

Improving the efficiency and transparency of the Cocoa Global Value Chain (GVC)

*Market structure and potential impacts on smallholder
farmers*

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OUTLINE

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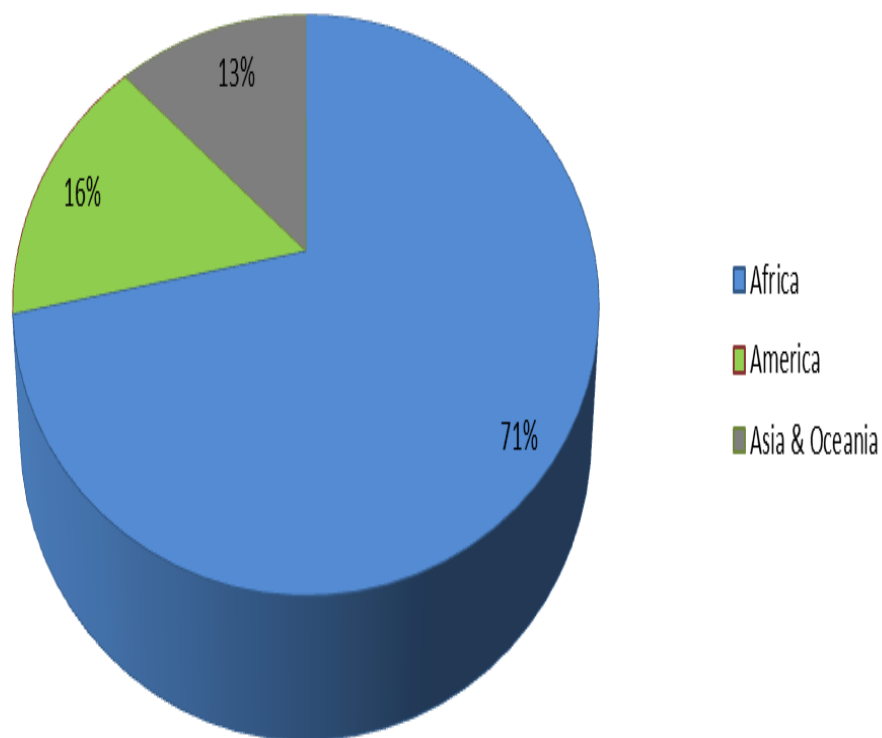
Global cocoa markets: general overview

- **Cocoa sector : key contributor of export revenues, employment and welfare in rural areas in many producing countries, especially in Africa.**
 - **More than a 1/3 of total export earnings (e.g., 2012: Cote d'Ivoire & Ghana)**
- **Cocoa: a crop for smallholder farmers**
 - **Smallholder farmers: about 80 to 90 per cent of the world's cocoa production;**
 - **Number of cocoa farmers : 5 - 6 million worldwide;**
 - **Cocoa constitutes the main/only source of their cash income;**

