THE UNEVEN GEOGRAPHICAL DEVELOPMENT OF CACAO COMMODITY CHAINS IN ECUADOR: FROM DIFFERENTIAL TO MONOPOLY GROUND-RENT

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Introduction

In 2008, when on a visit to a cacao-producing province in Ecuador’s Amazonian region, the President of Ecuador Rafael Correa declared the community’s way out of poverty and underdevelopment to be the ‘industrialization of our fine chocolate for export in large quantities’. In the same year, as part of the government’s ‘postneoliberal’ contra-cyclical crisis response to the global financial crisis, Ecuador launched a national development plan to ‘Transform the Productive Matrix’. Informed by the neostructuralist economic policies of the Economic Commission for Latin America and the Caribbean (ECLAC, 2013: 33), the transformation of the productive matrix seeks to confront Ecuador’s long-term dependence upon the export of non-processed primary commodities. From ECLAC’s perspective, and partly in riposte to the Latin American dependency tradition, Southern countries are not locked in to ‘commodity chains’ that reproduce relations of dependence and unequal market exchange between the ‘core’ and ‘periphery’ (Hopkins and Wallerstein 1977; Prebisch 1959), and targeted industrial policies have the potential to facilitate the ‘intelligent insertion’ of national sectors into the global economy (ECLAC 2013: 33). Following ECLAC’s recommendations, Ecuador’s cocoa was one of the traditional primary commodities selected for strategic development, both to increase the magnitude of exports and to generate ‘national’ added value as part of a new public sector-led initiative to drive ‘upgrading’.

Ecuador is the world’s largest producer of fine aroma cocoa, a particular type of bean with special flavour qualities that can be a source of significant price premiums on the world market. It is the expansion, recovery and appropriation of these ‘premiums’ that has both captivated and confused the government’s upgrading project. The potential for ‘upgrading’ as the basis of the national and regional development speaks to the original policy concerns of the Global Commodity Chain (GCC) framework (Gerrefi and Korzeniewicz 1994). It is noteworthy that both the GCC approach (Kaplinksy and Morris 2001) and Ecuador’s current neostructuralist development policies (ECLAC 2013) understand upgrading as driven by Schumpeterian innovation rents that can enhance productivity and value-added activities. For this reason, they share a bias towards the
manufacturing segment of the chain as the locus of value production and as a result, both tend to overlook the forms of value and rent that constitute spaces of capital accumulation based upon the extraction and export of raw materials. Here we are referring to ground-rent, that portion of extra surplus value that capital must cede to the landlord for access to non-reproducible natural resource (Marx 1981). This paper argues that the potential for ‘development’ in the cocoa sector has been historically tied to the changing forms and magnitudes of ground-rent available for appropriation. We note how the global cocoa economy, linking small producers with global manufacturers and final consumers, has witnessed the decline of production (differential) rents and the rise of consumption (monopoly) rents, a change that carries important implications for the development prospects of small agrarian producers. Indeed, this paper argues that because the magnitude of ‘premiums’ available for Ecuador’s fine aroma cocoa is objectively limited in their existence as consumption (monopoly) rents, the governments project, in lieu of a public differential pricing policy, is effectively subsidising the second-tier suppliers that export bulk raw cocoa from Ecuador to global traders and manufacturers.

To develop this argument, the paper engages critically with the GCC literature. Yet to avoid covering well-trodden ground, extending to Global Value Chains (GVC) and Global Production Networks (GPN) (see Bair 2005; Leslie and Reimer 1999), we take our lead from the so-called ‘second generation’ critical theorists. This diverse set of scholars has drawn attention to lacunae in the literature by further interrogating the role of the state, labour, production and value in commodity chain analysis (Bair 2005; Bernstein and Campling, 2006; Bridge 2008; Selwyn 2011; 2015; Smith et al., 2002; Starosta 2011; Taylor 2008). Whilst this second generation literature has done much to enhance the critical toolkit of GCC analysis, a notable absence has been the mobilisation of the concept of ground-rent in the analysis of commodity chains that extend beyond strictly industrial sectors. We argue that a ground-rent informed analysis can unpack the historical development of the cocoa commodity chain in Ecuador and in doing can show how its transformation is dialectically related to changes in global production and consumption patterns. By locating these specific ‘chain’ processes within their general relation as expressions of changes in global capitalism or ‘global value relations’ (Araghi 2003; Iñigo-Carrera 2007), we believe the paper is well placed to take seriously both the local and global systemic factors that confront Ecuador’s state interventions into a primary GCC (Bair 2005: 154).

The paper reports on six months of primary research conducted with government agencies, small producers, producer associations, the cocoa chamber of commerce, politicians and exporters. Section one engages with some of the GCC research that takes into account the peculiarity of primary commodity exports and briefly outlines what is at stake between Schumpeterian and Marxian approaches to rent. Section two further develops this theoretical approach in historical context to explain how the original ‘Kings of Cocoa’ in Ecuador, large plantation owners vertically integrated with foreign capital, went from dominating global output to financial ruin. Specifically, we highlight how the struggle over differential rents at the level of the world market can be used to explain historical changes in the organisation of the cacao GCC. Section three links the past to the present and connects the changing dynamics of ground-rent to the emergence of thousands of smallholders in Ecuador’s cocoa sector. Here we focus upon the limits of state-led Import Substitution Industrialisation (ISI), understood as a development model designed to capture and transfer ground-rent. In section four we trace the deterioration of publically appropriated ground-rent in the cocoa sector expressed through liberalization and deregulation, which set the stage for the entry of transnational cocoa companies into Ecuador. Sections five and six draw upon our primary research to critically explore the government’s cacao development plan. Here we examine the current social and geographical roots of the cocoa commodity chain and explain why differential
rent escapes small producers, and as a result the appropriation of monopoly rents has become the sector’s orientating strategy and ultimate limit. This allows us to bring the local into dialogue with the global through an analysis of the impact of market-led price fluctuations on local producers. In the conclusion we draw our empirical findings together highlighting how the lack of appreciation of the origins and dynamics of price premiums and rents undermines the project’s capacity to decisively improve the working conditions of small producers.

1. Locating rents in primary commodity chains

As is well known the GCC analysis has principally been concerned with the transnational organisation of industry as a way to investigate authority and power relationships in the context of the global dispersion of production and consumption (Dicken 2003; Yeung 2007). To this end most attention has been dedicated to industrial restructuring and manufacturing sectors, for which the now well-known typology of producer-driven (PDCC) and buyer-driven (BDCC) ideal types was introduced to identify forms of control over global production chains (Raikes et al. 2009). PDCC can be found in capital and technologically intensive sectors requiring close vertical organisation (such as automobiles), whereas BDCC are associated with light manufacturing and extensive subcontracting networks, where designers and retailers manage, but do not produce, the final product (Bair 2005: 159). However, for those chains dependent upon the labour intensive cultivation of primary or agro-commodities, where supply is fixed in place and the chain cannot be relocated according to relative costs, the PDCC / BDCC binary is deemed too simplistic (Talbot 2002).

Fold (2002) has also argued that the PDCC / BDCC binary does not capture the complexities of trade relations characterised by a bi-polar form of governance between leading processing and manufacturing firms in agro-industrial chains. In order to understand the specific links between primary producers and the processing and manufacturing of the final product, Gibbon (2001: 351) has proposed a third ideal type, trader-driven (TDCC), in effort to capture the predominance of large commodity trading houses that link exporters with processors and final manufacturers.

