

Structure & competition in West Africa's cocoa trade

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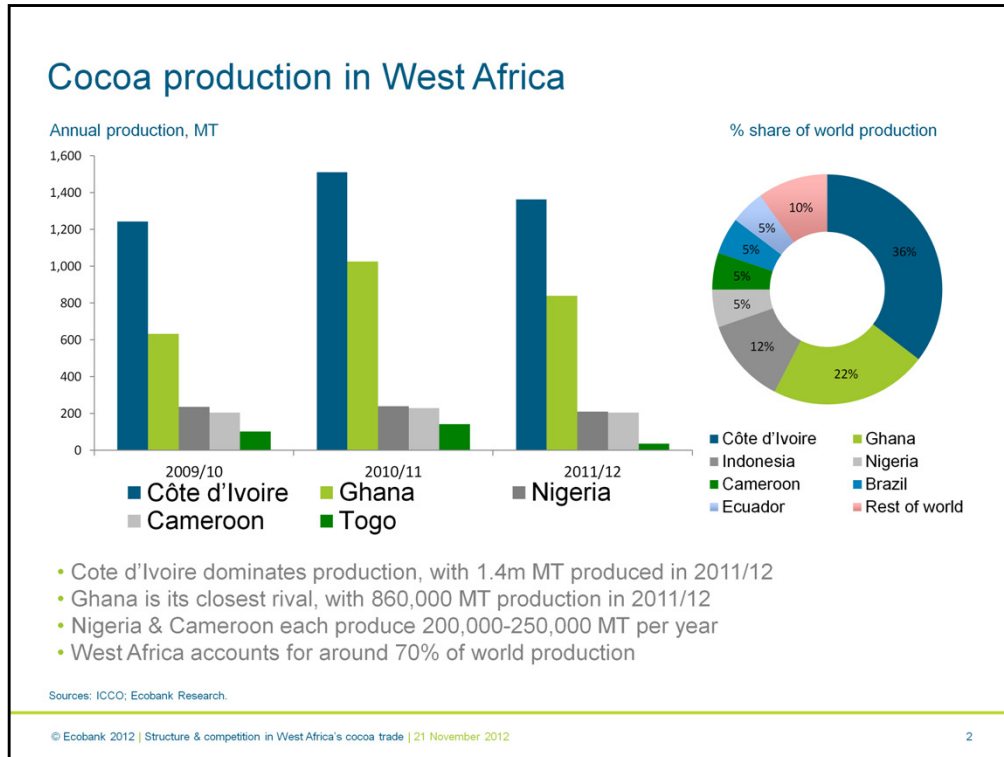
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Talk today about my speciality, West African cocoa trade

As we all know West Africa dominates cocoa production, but the picture is very different when it comes to processing and the trade in cocoa products

The leading traders and chocolatiers – most of whom are at this conference – have a dominating position in West Africa's cocoa trade, and this directly effects the level of competitiveness in the sector, but also the ability of new players to emerge and challenge their dominance



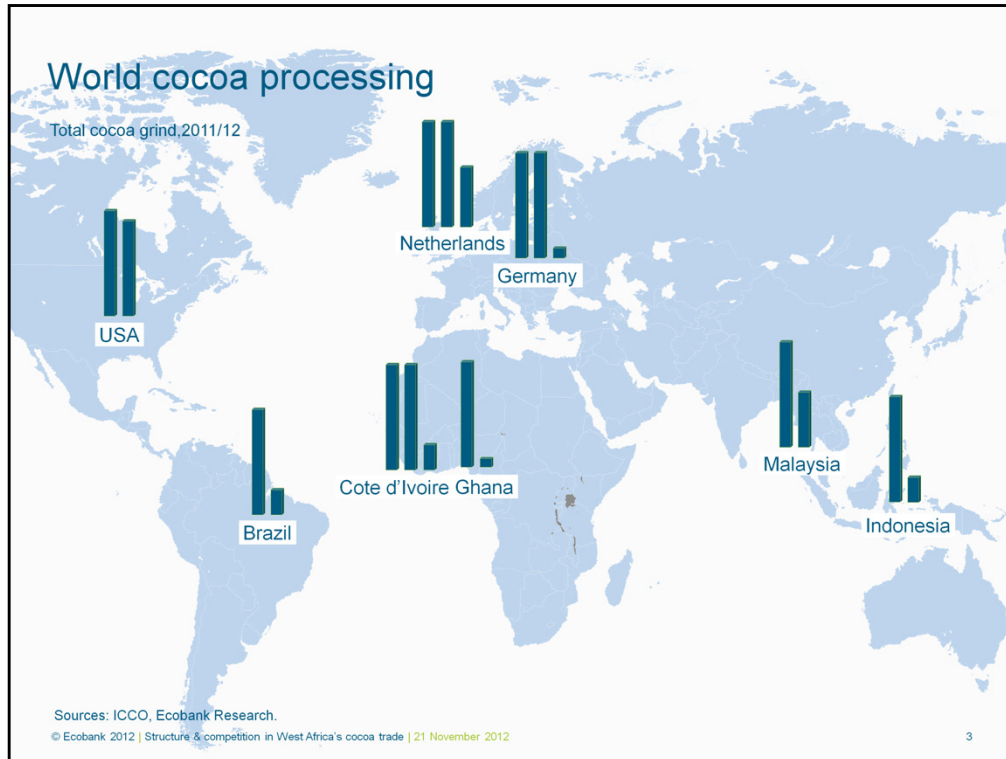
If we start with the obvious, West Africa leads the world in cocoa production

