Asia Choco Cocoa Congress 2015

Latest developments in the global cocoa market

22 April 2015, Singapore

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The International Cocoa Organization (ICCO)
Background

Creation:
• Established in 1973 under the auspices of the United Nations as an inter-governmental organization to administer International Cocoa Agreements (ICA)
• Based in London with Diplomatic Status

Mission:
• To improve the functioning of the world cocoa economy through appropriate activities and coordinated actions among Member countries, in close cooperation with the private sector

Mandate:
• To achieve a sustainable world cocoa economy, encompassing social, economic and environmental dimensions in production, processing and consumption of cocoa
The International Cocoa Agreement (ICA) 2010 is signed by 48 countries, with another 5 (in red) currently in the pipeline, taking the anticipated total number to 53 by the end of this year. This would include 23 cocoa producing countries representing over 95% of global exports and 30 countries representing about 72% of global imports.

**Exporting Member countries**: Brazil, Cameroon, Democratic Republic of Congo, Costa Rica, Côte d’Ivoire, Dominican Republic, Ecuador, Honduras, Gabon, Ghana, Guatemala, Guinea, Indonesia, Liberia, Malaysia, Nicaragua, Nigeria, Papua New Guinea, Peru, Sierra Leone, Togo, and Trinidad and Tobago and Venezuela.

**Importing Member countries**: All European Union Members (28 countries), Russia and Switzerland.
Structure

INTERNATIONAL COCOA COUNCIL

ICCO SECRETARIAT
(The Executive Director and 13 staff)

Consultative Board
(Private sector, research institutions, civil society)

Economics Committee

Administration and Finance Committee

Expert Working Groups on Stocks, Quality, Fine or Flavour Cocoa, etc
Main activities

1. Acts as a *forum for discussions on policy / strategic issues* affecting the global cocoa economy. Done through meetings of the ICCO Council and Subsidiary bodies, including Private Sector (Consultative) Board and Expert Working Groups;

2. Promotes *market transparency*: collection and dissemination of statistics and information on the cocoa market, regular analysis of cocoa market situation, market forecasts, etc. (publication of the ICCO *Quarterly Bulletin of Cocoa Statistics* and the *World Cocoa Directory*) and economic studies;

3. Develops and supervises *projects* to resolve specific issues and to improve the functioning of the cocoa economy.

4. Organizes *conferences* (World Cocoa Conference); *workshops* and *seminars* aimed at strengthening capacity.
Some examples of specific activities

1. Set up *International Standard Specifications for Jute Bags* in the packing of cocoa beans;

2. Developed a *Manual on Best Known practices* along the cocoa value chain, and a *Manual on the Safe Use of Pesticides*;

3. Work towards harmonization of cocoa-related *SPS (food safety) legislations* (pesticides residues, heavy metals, etc.) to address food safety concerns;

4. Hold *Workshops* on cocoa certification, on cocoa SPS matters as well as *seminars* on cocoa financial futures markets; on modelling of the cocoa sector; on project development, etc.

5. Supervise various *cocoa development projects* in cocoa producing countries (Germplasm, Pests & Pathogens, SPS, risk management, etc.)


7. Organized the first *World Cocoa Conference* (Nov 2012 in Abidjan, Côte d’Ivoire) and 2nd edition (June 2014 in Amsterdam, The Netherlands)
Are we running out of chocolate?: Characteristics of the World Cocoa Market:
The “chocapocalypse 2020”
Are we going to buy our chocolate in jewellery shops?

“We'll run out of cocoa in just SEVEN years!”
“The world will officially run out on October 2, 2020”
*Star Sunday – 6 October 2013*

“No more chocolates by 2020!”
“Chocolate bars may get replaced by slabs of palm oil and vegetable fats packed with raisins and nougat by 2020 ”
*The Times of India – 13 April 2014*

“Don’t panic, but we could be running out of chocolate”
“By 2020, the world could see a chocolate deficit of 1m tonnes”
*The Telegraph – 17 November 2014*

Alarming headlines ... unrealistic???
Trend in supply & demand

Source: ICCO
WORLD COCOA PRODUCTION (gross)  
2014/15 forecast: 4.232 million tonnes

Latin America: 17%  
(708,000 tonnes)

Africa: 72%  
(3.061 million tonnes)

Asia & Oceania: 11%  
(464,000 tonnes)

Source: ICCO
Cocoa production: top 12 (thousand tonnes)

- Côte d'Ivoire: 1720 (Forecasts for 2014/15), 1746
- Ghana: 810
- Indonesia: 380
- Nigeria: 375
- Ecuador: 248
- Brazil: 220
- Cameroon: 211
- Peru: 211
- Dominican Republic: 78
- Colombia: 72
- Papua New Guinea: 42
- Mexico: 30

Source: ICCO
WORLD COCOA GRINDINGS
2014/15 forecasts: 4.207 million tonnes

Europe and Russia: 37%
(1.567 million tonnes)

Asia & Oceania: 20%
(860,000 tonnes)

Americas: 21%
(903,000 tonnes)

Africa: 21%
(877,000 tonnes)
Cocoa processing: top 15
(thousand tonnes)

- Forecasts for 2014/15
- Estimates for 2013/14

Source: ICCO
Cocoa apparent consumption

Source: ICCO, Quarterly Bulletin of Cocoa Statistics
Growth in cocoa consumption

Source: ICCO
### What about China and India?

