Latin America To Reclaim Production Leadership?
- ICCO Cocoa Market Outlook September 2015

Doug Hawkins

September 2015
Latin America To Reclaim Production Leadership?

The Challenge Is In Its Infancy

2015 ESTIMATED COCOA PRODUCTION (m mt) SOURCE: ICCO

- Asia, [VALUE], [PERCENTAGE]
- Latin America, 0.74, 18%
- Africa, 2.98, 72%

2013 COCOA AREA HARVESTED (ha) SOURCE: FAOSTAT

- Asia, [VALUE], [PERCENTAGE]
- Latin America, 1,699,179, 17%
- Africa, 6,293,170, 64%
Latin America Leads On Production Growth

- 2000-2014 production growth: **48%**
- African yield trends flat

- 2000-2014 production growth: **-15.4%**
- Negative growth in yield

- 2000-2014 production growth: **84.2%**
- Latam yield trending up
The Evidence For Sustainability?

Only In Latin America

Africa Harvested Area

Asia Harvested Area

Latam Harvested Area

Production growth area led

Production in steep decline

Yield and area both expanding
Sustainable Growth – No, It Is Not!!!

Palm - World Harvested Area (ha)  
Source: FAOSTAT

Cocoa - World Harvested Area (ha)  
Source: FAOSTAT, ICCO

[Charts showing harvested area and yield for palm and cocoa over time]
Reasons To Worry

- The cocoa consumer sector depends on the sure supply of good quality commercially priced cocoa
- In the 14 years 1997/8 to 2011/12 the four leading West African producers expanded their collective harvested area by 38%
- …yields (mt/ha) have expanded by 12.6%
- In 2015, market confidence has been shaken by Ghana (20.6% of world supply 2013/14):
  - Ghanaian production forecasts pared back for the 2014/15 cocoa year from nearly 900,000 mt to 696,000 mt
  - Confusion surrounding the reasons behind the shortfall on forecasts

TOTAL PRODUCTION GREW BY 55.6% BETWEEN 1998-2012

- Combination of Area Expansion & Yield Increase, 8.7%
- Due to Area Expansion, 68.7%
- Due to Yield Uplift, 22.6%
Cocoa Empires – A Lot At Stake

- $117bn world chocolate confectionery sales 2014 (Euromonitor estimate)
- International chocolate confectionery brands with household names have an estimated value in excess of $200bn (current market values)

- Lindt & Sprungli = 9.8% organic growth in revenues 2014/ Market Cap $15.4bn
- Hershey = 6.97% five year annual revenue growth / Market Cap $14.4bn
- Barry Callebaut = 2.5% volume growth for 3 quarters of 2014/15/ Market Cap $6.1bn
Commitments To Sustainable Sourcing By 2020

100% Sustainable Cocoa
Commodity Price Driver

Source: IMF, ICCO, Hardman Agribusiness

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A Nucleus Commercial Sector in Latam

- Latam Region attractive for secure land tenure, supportive banking sector, good availability of labour and a traditional cocoa culture

<table>
<thead>
<tr>
<th>Current Commercial Cocoa Plantations of circa 200 ha plus at end 2014*</th>
<th>Number of Plantations</th>
<th>Hectares Planted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latam</td>
<td>38</td>
<td>16,000</td>
</tr>
<tr>
<td>Asia</td>
<td>4</td>
<td>6,500</td>
</tr>
<tr>
<td>Africa</td>
<td>5</td>
<td>2,500</td>
</tr>
<tr>
<td>Total</td>
<td>47</td>
<td>25,000</td>
</tr>
<tr>
<td>World Harvested Area (FAOSTAT) 2013</td>
<td></td>
<td>10,012,333</td>
</tr>
<tr>
<td>Estimated Commercial Area as % of World Harvested Area</td>
<td></td>
<td>1.4%</td>
</tr>
</tbody>
</table>

*known to Hardman Agribusiness
## Investment For Growth – Latam Leads

<table>
<thead>
<tr>
<th>Proposed Cocoa Plantations or Extensions to Existing Commercial Plantations at end 2014 (all over 200 ha)*</th>
<th>Number of Plantations</th>
<th>Hectares Proposed for Planting</th>
<th>Proposed Ha as % of Existing Commercial Planted Area</th>
<th>Estimated Cost of Development Inclusive of Land Acquisition ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latam</td>
<td>28</td>
<td>19,750</td>
<td>124.8%</td>
<td>198.0</td>
</tr>
<tr>
<td>Asia</td>
<td>1</td>
<td>1,000</td>
<td>16.0%</td>
<td>10.0</td>
</tr>
<tr>
<td>Africa</td>
<td>2</td>
<td>2,700</td>
<td>158.8%</td>
<td>27.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>31</strong></td>
<td><strong>23,450</strong></td>
<td></td>
<td><strong>$235.0m</strong></td>
</tr>
</tbody>
</table>

*known to Hardman Agribusiness
Conclusions

- West African supply growth in 1998-2012 was 69% due to increased cultivation area, yields still circa 0.5 mt/ha
  - Not sustainable
- African farmers are handicapped without land title and access to capital
  - Where, how is investment to be made in African production?
- $200m of new investment committed to Latam sector
  - Latam has a defined professional production sector, small but expanding
- Asia – a picture of persistent decline over region as a whole
- How then do the Cocoa Empires meet their sustainability pledges?
- A sophisticated $120bn pa global consumer goods sector depends on one of the least sophisticated farming sectors in the world
- Cocoa price will continue its upward path and rising levels of investment will flow into the Latam sector
Questions?
Thank you!

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