important manufacturers have for many years preferred to make a considerable part of their purchases on the Coast rather than in Mincing Lane has inevitably had its influence in preventing the home market from developing in the way which the general expansion of the industry might have warranted; and the decision of those manufacturers to extend their business in West Africa by acting as the buying agents of other manufacturers who are not established there has been yet another factor in reducing the relative importance of London as a distributing centre.

407. All contracts entered into on the terminal market, which was established in 1930, are registered by the London Produce Clearing House Limited which collects margins from buyers and sellers and assumes financial responsibility for the fulfilment of contracts. As in New York, the terminal market, which is recognized as a necessity to merchants and dealers in their ordinary business and also to brokers and others who carry out speculative orders, is becoming more commonly used by manufacturers. In the following figures, showing the total annual imports into this country for the years 1934-7 and the

annual tonnages registered by the London Produce Clearing House during the same period, the effect of the speculative boom during the Accra crop season of 1936-7 is a salient feature:—

TABLE 10.

<i>Year.</i>	<i>Total World Production.</i>	<i>Estimated Total U.K. Consumption.</i>	<i>Quantities registered by the London Produce Clearing House.</i>	<i>Percentage of (iii) to (ii).</i>	<i>Percentage of (iv) to (ii).</i>
(i)	(ii)	(iii)	(iv)	(v)	(vi)
	<i>Tons</i>	<i>Tons</i>	<i>Tons</i>	<i>%</i>	<i>%</i>
1934	590,000	74,000	235,110	12·5	39·8
1935	676,000	83,000	229,520	12·3	34·0
1936	702,000	103,000	102,470	14·7	14·6
1937	657,000	96,000	352,250	14·6	53·6

## (iii) STATISTICS.

408. We have been impressed by the number of market witnesses holding the opinion that the lack of adequate trade statistics has given uninformed sentiment an unusually large part in the determination of cocoa prices in the world markets and that better statistical knowledge, more especially of manufacturers invisible stocks of cocoa and of consumption would tend towards a greater stability of price. To quote one impartial authority, "the greatest drawback to intelligent trading is probably the lack of adequate statistics on crops and stocks in producing countries and consumption and stocks in importing countries". The actual consumption of British, German and French manufacturers can, it is believed, be estimated with a fair degree of accuracy from the tonnage taken out of bond, whereas Dutch consumption can only be more roughly estimated on the basis of imports. In the United States only the stocks in licensed warehouses are made public; those in unlicensed premises are unknown. If manufacturers in the main consuming countries were prepared to make, for publication, a regular return of their cocoa stocks and of their consumption, we believe that a positive step would have been taken towards the formation of sound views regarding the probable trend of prices and thus towards the avoidance of excessive and unjustified fluctuations. We refer to this again in our recommendations in Chapter XV.

**(b) The marketing policy of West African merchant shippers.**

409. The whole problem of the marketing of West African cocoa is dominated by the fact that the bulk of the crop has to be bought within a period of approximately three months.

About 22 per cent. of the Gold Coast crop is bought by consumers either for their own or for other consumers' use, the remainder being taken over by merchants. One of the Agreement firms has expressed the view that " the outstanding service which the merchants have rendered to the producers and the trade as a whole, and one which would be out of the question unless the firms had at their disposal considerable financial resources, has been their shouldering the risk of spreading over twelve months to meet consumers' requirements a crop the marketing of which is compressed into five months ". The acceptance of this risk by shippers has been described by the same witness as so incalculable that it " can only be justified by their interest in sheltering the producer ". It was, however, admitted that on occasions the carrying of stocks might prove a profitable policy.

410. We accept the contention that it would be to the detriment of producers if the whole weight of the crop were forced on to the world markets as soon as it passed into the hands of merchants. We have in fact no doubt that the policy of merchants in carrying stocks of unsold cocoa has at certain times been of great value, as they claim, to the industry as a whole. In this regard the policy adopted by the leading firm of merchant shippers has necessarily been of overwhelming importance.

411. As we have said in paragraph 321, it has very frequently, probably even usually, been impossible for shippers to sell day by day except at an unfavourable level against the purchases which they were making on the Coast at keenly competitive prices; a regular policy of minimising market risks by maintaining a square book could usually only be carried out at a loss. The existence of a local premium on the Coast must clearly have entailed serious marketing difficulties for a firm which was anxious to act conservatively and to avoid risk. It was not, however, impossible for a firm, *provided that it was handling moderate quantities of cocoa*, to pursue such a policy if it was thought to be essential. That is to say, a buyer of moderate tonnage could, though perhaps only at a loss, either dispose of his actual cocoa day by day, or, if that was impracticable, could secure temporary protection against a decline by effecting sales on one or other of the terminal markets without depressing the price level. This would not be true of a firm handling a large tonnage.

412. In so far as a strictly conservative policy of keeping purchases balanced by sales as continuously as possible was unprofitable, it could only be continued indefinitely by a firm which considered its purchases of cocoa essential to its successful conduct of other business in West Africa, or which had some other overriding motive for keeping up its record of tonnage. In any



case, whatever motive may have been involved and whether the capital available to absorb market losses was ample or not, the existence of a situation in which a conservative policy was in itself unprofitable must always have encouraged, even though it may not actually have necessitated, the adoption of a more or less speculative one.

413. For the large shipper a conservative marketing policy was excessively difficult. Just as his purchases might be heavy enough to stiffen prices against him in Africa, his sales might frequently be sufficient to depress prices against him in the consuming markets. We agree with the contention that the conditions prevailing before the Agreements certainly made it most difficult for a single firm to purchase a large proportion of the Gold Coast and Nigerian crops without assuming serious and perhaps even incalculable risks. We have, however, been assured by a witness whose ability is recognized in the cocoa market that for his part, however large his purchases during the crop season might be, he would favour a policy of making adequate sales against them day by day, so long as the value of cocoa in the world markets was not below £20 a ton.

414. That the risks that have sometimes been assumed by shippers were both serious and incalculable there is no room for doubt. Five merchant firms within the Agreement, who are sellers of merchandise as well as buyers of cocoa and who handle most of the cocoa offered in the market, have provided the following figures showing the total tonnage unsold and unhedged in their hands at the 1st of March in the three years, 1935, 1936 and 1937. These were given us as indicating the proportions of the responsibility which merchants have assumed.

						<i>Tons</i>
1935	...	...	...	...	...	65,355
1936	...	...	...	...	...	106,729
1937	...	...	...	...	...	46,625

The United Africa Company, Limited, informed us that on the 1st of March in the same years it had net unsold holdings, to be marketed during the remaining part of the year, of no less than 58,581 tons, 84,288 tons and 39,920 tons respectively.

415. A Director of the United Africa Company, after referring to the difficulties resulting from the declaration system, stated by way of illustration:—

“ On the 14th of January, 1937, The United Africa Company, Limited, held a long interest of only 2,700 tons, and we had so little confidence in the market that we intended to do everything possible to maintain as nearly as possible a level book.

“ By the 31st of January, 1937, our long interest had increased to 37,000, and by the 13th of February, 1937, it had further increased to 51,600 tons.

“ On the 14th of January the price was £57, by the 31st of January it had declined to £52, and by the 13th of February it was down to £47.

“ On the ultimate realization of this cocoa which was acquired very much against our wishes, we made a colossal loss.”

416. We are indebted to the same source for an outline of the marketing policy generally adopted by the United Africa Company, Limited. Realizing that it would be obliged to take over an unwieldy tonnage during the few months when producers were selling, the Company, like other merchants established on the Coast, usually made forward sales in anticipation of the crop season. These sales in the case of the United Africa Company might amount to some 40,000 tons of new crop cocoa. At the beginning of the season, however, the Company would still be holding cocoa left over from the previous crop which it had failed to dispose of, amounting, it might be, to half that quantity. That is to say, the Company would at the beginning of the crop season have a net short account of about 20,000 tons. During the first part of the crop season, namely, for a period of two or three months, the Company would make sales against, say, fifty or sixty per cent. of its purchases, the balance being used to reduce its short account. The volume of cocoa bought by the United Africa Company's agents was such that even in years when the Company expected lower prices and would have preferred it to remain open, the entire short account was invariably closed before Christmas. Thereafter the Company was in the dilemma of having to choose between selling its purchases currently at a loss and accumulating a stock of unsold cocoa which it had no wish to carry. The latter policy was adopted. The Company's unsold holdings usually reached their maximum about the middle of March when we are told it generally became possible to start reducing them.

417. The incidence of the Brazilian and other South American crops and also of the Gold Coast and Nigerian mid-crops is regarded as adding to the difficulties of marketing. There being no period in the year when fresh supplies are not either actually forthcoming or imminent, there is, it was explained to us, no sufficient interval in the world's output of cocoa to give a big shipper of West African cocoa much opportunity to work prices up when the crop season is over and so to dispose of their stocks without a loss.

418. In justification of this marketing policy the United Africa Company have contended in their evidence, first, that it was inevitable under existing conditions and, secondly, that it serves to strengthen the general level of prices during the main-crop season. Critics of the Company, however, maintain that its purchases on the Coast are habitually used as the basis

for a policy of unscrupulous speculation carried out in the New York and London markets and involving numerous transactions in which the Company's identity is carefully concealed.

419. We have already agreed that a large shipper could hardly in the circumstances escape a more or less speculative policy even if he wished, and that the spreading of sales by merchant firms and in particular the carrying of stocks, tend to benefit producers. The question, however, is whether these benefits are counteracted by market manipulation.

420. There would at any rate be no injury to the interests of producers if a firm, finding itself with a stock of cocoa to liquidate towards the end of the season and afterwards, were able by some means to get the market up; and we regard this possibility as of little importance from the producers point of view. The question of forward sales made in advance of the crop season requires closer consideration.

421. The critics have suggested that such sales merely prove a desire on the part of the United Africa Company "to hammer the market" and to make sure that prices are low before the African producers can begin marketing their cocoa. It is sometimes even implied that forward sales are necessarily in some way discreditable and can only be prompted by a desire to manipulate prices. During the first half of the crop season, and until sufficient cocoa has been bought to fulfil the Company's forward commitments, prices are, so it is argued, easily kept at a low level by judicious offerings of the balance of its current purchases and thus, by about the middle of the crop season, the Company can start to build up a long position on a very favourable basis. It goes without saying that those who hold these opinions also credit the United Africa Company with the ability, when it has acquired a large holding of cocoa at a price level largely determined by its own previous operations, to raise prices—partly by withholding supplies and partly by fictitious transactions in the world markets—and so to sell out before it needs to start preparing the way for its purchases of the following season.

422. Forward selling in advance of the crop season is in our opinion to be regarded as a normal part of the business of merchanting. We consider that selling in anticipation of the crop is not in principle open to criticism. A merchant whose business involved buying an unwieldy proportion of the crop might reasonably regard it as absolutely indispensable. The first effect of selling of this nature must, like that of any other selling, be a tendency to depress. On the other hand, the subsequent covering purchases of actual cocoa, *provided always that they are made in a fully competitive market*, must equally

have a strengthening effect on prices and may even raise local prices above parity with the world markets.

423. None the less, whatever may be the precise reasons which lead to forward selling in anticipation of purchases during the crop season, the fact remains that a merchant is in business for the purpose of buying as much below his selling price as he can; and a merchant who has sold short to a substantial extent must desire lower prices, and has a strong incentive to promote them, if circumstances give him an opportunity of doing so. This is still true even though a merchant's interests as a cocoa buyer may be greatly exceeded by his interests as an importer of goods.

424. We have mentioned the important argument of the merchant firms that they can have no interest in depressing the price of cocoa, since as sellers of merchandise their desire is that Africans should have the largest possible purchasing power. As a general statement this is obviously true. We do not, however, consider that sufficient motive is thus provided for importing merchants to forego direct profits on cocoa transactions, nor would they themselves claim that this is the case. If, for example, the alternative lay between paying £20 and £21 for cocoa, the merchant firms would clearly not choose the higher price for the sake of creating an additional £1 of purchasing power; for at best only a part of this sum could be returned to them in the shape of profits on merchandise.

425. The possible effects of the operation of the Agreements upon the marketing policy of shippers may be very briefly considered. The use of buying limits arrived at in accordance with the Agreements by deducting the expenses of marketing and also a profit from the world price would help to facilitate the prompt sale or hedging of purchases without a loss being incurred and would therefore have some effect in reducing the need to incur speculative risks. The Agreements might possibly lead to the firms selling more heavily against their current purchases and to the general adoption of a more conservative policy. The pressure of the crop upon the consuming markets would thus become more concentrated and this would, in our opinion, tend to depress the general level of prices during the season. If this were so, it would also have the effect of relieving the firms to some extent of what has been described as their outstanding service to producers and to the trade as a whole, namely, the carrying of the crop and its gradual distribution in accordance with demand. A general development along these lines cannot, however, be confidently predicted. The larger shippers in particular might equally well regard the Agreements as facilitating a continuance, though with some diminution of risk, of the general marketing policy which has governed their operations over a period of years.

## CHAPTER XIII.

**PRICE-FIXING UNDER THE AGREEMENTS.**

426. In considering the cases for and against the Agreements in Chapters X and XI we reserved our discussion of the fairness of the price-fixing arrangements. Having described the conditions of the cocoa markets in New York and London and the policy of West African merchant shippers, we are now in a position to reach certain conclusions regarding them. We do so under three heads.

**(a) Could the current world market prices on which the buying limits were based under the Agreements be manipulated by members?**

427. The Agreement firms have expressly disclaimed any intention of entering into an agreement as to selling. In this discussion, therefore, we have not taken into account the position which might be created either by the introduction of a selling agreement or by an informal understanding among parties to the Buying Agreements to the effect that they would consult each other in regard to their selling policy.

428. Whether prices could be artificially raised by the Agreement firms is, for the purpose of our enquiry, less important than the question whether they could be artificially depressed. If it were possible for prices to be artificially depressed by a buying firm either in anticipation of the season or even for periods of a day or two during the season, the equity of a buying agreement based on the payment of current world prices would be open to serious challenge.

429. We are convinced on general grounds, and our opinion is supported by the weight of evidence, that the Buying Agreements did not confer upon members any power as individual firms to exert an influence over world prices which they had not previously possessed.

430. Market witnesses appeared on the whole to take the view that not even the largest firm has such control over the market as to be able regularly and systematically to manipulate the world price to its own advantage; the risks involved in attempting to exercise a control of this kind were thought in any case to be sufficiently formidable to act as a deterrent. The opposite view was, however, put to us with great emphasis and with evident sincerity by highly qualified witnesses, both British and American.

431. We have examined a record, covering the three crop years 1934-5 to 1936-7, of the United Africa Company's holdings of unsold stocks of cocoa, in conjunction with a graph of

the prices ruling during that period; and it is clear beyond a doubt that the general trend of prices in the world markets was not controlled by the Company. A control which cannot be exercised by the United Africa Company is certainly beyond the scope of any other member of the Buying Agreements.

432. As the buying limit authorized by the London General Committee is liable to be changed daily, or even more frequently, in accordance with price movements in the world markets, the question arises whether a member of the Buying Agreements, although unable to exert any lasting control over quotations in those markets, may none the less be able to depress prices for a brief period and so to affect the basis of the buying limit on a particular day or days.

433. So far as the London market is concerned we have found among qualified witnesses a general conviction that on many occasions a wealthy firm could depress the value of cocoa without incurring a disproportionate or unreasonable risk. The general opinion that the home market is often very sensitive to selling pressure is confirmed by a statement in the written evidence of the United Africa Company as follows: " It must be borne in mind that on possibly the majority of days during the year the home market price is ' nominal ', in the sense that the market in cocoa is a comparatively narrow one, and that except in times of substantial activity a sale of several hundred tons can have a marked effect on the market ". On a vulnerable market of this kind there is no doubt that prices could be temporarily depressed by a powerful firm which was prepared to run a moderate risk. While the London market normally reflects the tone of the larger market in New York, this does not preclude transactions done in London from having an effect upon the course of prices in New York.

434. We found a very wide range of opinion among witnesses with special knowledge of the New York market as to the extent to which prices in that market could be deliberately influenced by West African shippers. A considerable divergence of views was no doubt to be expected. In every market surmise and rumour play so large a part that on many points confident and unqualified information is forthcoming only from the less reliable witnesses. We place most reliance in those witnesses who, when questioned on the subject of possible price manipulation, preferred to give their evidence in the form of belief and impression and to avoid definite assertion. As all responsible observers would agree, market operations which are really quite justifiable may easily be misjudged, even by the disinterested, and attributed to an ulterior motive.

435. On the one hand, we have been assured by witnesses of standing that West African shippers are in a position to depress

prices almost at will and that their activity on the terminal markets of New York and London usually regulates the price of Accra cocoa in New York. On the other hand, equally experienced witnesses were of the opinion that the market in New York is altogether too wide, and the factors which determine the price level far too complex, for deliberate manipulation to be within the scope even of the wealthiest organization operating in cocoa. We believe that both these views require careful qualification. More convincing and perhaps more generally held than either of these is the view that, while the market is in normal circumstances too wide, and the influences upon it too complex, for any one firm to acquire a continuous control over prices, there are none the less times when it is vulnerable and open to attack, and that in the absence of a good consuming or speculative demand there would be nothing to prevent shippers from forcing prices down by means of heavy sales.

436. Except only in times when external conditions loom so large in the minds of traders and speculators as to prevent much attention being paid to the particular facts of the cocoa situation considered apart from the general economic context, the selling policy adopted by a concern responsible for handling about half of the Gold Coast and Nigerian crops must, *whether it desires it or not*, be an important factor in the current prices of Accra and Lagos cocoa. Such a concern might be quite unable to reverse the tendency of a strong market when higher prices were being confidently predicted. This has no bearing on the question whether it could depress prices on occasions when the market was dull and hesitant and when values were scarcely being maintained at their level; if on a market of this character a big operator decides to sell substantially, his action must equally result in lowering prices whether he acts through fear of a decline or in order to make sure of a decline occurring. Market conditions vary so enormously from time to time that we believe it would be equally wide of the truth to assert, with some of our witnesses, that a large shipper could regularly depress prices at will, as to deny with others that he ever could do so.

**(b) Do the Agreements make proper provision for the determination of current world prices?**

437. The preambles to the Agreements state that "it is the intention of the members that the price to be paid to the African for his cocoa shall be based on the full current market value, from which only actual out-of-pocket expenses and a reasonable allowance to cover overhead charges and a reasonable profit shall be deducted." The body of the Agreements indicates that the "limits" are to be "authorised" by the London General

Committee from time to time and that "limits cabled from London come into force on the day following despatch of the cables." But the method to be used in determining the current full market value of cocoa is not described in the Buying Agreements nor in the explanatory letters of instructions.

438. As a result of our enquiries we have learned that the General Committee delegated the duty of determining the limits cabled from London to Mr. J. W. Knight of the United Africa Company and to Mr. John Cadbury of Messrs. Cadbury Brothers. These gentlemen, however, appointed to act as their deputies Mr. E. C. Tansley and Mr. Norman Edwards, senior members of the staffs of the United Africa Company and Messrs. Cadbury respectively. In practice most of the day-to-day work devolved upon Mr. Tansley, who is continuously in close touch with price movements in the world markets. He explained to us carefully in evidence the principle upon which he worked. Messrs. Tansley and Edwards were throughout instructed to take as the basis of their cable limits the highest price at which Accra and Lagos cocoa could be sold in any of the markets for actual cocoa or in the terminal markets of New York and London. Unless terminal quotations were at a premium, the limit cabled was based on the price ruling for near shipments from the Coast. Thus, during June the price used would be the buyers' price of June-July or of July-August shipment.

439. The cabled limit was intended as a fair statement of the full value on the Coast of Accra cocoa and consequently no account was taken of any slight premium which might happen to be obtainable for a small quantity on special conditions. With a view to furthering stability of price and avoiding the inconvenience of too frequent variations, which local conditions render especially undesirable, Mr. Tansley did not in his daily cables to Accra immediately follow up every slight change in current values: to have done so might have involved the despatch of fresh instructions several times in a day and have resulted in confusion on the Coast. In the ordinary course the limit was cabled only once a day, and the cable was sent after business hours when the close of the New York market was known.

440. Mr. Tansley explained to us that he probably would not adjust the limit at once in the event of market prices rising by only 3d., as there might well be a corresponding recession on the following day. Similarly, in the event of the market receding slightly, he would be disinclined to alter his limit immediately. Thus, to take a hypothetical example, if the full world market value, as judged by Mr. Tansley, is 20s. on the 1st of June, rises to 20s. 3d. on the 2nd of June, and declines on the 3rd of June to 19s. 9d., the prices paid in West Africa during the



three days 2nd, 3rd and 4th of June, will be based on 20s. Under this method, Africans who sell on the 3rd of June receive 20s., whereas, if the variation in price had been immediately reflected, they would have received 20s. 3d.; on the other hand those who sell on the 4th of June receive 20s. instead of 19s. 9d. Owing to local conditions, no proper estimate can ever be formed by the Agreement firms in London as to the tonnage which will be bought on the following day, though they informed us that experience had led them to expect purchases to decline on a rising, and to increase on a falling, market. As the tonnage purchased fluctuates from day to day, sometimes substantially, it cannot in the case of the above example be determined whether African sellers as a whole would receive more money if the buying price were maintained for three days at 20s. than if it were fixed at 20s., 20s. 3d., and 19s. 9d. on successive days. It is possible that selling would slacken off on a rise to 20s. 3d. and would be much heavier on the decline at 19s. 9d.; but this is far from being certain. In considering the fairness of the method adopted it must be borne in mind that, by neglecting minor price movements both upward and downward, it works both ways.

441. Provided that the phrase "the full current market value" is interpreted by the General Committee as set forth above, and that the determination of the world prices on which the cabled limits are based is left to the unfettered discretion of competent and entirely scrupulous persons acting on this interpretation, one possible objection to the Buying Agreements falls to the ground. It must, however, be most clearly recognized that the proper determination of daily prices by this method is by no means a matter of mere routine. It requires, especially in times when the market is sensitive or moving rapidly, someone with expert knowledge, full information, a good judgment and an absolute fairness of mind. There must, for example, be no tendency whatever, in a period when prices are falling rapidly and the Agreement firms' stocks are piling up to an embarrassing degree against their will, to keep the buying price on the low side in the belief that the events of the next few hours will justify it. Needless to say, the manoeuvre known as the "false drop", already described in paragraph 342, must be a thing of the past.

442. The suitability of the method used to determine the daily price cannot be judged entirely on the basis either of the market during the past few months or of the manner in which the buying price has been determined hitherto. Moreover, the Buying Agreements were designed to last for four years and there can in the nature of things be no guarantee that there would not be changes of policies and personalities within some of the parties to them. The nature of the operations involved

by the system of price determination, and especially their dependence on personal judgment, is such that the suggested official observer would have found difficulty in maintaining close contact with the process and serving the purpose intended.

**(c) Can a uniform local price, determined as provided in the Agreements, be regarded as fair to producers?**

443. Assuming the world price to be fairly ascertained, there still remains the question whether a uniform price, based as prescribed in the Agreements on current world prices less certain deductions, would be equitable. We deal first with the deductions, before discussing the broader question involved in fixing a uniform price.

444. Certain deductions have to be made from the world price, ascertained as already described, in order to arrive at the buying limit which is cabled to the Coast. These are (i) a sum intended to represent the costs of buying cocoa at the port of shipment and of selling it c.i.f. Hamburg, and (ii) an allowance for profit. The resulting price, or buying limit, is the price "naked ex-scale Accra (or Lagos)", i.e., the price which the firms' agents are authorized to pay for cocoa delivered at these ports unpacked. (iii) Further deductions have to be made in fixing the prices to be paid at the various up-country buying points.

(i) *Marketing expenses.*

445. Schedules setting out the marketing expenses, which had to be deducted from the world price in determining the buying limit to be cabled, were attached to the Buying Agreements. Since we have been asked to treat these Schedules as confidential documents, they can only be discussed here in general terms. In any case, no exact and detailed conclusions regarding them could be arrived at without an extensive examination by accountants. For the 1937-8 season these Schedules, which may be varied from time to time by order of the General Committee so that they shall represent the current cost of marketing, totalled £7 19s. 8d. per ton for Accra and £7 8s. 7d. per ton for Lagos, both figures being based on a price of £35 per ton c.i.f. Hamburg. A rise or fall of £1 in the c.i.f. price involves a variation of 17d. per ton in the Gold Coast and 16d. per ton in the Lagos Schedule.

