



Bukit Timah Post Office
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18th May 2010

Dear Members,

The cocoa industry went through a very challenging year in 2009 prompted by the financial crisis in the United States and Europe. Chocolate consumption, in particular in the United States and Europe, was affected due to the economic recession and high unemployment. As a consequence of this, margins for the cocoa processing industry globally were badly affected, resulting in some factories closing or slowing down production. The total grind for this region (Malaysia, Indonesia, China & Singapore) was down by more than 15% in 2009 compared to 2008.

On a brighter note, the cocoa market performed very well with cocoa futures prices hitting 30-year highs in both the London and New York markets in anticipation of a supply deficit. The high cocoa price boosted the income of the cocoa farmers and provided incentive for them to adopt more sustainable crop development in the longer term.

This positive development, however, was dampened by Indonesian government's decision in late March this year to impose a 10% tax on all cocoa beans exports starting from April 2010. The main rationale for this tax was to promote investments in downstream value-added activities in Indonesia. Although members of the association understood the rationale of the tax, they felt that the taxation amount was overly punitive and would eventually disadvantage the farmers. The local industry at this juncture is unable to consume or grind all the cocoa produced locally. The surplus cocoa would eventually need to be exported and the farmers would have to bear the full brunt of the export tax.

The cocoa price is now at a historical high. However, the difference in total income in absolute terms received by the farmers is insignificant as the quantity of cocoa produced per household is small. Members felt that perhaps a fairer tax system could be formulated to lessen the tax burden borne by the farmers and serve as an incentive for more sustainable crop development. This fairer tax system would also provide incentive to attract investments in value-added downstream activities within Indonesia as well as in the region. The association intends to appeal to the relevant authorities in Indonesia to review the export tax structure.

On the sustainable cocoa production front, we have unfortunately not made much headway. Our initial discussions with ASKINDO (Cocoa Association of Indonesia) on a sustainability roadmap still need to be followed up with more discussions, especially on how the plan should be carried forward.

On the cocoa contract front, a two-day training workshop on Market Rules and Arbitration Procedures was conducted jointly by the FCC (Federation of Cocoa Commerce), London, the SIAC (Singapore

International Arbitration Centre) and the CAA last October 2009. In conjunction with this, a half day Cocoa Bean Quality Workshop was also conducted on bean sampling, grading and cut tests. Based on feedback from the training workshops, the cocoa contract sub working group reviewed and incorporated changes to the cocoa contract. The revised contract was adopted for implementation at the last council meeting and targeted for official launch in late October 2010 as soon as the revision is accepted by the SIAC. The chairman would like to acknowledge the hard work put in by members of the cocoa contract sub working group as well as those who played a part in the formulating and drafting of the cocoa contract.

Food safety continues to attract attention with more and more legislations being implemented by importing countries to ensure product safety and boost consumer confidence. At the council meeting in April this year, the council approved the sponsorship of up to \$20,000 to fund part of the pesticide research project in Indonesia coordinated by CAB International. The aim of this research project is to assess and improve pesticide practices among farmers in Indonesia. The total cost of the project is about Sterling 134,000.

Due to increasing work commitments, Miss Cherie Tan, secretary general for the association, has expressed her wish to relinquish her secretarial duties. The chairman and council members, on behalf of the association, would like to express their sincere appreciation for the contributions Miss Tan has made to the association.

The council has endorsed the chairman's proposal to nominate Miss Mastura Mansor to replace Miss Cherie Tan as the next secretary general for the association. The appointment will be formalized during the coming Annual General Meeting.

2009 has been an eventful year. There are still many challenges ahead of us. I would like to urge fellow members to step forward to take up leadership roles as the association needs self renewal and new leaders who are passionate about the business and possess the dynamism to propel it to greater heights.

I thank you for your support during my tenure as chairman. Please continue to provide your support for the new team.

Sincerely yours,

| (Yeong Chye)