

current market dynamics talking points

Drafted by VOICE secretariat. April 9th, 2024

Cocoa prices are at historic levels, with cocoa being traded at the terminal market for as much as \$10,000 a tonne at the time of writing. These high prices have a lot of causes as well as implications for the work of civil society organisations.

Causes for the current high prices

Current prices are high because there is a serious shortfall of cocoa this year. This shortfall has several reasons.

A perfect storm

Crop disease, ageing trees and farmers, low yields, incursion of gold mining; these are all direct and indirect consequences of decades of a combination of underpaying farmers, high risk for farmers, and lacking government policies and support. Add to the mix bad weather, a cost-of-living crisis, and rampant inflation (in the case of Ghana), and a perfect storm is created that will cause damage for many years to come.

El Niño

Farmers all over the world are experiencing low yields because of the El Niño that started in June 2023. This weather anomaly usually lasts for a period between nine months and two years. The changed rainfall patterns caused by El Niño are leading to bad harvests in both Latin America and West Africa. For example, rainfall in Cote d'Ivoire has been 20%-40% higher than the 1991-2020 average, leading to destroyed flowers, rotting pods and trees.

Crop disease

Rotting pods and trees due to weather changes also provides ideal condition for crop diseases. In West Africa, both in Côte d'Ivoire and Ghana, there are more things going on. Crop diseases, such as Cocoa Swollen Shoot Virus Disease (CSSVD) and Black Pod Disease are badly affecting harvests and long-term tree health.¹

This is further exacerbated by the cost-of-living crisis and the astronomical increase of the price and lack of availability of agrochemicals after the Ukraine war started. Because farmers can no longer afford pesticides, crop diseases are able to cause much more damage than otherwise.² Monoculture farms are also far more susceptible to diseases than in the case of intercropping and agroforestry.

These diseases could lead to a situation of not just one or two seasons of bad crops, but of the need for replanting, which could mean a farm would need 3 to 5 years before production will be back at pre-crisis levels. Farmers can't afford to wait that long, so there's a real risk they will switch to other crops.

Galamsey

A third major reason for the structural decline of cocoa production in West Africa, is the ever-increasing sprawl of small-scale gold mining (Galamsey). Farmers are paid cash sums for the miners

¹ Though CSSVD leads to more tree loss (up to 100% of tree loss in three years, and potentially making the land unfit for cocoa cultivation from then on) than Black Pod (up to ca. 10% per year), they both have long term effects on the plantation.

² This might be an uncomfortable truth for some parts of civil society, proper use of agrochemicals leads to the reduction of crop diseases.

to use the farmers land, cut down the trees, and create open mines where once a farm was. Not only does this lead to widespread damage to biodiversity, it also heavily pollutes groundwater and soil, damaging surrounding plantations, forcing their owners to consider selling their land for gold too. Galamsey is also closely linked to organised crime and creates public safety concerns as well.

Deforestation

What makes El Niño hit even harder in West Africa, is the fact that almost all of the old growth rainforests have been cut in the past five decades. There is virtually no rainforest remaining, and with their disappearance, so did the functions they perform, including regulation rainfall patterns, helping to cool down temperatures, and acting as sponges in times of excessive rainfall.

Smuggling

With cocoa prices fixed in Ghana and Côte d'Ivoire, but not in neighbouring countries, there's also an increased risk of cocoa being smuggled across the borders to countries such as Liberia, Sierra Leone, Togo, and others. Though this does not affect the worldwide production of cocoa, it does affect the ability of CCC and CMC to deliver on their forward sales, creating a further rush for the available cocoa in those two countries.

West African cocoa in crisis

All in all, besides the weather anomaly, a wide range of factors are causing especially West African cocoa production to be in a significant crisis. For other parts of the world, El Niño provides bad harvests for 9-24 months, but the other exacerbating factors are much less impactful. Yields this year in West Africa could be 20% to at best 50% of regular years. It doesn't seem as if that is going to significantly increase in the coming years. Some analysts expect cocoa prices at the world market to be around \$4,000 a tonne for the foreseeable future.

Furthermore, cooperatives in especially Cote d'Ivoire are currently saddled with large debts due to the crop shortfalls of the previous three years. Their load will even increase in the coming year with all the requirements to start complying to the national ARS 1000 standard and upcoming EUDR measure.

Role of speculators

Not all of the price raise can be attributed to supply and demand, though. When markets go crazy, speculators and hedge funds jumped on the opportunity and have also been betting on the prices going up, thereby further driving up prices. Though market prices are extremely high for the short term, the terminal markets delivery for a year from now are a lot lower, suggesting the real crunch is on the short term, not long term.

Are farmers earning more money?

Cote d'Ivoire and Ghana

In Cote d'Ivoire and Ghana, official farm gate prices are guaranteed by respectively the Conseil de Café-Cacao (CCC) and Cocobod (Ghana). Though the farm gate price has gone up last week (early April) by about 50% in both Côte d'Ivoire and Ghana, up till now, farmers have not received higher prices there so far. The higher prices now, furthermore, are for the mid-crop, which has a much lower tonnage than the main crop.

In the meantime, yields have definitely decreased. It is expected that Ivorian and Ghanaian farmers are earning significantly less. The same goes for the governments of these two countries, which is especially troubling for Ghana, as the annual sales of cocoa helps them refinance their national debt. There is a real chance that Ghana will go bankrupt due to the current high prices.