446. There are certain apparent anomalies which are open to question. For example, the small item of bank charges allowed for in the Schedules can often be avoided by firms who are importers of merchandise as well as buyers of cocoa. Further, if independent evidence may be relied on, the allowance made for loss in weight is perhaps rather on the liberal side. The inclusion in the Schedules of an allowance

to cover selling brokerage is clearly unsuitable in the case of manufacturers buying cocoa for their own use; nor does the rate of brokerage allowed take account of sales made, for example, without the intervention of a broker. Again, an allowance to cover freight c.i.f. Hamburg is over-generous for buyers who ship to United Kingdom ports at a slightly lower freight. These, however, should perhaps be dismissed as minor points; it must be recognised that no schedule, however carefully prepared, could reflect the true marketing expenses of all the Agreement firms with equal precision.

447. There is a substantial item in the Schedules to cover interest. This is calculated on the assumption, based on the actual experience of an important firm over three seasons, that, on the average, a merchant turns his purchases of cocoa into cash after the lapse of a given number of weeks. The period for which interest is allowed in the Schedules appears to us unduly protracted. We question whether it was justifiable to include in the Schedules any part of the costs of carrying cocoa beyond the necessary period of transit to a consuming market.

448. Another item to which we would draw attention is "Coast Establishment Charges," which are defined as "including all commissions and allowances other than those deducted from the scale price." It is obvious that all the various establishment expenses of one firm will not be identical with those of another. Moreover, for firms which are not exclusively occupied in the purchase of cocoa, there may well be some difficulty in determining what proportion of overhead charges should be attributed to cocoa-buying. We are informed that the lowest figures for establishment charges which were actually charged against cocoa purchases in the books of any of the firms concerned for the 1936-7 season were adopted for inclusion in the Schedules.

449. Prior to the introduction of the Agreements, the remuneration of middlemen was far from standardised, and according to the evidence of the firms a considerable part of them was debited to overheads. It was, in fact, one of the main purposes of the Agreements to curtail what was regarded as excessive expenditure under this head and to standardise rates. The figures included in the Schedules represented the actual expenses of the previous year. To the extent that the Agreements might be successful in reducing such expenditure, producers would clearly be entitled in fairness to a corresponding reduction in the Schedules. We were informed that it was the intention of the Agreement firms that in each year due account should be taken of any saving effected in this way and also of any other economy made in the expenses of marketing.

(ii) *Allowance for profit.*

450. The preambles to the Agreements state that a "reasonable profit" shall be deducted from "the full current market value." The word "profit" is used in an unusual sense, being applied to a transaction which is not completed. The excessively difficult task of defining a reasonable profit is not attempted in the Agreements, nor is any principle laid down for the guidance of the General Committee. While the deductions on account of marketing expenses had to be made in accordance with a carefully prepared Schedule, the amount of profit to be deducted in arriving at the buying limit was apparently left entirely to the discretion of the General Committee. It should in this connection be recalled that during the hold-up the firms did not hesitate to give public assurances of their willingness to pay the fullest possible price that could be justified by the current values in the world markets.

451. We have already pointed out that in the buying limits cabled to Lagos the firms aimed at obtaining, and approximately achieved, an average profit of 5s. 1d. per ton. On the other hand those cabled to the Gold Coast were such as to result in an adverse margin of 5s. 2d. per ton. This policy as regards the Gold Coast, although inconsistent with the wording and intention of the Agreement, was adopted as an emergency measure in the hope of tempting sellers into the market and also of preventing any suspicion arising that the African had been unfairly treated. We were informed that a profit of 5s. per ton would certainly have been allowed for in the Accra buying limits if it had not been for the opposition to the Gold Coast Buying Agreement.

(iii) *Local transport differentials and other expenses.*

452. To arrive at the appropriate buying limits for use at the various inland buying centres in the Gold Coast and Nigeria, further deductions have to be made from the buying limits cabled from London. For this purpose the Accra and Lagos Committees were instructed to prepare tables of differentials, intended to cover "all variations of charges of every description" which are incurred at the buying points. The principle charge is in respect of transport, the cost of which naturally varies with the distance of the buying centre from the port.

453. An examination of these tables of differentials would have necessitated minute and widespread enquiry into local conditions and we did not regard such an examination as either necessary or practicable for us to undertake.

454. As explained in paragraph 329, the prices ruling on the Coast before the Agreements were introduced were frequently above parity with current prices in the world markets. In so

far as this was due to prices on the Gold Coast being inflated either by malpractices of African brokers, or by a policy of unbridled and reckless competition adopted by the larger firms in an effort to oust their rivals and increase their own turnover, and by the smaller firms in self-defence, the position was unhealthy; and the firms' desire to remedy it by mutual agreement is easily understood.

455. But the relatively high level which frequently prevailed on the Coast as compared with that of New York or London cannot be attributed entirely to such causes. Most merchant shippers, in the ordinary course of their business, arrange a certain number of forward sales in anticipation of their purchases during the crop season, and it cannot be doubted that the need to buy cocoa with which to fulfil these commitments, and, when prices seemed likely to rise, the wish to buy it as quickly as possible, would have the effect of hardening the market. We are not surprised that qualified observers are inclined to regard such purchases as having from time to time provided an important element in the competition amongst buyers and in the determination of the price paid for cocoa especially in the early weeks of the crop season.

456. It is evident that a buying firm which for some reason held a more optimistic opinion of market prospects than its competitors, might on that account authorize its agents in West Africa to increase their buying price in order to secure a quantity of cocoa, and this decision would tend to bring other firms into the market at the same or perhaps even at a slightly higher level.

457. A manufacturer established on the Coast may wish to have a large percentage of the best cocoa and may be willing to pay more for it than competitors less concerned with differences of quality. Such buying has, especially in the earlier part of the season, been a definite feature of the market. When a premium is being paid for superior cocoa, sellers of a slightly lower grade are inclined to demand the full price which has been paid to other producers. Such a demand may, if there is free competition, be successful; and in this way the payment of a quality premium to a limited number of producers may lead to a slightly better price being paid for ordinary grade cocoa.

458. Again, a shipper may be able, and might be willing, if not bound by an Agreement limiting competition, to outbid his competitors because of some special circumstance peculiar to his business, such as a financial connection with a shipping line, or the convenience of remitting in the form of produce rather than in money the proceeds of merchandise which he has sold as an importer, or the fact that he enjoys special

facilities for selling cocoa advantageously in one or other of the consuming countries. In this connection, however, the two members of the Agreements who are shipowners, the United Africa Company and Messrs. John Holt and Company, stated that their shipping enterprises are treated as entirely separate concerns and have had no bearing on the prices which they offered for cocoa in the competitive conditions prevailing before the Agreements.

459. While the Agreement firms in their evidence have taken the view that the prevalence of a local premium on the Coast was an abnormal feature, other witnesses have pointed out to us that the prices paid for a commodity in its country of production are not infrequently higher, marketing expenses being taken into due account, than the prices simultaneously obtainable in the consuming market.

460. By virtually ending local competition and establishing uniform prices the Agreements suppressed various forms of uneconomic "over-payments"; but it appears to us that at the same time they eliminated certain benefits to producers, occurring under free competition, which are to be regarded as normal and legitimate. It is far from certain that the price basis adopted under the Agreements would compensate producers for this loss. We believe that the Africans' complaint on this aspect of the Agreements is justified.

461. Our ultimate findings on the Buying Agreements are given at the end of the next Chapter.

## PART IV.—CONCLUSIONS AND RECOMMENDATIONS

### CHAPTER XIV.

#### SUMMARY AND CONCLUSIONS.

##### (a) The Gold Coast.

462. We found in the Gold Coast an agricultural industry that perhaps has no parallel in the world. Within about forty years, cocoa farming has developed from nothing until it now occupies a dominant position in the country's economy—cocoa being virtually the only commercial crop—and provides two-fifths of the world's requirements. Yet the industry began and remains in the hands of small independent native farmers. In spite of casual methods of production, the Gold Coast industry shows signs of great vitality and should maintain its pre-eminence for a long time to come.

463. The development of this valuable permanent crop has strongly influenced the economic life of the country. It has caused a great access of wealth; it has altered and is still altering the attitude towards land and thereby the system of land tenure; multiple and absentee landlords are now common; and labour, consisting largely of immigrants, is almost universally employed. Under these conditions, violent price fluctuations have serious effects and are a major cause of indebtedness.

464. The system of marketing cocoa, which is at once crude and complex, is the result partly of the unwillingness of farmers to deliver their own cocoa and partly of the intense competition among European buying firms. There are large numbers of commission buyers of all degrees of importance, whose purchases are financed by considerable sums advanced by the buying firms before and during the season. The buying firms are either merchants, combining produce-buying with sales of goods, or manufacturers. Overhead expenses are heavy and competition has thinned the ranks of the firms until thirteen now buy practically the entire crop. Of these, one is responsible for about half.

465. Efforts have been made to develop the Co-operative Societies as an alternative channel of marketing. Under difficult conditions they have not gained a strong footing, and there is disillusionment about their advantages as a means of marketing. As banks they have been much more successful. An undue proportion of the time of agricultural officers and of the funds voted to the Department of Agriculture has been spent in detailed supervision of Societies.

466. The introduction of a Buying Agreement combining twelve firms which normally purchase most of the crop led to a hold-up of cocoa, which remained fairly effective for over five months and was accompanied by a boycott of most European goods. We formed the conclusion that the hold-up, although supported by the use of various illegal forms of pressure, began and remained an essentially popular movement. It arose chiefly out of the Africans' fear of monopoly, intensified by the suddenness with which the Agreement was introduced, by a lack of frankness about its provisions, and by a fall in prices that occurred simultaneously with, although not as a result of it.

467. We found little ground for criticizing the handling of the difficult situation by the local Government.

468. The hold-up and boycott were suspended at the end of April by a truce lasting until the 1st of October, 1938, under which the operation of the Buying Agreement was also suspended; a system of export control was introduced by Ordinance for the period of the truce.

#### **(b) Nigeria.**

469. The cocoa crop in Nigeria is much smaller than in the Gold Coast and is less important than three other commercial crops. The structure of the industry resembles that of the Gold Coast; the prospects from an agricultural point of view are less encouraging.

470. Marketing conditions are also similar. Eleven firms, most of which are established in the Gold Coast, buy nearly all the crop, and the leading position is occupied by the same firm as in the Gold Coast. The same general system of purchase through middlemen is followed, but the issue of advances has not been developed to the same extent. Middlemen are effectively organized.

471. Co-operative Societies have not developed widely, but on the average they are larger than in the Gold Coast, and owing to their greater independence the cost of their supervision is much less. One secondary Society has been developed and operates efficiently. Co-operative credit remains relatively undeveloped.

472. A Buying Agreement, resembling and introduced simultaneously with that of the Gold Coast, aroused feelings of much the same character among the natives, but the reactions occurred among producers more slowly and were far less strong; no hold-up took place. The opposition was led by organized middlemen. The Agreement was suspended simultaneously with that of the Gold Coast and for the same period.



**(c) Conditions of Marketing before the Buying Agreements.**

473. Having carefully examined the representations of Africans, including producers, Chiefs, middlemen and others in the Gold Coast and Nigeria, and of the buying firms in Africa and in London, and having obtained the views of the local Governments, we reached conclusions regarding conditions of cocoa marketing on the West Coast which may be summarized as follows:—

(i) That the trade has not in general been remunerative to the buying firms in recent years;

(ii) that this was due largely to intense competition between the firms on the Coast which led

to their offering prices frequently out of parity with current world prices;

to various forms of increases of the remuneration paid to middlemen;

to an increase in the advances made to middlemen and the extension of the period for which they were allowed to remain outstanding (especially in the Gold Coast); and

to the free and even unscrupulous interpretation, largely tolerated by the firms, of certain conventions under which middlemen were entitled to declare purchases whenever a price change was made;

(iii) that as a result of these circumstances the cost of buying cocoa on the Coast and of shipping it to world markets frequently, and even usually, exceeded the price that would be realized on an immediate sale, so that a conservative marketing policy became impossible; and

(iv) that a number of practices and conditions existing in the trade must be regarded as undesirable, notably:

the sale of badly prepared cocoa by producers, especially in Nigeria;

the fact that producers are not generally paid at different rates for cocoa of different qualities;

the purchase of cocoa in advance of the season by African money-lenders and middlemen at fixed prices allowing a large margin of profit;

the pledging of farms as security and of crops as interest for loans;

the use of false weights and measures by African buyers;

the issue of large advances to middlemen in part before the season by the European firms;

speculation by the larger middlemen with cash advanced by the firms, in the form of over-declarations of purchases on a fall in price and under-declarations

on a rise; and similar speculation by sub-buyers with the advances passed on to them;

the use of expedients such as a temporary and artificial lowering of prices by the firms in order to induce declarations of middlemen's purchases before a genuine rise occurred;

the conditions of strain created for firms' agents and middlemen, caused by the rivalry for tonnage, the fear of defaults on advances, and generally the intense competition; and

the danger that the remaining small firms might be unable to stand the pace set by competition and be forced to leave a still larger share of the trade in the hands of two or three firms.

#### **(d) Conclusions on the Buying Agreements.**

474. The firms' case for the Buying Agreements was that they were indispensable as a means of achieving much-needed reforms, that their equitable operation was ensured and that they were perfectly normal in form. The Africans denied the necessity of the Agreements and alleged that they were unfair and monopolistic.

475. We reached the conclusions that the Buying Agreements were certainly the easiest way for the firms to attempt reforms; and that such Agreements should enable trade practices to be regularized to some extent but were unlikely, and were not intended, to produce any radical change in the buying organization. We further concluded that the Buying Agreements were open to objection as unfair to middlemen in various respects, on account of the circumstances of their introduction, of their general provisions, and of local rules made for their application; and in particular that middlemen were justified in viewing with apprehension, first, the restrictions imposed on declarations of purchases (although in actual practice considerable latitude appears to have been allowed in Nigeria), and secondly, the restrictions on the offer of employment to middlemen.

476. Through reducing the advances made by the buying firms, the Agreements would reduce speculation and give middlemen less power to exploit the producers by way of loans or purchases of their standing crop and would thus tend to benefit those producers who are liable to exploitation.

477. The main grievance of the Africans, however, was stated in the general form that, by suppressing competition and creating monopolistic conditions, the Buying Agreements were in principle undesirable and were likely to operate inequitably. It remains to state our conclusions on this question, which constitutes the main point at issue between the Africans and the firms.

478. About 94 per cent. of the Gold Coast crop and a correspondingly large percentage of the Nigerian crop were bought by the firms who afterwards became members of the Buying Agreements. While the Agreements did not eliminate all competition, these figures lend colour to the Africans' fear that the firms had gone far towards achieving a monopoly. We cannot agree with the view that the refusal of the English and Scottish Joint Co-operative Wholesale Society, Limited, to become members of the Agreement and the presence in the Gold Coast and in Nigeria of a few small independent shippers assured an adequate safeguard to producers. We believe that the Agreements would leave the producers as a whole no choice but to accept the prices authorised by the Agreement firms.

479. While the firms endeavoured as far as possible to suppress free competition in West Africa on the ground that it was uneconomic, they sought to justify the prices offered to sellers on the ground that they were based on world prices determined by free competition. It seems, in fact, to have been assumed that the competition on the Coast was essentially different in kind from free competition elsewhere. There is, we believe, some degree of fallacy in this assumption, and we have already stated our conclusion that the Agreements, in suppressing forms of competition which might be regarded as uneconomic, at the same time eliminated others which we consider entirely normal.

480. The main contention, put forward by literate and illiterate Africans alike, that the legitimate interests of sellers were prejudiced by the suppression of competitive buying, cannot in our opinion be refuted.

481. The opinion has been expressed by witnesses, some of whom were parties to the Agreements, that the operation of the Agreements would create a situation more favourable to outside firms than the competitive conditions which preceded their introduction and would even, by bringing the local price into line with the world price, serve as a shelter under which new buyers would be able to establish themselves on the Coast. The extent to which this might occur would depend on the policies adopted by firms outside the Agreements and on the reaction of the Agreement firms. While it is quite impossible to fix a point at which outside competition would lead to the Agreements being ended, it may be noted that, if sufficiently important outside competition developed, the industry might at any moment be thrown back into the bitter economic fight, with all its demoralising influences, which the Agreements were intended to suppress. There could be no certainty if the Agreements were re-introduced that any reform effected through their operation would be lasting; in fact the best friends of the Agreements conveyed the impression that they regard them as

providing no more than a breathing space before the next round of competition.

482. By preventing the prices payable to producers from rising above parity with prices currently obtainable for cocoa in the consuming markets and, most of all, by restricting the middlemen's declarations of their purchases both as regards time and tonnage, the effective operation of the Agreements would clearly be of great benefit to all buying firms on the Coast and would, in our opinion, do much towards enabling the smaller merchant shippers to conduct their business without undue risk.

483. The operation of the Agreements by reducing the remuneration of middlemen and modifying the declaration system might induce them to try to take larger profits out of the producers' pockets. This tendency would admittedly be checked by competition amongst middlemen; and we believe that the Agreements should result in a larger proportion of the price paid out by the buying firms being received by the producers. We cannot, however, on this account regard the Agreements as necessarily improving the returns to producers at a given price level, partly because they eliminated certain uneconomic "overpayments" and partly because they deprived producers of the benefits of normal competition.

484. The method used under the Agreements of arriving at the buying limits involved an element of judgment on the part of the Agreement firms. Such a method postulates a corresponding degree of trust on the part of African sellers, and is unsatisfactory in principle. The method adopted also involved the deduction from the current world price of "a reasonable profit," to be assessed by the firms themselves. Apart from a sense of fairness, the only check upon the firms in determining the rate of profit to be deducted would be the fear of outside competition. This is a highly unsatisfactory feature of the Agreements and one in which informed sellers could not reasonably be expected to acquiesce.

485. We have not accepted the evidence of market witnesses who supported the fears expressed by African leaders and others regarding the basis of the authorised buying limits and who maintained that the value of cocoa in New York and in London is normally and habitually controlled by the operations of the Agreement firms. We are, however, convinced that, owing to the scale of their operations, the largest shippers must at certain times inevitably affect the value of cocoa in those markets *whether they desire to affect it or not*.

486. For this reason, Buying Agreements which seek to impose a uniform price based on the values current in the consuming markets cannot in our opinion be suitably applied to Accra and Lagos cocoa.

487. The sudden introduction of the Agreements—which happened to coincide with a fall in price—without any preparatory attempt to explain their significance; the firms' refusal to publish them; the failure of the firms' representatives to convince Africans of their good faith; and, finally, the form of the export regulations which were adopted on the suspension of the Agreements, have together created a deep and widespread feeling of injustice.

488. The firms were acting within their legal rights in making the Agreements, and their attitude towards publicity was indeed based on the view that their action was a private matter; their approach to the Colonial Office they regarded as entirely voluntary. Equally the producers were acting within their rights in refusing to sell on the terms laid down, and in combining to give effect to their policy. The clash of these incompatible views brought the trade of the Gold Coast almost to a standstill, and cut off the main sources of Government revenue. The question then became one of public policy. Our examination of the Agreements has led us to the conclusion that there exists a reasonable basis for the claim that they affect the producers' interests injuriously, and we find it impossible to suggest how their provisions could be amended, even with good-will on both sides, so as to remove to any significant extent the main features to which objection is taken. Such good-will does not exist. Instead, we have an attitude of intense suspicion on one side, and of injured integrity on the other. We detected no disposition to compromise.

489. **In all the circumstances it is our opinion that the Agreements should be finally withdrawn.**

## CHAPTER XV.

### RECOMMENDATIONS.

#### (a) Introductory.

490. We have reached the conclusion that the continuance of the Buying Agreements introduced in the Gold Coast and Nigeria in 1937 is undesirable, but at the same time that the present conditions of cocoa marketing in these countries are unsatisfactory to the firms and to producers alike. It is essential in our opinion that any scheme of reform, alternative to the Buying Agreements, must, if it is to be really satisfactory, provide for certain requirements. These are as follows:—

- (i) The removal in the interests both of producers and of shippers of various undesirable features of the marketing system, which have been described in our Report.

(ii) The strengthening of the economic position and morale of producers in relation to the buyers, both European and African.

(iii) The recognition of the legitimate interests of both the African community and the shippers.

(iv) The maintenance of free competition in the purchase of the cocoa crop.

(v) The avoidance of any unnecessary expense in marketing.

**(b) Possible solutions considered.**

491. Various proposals which have been made for dealing with the situation have been considered by us and are discussed briefly below.

I. A TRADE PRACTICES AGREEMENT.

492. This proposal was discussed in paragraphs 351-354, where we gave reasons for believing that in view of the attitude of the firms and their Coast agents it was unlikely to have much success without the support of a buying agreement.

2. THE FIXING OF MARKET CENTRES AND THE LICENSING OF BUYERS AND MIDDLEMEN.

493. In several African dependencies the principle of compulsory licensing of buying firms and middlemen has been applied to the marketing of certain native crops; in some the further step has been taken of prohibiting the sale of certain commodities except at approved market centres and under conditions prescribed by Ordinance.

494. We think that the licensing of buyers might be of value under Coast conditions as elsewhere. It might be used to prevent any further expansion of the numbers of middlemen, which are probably already excessive. A system of licensing buying stations might also be used to prevent these from being unduly increased in numbers or extended too far into the bush, with the possible consequence of increasing the already heavy overhead expenses. Further, it might be possible by means of a licensing system, and in consultation with the firms, middlemen and native authorities, to eliminate some at least of the undesirable practices which at present exist in cocoa marketing.

495. The institution of market centres coupled with the prohibition of sales of cocoa elsewhere would apparently be welcomed by some at least of the firms; but we have been impressed by certain adverse arguments brought forward. If it were proposed merely to prohibit sales of cocoa at the farm and to require it to be sold in small village centres, it seems unlikely that so far as the firms are concerned the system of buying

would be much altered; they would still have to rely on commission buyers and would probably continue to make advances. It may be doubted also whether sales in the bush could be effectively prohibited. The position would in fact resemble that in the Abeokuta District of Nigeria (see paragraph 252).

496. If, on the other hand, the object were to prescribe markets in which the European firms would have their own buying stations, and to prohibit sales elsewhere, a more radical alteration of present arrangements and habits would be involved. It would be necessary to license buyers and buying stations. Producers would have to bring in their own cocoa to markets, which in many cases would be at a considerable distance from their farms, unless they were prepared to entrust someone both to transport and to sell it. We are informed that farmers would object to leaving their farms on journeys of this kind. Moreover, the cost of a passenger's fare might have to be added to the cost of transporting even small quantities of cocoa. It was also suggested to us by a senior Coast representative of one of the firms that this system would probably entail additions to the already numerous stations of the firms and a further increase in the European staff.

497. For the various reasons given, we consider that it would be unwise to attempt to enforce in West Africa the concentration of cocoa buying and selling in large central markets. There might be certain advantages in restricting sales to local village markets, but we do not believe that these would be sufficient to justify the general introduction of a compulsory system or that it could be strictly enforced without the active support of the middlemen. The licensing of buyers and the institution of central markets would do nothing to give producers the feeling of security which is greatly needed.

### 3. EXPORT QUOTAS.

498. A principal of one of the Agreement firms proposed the continuance of the system of export control used during the truce (see paragraphs 192-196) for a period of, say, ten years. His view was that, under more stable conditions, it would be possible to rationalize the purchase of cocoa on the Coast "by eliminating all forms of redundancy such as overlapping buying stations, as well as reducing supervisory and other costs"; there would thus be savings in overheads, "the benefits of which would be passed on automatically to the producer". He suggested that, with a Buying Agreement unsupported by quotas, there was the risk that shippers not parties to it, or new entrants to the trade, could upset by aggressive competition the member firms' efforts to regularize marketing. Export quotas would give the necessary stability. Some provision on a more generous basis than under the truce would require to be made

for possible newcomers to the trade. "A representative committee consisting of Government—representing the Africans—merchants, and manufacturers, sitting in London, should formulate the technical details of the scheme." A plan of this kind, it was suggested, would allow for a gradual improvement of the trade in easy stages.

