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**MARKET COMMITTEE**

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**ANNUAL FORECASTS OF PRODUCTION AND CONSUMPTION AND ESTIMATES OF  
PRODUCTION LEVELS TO ACHIEVE EQUILIBRIUM IN THE WORLD COCOA MARKET**



## ANNUAL FORECASTS OF PRODUCTION AND CONSUMPTION AND ESTIMATES OF PRODUCTION LEVELS TO ACHIEVE EQUILIBRIUM IN THE WORLD COCOA MARKET

### INTRODUCTION

1. This document has been prepared for consideration by the Market Committee, in compliance with Article 34 of the International Cocoa Agreement, 2001. Forecasts of world production and consumption contained in document MC/9/3 of 7 February 2007 were last prepared by the Secretariat and submitted to the Market Committee for consideration at its ninth meeting held in Kuala Lumpur in March 2007. This document represents an update of the previously submitted document, utilizing information received by the Secretariat since preparation of the earlier document.

2. Annual forecasts have been generated, taking into consideration the full interaction among the various fundamental factors operating in the market. The analysis has been made, not only of projected levels of production and consumption, but also of variations in world stock levels and the consequent impact on the expected evolution of world cocoa prices.

3. The previous analysis indicated a growth of world cocoa production of 1.9% *per annum* during the 2007/2008 and 2011/2012 seasons. World grindings were projected to grow at an average rate of 2.7% *per annum* during the 2007/2008 and 2011/2012 seasons. The prospect of economic growth across the major consuming countries was the principal factor fuelling the demand for grindings. Finally, prices were expected to recover during the projection period after the relatively low price forecast in 2006/2007.

4. The new forecasts described below have been obtained by re-estimating the ICCO econometric model and by incorporating the latest information available at the time of writing. The final year of the projection period is 2011/2012, in compliance with the International Cocoa Agreement 2001, which requires projections up to five years ahead.

### FORECASTS FOR THE WORLD COCOA ECONOMY TO 2011/2012

5. A summary of the revised global forecasts generated by the analysis through to the cocoa year 2011/12 is given in **Table 1**, which also includes data on the recent evolution of the world cocoa market from 2001/2002 through to the current year. For the current cocoa year, because of a series of meteorological events, world production is forecasted to be eight per cent below its projected trend. On the one hand, *El Nino* related weather conditions have compromised crop production in Brazil, Indonesia, and to a lesser extent in Malaysia. At the same time, a severe *harmattan* has reduced production in Côte d'Ivoire, Ghana and Nigeria. However, production is expected to be back on trend in the 2007/2008 season, reaching a level of nearly 3.8 million tonnes. Thereafter, during the projection period from 2007/2008 to 2011/2012, production is expected to increase at an average growth rate of about two per cent. As a result of these developments and assuming normal weather conditions, the Secretariat estimates that world production will reach around 4.1 million tonnes at the end of the 2011/2012 season.

6. World grindings are expected to increase from almost 3.6 million tonnes in 2007/2008 to 4.1 million tonnes in 2010/2011, increasing at an estimated average growth rate of nearly 3.4% *per annum*. The major factor fuelling the growth in grindings is the sustained growth of the world economy, with a rate of growth is of about 4.8% *per annum*. Specifically, according to the projections of the International Monetary Fund (IMF), released in April 2007, the advanced economies are

projected to grow at an average rate of 3.7% *per annum*; and developing countries at an average rate of 6.7% *per annum*, while China and India will grow at an astonishing rate of 8.0% *per annum*.

7. As a result of the projected developments in world production and grindings, end-of-season stock levels are expected to increase slightly from nearly 1.74 million tonnes in 2006/2007 to 1.98 million tonnes in 2009/2010 and then to decline to a level of 1.89 million tonnes in 2011/2012. Consequently, the world stocks-to-grindings ratio is expected to reach a maximum of 52% in 2008/2009 and then to decline to 46% in the 2011/2012 season.

8. Related to the projections of the stocks-to-grindings ratio, cocoa prices in real terms are expected to increase from 1,118 SDR per tonne in 2006/2007 to 1,223 SDR per tonne in 2007/2008. Subsequently, prices are expected to decline slightly because of the increase in the stocks-to-grindings ratio during the 2006/2007 and 2008/2009 seasons. However, starting from the 2009/2010 season, the stock-to-grindings ratio is expected to decline. As a result, cocoa prices are projected to increase from 1,153 SDR per tonnes in 2009/2010 to 1,226 SDR in 2011/2012. Finally, as a result of the projected developments in volumes and prices, the annual market value of world cocoa production is projected to increase by about 2.2% *per annum* in real terms between the 2007/2008 and 2011/12 seasons.