In the case of tropical commodities like coffee, cane sugar, rubber and cocoa the ‘driving’ role of international traders is characterised by a loose, indirect and competitive form of governance over their suppliers, seeking out volume, price and reliability (Talbot 2002). This organisation of primary exports has been a noted development since the 1980s, following the dismantling of import substitution strategies and state marketing boards in exporting countries. This saw financial, purchasing and processing power accumulated in the hands of a few international firms that manage sophisticated containerized logistical networks, control huge processing capacity and work according to Just-in-Time (JIT) production systems (Fold 2002: 243; Kaplinsky 2004: 21). To account for these changes within the global cocoa industry, Fold has adapted Sturgeon’s (2000) analysis of American industrial organization and argued that the concept of ‘turn-key’ production networks also captures the division between industrial merchant suppliers and branded final manufacturers within the cocoa-chocolate production chain. The main feature of this form of ‘bi-polar’ chain governance is the bias towards economies of scale, and although it is less easy to ascertain the exact locus of ‘driving’, it is clear that ‘agricultural producers are more or less price-takers on the global market’ (Fold 2002: 244).

An important contribution of this literature, therefore, has been to shed light on how changes in chain governance structures, technological, processing and shipping capacities have impacted upon the strategic choices of producer countries and, significantly, those small farmers that sit at the bottom of many primary commodity chains (Gibbon and Ponte 2005; Humphrey 2006; Neilson 2008). In particular, in the context of neoliberal chain privatization and deregulation, scholars have highlighted how the growing ‘asymmetry’ between small disaggregated producers and
concentrated traders and manufacturers has exerted a downward pressure on prices and undermined political mechanisms of coordination, such as public marketing boards and price controls (Kaplinsky 2004; Gibbon 2001). Although offering useful empirical analyses of the changes that have impacted producer countries, insofar as the concept of governance rests upon observations of direct power relations this literature has tended to remain at the level typological description (Starosta 2010). For example, ‘asymmetry’ is asserted – rather than explained – as the cause of the reduced capacity of farmers to raise their share of ‘rents’ (Fitter and Kaplinsky 2001: 16).

This focus upon the functional characteristics of the governance network (Taylor 2008), has also skewed analysis towards the industrial phase as the locus of the relationship between asymmetry and rents. For example, when ‘rents’ feature in the literature they are seen as deriving from Schumpeterian innovation and upgrading (Gibbon 2001); the return to scarce assets controlled by monopolized segments of the chain (Fitter and Kaplinsky 2001); the product of non-perfect competition within select chain segments (Guilani and Pietrobelli 2005); the outcome of successful product differentiation (Humphrey 2006); and the result of political connections and networks of power (Nielson 2008). To a certain extent, the focus upon technology-induced scarcity rent and direct power relations is understandable given that the majority of the value-added occurs at the stage of highly concentrated industrial production and commercial packaging, which are seen to limit upgrading by generating barriers to entry (Kaplinsky 2000). However, the combination of Schumpeterian rent theory with a sociological focus upon chain governance leads this literature to have less to say about the role of local labour (Taylor 2008; McMichael 2009; Selwyn 2011), and sheds little light on how value is appropriated and released between producers and capitals along the chain (Starosta 2010).

As Harvey (2014: 140) teaches us, if the terrain resembles something approaching ‘monopoly competition’ – the appearance of asymmetry between concentrated traders and disaggregated producers – it is surely the product of the ‘spatial and geographical organisation of production, distribution and consumption’. Thus, if we are to look into the local geographical organisation of raw cocoa production then we need to get to grips with another territorially embedded form of revenue (not based on innovation or technology) and its relation to capital accumulation – ground-rent (Harvey 2014: 140). As Guthman (2002: 296) puts it, ‘since rents are the more ephemeral portion of profits, they are inherently dynamic, potentially shifted to other actors in systems of provision, or ratcheted down altogether in periods of intense competition’. Historically, the export of raw materials constituted an important stream of rents for countries in the ‘global south’. This came primarily in the form of differential rents, owing to naturally favourable conditions that enhanced the labour productivity and reduced the cost for the production of certain primary commodities. On this basis, landowners were able to intervene into the accumulation process in various ways through their ownership of limited non-reproducible natural resources. The tribute demanded by landlords from capital for access to privately owned parts of nature is ground-rent (Marx 1991: 755-6). Capital that operates on the most favourable and irreproducible lands will experience higher levels of productivity and lower production costs. Competition among capitals to access these lands will increase their rental price, which permits the landowners to capture extraordinary profits – capitalized in the land price as a stream of differential rents. However, on the path of these profits to the pocket of the landlord, the state can intervene into the rotation cycle of primary commodities and skim some of the ground-rent through specific public policies (Iñigo Carrera 2007). Two important policies in this regard for the analysis developed in this paper are export taxes and price regulation. The former allows the state to indirectly recover some of the extra surplus value carried by primary commodities from landlords by manipulating the rate of export
taxes on particular commodities. The latter can come directly in the form of state marketing boards that regulate production and sale prices and effectively charge capital a higher price (rent) for access to the primary commodity. However, as we will see below, both exports taxes and prices controls are limited with respect to the total mass of ground-rent in circulation (Iñigo Carrera, 2007: 88-90).

Another form of rent not linked to differential productivity but based upon consumption is monopoly rent. To explain the formation of monopoly rents, Marx famously used the example of a small but high quality vineyard. In this instance the owner of a special and limited resource can charge a monopoly price, by which ‘we mean any price determined simply by the desire and ability of the buyer to pay, independently of the price of the product as determined by prices of production and value’ (Marx, 1981: 910). Translating this analysis to fine aroma cocoa, its limited and unique qualities and non-reproducibility force prices above those of the market (prices of production) – the rent ultimately being captured from markets in ‘developed’ countries. In conditions of private ownership the landlord could normally capture this monopoly rent by charging a higher rental price for capital’s access to the land. However, as we will see below, the social conditions of land tenure and production in Ecuador rests upon a network of thousands of small owner-producers who, lacking forms of coordination and control over market access, often sell their produce well below even the market price of mass-market bulk cocoa. Indeed, because the majority of smallholders are geographically isolated and cultivate in conditions close to subsistence, they are price-takers and any possible rent escapes their hands. As Marx (1981: 941-3) remarked about small-scale peasant ownership, impoverished by usury and unable to develop the productive powers of social labour, the peasant’s ‘exploitation is not limited by the need for a rent in as much as he is the landowner’ and ‘he cultivates his land as long as the price of the product’ secures basic reproduction needs. Although Marx was discussing the genesis of capitalist ground-rent and transitional forms of peasant ownership, the example holds contemporary validity, especially for agro-export GCC analysis. As Fine (2002: 216) notes, ‘the rent relation can be displaced from those on or immediately around the land to agents ‘networked’ to it – from moneylenders funding seeding or subsistence, for example, to multinationals tying in producers by subcontracting.’ These broad brush outlines of differential and monopoly rents can now be used to unpack the historical development of the cocoa commodity chain in Ecuador.

