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RECENT DEVELOPMENTS IN THE COCOA MARKET AND HOW THEY AFFECT ECUADOR

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.



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BACKGROUND

- One of the key objectives of the International Cocoa Agreement, 2010 (ICA, 2010), is to “Strive towards obtaining fair prices leading to equitable economic returns to both producers and consumers in the cocoa value chain, and to contribute to a balanced development of the world cocoa economy in the interest of all Members”.
- However, recent developments in the cocoa market have seen cocoa prices decline by almost 40% in a year with no indication of recovery in the short to medium term.

INTERNATIONAL EFFORTS

- **POLITICAL:** An Emergency High Level Meeting on Declining Cocoa Prices (EHLM) convened in April 2017 by ICCO Exporting Member countries in accordance with Article 36 of the ICA, 2010, brought together the major cocoa producing countries to discuss the implications of declining cocoa prices and their impact on the livelihood of cocoa farmers, and to agree on short to long term measures to support cocoa farmers.
- **TECHNICAL:** Recognizing that measures to support cocoa farmers would require a collaborative effort of all stakeholders in the cocoa value chain, including cocoa farmers' organizations, it became necessary to hold a multi-stakeholder platform to critically review the prevailing situation in order to discuss suitable approaches to reduce the negative effect on cocoa farmers both now and in the future.

UNCTAD Special Unit on Commodities

“Integrating small farmers into the global value chain (GVC): Confronting concentration”.

- The study highlighted that cocoa farmers received a small share of the value added by the cocoa chain; and that the structural adjustment programs in West and Central Africa *simply* accelerated the concentration in the global cocoa sector.
- The study from UNCTAD recommended the strengthening of competition laws, the establishment of cocoa policies designed around the needs of cocoa farmers as well as greater access to farm credit and insurance.

NEED FOR A NEW APPROACH

- The Platform called on all stakeholders to develop a new international framework of cooperation and a comprehensive package of short-term and long-term actions to ensure sustainable livelihoods for cocoa farmers and the sustainability of the cocoa value chain, consistent with the Sustainable Development Goals of the United Nations.
- In this respect, the government representatives recommended a revision of the International Cocoa Agreement, 2010.

KEY ELEMENTS OF THE PACKAGE

- **Sustainable Cocoa Production** National Planning based on global demand projections.
- **Income Diversification** incorporate agroforestry combinations of cocoa with other crops to maximize efficient use of the land.
- **Modernization of the Cocoa Sector** producing countries to invest in policies, institutions and infrastructure that strengthen farmer voice and bargaining power.
- **Consumption Promotion of Cocoa Products** policies for boosting local cocoa consumption.
- **Sector Transparency** statistical information.
- **Understanding Cocoa Price Formation and Determination** market forces of demand and supply.
- **Strong Coordination** ICCO work including farmers' organizations, development partners and the ICCO Consultative Board.

THE CASE OF ECUADOR

- The cultivation of cocoa in Ecuador occupies 547,568 ha*, of which 328,541 are fine national and aroma cocoa crops, which is produced by approximately 82,000 families (Coffee and Fine Cacao Reactivation Programject , 2016).
- Most of this universe (79%) is made up of small producers of less than 5 ha with little propensity to associate (according to CGSIN*, 2017, 17% is part of a productive association), which usually sell their cocoa to intermediaries, transporters, wholesalers or Small Producers' Organizations that handle the chain of processing and marketing.