CDI is leading producer, with 1.4m MT last season, followed by Ghana with 860,000 MT and Nigeria & Cameroon which vie for third place with production between 200 and 250,000 MT per year

Togo is mainly a re-export hub for cocoa from elsewhere in the region, as is neighbouring Benin

Given the large volumes of cocoa smuggled within the region, in differing directions depending on local market conditions, it's not easy to say which country produced which cocoa

But it's clear that West Africa as a whole leads the world market, with the closest competitors being Indonesia with around 1/2m MT & Brazil with 200,000 MT



But when we look at processing capacity in the world, it is clear that West Africa faces major competition

The Netherlands & CDI are the two largest processors, with a combined grind of around 1m MT in 2011/12

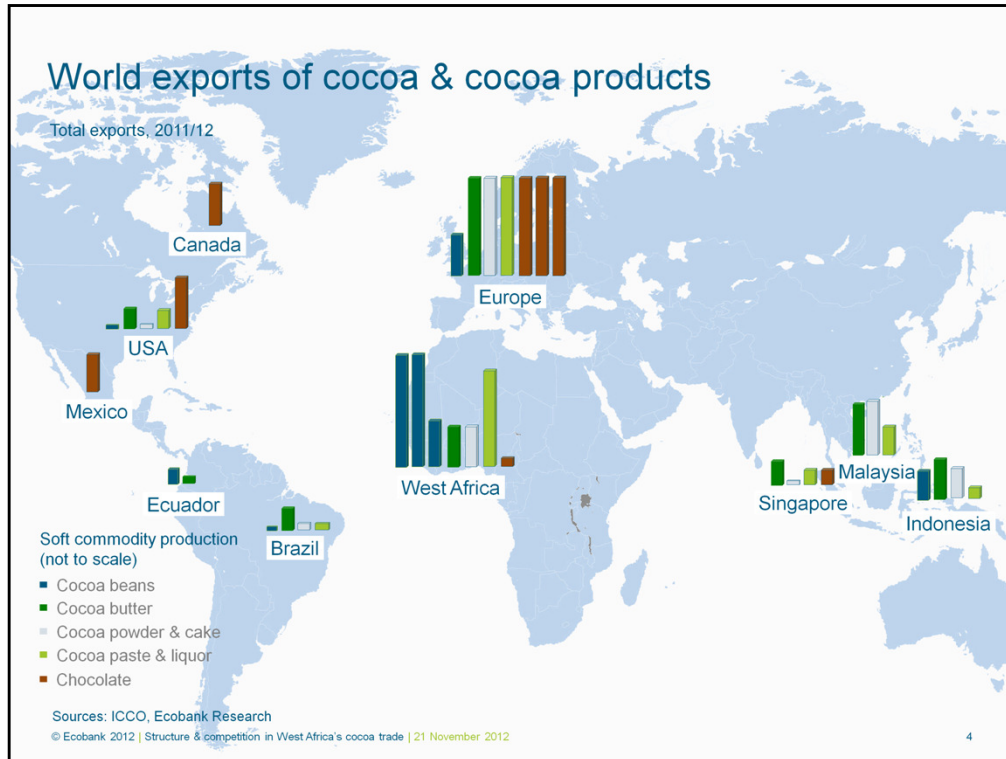
But as a region West Africa faces major competition from competing poles in Europe, SE Asia and Americas