2. Rooting the Chain in Vinces: ‘Little Paris’ and ‘Cacao Arriba’

This first indication of the global cacao economy in Ecuador can be found in a small replica of the Eiffel Tower set amongst the crumbling facades of French colonial architecture in a town called Vinces. Made rich by the export boom of the late 19th century, ‘Little Paris’ was the seat of the ‘Kings of Cocoa’, a landed oligarchy who educated their youth and washed their clothes in France. Vinces is the origin of the famous “Superior Cocoa Arriba” (“Cacao Arriba Superior”), also known as the “Gold Nugget” (“Pepa de Oro”), a type of fine aroma bean that demanded the highest price differential on the world market of all Ecuador’s cocoa varieties. Cocoa is considered the source of original accumulation in Ecuador, the foreign exchange earnings from which ‘permitted for the first time the formation and appropriation of a monetary base and the development of wage relations’ (Fierro 1986: 38). Driven by the technology and mass markets created by the first industrial revolution, between 1894 and 1924 global consumption of cocoa increased eightfold and, up until 1916, Ecuador was the world’s largest producer (Chiriboga 2013: 359). The extraordinary profits that came from cocoa exports, accounting for 70 percent of total exports during the boom of 1885-1920, were generated by a substantial differential rent based upon the superior fertility of the land, low labour costs and a network of natural rivers systems that permitted the cheap transport to the port in Guayaquil (Guerrero 1994).
Cocoa production was characterised by new plantations and traditional haciendas, the commonality being the large-scale rapid extension of the ‘cocoa frontier’ (Clarence-Smith 2000). Plantation owners were made rich by the superior prices of Ecuadorean cocoa on the world market and by local land speculation – the first land markets were valued according to the number of cocoa trees per hectare – the proceeds of which were deposited in a monopolistic banking sector (Guerrero 1994: 20). This type of rent-based development, as Harvey (1982: 370) has noted, carries with it the temptation to ‘connect landed property with high finance’ which ‘opens up the possibility to appropriate monopoly rents – a form of appropriation that is in general inimical to accumulation’. Indeed, large landowners did not depend upon the accumulation of capital through cocoa production per se, but upon the extension of plantations and the expansion of wage labour relations. These landowners were the first partners of major national banks, the first Ecuadoreans to list companies in foreign stock exchanges, and went on to dedicate much of their income to luxury consumption and the financing of exuberant lifestyles in Europe (Guerrero 1994).

There were two interdependent circuits of capital accumulation associated with the cocoa boom: one international, composed of shipping agencies, insurance firms, commercial agencies and financiers; and the other national, made up of plantation and hacienda owners, large agro-exporters and banking interests (Chiriboga 2013: 274-276). Exports from Guayaquil were linked to international traders that sold under conditions imposed by European buyers. Cocoa shipments were sold on consignment and the plantation owner would only receive the payment four to six months later; this allowed exporters and their banks to make interest on capital loaned to landowners as well as commercial profits from trading (Guerrero 1994: 76-7). However, according to the data in Chiriboga (2013: 286), although national landowners, shipping agencies and insurance firms all reaped handsome returns from cocoa production, it was foreign exporters and their monopoly trading and financial firms that appropriated most (up to 40 percent) of the final price. This was possible because of their high commissions and their ability to take advantage of price differentials, as prices on the world stock exchanges were as much as 3 to 4 times that of the port price in Guayaquil (Guerrero 1994: 77).

Notwithstanding this absence of a unified world market price, the superior quality and productivity of Ecuadorean cocoa delivered significant differential rents to landowners (Chiriboga 2013: 264). Yet by 1910, French and British colonial investment (led by large commercial trading houses), along with evangelist development missions, saw West African cocoa production increase rapidly, leading to a situation of general over-production in world markets. Facing new competition from small West African farmers, and with supply now overtaking demand, Ecuadorean producers’ capacity to appropriate differential rents began to deteriorate. In response, large property owners, exporters and bankers launched price subsidy initiatives through the creation of a fund financed by a tax (1 Sucre) on each sack of cocoa exported (Ibid: 357). In addition, Ecuador spearheaded the first international cocoa cartel, allying with Portugal and Brazil and later, in 1911, convoking the first meeting of producer countries in Paris. The first ‘International Association’ attempt failed, but Ecuador pushed ahead with the creation of a national ‘Farmers Association of Ecuador’, the first achievement of which was a Congress-approved export tax on cocoa. By 1913 the Farmers Association controlled 17 percent of the Ecuadorean market, offering higher prices to national producers than competing exporters, and exporting under consignment, hoping for prices to rise. Efforts were intensified following the onset of WWI with the fixing of national prices in response to a severe world market decline. The close relations between landowners, exporters and bankers permitted a nine-year period of subsidization, allowing the Farmers Association to achieve 70 percent control over the national market (Chiriboga 2013: 370-71). The banks continued to print
money and uphold prices until 1925, when the situation became unsustainable and a financial crisis spelled the definitive end for the ‘Kings of Cocoa’.

The inability of Ecuador’s producer-driven initiatives to successfully defend prices, along with the large-scale entry of West Africa into the global cocoa sector, provides an indication of the ways in which differential rents began to escape the hands of the ‘Kings of Cocoa’. The capital that circulates through global commodity chains is part of a global process ‘realized by taking the fragmented form of different national processes of capital accumulation’, and the ‘determination of landlords as a class springs from the global unity of capital accumulation, whilst their fragmentation into national landlord classes is nothing but the expression of the limits of this class unity in conditions of international competition’ (Iñigo Carrera 2007: 14). Therefore, any national producers withholding their crop from the international market in the context of fragmented global supply chains would only serve to increase the price of cocoa for competing producers resulting in the appropriation of rents by lands still in production. Here we can appreciate the limits of the debt-financed defence of cocoa prices without any ability to effect supply, in a context in which the expansion of the production of cheaper cocoa in West Africa reduced Ecuador’s (and Latin America’s) capacity to appropriate a consistent magnitude of differential rents and to defend prices through cartelization. This historical exploration of the roots of the cocoa GCC in Ecuador demonstrates how changes in ‘global value relations’, expressed in the decline of differential rents, undermined early attempts at national chain governance.

3. The uneven geographical development of smallholder cocoa production

Today, a visit to the original seat of the ‘Kings of Cocoa’ in Vinces provides a spatial expression of the new multi-national power players in town. The town is dotted with the signs of Nestle, the well-known global chocolate producer, and Transmar Group, a ‘second tier’ raw bean exporter and producer of semi-finished inputs, both of which have located processing centres in Vinces to take advantage of ‘Cocoa Arriba’ at its geographical source. However, their modern processing centres and commercial strategies rest upon a local and national network of smallholders whose ongoing production, in conditions close to subsistence farming, symbolize relations of the past.

Large cocoa plantations disappeared following the market crash in the inter-war period. Some landowners successfully transitioned to new crops (rice, cane sugar, bananas), whilst others went bankrupt, selling their land to transnational fruit companies, abandoning it, or renting it to peasants (Maiguashca & North 1991: 98). Following WWII, another primary commodity began to intensify land struggles, as absentee owners sought to recuperate previously abandoned lands to join the banana export boom (1948-1970). To ease tensions, the state promoted land colonization in underpopulated parts of the national territory, and occupying families sowed part of their land with cocoa trees ‘as a deliberate action to affirm and guarantee land possession’ (Ruf 1995 cited in Pigache & Bainville 2007: 187). The age of the cacao trees provided a measure of how long the land had been under their occupation and for this reason many cocoa plantations are less than two hectares in size and are found in polyculture systems (Guamán 2007: 20). Subsequently, the Agrarian Reforms of 1964 and 1973 would go on to promote further cocoa cultivation in new colonization zones, generating a sustained growth in the sector until production volumes stabilized around the late 1970s (Moran: 2007: 29; Sotomayo 2011: 10).

