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**Côte d'Ivoire-Ghana cocoa cartel (COPEC): implications for price and income volatility**

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# **Multi-Year Expert Meetings on Commodities and Development, 14th session**

## **Côte d'Ivoire-Ghana cocoa cartel (COPEC): implications for price and income volatility**

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# The global cocoa sector

- The global cocoa sector is worth more than **US\$44** billion per year
- More than **60%** of all cocoa beans are grown in Côte d'Ivoire and Ghana, but farmers in these two countries earn less than **6%** of the chocolate industry's total revenue.
- Cocoa farmers in Ghana make roughly **\$1** a day and those in Côte d'Ivoire make around **\$0.78** a day.
- So cocoa farmers' incomes are well below the poverty line.
- To change this, the two biggest cocoa producers, Côte d'Ivoire and Ghana, have jointly introduced the cocoa Living Income Differential (LID) policy.



# Main aims of LID

- The Living Income Differential (LID) was introduced in 2019 by the governments of Ghana and Cote d'Ivoire.
- To apply a price premium of **\$400/ tonne** on the export price of cocoa from the 2020/21 crop. This additional revenue was intended to increase the incomes of farming families to help them achieve a living income.
- The Fairtrade Foundation also increased the “additional Fairtrade premium from **\$200 to \$240** per metric tonne” (the additional price paid to farmers who are Fairtrade compliant).
- If market prices rise above **\$2,900**, proceeds from the LID will be placed in a stabilisation fund that would aim to ensure the governments can pay farmers the target price when market prices fall.



