

The impact of reform on Côte d'Ivoire's cocoa grinding sector

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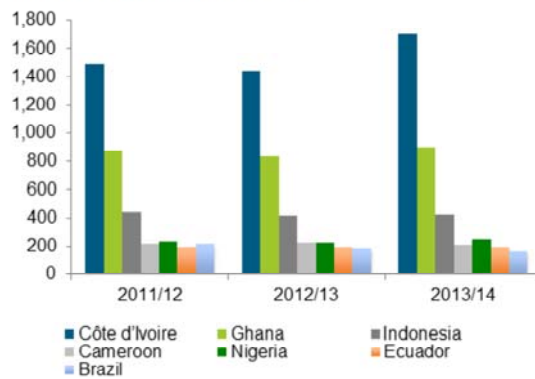
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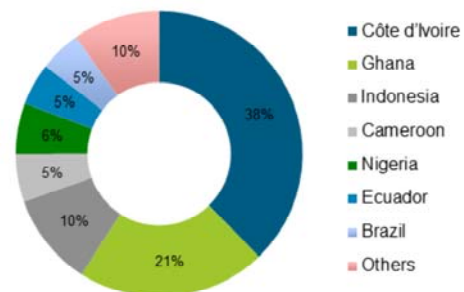
Côte d'Ivoire is the world's largest cocoa producer

Record output is expected in 2013/14

World cocoa production, 000s tonnes



Share of world cocoa production, 2010-13



- Côte d'Ivoire averaged production of 1.54mn MT over the past three seasons.
- West Africa produces 70% of world cocoa output.

Sources: ICCO, Ecobank Research.

Middlemen dominate the marketing of beans



A handful of multinationals dominate the grind

Côte d'Ivoire's cocoa grinding sector, 2014

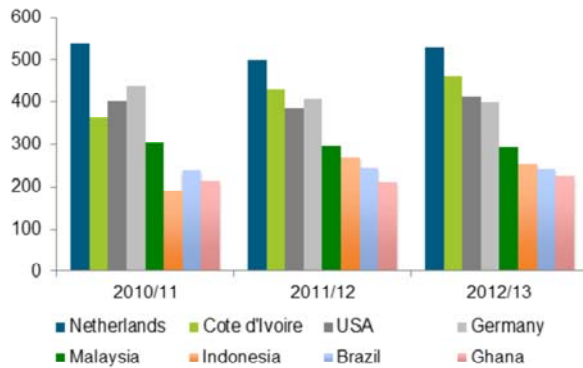
Company	Capacity (000s MT)	Market Share	Cocoa products
Barry Callebaut (Saco)	190	28.4%	Liquor Powder
Cargill (Micao)	120	17.9%	Liquor, Butter, Powder
Cemoi	100	14.9%	Liquor, Butter, Cake, Chocolate
ADM (Uncao)	86	12.8%	Liquor, Butter, Cake
Olam	70	10.4%	Liquor, Butter, Cake
Choco Ivoire (Saf Cacao)	32	4.8%	Liquor
Ivory Cocoa Products (ICP)	25	3.7%	Paste, Cake, Butter
Sucso	24	3.6%	Paste, Cake, Butter
Condica	15	2.2%	Paste
Tafi	8	1.2%	Roasted beans
Total	670	100%	

Source: Ecobank Research estimates.

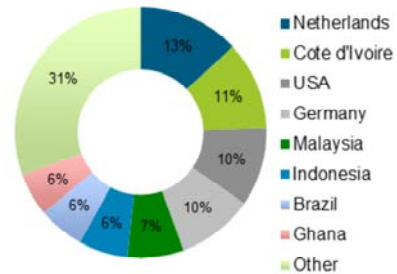
Côte d'Ivoire is the world's second largest cocoa grinder

Installed capacity may have reached a plateau

World cocoa grind, 000s tonnes



Share of world cocoa grind, 2012/13



- Côte d'Ivoire's cocoa grind was 460,000 MT in 2012/13, 11.4% of the world total.
- Cocoa liquor makes up around 40% of the grind, but powder is increasingly important.
- Côte d'Ivoire is being displaced by new grinding hubs in South-East Asia, notably Indonesia.