#### Retail Chocolate confectionery consumption

<table>
<thead>
<tr>
<th>Year</th>
<th>World</th>
<th>China &amp; India</th>
<th>% world</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012/13</td>
<td>6,946</td>
<td>314</td>
<td>4.5%</td>
</tr>
<tr>
<td>2013/14</td>
<td>7,061</td>
<td>344</td>
<td>4.9%</td>
</tr>
<tr>
<td>2014/15</td>
<td>7,177</td>
<td>375</td>
<td>5.2%</td>
</tr>
<tr>
<td>2015/16</td>
<td>7,314</td>
<td>406</td>
<td>5.5%</td>
</tr>
<tr>
<td>2016/17</td>
<td>7,465</td>
<td>437</td>
<td>5.9%</td>
</tr>
<tr>
<td>2017/18</td>
<td>7,626</td>
<td>469</td>
<td>6.2%</td>
</tr>
<tr>
<td>2018/19</td>
<td>7,796</td>
<td>502</td>
<td>6.4%</td>
</tr>
</tbody>
</table>

#### Cocoa consumption

<table>
<thead>
<tr>
<th>Year</th>
<th>World Consumption</th>
<th>China &amp; India</th>
<th>% world</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012/13</td>
<td>3,889</td>
<td>115</td>
<td>3.0%</td>
</tr>
<tr>
<td>2013/14</td>
<td>4,089</td>
<td>138</td>
<td>3.4%</td>
</tr>
<tr>
<td>2014/15</td>
<td>4,131</td>
<td>150</td>
<td>3.6%</td>
</tr>
<tr>
<td>2015/16</td>
<td>4,218</td>
<td>162</td>
<td>3.8%</td>
</tr>
<tr>
<td>2016/17</td>
<td>4,318</td>
<td>175</td>
<td>4.0%</td>
</tr>
<tr>
<td>2017/18</td>
<td>4,437</td>
<td>188</td>
<td>4.2%</td>
</tr>
<tr>
<td>2018/19</td>
<td>4,568</td>
<td>201</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

#### Annual growth 2013/14 - 2018/19

<table>
<thead>
<tr>
<th></th>
<th>World</th>
<th>China &amp; India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>2.0%</td>
<td>7.9%</td>
</tr>
</tbody>
</table>

Source: Euromonitor, ICCO
The “cocoa ship”: the need to have a long term view and tools to navigate
Cocoa supply surplus/deficit & prices: the long-term trend

Analysis using the Hodrick–Prescott filter
“Structural” supply deficit:

1. price of cocoa surges
2. growth of demand for cocoa and chocolate products is reduced, particularly from developing and emerging economies & the industry and consumers seeks cheaper alternatives to cocoa.
3. more investment in cocoa growing is made due to the increased attractiveness of cocoa growing - cocoa production rises
4. price of cocoa starts to decline...
5. ...while a period of supply surplus is emerging

“Structural” supply surplus:

1. price of cocoa falls
2. growth of demand for cocoa and chocolate products increases, particularly from developing and emerging economies
3. Cocoa growing is no longer an attractive business opportunity – cocoa farmers tend to invest in alternative crops (palm oil, rubber, etc). Younger generation is not there. The poorest smallholder farmers, with no alternative to cocoa growing, continues but poverty is increased - cocoa production does not increase to meet potential demand
4. price of cocoa starts to increase...
5. ...while a period of supply deficit is emerging

Both scenario are plausible in the medium term... but oversupply would have a more deleterious impact on the sustainability of the cocoa sector... All positive efforts to improve sustainability of the cocoa sector would be partially lost.
“Remunerative” cocoa prices that compensate farmers sufficiently to ensure a “living” income is a necessary condition for sustainability of the cocoa sector.
ICCO Forecasts for cocoa supply and demand

Source: ICCO
Cocoa price and farmers’ income
Development of cocoa prices, in relation to cocoa availability

Crop year (Oct-Sep) vs. ICCO daily price US$/tonne (2013/14 terms)

- 18 July 1977: max US$18,000
- 24 Nov 2000: min US$1,000
- Now about: US$2,850

Stocks-to-grindings ratio (right scale)

ICCO daily price US$/tonne (current)

ICCO daily price US$/tonne (2013/14 terms)
Value distribution: low share for the raw beans

Prebisch–Singer thesis: decline of the value of the raw beans against cocoa manufactured goods

