

United Nations Conference on Trade and Development  
**11<sup>th</sup> MULTI-YEAR EXPERT MEETING ON COMMODITIES AND DEVELOPMENT**

**15-16 April 2019, Geneva**

**The state and future of the cocoa & coffee markets**

By

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

# The state and future of the cocoa & coffee markets

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Commodities and Development  
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# Love and Friendship....

Coffee is associated with:

- Morning coffee fix
- Conviviality, gathering and friendship
- Making people look friendly, trendy and glamour
- Flavours....

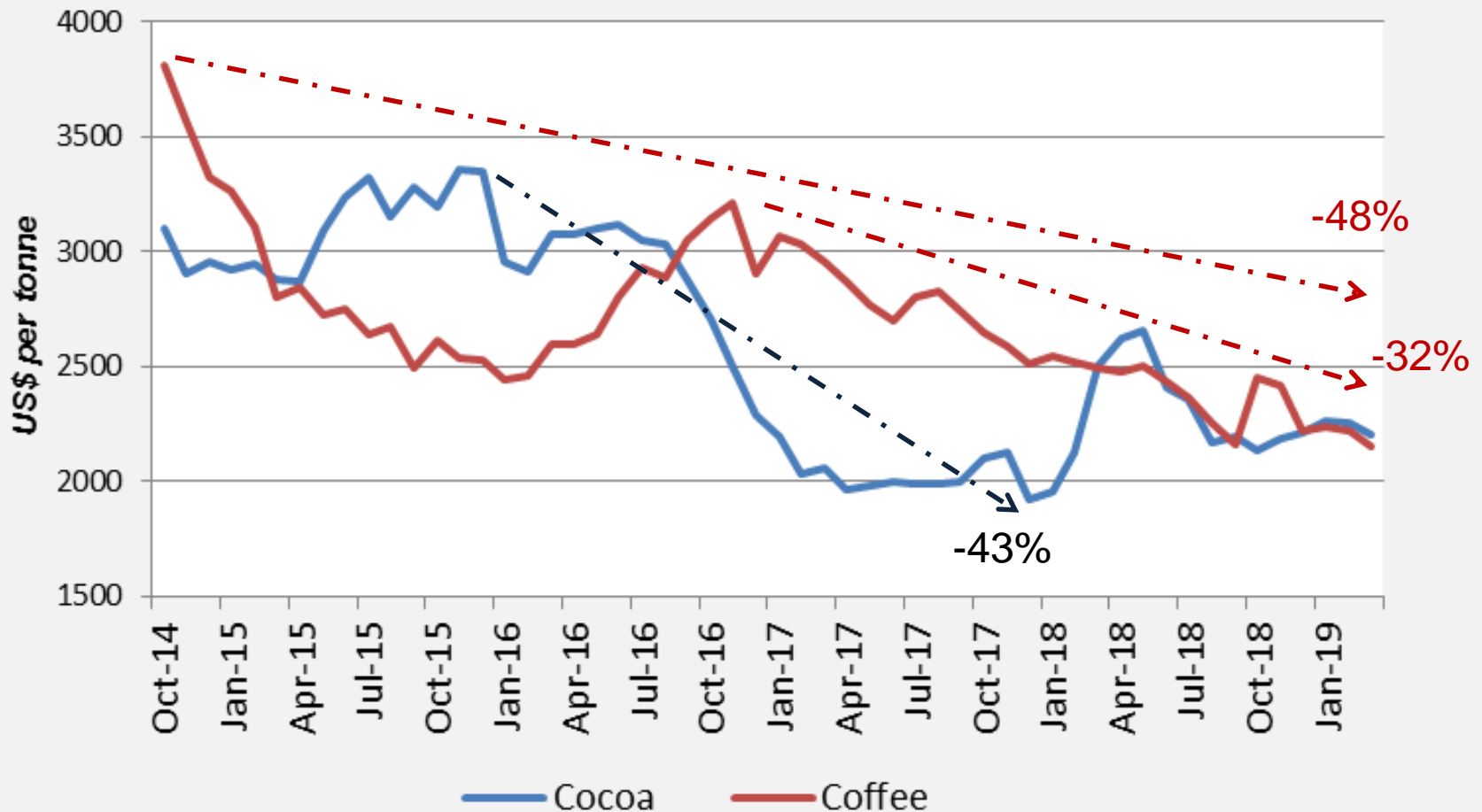
Cocoa and chocolate products are associated with:

- Celebration of joyful events, romance and pleasure
- Diversity of origins, shapes, colours and flavours
- Flavours...