499. Although it is possible that this plan might help to reduce overheads, which is obviously desirable, it is open to serious objections. Even the temporary quota arrangements under the truce aroused strong dissatisfaction among the Africans and others; this would be redoubled if there were any prospect of their permanent adoption. Moreover, it is undesirable in principle that definite shares of the cocoa trade should be vested for any prolonged period in particular firms, to the exclusion of effective competition. Finally, it was admitted to us that a Buying Agreement would probably be a necessary complement of the scheme. We cannot recommend the adoption of this plan.

#### 4. "COCOA UNION LIMITED".

500. A more elaborate and ambitious scheme was put forward on his personal responsibility by a principal of another Agreement firm. His proposals were briefly as follows:—A Company, to be called Cocoa Union Limited, should be formed in England with capital subscribed by cocoa exporters established in the Gold Coast and/or Nigeria in proportion to their shipments in 1935-6 and 1936-7. The Board of Directors would consist of representatives of each of the five largest shareholders, a representative of the British Government and one representative each of the Gold Coast and of the Nigerian producers. The Governments of the two countries should prohibit exports for five years except under licence, and grant licences solely to the Company, which would undertake to market the entire crop on behalf of the African producers. A system of price-fixing should be adopted which would secure (a) to the producer a basic price determined with regard to the previous season's price level; and (b) to the Company a fixed rate of commission, and also interest at prescribed rates on money used in the financing of marketing. The actual purchase and the disposal of the crop in the consuming markets would be done on behalf of the Company by the shareholders, who would receive an agreed schedule of expenses for their services. Any profits after deduction of the basic price, commission, interest and schedule of expenses would be shared between the producers and the Company on a basis which secured to the producers a proportion increasing as the amount of profit increased. The Company would be entitled to carry forward any loss as a first charge on the profit of the subsequent season.



501. The author of the scheme maintained that, from the point of view of the producers, it would ensure that the profits of the shipper, i.e. the Company, would be both known and shared; while from the point of view of exporters the danger of losses through over-payment and over-declarations would be eliminated. Centralized selling should enable the Company to obtain a rather higher price in the world market; and centralized collection should permit of savings in overheads.\* The gains realized in these ways would benefit both producers and buyers.

502. We have considered this scheme carefully. Obviously much would depend on points of detail such as the rate of commission, the manner in which the basic price was to be determined, the precise basis of profit-sharing, etc.; and certain additional safeguards, including modifications of the proposed directorate, would also appear to be needed. Supposing that these points could be satisfactorily met, that the Africans could be persuaded to accept the scheme and that Government were willing to provide the necessary legislation, we agree that there is much in favour of these proposals. The objections to them, however, are so serious, in our opinion, as to outweigh the advantages. A monopoly backed by statute and dominated by the Agreement firms, whose operations are already suspected as aiming at monopoly, would simply not be acceptable to African opinion. Moreover, we believe that official participation would do more to weaken the prestige of the Colonial Governments than to allay the apprehension of the Africans, even though there were one or two native representatives on the Board.

503. If at some future date producers were sufficiently organized to place them on a more equal business footing with the firms, and if the scheme could be made more elastic by giving some scope for newcomers to the trade and for adjustments among existing buyers, we think that this plan should then be reconsidered. Under present conditions, however, we do not regard it as desirable or as practical politics.

##### 5. GOLD COAST COCOA FARMERS' FEDERATION, LIMITED.

504. This Society was formed and registered as a limited liability company during the hold-up. In evidence the Chairman, Sir Ofori Atta, explained that it was intended to meet the desire of the Chiefs and farmers to be more effectively organised. The Society would act as a sort of marketing board which would place farmers in contact with persons of market experience in the Gold Coast and abroad, who would advise

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\* The witness, however, did not contemplate any ambitious scheme of rationalization on the Coast, holding the view that the firms are not at present over-established.

them how to sell their cocoa to the best advantage. It was intended to provide members with financial backing, but not to restrict their freedom of sale. The promoters include a number of Chiefs and Head Farmers; the capital is to be £50,000 in £1 shares. The directors may not exceed 300, and one-third of them are to retire at each annual general meeting. Membership is open to individual farmers, to associations or groups for the marketing of cocoa, and also to other persons at the discretion of the directors. Farmers or corporate shareholders must pledge themselves to deliver their supplies to the Society and may only resign from it after six months' notice. The Society, which is to have numerous local branches, may itself take delivery of cocoa and sell it for its members, and is then bound to make prompt payment of the proceeds less transport costs and a levy not exceeding 6d. per load. An advance not exceeding three-quarters of the value of the cocoa may be made when the funds of the Society permit. It may also authorise persons to act as its agents, and may not normally refuse so to appoint anyone to whom a member wishes to sell his cocoa.

505. This scheme is evidently an attempt to build on the farmers' groups developed in the Gold Coast during the hold-up, and is a natural development of a spontaneous form of organization. Its provisions as regards marketing appear somewhat vague. There is a danger that middlemen might acquire a disproportionate influence on the directorate and that business efficiency might suffer from the multiplicity of directors, unless a competent manager were appointed with wide powers. We doubt whether as a marketing or as a credit organization it would greatly assist producers. There is no indication that it would do anything to remove the abuses complained of by the firms. Nevertheless, this scheme goes some way to meet the need for a representative organization of producers; and the idea of federating local groups is of value.

## 6. PRICE-FIXING BY GOVERNMENT.

### (i) *Stabilization of Prices.*

506. A number of African witnesses have suggested that cocoa prices to producers should be stabilized at a level considerably above that of the past season. Apart from vague references to Government action, no indication has been given as to how this object could be achieved. In the absence of any international control scheme, Governments could not assume responsibility for guaranteeing the price of a commodity subject to such speculative influences as cocoa without incurring grave risks. The share of the Gold Coast and Nigeria in the total world supply of cocoa, viz., about half, would be insufficient to enable them to dictate the world price level of

cocoa, even if on general grounds this were desirable. In dismissing this proposal, however, we would not exclude the possibility of measures for reducing to some extent the local incidence of fluctuations in the world market.

(ii) *Determination of minimum prices.*

507. It has been suggested that Government should participate, either directly or in a supervisory capacity, in ascertaining and fixing a minimum price for cocoa based on world prices. The suggestion was, of course, made in connection with the Buying Agreement; but the possibility of prescribing minimum prices in fixed market centres has also been mentioned. In either case the conditions of the local and world markets for cocoa make the system unsuitable in our opinion for application to the Gold Coast and Nigeria. Unlike the case of Uganda cotton, for example, the output of these countries is so large as to have an important influence on world prices; the bulk of the crop is purchased by three or four firms; and finally there is a strong feeling among the natives against any limitation of competition, a result that commonly follows from the fixing of minimum prices.

**(c) Form of organization recommended.**

508. Each of the alternatives discussed so far falls short in one or more respects of the conditions that we considered to be necessary in order to place the marketing of cocoa in West Africa on a sound and secure footing. After consulting many opinions and after prolonged thought, we see no other way of meeting these conditions than by the general application of the system already exemplified on a small scale by the Co-operative Societies of the Gold Coast and Nigeria:—the association of producers for the collective marketing of their produce, and for the representation of their joint interests.

509. To be successful, any scheme of this kind must, we consider, include certain essential features, which are as follows:—

(i) The nature and functions of the organization adopted should be acceptable to the agricultural community.

(ii) Producers should be associated throughout the cocoa areas in a system of local marketing groups.

(iii) Cocoa should be collected for joint sale at depots operated by such groups.

(iv) The cocoa so assembled should be offered in bulk lots freely and without discrimination to buyers already established and any newcomers to the trade.

(v) The possibility of direct export for sale should be provided.

(vi) Africans should be employed wherever possible.

(vii) Buyers should be given definite guarantees of quality and suitable incentives should be offered to producers to maintain quality.

510. The application of these general ideas to the particular circumstances of (A) the Gold Coast and (B) Nigeria is considered below.

#### A.—GOLD COAST.

511. The need for reorganizing the marketing of the cocoa crop is more immediately urgent in the Gold Coast than in Nigeria. The cocoa industry is much larger and is far more important to the economic life of the country; the abuses complained of by the firms appear to have taken deeper root; and feeling about the position of cocoa farmers in relation to the buying firms was and remains more intense and more widespread. Under these conditions it seemed to us essential to find a plan that could be introduced and would take effect rapidly.

512. We have considered carefully the possibilities of developing the existing Co-operative Societies. These might have provided a nucleus for the organization which we desire to see made general throughout the country. We do not, however, regard the prospects of their rapid development as encouraging. At present the Societies market less than 3 per cent. of the crop; there is considerable disillusionment about their benefits as a means of marketing cocoa. Their credit and banking facilities are now regarded as their chief attractions.

513. It would be preferable, other things being equal, that a plan of reorganization should be built and operated on an entirely voluntary basis; but we feel that in the circumstances this is impracticable. We therefore recommend instead the adoption of the expedient which in recent years has been increasingly used in the United Kingdom, in the Dominions and in foreign countries, namely, the association of the whole body of producers of a commodity within a statutory marketing scheme.

514. We should have preferred to recommend a detailed plan without reservations, but we do not feel in a position to do so. We were unable to discuss the subject with the African leaders, whose support we consider essential, since we did not hear an important section of the evidence until our return to London. We felt that it would be inappropriate under those conditions to open discussions with the firms. **Our recommendations are therefore expressed in the following broad terms:—**

1. **That the principle of the association of all cocoa producers on a statutory basis for the marketing of their produce should be accepted by Government;**

2. that the recognized leaders of the Africans should be invited by the Gold Coast Government to participate, either personally or by representatives, in a drafting committee appointed to elaborate the details of a statutory scheme providing for the essential features enumerated in paragraph 509;

3. that the collaboration of the representatives of the firms be sought by the drafting committee; and

4. that to assist its deliberations the committee should use, as a general basis of discussion, a draft scheme framed by ourselves.

515. The following is a summary of the essential features of the scheme, which we tentatively worked out in some detail in order to test its possibilities:—

(i) Under an Ordinance establishing the scheme, all cocoa farmers in the Gold Coast Colony and Ashanti would become members of a Cocoa Farmers' Association.

(ii) The main functions of the Association would be to represent the interests of producers and to assemble and sell on their behalf the entire cocoa crop of the Gold Coast. In all normal circumstances the bulk of the crop would be sold, on a free competitive basis, to firms or individuals established in the Gold Coast, including any newcomers to the trade, but the Association should none the less be free, whenever and so far as it might appear desirable in the interests of producers, to ship direct to world markets.

(iii) The Association would be governed by a Board, including African representatives, official representatives (one of whom would act as Chairman) and possibly one or two independent co-opted members.

(iv) For the purposes both of representation and of marketing all producers would be organized in a system of local Groups, of which there might be some 500. The Group areas would be defined with a view to convenience in the collection of cocoa, but as far as possible they would be based on political sub-divisions. Every farmer would participate in the Association through being a member of the local Group covering the area in which his farm was situated. Each Group would be supervised by a committee, appointed in a manner consistent with tribal custom, and also by a general meeting. The organization and working of the Groups would be supervised by a number of Group Supervisors employed by the Association.

(v) For the purposes of marketing, the Groups would be organized by Regions, i.e., six to ten large areas surrounding the main buying centres. There would be Regional Committees, including representatives of the Groups, of local Chiefs and of Government.

(vi) Marketing would be conducted by permanent salaried employees of the Association, who would be responsible to the Board through the General Manager. This staff should include Europeans only so far as was found to be necessary in the interests of business efficiency and should to a large extent consist of Africans. The General Manager should be a European of considerable business ability and experience, and should be paid a salary commensurate with those paid in business posts entailing similar responsibilities. Apart from the General Manager and the assistants attached to him at the Board's headquarters, the marketing staff would consist of Regional Managers; District Managers in sub-divisions of the regions; and salaried Group Secretaries.

(vii) Each Group would be responsible for operating its own depot, i.e., a substantial store capable of holding a fair proportion of the crop produced within the Group's area. The depot would be the assembly point for all the cocoa produced in the Group area. The Groups should progressively organize their own collection, employing collectors and possibly operating their own lorries. In the early stages it would probably be impracticable to prohibit the operations of independent minor buyers operating between farms and Group depots.

(viii) It should be made an offence for a shipper to buy cocoa except from the Association.

(ix) Regional Managers, acting on broad directions from the General Manager, would offer cocoa for sale at the comparatively small number of main buying centres, where all or most of the existing buying firms have establishments with European staff in charge. Regional Managers would be kept informed through District Managers, and these by the Group Secretaries, of the supplies available.

(x) The Groups, in reporting their stocks of cocoa, and the Regional Managers, in offering cocoa for sale, would describe it in accordance with agreed specifications. Any disputes as to the quality supplied would be referred to arbitrators.

(xi) The bulk of the crop would, in normal circumstances, be delivered to buyers' stations. The Regional and District Managers would give instructions for the delivery of cocoa from Group depots. It would be a matter of convenience whether the Association or the buyer arranged the transport.

(xii) Payments for cocoa purchased would be made to the Association's account. Groups would be paid for their

cocoa on the basis of an average price, calculated by (a) pooling the proceeds of all cocoa sales during an appropriate period, (b) deducting a levy for operating expenses, reserve, etc., and (c) dividing the remaining sum by the number of tons sold. It would be a matter of expediency whether short or long pool periods were used. If short periods of two or three weeks were used it would be possible to dispense with payments on account; but for long periods a system of advance payments, with a final settlement, would be needed. From the average or pool price suitable deductions for transport costs would be made in order to arrive at the price to be paid to the Groups for distribution to producers.

(xiii) In order to encourage a generally satisfactory standard of quality, a guaranteed premium of an appropriate amount would be payable to Groups, and through them to producers, for cocoa tendered and accepted as high-grade. The funds for this, in so far as they were not provided by premiums received from buyers, would be met out of the levy. Cocoa of quality inferior to the ordinary standard would be paid for at a rate lower than the pool price.

(xiv) The Association would be free to export cocoa for sale through brokers in London or elsewhere. It would be free to make forward sales in anticipation of the crop season.

(xv) The Association should attempt to secure the participation of the buying firms in a Joint Committee, in which current problems of cocoa production and marketing could be discussed.

(xvi) Apart from its representative and marketing functions the Association's organization would be available, and should be used, for the agricultural and economic education of producers, for assisting in the preparation of crop estimates, and for co-operating in the promotion of approved schemes for agricultural credit facilities.

516. Reform on these lines would involve radical changes in the conditions of cocoa marketing in the Gold Coast, the more so since its farmers, although producing the largest cocoa crop in the world, are the least organized of cocoa growers. In Brazil and Venezuela there are now important organizations representative of producers, and in Trinidad the planters have for some years marketed a large part of the crop through the Cocoa Planters' Association. Under the conditions suggested the Gold Coast farmers would acquire an organization for marketing and the representation of their interests which would be even more comprehensive than these.

517. We are aware that no parallel case is to be found in the Colonial Empire of the combination of an entire body of primary producers in a statutory organization. We consider nevertheless

that provided various practical difficulties can be met a reorganization of the Gold Coast cocoa industry on these general lines is both justifiable and desirable in view of

(i) the supreme importance of the industry to the agricultural community and to the country as a whole;

(ii) the special commercial and political conditions of the Gold Coast, which underlie the whole situation that we were appointed to investigate;

(iii) the absence, so far as we ourselves can discover, of any satisfactory and less drastic alternative;

(iv) the precedents afforded by the agricultural policy of Great Britain and the Dominions.

518. In Great Britain the policy followed under the Agricultural Marketing Acts by successive Governments for the past seven years has enabled farmers to combine effectively and to reorganize the marketing of several of the more important agricultural products. In Australia and New Zealand producers of various export commodities have had similar advantages for an even longer period. The 300,000 cocoa farmers of the Gold Coast certainly stand in no less need of organization, and we see no reasons in principle why they should not be given the same facilities for combination as farmers in other parts of the Empire. The hold-up has proved the existence of remarkable capacities among the mass of farmers for joint action, and among their leaders for organization.

519. It might be objected that the Marketing Acts in Great Britain provide for essentially democratic methods of organization and procedure. These would certainly be inappropriate in the Gold Coast, where the ballot-box is not a commonplace of public life; and we do not envisage that either the question of initiating a scheme or matters involved in its operation should be put to the general vote of producers. We have nevertheless recognized the principle that public support is necessary in recommending that African leaders be invited to assist in the drafting of a scheme; and, in our own tentative plan, by providing for African representation in central and local bodies. Others are more qualified to indicate what form of representation would best suit West African customs, but it is evident that the collaboration of the Chiefs must be secured.

520. A fully-developed scheme embodying the ideas we have indicated, would, in our opinion, provide the following advantages:—

(i) *To Producers.*

It would maintain free competition among buyers and ensure as far as possible the payment of the best price justified by supply and demand conditions.



Losses through false weighing would be minimized.

A premium would be paid for good quality cocoa, to the benefit of the careful producer.

A means of collective representation and negotiation would be afforded and producers would be placed on a more equal footing with the buying firms.

Cocoa could be exported to world markets for sale on behalf of producers.

(ii) *To the Firms.*

The abuses resulting from indirect forms of competition and especially those connected with declarations would be eliminated.

Advances would not be necessary.

Delivery would be made in convenient bulk lots.

The general level of quality should be raised, and, it is to be hoped, standards of quality would be guaranteed.

The number of buying points could be reduced.

It would be possible to cover forward sales made before the season by means of forward purchases from the producers' organization.

In general, cocoa buying would be rendered less speculative, expensive and laborious.

(iii) *General.*

Through the provision of a recognized channel for collective bargaining, the country should be spared a recurrence of the recent dislocation of its economic life.

An effective instrument for the education of producers in agricultural and economic matters would be provided. The preparation of agricultural statistics, especially crop estimates, might also be facilitated.

New opportunities of steady and constructive employment would be available to literate Africans.

If at any time the idea of an international control scheme for cocoa should take more definite shape, the Gold Coast would be in a far better position to play its part than if producers remained unorganized. Short of this, if some means of utilizing surplus cocoa locally could be found, a producers' organization would make it possible to share the lower price realized for it equitably among producers.

521. We fully realize that changes of the character we propose will not be accepted without searching criticism. Apart from the question already mentioned of the suitability of our proposals to Colonial conditions, it seems desirable to anticipate certain objections that may be raised regarding their expediency, their effects on sectional interests, and certain practical difficulties of their application.

522. Critics may cite the case of the Zanzibar clove industry to illustrate the difficulties of attempting a comprehensive organization of producers under statute. A scheme was recently adopted which gave to the Zanzibar Clove Growers' Association a monopoly of the local marketing of cloves. Difficulties arose from the opposition of middlemen, and it was ultimately found necessary to modify the scheme by reserving to them the purchase of one-half of the crop. Conditions in Zanzibar, however, are essentially different from those in the Gold Coast. The middlemen are Indians and form a racial and social community distinct from that of the farmers. They were supported in their opposition to the proposed scheme by a boycott of Zanzibar cloves in India, which normally consumes about one-third of the crop. As a result large stocks of unsold cloves accumulated to the acute financial embarrassment of the Association, which as part of its policy was obliged to buy all cloves offered.

523. One effect of our proposals, fully applied, would be to deprive the middle and larger brokers of their function in the marketing of cocoa, and opposition from them is to be expected. It should, however, be modified by the fact that under the scheme numerous salaried posts would be available which literate brokers would be qualified to fill; moreover, most brokers have their own farms and many engage in merchandise trading. Assuming that the brokers resist our proposals with all the influence in their power, they will at most persuade the agricultural community not to accept them; but once a scheme on the lines suggested were adopted brokers would not be in a position to hamper its operation by any form of direct action.

524. Some of the Chiefs might have the same misgivings about a statutory producers' scheme as they have about the farmers' groups which came into existence during the hold-up; namely, that it might weaken their authority. The drafting procedure and general type of representation that we suggest should make such fears groundless. Some sections of African opinion on the other hand may object to Government participation in the direction of a scheme, although farmers may welcome it, recalling the unfortunate history of certain previous cocoa marketing ventures, managed by persons deficient in experience or integrity. We are convinced, in any case, that the industry is too closely linked with the economic welfare of the country for Government to refrain from active participation in, and ultimate responsibility for, a statutory marketing scheme.

525. In general our proposals are designed to draw out African criticism in advance, so that it can be used constructively in forming a scheme that is acceptable and will command the positive support both of the rank and file and of the recognized leaders. It will be the duty of the latter, if they accept

our proposals in principle, not only to assist in framing a suitable scheme, but also to collaborate in explaining it and securing that it is operated as intended.

526. It is to be hoped that the collaboration of the firms will be sought, and willingly given, both in the preparation of a detailed scheme and, through a joint committee, in its actual operation. We are encouraged to believe that some at least of the firms will be attracted by the advantages of our proposals, since several of their witnesses spoke favourably of collective sale by producers. Nevertheless, some opposition may be expected. The main objections from established firms, whether explicitly formulated or not, will probably be first, that an effective and officially recognized form of combination among African producers is undesirable—a view with which we have expressed our disagreement; secondly, that our general proposals would make it easier for new competitors to establish themselves on the Coast; if this is true, we do not consider it to be an objection from the standpoint of the interests of the Colony as a whole.

527. Various practical difficulties are likely to be raised as objections by the firms and others. We refer briefly to some of the more important problems involved.

#### (i) Finance.

528. Very tentative estimates made by us, on which we have taken independent opinion, suggest that a capital outlay of about £300,000 might be required to put our detailed plan into full operation. The annual cost is still more difficult to estimate, as it would depend largely on the salaries paid. It should not, however, exceed £250,000 or about 6d. a load. A large part of the initial capital expense would be required for the construction of depot stores, although in some areas it should be possible to rent or acquire stores from the firms or brokers.

529. **We recommend that an initial grant towards capital expenses from Government funds, or from the Colonial Development Fund, be considered; failing this, a Government loan should be made, at a reduced rate of interest.** It might also be considered whether a part of the export tax through which, as we have pointed out in paragraph 55, the cocoa industry contributes materially to the revenue of the country, could be earmarked as a contribution towards the annual expenses of the scheme.

#### (ii) Staff.

530. We attach great importance to our recommendation that Africans should be employed wherever possible; good opportunities of a career would thus be provided for literate Africans of business capacity. It is even more important in the interests of farmers, however, that efficiency should be maintained. In making appointments the requirements of business

should not be outweighed by racial interests and sympathies, and when suitable African candidates did not present themselves, Europeans should be appointed. The question of finding suitable staff admittedly presents difficulties; experienced opinion indicates, however, that these should not prove insurmountable. The position of General Manager, in a fully-developed scheme such as we advocate, would be very important, and should undoubtedly be filled by a European. We desire to emphasize that it would be false economy not to offer for this responsible post a salary sufficient to attract a man of real commercial and organizing ability.

**(iii) Method of introducing a scheme.**

531. A considerable effort of organization would be needed in order to introduce a fully-developed scheme, and it might be desired to proceed by stages. We think it would be unwise to attempt to operate the new system of marketing side by side with the old in the same districts; resistance and even obstruction might then be encouraged from interests opposed to the general adoption of the scheme. If, therefore, a gradual development is desired, we recommend that at least the proposed ground-work of organization, namely the system of local groups, should be introduced generally throughout a considerable area. Ashanti would seem to provide the most favourable starting point, owing to the homogeneous character of the people and of the political structure. It would probably be expedient, however, to introduce the same arrangement simultaneously in a defined area within the Colony and Togoland. An alternative method of development would be to begin by introducing the Group system throughout the cocoa areas as the foundation on which to build the more complete form of organization required. Development policy would obviously be governed largely by the attitude of the various parties concerned.