It was in the 1970s when the Ecuadorian state, following the global development pattern of producer countries – especially the government controlled production boards in the Ivory Coast and Ghana (Losch 2002) – rolled out a series of policies to support peasant producers through access to credit, the construction of new infrastructure and irrigation, the distribution of tools and seeds,
price controls, and a system of support for export and commercialization. In 1971, the state incentivized the industrialisation of cocoa through tax breaks and duties exonerations, along with subsidized imports such as machinery and primary materials designed to facilitate national firms in establishing semi-finished export plants. By 1976, Ecuador had installed enough industrial capacity to process 100 percent of its annual production (Chiriboga & Piccino, 1982:29 cited in Burbano 2011: 30; Official Registry 1977: 5). As Losch (2002: 210) has noted, in many cocoa exporting countries this was an expression of the class alliances that underpinned the producer driven (PDCC) phase of primary commodity chains. Yet, more than an expression of coalescing interests in national industrialisation and export promotion, this also had an important general material base in state-developmentalism and rent transfers.

For example, as part of its intervention, between 1964 and 1971 the Ecuadorian state levied taxes of 10-15 percent on the export of cocoa. Here we can deepen the analysis of the relationship between a so-called PDCC chain, ISI and ground-rent. Rather than simply reflecting distinct organizational characteristics where ‘governments play a much more interventionist role’ in the regulation of the chain as a whole (Gerreffi 1994: 100), at stake here was the form in which the state could transfer agrarian surplus (ground-rent) to the industrial sector through the public policies associated with ISI (Kay 2002; Iñigo Carrera 2007). In this vein, we concur with Smith’s (2015: 292) critique that, in GCC analysis, state action should not be reduced to its regulatory activities in the fields of industrial or trade policy, and that attempts should be made to ‘theorize the nature of state-economy relations in establishing, constituting and restructuring global commodity chains as a key part of models of development’. To this end, export taxes on cocoa – along with most primary exports at the time – can be seen as the mode in which the state skimmed differential ground-rent from primary commodities for reinvestment in national industrialisation. However, this strategy to regulate the national segment of the commodity chain was unable to overcome the ‘periphery’s’ ‘dependency’ on firms in the ‘core’, because national production and processing never reached the scale or productivity required to survive competition at the level of the world market. As such, when the state’s capacity to subsidise national industrial cocoa processors was reduced by falling prices, the model began to confront its own limits of control over the pre-export segment of the chain (Iñigo Carrera 2007; Grinberg and Starosta 2009).

For instance, at the height of state interventionism, the National Cocoa Program established special authorization for the export of cocoa in grain (Official Registry 1977a). In addition, the Ministry of Agriculture was empowered to control internal prices, support quality and disease control and provide credits to support productivity (Ibid: 5). By 1978, only 25 percent of the country’s raw cocoa could be legally exported, and quotas were assigned to firms that could negotiate on the basis of establishing semi-finished industrial processing (Official Registry 1978: 1; Official Registry 1978a: 8). These policies were maintained during the price highs of the late 1970s, but began to deteriorate – along with the magnitude of ground-rent available for appropriation – into the early 1980s. Export taxes and quantity controls were gradually reduced and then legally abolished (Official Registry 1980: 2), and the regulations introduced to support a national network of processing and purchasing centres, linked directly to price controlled national industry, were not respected (Burbano 2011: 31). At this point, with global prices falling from their 1970s historic peak of UD$3,000 to UD$1,000 per ton by the mid-1980s (Moran 2008: 36), deregulation devolved monopoly control over the sector to large private exporters (Burbano 2011: 31).

It was during this period when the Ivory Coast would attempt replicate Ecuador’s early 20th century attempts at market control and consortium building, in order to protect its cocoa industrialisation strategy from falling prices. In 1987, the Ivory Coast – the world’s largest producer – made an
audacious gamble by physically withholding of all its cocoa production for a year, a strategy that
disastrously culminated in the suspension of payments of its external debt and the onset of the
‘cocoa war’ (Losch 2002: 211). Like Ecuador’s attempt at debt financed price control, the Ivory Coast
overestimated its capacity to chart its own path within the global cocoa sector and to set the terms
for the appropriation of ground-rent. The initiative failed because the increasingly concentrated
international traders and processors had accumulated huge reserves and were able to wait out the
release of the Ivory Coast’s cocoa. In addition, the large-scale entry of Asia into cocoa production,
mirroring the entry of West Africa vis-à-vis Latin America and increasing inter-regional competition,
boosted supplies and undermined to power of single producers to influence the market.

4. Towards Chain Privatization: Deregulation and Quality Deterioration

The pre-existing agrarian reform policies were replaced by the Programme of Rural Development,
which initiated the first wave of structural adjustment policies and market deregulation in Ecuador’s
cocoa sector (Martínez 2014: 132). In 1994, through the Agricultural Sector Program sponsored by
the Inter-American Development Bank, all public regulations over prices, quality control and
commercialization were repealed and delegated to the private sector, to be led by the National
Association of the Cocoa Exporters of Ecuador (ANECACAO). At the same time, conforming to the
global trend towards liberalization, privatization and declining cocoa quality (Fold 2002: 246), the
International Cocoa Organization (ICCO) passed a resolution downgrading Ecuador from a 100
percent to a 75 percent producer of fine aroma cocoa (Troya 2013: 53; Carrión 2008: 56). This
downgrading was linked to the deterioration of post-harvest quality control (fermenting and drying)
and to the introduction of a new cloned variety of cocoa (CCN-51), that was lower in quality but
much higher in yield per hectare, making use of modern fertilizers and production techniques in
large monoculture plantations. The introduction of CCN-51 formed the main part of a strategy to
boost production volumes and attract new investment as part of the ‘Cocoa Revitalization and
Quality Improvement Project’ launched in a partnership between the European Union and the
Ministry of Agriculture, a move that can be interpreted as further diminishing producer control over
quality and price. On the international stage, policies geared towards prioritizing volume over price
and quality control reinforced the TDCC or the ‘merchant contractors’ section of the chain, boosting
the accumulation of stocks and processing with Just-In-Time (JIT) technology and containerised
logistics networks (Gibbon 2001; Kaplinsky 2004). These ‘merchant contractors’ increasingly
concentrated on ‘process improvements and automated and programmable production systems,
allowing themselves the opportunity to switch production between customers at low costs and at
short notice’ (Fold 2002: 243).