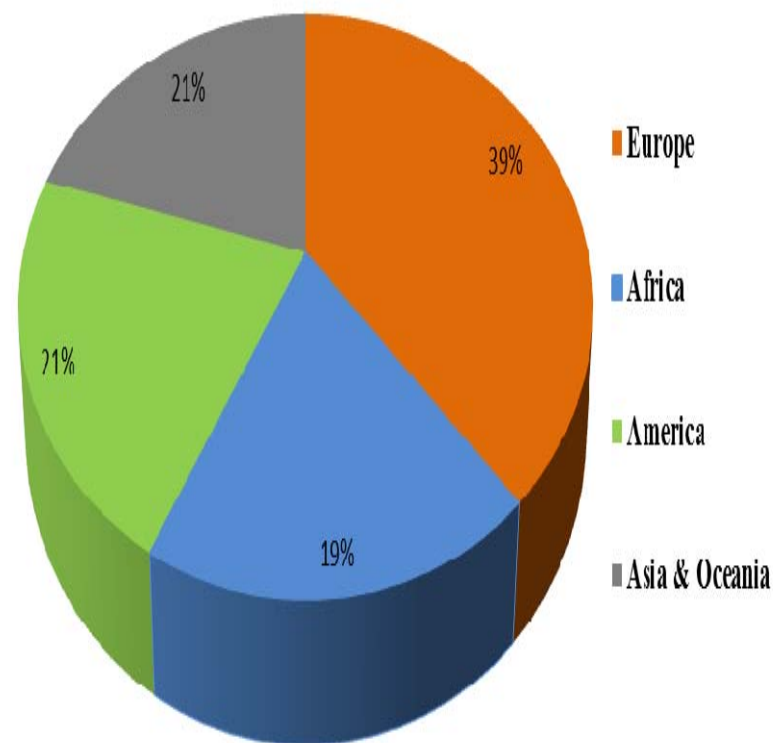
Global cocoa markets: general overview

Cocoa production and grindings, 2012/2013

Production of cocoa beans 2012/2013



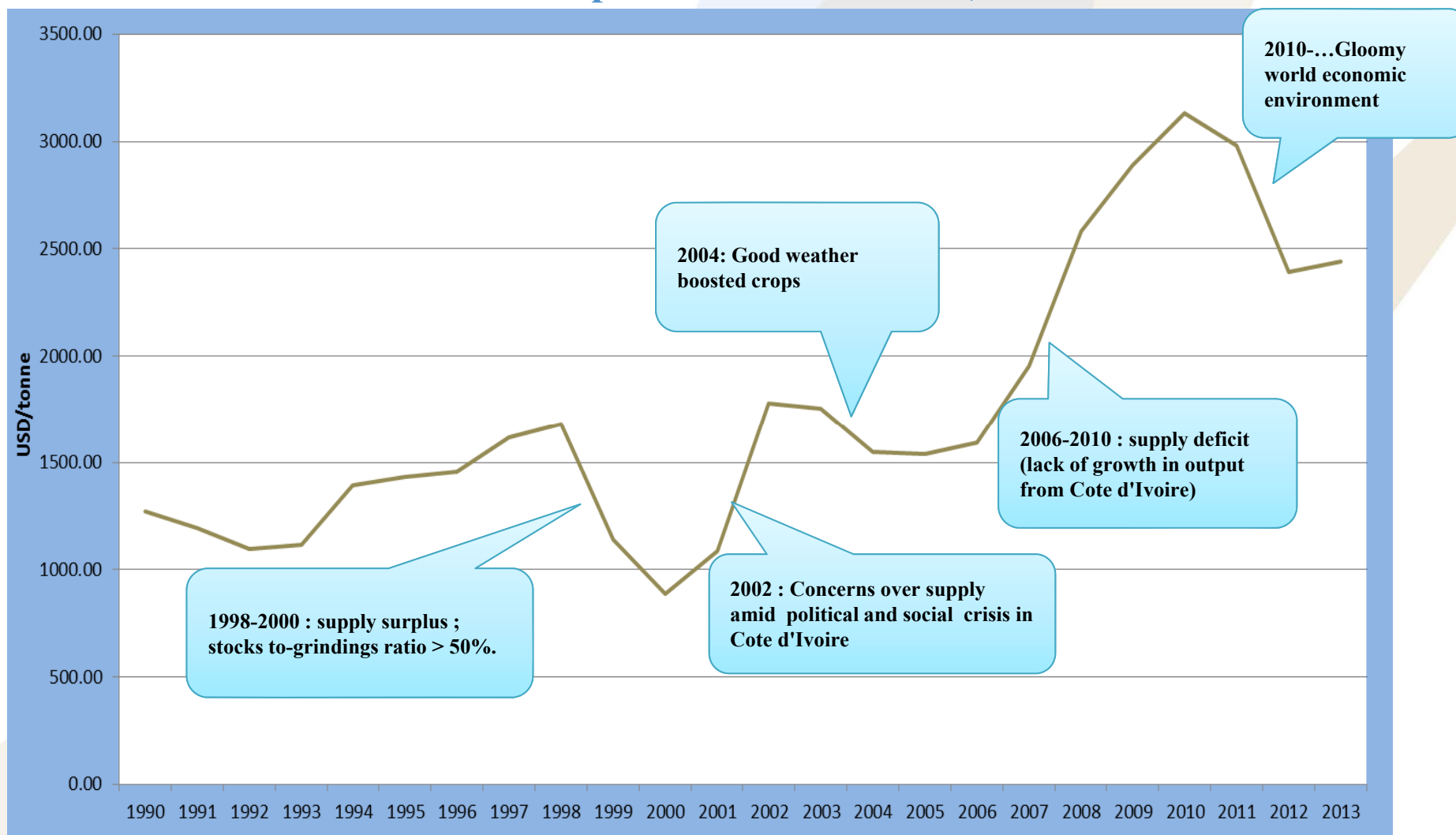
Grindings of cocoa beans 2012/2013



Source : UNCTAD Secretariat based on data from ICCO

Global cocoa markets: general overview (Ctnd)