**532. We recommend**

**(i) that the Ordinance providing for a scheme should be sufficiently comprehensive to permit of the development of a complete scheme;**

**(ii) that it should be of an enabling character, and that the application of the scheme to prescribed areas should be determined by proclamation;**

**(iii) that the scheme should be generally applied and developed to its complete form as quickly as circumstances and considerations of efficiency permit.**

**(iv) Selling and Pooling Policy.**

533. The system of pooling must depend on how fully the scheme is developed, on selling policy and on the credit facilities available. A scheme consisting of local groups, united under

a purely supervisory body, would operate with short-period pools on lines similar to those followed by the present Co-operative Societies. Under a more developed scheme, in which selling was co-ordinated by regional or even central control, a longer pool period would be needed and part payments in advance might become necessary. Provided such payments are made there is much to be said in favour of the long pool period, which would even out the effects of price fluctuations on producers' returns.

534. It would also be advantageous from the point of view of accounting and effective control to concentrate the administration of pooling as much as possible; any plan of centralized selling should therefore be accompanied by centralized pooling.

535. The selling policy of the Board of a centralized scheme would have to take into account many complex and changing factors which cannot at this stage be evaluated. We suggest that it would be unwise to restrict its powers by hard and fast rules. The character and ability of the General Manager and the ultimate responsibility of Government should be sufficient to ensure that a reasonably cautious policy is pursued.

536. We anticipate that the established shippers will continue to be the normal channel of sale for the bulk of the crop; it is to be hoped that they will be prepared to co-operate with the Board through a Joint Committee in establishing a better understanding between the buying and selling sides of the industry. At the same time we consider that the export of a part of the crop by the producers' organization is desirable even in normal circumstances, since Africans attach great importance to having direct access to world markets. Published statements of the results of direct exports should help to convince Africans that the possibilities of realizing better prices in this way are strictly limited.

537. In the light of experience gained, the Board might find advantage in following, with due caution, a policy of spreading the period of sale by forward selling in advance of the season and possibly even by prolonging the marketing period for some weeks. If forward contracts were offered they should certainly be open to firms established on the Coast.

538. The possibility must be faced that in certain circumstances shippers might abdicate the merchant's function of carrying stocks and thus leave the burden to the producers' organization. A Board such as we advocate would not have powers to buy cocoa outright from producers. It would be essentially a selling agency, and its policy should be, subject to the exceptions suggested in the preceding paragraph, to sell cocoa as it was delivered by producers. We have explained however that, if the pooling period were longer than a few weeks, it

would be necessary for the Board in the ordinary course of business to make a part payment against cocoa supplied, with a final settlement at the end of the pool period. Bank advances would probably be required for prepayments, and to this extent the Board would be financially committed. It should be the Board's policy to restrict such commitments. If there were difficulties in selling current supplies to the Coast firms, it would be necessary for the Board to sell freely in world markets. It goes without saying that, if conditions demanded, prepayments would be reduced or even temporarily suspended.

539. In any case there is no obvious reason for supposing that the shippers' present policy of buying cocoa as it is offered would be altered. The knowledge that a restriction of purchases by the Coast firms would justify, and even necessitate, more extensive direct exports to world markets would act as a deterrent. Considerations of prestige will presumably continue to influence shippers, since producers organized in Groups will be no less influenced than separate individuals by the fact that XYZ Limited or Messrs. M and N had bought their cocoa. Shippers will still need to spread their overhead costs and to have a convenient means of transferring funds from the Coast, and they will still know that if the cocoa is not sold in one way or another the purchasing power of their African customers will be dammed at its source.

#### **(v) Co-operative Societies and Credit Facilities.**

540. So far we have not explained the part that would fall to the co-operative movement under the proposed system of marketing. The Groups would duplicate, on a larger scale, the function now performed by Co-operative Societies. In these circumstances the continuance of the latter as marketing units would hardly be justified. Members might find some consolation in the knowledge that their Societies had pointed the way to collective sale under a generally applied system. We consider, however, that the Gold Coast co-operative movement should concentrate in future on the vital functions of accepting deposits and providing credit in which it has achieved distinct success.

541. At present credit is available to farmers chiefly through money-lenders and brokers. The effect of transferring the brokers' functions to Groups would be to withdraw one existing supply of credit, namely, the advances made by the firms—and especially those made before the season—which are distributed by brokers to growers. The personal funds of money-lenders and brokers might remain available, but brokers would have no incentive to make loans on easy terms or even without interest, as they occasionally do at present in order to secure an option on crops.

542. In these ways a producers' marketing scheme would tend to restrict the credit available to producers, and to limit the possibilities of cheap credit. On the other hand, it seems likely that at present producers are often tempted to accept credit or to make forward sales against their own interests. Whatever might be the net effect on credit of a producers' marketing scheme, it is certain that the extension of sound facilities for thrift and credit would be of great value as a means of reducing indebtedness.

543. Professor Shephard and Sir Frank Stockdale have both expressed the view that co-operative credit facilities should be linked with co-operative marketing.\* The reasons, we understand, are (i) that a marketing society affords information of the character and income of prospective borrowers, and (ii) that marketing, as a more tangible function, is more likely to attract support in the initial stages of a co-operative movement. At the same time, other authorities contend that it is sounder policy to separate the functions of marketing and banking; in support of this view they adduce the experience of co-operation in Europe and elsewhere.†

544. We suggest that the co-operative credit movement in the Gold Coast has now taken firm enough root to be able to develop on its own merits—in fact its development may have been handicapped of late by the disappointing results of co-operative marketing. Moreover, the institution of compulsory marketing through Groups would give credit societies additional security.

545. Our recommendations regarding credit and co-operation are as follows:—

(i) that the Co-operative Societies should surrender their functions of cocoa marketing as the system of marketing through Groups is developed;

(ii) that Government should adopt a definite policy of promoting co-operative thrift and credit societies;

(iii) that all Africans residing within the neighbourhood of a society should be considered eligible to become members; it might be desirable however to confine the issue of credit to farmers, while the deposit facilities should be available to all. Under these conditions the problem of indebtedness would be attacked from two directions: the farmer would not need to borrow from individuals with capital available and the latter would be encouraged to

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\* Professor Shephard op. cit. p. 47.

\* Sir Frank Stockdale op. cit. p. 92.

† See e.g. "Co-operation in China", W. K. H. Campbell, Co-operative Adviser to the Government of China under the auspices of the League of Nations, Year-Book of Agricultural Co-operation, 1938, p. 463.

deposit their capital in safety at a low but assured rate of interest;\*

(iv) that special provisions should be made as regards loans for the redemption of mortgages. It is undesirable that small societies in which deposits must be available on demand should have a large part of their funds locked up in this way;

(v) that the societies should be federated in district unions and that district co-operative banks should be established to act as clearing houses between local societies. The handling of mortgage credit might suitably be referred to such banks;

(vi) that a separate Department of Co-operation should be formed which should, however, work in close contact with the Department of Agriculture. The Registrar should have special knowledge of co-operative credit, and the staff should receive special training; and

(vii) that the co-operative credit movement should be developed in harmony with the proposed marketing organization; and the officers of the latter should assist in propaganda for co-operative credit. Societies should have the legal right to secure payment of overdue loans or interest from the Group to which a defaulting member is attached, out of money due to him for his cocoa. They should also be able to demand that a defaulter should be required to supply his cocoa direct to the Group.

#### B.—NIGERIA.

546. We have indicated our view that there was no crisis in Nigeria such as that which led to our enquiry in the Gold Coast, nor have we found any reason to believe that the development of a comparable crisis is to be expected. We hold a strong conviction that marketing reform is necessary, especially in the interests of producers, but not that it is so urgent as to require the adoption of the compulsory measures we have recommended for the Gold Coast.

547. The prospects of the development of co-operative cocoa marketing appear to us to be considerably more favourable in Nigeria than in the Gold Coast. As we have already stated, we should prefer, where possible, to see a comprehensive organization of producers built on an entirely voluntary basis. We believe accordingly that the best method of meeting the needs of the Nigerian situation would be through the expansion of the present Co-operative Societies to cover the whole or at least the greater part of the annual production. The general idea of

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\* Savings Banks are comparatively little developed in the Gold Coast. It is a common practice for the merchant firms to accept deposits especially from their own buyers.



co-operation is by no means new to Nigeria and various indigenous forms of quasi co-operative societies are to be found. Responsible opinion was tendered to us in official evidence that even now the majority of cocoa farmers are ready for co-operation in the form recognized by Ordinance. It was suggested that it would be possible within five years, provided the staff of the Department of Co-operation was considerably increased, to develop the co-operative movement sufficiently to deal with 30,000 tons or about one-third of the crop.

548. The policy of the Nigerian Government with regard to co-operation has been to build slowly on firm foundations. This is in accordance with the best authorities on the subject. The time seems ripe to intensify and extend the work of development, which has hitherto been limited by the small staff available to the Department of Co-operation. Current annual expenditure on co-operation is estimated at £4,800. Of this a large part represents the salaries of senior staff, whose chief duties should be to exercise a general supervision, partly by tours of inspection, and to frame policy. If the junior staff were considerably enlarged, especially by the recruitment and training of Africans, an increase in the effectiveness of the Department would be secured at a proportionately much smaller increase in cost.

**549. We recommend that Government should adopt a policy of developing the educational and propaganda work for co-operation on a more ambitious scale than hitherto; that for this purpose, and also to provide for the supervision of new Co-operative Societies as they are formed, the funds available to the Department should be considerably increased; and that arrangements should be made for the recruitment and training of a much larger staff. In general, we advise that Government should wholeheartedly adopt the co-operative system as the desirable method of marketing Nigerian cocoa, and should put the whole weight of its influence behind it.**

550. In considering the present incentives for producers to join the Societies it must be recognized that a premium for co-operative cocoa is no longer easily obtained. Under the Agreement, indeed, the payment of a premium over Grade I was expressly excluded. There has been a general improvement in the preparation of cocoa in Nigeria in recent years, and Co-operative Societies cannot count on receiving high premiums over other cocoa. It is possible that in the past this hope has been too much encouraged; the Department is on safer ground in its present policy of emphasizing chiefly the more general advantages of co-operation.

551. The main incentives to the producer must be that he will receive the full local value of his cocoa after the costs of an efficient and economical marketing system have been met;

and that he can exchange his present position of subordination to relatively well-organized middlemen for membership of an organization which exists solely for his benefit and in the control of which he has a voice. **To facilitate the more rapid development of Co-operative Societies, however, we recommend that Government should consider assisting Societies to provide themselves with stores and other necessary equipment. Loans on favourable terms might be provided for this purpose, and perhaps even grants made on condition that Societies themselves raised a given percentage of the funds required.** An offer on either of these lines would probably be attractive to farmers and should both help the formation of Societies and enable them to operate efficiently from the outset.

552. Regarding the method of development, we consider that the present policy of the Department should in general be continued. The Registrar of Co-operative Societies, in a memorandum expressing his personal views, visualizes:—“ A series of 15 to 20 Co-operative Marketing Unions (each serving some 20 to 40 primary societies) each making independent, regular and automatic sales of cocoa 3 or 4 days a week ”. One such Union, the Ibadan Co-operative Cocoa Union, already exists and operates efficiently.

553. It seems desirable that for some time to come, at least until co-operative producers are in a more advanced state of education, sales should be made at frequent and regular intervals both by Societies on behalf of their members and by Unions on behalf of their affiliated Societies. There is a danger, in the absence of a fixed policy of regular selling, that relatively inexperienced committees may take unduly speculative views of the market to the detriment of their members' interests. The position of Co-operative Societies is very different from that of the organization advocated for the Gold Coast, the business of which would be managed by an efficient permanent staff.

554. We envisage that the bulk of co-operative sales would normally continue to be made to firms and buyers established in Nigeria. Nevertheless it is important to provide a channel, for use at need, through which exports for sale could be made through Co-operative Societies. Nigerian producers, like those in the Gold Coast, attach much importance to having direct access to world markets; and the existing Societies and Unions seem likely, as they gain experience, to insist more and more on powers to export. Export sales would do much, we believe, to educate producers with regard to market conditions; they would provide an additional inducement to join the Societies.

555. **With these considerations in mind, and recognizing how much supervision would be needed if export sales are to be made by individual Societies or even by Unions, we recommend the formation of a Cocoa Export Agency. Membership of the**

**Agency should be confined to Co-operative Societies and Unions.** Any exports which they might decide to make would have to be made through the Agency and would thus be conveniently canalized for supervision. The work of the Agency might be carried out by a small Committee consisting of an officer of the Department of Co-operation as Chairman, one or more representatives of the Societies and an independent member of business experience. That the Agency would not itself be strictly co-operative in form we do not regard as a serious objection, in view of the advantages attaching to it.

556. Societies or Unions should be required to prove the general support of their members before being permitted to export. Bank advances could certainly be obtained without difficulty on cocoa exported under an officially sponsored body. Sales should be made through brokers in London or other markets.

557. As regards the firms' attitude, we can see no reason why they should not give positive support to the transformation of the present marketing system to one in which Co-operative Societies would undertake all the functions at present performed by middlemen. In our recommendations for the Gold Coast we have enumerated the advantages that would accrue to the firms from a change essentially similar, so far as they are concerned. In Nigeria likewise the abuses of which the firms have complained should be removed. There is no doubt that many if not most of the firms' local agents would welcome a general extension of co-operative cocoa marketing. In these circumstances we trust that the firms will give full support to the policy of accelerating the development of co-operation which we advocate.

558. Strenuous opposition is naturally to be expected from the middlemen, who will see in this policy a threat to their cocoa business. They are well organized, and many of them, we are informed, have close ties of relationship with Chiefs and influential members of the Councils who for this reason, and even because of personal interests in the cocoa business, are inclined to give them political as well as personal support. We take the view that the interests of the producer should predominate. We have no prejudice against middlemen as such. They perform a useful and necessary function under the present system; but if considerations much wider in their scope, embracing both the welfare of the great number of producers and orderly buying by the exporter, make it desirable that the system should be superseded, progress should not be arrested in order to preserve the interests of a particular group whose present influence is disproportionate to its numbers. The marketing of 90,000 tons of cocoa under co-operation will still provide wide opportunities of employment, although it will be

different in character. It is also an advantage of the entirely voluntary nature of co-operation that the change would not be so rapid as to prevent personal adjustments. The effects on employment would also be reduced by the fact that in Nigeria cocoa is not the only, or even the most important, commodity with which the middlemen are concerned.

559. As regards agricultural credit, we recommend that the Department of Agriculture should examine the possibilities of developing thrift and credit societies independently of marketing societies on the general lines suggested for the Gold Coast (paragraph 545). Agricultural credit is no less needed in Nigeria and is much less developed, partly because the country is poorer. We are aware that the Savings Banks, which pay interest at  $2\frac{1}{2}$  per cent. and are widely developed, provide a counter-attraction to depositors; but they do nothing to meet the problem of credit. Local thrift and credit societies, operated on sound lines, should be able to pay at least an equal rate on deposits; since in addition they would provide the farmer who has reasonably good security with a source of credit alternative to that of the money-lender, and at much lower interest rates, they appear to us to be the best means of encouraging a more business-like mentality among producers.

### C.—MISCELLANEOUS RECOMMENDATIONS.

#### (i) Agricultural Policy.

560. We mentioned in Chapter III certain general problems of agriculture and land tenure, some of them only partially explored, to which the development of the cocoa industry has given rise in the Gold Coast. We recommend that a careful watch should be maintained on the rate of expansion of cocoa-farming and the location of farms, with a view to appropriate action when and where its necessity is indicated; and that district land surveys, in some form sufficient for this purpose, should be immediately instituted. We took note of the fact that, except in the case of the forest reserves, no demarcated boundaries of any kind exist.

#### (ii) The Indebtedness of Farmers.

561. We have frequently referred in our Report to the prejudicial effects of various forms of mortgages, and also of short term indebtedness, on the economic position of cocoa farmers, and even on their method of marketing. The whole problem of indebtedness is complex, and appears to call for special investigation. Having been impressed by its bearing on the problems of marketing reform, we have suggested the development of thrift and credit societies in both countries as a main line of attack. We recommend, in addition, that any agricultural instruction which may in future be given to the cocoa

farmers by Government officers should be allied with economic instruction of an elementary kind. This should help farmers to form a clearer idea of costs of production and to appreciate the effects of the employment of labour and of borrowing at high rates of interest upon their ability to make cocoa-farming pay.

**(iii) Weights and Measures.**

562. Farmers in both the Gold Coast and Nigeria evidently suffer considerable loss through the use of false weights and measures by middlemen. Under the reformed marketing systems which we have advocated, producers delivering to local collecting depots would have an assurance of fair dealing; but assuming that our policy is accepted, considerable numbers of middlemen would continue to operate for some time. We recommend that a fuller inspection service be provided in both countries. In the Gold Coast we recommend that the post of Inspector of Weights and Measures should be revived and supported with adequate staff. In Nigeria we recommend that the possibility should be considered of enforcing the use of some cheap standard form of measure, when cocoa is not bought by weight; this might for example be the standard kerosene tin.

**(iv) Licensing of Buyers and of Buying Stations.**

563. We recommend that careful consideration be given both in the Gold Coast and in Nigeria to the desirability (so far as marketing continues in its present form) of a licensing system applicable both to middlemen and to buying stations; and of attaching suitable conditions to the licences with a view to limiting undesirable trade practices, and any undue expansion of the numbers of middlemen and of the firms' buying stations. (See paragraphs 493-4.)

**(v) Unofficial Inspection of Cocoa in Nigeria.**

564. We have described in paragraph 261 the system of unofficial inspection of cocoa in Nigeria by employees of the produce buyers' Unions. We consider that this system is undesirable in principle, and encourages forms of petty extortion. We therefore recommend that it should be ended, and that the possibility of replacing it with a system operated by Native Authorities under the general supervision of the official Produce Inspectorate should be considered.

**(vi) Labour.**

565. We have referred in paragraphs 60 and 237 and in Appendix F to the importance of hired labour in the cocoa industries of the Gold Coast and Nigeria. We consider that it is necessary to afford protection to agricultural labourers employed by Africans, at least as much as to labour employed in European undertakings. We believe that the recently created post of Chief Inspector of Labour in the Gold Coast provides

the means of dealing with this problem, and we recommend that this officer be instructed to give special consideration to it. We recommend that in Nigeria also the position of agricultural labour should be examined.

**(vii) Price Information.**

566. We have mentioned in paragraph 372, as an advantage conferred by the Buying Agreement in Nigeria, the greater publicity given to the prices offered by the firms. We recommend that both Governments should examine the possibilities of providing regular official information on cocoa prices. We think that it would be valuable to continue as a permanent arrangement the system followed during the truce in the Gold Coast whereby market prices obtained through official sources in London were communicated daily to the Gold Coast Government, and to extend it to Nigeria. We consider that it would also be valuable in the general interests of the trade if a daily statement of prices offered on the Coast continued to be published; this would require the co-operation of the firms.

567. We recommend that Governments should take steps to ensure the fullest publicity for reliable information regarding local and world market prices. Apart from the Press, broadcasting provides a valuable medium for disseminating market news, as the Gold Coast has already shown. In addition, it might be possible to post price bulletins at agricultural stations, post offices, and other Government establishments. It is very desirable, however, that any market information should be entirely objective. The bulletins should not indicate any view of future prospects of the market, and above all it should be made clear that there was no official support or disapproval of the prices quoted.

**(viii) Crop Forecasts.**

568. We consider that it is important that adequate provision should be made for crop-forecasting. At present no attempt is made to forecast the cocoa crop of Nigeria, although it now ranks third among the producing countries. We recommend that unless there are insuperable difficulties this deficiency should be remedied.

569. In the Gold Coast, crop forecasts have been made for a number of years. We understand that in general they are accepted as having been useful and, in most years, reasonably accurate. Officials of the Department of Agriculture suggested that the present methods of crop forecasting are liable to serious error only when an exceptionally large number of trees enter into full bearing; this apparently occurred in 1936, when an underestimate of the Gold Coast crop was a factor contributing to a violent fluctuation in world prices. It was stated also that the preparation of statistics had been handicapped in the past

by the lack of adequate co-operation on the part of the firms. We understand that a committee, on which the firms are represented, has now been set up to consider means of improving crop estimates. We recommend that this committee should carefully examine the possibilities of obtaining further information on new planting and on the extent to which new trees are likely to come into bearing; in this the co-operation of local Chiefs would be very useful. We also recommend that means be found of making full information on stocks in store available on request to statistical officers. If, on investigation, it is considered that the funds available for the preparation of crop estimates are insufficient, we recommend that, in view of the importance of this matter, an increase be granted.

**(ix) Statistics of Consumption.**

570. We referred in paragraph 408 to the inadequacy of the available statistics of cocoa consumption. Consumption in the United States of America, where estimates are at present based on visible stocks; in the Netherlands where they are based on imports; and in the United Kingdom, where, as in Germany and France, removals from bond are taken as providing a fairly reliable criterion, amounts altogether to about 78 per cent. of world consumption. The assembly and periodic publication of satisfactory statistics would require the co-operation of the manufacturing industries in the chief consuming countries, and we understand that there is little prospect of this being achieved without positive steps being taken by the Governments concerned. We recommend that His Majesty's Government in the United Kingdom should initiate discussions to ascertain whether the Governments of the United States of America and the Netherlands would be willing to arrange for the monthly or quarterly publication of official statistics of the actual consumption of cocoa beans in their respective countries. In order to ensure the co-operation of manufacturers, the procedure followed under the International Rubber Regulation Scheme might be adopted, namely, the appointment in each country of a firm of chartered accountants to collect and total, under bond of secrecy, the returns of individual manufacturers.

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571. Proposals have been made from time to time for an international Scheme to regulate the output of cocoa. As several witnesses have raised this question in evidence, we desire to record that we have not regarded it as falling within our terms of reference.

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572. We cannot conclude our Report without recording our appreciation of the manner in which our work was facilitated by the Government of the Gold Coast, and our sincere thanks for the hospitality we received. To the Governor, Sir Arnold

Hodson, who made Christiansborg Castle our headquarters during our stay in the Colony, to the Chief Commissioner of Ashanti, Major H. C. Stevenson, who welcomed us at Kumasi, and to the many Government officers who did so much to make our tour useful and enjoyable, we are most grateful. Our thanks are also due to the Chiefs, especially the Asantehene, and to the peoples of the Gold Coast and Ashanti for the very cordial way in which we were received. Mr. T. R. O. Mangin and Mr. H. Nicholas, who were appointed to act as the Commission's liaison officers in the Gold Coast, were of the greatest assistance and, through their wide knowledge and experience, enabled us to acquire an insight into local conditions which would not otherwise have been possible.

573. During our brief visit to Nigeria we met everywhere with the same ready co-operation and with a like hospitality. We wish to thank the Governor, Sir Bernard Bourdillon, who entertained us at Government House, and his officers, especially those of the Agricultural Department, for their great personal kindness to us and for the admirable arrangements which were made. The services of our liaison officer, Mr. R. L. V. Wilkes, with his intimate knowledge of the Yoruba people, were invaluable. We regret that we were unable, owing to the shortness of our stay, to make closer acquaintance with the Chiefs and peoples of Nigeria; but we were shown great hospitality by the Oni of Ife.

574. We feel under a debt of gratitude to the buying firms and to their representatives on the Coast for arranging the attendance of a large number of witnesses so as to suit our convenience and especially for their readiness in supplying the statistical and other information we required.

575. We would also thank Mr. W. J. Muston, the Clerical Officer attached to us, who was responsible for much detailed work; the clerical staff placed at our disposal in the Gold Coast, Nigeria and London; and the interpreters, especially Mr. Boatin in the Gold Coast and Mr. Ajayi, of the Nigerian Department of Agriculture, who accompanied us on the journeys from our headquarters.

576. Finally, it is a pleasure to express our appreciation of the work done by our Secretary, Mr. Eugene Melville, who carried out his varied and exacting duties with conspicuous ability and energy.

(Signed) WM. NOWELL (*Chairman*).  
RUPERT S. THOMPSON.  
C. A. L. IRVING.

EUGENE MELVILLE.  
(*Secretary*).

5th of September, 1938.