Total EU grind was 1.5m MT in 2011/12, more than double Africa's, while other poles also larger than Africa (around 850,000 MT in Americas and Asia/Oceania)

In terms of market share, EU accounts for around 40% of the world grind, with the Americas & Asia on around 22%, and Africa on 18%

Although the EU & USA grind has fallen back sharply in 2012, they remain dominant in processing – and many traders are expecting a rebound in Q4

Meanwhile SE Asia, notably Malaysia and Indonesia, are taking increasing market share, as they are for other commodities (e.g. Cashews)



The relatively low level of processing capacity in West Africa is reflected in exports of cocoa beans and products

West Africa is by far the largest exporter of raw beans, with 2.4m MT of exports in 2010/11, around 80% of the global total, with CDI accounting for around 1/3 of all world exports

Indonesia and Ecuador are significant exporters of beans, with around 400,000 MT of exports between them

And Europe is the world's main re-exporter, around 360,000 MT in 2010/11, mostly to other countries in the EU

But when it comes to processed products the picture is very different

Europe accounts for around half of all cocoa butter, the key ingredient in chocolate, with SE Asia accounting for around 1/3 of world output

It's the same story for cocoa powder & cake, which is used in flavouring milk, ice-cream and cakes, with the EU accounting for around 1/2 world output and SE Asia around 1/3

For both products Africa accounts for just 13% of world output

The one exception is cocoa paste & liquor, with Africa accounting for 40% of world production, vs 45% for Europe

This reflects the fact that cocoa paste & liquor are less technically demanding to produce than butter or cake, as well as the relatively unsophisticated processing sector compared

with Europe or the USA

But perhaps the most telling statistic is for chocolate exports, where Europe dominates the world

In 2010/11 Europe exported 3.2m MT of chocolate and chocolate products, or around 70% of world exports

This reflects the presence of the world's leading chocolatiers in Western Europe, as well as heavy chocolate consumption in the continent

One fifth of chocolate exports occur in North America, with production hubs in the USA, Canada and Mexico

While SE Asia, notably Singapore and Malaysia, account for around 10% of world exports

In contrast West Africa exported just 56,000 MT of chocolate in 2010/11, or just 1.2% of the world total

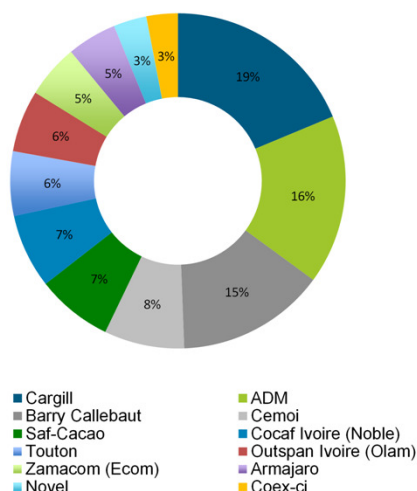
Overall, West Africa processes only $\frac{1}{4}$ of the cocoa it produces

As a result, traders in West African cocoa mostly deal with cocoa beans, resulting in heavy domination of the sector by the major trading houses and their African subsidiaries, although the picture varies from country to country

Cote d'Ivoire is dominated by the top trading houses

% of total purchases by volume, 2011/12

- Cargill & ADM dominate purchases, with a 35% market share
- Barry Callebaut is the only major confectioner to buy cocoa directly
- Other foreign players include Cemoi & Touton (France), Olam (Singapore), Ecom & Novel (Switzerland), Noble (Hong Kong) & Armajaro (UK)
- Just 230,000 MT (22%) were bought by local companies in 2011/12
- The largest local player is Saf-Cacao, owned by Ali Lakiss
- But much of this cocoa is sold on to the major trading houses, further diluting African players' market share



Source: Ecobank Research.