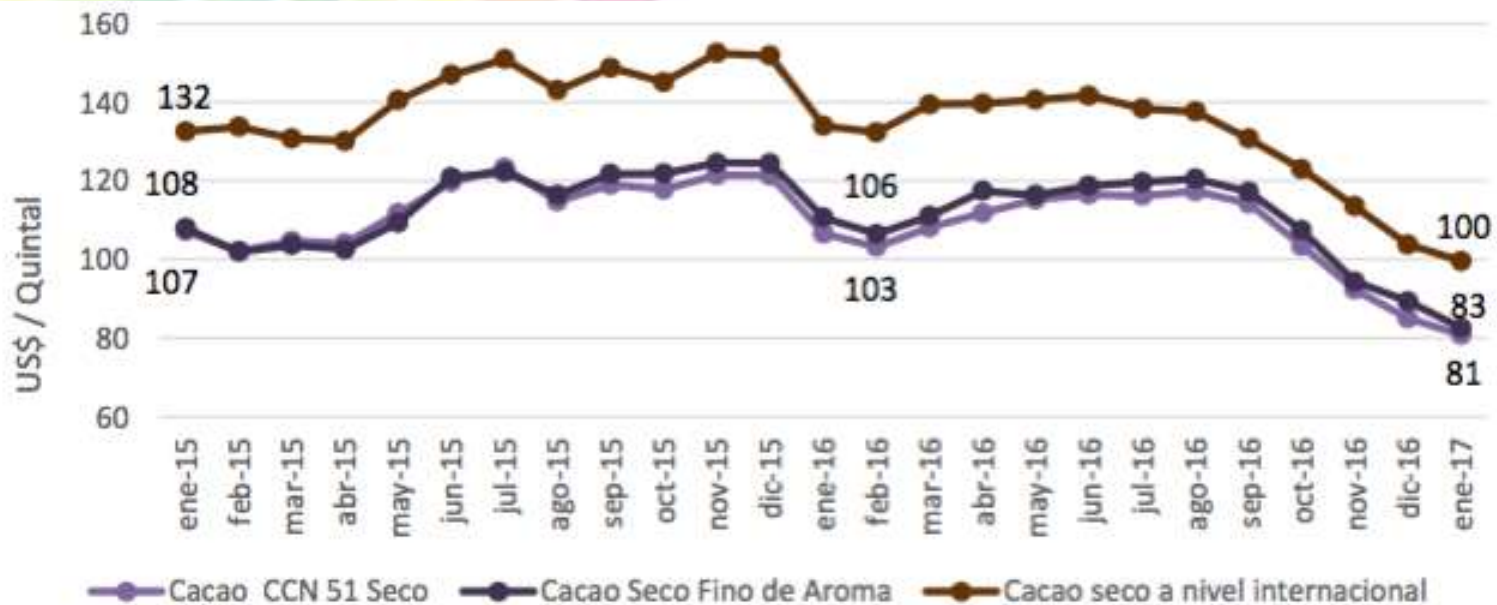
PRODUCTION

- At the end of 2015, exports of cocoa beans totaled 236 thousand tons, generating a FOB value of US\$ 705 million and an increase of 19% in quantity and 20% in value compared to 2014. Comparing the period from January to November 2015-2016, exports are down 8% in quantity and 11% in value.
- In the year 2015, exports of processed cocoa were 22 thousand tons, which generated a FOB value of 107 million dollars, presenting a decrease of 12% in both quantity and value with respect to 2014. In relation to the period from January to November 2015-2016, exports of processed cocoa increased by 24% in quantity and 26% in FOB value.
- By 2016, the national production was approximately 265,000 tons, a volume 77% greater than that produced in 2010, which was 149,000 tons.

DECLINING PRICES OF COCOA IN ECUADOR

- The sharp deterioration in cocoa prices began in mid-August and continues to date. So far in August 2017, the decline in prices has been maintained, reaching the lowest values; 70.93 US \$ / qq in the cocoa beans of CCN51, 70.9 US \$ / qq in the fine flavor cocoa and 91.59 US \$ / qq in the dry-grain international cocoa.
- The price of cocoa at the national level is subject to the behavior of the price at the international level so, a fall in international prices will cause the national price also decrease.

THE NATIONAL AND INTERNATIONAL PRICE OF COCOA



Fuente: SINAGAP - MAGAP 2017. International CocoaOrganization. 2017

INTERNATIONAL FACTORS FOR THE PRICE DECLINING

- Weakening of the British Pound (currency of the cocoa quotation on the London Stock Exchange) against the Euro, thus diminishing the purchasing and purchasing capacity of cocoa importers from Europe.
- Surplus production of 200,000 tons in the 2016 - 2017 harvest were announced by producing countries such as Ecuador, Brazil, Ghana, and Ivory Coast. These forecasts have led to a fall in prices on the London Stock Exchange.
- Internal conflicts in some African exporting countries = Europe buys more to stock for the future. Prices fall.

KEEPING THE GOOD POLICIES

Minimum Prices to be paid in Ecuador

Cuadro Nro.1 Precios mínimos referenciales FOB para la exportación de cacao en grano y elaborados de cacao

Calidad de cacao	Precio (US\$/FOB/45.36 kg)					
	2012	2013	2014	2015	2016	2017*
Cacao CCN51	100,31	103,65	127,23	131,75	120,80	88,48
Cacao ASE	100,31	103,65	127,23	131,75	120,80	88,48
Cacao ASS	106,83	110,38	135,50	136,37	124,42	91,13
Cacao ASSS	109,83	113,49	139,32	139,19	126,84	92,90
Cacao ASSPS	115,35	119,19	146,31	145,93	132,88	97,32
Manteca	149,61	239,44	330,89	276,37	287,79	205,29
Manteca residual, expeller	112,20	181,50	248,17	207,28	215,84	153,97
Licor o pasta	124,09	110,43	134,94	160,59	179,01	129,90
Chocolate no edulcorado	124,09	110,43	134,94	160,07	179,01	129,90
Torta	12,99	37,98	12,04	15,20	11,50	7,60
Torta residual, expeller	1,30	1,31	1,21	1,52	1,15	0,76
Polvo	14,57	13,80	14,17	15,15	11,43	8,45

*Hasta la semana del 09 al 15 de febrero de 2017.

Fuente: MAGAP – MIPRO. 2016.

NEW POLICIES FOR SECTOR IN ECUADOR

- Technification of the farms through the “Program to Reactivate Coffee and Fine Flavor Cocoa” 2016.
- Promote the participation to win prizes for fair trade certifications, organic cocoa, single origin, etc. Which could increase the price by 25%.
- Encourage the associativity of small producers to benefit from economies of scale, in order to lower production costs, as well as to increase marketing strength and reduce intermediation.