Sources: ICCO, Ecobank Research.

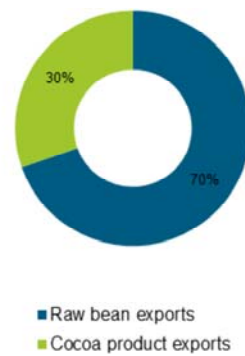
But most beans are still exported raw

Only 30% of the cocoa crop is processed into products

Côte d'Ivoire's cocoa production & grind, 000s MT



ave % of cocoa processed



- The proportion of the crop which is ground fell from 34.2% in 2009/10 to 31.7% in 2012/13.
- The government aims to increase this to 40% in the short term, and 50% in the medium term.

Sources: ICCO, Ecobank Research.

Sweeping reforms have been introduced by the CCC

The focus has pivoted away from grinders towards farmers

Previous system

Overall aim to ensure Ivorian cocoa products remain competitive in Europe/USA

Six competing marketing boards

Indicative farmgate price, routinely flouted at the farmgate by pisteurs

Sliding scale of export tax breaks for processors

No futures contracts for exports

Current system

Overall aim to ensure farmers receive at least 60% of the average CIF price

Single, centralised authority (the CCC)

Minimum farmgate price, enforced with prosecutions

End of export tax break for processors (but rebates for mid-crop beans)

Daily futures auction for export contracts

Farmers have benefitted from the fixed farmgate price

The CCC has enforced higher bean quality standards

Fixed farmgate price, local currency & US\$

	2012/13	2013/14
Côte d'Ivoire (XOF/kg)	725	750
Ghana (GHS/MT)	3,392	3,392
Côte d'Ivoire (US\$/MT)	1,479	1,589
Ghana (US\$/MT)	1,578	1,211
ICE cocoa futures (US\$/MT)	2,312	2,890
Côte d'Ivoire (% of ICE price)	64.0	55.0
Ghana (% of ICE price)	68.2	41.9

Cocoa quality grading

QUALITE	NIVEAU RECOMMANDE		NIVEAU INTERNATIONAL	
	DEFECTS	DEFECTS	QUALITE	
GRADE 1 (0.1)	MOISTURE < 60%	MOISTURE < 60%	MOISTURE < 60%	MOISTURE < 60%
	ADULTERATION < 10%	ADULTERATION < 10%	ADULTERATION < 10%	ADULTERATION < 10%
	DEFECTS/100KG < 10%	DEFECTS/100KG < 10%	DEFECTS/100KG < 10%	DEFECTS/100KG < 10%
GRADE 2 (0.2)	MOISTURE < 60%	MOISTURE < 60%	MOISTURE < 60%	MOISTURE < 60%
	ADULTERATION < 10%	ADULTERATION < 10%	ADULTERATION < 10%	ADULTERATION < 10%
	DEFECTS/100KG < 10%	DEFECTS/100KG < 10%	DEFECTS/100KG < 10%	DEFECTS/100KG < 10%
GRADE 3 (0.3)	MOISTURE < 60%	MOISTURE < 60%	MOISTURE < 60%	MOISTURE < 60%
	ADULTERATION < 10%	ADULTERATION < 10%	ADULTERATION < 10%	ADULTERATION < 10%
	DEFECTS/100KG < 10%	DEFECTS/100KG < 10%	DEFECTS/100KG < 10%	DEFECTS/100KG < 10%
GRADE 4 (0.4)	MOISTURE < 60%	MOISTURE < 60%	MOISTURE < 60%	MOISTURE < 60%
	ADULTERATION < 10%	ADULTERATION < 10%	ADULTERATION < 10%	ADULTERATION < 10%
	DEFECTS/100KG < 10%	DEFECTS/100KG < 10%	DEFECTS/100KG < 10%	DEFECTS/100KG < 10%

- Pisteurs regularly flouted 'indicative price', paying 20-40% of the international price.
- Last season's fixed price of XOF725/kg was 64% of the international price.
- Higher prices have boosted farmers' incomes and driven improved husbandry, while tighter quality controls have incentivised farmers to ferment and dry beans properly.
- Grinders appear satisfied with the pricing of mid-crop beans, but exporters complain that the system for paying rebates puts them at a disadvantage to grinders.