Behind the scene, the  
unglamorous reality of the  
life of most coffee and cocoa  
farmers...

# Cocoa & coffee prices – recent years

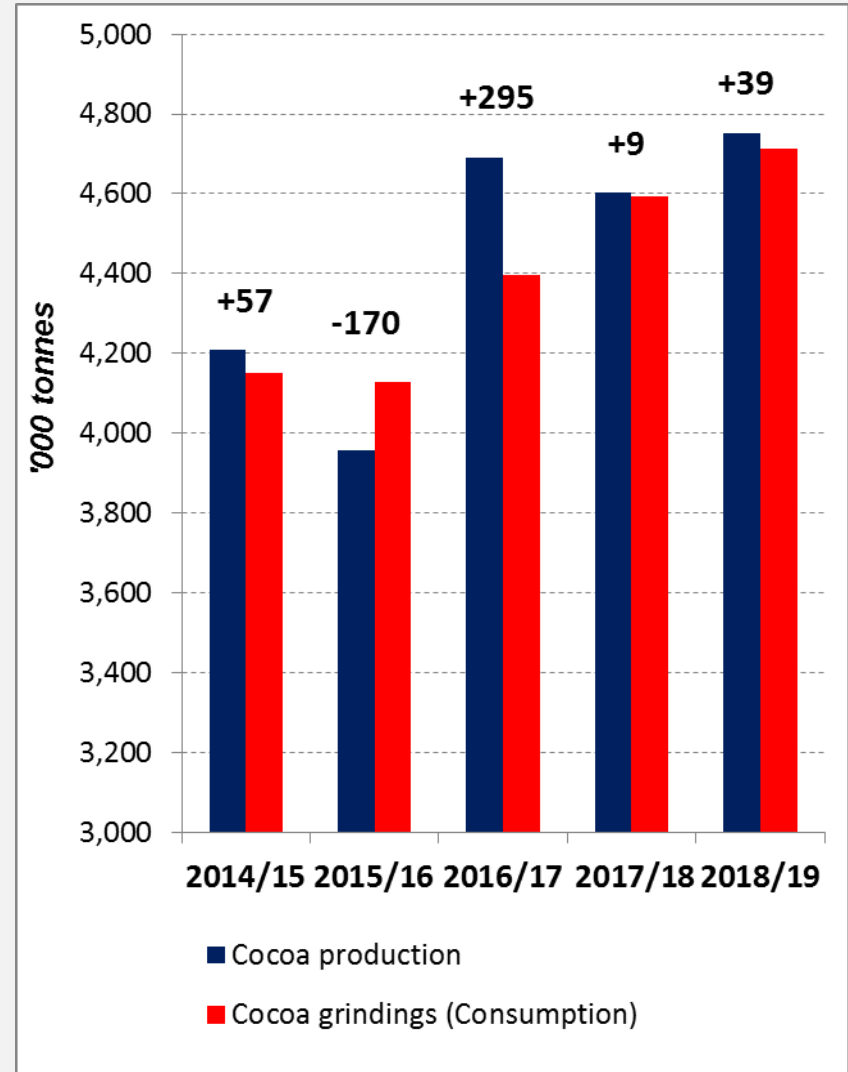
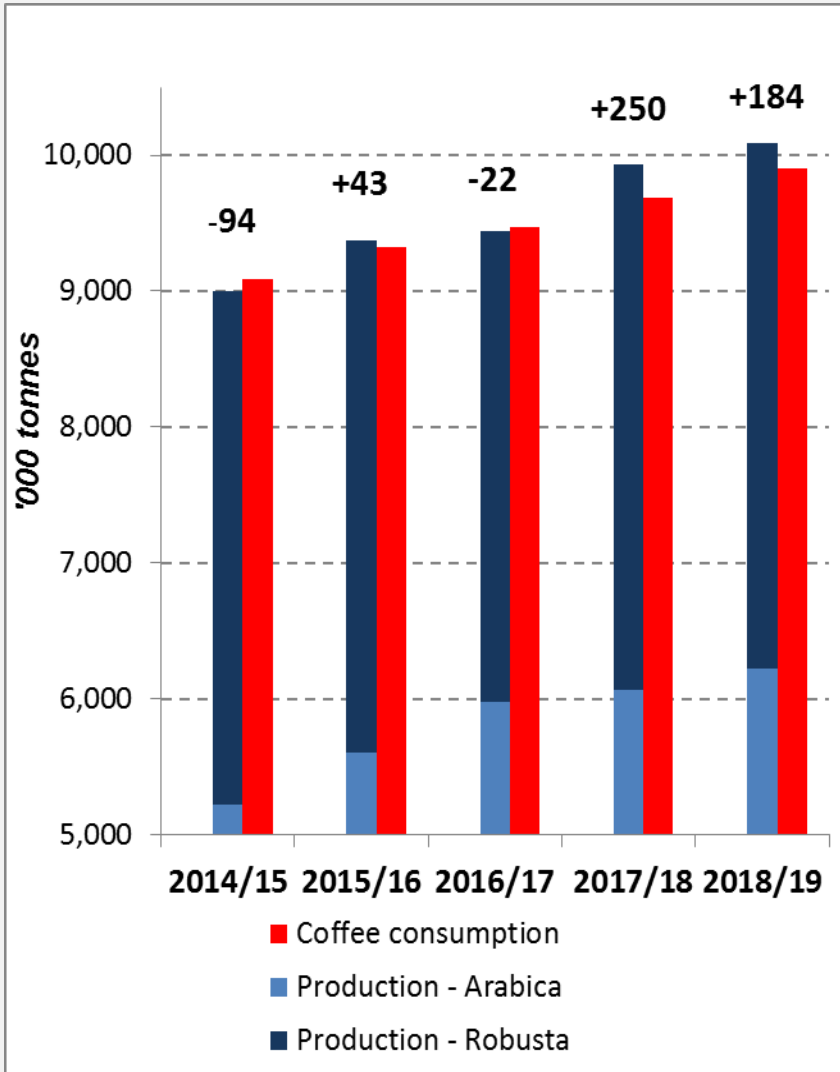


