WEEKLY GLOBAL MARKETS

20 November 2013

BOURSE AFRICA
AFRICAN MARKETS ▲ GLOBAL OPPORTUNITIES

Africa should untap the "Cocoa" opportunity for a sweeter tomorrow

Cocoa is among the most significant crops in West and Central Africa, occupying about 5 - 6 million hectares of coastal humid zone. Every year, more than 5 million family farms in countries like Ivory Coast, Cameroon, Vietnam and Brazil produce nearly 3 million tons of cocoa beans according to World Cocoa Foundation. According to Cocoa Barometer 2012, West Africa is the source of more than 90% of cocoa consumed in Europe. Côte d'Ivoire and Ghana alone contribute 59% of the global cocoa supply, with Indonesia, Nigeria and Cameroon accounting for another 23%. Global cocoa production grew by an estimated 17% in 2010/2011 from 16.4% in 2009/2010 following bumper crops in West Africa and Brazil, due to the impact of La Niña - a global weather phenomenon. This resulted in attractive prices for cocoa beans and has stirred better farm maintenance.

The International Cocoa Organisation (ICO) revealed that West African farmers supply 70% of all cocoa to the chocolate industry worldwide. According to Packaged Facts (a division of MarketResearch.com), the US chocolate market will grow by about 3% annually through 2015 with sales topping $19 billion which represents a huge opportunity for African cocoa.

In spite of this increasing demand for African cocoa, African growers receive a meager share of the revenue generated by global chocolate manufacturing companies. Furthermore, the instability and volatility of cocoa price pose a great challenge to these producing countries.

Fair price requirement to African farmers

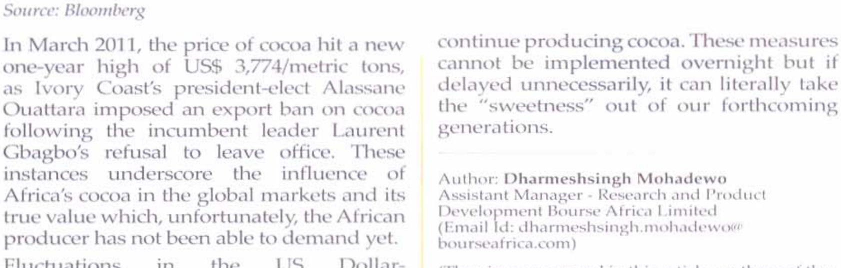
Although the cocoa sector is a $16 billion a year industry, the International Institute of Tropical Agriculture report (2009) states that the annual income of African cocoa farmers average $30 to $110 per household. It also highlights that African producers receive only 50% of the international cocoa price as against 90% received by their global counterparts. An effective way to address this is to support the African producer at the farm level itself rather than trying to set price controls. If the fair price issues are solved, yield and quality of cocoa will improve. For instance, initiatives by government in Ghana to adopt a fair-trade certification have guaranteed a better deal for its otherwise disadvantaged producers. In Ghana, 45 thousand farmers have already benefited from Cadbury's global commitment to Fair trade, a figure which is expected to touch one million farmers within the next decade. These initiatives are expected to replenish investment into Africa's cocoa production. In US, the "TransFair USA Fair Trade Certified" guarantees cocoa farmers a minimum of $1,750 per metric ton or $1,950 per metric ton of organic cocoa.

Opportunities and perspectives for Africa

Africa should encourage large multinationals like Archer-Daniels-Midland Company or Nestle to undertake vertical backward integration and ensure creation of local processing of Cocoa beans. This will develop an entirely new secondary sector engaged in local processing of cocoa beans. It will also enhance employment and develop other ancillary services. Tax on cocoa exports is about 34% in Ivory Coast and 15% in Ghana. African governments should examine the possibility of reducing tax to relax the pressure on the supply chain within the country. A good example is Indonesia which has reduced processed cocoa export tax rate from 10% to 5%. As a result, several international cocoa companies including Cargill (US) and Barry Callebaut (Switzerland) have announced plans to build processing factories in the country.

Risk mitigation and price discovery

The cocoa market is volatile. During the 2010-2011, harvest season yields reached a new record level, and prices went up to more than $3,700 per metric ton, due to the political crisis in the Côte d'Ivoire, before they went down to around $1,950 per metric ton at the end of the year 2011. Prices have moved in a tight range thereafter. This trend can be depicted in Figure 1.



Source: Bloomberg

In March 2011, the price of cocoa hit a new one-year high of US$ 3,774/metric tons, as Ivory Coast's president-elect Alassane Ouattara imposed an export ban on cocoa following the incumbent leader Laurent Gbagbo's refusal to leave office. These instances underscore the influence of Africa's cocoa in the global markets and its true value which, unfortunately, the African producer has not been able to demand yet.

Fluctuations in the US Dollar-Euro exchange rate leading to price competitiveness problems is yet another concern for the African producer who exports in raw form and is hampered by the absence of good risk management mechanisms. The inability to understand global demand-supply signals lead to either a scarcity or glut in domestic production. These inefficiencies can be addressed by developing an efficient Futures market which will ensure fair price discovery while also leading the spot markets to align with international prices.

Further, the right infrastructural facilities, warehousing and collateral management, and logistics support should also be extended to enable domestic producers to safeguard their yield from theft and diseases. Low-cost capital, research and advisory services and training would further incentivize them to enhance productivity while also equipping their arsenal with the knowledge to tackle middlemen and receive true value for their toil.

Conclusion

Cocoa plant takes about five years to produce cocoa beans and ten years to achieve maximum production. The international prices are highly volatile and the price negotiation muscle of major multinationals and middlemen weighs heavily on the farmers; forcing many out of cocoa production. Local governments and large organizations need to work together to implement measures such as fair price, tax incentives for export of locally processed coca, and development of research and awareness to ensure better yields year-after-year. It's important to have a price discovery mechanism like a futures exchange within the continent to ensure true price for the African producer and more importantly, motivation to continue producing cocoa. These measures cannot be implemented overnight but if delayed unnecessarily, it can literally take the "sweetness" out of our forthcoming generations.

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