Sources: CCC, Cocobod, Bloomberg, Ecobank Research. 2013/14 average for season so far.

The forward auction has proved a success

But the small players are struggling to participate

Système Intégré de Vente À Terme du Café et du Cacao (SIVATC2)

Système Intégré de Vente À Terme du Café et du Cacao

SOUSSIONS | SESSION DE 15:00:00 À 15:30:00

Choisir le Produit: Cacao

13:00 Temps restant

PERIODE CACAO - 2011 - 2012							
N°	Produit	Grade	Destination	Période	Prix de Base (P. CFA)	Prix proposé (P. CFA)	Volume (T)
1	CACAO	GF	EUROPE	OCT - NOV - DEC 2011 - 2012	800		
2	CACAO	GF	EUROPE	JANV - FEV - MARS 2012 - 2012	800		
3	CACAO	GF	EUROPE	JUL - AOÛT - SEPT 2012 - 2012	800		
4	CACAO	GF	EUROPE	AVR - MAI - JUIN 2012 - 2012	800		

PERIODE CACAO - 2012 - 2013							
N°	Produit	Grade	Destination	Période	Prix de Base (P. CFA)	Prix proposé (P. CFA)	Volume (T)
1	CACAO	GF	EUROPE	OCT - NOV - DEC 2012 - 2013	875		
4	CACAO	GF	EUROPE	JANV - FEV - MARS 2013 - 2013	1 000		

Comité de Gestion de la Filière
Café et du Cacao
101 Avenue de la République
01 BP 1000
Cotonou 01 BP 1000
Téléphone: 22 92 21 11 / 22 92 21 12 / Fax: 22 92 21 14

Source: CCC.

- The forward auction system was introduced in January 2012.
- There are twice daily auctions for export contracts, stipulating the tonnage of beans and export period (e.g. October-December).
- The CCC allocates contracts after considering all bids, but its selection process is unclear.
- Around 2/3 of Côte d'Ivoire's current crop was pre-sold last season.
- Small grinders have struggled to meet the financial requirements needed to take part in the auction.

Grinders have lost their tax breaks

Changes to the calculation of the DUS are controversial

Droit Unique de Sortie (DUS)

DUS :	10,0000%
Taxe d'enregistrement :	0,9356%
Redevances Conseil du Café-Cacao :	1,4310%
Dont :	
Redevance Conseil du Café-Cacao :	0,0000 %
Redevance sacherie brousse :	0,0000 %
Pesage :	0,1000 %
Contrôle de la qualité :	0,1200 %
Contribution aux budgets des Organisations Internationales du café :	0,1410%
Contribution au budget de la Chambre Nationale d'Agriculture :	0,0200%
Contribution au budget du FIRCA :	0,0500 %
Redevance « Relance Caféiculture »:	1,0000%

Source: CCC.

- The DUS was previously calculated on the weight of products exported, and not on the weight of beans purchased to make them.
- This has been reversed, effectively increasing grinders' export tax rate by 25%.
- Grinders complain that the 80/100 multiplier does not reflect their operations' efficiency, forcing some to pay the export tax twice.
- But exporters have welcomed the change, arguing the previous system let grinders corner the market for quality beans.
- Gepex & GNI are in talks with the CCC to increase the *barème* to reflect rising transport costs and regional variations.

New stock & quota rules are hurting the large players

Rules have direct impact on buying & blending strategies

- The CCC mandates that total forward cocoa contracts must be equal to the amount of physical stocks by the end of the main crop.
- This can be tricky to achieve, as grinders & exporters need to hold onto high quality main-crop beans to blend with mid-crop beans.
- Buying quotas for the main crop also restrain grinders' ability to operate at full capacity.
- They can make purchasing a guessing game, as quality varies throughout the main crop.
- In response to industry complaints, the CCC exempted exporters and grinders from stock restrictions during the 2012/13 midcrop.
- But the CCC has not allowed the same exemptions this season.