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If we start by looking at CDI, we can clearly see the dominance of the world's leading trading houses

The American soft commodity giants, Cargill and ADM, hold a 35% market share, with total purchases of 440,000 MT in 2011/12

Barry Callebaut is in third position, with 180,000 MT, and is the only major confectioner to buy cocoa directly on the market

A host of other foreign traders have large market shares, including Cemoi & Touton (France), Olam (Singapore), Noble (Hong Kong), Ecom & Novel (Switzerland) & Armajaro (UK)

This leaves just 230,000 MT that were bought by local companies, or 22% of the total

The largest of these is Saf-Cacao, owned by Ali Lakiss

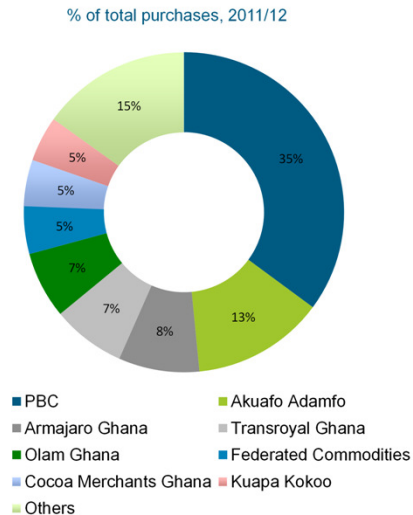
But even this figure is an overestimate, as much if not all of the cocoa they purchase is sold on to Cargill, ADM or one of the other players

In fact it's fair to say that the main trading houses are involved in some way in the trading of all cocoa out of CDI to the main offtakers

Ghana's sector has strong local champions

Local companies account for 85% of cocoa purchases

- Cocobod is responsible for the marketing of all cocoa in Ghana, licensing Local Buying Companies (LBCs) to purchase beans
- The formerly state-owned Public Buying Company (PBC) has a 35% market share
- Local champions include Akuafu Adamfo (13%), Transroyal & Fedco
- Armajaro & Olam are the main foreign players, although other trading houses also buy cocoa via third parties
- Ghana has resisted pressure to fully liberalise the sector, enabling the emergence of local champions



Sources: Cocobod, Ecobank Research.

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But in Ghana the picture couldn't be more different

There the cocoa sector, run by Cocobod, has overseen the emergence of several local champions, keeping the major trading houses at bay

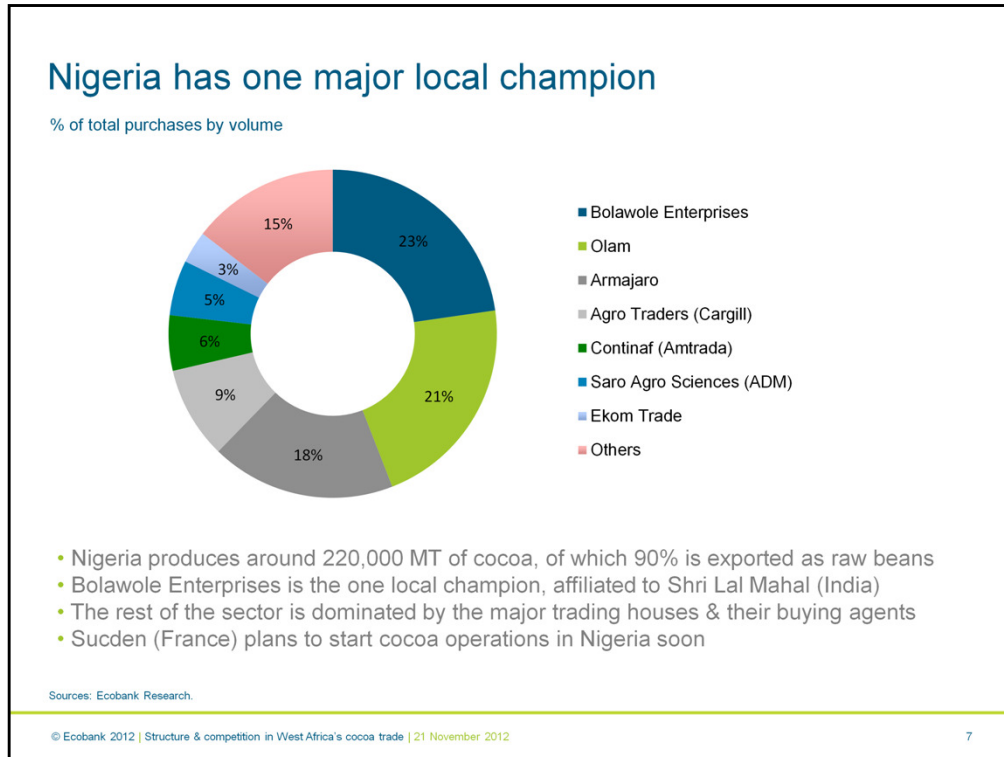
The former state entity, PBC, has retained a dominating market share, with 280,000 MT of purchases in 2011/12, or 35% of total