## APPENDIX A.

*(Paragraphs 11, 12 and 14 of Report)***ALPHABETICAL LIST OF PERSONS AND BODIES WHO GAVE FORMAL EVIDENCE BEFORE THE COMMISSION.\*****(a) Gold Coast.**

Name.	Place of evidence.	Date.
Aboagye, Sampson ... ..	Swedru	19th April
Abobio, Mante ... ..	Koforidua	12th April
Aberbeseh ... ..	Kumasi	2nd April
Ahora, J. D. ... ..	Koforidua	12th April
Acquah, Ayirebi (Omanhene of Effutu) ...	Swedru	19th April
Adjei, E. B. ... ..	Koforidua	12th April
Adjei, F. ... ..	Koforidua	12th April
Afari, J. W. ... ..	Koforidua	12th April
Afari, Minta ... ..	Kumasi	23rd April
Afriyea, Owusu ... ..	Kumasi	23rd April
Agonahene, The... ..	Kumasi	1st April
Akropong Akorase Co-operative and Marketing Society.	Accra	28th March
Amankrah, John K. ... ..	Accra	30th March
Amankwa, Kweku ... ..	Kumasi	1st April
Ampiaiw, J. K. ... ..	Swedru	19th April
Amprachim, Kojo ... ..	Kumasi	23rd April
Atsridom, S. W. IV. (Head Chief, Kpedje-Awlime).	Accra	10th April
Auafi, Akwase ... ..	Swedru	19th April
Apenteng, Bekoe ... ..	Koforidua	12th April
Apponsah, J. L.... ..	Swedru	19th April
Ashanti Cocoa Farmers' Union ... ..	Kumasi	2nd April
Atta, Nana Sir Ofori ... ..	Accra	29th March
(Omanhene of Akim Abuakwa).		11th April
Audulai ... ..	Koforidua	12th April
Ayew, J. K. ... ..	Accra	29th March
Baiden, J. B. A. ... ..	Swedru	19th April
Baiden, J. E. ... ..	Accra	11th April
Bartholomew, W. & Company, Limited		
(Mr. A. Clark) ... ..	Accra	7th April
(Mr. A. J. Gupwell) ... ..	Koforidua	13th April
Boadi, Yaw ... ..	Koforidua	12th April
Boateng, Santahene Kwaku ... ..	Koforidua	12th April
Bolton, Kobina ... ..	Swedru	19th April
Botchey, Ben ... ..	Accra	11th April
Brobey, S. A. ... ..	Kumasi	1st April
Bruce, W. ... ..	Swedru	19th April

\* The list excludes persons and bodies who submitted written memoranda to the Commission but did not give oral evidence. Memoranda were submitted as follows: Gold Coast, 31; Nigeria, 1; London, 11; and America, 5.

Name.	Place of evidence.	Date.
Buamanhene ... ..	Kumasi	23rd April
Buoh, Kweku ... ..	Kumasi	2nd April
Busi & Stephenson, Limited—		
(Mr. F. Newton) ... ..	Kumasi	22nd April
(Mr. C. Goodfellow) ... ..	Accra	8th April
Cadbury Brothers, Limited (and J. S. Fry & Sons, Limited) (17 witnesses).	Various	Various
Chamba, Yesufu ... ..	Koforidua	12th April
Chilley, L. C. (Bank of British West Africa, Limited).	Accra	14th April
Companie Francaise de L'Afrique Occidentale		
(Mr. E. Debort) ... ..	Accra	6th April
(Mr. G. Benoit-Barne) ... ..	Accra	8th April
(Mr. E. Galinier) ... ..	Accra	9th April
Co-operative Societies of Gold Coast, Ashanti and Togoland, Joint Delegation of.	Accra	26th April
Dadzie ... ..	Swedru	19th April
Department of Agriculture, Officers of ...	Various	Various
Donkor, Kweku ... ..	Swedru	19th April
Ellis, R. E. ... ..	Kumasi	23rd April
English and Scottish Joint Co-operative Wholesale Society, Limited—		
(Mr. Emery) ... ..	Accra	14th April
(Mr. V. Harrod) ... ..	Kumasi	23rd April
Etison, J. E. ... ..	Swedru	19th April
Ewua, E. ... ..	Swedru	19th April
Fieldgate, A. F. E. (Provincial Commission, Central Province).	Winneba	21st April
Gaisey, G. S. ... ..	Swedru	19th April
George, S. A. ... ..	Accra	11th April
Ghartey, J. B. ... ..	Swedru	19th April
Gyechi, Kofi ... ..	Kumasi	23rd April
Hage, F. J. ... ..	Swedru	19th April
Harland, J. A. (Barclays Bank (D.C. and O.), Limited).	Accra	14th April
Holt, John & Co. (Liverpool), Limited— (4 Witnesses).	Accra	{ 6th April 8th April 9th April
Jones, E. N. ... ..	Koforidua	12th April
Koi, J. M. ... ..	—	16th May
Koi, J. M. ... ..	Swedru	19th April
Kojo ... ..	Winneba	20th April
Korsah, K. D. ... ..	Accra	30th March
Kotokoli, Haroum ... ..	Koforidua	12th April
Krampa, Joshua ... ..	Swedru	19th April
Kwabena, Osei ... ..	Kumasi	2nd April
Kwabi, J. Mensah ... ..	Accra	30th March
Kwamin, Fori II ... ..	Swedru	19th April
Kwao, Kwabena ... ..	Koforidua	12th April
Kwateng, Kwesi ... ..	Kumasi	1st April
Lilley, Captain, C. C., M.C. ... ..	Accra	24th April
London, G. E., C.M.G. (Colonial Secretary) ...	Accra	25th April

Name.	Place of evidence.	Date.
Lyons, J. & Company, Limited ... ..	Accra	7th and
(Mr. F. A. B. Johnston) ... ..	Accra	8th April
(Mr. H. E. Edmunds) ... ..	Accra	9th April
(Mr. H. Abraham) ... ..	Kumasi	22nd April
(Mr. R. W. Higginson) ... ..	Kumasi	22nd April
Matthias ... ..	Kofiridua	12th April
McGranahan, —. ... ..	Kumasi	22nd April
Morrison, K. A. ... ..	Swedru	19th April
Moshi, Abdulla and others (Delegation of labourers).	Koforidua	12th April
Nassar, Solomon ... ..	Kumasi	23rd April
Nifahene, Nana Adu-Ameyaw... ..	Koforidua	12th April
Odufo, Emanuel ... ..	Accra	30th March
Ollivant, G. B. & Company, Limited (7 witnesses).	Various	Various
Osei, F. ... ..	Koforidua	12th April
Osimpo ... ..	Swedru	19th April
Oteng, C. S. ... ..	Accra	11th April
Oteng, R. K. ... ..	Kumasi	1st April
Otoo, Kobina ... ..	Swedru	19th April
Overbeck, G. F. ... ..		
(Mr. O. E. Durlach) ... ..	Accra	26th April
Paterson, Zochonis & Company, Limited— (2 Witnesses).	Accra	{ 7th and 8th April 11th April
Police Department, Officers of ... ..	Accra	22nd April
Prempeh II, Nana Sir Agyeman (Asantehene)	Kumasi	2nd April
Rennie, G. M. (Financial Secretary) ... ..	Accra	25th April
Safo, Kwame ... ..	Koforidua	12th April
Sarkodee-Adoo, J. ... ..	Accra	11th April
Swiss African Trading Company— (Mr. W. Huiterman) ... ..	Kumasi	22nd April
Seidu, Malan ... ..	Koforidua	12th April
Siska ... ..	Kumasi	1st April
Stevenson, Major H. C., C.M.G., O.B.E., M.C. (Chief Commissioner, Ashanti) ... ..	Kumasi	23rd April
Societe Commerciale L'Ouest Africain (6 witnesses).	Various	Various
Tarku, Adam ... ..	Swedru	19th April
Tawia, Kofi ... ..	Swedru	19th April
Teng, Kobina ... ..	Kumasi	1st April
Thomas, H. W. (Secretary for Native Affairs)	Accra	25th April
Tutu, Sam ... ..	Swedru	19th April
United Africa Company, Limited— (31 Witnesses).	Various	Various
Union Trading Company ... ..		7th April
(Mr. R. Knittel) ... ..	Accra	8th April
(Mr. Spoerri) ... ..	Kumasi	22nd April
Whitfield, T. (Elder Dempster Lines, Limited)	Accra	14th April

## (b) Nigeria.\*\*

Name.	Place of evidence.	Date.
Abeokuta Farmers' Association ... ..	Ibadan	3rd May
Agege Planters' Union ... ..	Lagos	29th April
	Agege	30th April
Cocoa Manufacturers Limited— (4 Witnesses)	Lagos	30th April
	Ibadan	4th May
Companie Francaise de l'Afrique Occidentale— (Mr. J. Pastor) ... ..	Lagos	30th April
(Mr. L. Paret) ... ..	Ibadan	4th May
(Mr. O. Coquet) ... ..	Ibadan	4th May
Department of Agriculture, Officers of ...	Ibadan	2nd and 3rd May
Ellis, F. J. D. (Barclays Bank (D.C. & O.), Limited) ... ..	Ibadan	6th May
English & Scottish Joint Co-operative Whole- sale Society, Limited— (Mr. Slater) ... ..	Ibadan	6th May
Ephraim, G. B. ... ..	Lagos	29th April
Gaiser, G. L. (Mr. R. Hertz) ... ..	Ibadan	4th May
Gbenro, A. ... ..	Lagos	29th April
George, — ... ..	Lagos	29th April
Holt, John & Company (Liverpool), Limited (4 Witnesses)	Lagos	30th April
	Ibadan	3rd May
		4th May
Ibadan Co-operative Cocoa Marketing Union	Ibadan	3rd May
Ibadan Native Traders' Union ... ..	Ibadan	3rd May
Ijebu Farmers' Association and Produce Traders' Union.	Ibadan	3rd May
Jeremiah ... ..	Lagos	29th April
Jibogwu ... ..	Lagos	29th April
Layinake ... ..	Lagos	29th April
Nabham, F. J. ... ..	Lagos	29th April
Nabham, J. ... ..	Ibadan	6th May
Nigerian Producer Traders' Union ... ..	Lagos	29th April
	Ibadan	3rd May
Nigerian Youth Movement ... ..	Lagos	29th April
Odesilo ... ..	Lagos	29th April
Odulare ... ..	Lagos	29th April
Oge, J. ... ..	Lagos	29th April
Ogunluyi ... ..	Lagos	29th April
Oke, S. L. ... ..	Lagos	29th April
Ollivant, G. B., Limited— (Mr. W. Sheldon) ... ..	Lagos	30th April
(Mr. J. V. D. Bray) ... ..	Ibadan	4th May
Ondo Farmers' Union ... ..	Ibadan	3rd May
Oni of Ife ... ..	Ife	5th May

\*\* In Nigeria a considerable amount of African evidence was given by delegatories comprising, e.g., members of Co-operative Societies, scalermen, labourers, etc. These are not included in this list.

Name.	Place of evidence.	Date.
Paterson, Zochonis & Company, Limited— (3 Witnesses)	Lagos Ibadan	30th April 4th May
Societe Commerciale de l'Ouest Africain— (Mr. R. Baron) ... ..	Lagos	30th April
(Mr. H. Flury) ... ..	Ibadan	4th May
Somefun ... ..	Lagos	30th April
Suberu ... ..	Lagos	29th April
Thomas, P. J. C. ... ..	Lagos	29th April
Union Trading Company— (Mr. B. Schwarzenbach) ... ..	Lagos	30th April
United Africa Company, Limited (7 witnesses)	Various	Various
Witt & Busch (Mr. A. Ohle) ... ..	Lagos	30th April
Zard, C. (Mr. N. Abizakhem) ... ..	Lagos	30th April

## (c) London.

Name.	Date.
Agreement (merchant) firms, Delegation of ... ..	20th June
Agreement (manufacturing) firms, Delegation of ... ..	21st June
Bevis, F. C. ... ..	28th June
Bonitto, J. S. ... ..	2nd June
Buxton, D. A. J. ... ..	10th June
Cadbury, J. ... ..	22nd June
Clauson, G. L. M., C.M.G., O.B.E. ... ..	2nd June
Colonial Office, Delegation of ... ..	27th June
Cope, A. E. ... ..	10th June
Coyne, S. Y. (New York) ... ..	27th May
English and Scottish Joint Co-operative Wholesale Society, Limited ... ..	27th June
Fehr, Frank A. ... ..	3rd June
Fischel, A. N. (New York) ... ..	26th May
Freeman, W. G. ... ..	8th June
Greenaway, F. A. ... ..	9th June
Grey, Major-General W. H. ... ..	13th June
Harvey, J. ... ..	13th June
Hodson, Sir Arnold W., K.C.M.G. ... ..	17th June
Holt, John ... ..	20th June
Knight, J. W. ... ..	23rd June
Leach, Godfrey ... ..	22nd June
McFall, J. H. ... ..	3rd June
Miller, W. J. ... ..	26th May
Permuy, M. G. ... ..	20th May
Samuel, Frank ... ..	22nd June
Spice, W. G. ... ..	28th June
Steedman, Crombie ... ..	17th June
Stockdale, Sir Frank, K.C.M.G., C.B.E. ... ..	9th June
Tansley, E. C. ... ..	23rd June
Turner, H. N. ... ..	8th June

## APPENDIX B.

*(Paragraph 15 of Report)*

## DIARY OF PROCEEDINGS OF COMMISSION

February 22nd	Private session in London.
„ 25th	Private session in London.
March 3rd	Private session in London.
„ 9th	Commission left England aboard M.V. <i>Accra</i> .
„ 17th	Commission visited Sir Thomas Southorn at Bathurst.
„ 19th	Commission visited Mr. D. J. Jardine at Freetown.
„ 23rd	Commission reached Accra.
„ 24th	Private session at Government House with Governor and officials.
„ 26th	Formal opening session in Legislative Council Chamber, Accra.
„ 28th	Private session—officers of Department of Agriculture.
„ 29th–30th	Public sessions—farmers' representatives.
„ 31st	Commission proceeded to Kumasi.
April 1st	Formal opening session in Cadbury Hall, Kumasi. Public session—Co-operative Societies' representatives.
„ 2nd	Public session—Asantehene and farmers' representatives.
„ 3rd	Members of Commission visited various cocoa farms in the Kumasi district.
„ 4th	Commission returned to Accra.
„ 6th–7th	Public sessions in King George V Memorial Hall—Agreement firms' representatives.
„ 8th–9th	Private sessions—Agreement firms' representatives.
„ 10th	Private session.
„ 11th	Private session—farmers' and brokers' representatives. Commission proceeded to Koforidua.
„ 12th	Private session—farmers' and brokers' and labourers' representatives.
„ 13th	Private session—Agreement firms' representatives. Private session—labourers' representatives. Commission returned to Accra.
„ 14th	Private session—independent witnesses.
„ 15th	Commission proceeded to Aburi.
„ 16th–17th	Informal discussions with officers of the Department of Agriculture.
„ 18th	Commission proceeded to Winneba.
„ 19th	Private session at Swedru—farmers' representatives.
„ 20th	Private session at Swedru—Agreement firms' representatives.
„ 21st	Chairman and Secretary returned to Accra. Messrs. Thompson and Irving proceeded to Kumasi.
„ 22nd	<i>Accra</i> . Private session—Government officials. <i>Kumasi</i> . Private session—Agreement firms' representatives.
„ 23rd	<i>Accra</i> . Private sessions. <i>Kumasi</i> . Private session—brokers' representatives.
„ 24th	<i>Accra</i> . Private session. <i>Kumasi</i> . Private session with Asantehene.
„ 25th	Messrs. Thompson and Irving returned to Accra. Private session—Government officials.
„ 26th	Private session—Co-operative Societies' representatives. Private session—representatives of Agreement firms and independent merchant.

April 27th	Private session—officials of Department of Agriculture. Commission left for Nigeria aboard M.V. <i>Abosso</i> .
„ 28th	Commission reached Lagos. Formal opening session in Glover Hall, Lagos.
„ 29th	Private session—local farmers' and middlemen's Associations and independent merchants.
„ 30th	Private session—Agreement firms' representatives.
May 1st	Commission proceeded to Agege. Private session—farmers', middlemen's and labourers' representatives.
„ 2nd	Commission returned to Lagos. Commission proceeded to Ibadan. Formal opening session in Mapo Hall, Ibadan. Private session at Moor Plantation—officers of Department of Agriculture.
„ 3rd	Private session—farmers' and middlemen's representatives.
„ 4th	Private session—Agreement firms' representatives.
„ 5th	Commission proceeded to Ife. Private sessions—farmers' and middlemen's representatives, and Oni of Ife.
„ 6th	Commission returned to Ibadan. Private session—representative of Agreement firm and independent witnesses. Commission returned to Lagos.
„ 7th	Commission left Lagos aboard M.V. <i>Abosso</i> .
„ 20th	Commission arrived at Plymouth.
„ 24th	Commission commenced further evidence sessions in London.
June 28th	Commission concluded evidence.

APPENDIX C.

(Paragraph 21 et seqq of Report.)

Table I.

WORLD EXPORTS OF COCOA\*

(By crop years.)

Countries of Production.†	1926-27.	1927-28.	1928-29.	1929-30.	1930-31.	1931-32.	1932-33.	1933-34.	1934-35.	1935-36.	1936-37.
	<i>Metric Tons.</i>										
Gold Coast ...	236,500	204,500	240,700	230,200	220,600	209,900	254,500	224,400	245,500	290,000	<b>304,800</b>
Brazil ...	77,800	68,400	66,000	73,700	66,400	98,700	101,900	87,700	102,600	<b>127,000</b>	108,400
Nigeria ...	43,200	42,800	50,100	52,600	49,500	56,200	69,800	72,200	83,500	92,700	<b>103,300</b>
Ivory Coast ...	9,000	13,000	16,700	22,200	19,700	24,800	31,600	35,700	44,300	49,400	<b>51,500</b>
Trinidad ...	21,200	27,300	26,600	24,800	<b>27,900</b>	18,000	23,200	13,200	20,700	12,600	12,900
Dominican Republic	27,000	16,300	24,400	19,400	27,500	16,300	19,800	22,600	<b>28,400</b>	18,200	19,900
Ecuador ...	20,600	<b>21,300</b>	15,800	17,700	15,000	16,200	10,200	16,800	18,800	20,500	19,700
All others ...	86,000	91,200	96,900	93,900	97,900	92,000	94,200	92,400	91,800	96,500	<b>99,200</b>
Total ...	521,300	484,800	537,200	534,500	524,500	532,100	605,200	565,000	635,600	706,900	719,700

\* All figures from "Gordian."

† The highest years of production in each country over the period are in heavy type.



Table II.  
**WORLD CONSUMPTION OF COCOA\***  
 (By crop years.)

Countries of Consumption.†	1926-27.	1927-28.	1928-29.	1929-30.	1930-31.	1931-32.	1932-33.	1933-34.	1934-35.	1935-36.	1936-37.
	<i>Metric Tons.</i>										
United States of America...	175,000	180,000	185,000	190,000	190,000	185,000	190,000	182,200	253,000	254,900	<b>307,000</b>
Germany ...	74,000	74,000	80,000	72,000	81,000	77,000	77,000	<b>90,000</b>	75,200	78,200	71,400
Great Britain...	58,400	56,500	57,500	56,200	59,300	67,800	67,500	74,400	79,900	<b>99,900</b>	99,300
Netherlands ...	40,000	45,000	50,000	51,000	52,000	45,000	45,000	53,100	58,800	<b>66,800</b>	54,700
France ...	22,800	33,400	35,800	35,200	41,500	41,400	42,900	42,800	41,000	<b>47,300</b>	41,300
Canada ...	7,700	9,000	9,300	8,900	8,300	8,400	9,700	11,400	12,900	14,300	<b>17,500</b>
Switzerland ...	7,000	8,300	9,100	7,400	<b>10,800</b>	5,100	7,600	7,400	7,300	7,800	7,200
Italy ...	5,900	7,800	7,700	6,800	7,500	6,800	7,600	8,400	<b>12,100</b>	9,200	6,800
Belgium ...	5,500	6,200	7,800	6,500	<b>11,200</b>	9,100	6,200	9,900	8,300	10,200	9,000
Other countries	58,900	61,500	65,900	67,600	71,800	72,700	67,600	<b>84,800</b>	78,000	81,500	79,200
Total ...	455,200	481,700	508,100	501,600	533,400	518,300	521,100	564,400	626,500	670,100	693,400

\* Adjusted to give most accurate estimate possible of "true consumption". All figures from "Gordian."

† The highest points of consumption in each country over the period are in heavy type.

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*Table III.*  
**WORLD STOCKS\***

	1927.	1928.	1929.	1930.	1931.	1932.	1933.	1934.	1935.	1936.	1937.
	<i>Metric Tons.</i>										
Visible stocks in consuming countries ... ..	53,100	70,300	83,700	84,800	67,300	92,700	128,000	119,200	110,100	118,600	166,000
Invisible stocks in consuming countries (est.) ...	135,000	115,000	125,000	135,000	135,000	110,000	155,000	100,000	125,000	115,000	100,000
Invisible stocks in producing countries (est.) ... ..	50,000	70,000	66,000	55,000	76,000	72,000	45,000	64,000	75,000	60,000	50,000
Stocks afloat ... ..	30,000	20,000	15,000	20,000	20,000	30,000	35,000	25,000	35,000	35,000	45,000
Total ... ..	268,100	275,300	289,700	294,800	298,300	304,700	370,000	308,200	345,100	328,600	361,000
Percentage of consumption in previous season ...	59	57	59	59	56	59	71	55	55	49	52

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\* Estimated by "Gordian" on September 30th of year shown.

*Table IV (a).*  
**PRICES OF ACCRA COCOA**  
 (Annual averages.)  
**Accra, fair fermented, f.o.b.**  
 (Shs. per cwt.)

1921.	1922.	1923.	1924.	1925.	1926.	1927.	1928.	1929.	1930.	1931.
40s. od.	38s. od.	30s. od.	30s. od.	37s. od.	45s. od.	64s. od.	51s. od.	41s. od.	30s. od.	22s. od.

Table IV (b).

## PRICES OF ACCRA AND TRINIDAD COCOA\*

## (i) Accra, good fermented (c.i.f.) London.

(Per 50 kilos—nearly a cwt.)

Quotations early in	1931-32.	1932-33.	1933-34.	1934-35.	1935-36.	1936-37.	1937-38.
	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
September ...	21 9	29 9	22 9	21 0	21 9	32 3	37 3
October ...	26 0	27 9	20 9	19 6	22 3	35 0	29 0
November ...	29 3	26 0	19 3	20 6	21 9	38 6	28 9
December ...	26 9	25 9	<b>16 9</b>	20 6	22 3	49 0	26 3
January ...	25 6	24 9	17 3	22 6	22 6	<b>52 0</b>	26 3
February ...	24 6	22 6	22 6	23 0	23 9	48 6	25 3
March ...	30 0	22 6	23 3	23 6	23 6	50 0	29 6
April ...	27 9	20 9	23 9	22 6	23 6	49 0	26 9
May ...	27 3	23 9	23 3	22 6	24 9	39 9	20 6
June ...	27 0	24 0	26 6	22 3	26 3	35 0	17 6
July ...	28 0	25 6	24 3	21 6	28 0	35 3	21 6
August ...	29 0	25 6	23 0	22 0	28 0	38 0	22 0
Annual average	26 11	24 10½	21 11	21 9	24 0	41 10	25 10½

## (ii) Trinidad Plantation, first marks (c. and f.)

(Per 50 kilos—nearly a cwt.)

Quotations early in	1931-32.	1932-33.	1933-34.	1934-35.	1935-36.	1936-37.	1937-38.
	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
September ...	34 0	40 0	30 0	33 0	31 0	50 0	58 6
October ...	37 0	40 0	28 6	31 6	33 0	54 0	49 0
November ...	40 0	38 0	<b>26 6</b>	32 0	32 6	59 0	43 0
December ...	41 0	35 0	27 0	33 0	32 0	65 0	37 0
January ...	40 6	32 0	33 0	33 6	35 0	<b>72 0</b>	37 0
February ...	41 6	30 6	39 0	34 6	36 0	71 0	37 0
March ...	41 6	30 0	39 0	34 0	37 0	70 0	39 0
April ...	39 0	28 6	38 0	31 6	37 6	69 0	36 0
May ...	38 0	29 0	37 0	30 0	42 6	67 0	32 0
June ...	37 0	30 0	37 0	30 6	46 6	58 0	30 0
July ...	37 6	31 0	38 0	29 6	52 0	54 0	31 6
August ...	37 0	31 0	37 6	31 6	58 0	56 0	31 6
Annual average	38 8	32 11	34 2½	32 0½	39 5	62 1	38 6
Annual average premium over Accra	11 9	8 0½	12 3½	10 3½	15 5	20 3	12 7½

\* Figures have been taken from Imperial Economic Committee's publication "Plantation Crops." Prices in heavy type are highest and lowest over the period.