The final phase of deregulation saw the elimination of the National Cocoa Program in 1995, leaving
small producers without any economic or technical support, and at the mercy of an unregulated
chain of private intermediaries exerting further downward pressures on producer prices (Smith
2013: 24). Subsequently all interventions in the cocoa sector, in line with the general ideological
thrust of World Bank-inspired rural poverty alleviation programs (Berstein 2002), were designed to
secure property rights, improve productivity and better insert small producers into the logic of the
market through the formation of small businesses and cooperatives (BCE 1990:8; Martínez 2014:
133-134). In addition, this cannot be separated from the end of International Commodity
Agreements (ICAs) and the growing so-called ‘financialisation’ of trade in general that has
‘increasingly bound together commodity prices on the ground with prices that arise on futures
markets’, leading to increasing concentration at the international trader level through which ‘large
diversified commodity trading companies are deriving increasing incomes along new financial
avenues’ (Newman 2009: 541). This emergent dimension of financialisation also calls attention to
the ways in which the extraction of rents, increasingly bound up with the concentration of financial capital (Zeller 2008), is linked to the weakened position of labour and local producers within GCC analysis (Bair 2005; Selwyn 2011). It is in this context of deregulation and liberalization that, towards the end the 1990s, transnational players began to enter directly into Ecuador’s cocoa sector. Transmar Group, a U.S. based company, was the first foreign capital to open an export office in Guayaquil. Looking to take advantage of rising cocoa prices, Transmar initially operated under the national company Colonial Cocoa of Ecuador S.A. and by 2008 had installed new industrial processing facilities uniting exports and production under the name of Transmar Ecuador (Revista Líderes, 2012). Transmar inaugurated a vertically integrated buyer-driven chain (Fold 2002; Kaplinsky 2004: 17). First, they copied the geographical model of Maquita Cushunchic (MCCH), one of the most successful national cocoa exporters, which was founded in the 1980s as a non-state development initiative espousing a message of social justice, locating processing centres and offering technical assistance in known quality production areas (Interview, General Manager Agromaquita). Second, they intensified competition on price, injecting large amounts of capital and offering a large enough premium per sack (US$5-10) to attract the custom of small local producers, sometimes with credit (Ibid). Once the competing processing centres were forced out of business, or when they lacked the capital to offer producers alternative outlets, Transmar would severely drop the price offered to a captive market (Interview, Pepa de Oro). The model has been a resounding success: sales grew 97 percent in 2011 and Transmar exported 24,500 tons of cocoa (25 percent in semi-finished cocoa liquor and 75 percent in raw bean). For semi-finished products their clients include Mars in the United States and Ritter Sport in Europe, whilst their cocoa in grain is sold to the large trading houses that dominate world grinding capacity such as Archer-Daniels-Midland (ADM), Cargill, Barry Callebaut and Nestle. In the parlance of GCC then, Transmar Ecuador can be classified as a ‘second tier-supplier’, in that they are primarily local and develop contracts with downstream first-tier suppliers (Gibbon and Ponte 2005). Transmar is one of a handful of national export companies that source cocoa from a national network of unregulated intermediaries and producer associations.

From the chain governance perspective of GCC scholars, this case illustrates how ‘concentration at one point of the chain is compatible with continuing fragmentation at other points’ (Humphrey 2006: 37) and how ‘coordination and control of global-scale production systems can be achieved without direct ownership’ (Gereffi, Humphrey and Sturgeon 2005: 81). Whilst at a descriptive level this is certainly true, the GCC literature only provides a partial view of the ‘social relations and institutional contexts that shape global production and mediate its developmental impacts’, because they conceptually prioritize functional governance characteristics of the chain in what Taylor (2008) has termed ‘network essentialism.’ This underscores the importance of engaging with the ‘social and institutional contexts in which global commodity chains that ‘touch down’ locally as social relations in the countryside are ‘historically-derived’ (Phyne and Mansilla 2003: 113). To this end, the following section develops an empirically informed critique of Ecuador’s cocoa development plan, drawing upon the dynamics of ground-rent that confront small producers.

5. ‘La Gran Minga’: Reactivating Fine Aroma Cocoa Production

In 2013 Ecuador overtook Brazil as Latin America’s largest cocoa exporter, a transition that has been heralded as the country’s third cocoa boom (R. Gestión 2014: 35). Notwithstanding short-term volatility, the last 15 years has seen international prices steadily rise. This has been led by recent consumer demand for chocolate with higher cocoa content and the rapid growth of new markets in China and East Asia. As a result, demand continues to outstrip supply, which, coupled with the spread of cocoa tree diseases and political instability in producer countries, has raised popular fears
that chocolate supplies will be affected in the near future (The Guardian 2014). In Ecuador this has seen the cultivation and export of cocoa grow year on year, especially the more productive CCN-51 variety, whose participation in total exports went from 3 percent to 38 percent in only 7 years (2004-2011) (ECLAC 2013: 8). However, the majority has been exported in raw bean form and the participation of Ecuador in the production of finished and semi-finished products has fallen from an average of 25 percent in the first half of the decade to 14 percent in the period 2005-2013 (CEPAL 2014: 8). In line with many tropical agro-commodities, cocoa is important to small peasant producers as a subsistence crop and is also a crucial source of foreign exchange earnings for the state (Gibbon 2001; Kaplinsky 2004). The latter holds particular significance for Ecuador’s dollarized economy, as primary exports are the principal revenue source that can secure the balance of payments in the absence of the ability to devalue or print money (Purcell et al. 2015). As we will demonstrate, this dependence upon foreign exchange earnings has created tension and uncertainty in the government’s intervention into the cocoa sector, seen most vividly in the reluctance to take seriously the role that differentiated export prices could play in the sector.

Led by the Ministry of Agriculture (MAGAP), government intervention through ‘La Gran Minga Del Cacao’ seeks to reactivate and boost the production (through pruning cocoa trees) and export of fine aroma cocoa and incentivize, where possible, the production and processing of finished and semi-finished products within the country. The latter objective has mainly been driven, quite unsuccessfully, by incentives offered to foreign investors to undertake more industrial processing within Ecuador. As noted above, due its geographic and climatic conditions Ecuador is a major producer of ‘Cocoa Arriba’ a variety sought after for its distinctive aroma and flavour, and highly prized by the global chocolate producers. Although specialty chocolate only makes up 6 percent of the total international market, Ecuador has a 63 percent share of this market, making it by far the largest producer of the raw ingredient for gourmet chocolate. As the Ministry of Agriculture’s general manager of the national ‘Reactivation Project’ put it, ‘fine aroma cocoa is very difficult to replicate, it is our comparative advantage’ (Interview, MAGAP). According to national statistics the cultivation of fine aroma cocoa is carried out by 115,000 producers, 90 percent of whom are small farmers with less than 5 hectares of land that are spatially disaggregated, lacking institutional and infrastructural support (ECLAC 2013). These producers have levels of productivity per hectare that are among the lowest in Latin America and lack post-harvest quality control systems (fermentation and drying), resulting in CCN-51 being routinely mixed with fine aroma cocoa, and leading to the penalization of Ecuador’s exports on world markets.