Beyond the guaranteed price, there are two very different dynamics taking place in the two biggest cocoa producing countries. On the one hand - particularly in the more established cooperatives - coops and traders are offering additional premiums of up to \$600 a tonne to farmers, as the traders are desperate to get their hands on actual beans due to the shortage of supply. However, on the other hand, unorganised farmers in hard-to-reach areas, with extremely low yields and a cost of living crises are sometimes obliged to sell at prices well below the guaranteed price as they are in dire need of direct cash.

Factories are now also offering higher prices to cooperatives. This is disorganising the mechanism put in place by the CCC to the point that the CCC has issued a statement forbidding factories to pay more. The PICD (our partner platform of Ivorian CSOs and FBOS), as a platform that defends the rights of producers and their organisation (cooperatives), has issued a clear statement that farmers and cooperatives should be able to profit from the current market dynamic.

Other origins

Farmers in other established cocoa growing areas are getting more money per kilo, but they are also suffering from bad harvests. It's not certain that they are earning more in total, as data is simply not available about the net income effects. Although it is good that they are finally earning decent prices, there are real concerns this will lead to increased deforestation, and that the high prices for bulk cacao could turn from organic production to bulk and forego any quality and sustainability criteria.

The current high prices will likely lead to these origins expanding their cocoa production significantly in the coming years. Considering the fact that seedlings will take around 3-5 years to become productive, expect countries such as Ecuador³, Peru, Cameroon and Nigeria to have significantly higher volumes, beginning in 2027 at the latest.

However, it will not only be established origins that will see more cocoa production. There is a real risk that more cocoa will start coming from relatively new origins - such as Liberia, Sierra Leone, Congo - with all deforestation and other losses of biodiversity as a result. To which extent the EUDR will be a sufficient tool to combat this, is an open question.

LIRP

Though we might all be happy that finally the cocoa prices are reaching the level of a Living Income Reference Price, it is essential to remember that LIRP calculations (at least in the Tony's/Fairtrade model) are based on a yield of 800 kg per hectare. We are getting signals that with El Niño, yields could be as low as 100-150 kg per hectare. As such, the farmers are still getting nowhere near a LIRP. These calculations need to be reviewed, not just once every 3-5 years, but on a season-by-season basis, and need to be able to be adjusted easily and quickly.

Are we going to run out of cocoa in the short term?

Yes, quite simply. We've had two years of mild undersupply, but this year the estimates are for a very significant shortage of up to 500,000 metric tonnes. This is causing more acute pressure on the physical demand of cocoa at present. Several of the companies we have spoken to in recent weeks have said in as many words that by next year they will not be able to provide the physical tonnages. Cote d'Ivoire and Ghana have also stopped forward selling next year's crops and have defaulted on some of the forward sales for the current season as well.

(How long) is this high price going to last?

³ I expect Ecuador to overtake Ghana as world's number two producer by 2027.

El Niño doesn't seem to be letting up yet, so the weather induced shortage could last up to another year and a half. However, the other structural causes (disease, Galamsey, old trees, etc.) are much less easy to solve. It is my expectation we'll have a supply shortage and high prices until 2027. These high prices will also lead to a lower demand for cocoa, as manufacturers will use other ingredients than just cocoa, will reduce bar sizes, etc. At the point the new seedlings (especially in Latin America) will come into production, there will all of a sudden be a massive oversupply, and the price could collapse to well below \$2000 a tonne.

Possible CSO advocacy asks for discussion

- A mid-crop price adjustment from CCC/Cocobod. When the prices collapsed in 2017, the CCC adjusted prices downward for the midcrop. However, this year they did not⁴ adjust upwards despite the current market dynamic. (For Ghana, the price adjustment wasn't necessary in 2017 due to inflation, but that argument doesn't work for a higher price...)
- Farm gate premiums (traders) in Côte d'Ivoire and Ghana to compensate farmers.
- Enforcement of minimum price (CCC/Cocobod)
- Financial and technical support for cooperatives to meet new requirements of EUDR/ARS 1000 - compliance costs cannot be pushed to them without fair compensation
- A re-evaluation of how often a LIRP is calculated. This should be based on realistic yields on an annual basis.
- Do we need to think about emergency relief for West African cocoa farmers on the short term, and the setting up of crop insurance schemes on the medium to longer term?
- We should use this moment as an opportunity to advocate for the decommodification⁵ of cocoa; supply and demand are not the right way to determine what a farmer is paid. We've been arguing this at a time of low prices, we should definitely keep arguing this in times of high prices. Companies also benefit from stable prices, even if these prices are high...

Further reading:

- One of the best overviews about the current market situation is this excellent analysis of Uncommon Cacao: <https://www.uncommoncacao.com/blogs/uncommon-cacao/what-is-going-on-with-cocoa-prices-part-2>
- Here's an interesting article on the effects of the higher price on Latin America cocoa production: <https://ejencalada.substack.com/p/la-muerte-del-cacao-fino-y-de-aroma?twclid=272zollwdj4w64usy1q2uvutlp>
- Here's an interesting LinkedIn post by a former cocoa trader on the risks that the traders are taking in the current market dynamic: <https://www.linkedin.com/feed/update/urn:li:activity:7175472656610152448/>

⁴ The question is whether they have the resources to adjust, it could be that both countries are suffering terribly from the current lack of beans to sell.

⁵ Please note, there's a difference between decommodification and decommodification. See [here](#) for a good explanation.