



Afreximbank Research— Trade and Market Update September 2019

Cocoa market: Market diversification key to sustainable growth

Global demand for cocoa and cocoa-based products is of strategic importance to African cocoa growers given the continent's unique position as the foremost producer of cocoa globally. Over the decade covering the 2008/2009 to the 2017/2018 seasons, world cocoa output grew at a rate of 2.9 percent per annum, from 3.6 million tonnes to 4.65 million tonnes, with Africa contributing over 90 percent to the increase in production and growing its global share of production from 70 percent to 75 percent over the same period.

At the same time, domestic cocoa consumption—calculated as cocoa grindings plus net imports—grew by 1.8 percent per annum globally but with stark regional differences. While demand in the US and Europe has nearly plateaued, growing at an average of just 0.5 percent per annum, growth in Asia, particularly in China and Indonesia and Malaysia has soared, growing at an annual average rate of 4.7 percent. The growing demand for cocoa in Asian countries has been facilitated by increasing grinding and processing capacity. Cote d'Ivoire and Ghana have been the main beneficiaries of this increased demand for cocoa beans, especially from Malaysia and Indonesia, with exports to these two countries estimated at US\$500 million in 2018.

The key driver of the cocoa market has been strong demand from end-user industries in developing countries, and the chocolate confectionary sector in developed economies, the largest consumer of cocoa-based products. According to industry estimates the global market for cocoa and chocolate, which is currently valued at around US\$45.6 billion, is projected to reach US\$67.2 billion by the end of 2025. The International Cocoa Organization (ICCO) estimates per capita consumption of chocolate in the US and Europe at around 3-5 kg, accounting for more than 60 percent of confectionary demand in the US. The largest EU consumers are Switzerland, Norway, Estonia and Belgium with an average per capita cocoa consumption of around 6kg. Brazil is the only major cocoa producer with per capita consumption of cocoa above 1kg and where below-average output

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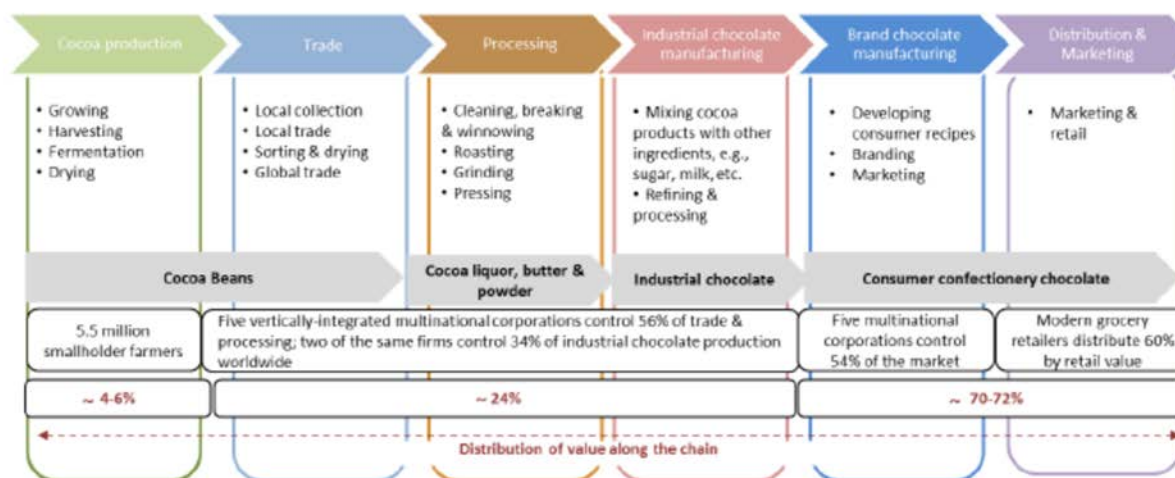
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since the 2015/2016 season has created opportunities for African producers and exporters.

The surge in demand for cocoa products in Asia raised expectations and positioned the region as the next big driver of global demand and growth in the cocoa industry. While ailing supply in south-east Asia has helped absorb some of the surpluses from African output, industry reports indicate that the Asian market, and in particular the markets in China and India, have not developed as well as expected. Data from the ICCO puts China's current per capita cocoa consumption at just 70 grams, significantly below forecast growth of 80-90 grams a decade ago, and much lower when compared with per capita consumption in the EU and the US.

Cocoa-Chocolate Value Chain



Source: Abdulsamad and others (2015).

The lag time in the demand for cocoa products witnessed in Asia calls for more diversification to sustain growth in the industry. Despite the expansion of processing capacities, including under Afreximbank's AFRICOIN initiative, Africa still finds itself at the lower-end of the global value chain (production of cocoa beans). In an industry where more than 70 percent of the global value chain is captured by corporates involved in chocolate manufacturing, marketing and distribution, Africa has retained less than 20 percent of global value chain revenues (see figure). The process of diversification can be achieved through the promotion of cocoa-based by-products that can be used in the cosmetics, pharmaceutical and feed industries and which currently account for around 19 percent of the global cocoa value chain. This could involve expanding the production of cocoa butter and its by-products. In addition to sustaining output growth at the farm level this process could also support global demand and mitigate volatility in cocoa prices.

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