Other Ghanaian companies have a large slice of the market, most notably Akuafu Adamfo, with 13% of the market

Local companies bought 85% of Ghana's cocoa last season, in stark contrast to CDI where local purchases made up just 20% of the total

This reflects the fact that all cocoa marketing is overseen by Cocobod, which resisted pressure from the World Bank in the late 1990s to fully liberalise the sector, as occurred in CDI, and which has since won praise for its management of the sector

The main foreign players are Armajaro and Olam, although the other trade houses also purchase Ghanaian cocoa via third parties



In Nigeria the picture is more mixed, with one major local champion, but the rest of the market carved up by the major trading houses

Bolawole Enterprises – which buys a quarter of all cocoa – is a Nigerian company affiliated to the Shri Lal Mahal Group in India.

The company is directed by the export house in India to sell its beans either to traders or directly to offtakers in Europe.

The rest of the market is controlled by subsidiaries of the main trading houses, Olam, Armajaro and Amtrada, or Nigerian companies that sell directly to them, such as Agro Traders to Cargill and Walter Matter, and Saro Agro Sciences to ADM

Sucden of France plans to set up operation in Nigeria soon

In addition, there are local companies not affiliated to multinationals who act as local buying agents, notably in Akure

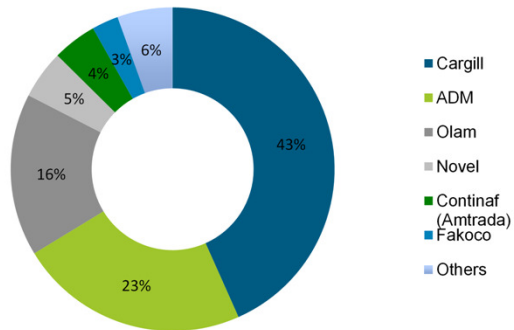
Extra:

- Olatunde International – Akure

- Alpha Systems Nigeria Limited – Akure
- International Transactions Limited – Calabar
- Gbemitan Investment Limited – Akure

The main trading houses dominate in Cameroon

% of total purchases by volume, 2010/11



- Cargill & ADM purchased 2/3 of Cameroon's cocoa in 2010/11
- Local buyers purchased just 17,000 MT, or 8.2% of the total
- Total cocoa grind was just 28,000 MT, equivalent to 12% of the country's production

Sources: Office National Cacao et du Café (ONCC), Ecobank Research.

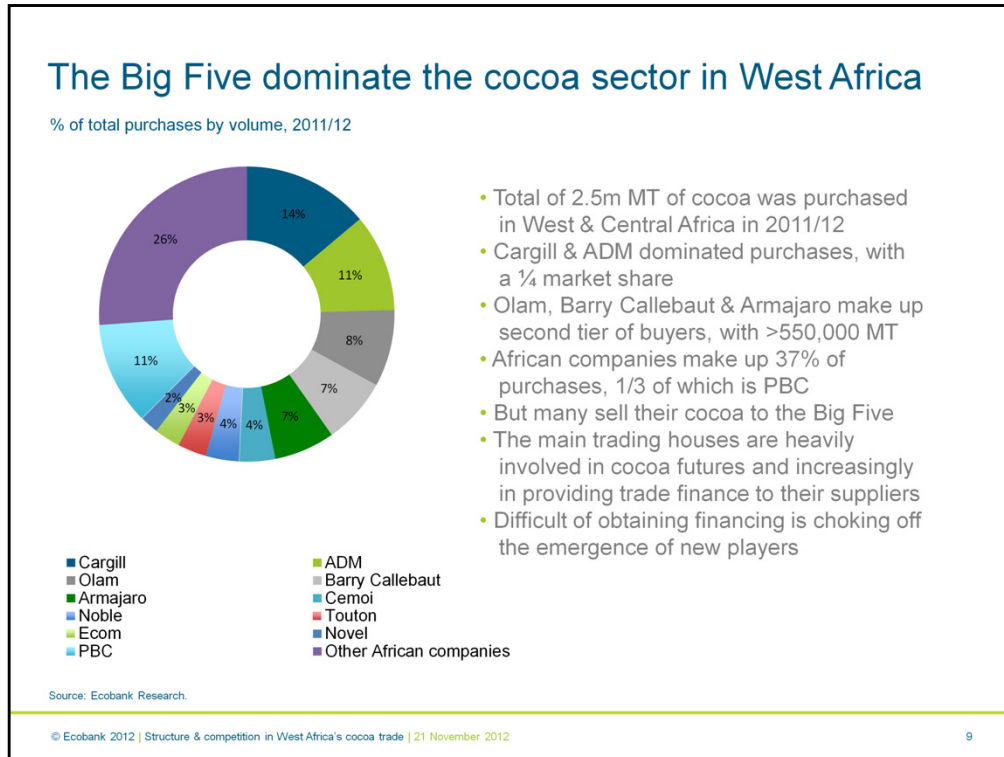
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And finally in Cameroon the major trading houses have almost complete dominance Cargill & ADM bought 2/3 of Cameroon's cocoa last season, while Olam, Novel & Continaf have strong market shares