9. A graphical representation of the results with regard to developments of world production, consumption, end-of-season stock levels, the world stocks-to-grindings ratio, and average annual cocoa prices in constant 2006/2007 terms is shown in **Charts 1 to 5**, respectively. In these charts, the bold lines represent the actual, estimated or forecast trends, up to and including the current 2006/07 cocoa year and the average projections of their future levels for subsequent years. To facilitate a comparison of the present forecasts with those prepared for the previous meeting of the Market Committee, the dotted lines in the charts indicate the corresponding estimates and median projections of the previous analysis.

10. With regard to the developments in world production, the projection remained almost unchanged. Small differences can be observed, starting from the 2007/2008 season. These are due to the upward revision of the forecasts for cocoa prices in 2007/2008. Developments in world grindings remained almost unchanged. The small upward revision in grindings is due mainly to the new projections of the IMF on GDP growth.

11. **Table 2** provides the expected levels of production for regions and individual countries which make up the total expected level of world production. At a regional level, production from Africa continues to provide the bulk of the world supplies, accounting for more than two thirds of world production in the 2006/2007 season. Current forecasts indicate that its share is expected to be stable during the projection period. On the other hand, the contribution from the Americas is expected to decline from 13% in 2006/2007 to 12% in 2011/2012. As a result, the contribution from Asia/Oceania is expected to increase from 16% in 2005/2006 to 17% in 2011/2012.

12. Amongst individual countries, Côte d'Ivoire remains by far the largest cocoa producer, contributing about 37% of world cocoa supplies. During the projection period, its share is expected to decline slightly from 37.6% to 37.3%. This is because the average growth of its output (i.e. 1.9%) is marginally lower than the world average growth rate (i.e. 2.1%). The world share of the other West African countries is expected to increase. The market share of Ghana is expected to rise from 20.7% in

2006/2007 to 21.6% in 2011/12. The market share of Cameroon is expected to increase over the same period from 5.0% to 5.7%.

#### **PRODUCTION LEVELS TO ACHIEVE EQUILIBRIUM IN THE WORLD COCOA MARKET**

13. It is recalled that, under the International Cocoa Agreement, 1993, the Production Committee established a normative target to achieve and maintain a stocks-to-grindings ratio of 34% to achieve a balanced situation in the world cocoa market.

14. Simulations have been made, which gradually reduce the stocks-to-grindings ratio from its present level of 51% to 34% in 2011/2012. The results are contained in **Table 3**. The analysis indicates that an average reduction in production of 230,000 tonnes *per annum* is required to achieve the target 34% ratio in 2011/2012. As a result, the value of world production would be expected to increase by nearly 14% *per annum* on average during the projection period.

**TABLE 1. RECENT DEVELOPMENTS IN THE WORLD COCOA MARKET AND FORECASTS THROUGH TO 2011/12**

1000 tonnes	Estimates					Forecasts	Projections				
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
<b>SUPPLY AND DEMAND</b>											
<b>World production, '000 tonnes</b>											
Estimates/forecasts/medians	2867	3169	3535	3390	3721	3444	3780	3867	3954	4032	4109
<b>World grindings, '000 tonnes</b>											
Estimates/forecasts/medians	2885	3079	3236	3348	3492	3555	3625	3740	3879	4014	4137
<b>WORLD COCOA STOCKS</b>											
<b>End-of-season stock levels, '000 tonnes</b>											
Estimates/forecasts/medians	1336	1405	1682	1690	1882	1737	1854	1943	1978	1956	1887
<b>Surplus/Deficit</b>											
Estimates/forecasts/medians	-36	69	280	8	192	-146	117	89	35	-22	-68
<b>Stocks-to-grindings ratio (%)</b>											
Estimates/forecasts/medians	46%	46%	52%	50%	54%	49%	51%	52%	51%	49%	46%
<b>COCOA PRICES</b>											
<b>Average price</b>											
Estimates/forecasts/medians	SDR/t 1231	1369	1047	1049	1068	1143	1250	1223	1231	1279	1364
Estimates/forecasts/medians	SDR/t constant (2005/06) 1351	1474	1106	1081	1068	1118	1223	1170	1153	1173	1226

