WCF – LATAM SEMINAR
GLOBAL COCOA MARKET

5th Sept’2016
AGENDA

- Supply and Demand
- Regional Production and Fine Flavor Exports
- Consumption Pattern
- LATAM – Potential Growth?
- Fine Flavor Challenges – Discussion Points
# Supply and Demand

## Cocoa Beans S&D

<table>
<thead>
<tr>
<th>(in '000 tonnes)</th>
<th>07/08</th>
<th>08/09</th>
<th>09/10</th>
<th>10/11</th>
<th>11/12</th>
<th>12/13</th>
<th>13/14</th>
<th>14/15</th>
<th>15/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Crop (gross)</td>
<td>3,737</td>
<td>3,592</td>
<td>3,634</td>
<td>4,309</td>
<td>4,095</td>
<td>3,943</td>
<td>4,373</td>
<td>4,236</td>
<td>3,998</td>
</tr>
<tr>
<td>Net Production</td>
<td>3,700</td>
<td>3,556</td>
<td>3,598</td>
<td>4,265</td>
<td>4,054</td>
<td>3,904</td>
<td>4,329</td>
<td>4,193</td>
<td>3,949</td>
</tr>
<tr>
<td>Bean Grindings</td>
<td>3,775</td>
<td>3,537</td>
<td>3,737</td>
<td>3,938</td>
<td>3,972</td>
<td>4,180</td>
<td>4,335</td>
<td>4,152</td>
<td>4,160</td>
</tr>
<tr>
<td><strong>Surplus (Deficit)</strong></td>
<td><strong>(75)</strong></td>
<td><strong>19</strong></td>
<td><strong>(139)</strong></td>
<td><strong>327</strong></td>
<td><strong>82</strong></td>
<td><strong>(276)</strong></td>
<td><strong>(5)</strong></td>
<td><strong>41</strong></td>
<td><strong>(211)</strong></td>
</tr>
<tr>
<td>Ending Stocks</td>
<td>1,538</td>
<td>1,557</td>
<td>1,418</td>
<td>1,746</td>
<td>1,828</td>
<td>1,551</td>
<td>1,546</td>
<td>1,587</td>
<td>1,376</td>
</tr>
<tr>
<td>Stocks/Grinding Ratio</td>
<td>40.7%</td>
<td>44.0%</td>
<td>38.0%</td>
<td>44.3%</td>
<td>44.3%</td>
<td>37.1%</td>
<td>35.7%</td>
<td>38.2%</td>
<td>33.1%</td>
</tr>
</tbody>
</table>

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Source: ICCO
Regional Production and Fine Flavor Exports

Cocoa Crop by Region

<table>
<thead>
<tr>
<th>(in '000 tonnes)</th>
<th>07/08</th>
<th>08/09</th>
<th>09/10</th>
<th>10/11</th>
<th>11/12</th>
<th>12/13</th>
<th>13/14</th>
<th>14/15</th>
<th>15/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>2522</td>
<td>2370</td>
<td>2335</td>
<td>3023</td>
<td>2833</td>
<td>2769</td>
<td>3128</td>
<td>2991</td>
<td>2860</td>
</tr>
<tr>
<td>Asia</td>
<td>537</td>
<td>549</td>
<td>589</td>
<td>488</td>
<td>479</td>
<td>451</td>
<td>411</td>
<td>361</td>
<td>366</td>
</tr>
<tr>
<td>Central and South America</td>
<td>405</td>
<td>419</td>
<td>452</td>
<td>504</td>
<td>594</td>
<td>563</td>
<td>663</td>
<td>700</td>
<td>575</td>
</tr>
<tr>
<td>Others</td>
<td>274</td>
<td>253</td>
<td>258</td>
<td>294</td>
<td>190</td>
<td>160</td>
<td>171</td>
<td>184</td>
<td>187</td>
</tr>
<tr>
<td>World Total</td>
<td>3738</td>
<td>3591</td>
<td>3634</td>
<td>4309</td>
<td>4096</td>
<td>3943</td>
<td>4373</td>
<td>4236</td>
<td>3988</td>
</tr>
<tr>
<td>Change on prior season</td>
<td>8.9%</td>
<td>-3.9%</td>
<td>1.2%</td>
<td>18.6%</td>
<td>-5.0%</td>
<td>-3.7%</td>
<td>10.9%</td>
<td>-3.1%</td>
<td>-5.8%</td>
</tr>
</tbody>
</table>

What does Fine Flavor mean?