Note:

- Cocoa price as defined by the ICCO daily price – monthly averages
- Coffee price as defined by the ICO composite indicator price – monthly averages

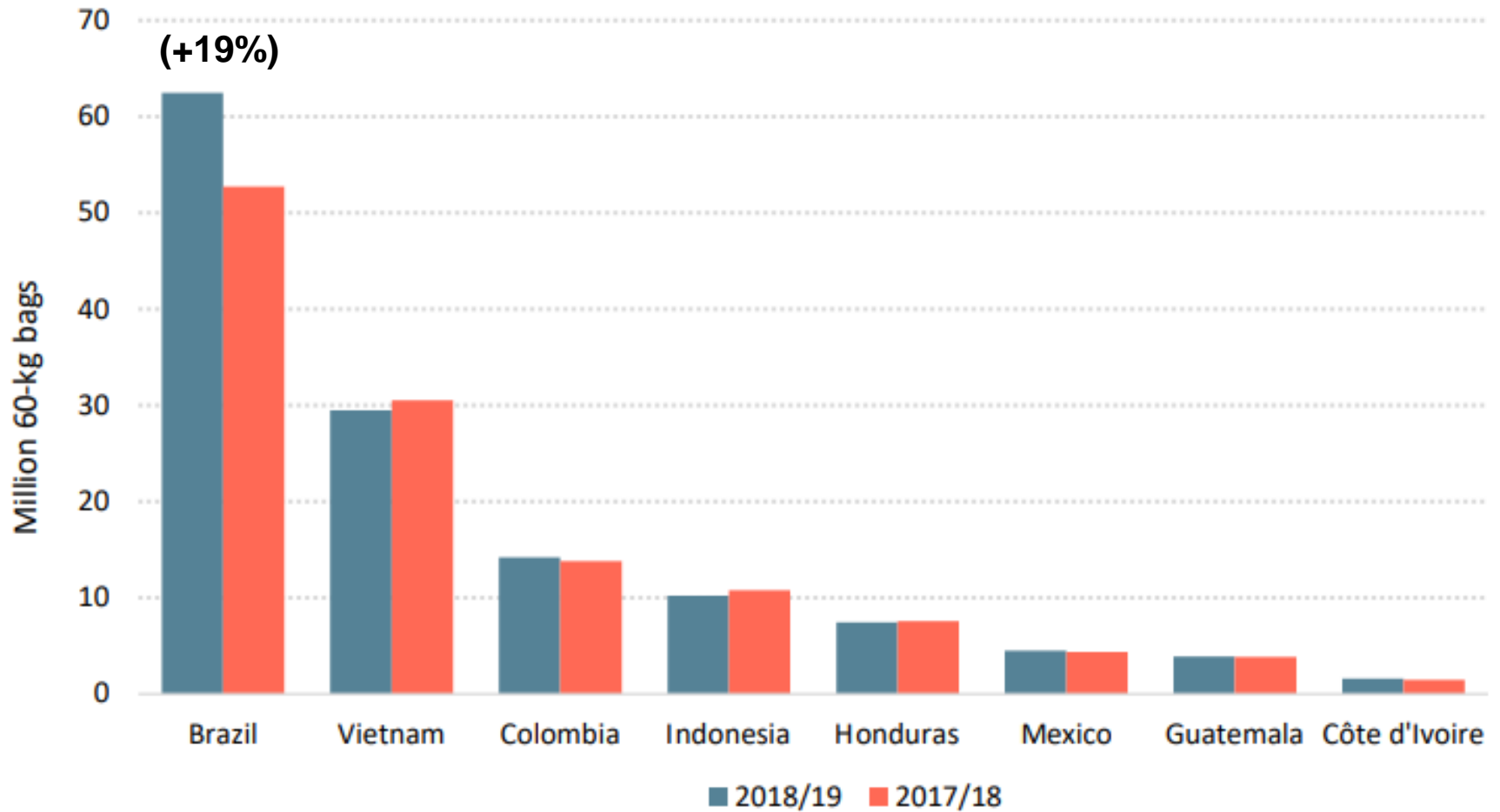
Sources: ICCO, ICO

# The coffee & cocoa supply & demand balances



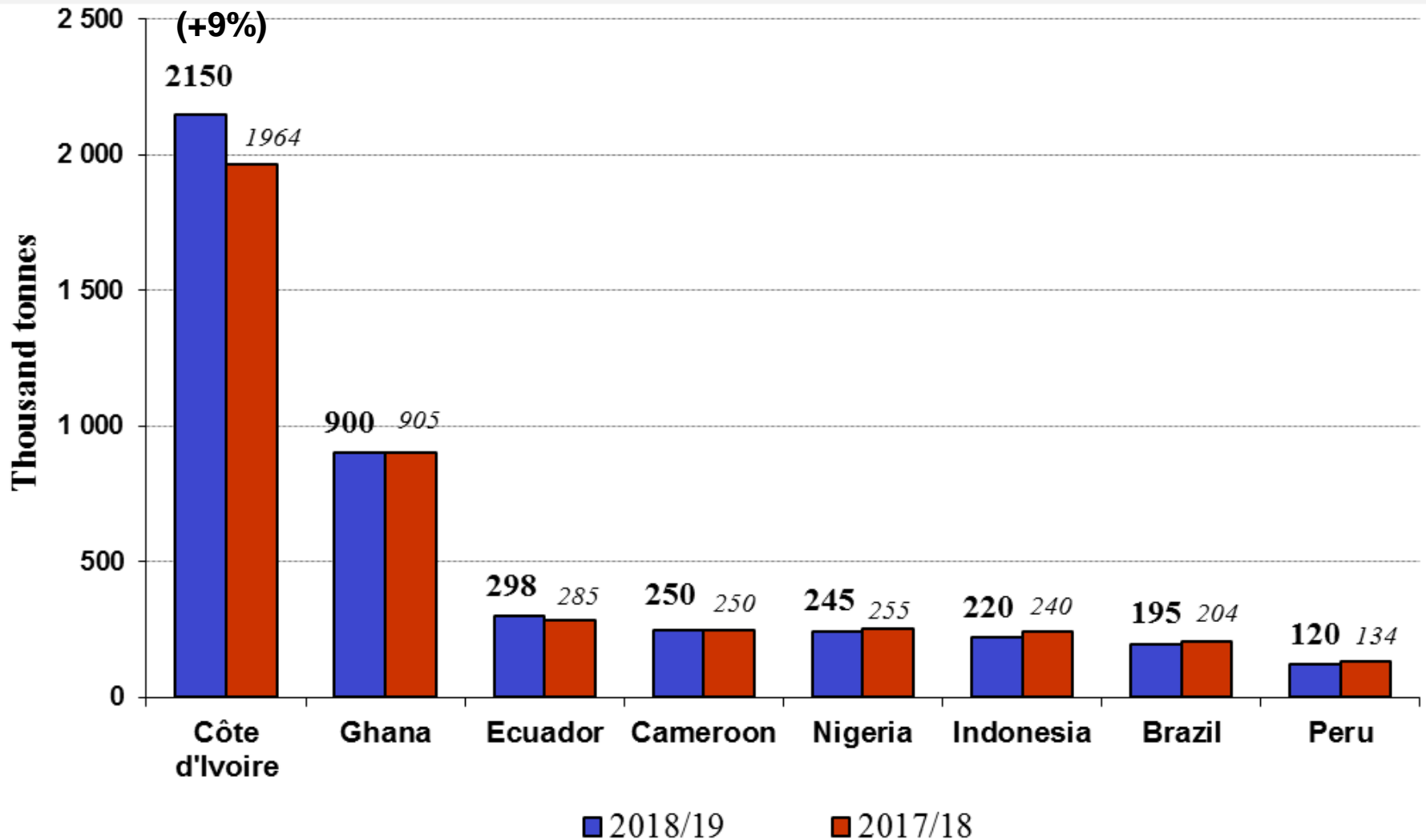
Sources: ICO, ICCO

# Coffee production by country



Source: ICO, March 2019

# Cocoa production by country



Source: ICCO, December 2018



# The main contributors in production increases



## Coffee

World production expected to rise by 1.5% in 2018/19

- Brazil: +19%
- World except Brazil: -6%

## Brazil

37% of world production  
52% contribution to global production increase over past 5 years

## Cocoa

World production expected to rise by 3.2% in 2018/19

- Côte d'Ivoire: +9%
- World except Côte d'Ivoire: -1%

## Côte d'Ivoire

45% of world production  
65% contribution to global production increase over past 5 years

# Trade uncertainties have not been helping...

## Trade conflicts between the USA and China, Mexico, Canada, EU and others...

- Uncertainty on tariffs adds to commodity price volatility in general
- China and Canada increased coffee tariffs from US
- China and India increased tariffs on US cocoa powder and chocolate

Relatively minor impact on the global coffee and cocoa markets but:

- Trade is slowing (down to 3.7% in 2019 – WTO) and so is the global economy (down to 3.3% in 2019 – IMF): leading to reduced income and aggregate demand (cf. UNCTAD, 2019), impacting consumption of coffee and chocolate products

## The BREXIT's known unknowns...

- Uncertainty on Brexit adds to commodity price volatility in general
- Initial worries on UK tariffs to be applied to goods from coffee and cocoa producing countries (and developing/LIDC) but tariffs likely to remain nil/low (as for EU's GSP/EBA/EPA) even in case of no-deal

Relatively minor impact on the global coffee and cocoa markets but:

- A no-deal Brexit is anticipated to lower UK and EU's GDP by 3.5% and 0.5% respectively by 2021 and have long-lasting negative impacts according to the IMF, reducing consumption of coffee and chocolate products among others

# Addressing the coffee and cocoa crises: Statements and actions by the ICO and the ICCO



## ICO – Coffee

Adoption of Resolution 465 on Coffee Prices Levels adopted in Sep 2018:

1. **Advocacy and communication:** *show the economic reality of the coffee sector*
2. **Mobilization of coffee stakeholders:** *promote dialogue among all stakeholders and find common solutions*
3. **Research, knowledge building and transparency:** *conduct research on coffee prices, economic development, value addition and poverty*
4. **Promotion of coffee consumption:** *generic promotion and in producing countries*