Local buyers purchased just 17,000 MT of cocoa in 2010/11, or 8.2% of the total, 1/5 of what Cargill bought and 1/3 of ADM

This again reflects the fact that processing is poorly developed - only 12% of beans were processed in 2010/11



Looking at Africa as a whole, it is clear that the Big Five trading houses dominate. Out of total sales of 2.5m MT of cocoa in CDI, Ghana, Cameroon & Nigeria last season, one quarter was purchased by Cargill & ADM.

Last season Cargill purchased 344,000 MT, and ADM 264,000 MT, mostly from CDI. The next rung comprises Olam, Barry Callebaut and Armajaro, with over 1/2m MT between them.

The exact rankings can change from year to year, but top five unchanged since last season.

Other major players are Cemoi & Touton from France, Novel & Ecom from Switzerland, and Noble from Hong Kong.

African companies make up 37% of purchases.

But number skewed as 1/3 of that amount is made up by PBC, and many of them end up selling their cocoa to the Top Five.

But of course this is only one part of the picture – official cocoa purchases.

All the major trading houses also trade cocoa futures, and these have an enormous impact on the physical market.

Moreover, with the retreat of European banks from the trade finance space the trade

houses are increasingly taking up the slack themselves, providing financing for their suppliers through various models, such as prepayment structures and discounted bills of exchange

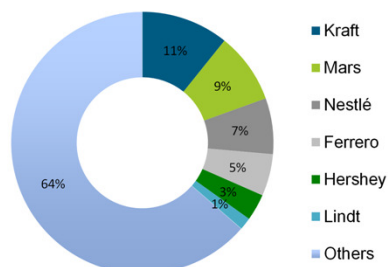
This has further cemented their dominance, and has raised the bar for securing finance ever higher

This is choking off the emergence of new players who could challenge their market power

It's all about the offtakers

Confectionery sales by leading chocolate manufacturers, 2011

Company	HQ	Total sales (US\$ million)
Kraft Foods Inc	USA	19,965
Mars Inc	USA	16,200
Nestlé SA	Switzerland	12,808
Ferrero Group	Italy	9,612
Hershey Foods Corp	USA	6,112
Chocoladefabriken		
Lindt & Sprüngli AG	Switzerland	2,796
August Storck KG	Germany	2,205
Yildiz Holding	Turkey	2,095
Meiji Co	Japan	1,791
Arcor Group	Argentina	1,716



- Total chocolate sales were US\$105bn in 2011
- The Top Five companies – 'Big Chocolate' – account for >1/3 of world sales
- For the largest offtakers the key issue is securing a regular supply of beans & products

Source: Candy Industry magazine.