The production chain in which the majority of non-associated producers (estimated to number 50,000) ply their trade is made up of around 1,000 commercial intermediaries who forward credit, exchange basic goods (rice, corn, sugar) in lieu of cash, provide collection services, and constitute the main bridge to processing centres, brokers and exporters. The national chain culminates in Guayaquil, where there are no more than ten companies dedicated to bulk export. Within this monopoly the biggest company is Transmar, and together these companies control close to 70 percent of national production, and almost all Ecuador’s export volume (Interview, Andrea Ramírez, MAGAP). The aim of intermediaries is to amass undifferentiated volumes in response to weekly orders, or simply to sell in bulk to large collection centres owned by the monopoly exporters. Along this chain, the frequently reported practices of intermediaries include cheating on weight per sack and simply buying at prices up to 30 percent below the weekly set market rate. Turnover speed and securing quotas are central for intermediaries, as they often function on credit from large exporters which they in turn lend, pre-harvest, to small producers. Given that profit margins on the physical side of trading in undifferentiated volume are very low, the capacity for intermediaries to appropriate a portion of the rent embodied in each sack of cocoa, (other than cheating or taking
advantage of interest rate differences on loan capital), seems to be marginal at best (Interview, UNOCACE). As a one intermediary from the Guayas region explained,

‘A non-associated producer can’t sell his cocoa for US$130 [market price] a sack, but for US$105 a sack. He sells at US$105 because the intermediary sells for US$110 in Guayaquil and the exporter can’t pay more than US$110 because he sells at US$120 and they have to cover their costs. Therefore, the producer doesn’t receive more because of the Ecuadorean intermediaries, and we are also victims of international market manipulation and non-differentiated prices’.

In this context, the relationship between concentrated exporters at one end and small producers at the other turns on the lack of differential pricing systems for different cocoa varieties. Within this network, fine aroma cocoa is regularly mixed with CCN-51, the post-harvest process of fermentation and drying is poor, and producers lack the institutional forms, infrastructure and incentives necessary to differentiate their product within the chain and secure higher prices. As a result, direct intervention from MAGAP to increase productivity through pruning has only intensified the established cycle of uneven geographical development driven by the logic of undifferentiated volume for export. As the president of a producer’s association explained:

‘... the brokers sell cheap to large trading companies like Blommers, ADM or Barret, because they want cheap cocoa to be competitive; the brokers pay low prices to the Ecuadorean exporter because they cannot pay more and the Ecuadorean exporter pays even less to the producers and here we enter into the game of cheap cocoa’ (Interview, UNOCACE).

Outside this deregulated low margin system of mass export, the chain bifurcates in Ecuador in a way that links producer associations directly with niche chocolate manufacturers willing to pay a premium, or monopoly rent, to secure access to fine aroma cocoa. It is estimated that around 19,000 producers belong to around 50 organised associations across the territory (Ramírez 2012: 6). Associations organised with the objective of improving prices, defending producer interests and improving the quality of post-harvest processing have been a relatively recent phenomenon of non-state governance arrangements, emerging around the year 2000 through interaction with NGOs and participation in international cooperation programs (Troya 2013: 47; Interviews, UNOCACE, APROCA). Associations are spatially organised around collection and processing centres (centros de acopio), where affiliated and non-affiliated members sell their cocoa at the weekly market rate, but with the added confidence of not being cheated on weight and in certain cases through access to non-interest bearing loan arrangements (anticipos).

In the best of cases, in which associations have managed to purchase fair trade certificates, implement organic production techniques among their producers, and secure fixed supply contracts with niche buyers, normally in the US and Europe, they can afford to pay a premium to their producers. This is possible through the monopoly rents appropriated by selling at premium prices for the highest grade cocoa beans, which average between US$200/tn and US$300/tn over the reference price set by premium Ghanaian cocoa (Troya 2013: 47). One flagship example of a fine aroma cocoa association with premiums of around US$30 per sack that we visited was APROCA, situated on the coast in Esmeraldas. With certification from the Rainforest Alliance, and prior financing from USAID, MAGAP and the provincial government, APROCA supplies the US-based chocolate manufacturer Tcho and the national manufacturer PACARI. On its website, Tcho extols the virtues of its ‘unique sourcing program dedicated to partnering directly with our growers’, and PACARI has successfully marketed itself internationally as a biodynamic, organic, kosher, fair trade producer with close relations with small Ecuadorean producers. As Fine and Leopold (1993: 26) have argued in their materialist analysis of consumption, the objective of these strategies can be
understood in terms the relationship between the two aspects of the use value of the commodity – its physical content and its interpretations – the gap between the two is termed an ‘aesthetic illusion’, the purpose of which is to create rent (Guthman 2002: 305).

This case illustrates how access to consumers willing to pay price premiums for guarantees over quality control, taste, labour standards and traceability has not only become a form of competitive advantage for firms through product differentiation, but also the aesthetic basis of monopoly rent. Yet, in turn, this has exerted a form of control over small producers and their associations, requiring increased labour time and capital investment to maintain access to niche market outlets (Ponte 2002). Whilst this can certainly increase producer income and improve farm conditions, a significant portion of the price premium can also escape their hands. For example, commenting on the producer-buyer relations between APROCA and PACARI, the general manager of MAGAP’s cocoa project observed that the cumulative costs of fair trade certificates, organic and biodynamic production techniques mean that a very meagre portion of the price differential arrives to the producer. For it to be ‘just’, in his opinion, the company in question should double or triple what it pays the producers (Interview, Jorge Gaibor, MAGAP). Indeed, this combination of upstream penetration, private regulation and concerns over traceability has been noted in the case of coffee as tending to drive down prices at the farm gate (Neilson 2007).

6. The producer-buyer relations of fine aroma cocoa

This niche part of the cocoa GCC has specific producer-buyer relations. As noted above, gourmet chocolate is a small part of the global chocolate market and the price of the raw bean is always based upon the manufacturers’ willingness to pay a monopoly price. At the manufacturing and commercialisation end of this chain the number of specialist companies is limited by the sheer capital requirements of fulfilling premium priced fixed supply contracts (Fold 2002: 239). It is estimated that this niche market only represents around 10,000 tons a year for Ecuador (Interview, General Manager Agromaquita), which considerably raises barriers to entry (more certificates etc.) for small Ecuadorian producers. For example, PACARI was considered a sui generis case of successful ‘upgrading’ within a niche segment of the market through public support and international marketing, but with very limited industrial processing capacity (Interview, MAGAP). PACARI can only process around 100 tons a year, and purchases less than 50 percent of APROCA’s annual production (Interview, Atacames Cocoa Producer). Commenting upon limited market volumes and dependence upon buyers, one producer explained that,

‘there are organisations that can have the best cocoa in the world that want to charge a US$500 premium, but obviously they have a very reduced market. I know organisations that sell sacks of cocoa for US$200 each, but how many sacks do they sell a year, 1,000? It is not sustainable. What do I want to sell? A popular car that everyone in the world can buy or a Mercedes Benz? So, if you have a good client, keep them, but don’t marry, you have to always move...’ (Interview, Manager, Cocoa Arriba).