The small grinders are struggling to compete

Many have a heavy burden of debt

- Small-scale grinders entered the sector within the last six years, attracted by tax breaks.
- They have not yet paid off their capital investment costs, leaving them with reduced revenues and high debt repayments.
- Small grinders lack the scale of their larger rivals, who can hedge their operations through their trading arms.
- Without scale, small grinders struggle to absorb the high costs of importing spare parts and paying for energy to power the plants.
- Grinders with long-term offtaker contracts are weathering the storm, but they remain vulnerable to future contract changes.



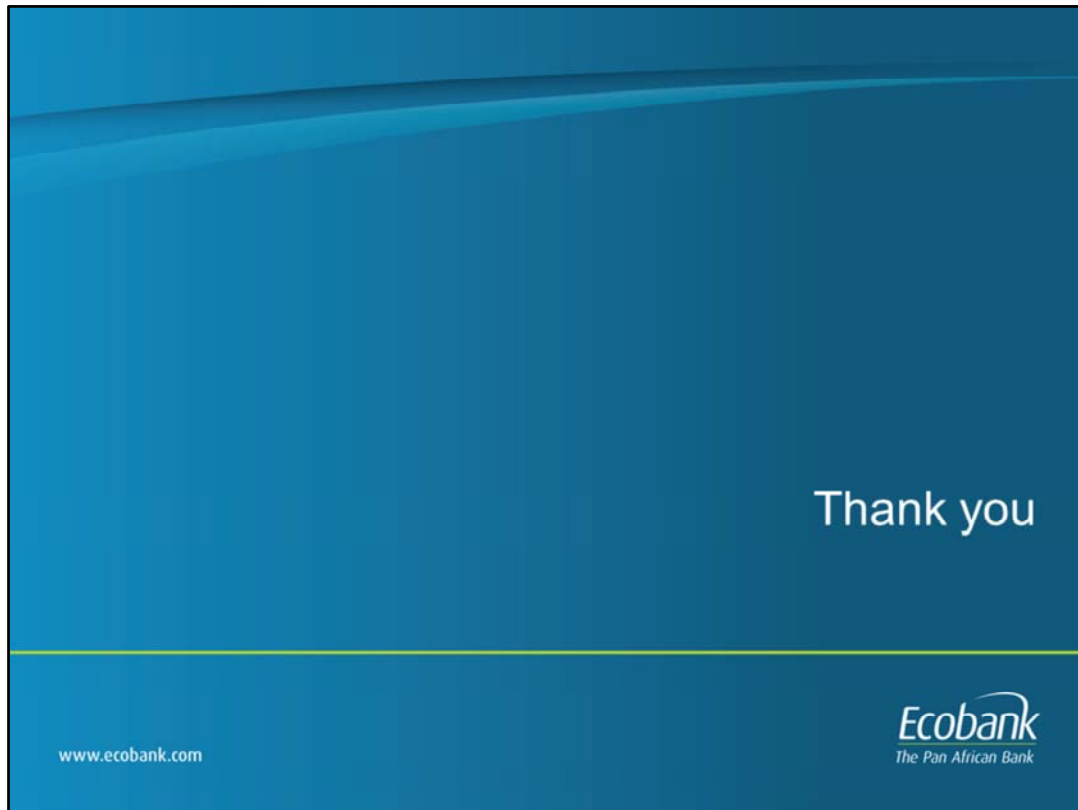
Further changes are needed

Revise the DUS formula, either by amending the 80/100 ratio to reflect each grinder's level of efficiency, or by replacing it with a flat levy on the volume of beans used to make cocoa products.

Give grinders the flexibility to adjust bean quotas & stocks during the season to aid the management of main-crop and mid-crop beans used in blending.

Streamline the process for payment of mid-crop rebates to exporters and redesign the system to ensure exporters receive the same discount as grinders

Ease the requirements for small-scale processors to participate in forward auctions, in order to ensure the full participation of stakeholders.



Thank you