## Is LID and cocoa price volatility

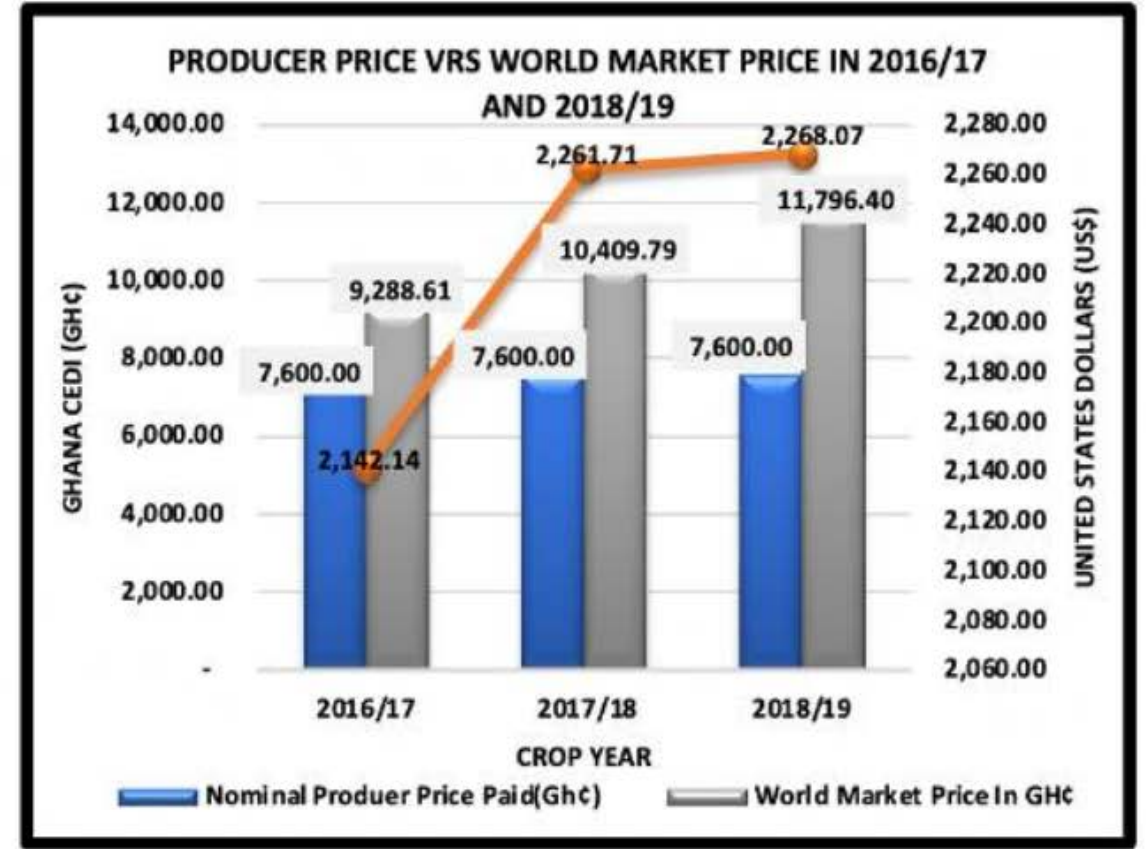
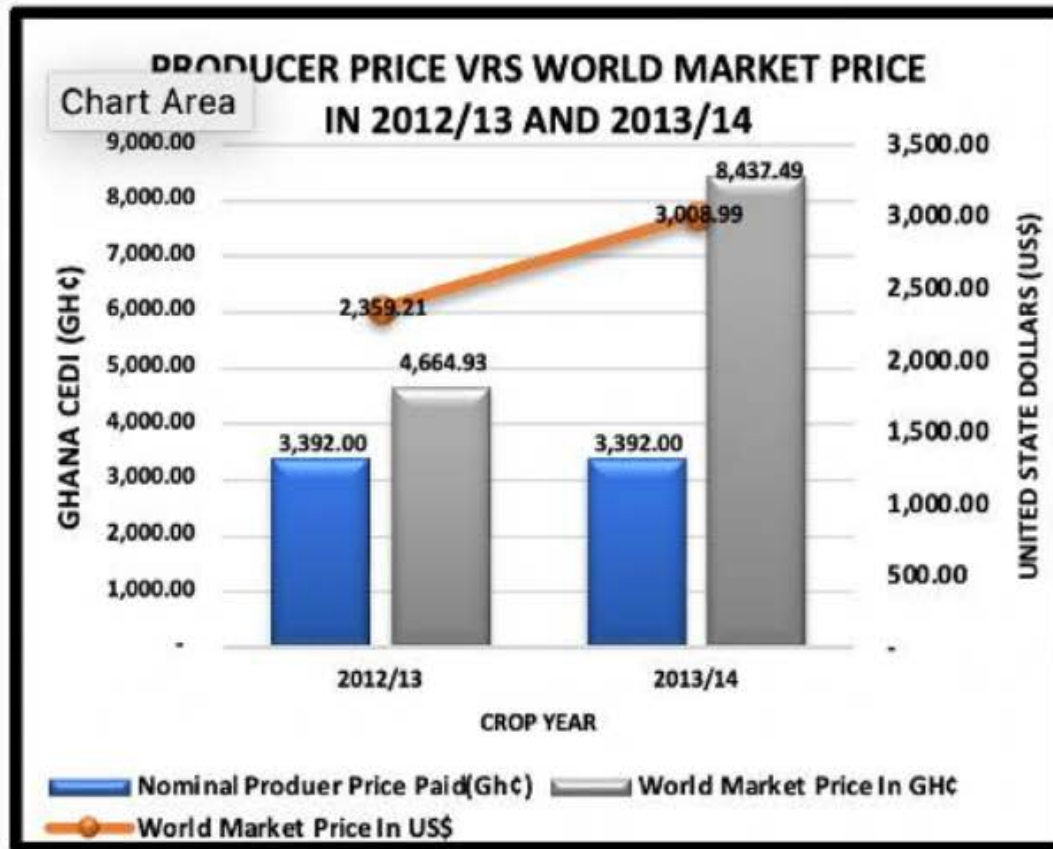
- ❖ By October 2020 the LID had increased Ghana's guaranteed cocoa farm gate price by **28% to \$1,837** per tonne, and Côte d'Ivoire's by **21% to \$1,840** (Cocoa Barometer, 2021).
- ❖ Global cocoa bean imports slumped sharply and import figures remained low until the end of the 2020 period.
- ❖ The biggest drop in cocoa, chocolate and sugar confectionery production in Europe was in April 2020 when production fell by **13.9%** as compared to the same period in 2019.
- ❖ Côte d'Ivoire was particularly affected by the slump in demand: huge cocoa bean stocks were accumulated in farm warehousing facilities and export terminals since December 2020.
- ❖ The ICCO daily price for cocoa beans peaked at **\$2,716** per tonne in February 2020; by March 2021, the price had fallen to **\$2,462** per tonne.
- ❖ The price hike seriously affected the cocoa bean growers in Côte d'Ivoire threatening their income and the potential to invest in expanding production.

# LID a remedy for poverty alleviation?

- A large gap between a decent family income and the actual family income for farmers.
- To earn enough money to live on, producers in Ghana and Côte d'Ivoire need to bring in at least **\$3,166 per metric tonne** (IIED,2021). Thus, prices including LID are still low.
- For both countries, farmers earn **\$5.21 billion less** each year than is needed to cover food, health care, education and other essential needs (Wageningen University & research, 2020).
- Even if market prices for cocoa were to double, the income of only about **41%** of cocoa farmers could be enough to cover the costs of food, health care and education (Wageningen University & research, 2020).
- Thus, even though income support such as LID can be an important tool on the road to improvement, price increases are not the remedy for poverty alleviation.