Dangers involved in such dependent producer-buyer relations can include ‘farmer capture’ and ‘value chain enclosure’, both of which are known to reduce farm gate prices (Nielson 2008: 1609). However, one public governance model that has been shown to potentially increase producer power, and therefore monopoly rents, over special and limited crops and foodstuffs is Geographical Indicators (GI) or Denomination of Origin (DOI) (Yeung and Kerr 2008). Under the banner of the state-led initiative to Transform the Productive Matrix, the Ecuadorian Institute of Intellectual Property Rights (IEPI) has launched a free of charge DOI initiative as a strategy to geo-locate producers, improve traceability and therefore potential prices on the world market. However, as of
2015, only one producer in the country had signed up for the certificate of origin (Interview, IEPI). Registration requires that individual farmers, rather than regions, petition for certification, which has raised both spatial and economic barriers because small disaggregated producers are unaware of the project or do not have the incentive of a guaranteed price differential as the result (Interview, Cacao Arriba). This illustrates how, for producers in historically produced conditions of uneven geographical development, there are limits to the institutionalization of access to monopoly rents through publically registered DOI certificates. Here we can see how material and geographical differentiation within the same commodity can influence not only the structural powers of labour association (Selwyn 2007), but also access to ground-rent when the social relations of land are taken into account alongside the capital-labour dialectic (Coronil 1997). High quality beans for exclusive export permit associations to invest, upgrade and pay price premiums to their associated producers. However, given that the basis of such power of association is monopoly rent as opposed to workers’ struggles over profit share linked to value-added upgrading – that is to say ‘natural’ rather than ‘social’ – its expansion or reproducibility is objectively restricted.

This is evident even in the successful case of UNOCACE, one of the strongest and most important national associations of fine aroma cocoa, exporting 6,000 tonnes annually through an innovative price fixing policy. Legally created in 1999, UNOCACE is composed of 12 organizations in five provinces of Ecuador, amounting to almost 1,000 small producers covering nearly 5,000 hectares. Through MAGAP’s reactivation program in 2014, UNOCACE has pruned over 500,000 trees, significantly boosting productivity. In 2014 UNOCACE managed to pay their producers a consistent US$140 per sack, 15 percent above the market rate – as the president put it, ‘it was always our intention to escape market speculation’. The model, developed to ride out the vagaries of international prices and keep producer prices, including premiums, within a steady margin of world market oscillations, is based upon taking the previous month’s average price as the benchmark. Through negotiations with their foreign clients and an agreement with producers, UNOCACE has succeeded in maintaining stable prices in spite of weekly market volatility. For example, a contract for 300 tonnes with a foreign client will take UNOCACE around 4 months to fulfil. Given that the market can move wildly in this time, UNOCACE will price the order per 50 tonnes (1,100 sacks), which takes around a month to collect and process. After each 50 tons, the president returns to negotiate with the client in order to price the next 50 tons based upon the average market price of the previous month (Interview, UNOCACE). In this way UNOCACE maintains a steady price with its producers and has built a strong reputation and relationship with small associations. However, UNOCACE is one of the few producer associations that controls its own logistics, exporting directly to clients, and that has managed to secure credit internationally, thereby escaping exorbitant national interest rates. Preferential access to capital, (which allows the association to extend interest-free loans to their associated producers, thus supporting the turnover cycles of each contract), is exceptional among producer associations, as the majority of these associations function in extremely strained financial conditions and are unable to influence producer prices.

This brings us full circle and allows us to pinpoint the role of differential and monopoly rents within the global and local chain relations in Ecuador. The sheer industrial concentration of processing capacity and demand for non-differentiated bulk cocoa has undermined national quality control standards and the social of basis of differential rents. At the local scale, limited access to capital reduces the capacity for post-harvest quality control, undermines the role of producer associations, and makes product and price differentiation all but impossible for the majority of Ecuadorean producers. In this light we can see that MAGAP’s policy of fine aroma reactivation in the absence of an articulated differential sectorial pricing policy, is reproducing the same subsistence conditions
that have led commentators to identify cocoa cultivation as the ‘business of poverty’. As one producer commented to us,

‘... We do the work in cocoa ourselves, the husband, the wife, and the child. We do not take into account the value of our labor; We say “well, there are things for food” and that is the justification we give ourselves’ (Interview, producers of cacao, Esmeraldas).

As such, thus far, government references to ‘upgrading’ are in practice restricted to improving the productivity of smallholders and internationally promoting the achievements of national success stories such as PACARI. By the end of 2014, exports had grown by 18 percent, which represented an extra 28,000 tonnes and almost US$85 million in foreign exchange earnings (Interview, MAGAP). Although this represents a healthy return on the US$20 million invested in the program, the new value produced has been redistributed along the chain towards national second-tier suppliers. In the short term what interests MAGAP is reaching an extra annual 300,000 tonnes in export volume, before any extra control measures such as export taxes or quotas for national industrial processing would be countenanced (Interview MAGAP). This was evident in March 2015, when the Ecuadorean National Assembly rejected as un-constitutional a new law for the ‘Promotion and Development of Fine Aroma Cocoa’ (*Ley de Fomento y Desarrollo del Cacao Nacional Fino de Aroma*) that was tabled by a collection of producer associations. The law contained measures to legally prohibit (through financial penalties) the mixing of cocoa varieties, to allow price differentiation according to quality and to create an extra layer of institutional support and regulation for the small producers of fine aroma cocoa. Officially the law was ‘archived’ on the grounds that MAGAP’s programs are sufficiently addressing the sector’s needs, agrarian legislation cannot be sector specific, and new provisions to protect small producers are intended to form part of a general agrarian law still under construction. The rejection of this initiative speaks volumes about MAGAP’s partial intervention into the pre-export agrarian segment of the cocoa chain in particular, and the politics at the root of the GCC in general.

Specifically, local quality control and product differentiation (avoiding mixing CCN-51 and fine aroma) – measures that would reinforce producer bargaining power – emerged as marginal to, or even directly against, the interests of large exporters (Interview, UNOCACE). In interviews it was highlighted that, notwithstanding huge variations in quality, ‘all’ Ecuadorean cocoa is sold, and that national exporters such as Transmar do in fact sort and differentiate cocoa in Guayaquil before export: ‘The trick is saying to producers and intermediaries “don’t mix”, [if you want better prices] but their secret is benefitting from the mix’ (Interview, Cocoa Arriba). As noted above, the sophistication of processing technology means that mixed varieties and qualities of cocoa bought at bulk market rates from geographically dispersed small producers and delivered to Guayaquil by a large network of debt-financed intermediaries are later sold at significant price differentials to international traders, allowing the large exporters in their role as second-tier suppliers to privately appropriate the differential ground-rent carried by fine aroma cocoa. In this respect, insofar as producer-level change would actually imply profound changes in the relations of production (Selwyn 2015), the possibility of public sector-led upgrading should also be understood as the result of ‘political struggle along the chain’ (Gellert 2003: 55). As it stands, therefore, even though overall volume targets are increasing productivity, the project is linked only superficially to a ‘normative’ notion of ‘upgrading’ (McMichael 2009), in isolation from the material conditions that are faced by thousands of small producers across the Ecuadorean territory. 19
Conclusion

This paper has argued that public investment in fine aroma cocoa, ostensibly to drive upgrading, demonstrates a lack of appreciation of the origins and dynamics of price premiums and rents, which limits the project’s capacity to decisively improve the working conditions of small producers. It was shown that the only beneficiaries of enhancing the productivity of the network of thousands of small disaggregated producers are the monopoly exporters in Guayaquil known to undertake ex-post product differentiation. Investing further in post-harvest quality control (the next phase of La Gran Minga) and improving the conditions and power of association would require active state intervention to recoup some of the value – perhaps through targeted export tax regimes according to quality differentiation – and invest it in the roots of the sector. As it stands, targeted intervention to boost smallholder productivity in an otherwise deregulated market has resulted in the public inability to control the flow and appropriation of value, which ultimately results in an indirect subsidy for exporting capitals. Moreover, the prospect of successfully inserting thousands of small producers into the market through fixed-supply premium contracts was shown to be objectively limited by the very character of monopoly rents.