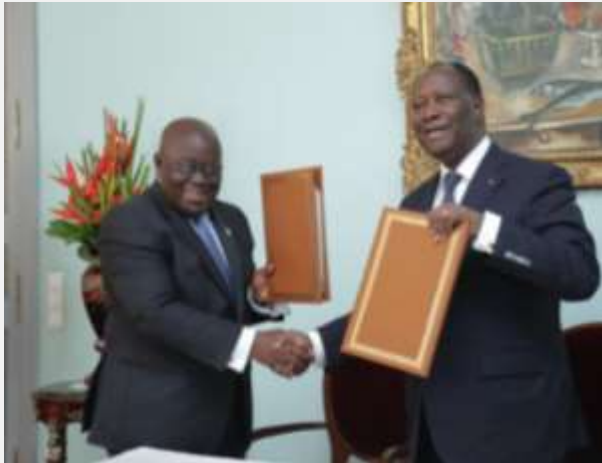
## ICCO – Cocoa

High-level Minister (April 17) and multistakeholders' meetings (July 17):

1. **Revision of the International Cocoa Agreement, 2010:** *ensure sustainable livelihood for cocoa farmers*
2. **Sustainable production:** *better coordination of national production policies and programmes*
3. **Income diversification:** *mitigate impact of price fluctuations*
4. **Modernization of the cocoa sector:** *invest in professionalization and empowerment of farmers*
5. **Promotion of cocoa consumption:** *emerging and producing countries*
6. **Sector transparency:** *improve*
7. **Understanding cocoa prices formation:** *driven by supply and demand forces*

## Actions by the governments in cocoa

- Better coordination of cocoa policies between Côte d'Ivoire and Ghana (the source of 65% of world production), with the priority to limit risks of over-production!!!



Presidents Akufo-Addo and Alassane Ouattara sign the “Abidjan Declaration”, resolving to implement a Strategic Partnership Agreement  
*26 March 2018*

- Convergence of the forward sales systems and the fixed farmgate price of the 2 countries
- Increase value addition through processing to reach 50% of local production (currently 28% in CDI and 34% in Ghana).

# Actions implemented so far by the cocoa and chocolate industry



- World Cocoa Foundation (WCF) to align strategies and increase synergies among industry players
- Company programmes (productivity, livelihood, women empowerment):
  - Mars (Sustainable in a Generation Plan)
  - Mondelez International (Cocoa Life)
  - Nestle (Nestle Cocoa Plan)
  - The Hershey Company (Cocoa For Good)
  - ...
  - Blommer Chocolate (LIFT Cocoa program)
  - Barry Callebaut (Forever Chocolate)
  - Cargill (Cargill Cocoa Promise)
  - Olam (Olam Cocoa Sustainability - OLC initiatives)
- International Cocoa Initiative to tackle child labour
- Cocoa and Forests Initiative to tackle deforestation
- Sustainable certification (Fairtrade, Rainforest Alliance, UTZ) rose from 2% to almost 30% of production in past 10 years
- Sustainability increasingly at the core of corporate business models:
  - responds to increasing legislations, regulations, and due diligence process imposed by national authorities;
  - addresses reputational risks and build resilience, which can keep CEOs awake at night;
  - facilitates talent attraction: millennials and generation Z are more reluctant to be associated with non-sustainable operations in their working life;
  - increasing evidence that corporate' valuation and profit margin are positively linked to sustainability efforts
  - Increases access to global socially responsible investing (SRI) market, now worth \$23 trillion: Olam and Barry Callebaut secured sustainably-linked loans of US\$870 million and US\$500 million

**Strong commitments and collaboration but still farmers remain poor, particularly in Africa!**

# Poverty prevalence

Commodities	Number of countries (1)	Average countries' prevailing poverty (2)
Palm Oil	4	16%
Sugar	24	17%
Coffee	11	26%
Cocoa	8	46%

Source: Pipitone, 2019

***Cocoa is a crop produced in some of the poorest countries, making it more challenging than for any other tropical crop to become sustainable***

High poverty levels are associated with weaker access to public services and infrastructures as well as with more external and behavioural constraints for cocoa farmers to invest and break through poverty

(1) Number of producing countries to reach a total of 90% of world production

(2) Based on the weighted average of poverty level in the main producing countries, covering a total of 90% of world production and taking the \$3.2 PPP 2011 poverty threshold