## APPENDIX D

(Paragraph 28 of Report.)

**SHIPMENTS OF GOLD COAST COCOA BY THE PRINCIPAL FIRMS DURING SEASONS  
1933-34 to 1936-37\***

<i>Firm.</i>	1933-34.		1934-35.		1935-36.		1936-37.	
	<i>Tons.</i>	<i>Per cent.</i>	<i>Tons.</i>	<i>Per cent.</i>	<i>Tons.</i>	<i>Per cent.</i>	<i>Tons.</i>	<i>Per cent.</i>
United Africa Company Limited ...	86,062	41·49	90,044	37·47	105,831	37·84	113,976	38·61
Cadbury Brothers Limited ...	23,736	11·44	37,783	15·72	47,816	17·10	43,740	14·81
G. B. Ollivant Limited ...	13,432	6·48	19,317	8·04	29,836	10·67	34,236	11·60
Compagnie Francaise de l'Afrique Occidentale ...	14,008	6·75	19,244	8·01	25,035	8·95	23,444	7·94
Union Trading Company Limited ...	9,763	4·71	11,728	4·88	8,676	3·10	13,598	4·61
English and Scottish Joint Co- operative Wholesale Society Limited	10,095	4·87	11,535	4·80	9,938	3·55	11,754	3·97
J. Lyons & Company Limited ...	7,159	3·45	8,598	3·58	9,608	3·44	12,332	4·18
Busi & Stephenson Limited ...	6,987	3·37	12,330	5·13	9,346	3·34	9,442	3·20
Swiss African Trading Co. ...	6,147	2·96	7,693	3·20	5,359	1·92	7,455	2·53
Societe Commerciale de l'Ouest Africain	9,686	4·67	6,572	2·74	7,575	2·71	4,794	1·62
John Holt & Co. (Liverpool) Ltd. ...	—	—	—	—	4,330	1·55	11,349	3·84
Paterson, Zochonis & Co. Ltd. ...	—	—	775	0·32	2,236	0·80	4,370	1·48
W. Bartholomew & Co. Ltd. ...	2,821	1·36	603	0·25	5,006	1·79	316	0·11
P. B. Anti ...	1,525	0·74	1,324	0·55	1,512	0·54	255	0·09
G. F. Overbeck ...	10	—	277	0·12	1,053	0·38	1,467	0·50
Woermann and Company ...	70	0·03	904	0·38	895	0·32	317	0·11
F. H. Ryden ...	5,398	2·60	1,422	0·59	—	—	—	—
All other firms ...	10,505	5·08	8,269	3·44	5,603	2·0	2,350	0·80
Adjustment to agree with Customs ...	—	—	1,863	0·78	—	—	—	—
<b>Total ...</b>	<b>207,404</b>		<b>240,281</b>		<b>279,655</b>		<b>295,195</b>	

\* Figures supplied by United Africa Company Limited.

APPENDIX E.  
(Paragraph 32 of Report.)

**GOLD COAST STATISTICS, 1936.**

<i>Area</i>	...	...	...	...	...	...	91,843 <i>Square miles.</i>
<i>Population</i>	...	...	...	...	...	...	3,613,876 (1936 estimates).
<i>Trade—</i>							£
(i) Total Imports	...	...	...	...	...	...	11,656,719
(ii) Total Exports	...	...	...	...	...	...	12,636,899
(iii) Exports of Domestic Produce	...	...	...	...	...	...	12,239,952
(iv) Value of Agricultural Exports	...	...	...	...	...	...	7,849,633
(v) Value of Cocoa Exports	...	...	...	...	...	...	7,659,743
(vi) Percentage (v) is of (iv)	...	...	...	...	...	...	97·6%
<i>Finance</i> (Year ending 31st March, 1937).							£
(i) Total Revenue	...	...	...	...	...	...	3,774,746
(ii) Revenue from Cocoa Duty	...	...	...	...	...	...	342,302
(iii) Percentage (ii) is of (i)	...	...	...	...	...	...	9·1%
							£
(iv) Total Expenditure	...	...	...	...	...	...	3,916,992

## APPENDIX F.

(Paragraph 60 of Report.)

**NOTE ON LABOUR IN COCOA FARMS OF THE EASTERN PROVINCE,  
GOLD COAST.\***

Classified loosely as "Northern Territories people", large numbers of labourers come from the north every year in search of work on cocoa farms in the Gold Coast. They belong to various tribes, mostly Mohammedan in faith, speaking different languages but possessing a wide-spread *lingua franca*. Labourers from the "Zongos"† are to-day the backbone of the Gold Coast cocoa industry, being employed both by the merchants and by the farmers. The reason for their employment is plain; it must be considered what factors lead them to stray so far from their native lands in search of work.

2. The labourers from the Zongos may be divided into two classes; those who reside in the Gold Coast throughout the whole year and those who live there only during the cocoa season. The former came from the north probably many years ago and have established permanent dwellings with small food farms attached. Although many earn their living by petty trading and home crafts, there is always a large floating population ready to work for wages. Such a labour surplus would not, however, be sufficient to meet the heavy demand of the cocoa season; it has to be supplemented yearly by fresh inundations of labourers, mostly from French territory. Apart from the growing importance of cash to Africans, the special reason for these annual visits is the existence in the French Colonies of a head tax, or *impôt*.

3. The chief tribes represented in the "Zongos" are Konkonbas from Togoland; Chambas, Moshies, Zabarimmas, Grumas, Grunshies, Basares and Wangaras from the French Colonies; and Lobis, Dagartis, Fra Fras, Kusasis, Gonjas, Dagombas from the Northern Territories. The two chief routes followed are from the North East through Kete Krachi and Kwahu and from Palime in the French Mandated area of Togoland down the Senchi road.

4. The grand trek starts about the beginning of September, and the majority of the would-be labourers, sometimes accompanied by their wives and children, arrive in the cocoa country before the middle of October. New travellers follow in the steps of their tribesmen and the report of a good season such as 1936-7 will bring an increased exodus in the following year. On arrival the travellers seek lodging in the local Zongo and enquire there where work can be found: on learning that neighbouring farmers are in search of workers they make application personally or through the local Zongo brokers. If no work is to be found they will journey on. In practice, however, labourers who have worked during previous seasons become attached to a certain area and probably return to work for the same farmer in successive years. Frequent cases are to be found where men have worked at one place for ten years. There is also a further tendency for workers to congregate in tribal groups, particularly in outlying stations; thus all the labourers in one area may, for instance, be Moshies. In general, such people owe allegiance in a loose fashion both to the local Sarikin Zongo and to the headman of their own community.

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\* Consisting of an extract from a Memorandum prepared for the Commission by a Gold Coast administrative officer and dated "Koforidua, the 25th April, 1938."

† Zongos are the quarters of towns in which the immigrant tribes live.

5. With regard to the terms of the labour contracts entered into, systems differ in various native States. All that can be definitely said to be common to all is their general vagueness, since the reward to be paid is not fixed in advance but left subject to certain eventualities. In Krobo country it is customary for the farmer to supply the labourer with a certain amount of food during the season, and to give him a sum of money at the end. In Akim it is common to pay the labourer in cocoa, leaving him to conduct his own sales. This system caused some trouble during the hold-up. But the most general practice, and that which appears likely to become in time universal, is to pay the labourer, at the end of the season, a percentage of the actual money received from cocoa sales: the sum varies from 1s. 6d. to 2s. for every 10s. obtained by the farmer for his cocoa.

6. In normal circumstances the migrant labourer works for about six months and returns to his country about the middle of May, before the rains set in. But whereas the outward journey normally takes one month on foot, the return journey, after a season of employment, is completed partly by lorry and occupies only a week or so. Although the majority of the work done during the period is on cocoa, the labourer is frequently employed by the farmer from the time of his arrival to perform other work such as wood carrying and clearing before the cocoa season opens. If payment is made in money, as is generally the case, it is received at the end of the season and is generally at the rates mentioned in the preceding paragraph. In a good year, such as 1936-7, a labourer can expect to obtain about £8 for six months' work, and of this £4 to £5 will eventually reach French territory.

7. During the period of their employment in the Gold Coast, the life of labourers varies little. The working day lasts about ten hours but the speed of work is left to the men themselves and varies according to the job on hand. The cocoa crop must be gathered but there is no question of working against time. In the meantime wives cook and make a small side-line of selling firewood in small quantities in the market at 3d. a head-load. The staple food of the labourer is plantain and cassava with occasional additions of meat. In the event of a shortage of ready cash he always obtains credit preferably from the permanent residents of the Zongo. Such is a brief account of the community upon which the economic dispute of October, 1937, descended.

8. After the unprecedented season of 1936-7 more emigrants came south at the beginning of the 1937-8 season than ever before. By the middle of October thousands had arrived in the Colony, and the large majority had obtained work without difficulty. It was only when the time for marketing of the main crop drew near that the farmers informed them that, owing to the activities of a wicked "Pool" sales had been postponed, and they would have to wait for some weeks before receiving their share of the proceeds. Thereafter, whenever the labourers asked for their pay, they were told that they must wait until the cocoa had been sold; marketing would begin "within the next few weeks." By April, when the labourers normally return to the North, they had still not received their wages. During the previous six months they had managed to keep themselves in food only by dint of the labours of their wives in selling firewood. Many, however, had not been so fortunate, and all had to reduce their living expenses considerably. To add to their misfortunes, the price of plantain, cassava, and yam remained at the previous year's high level. Towards the end of the season letters began to arrive from their home towns begging them to return soon with money to pay the tax. In such circumstances it is not surprising that numerous complaints were received by Government asking for intervention to force employers to pay



off their labourers. In most cases, however, the labourer knew that the farmer had not in fact the money to pay his wage bill until the cocoa had been sold. So long as the hold-up continued, he could not hope to receive his money.

9. Such, in brief, is the unfortunate position in which these ignorant labourers found themselves placed, through forces beyond their control and comprehension. The month of April finds them still wandering restlessly within the cocoa producing areas, seeking payment for their labour which they are beginning to realise they may never obtain. Fortunately the local Zongo Chiefs are men of some responsibility and are doing their best to prevent any outbreaks of lawlessness; but it is difficult to expect that such a band of hungry men will forfeit the fruits of their just earnings and be prepared quietly to return empty handed to an incredulous family. What effect the present experience will have on this necessary source of cocoa labour in future years has yet to be seen. Probably the necessity for cash and the impossibility of obtaining it elsewhere, will militate towards bringing labourers south again next year; but it is very possible that the numbers will be somewhat curtailed. At any rate it is difficult to look with equanimity upon the unmerited hardship inflicted upon this section of the community, a section to whose worth few experienced administrators in this country have not testified.\*

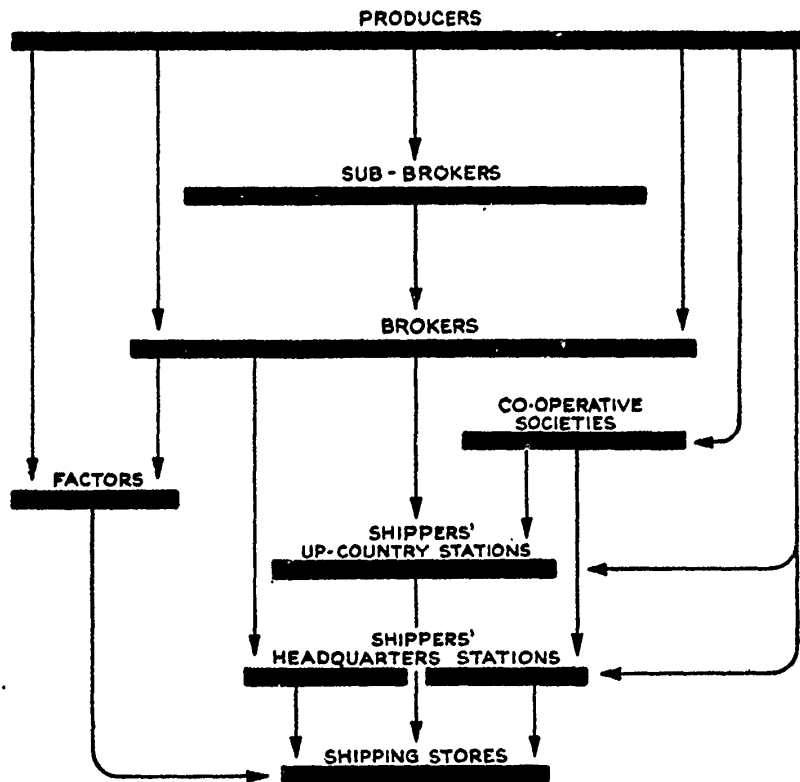
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\* We ourselves had evidence of the pitiable conditions of many of the labourers, particularly towards the end of the season. One witness from a Northern Territory tribe working in the Gold Coast said: "I live in Asiakwa in Akim land. I have been there for thirty years working in cocoa farm. Every year after the cocoa I go home and return. The Zugas who come down for the cocoa country are about 10,000. This year we have not been paid for the work we have done. Our parents in the North write asking us for money. We used to be paid one third of every load of cocoa which we collect: this custom is different in Akim and New Juaben. This year the farmers will not give us one third of the cocoa to sell as they did in the past. This year they give us nothing."

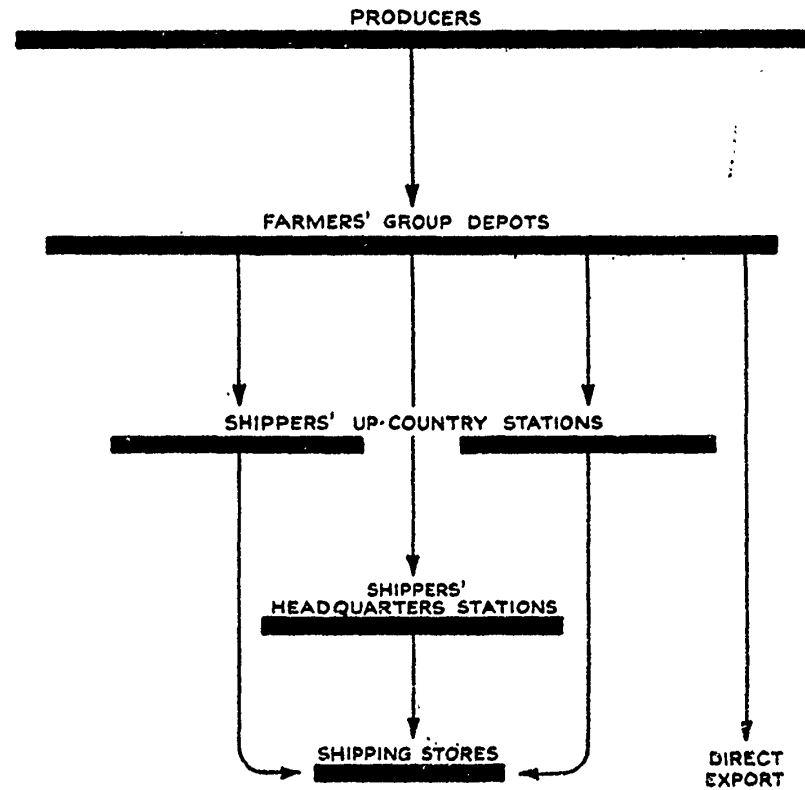
APPENDIX G

(See paragraphs 81 and 515 of Report)

1. PRESENT ROUTES OF COCOA MARKETING  
IN THE GOLD COAST



2. ROUTES OF COCOA MARKETING IN THE GOLD COAST  
UNDER SUGGESTED PRODUCERS' ORGANIZATION.



## APPENDIX H.

*(Paragraph 96 of Report.)***EXAMPLE OF BROKER'S AGREEMENT.**

THIS AGREEMENT made the 1st day of October, in the year of our Lord one thousand nine hundred and thirty-seven [1937] between the

of Kumasi (hereinafter referred to as the "COMPANY" which expression shall include their successors and assigns) of the one part and

of

(hereinafter

referred to as the "BUYER" which expression shall include his heirs personal representatives and assigns) of the other part WITNESSETH as follows:—

1. The Company agrees to re-employ the Buyer in Ashanti or elsewhere as the Company may from time to time direct and the Buyer agrees to continue to serve the Company in the aforesaid place or places. Either of the parties hereunto may terminate this Agreement by giving to the other party one (1) month's notice in writing of their intention so to do and such notice shall be sufficiently given by the posting of same to the last known address or last known place of abode of the party to whom the notice is given who shall for the Company be the Manager for the purposes of this Agreement.

2.—[a] The Buyer agrees to carry out diligently and faithfully all duties entrusted to him by the Company and to conform to such regulations affecting the buying of Cocoa which the Company shall issue from time to time and to submit reports on his work when required so to do by the Company.

[b] The Buyer shall purchase cocoa solely for the Company and for none other during the continuance of this Agreement. A breach of this clause shall entitle the Company to determine this Agreement and claim any damages suffered by the Company.

3. The Buyer agrees to render proper accounts to the Company and to examine and certify to the correctness of the entries in the Buyer's accounts in the Company's books at the end of each month. In default thereof the accounts as shown in the Company's books shall be deemed to be true and correct, provided always that the buyer has failed to remedy his breach herein within 8 days from the date of written notice from the Company requiring him so to do.

4.—[a] The Buyer agrees to purchase cocoa at prices which shall be fixed by the Company from time to time and the price so fixed shall be communicated to the Buyer by the Company at Kumasi or elsewhere. The Company may at their discretion advance monies to the Buyer for the purpose of purchasing cocoa, the amounts of such advances to be determined by the Company as they consider advisable from time to time.

[b] The Buyer shall be responsible to the Company for any of the Company's monies advanced to him whether such monies shall have been advanced by the Buyer in turn to his Brokers and sub-Buyers for the purchase of cocoa.

[c] All monies received by the Buyer from the Company shall be used solely for the purpose of purchasing cocoa for the Company and for no other purpose whatever and the Company reserves the right to call upon

the Buyer to refund on demand any unexpended portion of monies advanced.

5. The Buyer shall deliver all Cocoa purchased for the Company to such place or places as the Company may from time to time direct.

6. The Company agrees to supply the Buyer with Service bags, Shipping bags and other usual equipment in quantities to be determined by the Company from time to time but the Buyer shall be responsible for all Service bags, Shipping bags and other usual equipment supplied to him by the Company, and shall make good to the Company any loss or damage in respect of the same caused by any reason whatsoever other than fair wear-and-tear.

7. All cocoa purchased and delivered by the Buyer to the Company shall be commercially dry and of fine fermented quality and the Company shall have the right to reject all cocoa purchased by the Buyer which in their opinion is inferior or germinated or improperly dried or moulded or weevilled or underfermented or otherwise defective.

8.—[a] The Company agrees to pay to the Buyer so long as he observes and performs this Agreement £—:—:— per month as salary during the months of April to September inclusive and £—:—:— per month as salary during the months of October to March inclusive, provided always that such salary shall only be payable during the continuance of this Agreement.

[b] The Company further agrees to pay to the Buyer a commission of 1s. 0d. (One Shilling) per load of 60 lbs., on all cocoa purchased for and accepted by the Company. In addition to the said salary and commission the Company agrees to allow the Buyer for his services and by way of contribution to any expenses incurred by the Buyer during the continuance of this Agreement an overriding commission on all cocoa purchased for and accepted by the Company at the rate set out in the schedule herein provided always such commission and overriding commission shall only be paid or allowed on cocoa which shall have been delivered to and accepted by the Company and that all commission and overriding commission earned by the Buyer shall be reserved in the Company's books until the end of each cocoa season or until the determination of this Agreement [if earlier], and when all accounts between the Company and the Buyer shall have been settled.

9. The Company shall have the right to terminate this Agreement forthwith if the Buyer fails to discharge his duties to the satisfaction of the Company and/or committing any breach of this Agreement and thereafter no further salary or commission shall be payable to the Buyer.

10. The Buyer shall find and provide suitable security by mortgage of property or otherwise to be approved by the Company for the due performance by him of this Agreement; and in this connection the Buyer agrees and undertakes that the security, if any, provided by him in respect of his previous engagement by the Company, shall be and form a continuing security with the Company for the due performance by him of this Agreement in addition to any other security which he may provide as hereinbefore mentioned.

11. The security referred to in clause 10 above shall be security against any loss which the Company may sustain in consequence of any breach or misconduct of the Buyer, and for the payment of any monies owing or value of any cocoa due by the Buyer to the Company.

12. This Agreement cancels any written or verbal Agreement entered into, prior to the date hereof.

OVERRIDING COMMISSION SCHEDULE (Referred to herein).

- 7s. 4d. per ton on purchases which do not exceed 150 tons.
- 9s. 4d. per ton on purchases which exceed 150 tons.

IN WITNESS WHEREOF the parties hereto have hereunto set their hands the day and year first above written :

Signed and delivered by the within-named Company :

per its Manager.....

in the presence of.....

Signed or marked and delivered by the within-named Buyer :

.....

after the foregoing had been duly read over and interpreted to the Buyer in the Twi Language by :

.....

when he seemed perfectly to understand the same before signing or making his mark thereto in the presence of :

.....

## APPENDIX I.

*(Paragraph III of Report.)***NOTE ON QUALITY IN COCOA.**

Apart from the distinction between fine and ordinary cocoas, the quality of cocoa is judged for commercial purposes by the percentage of defective beans it contains. The principal defects recognized in commercial classifications are as follows:—

- (i) *Mouldy beans*, i.e., beans in which mould or fungus is present.
- (ii) *Slaty beans*, i.e., beans the interior of which shows a slaty colour.
- (iii) *Weevily beans*, i.e., beans containing insects or showing signs of damage by insects.
- (iv) *Germinated beans*, i.e., beans the seed coat of which is broken by the developing germ.
- (v) Beans showing *other defects* such as flatness (indicating the absence of cotyledons) or containing foreign matter, and broken and undeveloped beans.

*Commercial Grades.*

Standards for cocoa are laid down by commercial organizations in the more important consuming countries and also in the United States Pure Food Laws. These standards vary to some extent. "In Liverpool and London (under the Regulations of the Liverpool General Produce Association, the Cocoa Association of London and the London Cocoa Terminal Market Association), cacao sold under Clause A contract must not contain more than 5 per cent. slaty beans, and not more than 5 per cent. of all other defects. Clause C, Liverpool, prescribes limits of 10 per cent. slaty beans and not more than 12 per cent. of all other defects, whilst Clause C, London, provides for 10 per cent. slaty beans and not more than 10 per cent. of all other defects. For Clauses B and D, the limits are as for A and C, respectively, but lower purities can be tendered, subject to price deductions for defects in addition to those prescribed. The Cocoa Association of London provides for sales of cacao under Clause E which places no limit on slate but requires that all other defects shall not exceed 12 per cent. The London Terminal Market does not permit its members to deal in cacao containing more than 15 per cent. total defects other than slate.

"Regulations made under the United States Pure Food Laws provide that cacao shall not contain more than 10 per cent. mould plus weevil, and not more than 5 per cent. mould. The New York Cocoa Exchange provides for the following classes:—Class 1: Slate not more than 10 per cent. and all other defects not more than 8 per cent. Class 2: Slate not more than 10 per cent. and all other defects not more than 15 per cent. Class 3: Slate more than 10 per cent. but all other defects not more than 8 per cent. Class 4: Slate more than 10 per cent. but all other defects not more than 15 per cent. Cacao with more than 15 per cent. defects other than slate is non-tenderable by members."\*

*Gold Coast Grades.*

In Regulations made under the Cocoa Industry (Regulation) Ordinance, 1937, the Gold Coast Government prescribed the following export grades for cocoa:—

Grade I.—Cocoa which is thoroughly dry, free from foreign matter, and contains not more than five per cent. by count of mouldy, weevily, decayed, flat or germinated beans and not more than five per cent. by count of slaty beans.

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\* Sir Frank Stockdale's Report on his visit to West Africa, 1936, page 63.