Trends in annual prices of cocoa beans, 1990-2013



Source : UNCTADStat

Global cocoa markets: general overview (Ctnd)

Producer prices as a share of international prices (percentage) 2002/03 - 2010/2011

Year	Brazil	Ecuador	Cameroon	Côte d'Ivoire	Ghana
2002/03	97	83	90	58	54
2003/04	94	75	86	43	66
2004/05	93	74	82	42	63
2005/06	92	89	74	41	63
2006/07	99	88	68	41	54
2007/08	107	82	67	42	39
2008/09	105	88	70	48	54
2009/10	95	89	73	65	49
2010/11	101	96	83	54	60

Source: ICCO (2012), the World Cocoa Economy: Past and Present

Cameroon (relatively high)

- Reduction in taxation/elimination of export taxes (UNCTAD, 2008).
- (low levies : 25 FCFA/kg or 5 US cents/kg (WTO)

Cote d'Ivoire (low)

- High taxation : about 30% of export prices in 2002 to 25% in 2009 (Kireyev, 2010);
- Today : 22% (WTO)
- Other levies to pursue war aims (Gilbert, 2009)

Ghana (low):

- depreciation of local currency;
- Inflexible price fixing mechanism;

Global cocoa markets: general overview (Ctnd)

- **Determinants of farmers' income levels (most are beyond their control) :**
 - **Developments in international markets;**
 - **National policies (incl. taxation regimes);**
 - **Market regulation or deregulation;**
 - **National and international socio-economic environment;**
 - **Access to input markets (such as credit, quality seedling);**
 - **Quality of crops;**
 - **Bargaining power;**
 - **Access to market information;**
 - **Access to roads and infrastructure;**
 - **Transaction costs**

State of roads in African countries, a crucial constraint to trade

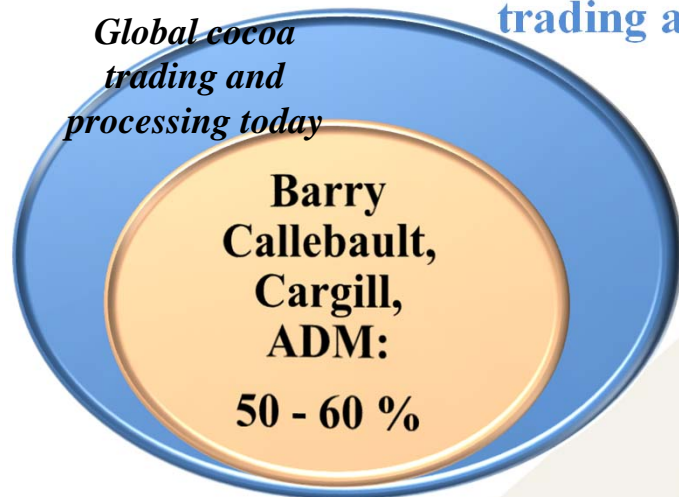


Cocoa industry : increasing concentration (vertical and horizontal integration) and market transparency

- **The situation of small farmers has been exacerbated by other challenges :**
 - **High concentration (vertical/horizontal integration) of the industry fostered by liberalization (UNCTAD, 2008);**
 - + **Contributes to attaining economies of scale;**
 - **Market transparency : limited access to market information/information asymmetry in favour of buyers/traders;**

Cocoa industry : increasing concentration (vertical and horizontal integration)

- **Processing/trading companies have taken over cocoa export-related operations in producing countries; blurring distinctions between trading and processing operations:**



- **2001:** Archer Daniels Midland Company (ADM) bought the the cocoa operations of Sifca (*Société Immobilière et Financière de la Côte Africaine*) including Cocoa bean conditioning plant, warehouse and Unicao (a cocoa processing facility in Cote d'Ivoire);
- **2004:** Cargill with the acquisition of Nestlé cocoa processing facilities in York (UK) and Hambourg (Germany);
- **2006 :** ADM and Olam International Ltd.'s joint acquisition (50% each) of Usicam (large plant of cocoa drying, cleaning and warehousing in Cameroon);

- **Large trading/processing MNCs have been moving further down the value chain to manufacture couverture;**

- **Barry Callebaut, Cargill, ADM: from trading/processing cocoa to producing semi-finished products/manufacturing of couverture;**

- **Other mergers and acquisitions**

- **2013 :** Acquisition of Armajaro Trading by Ecom Agroindustrial Corporation Ltd.