# Political Will to Drive Agricultural & Economic Transformation



**Recipe will vary from one country to another:** no size fits all

- Political will, vision
- Evidence-based, multi-stakeholders

**Diversification and modernization of the economy**, out of the agricultural sector

- Improve business environment, infrastructure, education and health services
- Embrace digital economy, new technologies
- Women empowerment, youth
- Increase tax base, from export agri. sector to services and manuf. sectors (from "easy to collect" towards "hard to collect" taxes)
- South-South cooperation (BAPA+40 UNOSSC) – bilateral major producing countries – triangular coop
- Regional trade agreements (e.g. African Continental Free Trade Agreement)

**But agriculture can still play an important role** in most countries (rise of African population and many will still be employed in agriculture):

- Diversification food crop production
- Incentives for Value addition
- Public expenditures in agriculture: 10% commitment by African Union (Maputo/Malabo)

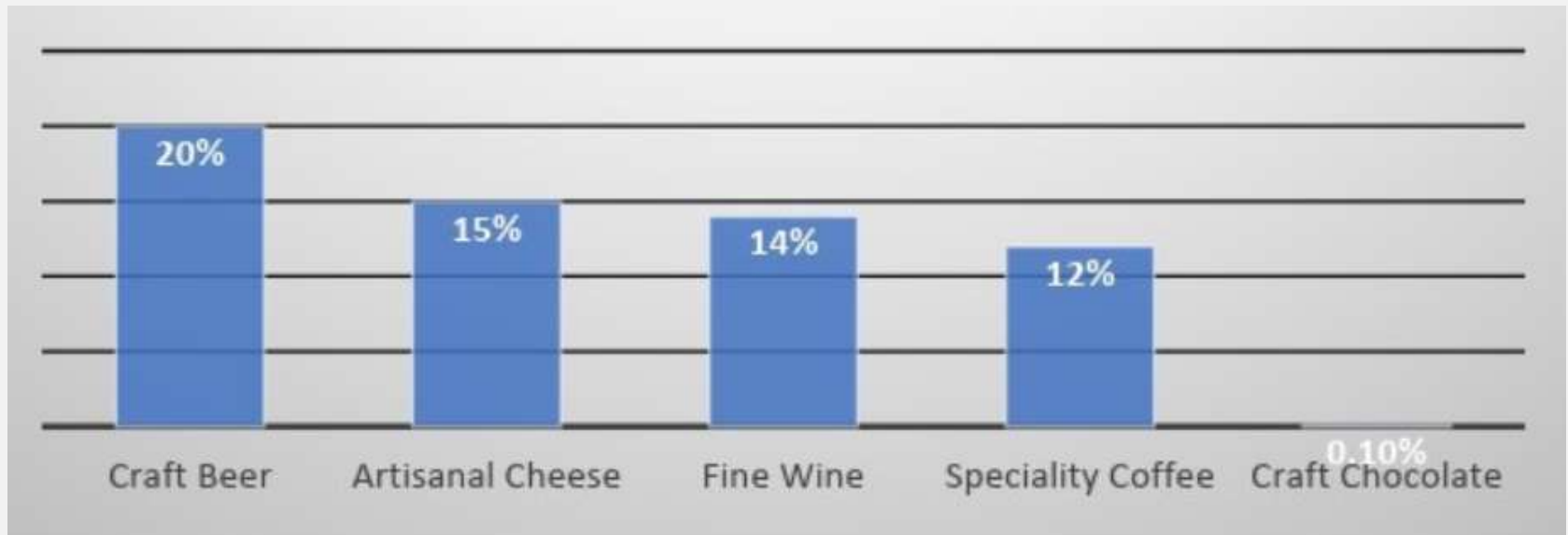
**UNCTAD** adequate platform to assist countries in their development path...

# Climbing the cocoa and coffee value chain ladders

Value of cocoa and coffee exports is less than 10% of the retail distribution value:

- \$10 billion compared to \$105 billion for chocolate
- \$20 billion compared to \$200 billion for coffee

## The “craft” penetration levels (rough estimates)



Source: Cocoa Runners, April 2019



If you want to send your children to school, it is cocoa

If you want to build your house, it is cocoa

If you want to marry, it is cocoa

If you want to buy cloth, it is cocoa

If you want to buy a lorry, it is cocoa

If you want to invest in a smartphone, it is cocoa

Whatever you want to do in this world, it is with cocoa money  
that you do it

*Source: Text from a Ghanaian Highlife song in the 1950s, added strophe by Laurent Pipitone*

*Thank you for listening*

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