We developed this argument by integrating the Marxian approach to ground-rent with the advances of second-generation critical theorists for whom the social relations of land remained somewhat of a blind spot. Taking an historical approach, we identified the inflows of differential rents enjoyed by the Kings of Cocoa based the superior productivity, quality and low transportation costs enjoyed by large plantations in Ecuador. However, the large scale entry of African producers and the global extension of the cocoa frontier saw prices fall and with them the magnitude of differential rents for Ecuadorean landowners. The subsequent crisis and dismantling of large plantations for alternative export crops accounted for the uneven geographical emergence of over 100,000 small-holders across Ecuador, eking out a living from cocoa as a cash crop. The revival of the sector came under the aegis of the developmental state when export controls, tax benefits and subsidies were adopted as the policies designed to underpin the industrial upgrading of the cocoa sector. We identified these policies as the form in which ground-rent was transferred to a burgeoning national industrial sector, but which lacked the scale necessary to compete in the industrial processing of cocoa. This was followed by neoliberal deregulation and quality deterioration and the dismantling of the institutional basis for the appropriation of ground-rent, in which the main concern was undifferentiated export volume and the market-based insertion of small producers. Finally, we interrogated the limits of Ecuador’s current ‘post-neoliberal’ intervention into the cocoa sector, which has significantly increased productivity but has been unable to control or recover any new value creation for the benefit of small producers.

Thus whilst it is clear that the strategic choices of small farmers are significantly determined by the chain structure in which they are embedded (Humphrey 2006; Gibbon 2001; Kaplinksy 2004), going beyond a sociological focus upon asymmetrical chain governance has allowed us to highlight the uneven geographical barriers that small producers face in the recovery of a portion of ground-rent. Those small isolated producers selling non-differentiated bulk cocoa to intermediaries are feeding the huge demand from a technologically sophisticated global processing and production chain. It was shown that national second tier suppliers (modern day ‘Kings of Cocoa’ led by Anecacao) do carry out ex-post sorting and processing, thus selling the raw cocoa at higher prices and appropriating the ground-rent that has escaped the hands of small producers. In the light of this rent-informed historical analysis, the current project can be seen as a midpoint between state-developmentalist and market-based regulation. The latter carries with it the limited prospect of monopoly rents for producer associations directly inserted into niche markets for consumers with a
penchant for high quality or fair trade chocolate, whereas the former, led by national productivity drives, is largely concerned with increasing inflows of foreign exchange through the growth in undifferentiated export volumes. Paradoxically, therefore, we can say that it is the ‘post-neoliberal’ state-led initiative that is actually functional to the reproduction of an increasingly concentrated and volume-hungry global cocoa chain.

Endnotes

1 Although too heterogeneous to be called a paradigm, neostructuralism is consistently focused upon the re-conceptualization of the relations between the state, economy and society, with the objective of recoupling economic growth with social equity and pursuing pragmatic synergies within globalization that can generate ‘systematic competitiveness’ (Leiva 2008).

2 Herein also lies the main distinction between World Systems Theory and GCC, the latter focusing upon the possibilities of ‘national’ forms of development within the global economy.

3 By ‘global value relations’ we take the Marxian value-theoretic understanding that the production of surplus value is global in content and only national in form (Iñigo-Carrera 2007), that is to say, capital accumulation does not occur in certain sectors or national economies but rather encompasses (often in geographical separation) the world market (Araghi 2003: 49).

4 Production-based scarcities that arise out of technological developments (so-called Schumpeterian rents after the economist Joseph Schumpeter) (Guthman 2004: 515)

5 The concept of ground rent is used here not as a geographical indicator, but as political economy category to explain the dominant form of insertion of certain countries into the global economy through the export of raw materials.

6 Here we bracket the distinction between DRI (same amount of capital invested in different quality lands) and DRII (the intensive investment of capital on the same land), because the tendency in cacao production has been towards extensive rather than intensive cultivation. We also leave aside discussion of absolute rent because we are dealing here with flows of rent into the sector, and are therefore primarily concerned with differential rents that have their origin in other branches of social production. (Marx’s argument with regard to absolute rent is that, because of the relatively higher content of living labour embodied in them, the value of agricultural products can be higher than their price, and, because of the institution of private property, this difference is not equalized across sectors of the economy. For further elaboration see Marx, Capital Vol III, pp 779–87, 882–907, and 910).

7 These include exchange rate policies, export and import taxes, public subsidies and domestic market protection and price regulation.

8 Attempts have been made to cultivate Ecuador’s Cacao Arriba in other parts of the world, however the results have been unspectacular, leading to a consensus that delicate aromas such as jasmine and citrus are the product of a unique combination of environmental and climatic conditions.

9 Ecuadorean water was deemed too ‘harsh’ for the soft linen of the ‘Kings of Cacoa’.

10 In this context, ‘monopoly rents’ refers to the ability to set commercial prices above real costs of production by virtue of the private ownership of a scarce resource – in this historical example the scarce resource was money.

11 As Newman (2009: 541) has noted in the context of speculative commodity trading, the largest and most financially adept actors stand to gain from opportunities for speculation alongside their hedging activities on international commodity exchanges, while the poorer, less organized market actors, at the production end of the chain, face greater challenges in an environment of increased price volatility.

12 Together these companies control 40 percent of world grinding capacity.

13 These include: Olam (Outspan Ecuador S.A.) a transnational company that came to Ecuador in 2010 and exports cacao in grain and also teak, a tropical hardwood. Olam have enjoyed 10 percent annual profit growth in both these exports, making Ecuador its most profitable global location; Nestlé Ecuador also has a strong presence (as one of the few vertically integrated chocolate manufacturers), commercializing cacao in grain.
and also exporting semi-finished products; Agroarriba S.A (ECOM Cocoa) is company of Mexican origin exporting semi-finished products for final manufacturing in its home market.

In 2013 cocoa represented US$500 million in foreign exchange earnings.

Only six countries in the world export certified fine aroma cocoa.

The project began in 2011 with an investment of US$130 million over or ten years. MAGAP is leading the first stage termed ‘La Gran Minga de Poda’, a tree maintenance activity designed to increase productivity from 6qq/ha to 15qq/ha along with the restoration of 354,000 hectares and the expansion of new cultivation by 77,000 hectares. The ambitions of the project include a strategy of differentiation and traceability which will come in the second phase called ‘La Gran Minga de Poscosecha’.

In total there are 40 final exporters, 6 producers of semi-finished products and 9 small national producers of final chocolate bars (Ramírez, 2012: 6; CEPAL; 2014: 21). As has been characteristic of the overall sector’s move towards further concentration (Fold 2002), between 1995 and 2005 just over a quarter of the companies (10 of 38) dedicated to the production of finished and semi-finished products went out of business, 7 of which were national capitals (CEPAL, 2014: 20).

Field observations suggested the interest rates ranged from 3 percent to 17 percent, which, as is usually the case, had an inverse relation to size, success and access to capital.

Here ‘normative’ refers to how the policy ostensibly represents the interests of smallholders, yet the produced value is redistributed along the value-chain towards processors.

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