Grade II.—Cocoa which is thoroughly dry, free from foreign matter, and contains not more than ten per cent. by count of mouldy, weevily, decayed, flat or germinated beans and not more than fifteen per cent. by count of slaty beans and in which neither mouldy nor weevily beans exceed five per cent. by count.

Grade III.—Cocoa which is thoroughly dry, free from foreign matter, and contains not more than fifteen per cent. by count of mouldy, weevily, decayed, flat or germinated beans.

Sub-Grade.—Cocoa which is thoroughly dry, free from foreign matter, and contains more than fifteen per cent. by count of mouldy, weevily, decayed, flat or germinated beans.

It will be seen that the standard of Gold Coast Government Grade I conforms with Clause A (and B) of the Liverpool and London organizations and is sufficient to pass the United States Pure Food Laws and Class 1 of the New York Cocoa Exchange.

#### *Nigerian Grades.*

In Regulations made under the Agricultural Ordinance, 1926, the following export grades for cocoa are prescribed in Nigeria:—

Grade I.—Cocoa which is thoroughly dry and contains less than five per cent. by count of mouldy, weevily, decayed, “ flat ” and/or germinated beans and less than five per cent. by count of unfermented and/or “ insufficiently fermented ” beans.

Grade II.—Cocoa which is thoroughly dry and contains:—

(a) less than eight per cent. by count of mouldy, weevily, decayed and/or “ flat ” beans, and

(b) less than five per cent. by count of mouldy beans.

Grade III.—Cocoa which is thoroughly dry and contains less than twenty per cent. by count of mouldy, weevily, decayed and/or “ flat ” beans.

Provided that any parcels of cocoa of which a sample of three hundred beans weighs less than eleven ounces shall be designated mid-crop cocoa, grade I, II or III (as the case may be).

The export of cocoa falling below Grade III is prohibited.

## APPENDIX J.

(Part III of Report.)

## I.—GOLD COAST AND NIGERIAN BUYING AGREEMENTS.\*

## MEMORANDUM OF AN AGREEMENT BETWEEN:—

<i>W. Bartholomew &amp; Company Limited.</i>	[Cocoa Manufacturers Limited.†
<i>Busi &amp; Stephenson Limited.</i>	Compagnie Française de
<i>Cadbury Brothers Limited.</i>	L'Afrique Occidentale.
<i>J. S. Fry &amp; Sons Limited.</i>	G. L. Gaiser.
<i>Compagnie Française de L'Afrique Occidentale.</i>	John Holt & Company (Liverpool) Limited.
<i>John Holt &amp; Company (Liverpool) Limited.</i>	G. B. Ollivant Limited.
<i>J. Lyons &amp; Company Limited.</i>	Paterson, Zochonis & Company Limited.
<i>G. B. Ollivant Limited.</i>	Société Commerciale de L'Ouest Africain.
<i>Paterson, Zochonis &amp; Company Limited.</i>	The United Africa Company Limited.
<i>Société Commerciale de L'Ouest Africain.</i>	Union Trading Company Limited.
<i>Swiss African Trading Company.</i>	Witt & Busch.
<i>Union Trading Company Limited.</i>	G. Zard.‡]
<i>The United Africa Company Limited.</i>	

For the dividing of cocoa purchased by them *in the Gold Coast Colony, Ashanti, and in the British Mandated Territory of Togoland* [in **Nigeria including all cocoa normally shipped through Calabar emanating from the British Mandated Territory of the Cameroons.**]

The parties have entered into this Agreement for the purpose of eliminating harmful competition and the abuses hitherto associated with Cocoa-buying in the Territory covered by the Agreement.

It is the intention of the Members that the price to be paid to the African for his Cocoa shall be based on the full current market *value* [price] from which only actual out-of-pocket expenses and a reasonable allowance to cover over-head charges and a reasonable profit shall be deducted.

For convenience in reading this Agreement:—

“Cocoa” means all Main Crop and Intermediate Crop Cocoa bought by the parties in the Territory defined, either directly or indirectly.

“A Member” means each of the parties to this Agreement *and all the subsidiaries of each party* [or any subsidiary of any party], or any other party who may be at a later date admitted.

“The Territory” means *the Gold Coast Colony, Ashanti, and the British Mandated Territory of Togoland.* [the Colony and Protectorate of **Nigeria.**]

“Limit” means the naked ex scale price *Accra* [Lagos] authorised by the London General Committee from time to time.

“Co-operative Cocoa” means any Cocoa offered for sale by a recognised *Gold Coast* [Nigerian] Co-operative Society.

\* Passages in italics occur in the Gold Coast Agreement only. Variations in the Nigerian text are printed in heavy type.

† A joint subsidiary of Messrs. Cadbury, Fry and Rowntree.

‡ Subsequently withdrew by mutual consent.



“ The General Committee ” means the London Committee constituted of one Representative from each of the parties hereto who will be responsible for formulating the buying policy and for the issuing of instructions to the *Accra* [**Lagos**] Committee.

When unanimity is impossible decisions of the General Committee shall be taken by the majority, each Member of the General Committee being entitled to one vote. Five Members shall constitute a quorum, the Chairman having the casting vote.

“ The *Accra* [**Lagos**] Committee ” means the Committee constituted of one Senior Representative of each of the parties hereto or his nominee for the time being domiciled in *Accra* [**Lagos**] who will be responsible for directing the Local Committees.

“ The Local Committees ” means Committees constituted of Representatives at various Up-country Centres who will be responsible for carrying out the instructions issued to them by the *Accra* [**Lagos**] Committee through the Relay.

“ The Relay ” means the Member appointed for the time being to undertake the despatch and circulation of cables to and from *the Gold Coast* [**Nigeria**] and such other secretarial work as may be necessary on behalf of the Members.

“ The Secretary ” means the person for the time being appointed as such under the terms of this Agreement.

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#### DURATION OF AGREEMENT.

1. The Agreement shall commence on the 1st October, 1937, and shall continue for a period of 4 (four) years concluding on the 30th September, 1941, and thereafter on a yearly basis subject to the right of any Member to give written notice to the Secretary not later than 31st May, 1941, and in any subsequent year, of his intention to withdraw from the Agreement on the 30th September of the same year.

If 9 (*nine*) [**7 (seven)**] or more of the Members wish to withdraw from the Agreement on the 30th September in any year they may do so by giving notice in writing to the Secretary on or before the 31st May of the same year.

In the event of any Member giving notice of withdrawal from this Agreement, or, in the event of any Member giving notice of withdrawal from the *Nigerian* [**Gold Coast**] Cocoa Agreement of the same date, both Agreements shall terminate on the expiration of the notice.

*Messrs. Cadbury Brothers Limited and J. S. Fry & Sons Limited, and Messrs J. Lyons & Company Limited* [**Messrs. Cocoa Manufacturers Limited**] only, have the right to withdraw from the Agreement on the 30th September, 1938, provided they give written notice to the Secretary not later than 31st May, 1938, of their intention to do so.

If *Messrs. Cadbury Brothers Limited and J. S. Fry & Sons Limited, or Messrs. J. Lyons & Company Limited* [**Messrs. Cocoa Manufacturers Limited**] give notice to withdraw from this Agreement, or, if *Cocoa Manufacturers Limited* [**Messrs. Cadbury Brothers Limited, J. S. Fry & Sons Limited or J. Lyons & Company Limited**] give notice to withdraw from the *Nigerian* [**Gold Coast**] Cocoa Agreement bearing the same date as this Agreement, both Agreements shall terminate on the 30th September, 1938.

In the event of any Member of this Agreement going into liquidation (except for the purpose of reconstruction), or ceasing to trade in Cocoa, the quota of the withdrawing Member shall be divided among the remaining Members pro-rata to their existing shares.

## SEASONS.

2. The Main Crop season shall commence on the 1st of October, 1937, and shall conclude on a date determined by the General Committee. For subsequent seasons the commencing and concluding dates will be fixed by the General Committee on advice furnished to them by the Accra [Lagos] Committee. A similar procedure will be followed for Intermediate crops.

## SHARES.

3. The Members agree to share their total purchases of Main Crop and Intermediate crops, respectively, in the Territory in the undermentioned percentages:—\*

## HANDING OVER.

4. A Division Statement shall be prepared showing all Members' purchases up to the last Thursday in November, and up to the last Thursday in each month thereafter until the conclusion of the Main Crop season, and within 30 (thirty) days thereafter the Members who have bought in excess of their allotted shares shall hand over to the Members specified by the General Committee who have underbought their allotted shares such excess tonnage, and such underbought Members shall accept such tonnage on the basis referred to in paragraph 6 hereof. Handing over shall be effected at Buying Stations to be agreed by the Accra [Lagos] Committee.

The General Committee may at their discretion defer a hand-over if it is considered that the tonnage involved is not of sufficient importance to make such hand-over necessary.

The handing over of excess tonnage of Intermediate Crops shall be carried out on mutually convenient dates to be decided by the General Committee.

## QUALITY.

5. *The quality of Cocoa to be handed over on Division, in the case of Main Crop, shall be Grade 1 Good Fermented 5 per cent. defective, 5 per cent. slaty, and in the case of Intermediate Crop such quality as the Accra Committee shall determine.*

**[5. The quality of Cocoa to be handed over on Division shall be Government Grade II, not exceeding 8 per cent. defective and 35 per cent. slaty, but in the event of Cocoa Manufacturers Limited being receivers the other Members have the right to hand over Government Grade I, plus the agreed premium paid for Grade I, during the Division Period concerned.]**

In the event of any disagreement between the handing over and receiving Members as to quality of Cocoa offered on Division three disinterested Members' Senior Representatives shall be called in to arbitrate.

BASIS OF PERIODICAL SETTLEMENT BETWEEN MEMBERS  
(HANDING OVER).

6.—(a) Each Member will declare to the Secretary in accordance with the provisions of Clause 7 hereto the tonnage bought in each week (Friday morning until Thursday night), and such tonnage shall be assumed to have been bought at the average of the limits authorised by the General Committee during each week, it being further assumed that limits cabled from London come into force on the day following despatch of the cables.

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\* Omitted as confidential, see para. 275 of Report.

(b) The tonnage of each Member's purchases in each week of the Division Period valued at prices arrived at in accordance with paragraph 6 (a), shall be added together so that each Member's average cost for the Division Period shall be ascertained.

(c) The Members' shares, tonnage and value shall be ascertained by apportioning the total of all Members' purchases in each Division Period in the agreed share percentage of each Member, the effect being that each Member's share will be valued at the average cost per ton arrived at as aforesaid of the purchases made by the Members as a whole.

(d) The tonnage to be received or handed over shall be the difference between the quantity actually purchased by a Member and his share as arrived at in accordance with paragraph 6 (c). The amount in cash due to or by a Member on Division shall be the difference between his cost as arrived at in accordance with paragraphs 6 (a) and 6 (b) and the value of his share as arrived at in accordance with paragraph 6 (c).

(e) The handing over price shall be reduced by the amount of the agreed transport differentials between the point of handing over and ex scale port of shipment.

#### RETURNS.

7. As early as possible after the close of business each Thursday, Members shall declare their weekly purchases by certified statement to the Relay. This certified information shall be cabled each week by the Relay to his Head Office. The weekly cable shall show each Member's purchased tonnage—to the nearest ton—and in addition the total tonnage of all Members' purchases to serve as a check on the detailed information.

Each Member shall send to his Head Office by air-mail two copies of the certified return which he has rendered to the Relay. One of these certified returns shall be sent by each Member to the Secretary and shall be countersigned in confirmation of the figures cabled.

The Secretary shall compile and circulate weekly a return showing the tonnage purchased by each Member and the average limit ruling during the preceding week, and also the total tonnage purchased by each Member and the average weekly limit from the commencement of the Division Period.

If at any time the General Committee desires an independent check of any Member's declared purchases all Members agree that facilities shall be granted for an inspection of their books and records by an approved firm of Chartered or Incorporated Accountants. Similarly, if the General Committee desires an audit of the Secretary's records and Division Statements, such audit shall be undertaken by an approved firm of Chartered or Incorporated Accountants.

#### FALSE RETURNS.

8. In the event of any Cocoa purchased by a Member being incorrectly excluded from or over-declared in the returns and declarations provided for by this Agreement, the Member shall pay to the Secretary for every such offence the sum of £200 by way of liquidated damages and not as penalty. Such liquidated damages shall be divided equally between Members who have not been liable for such damages during each Division Period, provided always that should the General Committee be satisfied that the incorrect declaration was the result of a manifest error in the returns or declarations and pointed out within six calendar months after committing such error same shall be rectified without payment of damages.

## SCHEDULE OF MARKETING EXPENSES.

9. An agreed Schedule showing the marketing expenses basis per ton C.i.f. Hamburg is attached hereto, *which Schedule shall be used for the purpose of arriving at the limit cabled to the Coast.*

The Schedule may be varied from time to time by order of the General Committee so that it shall represent the current cost of marketing.

## BAGS.

10. The handing over Member shall hand over Cocoa due on Division in bags to be provided by the receiving Member.

A deduction of 3 lbs. per bag shall be made from the gross weight for the purpose of arriving at the nett weight of the Cocoa handed over.

## EXPENSES.

11. The expenses of the Secretary, including the cost of cables and telegrams despatched on joint account, and any other expense authorised by the General Committee, shall be borne by the Members pro rata to their percentage share.

## DECLARATIONS.

12. *The Accra Committee shall fix a time limit during which the delivery of Cocoa declared as bought at an expired buying limit shall be made; all possible measures will be taken by Members' responsible Representatives to verify declarations.*

*The maximum period of accepting delivery of declarations shall be 48 (forty-eight) hours after a change in price, but special extension may be made by the Accra Committee where in their judgment there have been exceptional circumstances to render such extension as justifiable.*

## LOCAL TRANSPORT DIFFERENTIALS.

13. [12.] The Accra [Lagos] Committee shall prepare a table of transport differentials between naked ex scale port of shipment and each of the Buying Centres, and the naked ex scale limits at Buying Centres shall be reduced by application of the agreed differentials.

Copies of these tables of differentials are to be furnished to the General Committee for their information on each occasion when circumstances require any modification of the original table.

## ACCRA [LAGOS] AND LOCAL COMMITTEE MEETINGS.

14. [13.] These shall be held at least once monthly, but any Member may at any time advise the Local Secretary of his desire for a meeting to be called and shall furnish the Secretary with particulars of the business to be discussed.

The Secretary shall then convene a meeting within four days, or if he should fail to do so any Member may convene a meeting.

*The Secretary shall send to the Secretary of the General Committee copies of the Minutes of all meetings of the Accra and Local Committees.*

## CO-OPERATIVE COCOA.

15. *All Members shall have the right to tender for Co-operative Cocoa at a premium not exceeding 6d. per load above the ruling limit.*

**[14. The price to be paid for Co-operative Cocoa shall not exceed the limit ruling from time to time for Grade I Cocoa.]**

## RE-SELLING ON THE COAST.

16. [15.] If at any time a Member desires to make a sale of Cocoa to another Member in the Territory, the tonnage represented by such sale shall not be declared by the purchasing Member as a purchase for purposes of Division. The tonnage involved in such transactions shall stand for the purpose of this Agreement as a purchase by the original Member buying it from the Native.

## HANDLING OF COCOA ON COMMISSION.

17. [16.] No Member shall be permitted to sell Cocoa on behalf of any person or persons, or firms in the Territory who are not parties to this Agreement.

## COCOA BUYERS.

18. [17.] Members undertake not to approach the recognised buyers of other Members with a view to offering them employment, and will not employ buyers dismissed by any of the Members without prior consultation with such buyers' late employer.

## [COMMISSIONS.]

18. **Commission paid to middlemen shall not exceed 10s. per ton and such commission shall at all times be deducted from the authorised ex scale limit.]**

19. For the duration of this Agreement the following Members undertake not to establish either directly or indirectly in *the Colony and Protectorate of Nigeria* [the Gold Coast Colony, Ashanti, or in the British Mandated Territory of Togoland] for the purpose of buying Cocoa.

*W. Bartholomew & Company Limited.*

*Busi & Stephenson Limited.*

*Cadbury Brothers Limited and*

*J. S. Fry & Sons Limited.*

*J. Lyons & Company Limited.*

*Swiss African Trading Company.*

[**Cocoa Manufacturers Limited.  
G. L. Gaiser.  
Witt & Busch.**]

Furthermore, *W. Bartholomew & Company Limited* give an undertaking that *Joe Allen & Co. Limited* (at present established in Nigeria) will refrain from buying Cocoa in the Colony and Protectorate of Nigeria for the duration of this Agreement.

20. **The other parties to this Agreement agree to pay Mr. G. Zard a commission of 15s. per ton on his excess of purchases over his percentage share but such excess shall not exceed 2,000 tons per annum. This commission to be paid by the other parties in the percentages which their share percentages referred to in Clause 3 bear to 100. The Commission shall be paid within thirty days of the completion of the last Division Statement in each year ending the last Thursday in September, but the General Committee may authorise a payment on account at any time.**

In Witness whereof the parties hereto have by their duly authorised Representatives set their hands this 10th day of November, 1937.

[Signatures of all parties follow.]

## ANNEXURE.

**COCOA MARKETING SCHEDULE (SEASON 1937-38).\***

**Standard Marketing Expenses to North Continent—c.i.f. North Continent  
Ports Selling Price £35. Per net ton (2,240 lb.).†**

*Gold Coast.*

1. Brokerage.
2. Insurance.
3. Ocean Freight.
4. Port Charges.
5. Loss in weight.
6. Export Duty.
7. Lighterage.
8. Harbour Dues.
9. Handling.
10. Containers (16 bags).
11. Service bags.

*Indirect Expenses.*

12. Head Office Commission.
13. Interest.
14. Bank Commission.
15. Coast Establishment Charges  
(Including all Commissions and allowances other than those deducted from the scale price. These Commissions and allowances to be disclosed to the Local Committee in each district with the object of all Members of the Cocoa Agreement ultimately coming into line).

*Nigeria.*

1. Brokerage.
2. Insurance.
3. Ocean Freight.
4. Port Charges.
5. Loss in Weight.
6. Shipping Charge.
7. Export Duty.
8. Inspection Fees.
9. Harbour Dues.
10. Containers (16 bags).
11. Service Dept.
12. Service Bags.

*Indirect Expenses.*

13. Head Office Commission.
14. Interest.
15. Bank Commission.
16. Coast Est a b l i s h m e n t  
Charges.

\* Figures omitted as confidential, see paragraph 275 of Report.

† Variations per £1 rise or fall in market prices are 17d. for the Gold Coast and 16d. for Nigeria. The schedule charges are deducted from the market price to arrive at the limit which is cabled to the Coast, the limit basis is per load (60 lb.) for the Gold Coast and per ton (2,240 lb.) for Nigeria, both naked ex scale port of shipment.

## II.—LETTER OF INSTRUCTIONS SENT TO GOLD COAST AGENTS OF AGREEMENT FIRMS.\*

*Private and Confidential.*

18th September, 1937.

Dear Sirs,

### SCHEME FOR THE DIVISION OF COCOA PURCHASED IN THE GOLD COAST COLONY, ASHANTI, AND THE BRITISH MANDATED TERRITORY OF TOGOLAND.

1. This is to inform you that an Agreement has been entered into by the undernamed firms:—

W. Bartholomew & Company, Limited,  
Busi & Stephenson, Limited,  
Cadbury Brothers, Limited,  
Compagnie Française de l'Afrique Occidentale,  
John Holt & Company (Liverpool), Limited,  
J. Lyons & Company, Limited,  
G. B. Ollivant, Limited,  
Paterson, Zochonis & Company, Limited,  
Société Commerciale de l'Ouest Africain,  
Swiss African Trading Company,  
Union Trading Company, Limited,  
The United Africa Company, Limited,

for the purpose of eliminating harmful competition and the abuses hitherto associated with Cocoa buying in the Territory covered by the scheme. It is the intention of the members that the price to be paid to the African for his Cocoa shall be based on the full current market value from which only actual out-of-pocket expenses and a reasonable allowance to cover overhead charges shall be deducted. It is the earnest desire of the members that their representatives in Africa shall co-operate in the fullest possible measure to achieve the objective. With this end in view, the energy of all concerned must be directed from the outset to the cultivation of the spirit of harmony and goodwill which must exist between those interested with the working of the scheme which it is firmly believed will advance the interests of all engaged in the cocoa trade. Every effort should be made to face up to and to overcome difficulties which at first may appear to stand in the way of smooth and uniform working.

2. It is the intention that all members shall at all times pay the limit authorised by the London Committee. There is, however, nothing in the Agreement which specifically forbids a member exceeding the authorised limit if he so desires. For example, the Manufacturers have already obtained the approval of the other parties to their paying a slightly higher price during the early months of the season, to enable them as heretofore to buy the bulk of their share during November, December and January, but subject to this exception it cannot be too strongly emphasized that overpaying limits directly or by means of concessions or allowances cannot benefit the firms so acting.

3. An important feature always to bear in mind is that it is not the intention of the Members to use the scheme for the purpose of buying cocoa below its fair market value.

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\* A note on the corresponding letter to Nigerian agents follows the text of this letter. The paragraphs have been numbered for convenience of cross reference.

4. It is the intention to operate the Agreement as much as possible from Europe, but it is desirable that we should refer briefly hereunder to some of the terms of the Agreement for your information and guidance.

(a) The Agreement commences on the 1st October, 1937, and will continue for four seasons, unless for some unforeseen and special reasons it be decided to terminate it at an earlier date.

(b) To safeguard the individual interests of the Members concerned, and to assure that each shall preserve the share of the total purchases that they have each enjoyed based on past performances, each Member has, in respect of the Group's total Cocoa purchases, been allotted a definite share, fixed and immutable during the continuance of the scheme.

(c) Members who buy in excess of their fixed share shall hand over such excess at pre-arranged dates to Members who have under-bought their fixed share.

(d) Members' purchases will be declared at weekly intervals and such purchases will be assumed to have been bought at the average of the limits authorised during each week.

(e) The Agreement provides for heavy penalties in the event of any Member incorrectly excluding from or over-declaring in the returns and declarations he is required to make; such penalties to be at the discretion of the General Committee.

(f) The quality of Cocoa to be handed over on division shall be Government Grade I good fermented, not exceeding 5 per cent. defective and 5 per cent. slatey.

In the event of any disagreement between the handing-over and receiving Members as to quality of Cocoa tendered on division three disinterested Members' Senior Representatives shall be called in to arbitrate.

(g) A General Committee consisting of Principals has been set up in Europe for the purpose of directing the policy of the Members and the issuing of instructions to Members' Representatives in the Gold Coast. Committees in Africa are to be set up in Accra, and in such other important buying Centres as may be deemed necessary. The duties of these Committees are referred to hereunder.

5. No advantage accrues to the member overbuying his share, and should such overbuying be attended with overpayment of limits or with extravagant allowances in any form, such overpayment or allowances become a dead loss to the member indulging in them. In proof of this important point, an example of the calculation to be used in arriving at the average weekly limits, and of the application of the average limit to a division, is given on forms "A" and "B" attached hereto.

6. All members shall have the option of tendering for Co-operative Society Cocoa, and to pay a premium not exceeding 6d. per load for it, but no member should be obliged to buy such cocoa.

7. If at any time a Member desires to make a sale of Cocoa to another Member in the Territory, the tonnage represented by such sale shall not be declared by the purchasing Member as a purchase for purposes of Division. The tonnage involved in such transactions shall stand for the purpose of this Agreement as a purchase by the original Member buying it from the Native.

8. No Member shall be permitted to sell Cocoa on behalf of any person or persons, or firms in the Territory who are not parties to this Agreement.



9. Members undertake not to approach with a view to offering employment the recognised buyers of other Members and will not employ buyers dismissed by any of the Members without prior consultation with such buyers' late employer.

10. To give effect to the scheme, the following management administration will require to be set up and as soon as possible after the receipt of this letter the senior representatives of all the firms to whom it is addressed should meet in Accra to appoint one of their members as Chairman of—

*The Accra Committee* which will be constituted of the Senior Representative (or his nominee) of each member for the time being domiciled in Accra. This Committee will be responsible for directing the Local Committees.