# Gap between producer price and world market price 2012-2019



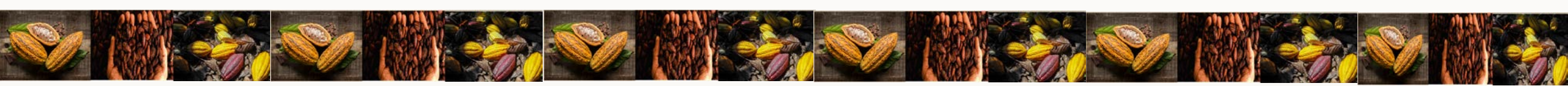
Source: Kwame Asamoah Kwarteng (Raw Data from IMF & Ghana Cocoa Board) Source: Kwame Asamoah Kwarteng (Raw Data from IMF & Ghana Cocoa B

# Transparency issues in LID distribution

- Differences in exchange rates.
- In Ghana for example, the actual producer price/ MT in Ghana cedi from 2019 to 2022 was 8240 GH¢
- In 2020/2021, the exchange rate was \$1= GH¢ 5.8 so \$400= GH¢2320
- 2021/2022, the exchange rate was \$1= GH¢6 so \$400= GH¢2400

Crop year	2019/2020	2020/2021	2021/2022
LID/MT in GH¢ paid to farmers	0	Exchange rate \$1=GH¢5.8 So \$400= <b>GH¢ 2320</b>	Exchange rate unknown <b>GH¢2320</b>
Actual price paid to farmers/MT in GH¢	8240	8240	8240
Total price paid to farmers including LID in GH¢	<b>8240</b>	<b>10560</b>	<b>10560</b>





## Transparency issues with cocoa price distribution

- Only around **60-70%** of the price per tonne paid by international buyers actually makes its way to farmers. It is not clear how the remaining **30-40%** of the revenues are used????
- If market prices rise above **\$2,900**, proceeds from the LID will be placed in a stabilisation fund that would aim to ensure the governments can pay farmers the target price when market prices fall. Still unsure how this will work given the failure of previous government institutions i.e Caistab).
- Bureaucratic challenges in these countries make it difficult to believe that the additional money from the LID will get to farmers' pockets.
- Producer price (Gh¢10,560 per metric ton in 2021/2022 ) is said to represent 87.15% of world market price. This includes LID which is supposed to be a fix levy paid by buyers (Cocoa Board, 2022).
- It is clear that premium pricing models are not the solutions to alleviate poverty, but only fundamental changes to the structure of the cocoa sector can achieve this in a sustainable way.

# Issues causing poverty among cocoa farmers

- **Unequal Distribution of Profits:** A significant portion of the value generated from cocoa production is captured by middlemen, traders, and global chocolate manufacturers, leaving a small share for the farmers themselves.
- **Lack of grading at farmers' level:** price differences are captured by middlemen. This also leads to a lack of incentive to improve the quality of production.
- **Lack of Access to Finance:** Many cocoa farmers lack access to formal financial services, such as loans and credit, which could help them invest in their farms, buy better equipment, and manage risks associated with crop failures.
- **Weak Infrastructure:** Poor transportation networks, inadequate access to markets, and limited storage facilities make it challenging for farmers to effectively sell their crops and access better prices.
- **Significant delays in payments and high default risks** (particularly in Cote d'Ivoire).
- **Low Cocoa Prices:** Cocoa is a commodity, and its prices can be volatile due to factors such as global supply and demand, weather conditions, and market speculation. When cocoa prices are low, farmers' incomes suffer, making it difficult for them to escape poverty.

# How can a Local commodity exchange provide a sustainable solution?

## ➤ Price Transparency and Fair Pricing

Reduces information asymmetry through the establishment of standardized contracts and a public trading platform. Provides farmers access to real-time market prices which helps make informed decisions about when to sell their cocoa beans to maximise their income.

## ➤ Grading at farmers' level

Helps establish fair pricing mechanisms. Farmers who produce higher grade cocoa can negotiate better prices, leading to improved income for those who invest in quality production.

## ➤ Financial Services

Commodity exchanges can work with financial institutions to offer financial services to cocoa farmers, such as access to credit, insurance, and savings accounts. These services can help farmers manage risks and invest in their farms.

## ➤ Access to Markets


Commodity exchanges can connect farmers to a wider range of buyers, including international cocoa processors and traders. This can increase market access and competition, potentially leading to better prices for farmers. It can also help farmers overcome logistical and transportation challenges, ensuring that their cocoa reaches the market in good condition.



# Recommendations

- The answer to addressing rural poverty lies not in premium pricing models, but on fundamental changes to the structure of the cocoa sector. This is made clear in The Ghanaian government's shared growth and development agenda.
- Establishing local commodities exchanges across countries will play a pivotal role in developing the cocoa sector and alleviate poverty in a more sustainable way.
- The establishment and operation of a CX require the development of institutions and regulatory frameworks. This can contribute to the strengthening of governance structures, which is an essential component.
- The cocoa industry challenges are significant but not insurmountable. By implementing these recommendations, we can work towards a more equitable and sustainable cocoa sector.





Thank You