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CROSS-BORDER COCOA UPDATE: COTE D'IVOIRE/GHANA

Chickens coming home to roost

The article that appeared in the Feb. 26th edition of La Tribune d'Afrique was so totally wide of the mark as to be laughable, viz.:

> *"Le ministère des Finances a annoncé pour sa part que les agriculteurs verront leurs subventions baisser de 30% dès la prochaine récolte."*

*This was **pure fantasy**. As readers will recall from our research note a month ago, the Ghanaian authorities are nowhere close to grasping this politically sensitive nettle. However, it is clear that **this relatively obscure issue is gradually moving towards centre-stage ...***

1) There is much to suggest that Abdelmalek Alaoui, the paper's Moroccan publisher who has excellent connections in Abidjan, was actually **broadcasting the aspirations of the Ivorian authorities** on the cocoa price asymmetry[1].

2) Indeed, contacts at **Côte d'Ivoire's cocoa regulator**, with whom we have shared some of our research on the subject[2], have quietly advised that they themselves produced a 'confidential' study that arrived at the same disturbing conclusions. **Their preoccupation with the cross-border price arbitrage** - and the consequent smuggling of Ivorian cocoa beans into Ghana - **was palpable**.

3) The extent of these concerns became clear on Feb. 27th, when data from the Conseil du Café-Cacao (CCC), as reviewed and reported by Bloomberg, appeared to indicate Côte d'Ivoire has **lost approximately 9% of the cocoa harvested** since the crop year began last October.

We have warned previously that these diversions **do more than cannibalize fiscal receipts and export revenues**[3]; they cause **Ivorian exporters to fail on forward contracts** to deliver cocoa[4], with a knock-on effect on the local lenders funding these operations.

4) This caveat was vindicated last Friday, when the CCC acknowledged having **sold forward approximately 170,000 tonnes[5] more cocoa than it currently expects to produce** during the current crop season[6].

The principal explanation offered for this shortfall is "poor" weather – a rationale that flies in the face of the recent jubilation at the **resumption of "heavier-than normal rains across the cocoa-producing region"**, following "a relatively mild Harmattan season"[7].

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[1] On which the two governments are notionally addressing in a Joint Ministerial Committee established in Dec. 2017.
[2] I.e. "*COCOBOD's largesse will have unintended consequences*", Oct. 5, 2017.
[3] See "*Backing away from the third rail*", Jan. 29, 2018.
[4] Typically at least 70% of Côte d'Ivoire's crop is sold via forward contracts.
[5] This is an almost exact match of the 180,000 MT figure built into the Rhombus model estimating the prospective volume of Ivorian beans entering the Ghanaian supply chain.
[6] As reported in "*Ivory Coast oversold cocoa main crop, CCC officials say*", posted by Reuters, Mar. 1, 2018.
[7] As reported in "*Ivory Coast Cocoa Farmers Get Relief as Rains Return Early*", posted by Bloomberg; Feb. 26, 2018.

5) The iron laws of double-entry accounting mean that **Côte d'Ivoire's cocoa shortfall must have a cross-border corollary in the form of an unbudgeted Ghanaian 'windfall'** whose true costs are yet to be made public[8].

This **could become a significant bone of contention in Accra** - at a time when the IMF is reportedly pressuring the Government to boost fiscal revenues by at least 0.5% of GDP[9] – i.e. approximately USD 235 million.

[8] As will have been seen, our own forecast is that by the end of the season, Cocobod will have spent approximately USD 600 million (1.29% of GDP) on unbudgeted cocoa procurement, of which smuggled Ivorian beans will have been responsible for almost USD 340 million of this total.

[9] See "*IMF tells Ghana to adopt new revenue plan before April review*", posted by Reuters, Mar. 2, 2018.