Ghana and Ivory Coast: **long-term alliance to support cocoa growers?**

Cocoa pods

Farmerline

The cocoa sector and cocoa growers face challenges such as overproduction and falling prices on the global market. The world's top cocoa producers, Ghana and Ivory Coast, are used to competing with one another. But now they are teaming up to address these issues. Will the alliance last?

Grain de Sel (GDS): Why did Ghana and Ivory Coast recently introduce a tax increasing the price of cocoa by 400 dollars per tonne?

François Ruf (FR): The price of cocoa is determined on the global market: supply and demand are anticipated by actors over 6 to 12 months. Today we're seeing overproduction, so prices are low. Ghana and Ivory Coast account for roughly two-thirds of global production. To counteract falling cocoa prices, they decided to team up against the major players in the industry. That momentous decision puts them in a position of power.

What's surprising is that they didn't do this earlier. In 1988, the then Ivorian president Houphouët-Boigny tried to take on the chocolate industry in order to keep production in the country. He didn't succeed though, as Ivory Coast accounted for only 30% of the world's cocoa supply back then. Today the two countries carry enough weight that the industry can no longer ignore them. With the surcharge of 400 dollars per tonne added to the market price, the governments set a floor price of XOF 825 per kilogram for growers (who were hoping for XOF 1,000).

GDS: Can those policies be effective and boost income for producers? What are the pitfalls?

FR: The supposed 400 dollars is not yet fully paid to producers... But both countries are in an election period, and the media is talking about it: Producers can hope to get closer to XOF 1,000 in 2020, unless the currency depreciates or is devalued. Ghana has always played on that variable.

Historically, price increases have always benefitted regulators and industry authorities, such as Conseil Café-Cacao in Ivory Coast and Cocobod in Ghana. Boosting remuneration for producers was a primary objective. Cocoa is an important financial driver for the countries: In 2019, growers were paid roughly 60% of the export price, intermediaries 20% and the government nearly 20%.

GHANA AND IVORY COAST ACCOUNT FOR 2/3 OF WORLD COCOA PRODUCTION

The critical factor will be whether Ghana and Ivory Coast can keep up their alliance over the long term. Ivory Coast officially wants to stabilise production, whereas Ghana is trying to boost production to over one million tonnes. Policy-wise, they do not appear to be on the same page. But thanks to a system for counting cocoa beans based on a national sample of cocoa trees, large companies in the industry can assess production a few months in advance. If production increases, they will perhaps agree to pay the 400 dollars, but on the basis of falling global prices! So the strategy of Ghana and Ivory Coast makes sense, but it's not invulnerable.

GDS: With the suspension of sales for the 2020–2021 harvest, will buyers start turning to other cocoa-producing countries?

FR: Of course they will. Buyers will certainly start looking to other cocoa-producing countries in order to prepare a counterattack! Even without the industry's intervention, cocoa production has shifted geographically multiple times in the past. Focus is now on Ecuador and Peru, where cocoa production is booming, and on central Africa. Indonesian cocoa, which has been on the decline with lower cocoa prices than in Ivory Coast, could also increase in value.

But cocoa production can't be manipulated like that! Take Vietnam, for example, where the company Mars wanted to replicate booming coffee and cocoa production. It was a total failure because climate conditions were inadequate in many regions and available land was scarce. No major company in the industry will be able to ignore Ivory Coast or Ghana over the next few decades.

GDS: With the presidential elections scheduled for 2020, do the bodies in charge of regulating cocoa prices have free rein?

FR: Those regulatory and tax-collection bodies are a state within the state, but they are close with those in power and cannot carry out independent policies. For the time being, Ghana and Ivory Coast have coordinated their prices. But if a disagreement arises, the price set for producers in Ghana could increase before the price for Ivorians, or vice versa. Fluctuations in the exchange rate between the CFA franc and the cedi create differences in value and lead to smuggling. Over the past 50 years, any time the difference in the price paid to producers in both countries exceeds ten euro cents (current value), tens of thousands of tonnes are smuggled from one country to the other.

Economic and monetary policy in both countries will need to be harmonised over the long term! To do so, even if the incumbent leaders remain in power, the 2020 elections will be important. ■

*Floor price: Lowest price at which something can be bought or sold

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TO KNOW MORE:

Read the Abidjan Declaration "*La côte d'ivoire et le Ghana ensemble pour faire face aux défis de l'économie cacaoyère*" of 26 March 2018: http://www.gouv.ci/doc/1522158093Declaration-d-Abidjan-Cote-d-Ivoire-Ghana.pdf