Sources: Euromonitor, ICCO
### Value chain distribution

#### Value Distribution Table

<table>
<thead>
<tr>
<th>Value Distribution</th>
<th>Sells</th>
<th>Buys</th>
<th>Value Added</th>
<th>Profit</th>
<th>final sale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farmers income weighted</td>
<td>$ 1.874</td>
<td>$ 664</td>
<td>$ 1.210</td>
<td>$ 1.210</td>
<td>6.6%</td>
</tr>
<tr>
<td>Inland Transport</td>
<td>$ 1.971</td>
<td>$ 1.874</td>
<td>$ 97</td>
<td>?</td>
<td>0.5%</td>
</tr>
<tr>
<td>Taxes/MarketingBoard</td>
<td>$ 2.745</td>
<td>$ 1.971</td>
<td>$ 774</td>
<td>?</td>
<td>4.2%</td>
</tr>
<tr>
<td>International Transport</td>
<td>$ 2.793</td>
<td>$ 2.745</td>
<td>$ 48</td>
<td>?</td>
<td>0.3%</td>
</tr>
<tr>
<td>Costs port of arrival</td>
<td>$ 2.993</td>
<td>$ 2.793</td>
<td>$ 201</td>
<td>?</td>
<td>1.1%</td>
</tr>
<tr>
<td>International Traders</td>
<td>$ 3.038</td>
<td>$ 2.993</td>
<td>$ 45</td>
<td>?</td>
<td>0.2%</td>
</tr>
<tr>
<td>Processors &amp; Grinders</td>
<td>$ 4.434</td>
<td>$ 3.038</td>
<td>$ 1.395</td>
<td>$ 211</td>
<td>7.6%</td>
</tr>
<tr>
<td>Manufacturer*</td>
<td>$ 10.858</td>
<td>$ 4.434</td>
<td>$ 6.425</td>
<td>$ 870</td>
<td>35.2%</td>
</tr>
<tr>
<td>Retail &amp; Taxes</td>
<td>$ 18.917</td>
<td>$ 10.858</td>
<td>$ 8.058</td>
<td>$ 473</td>
<td>44.2%</td>
</tr>
<tr>
<td>Per tonne of sold cocoa</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Cocoa Barometer, 2015*
Part I: Overview on global supply and demand for cocoa

Part II: Supply outlook and the economics of cocoa farming
  • The determinants of cocoa supply
  • The recent developments in Africa, Asia & Oceania and in the Americas
  • Smallholding cocoa farming: productivity and income
  • Large commercial estates: increasing contribution?

Part III: Cocoa prices development and futures markets
  • The determinants of cocoa prices
  • Recent developments on cocoa futures trading

Part IV: The economics of cocoa processing and manufacturing
  • The recent trends in cocoa processing
  • The economics of cocoa processing and chocolate manufacturing
  • Market concentration and vertical integration

Part V: The chocolate market: diverse and buoyant
The World Cocoa Conference:

a process for cocoa & chocolate stakeholders to coordinate efforts towards sustainability
What happened at the first World Cocoa Conference?
19-23 November 2012, Abidjan, Côte d’Ivoire

**Outputs:**
- Adoption of the *Global Cocoa Agenda*, outlining the key issues facing the cocoa sector and the best strategy and players to tackle them
- *Abidjan Cocoa Declaration*: signed by 35 parties (countries, companies, associations, NGOs)

**Main recommendations:**
- Countries to develop and implement a national Cocoa Development Plan derived from a fully transparent and participatory process with all key stakeholders involved in the cocoa sector, through public-private partnerships
- Participants to increase transparency and coordination of development activities implemented and planned for the future in the cocoa sector at national, regional and international levels, thereby allowing for more coherent and efficient actions to address the challenges faced by the sector
What happened at the second World Cocoa Conference?
9-13 June 2014, Amsterdam, The Netherlands
Highlights of the Conference

- National Cocoa Development Plan & Public-Private-Partnership platform
- Alignment of strategy by the industry
- Farmers’ income
- Amsterdam Cocoa Declaration
Conclusions

Interdependence of actors in the value chain

Better tools to evaluate market situation and future prospects...

Better coordination of initiatives and national policies affecting supply, at national level (PPPP) and international level...

Increasing productivity AND advocating crop / farm diversification...

Increasing quality, promoting diversity and branding the cocoa origins (de-commoditization) for better prices...

Don’t worry and enjoy your chocolate !!!!!
**World Cocoa Conference 2016**

22 – 25 May 2016, Bávaro (Punta Cana), Dominican Republic

**Objectives:**
- Take stock of the progress achieved by stakeholders in the implementation of the *Global Cocoa Agenda* adopted in Abidjan in 2012
- Review recent developments in the cocoa sector.

**Special emphasizes:**
A special emphasis will be put on the theme to promote differentiation of various cocoas and cocoa products as a tool for branding and of market development, in order to increase profitability for producers and creating added value for both origins and manufacturers.

The WCC3 is organized under the theme: “**Building bridges between producers and consumers**”.

For more information: [www.worldcocoaconference.org](http://www.worldcocoaconference.org)
**World Cocoa Conference 2016**

**22 – 25 May 2016, Bávaro (Punta Cana), Dominican Republic**

**Exhibition:** an opportunity to promote brands and showcase products and projects to the most influential gathering of professionals from the cocoa and chocolate industry.

**Networking:** the event will attract industry leaders from all geographical regions throughout the entire supply chain. Many side events and parties will be organized during the week.

**Learning:** an opportunity to learn about the most recent actions taken to ensure the sustainability of the sector and about the latest market developments.

**Sharing:** an opportunity to share experiences during and around the sessions.