- Beans produced from Criollo/Trinitario as a generalization
- Exception to the rule are Nacional Trees in Ecuador
- Cameroon Trinitario is defined as bulk cocoa
- Differentiation in Fine Flavor vis a vis bulk is in flavor and not on other quality parameters i.e. Mould, Bean Count, FFA, etc.
- Strict simple way of differentiating / defining fine flavor still remains debatable
- Fine flavor totally 5% of the overall market

Countries

<table>
<thead>
<tr>
<th>Source of total exports - classified as fine flavour</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bolivia, Costa Rica, Dominica, Grenada, Madagascar, Mexico, Nicaragua, Saint Lucia, Trinidad and Tobago, Venezuela</td>
</tr>
<tr>
<td>Colombia, Jamaica, Papua New Guinea</td>
</tr>
<tr>
<td>Ecuador and Peru</td>
</tr>
<tr>
<td>Belize, Guatemala, Honduras, Panama</td>
</tr>
<tr>
<td>Dominican Republic, Sao Tome and Principe, Vietnam</td>
</tr>
</tbody>
</table>

Source: ICCO
Consumption Levels

Chocolate confectionary consumption (kg/capita, 2015 – log scale)

Early adoption | Emerging | Mature growth

GDP per capita (USD k, 2015)
LATAM – Potential Growth

• South America: Current production at 700 k in 2015, poised to reach 1mn in the next 10 years

• Growth Engines: Ecuador, Peru and Colombia. Brazil’s revival post 2015-16 remains to be seen

• Central America: 125 k in 2015. Can it double?
  – Nicaragua seeing increasing investments
  – DR continues the growth story
  – Fine flavor pricing – can Caribbean unlock the value chain to make it profitable and productive?

• America’s growth potential hinges on:
  – Increasing research leading to new clones by INIAP, CATIE, FEDECACAO, CRC (UWI) & pvt. sector players, which are disease resistant & highly productive. This can lead to multiple clones planted across region leading to stability
  – Increasing Fine Flavor market premiums leading to increased investment in that segment
  – SME investment: Will we continue to see the growth across the region
  – Sustained cocoa prices
Fine Flavor Challenges – Discussion Points

• Susceptibility to diseases:
  – Research for new clones
  – Pvt. sector involvement

• Justifiable Premiums: How to unlock value?
  – Increasing dark chocolate and premium chocolate consumption
  – Increasing bean to bar popularity
  – Cocoa salons & its growth has direct impact on unlocking marketing value

• SME investment – Plantations with Fine Flavor varieties?
  – High yielding & disease resistant clonal varieties becomes very important factor
  – Ability to find niche customers with inelastic price demand will increase investments
  – Govt incentives and support vital

• How to standardize harvesting and fermentation practices to improve quality?
  – Huge role here for exporters, governments and supply chain actors
  – Sustainable & Traceable programs will enhance quality with BPA

• How to avoid mixing with other varieties and not devalue premiums?
  – Traceable supply chains
  – Standard parameters like in coffee to have flavor profiles which can make mixing difficult

• How to sustain current supply chain and improve it for existing Fine flavor cocoa producers?
  – Sustainability programs
  – Govt investment in Infrastructure
  – Deliver consistent quality and quantity
Desafíos del Cacao Fino y de Aroma – Puntos de Discusión

• Susceptibilidad a las enfermedades
• Primas que justifiquen: ¿cómo obtener mayor valor?
• Inversiones – Plantaciones con variedades de Cacao Fino
• ¿Cómo estandarizar buenas prácticas de cosecha y post – cosecha para mejorar la calidad?
• ¿Cómo evitar mezclas entre variedades y evitar que las primas se devalúen?
• ¿Cómo sostener la cadena de suministro actual y mejorarla para los productores de cacao fino de aroma?
Thank you!

Olam Cocoa
www.olamgroup.com