**TABLE 2. FORECASTS OF NATIONAL AND REGIONAL COCOA PRODUCTION THROUGH TO 2011/12**

1000 tonnes	Estimates				Forecasts	Projections				
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
<b>Africa</b>	<b>2231</b>	<b>2548</b>	<b>2387</b>	<b>2649</b>	<b>2479</b>	<b>2710</b>	<b>2788</b>	<b>2859</b>	<b>2921</b>	<b>2979</b>
Cameroon	160	162	191	172	175	191	204	214	223	234
Côte d'Ivoire	1352	1407	1286	1408	1300	1422	1447	1479	1507	1532
Ghana	497	737	599	740	720	793	829	852	871	887
Nigeria	173	180	200	200	160	173	172	175	178	181
<b>Americas</b>	<b>428</b>	<b>462</b>	<b>443</b>	<b>445</b>	<b>447</b>	<b>472</b>	<b>483</b>	<b>495</b>	<b>504</b>	<b>516</b>
Brazil	163	163	171	162	155	159	159	161	163	165
Ecuador	86	117	116	114	118	133	139	144	148	153
Dominican Republic	47	47	31	42	47	46	47	48	49	50
<b>Asia/Oceania</b>	<b>510</b>	<b>525</b>	<b>560</b>	<b>626</b>	<b>546</b>	<b>597</b>	<b>596</b>	<b>600</b>	<b>606</b>	<b>614</b>
Indonesia	410	430	460	520	440	490	487	489	494	500
Malaysia	36	34	29	30	30	34	36	38	39	40
<b>WORLD</b>	<b>3169</b>	<b>3535</b>	<b>3390</b>	<b>3721</b>	<b>3472</b>	<b>3780</b>	<b>3867</b>	<b>3954</b>	<b>4032</b>	<b>4109</b>

TABLE 3. COMPARISON BETWEEN THE REFERENCE AND THE 34% SCENARIO

Reference Scenario	Forecasts	Projections				
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
<b>SUPPLY AND DEMAND</b>						
World production, '000 tonnes	3444	3780	3867	3954	4032	4109
World grindings, '000 tonnes	3555	3625	3740	3879	4014	4137
<b>WORLD COCOA STOCKS</b>						
End-of-season stock levels	1737	1854	1943	1978	1956	1887
Surplus/Deficit	-146	117	89	35	-22	-68
Stocks-to-grindings ratio (%)	49%	51%	52%	51%	49%	46%
<b>COCOA PRICES</b>						
SDR/tonnes (2006/2007)	1118	1223	1170	1153	1173	1226
World production value (millions SDR in 2006/2007 )	3850	4621	4525	4557	4731	5037

Scenario 34 %	Forecasts	Projections				
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
<b>SUPPLY AND DEMAND</b>						
<i>Production Reduction</i>		230	230	230	230	230
World production	3444	3570	3657	3763	3884	4004
World grindings	3555	3625	3700	3800	3912	4021
<b>WORLD COCOA STOCKS</b>						
End-of-season stock levels	1737	1646	1567	1492	1426	1369
Surplus/Deficit	-146	-91	-79	-74	-67	-57
Stocks-to-grindings ratio (%)	49%	45%	42%	39%	36%	34%
<b>COCOA PRICES</b>						
SDR/tonnes (2006/2007)	1118	1223	1312	1403	1508	1620
World production value (millions SDR in 2006/2007 )	3850	4364	4797	5278	5855	6487

CHART 1.

