

## MINISTRY PAPER 60 /2014

### DIVESTMENT OF THE WALLENFORD COFFEE COMPANY AND ALSO THE COMMERCIAL ASSETS OF THE COCOA INDUSTRY BOARD

#### 1.0 Purpose

1.1 The matter for tabling in the Houses of Parliament is an Update on the divestment of the Wallendorf Coffee Company (WCC) and also the Commercial Assets of the Cocoa Industry Board

#### Wallendorf Coffee Company

#### 2.0 Background

2.1 The WCC is one of the major processors of both Blue Mountain and High Mountain coffee in Jamaica, and has an extensive collection system to facilitate the purchasing of cherry coffee in the Blue Mountain and High Mountain regions. The WCC also has a complete line of roasted beans and ground products for the local and international consumer markets. The WCC is a limited liability company which was formed in July 2004 as a result of a policy decision to separate the commercial and regulatory functions of the Coffee Industry Board (CIB).

2.2 Since it was formed in 2004, the WCC has been experiencing severe financial difficulties, resulting in the company's inability to meet its liabilities. This led to the Government's decision to divest company in 2009.

2.3 The privatisation opportunity was advertised extensively by the Development Bank of Jamaica (DBJ) in the local and international press between June and November 2011. The negotiation process for the divestment began in 2012 and concluded in early 2013 with Cabinet's approval on the terms and conditions in the Memorandum of Understanding between Portland Private Equity/AIC Caribbean Fund.

#### 3.0 Current Status

3.1 The Memorandum of Understanding (MOU) between the Government of Jamaica (GOJ) and AIC International Investments Limited (AIIIL) General Partner of Portland Private Equity

LP, regarding the divestment of WCC was executed on 29 August 2013. AAIL subsequently assumed possession of WCC on 12 September 2013.

3.2 The WCC was purchased for a sum of US\$39.5 million with a payment schedule of US\$16 million (J\$1.6 billion) to the Jamaican Government with the purchaser to inject an additional US\$23.5 million (J\$2.35 billion) in the development and expansion of WCC over the next four years.

3.3 The objective of AAIL's four-year development plan is to establish the WCC as an efficient and profitable coffee company producing the highest quality green bean products as well as innovative new value added products. In support of this objective, the purchasers will focus on improving the quality of green beans and strengthening the Wallenford brand by diversifying the product offerings in existing and new markets. The development plan also includes the resuscitation of established farms, upgrading of equipment and renovation of buildings and facilities, while increasing the acreage of coffee and extension services to coffee farmers.

3.4 The Definitive Agreement is currently being finalized with a view for closure in the current fiscal year.

### **Commercial Assets of the Cocoa Industry Board**

#### **4.0 Background**

4.1 It is estimated that there are over 7,000 farmers growing cocoa mainly on farms of less than 10 acres. The Cocoa Industry Board (CIB) estimates that the acreage under cultivation is around 8,800 acres. Jamaica is a member of the International Cocoa Organisation (ICCO), and is represented by the CIB in that organisation. The ICCO recognises seventeen (17) countries as producers of fine or flavoured cocoa, and Jamaica is recognised as one of eight (8) exclusive producers of fine flavoured cocoa.

4.2 The CIB's primary role is the marketing of Jamaica's fine flavoured cocoa internationally. The CIB aims to achieve its objective by being involved in the promoting the growing of cocoa among farmers, providing technical support to various stakeholders; and purchasing and processing of wet cocoa beans and the selling of dried fermented cocoa beans.

The CIB has processing facilities in the parishes of Hanover, Clarendon, St. Mary and Kingston. However, in recent years the processing has been centred at the Clarendon and St. Mary fermentaries.

4.3 It has been well documented that Jamaica's production and export of cocoa has been significantly below the peak levels established several decades in the past, as a result of a number of issues including low motivation levels of farmers and structural weaknesses of the CIB. In addition to the difficulties highlighted, it has also been the stated policy of the Government of Jamaica towards pursuing regulatory rather than operational activities which has led to the decision to divest the commercial assets of the CIB. The primary objectives of the GOJ in disposing of the CIB's assets and operations are to:

- Identify investors with the necessary resources to develop interest among farmers to increase cocoa production and modernise the industry's commercial operations;
- Realise a satisfactory price for the assets disposed of; and
- Develop a Regulatory Framework that will establish standards and quality to be maintained without the involvement of the GOJ in any commercial operations.

## **5.0 Current Status**

5.1 The commercial assets of the CIB that are being divested include fermentary in Richmond, St. Mary, Morgans Valley, Clarendon; Montrose farm, a cocoa farm also located in Richmond, St. Mary; processing equipment at Marcus Garvey Drive, Kingston and 13.7 acres of land with building at Haughton Court, Lucea, Hanover.

5.2 It should noted that the bids for these packages close on 12 May 2014 after which an evaluation process will be conducted to determine the first ranked bidder based on the criteria established in the bid document.

## **6.0 Enabling Environment - Agricultural Commodities Regulatory Authority (ACRA)**

6.1 Cabinet gave approval in principle for the rationalization of the institutional arrangements and functions governing the production and export of the selected agricultural commodities namely:

- (i) The Coconut Industry Board
- (ii) The Export Division of MOAF

- (iii) The Coffee Industry Board
- (iv) The Cocoa Industry Board

6.2 It is being proposed that Agricultural Commodities Regulatory Body be established, to replace the existing Coffee Industry Board, Cocoa Industry Board, Coconut Industry Board and the Export Division of the Ministry of Agriculture and Fisheries (which deals with trading in Pimento, Ginger, Turmeric and Nutmeg). The new Body is nomenclated the **Agricultural Commodities Regulatory Authority (ACRA)**.

6.3 It should be noted that three of the four entities to be rationalized are statutory bodies operating under their own legal enablement. As such, it is requisite that the new body be provided with enabling legislation which will capture both the “letter” and the “spirit” of the enabling Acts of the entities being absorbed. Furthermore, the Export Division which is currently reposed in the central administration of the Ministry of Agriculture & Fisheries, will have to be now brought under the Statutory influence of the new body. This exercise is therefore a complex one, requiring expert legal drafting assistance.

6.4 The Drafting Instructions have been completed and are awaiting Cabinet’s permission to forward the document to the Chief Parliamentary Council in order to trigger the drafting of the Act for the new body. The projected time being envisioned for the new Act to be in place, is in the last quarter of 2014.

6.5 Apart from harmonizing the legislative instruments under which the existing entities operate, there will be provisions in the new Act, to allow the overarching body to be legally empowered to administer existing commodity “Trade Marks” and other intellectual property which are currently reposed in the entities which are being rationalized.

6.6 The regulations which will be formulated to support the new composite Act, will be a revision and amalgamation of those which are now in force for the existing Statutory Bodies, plus additional considerations which are requisite for the effective functioning of the new body. This will encompass inter alia the revision and upgrading of fees to be charged for licences, cess and other chargeable services to be rendered by the new body.

6.7 ACRA will be required to offer certain operational services to the increased number of exporters that will seek to take advantage of the divested marketing functions of the current entities.

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