Cocoa GVC and market transparency issue from farmers' perspective

Transparent cocoa market is beneficial for every stakeholder of the cocoa GVCs, including farmers;

- Yet farmers do not have sufficient access to market information to adequately respond to changes in demand;
 - Lack of information on price trends, on trading opportunities and potential buyers, on consumer demand, including quality requirements;
- Such information is needed to:
 - Allow farmers produce the right quality of crop to meet demand;
 - Incentivise them to produce more/respond to market requirements;
- By contrast, cocoa buyers (traders and companies) have usually better access to market information
 - Therefore, market asymmetry

Cocoa industry structure and potential impacts on smallholder farmers

- Weakening bargaining power of smallholder farmers and level of prices they receive;
- Potential rise in the exercise of oligopsonistic or monopsonistic power in cocoa purchasing;
- Asymmetric information in favour of buyers/traders + low bargaining power of farmers ➡ surplus generated by trade opportunities often seized by buyers/traders (Bergaly Kamdem C et al. ,2009).

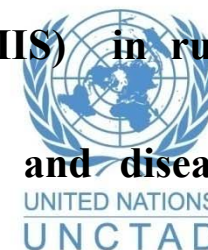
As a result, in many producing countries, small-scale cocoa producers have effectively been reduced to 'price takers', and benefits in cost savings have rarely been passed on to them;

Key messages

- Cocoa sector remains important for the global economy and vital for smallholder farmers in producing countries;
- Cocoa beans prices have strengthened over the past years, however in major producing countries, producer prices as shares of international prices remain low;
- Cocoa farmers' incomes depend on many factors beyond their control, posing a number of challenges to them;
- In particular, concentration in the cocoa industry and market asymmetry issues have effectively reduced smallholder farmers to price takers;

Way forward : potential policy options to improve prices received by smallholder farmers