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Ultimately all the cocoa goes to these companies – the world's leading confectioners

According to Candy Industry magazine, total confectionery sales were US\$185.5bn in 2011, of which around US\$100bn was chocolate

American companies dominate the top ranks

Kraft Foods, and the recently spun-off Mondelez, own such brands as Milka, Suchard, Cadburys and the Fair Trade brand, Green & Black's

Mars boasts the Mars Bar, Milky Way, M&Ms, Twix & Snickers

And Hershey is famous for its Kisses & Peanut Butter Cups

The Europeans also strong, with Switzerland's Nestle – maker of Smarties & KitKats – and Italy's Ferrero, maker of the famed Ferrero Rocher,

Together these companies have been labelled 'Big Chocolate', as in Big Oil and Big Tobacco, as they account for over 1/3 of world sales of confectionery and exert huge influence over the chocolate market

Moving into the top 20, there are many South Korean and Japanese confectioners, as well as a host of specialist European chocolate makers

The only African producer in the Top 100 is Tiger Brands (RSA), no. 56, with US\$243m

Given the dominance of the Americans & Europeans, vast majority of chocolate is manufactured in the EU & USA, where consumption is also strongest

And from a historical perspective cocoa production in West Africa has always served end-user tastes in Europe

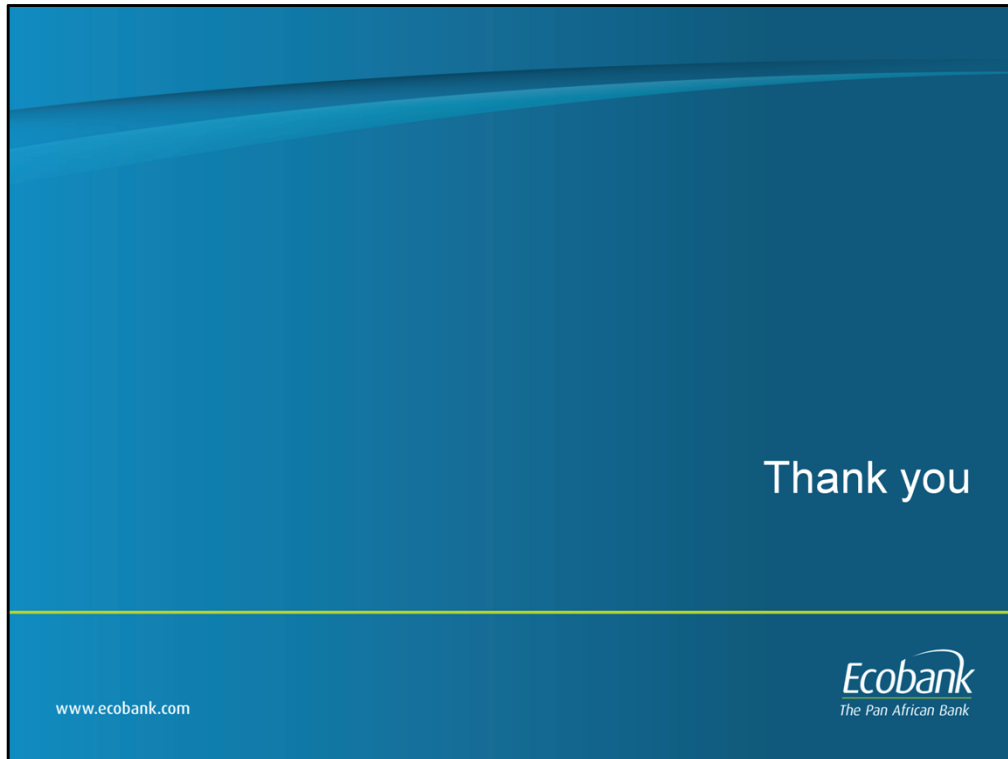
But consumption patterns are changing, and with the decline in Europe's economic power and the rise of the Asian consumer we could see a major shift in cocoa flows and chocolate manufacturing to serve new markets

The manufacturers will need to respond to these challenges, which could mean a gradual shift in processing capacity from Europe to SE Asia

Whether they decide to make West Africa their new processing hub will depend on many factors, not least the ability of African processors to produce cocoa products to the quality and specifications of the offtakers, but also on whether West Africans develop a taste for chocolate and create domestic demand for processed product

But what is without doubt is that the region will remain the key grower of cocoa for many years to come.

Ultimately the aim of the offtakers is to secure a sustainable source of supply – which means reliable and predictable – of cocoa and cocoa products for their manufacturing base, and provided West Africa can meet this requirement then the region is likely to remain the main supplier of cocoa to them



Put Q&A instead?