### Forecasts of world cocoa production

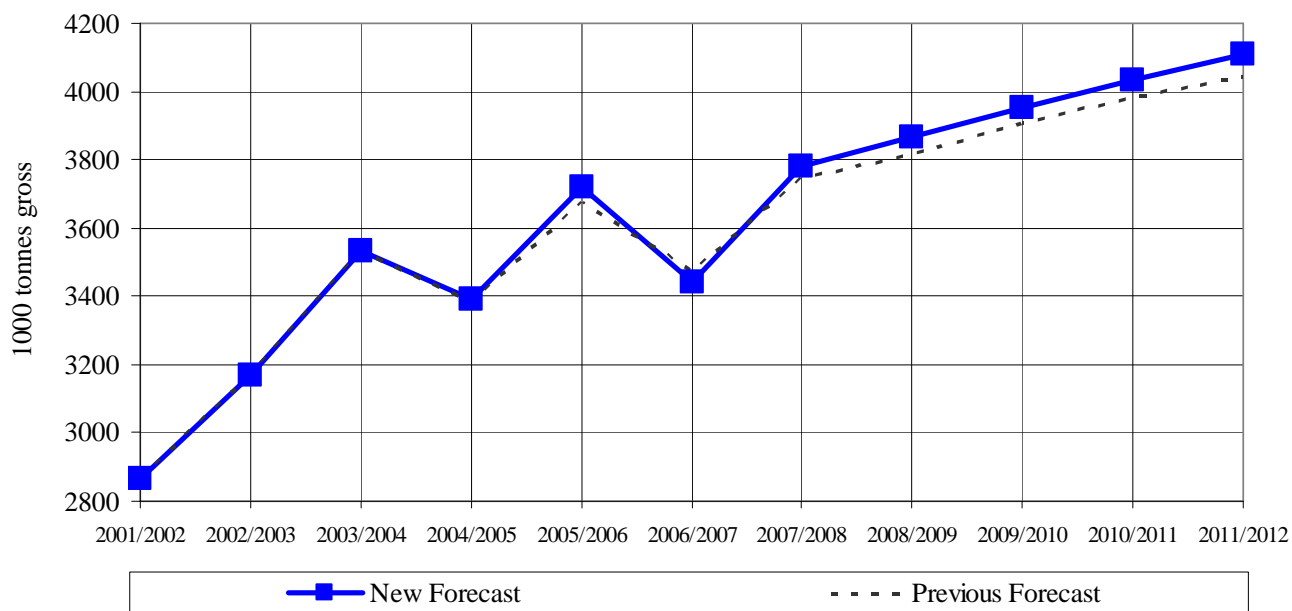


CHART 2.

### Forecasts of world cocoa consumption

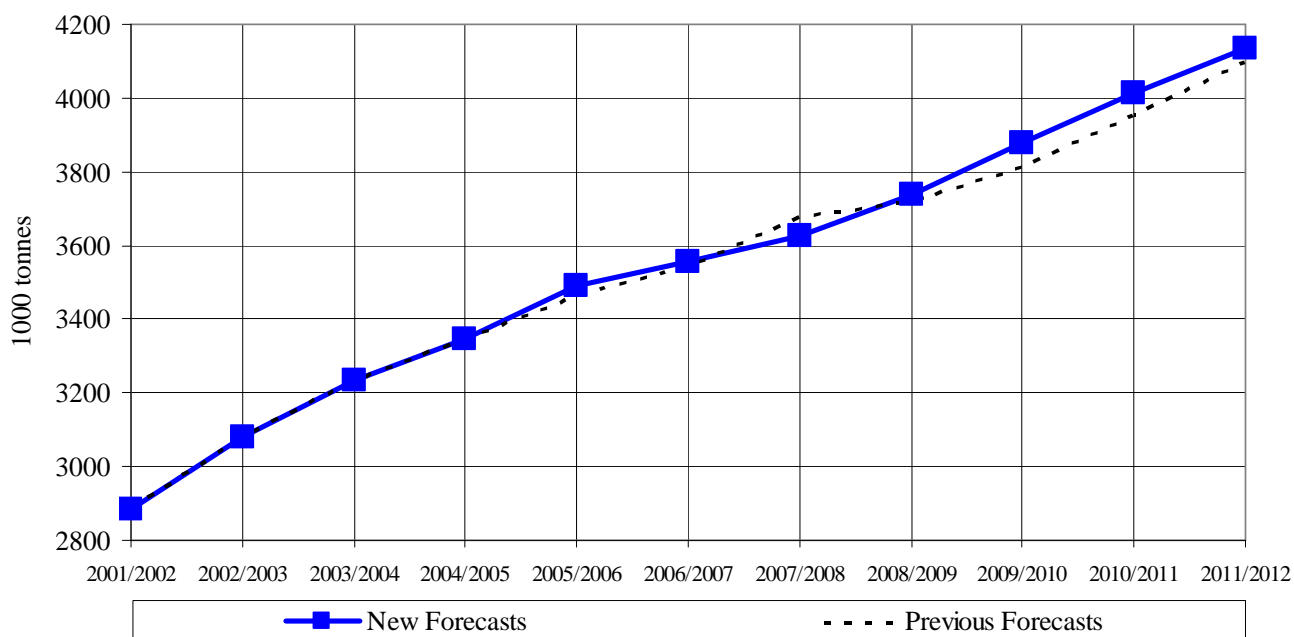


CHART 3.