11. *The Local Committee.*—A Committee constituted of the members' Agents or Managers at important buying centres (excepting Accra) in the Territory, as defined at the outset of this letter. The Local Committees will be responsible for carrying out the instructions issued to them by the Accra Committee through the Relay, but shall have power to deal as they arise with matters affecting the purchase of cocoa within their areas and shall report upon any actions taken to the Accra Committee.

12. *The Secretary or Relay.*—An officer, resident at Accra, appointed to receive cable or letter instructions and buying limits from Principals and to relay them to Accra and local Committees. The Secretary or Relay shall perform such other secretarial duties as the existence of the scheme makes necessary. The first Secretary or Relay will be provided by the United Africa Company, Limited.

13. It is required that the Chairman of each Committee shall be appointed for a limited period in order that the office may be held in rotation.

*Matters for Attention of Accra Committee only.*

14. The Accra Committee shall fix a time limit during which the delivery of Cocoa declared as bought at an expired buying limit shall be made; all possible measures will be taken by Members' responsible Representatives to verify declarations.

15. It is thought that the maximum period of accepting deliveries under declarations should be limited from the outset to 48 (forty-eight) hours after a price change, but special extension may be made by the Accra Committee where in their judgment there have been exceptional circumstances to render such extension as justifiable, and ultimately no time at all shall be allowed.

16. It should, however, be clearly understood that if any member allows any of his Buyers to off load tonnage at the expired limit after a price change, the difference is entirely for account of the members concerned.

17. The Accra Committee shall prepare a table of differentials which shall provide for all variations of charges of every description between naked *ex* scale port of shipment and each of the Buying Centres, and the *ex* scale limits at Buying Centres shall be reduced by application of the agreed differentials.

18. Copies of these tables of differentials are to be furnished to the London Committee for their information forthwith and on each occasion when circumstances require any modification of the original table.

*Matters for Attention of Accra Committee and Local Committees.*

19. Meetings shall be held at least once monthly, but any Member may at any time advise the Local Secretary of his desire for a meeting to be called at any time and shall furnish the Secretary with particulars of the business to be discussed.

20. The Secretary shall then convene a meeting within two days, or if he should fail to do so any Member may convene a meeting.

21. The buying limits per load are based upon the purchase of 2,240 lbs. of dry cocoa to the ton.

22. *Handovers.*—As may be decided by the London Committee the Accra Secretary will be notified by cable the net tonnage to be handed over or received by each member, together with the naked *ex* scale sea port price to be paid and on receipt of these instructions the handover should be effected without delay. Payment is to be effected on the Coast. The illustrations marked "A" and "B" attached, will show that it is more than likely there will be considerable differences in the handing over prices in any one Division Period. It may even happen that a Member will be called upon to hand over cocoa and at the same time to pay cash. Handing over of cocoa on Division shall take place at the handing over Member's Store. Such deliveries shall be weighed in the presence of the receiving Member's representative at the expense of the handing over member and shall forthwith be transferred and loaded on to railway wagons or lorries supplied by the receiving member. The expense thereof shall also be borne by the handing over members. In the case of the receiving member desiring delivery to be made to his own premises the cost of transferring such cocoa after being loaded on to the railway wagons or motor lorries shall be borne by the receiving member. When handovers are completed a certificate shall be prepared by the handing-over member as per specimen attached (marked "C") evidencing that handing-over instructions from London have been carried out. These certificates shall be prepared in quintuplicate and signed by the agents of the handing-over and the receiving members.

One copy shall be sent to the Relay.

One copy to the Head Office of the two members concerned.

One copy retained for filing by each of the members concerned.

The handing-over member shall hand over Cocoa due on division in bags to be provided by the receiving member.

A deduction of 3 lb. per bag shall be made from the gross weight for the purpose of arriving at the net weight of the Cocoa handed over.

23. *Cash Advances.*—Advances of cash to buyers must be strictly controlled, based upon the buyers' past performance and with the objective of providing no more than a day-to-day financing of Cocoa purchases. It is said that the minimum cash advance must have regard for economy of Cocoa transport for the buyer and that the minimum cash advance therefore needs to be in approved cases equivalent in value to a light lorry load of Cocoa, say, 1½ to 2 tons. Cash advances should be turned over at least once per week, and it may well be that during the peak months of the season the turnover should be at the rate of once in four days.

24. When determining the amount of advances to be made to a buyer, the fact that some of the buyers may have large securities or even cash deposits with the members employing them, must not be allowed to govern the amount of the periodical cash advance. The amount of cash to be advanced from time to time to such secured buyers must be strictly in relation to past performance, and governed by the rate of turnover set out above.

25. In the event of goods being advanced in lieu of cash, the value so advanced in cash and/or merchandise, should be governed by the same principles as laid down above.

*Matters for Attention of the Secretary or Relay.*

26. As early as possible after the close of business each Thursday, members shall declare their purchases from and including the previous Friday by certified statement to the Relay, on a form as per the attached specimen (marked "D").\* This certified information shall be cabled each week by the Relay to his head office. The weekly cable shall show each member's purchased tonnage—to the nearest ton—and in addition the total tonnage of all members' purchases to serve as a check on the detailed information.

27. Each member shall send to his head office by air mail two copies of the certified return which he has rendered to the Relay.

28. The expenses of the Secretary or Relay including the cost of cables and telegrams despatched on joint account shall be charged to London for allocation.

29. By far the most important duty of members of both the Accra and local Committees is to discuss frankly and fully arrangements to which a member is already temporarily committed and which fall under the heading "Abuses". It is the objective to free the trade of abuses at the earliest possible date, but naturally without making the immediate alterations so drastic as seriously to disorganise the buying structures. Nevertheless, a programme should be laid down which will bring buyers remuneration, no matter what form it may take, into uniform treatment by all members.

30. Some of the heads under which abuses or overpayment can be present are:—

(a) *Forward Contracts.*—The local management make a contract at a fixed price for a given quantity of Cocoa, with or without a definite delivery date. Transactions of this kind tend to keep up prices, generally, on a falling market. Some Coast managements take a view of the price, and on a rising market pay consistently ahead of the current authorised limit.

(b) *Declarations.*—On a fall in price the local management will accept a declaration of a quantity often in excess of a buyer's or broker's normal delivery capacity and at the expired price. Arrangements of this kind enable the buyer or broker to go on with the expired price until he has filled the quantity declared, and thus delay the time when the new price becomes established. This practice also has the effect of presenting to competitors the appearance that buying prices have not been altered, and the "filling in" price is often cabled back to principals as being the current price.

(c) *Over Declarations.*—Made on a fall in prices by Coast management to their principals and being a report of larger purchases than actual at the expired price, thereby creating a surplus value to be utilised later for over-paying the current price.

(d) *Cash Advances.*—It is the common practice to make cash advances of varying amounts, and in some instances these advances will commence in a small way as early as April for the following main season's trade. At times the cash advance is excessive in comparison with the broker's or buyer's ability to deliver Cocoa. At other times second and third instalments of cash advances are made before the first instalment has been completely and properly accounted for. Thereafter, the presence of

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\* Not printed.

cash advances makes the Coast management nervous respecting the bad debt risk, and there is the temptation, in order to clear the advance, to take in quantities at the expired limit, on a drop in price.

(e) *Commission*.—Strictly speaking all commission should be deducted from the buying price. There is a tendency towards over-riding commission, which is not deducted from the buying price, and a further tendency towards tonnage commission worked on a rising scale, according to the tonnage delivered over the complete season. This over-riding commission and also the tonnage commission at times becomes reflected in the broker's or buyer's buying price, particularly towards the end of the season, when the brokers and buyers concerned are anxious to obtain the maximum quantity, and, therefore, the maximum tonnage commission.

(f) *Rent Allowances*.—In some cases brokers and buyers provide their own Stores for the reception and temporary accommodation of Cocoa, and it might be justifiable to allow those brokers and buyers the market rental value of the Store. In some cases the rent allowed is in excess of the market value of the Store, and in other cases no steps are taken to confirm that the broker and buyer is actually using a Store. An allowance for repairs to a broker's Store has been heard of.

(g) *Labour Allowances*.—Brokers and buyers authorised to pack Cocoa to standard weights are made an allowance for labour engaged upon this work. At times the labour allowance is at a fixed rate, and it bears no relation to the tonnage that the broker or buyer can handle. Sufficient care is not taken to make sure that the buyer or broker actually employs labour, either at all or to the full extent of the allowance.

(h) *Clerk Allowances*.—An allowance made to brokers and buyers for clerical assistance and supervision. This allowance often bears no relation to the tonnage a broker or buyer can handle. Sufficient care is not taken to make sure that the buyer or broker actually employs clerks, either at all or to the full extent of the allowance.

(i) *Watchman Allowances*.—An allowance similar to that for labour and clerks and professing to be made to buyers and brokers who have to store Cocoa for varying periods. Insufficient care is taken to make sure that the allowance fits the actual outgoing or that a watchman is employed at all. Watchmen are also provided with Kerosene and lamps.

(j) *Transport*.—It is the custom to provide free transport to move Cocoa from buyers' or brokers' sheds to principals' sheds within a Town area. There is a tendency for this free provision of transport to extend beyond the Town limits.

(k) *Salaries to Brokers and Buyers*.—The practice of paying salaries to brokers and buyers is growing. In some cases the salary is for a period of six months covering the season. In other cases it is at a relatively high rate for the period of the season, and at a somewhat lower rate for the remaining six months of the year. There is no standard rate of salary for brokers and buyers. Allowances for travelling expenses are made to brokers and buyers. Allowances are again made to brokers and buyers for telephone calls, telegrams and for freight on specie.

(l) *Presents*.—Substantial gifts in kind at the end of a season. A motor cycle has been heard of in this connection.

(m) *Weighing Machine Allowances*.—At times a buying organisation has found itself short of Weighing Machines, and thereupon the broker or buyer has provided his own Weighing Machine, and he has been made an allowance for the use of the Weighing Machine. Sometimes these allowances have become excessive, and in other instances, no attempt has been made to verify the number of personally owned Weighing Machines in use with the buyer or broker. It is the common practice in the trade to loan Weighing Machines to brokers and buyers.

(n) *Tarpaulin Allowances*.—A practice similar to that above employed with Weighing Machines. It is the common practice in the trade to loan Tarpaulins to brokers and buyers.

(o) *Loan of Bags*.—It is a practice in the trade to provide the buyer or broker with sufficient bags, according to his buying capacity, for the collection and transport of Cocoa. Normally secondhand bags are utilised for this purpose. At times the quantities issued are much in excess of the buyer's, or broker's actual needs, and at other times new bags are issued. Free issues of new sewing twine are made to brokers and buyers. In any cases where there has been a loan of weighing machines, tarpaulins and/or bags it is essential that these should be returned in proper condition at the close of the season or charged at the full actual value.

31. The foregoing are some of the acts which contribute towards abuse in the Cocoa trade, though it is not suggested that they can all be removed immediately. Generally speaking, it can be said that any act which will permit brokers, buyers or clerks to exceed the agreed naked scale price for the time being in force, is an abuse, and steps should be taken to minimise and ultimately stamp out abuses in all forms. It is, however, imperative to bring them under effective control.

#### *Schedule of Marketing Expenses.*

32. A schedule of marketing expenses covering actual out-of-pocket expenses has been agreed by the members, and includes an amount of £1 2s. 6d. per ton, which item is intended to cover Coast establishment charges, i.e., the genuine buying expenses of each of the Coast buying organisations. The heads of Coast expenses which the item is intended to cover are as follows:—

- European Salaries.
- European House Expenses
- European Travelling Expenses.
- European Medical Expenses.
- European Furlough Pay Reserve.
- European Passes Reserve.
- Supervision.
- African Managers' Salaries.
- African Manager's Travelling.
- Native Office Staff Salaries.
- Storekeepers' Salaries.
- Cocoa Buyers' Salaries.
- Extra Labour and Overtime.
- Labour Expenses.
- Lorry Expenses.
- Watchmen—Wages and Expenses.
- Rents.
- Stationery.
- Cables.
- Telegrams, Telephones, Postages, etc.
- Repairs and Upkeep.
- Legal Expenses.
- Donations and Subscriptions.
- Sundry Expenses.
- Plant Depreciation.

33. Only items which can be genuinely described as falling under one of the foregoing heads are intended to be covered by the amount of £1 2s. 6d. per ton. It must be the objective to exclude any item which would in effect enable a Member or his buyers to overpay the limit.

34. It is the express desire of the signatories to the Agreement that the fullest possible advantage of this Agreement shall be taken by their Coast Agents for the purpose of doing everything that can be done to

conduct operations on a healthy basis and to co-operate whole-heartedly towards eliminating the abuses that have sprung up as the result of unsound practices and unbridled competition the eradication of which will be beneficial to the broader interests of the Colony as well as to the Member firms.

35. It is reiterated that the position of every Member of the Agreement is fully protected by the Agreement itself. Each Member's share of the total tonnage is assured and it therefore stands to reason that under no circumstances can it be to the interest of any Member by the utilisation of devious methods to attempt to increase his share at the expense of others, such actions could only react against the Member indulging in them.

36. In conclusion the scheme is of the nature of a partnership between the parties for the purchase of Cocoa, and having agreed to share the purchases in approved percentages the energies of all concerned must be bent towards its purchase under the general regulations laid down in this letter to the best advantage of all concerned.

Yours faithfully,

[Signatures of all parties follow.]

ANNEXURES.

" A "

GOLD COAST COCOA.

SPECIMEN CALCULATION OF AVERAGE WEEKLY LIMITS IN FORCE DURING  
A MONTHLY DIVISION PERIOD.

<i>Week.</i>	<i>Date.</i>	<i>Limit in Force.</i>			<i>Weekly Average.</i>		
		<i>£</i>	<i>s.</i>	<i>d.</i>	<i>£</i>	<i>s.</i>	<i>d.</i>
1	3.9.37	34	15	0	34	0	0*
	4.9.37	34	10	0			
	6.9.37	34	5	0			
	7.9.37	33	15	0			
	8.9.37	33	10	0			
	9.9.37	33	5	0			
2	10.9.37	32	15	0	32	0	0*
	11.9.37	32	5	0			
	13.9.37	32	0	0			
	14.9.37	32	0	0			
	15.9.37	31	15	0			
	16.9.37	31	15	0			
3	17.9.37	30	10	0	30	0	0*
	18.9.37	30	10	0			
	20.9.37	30	5	0			
	21.9.37	29	15	0			
	22.9.37	29	10	0			
	23.9.37	29	10	0			
4	24.9.37	29	0	0	28	0	0*
	25.9.37	28	0	0			
	27.9.37	27	10	0			
	28.9.37	27	10	0			
	29.9.37	27	10	0			
	30.9.37	28	5	0			

\* These are the per ton rates at which each member's weekly purchase tonnage will be credited in the division statement.

The weekly average is the result of adding together the daily limits in force and dividing by six.

" B. "

GOLD COAST COCOA.

SPECIMEN MONTHLY DIVISION STATEMENT—FOUR WEEKS ENDED 30TH SEPTEMBER, 1937.

Week ended.	Average authorised limit	Member "A" share 50 per cent.		Member "B" share 30 per cent.		Member "C" share 10 per cent.		Member "D" share 10 per cent.		Total pool	
		Tons purchased	" Cost "	Tons purchased	" Cost "	Tons purchased	" Cost "	Tons purchased	" Cost "	Tons purchased	" Cost "
9th September	£ s. d. 34 0 0	500	£ 17,000	200	£ 6,800	90	£ 3,060	120	£ 4,080	910	£ 30,940
16th "	32 0 0	400	12,800	150	4,800	110	3,520	80	2,560	740	23,680
23rd "	30 0 0	600	18,000	150	4,500	140	4,200	80	2,400	970	29,100
30th "	28 0 0	1,000	28,000	250	7,000	60	1,680	150	4,200	1,460	40,880
Members total purchases and average costs.		2,500	75,800 (30.6.5)	750	23,100 (30.16.0)	400	12,460 (31.3.0)	430	13,240 (30.15.10)	4,080	124,600 (30.10.9)
Members agreed shares and costs.		2,040	62,300 (30.10.9)	1,224	37,380 (30.10.9)	408	12,460 (30.10.9)	408	12,460 (30.10.9)		
Handover ... ..		460	—	—	14,280	—	—	22	—		
Receive ... ..		—	13,500	474	—	8	—	—	780		

Average rate per ton of Handover.                      (29.6.11)                      (30.2.6)                      (35.9.1)

" Cost " means the assumed cost by applying the average limit to the tonnage bought.

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" C "

## GOLD COAST COCOA.

## HANDOVER CERTIFICATE.

We certify that the following tonnage has this day been handed over.

by Messrs. ....

to Messrs. ....

in respect of the Division Period.....

*Tons. Cwts. Qrs. Lbs.*

Net Weight

and that payment has been made at the rate of £.....per ton.

Receiving Agent.....

for Messrs.....

Handing-Over Agent.....

for Messrs.....

Date.....

*Note.*—The letter of instructions to Nigerian agents in connection with the Nigerian Buying Agreement follows the above letter in paragraphs 1-5, with the exception of the names of the parties to it, which are as for the Nigerian Buying Agreement and of paragraph 4 (f) which reads as follows:—

“ The quality of Cocoa to be handed over on division shall be Government Grade II, not exceeding 8 per cent. defective and 35 per cent. slatey, but in the event of the Cocoa Manufacturers Limited being receivers the other members will endeavour to hand over Government Grade I at the agreed premium for Grade I during the division period concerned.

In the event of any disagreement between the handing-over and receiving members as to quality of Cocoa tendered on division three disinterested Members' Senior Representatives shall be called in to arbitrate.”

The subsequent paragraphs of the Nigerian letter depart considerably from those of the Gold Coast letter. They are, therefore, printed in full below.

“ 6. Buying limits and instructions authorised by the General Committee will be sent out by joint cable from London to the Senior Representative of The United Africa Company, Limited. Immediately on receipt of any joint cable the contents must be communicated by the Relay (i.e., the member appointed for the time being to undertake the despatch and circulation of cables to and from Nigeria and such other secretarial work which may be necessary on behalf of the members), to the Senior Agent of each of the other members in Lagos. The first Secretary or Relay will be provided by The United Africa Company, Limited.

7. *The Lagos Committee.*—As soon as possible after the receipt of this letter the Senior Representatives of all firms to whom it is addressed should meet in Lagos to appoint one of their number as Chairman, it being the wish of the members that the Chairman of the Lagos Committee should



only hold office for a limited period to enable the office to be held in rotation. The Lagos Committee is to meet at least once monthly, but any member may advise the Local Secretary of his desire for a meeting to be called at any time, and he shall furnish the Secretary with particulars of the business to be discussed. The Secretary shall then convene a meeting within two days, or if he should fail to do so any member may convene a meeting.

8. The Lagos Committee shall prepare a table of differentials which shall provide for all varieties of charges of every description between naked ex scale port of shipment and each of the buying centres, and the ex scale limits at buying centres shall be reduced by application of the agreed differentials. Copies of these tables of differentials are to be furnished to the London Committee forthwith for their information and on each occasion when circumstances require any modification of the original table.

9. One of the first duties of the Lagos Committee is to tackle the abuses hitherto associated with Cocoa-buying in Nigeria, and aim at eliminating as quickly as possible all such abuses such as:—

(a) *Forward Contracts*: *i.e.*, contracts made at a fixed price for a given quantity of Cocoa with or without a definite delivery date.

(b) *Declarations*: Acceptance of declarations on a fall in price of a quantity often in excess of a buyer or broker's normal delivery capacity and at the expired price.

(c) *Over-Declaration*: Declarations made on a fall in price by Coast Management to Head Office and being a representation of larger purchases than actual at the expired price, thereby creating a surplus value to be utilised later for over-paying the current price, excessive commissions, excessive cash advances, and so forth, but the Lagos Committee must bear in mind that it is not desired that the time of the Committee should be occupied in finding fault with each other's buying methods, since as is clearly demonstrated the terms of the Agreement provide that those who indulge in abuses do so at their own expense, but it is the sincere hope of the members that at an early date the Lagos Committee will devise a satisfactory, uniform and straightforward system of buying Cocoa.

10. The Lagos Committee will direct any Local Committees it may be deemed necessary to set up, but we suggest that the formation of these Local Committees should be reduced to a minimum, and that it would suffice to form them only at Ibadan and Ondo.

11. *Duties of Relay*.—As early as possible after the close of business each Thursday, members shall declare their purchases from and including the previous Friday by certified statement to the Relay on a form as per the attached specimen (marked "D").\* This certified information shall be cabled each week by the Relay to his Head Office. The weekly cable shall show each member's purchased tonnage—to the nearest ton—and in addition the total tonnage of all members' purchases to serve as a check on the detailed information.

12. Each member shall send to his head office by air mail two copies of the certified return which he has rendered to the Relay. One of these certified returns shall be sent by each member to the Secretary, and shall be countersigned in confirmation of the figures cabled.

13. The expenses of the Secretary or Relay including the cost of cables and telegrams despatched on joint account shall be charged to London for allocation.

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\* Not printed.

14. *Hand-Overs.*

[This repeats para. 22 of the Gold Coast letter.]

15. *Co-operative Cocoa.*—The price to be paid for Co-operative Cocoa shall not exceed the limit ruling from time to time for Grade I Cocoa.

16. *Reselling on the Coast.*—If at any time a member desires to make a sale of Cocoa to another member in the Territory, the tonnage represented by such sale shall not be declared by the purchasing member as a purchase for the purpose of division. The tonnage involved in such transactions shall stand for the purpose of this Agreement as a purchase by the original member buying it from the Native.

17. *Handling of Cocoa on Commission.*—No member shall be permitted to sell Cocoa on behalf of any person or persons, or firms in the Territory who are not parties to this Agreement.

18. *Cocoa Buyers.*—Members undertake not to approach with a view to offering employment, the recognised buyers of other members and will not employ buyers dismissed by any of the members without prior consultation with such buyers' late employer.

19. *Commissions.*—Commission paid to middlemen shall not exceed 10s. per ton and such commission shall at all times be deducted from the authorised ex scale limit."

The two concluding paragraphs and the annexures are the same as for the Gold Coast letter.

## APPENDIX K.

(Paragraph 180 of Report.)

**MESSAGE FROM THE GOVERNOR OF THE GOLD COAST,**

*as published in the Gold Coast News on the 26th of November, 1937.*

His Excellency the Governor has communicated to the Secretary of State for the Colonies the substance of the speeches made at the discussion between the merchants operating under the cocoa buying agreement and the Chiefs at the Legislative Council Chamber on the 19th of November, and is now authorized to publish for general information that the Secretary of State's advice is that the farmers would be wise to sell their crop in an orderly manner and that this advice is based on his appreciation of the situation as given below:—

“(a) The considered opinion of my advisers after study of cocoa and other commodity markets extending over some years is that the world price of cocoa is determined primarily by the New York market and to a less degree by the European market and that the Buying Agreement cannot affect the world price to more than a trifling extent if at all.

“(b) What the Buying Agreement does propose to affect is the relations between the world price and the local price on the Coast and on balance the new scheme is calculated to give actual growers a price nearer the world price than the old arrangement.

“(c) Apart from this, the position in which the local price is above the world price and the purchase of crop involves all concerned in loss is obviously unhealthy and cannot continue indefinitely. Failing some buying agreement the end could only be that weaker firms would be ruined and survivors which would presumably be one or two of the largest firms would dominate the market in a manner rendered impossible by the present arrangement.

“(d) Experience of the 1930-31 hold-up showed that while it continued the price for spot cocoa strengthened slightly owing to shortage of cocoa immediately available but that on its breakdown the rush of a large quantity of cocoa on to the market in a short time brought the price down to a substantially lower level which lasted for a long time.

“(e) While it is impossible to predict the course of events confidently there is no apparent shortage of spot cocoa on the market and prices have actually weakened over last week in spite of the hold-up. This is part of the general downward movement on New York and other commodity markets and confirms the view expressed above that these are what determine the world cocoa price. It is of course possible that recovery in these markets might coincide with and cancel the depressing effects of the cessation of the hold-up and it is also possible that the new Buying Arrangement might counteract to some extent the scramble to sell which would ensue but these are off chances and on balance I am clearly of the opinion that wise counsel is to encourage orderly sale of crop as it comes forward.”