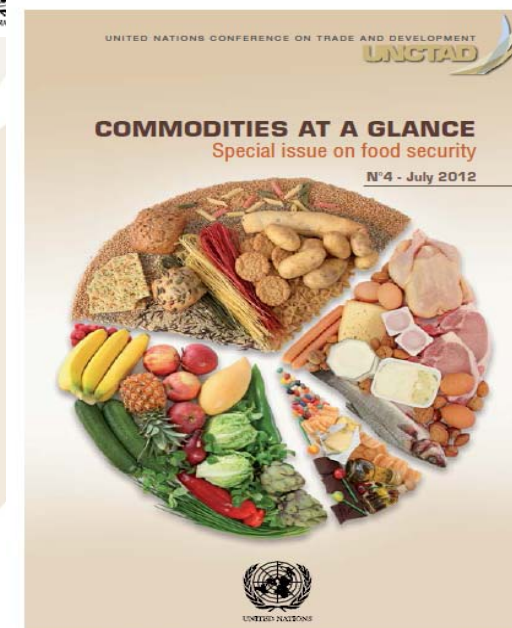
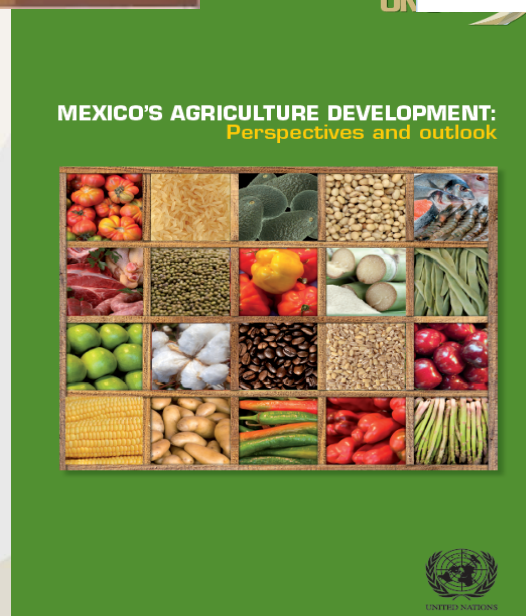
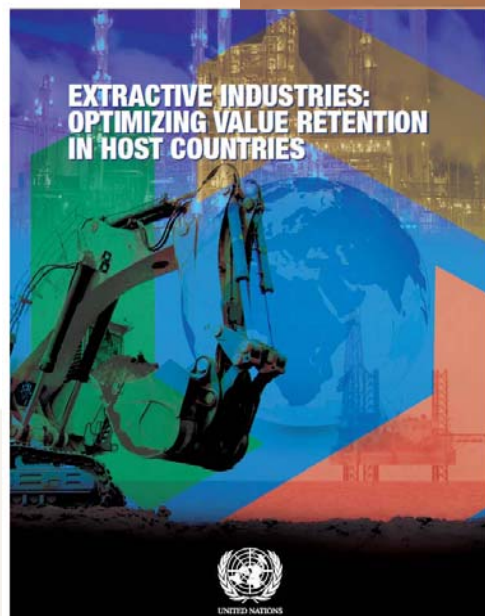
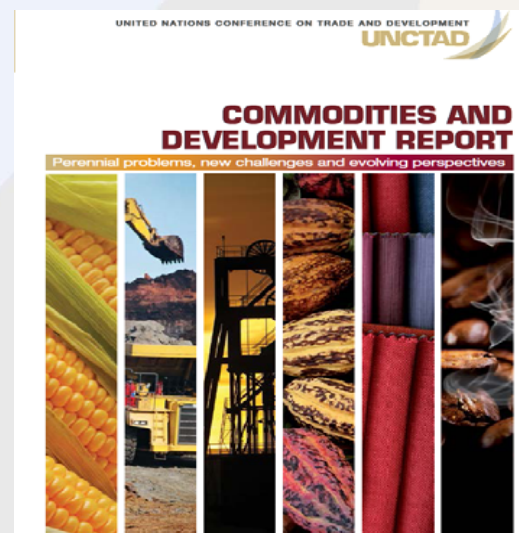
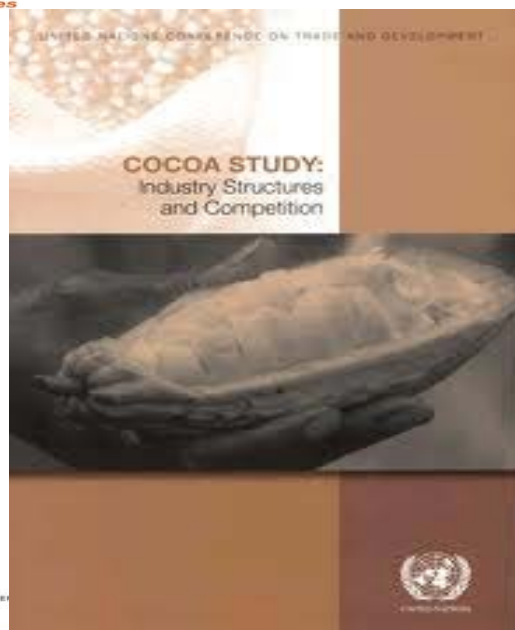
- **Strengthening the legal and regulatory framework to support smallholder farmers.**
 - Enhancing the capacity of farmers through farmers' organizations to address their dispersion, attain economies of scale and competitiveness, including delivering produce in bulk;
 - Addressing imbalance in bargaining power between farmers and MNCs : effective competition law (harmonized within producer and consumer countries) to avoid abuse of buyer power; apply strictly merger regulation mechanisms to prevent excessive mergers and avoid oligopsonic behaviour in the global cocoa market;
- **Promoting sustainability in cocoa industry through effective public-private-producer-partnerships (PPPPs)**
 - Improving partnerships to better integrate farmers into the GVCs (contractual arrangements, joint venture between private companies and small-scale producers groups; investments in capacity building of local communities and institutions); e.g., Ghana Cocolink Initiative – marketing, farming & social info (best farming practices, disease control & prevention, post harvest handling, etc. to farmers on SMS and voice messaging:
 - Increasing investments to improve market information systems (MIS) in rural areas- use of ICTs/mobile phones;
 - Government support to farmers in some areas (researches, pest and diseases control).



Way forward : potential policy options to improve prices received by smallholder farmers

- **Implementing Geographical Indication (GI) system for Cocoa**
 - Effective ways to leverage a unique identity of a product from a particular origin;
 - Conveys an assurance of quality and distinctiveness of a product, to enable farmers obtain a premium price;
- **National policies to enhance incentives for smallholder farmers**
 - Moderate tax/levies (Cote d'Ivoire)
 - Stabilize local currency (Ghana)
 - Improving producer price fixing mechanism (particularly, for Ghana) by adjusting them quickly to upward trends in international markets (contribute to incentivize farmers) rather than the current situation (bonus at the end of crop season);
- **Local value addition activities, including from cocoa by-products**
 - Wine, Gin, soap and cream

UNCTAD, Special Unit on Commodities: some publications



Consulted documents

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THANK YOU