Forecasts of world cocoa stocks

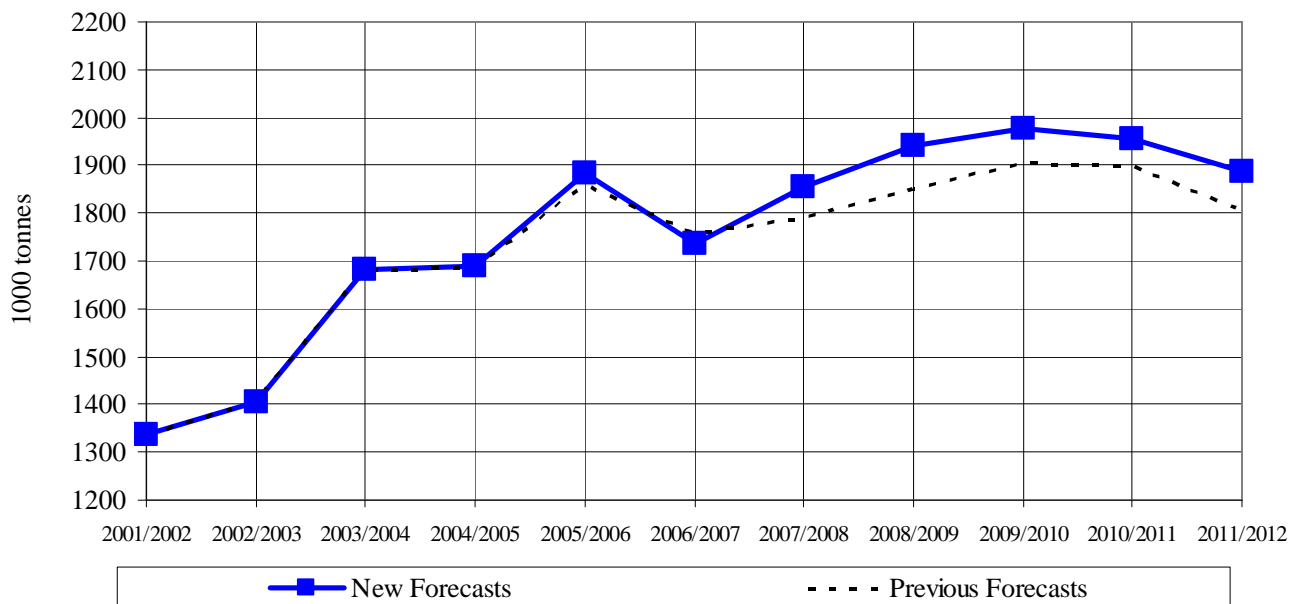


CHART 4.

Forecasts of world stocks to grindings ratio

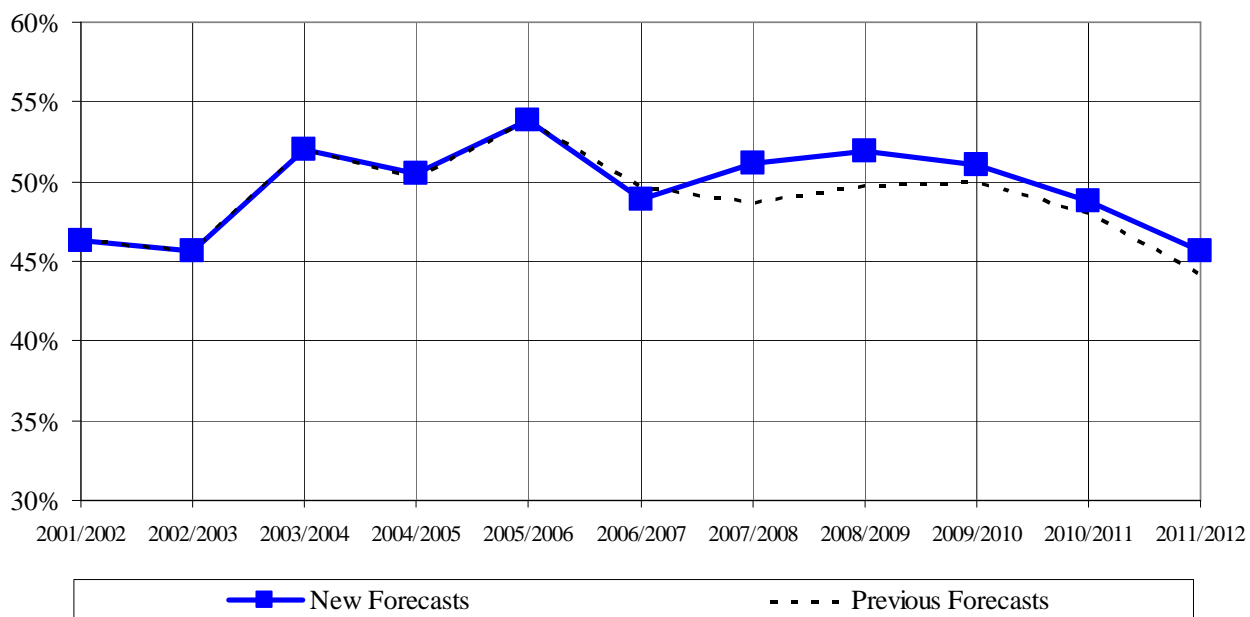


CHART 5.

### Forecasts of annual average cocoa prices

