

Ivory Coast crisis: impact on the international cocoa trade

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Ivory Coast crisis

Disputed President Laurent Gbagbo's decision to nationalise the Ivory Coast's cocoa industry, which accounts for almost 40% of global production, will in practice have little impact on the international cocoa market.

Placed in context of the country's hugely complex political situation, Mr Gbagbo's decree is merely the latest in a long line of machinations by two warring factions bent on controlling this divided nation.

For a start, the disputed president does not have full control over the country - he represents one half of a coalition government that has been in power since 2003. More importantly, last November, he lost the country's

first election since civil war in the Ivory Coast ended in 2002 , according to the UN-backed electoral commission.

Export ban

The UN's ruling was disputed by the country's own Constitutional Council on the basis of vote rigging, and Mr Gbagbo has no intention of stepping aside without a fight.

But to fight, he needs money - \$150m (£93m) by next month just to pay his security forces, according to Natznet Tesfay, head of Africa forecasting at Exclusive Analysis.

It is this need to fund his bid to stay in power that explains his attempt to seize control of the country's cocoa industry, which provides about 35% of government revenues.

In the short term, it is unlikely to bring the rewards he craves, for the very simple reason that there is currently an export ban on all Ivory Coast's cocoa.

This was imposed by Alassane Ouattara, the man recognised internationally as the winner of last year's presidential election, specifically to deny his rival the opportunity to raise funds.

While most big cocoa traders, including US food giant Cargill, have actively said they will respect the ban, others, such as Nestle, have not, says Ms Tesfay.

"Tariffs and port taxes will likely be increased at the Ports of Abidjan and San Pedro, raising operating costs for companies that are still trading in Cote d'Ivoire, including Nestle and Barry Callebaut," she explains. However, the impact on the international trade in cocoa of an increase in duties for some buyers is negligible compared with the export ban.

Bumper harvest

The ban was introduced six weeks ago, during which

time the price of cocoa has jumped about 15% to \$3,669 a tonne.

When the presidential elections took place in November, the price was about \$2,900.

The impact of the ban would have been much more severe had it not been for the bumper harvest last year that has led to a surplus of cocoa on the global market, according to the International Cocoa Organisation (ICO). In fact, the price of cocoa would have fallen but for the ban.

These stocks mean "there is no real problem in the short term", says Laurent Pipitone at the ICO.

Indeed, Ghana, which is the world's second-biggest cocoa producer with more than 20% of the market, is taking up much of the slack.

The question, of course, is how long it can continue to do so. If the ban continues indefinitely, a gaping hole in global supply will soon open up.

There is also the danger that much of last year's harvest will be lost.

"The quality will suffer, but cocoa can last for years if properly stored," explains Mr Pipitone.

"But kept in bad storage conditions, it can deteriorate in a matter of months."

The likelihood is that the vast quantities of cocoa being stockpiled at Ivory Coast ports are not being kept in premium conditions.

So, if the ban continues beyond the capacity of other producers to support global demand, the consequences for the international cocoa market will be severe.

"The market cannot function without the Ivory Coast," says Mr Pipitone.

"In the coming months there will be a huge problem if there is no Ivory Coast cocoa. The price will go through the roof - that is certain."

Political game

There is a chance, however, that the ban will be shortlived.

While Mr Ouattara has agreed to mediation, Mr Gbagbo has refused to negotiate until his presidency is recognised by the international community.

And while the stalemate continues, the level of violence between the two factions increases.

As Ms Tesfay says: "Someone is going to have to cede ground".

A provisional deadline for talks has already been put back by a month, but mediation is due to begin in two months.

To complicate matters further, African countries are divided about how best to proceed. Nigeria has been vocal in its call for military intervention, whereas South Africa and Uganda favour a closer inspection of last November's election.

The Economic Community Of West African States (ECOWAS) has asked the US, the UK and France to intervene, but they have deferred to the United Nations. In the middle of this diplomatic minefield lies the Ivory Coast's cocoa industry.

It has become a pawn in an increasingly bloody political game, and cocoa traders, chocolate makers and ultimately consumers will have to wait until the game is played out before there is any certainty in the supply and price of this precious commodity.