Côte d'Ivoire: NR continues rapid expansion

Highlights

- Côte d'Ivoire's natural rubber (NR) sector has grown strongly over the past decade, cementing the country's position as Africa's largest producer and exporter of the commodity.
- Côte d'Ivoire has more than doubled NR output to an estimated 290,042 MT in 2012/13, in the process increasing its share of African production to 44.5%.
- The surge in production has been driven by an influx of Ivorian farmers into the sector, attracted by strong international prices, high yields, regular income and minimal inputs.
- Around 90% of Côte d'Ivoire's NR is exported, half going to the EU for the manufacture of tyres and latex products, although China is an increasingly important export market.
- The country's NR sector is dominated by three companies – SAPH, SOGB & TRCI – which together account for 85% of production and 52% of processing capacity.
- However, the slump in international NR prices and sharp increases in domestic taxes are threatening further development of the sector.

Côte d'Ivoire has become Africa's largest NR producer & exporter

Côte d'Ivoire's natural rubber (NR) sector has grown strongly over the past decade, cementing the country's position as Africa's largest producer and exporter. African NR production is focused on West Africa, and has historically been dominated by Nigeria, Côte d'Ivoire and Liberia, which typically account for over 80% of African output. But after slipping to 503,000 MT in 2007/08, the region's NR production has steadily risen, reaching a record 575,000 MT in 2011/12 (Chart 1). Over the past decade the top performer has been Côte d'Ivoire, which has more than doubled output from 135,542 MT in 2001/02 to an estimated 290,042 MT in 2012/13; this has enabled the country to increase its market share from 31.2% to 44.5% over the same period (Chart 2). Strong growth in Ivorian output has more than offset the stagnation in production by its closest competitor, Nigeria, as well as Liberia's 42% slump in production over the same period.

Chart 1: NR production in West Africa, 000s MT

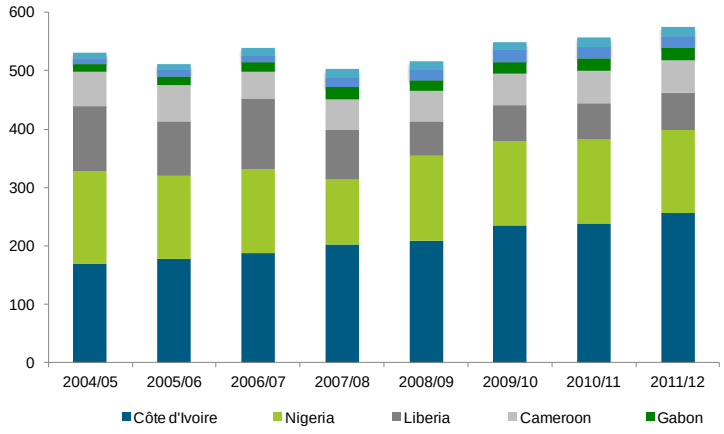
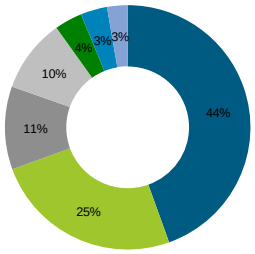


Chart 2: % share of production



Sources: FAOSTAT, Ecobank Research.

Côte d'Ivoire's NR sector is dominated by smallholders, typically cultivating farms of less than 4 ha, and they account for 80% of output, with industrial plantations making up the balance. Given sustained government support for the NR sector, land under cultivation has risen to 420,000 ha, of which 180,000 ha is currently in production. The surge in Ivorian production has been driven by an influx of Ivorian farmers into the sector, attracted by strong prices, high yields, regular income and minimal inputs. Yields for outgrowers average 1.8 MT/ha — three times the average

yield for cocoa of 660kg/ha — and rise as high as 2.2 MT/ha for industrial plantations. Moreover, productivity does not depend on inputs, with little need for fertiliser, pesticides or spraying against diseases. Although the sector does suffer from two fungal diseases that attack the rubber plant's leaf and root systems, their impact is limited, affecting just 3-5% of trees. A further attraction of NR is the crop's monthly harvests – which only drop during March and April – giving farmers a regular income stream throughout the season, rather than crops like cocoa, which has two harvests (the main and mid-crops). In addition, the regulator, Association des Professionnels du Caoutchouc Naturel de Côte d'Ivoire (Apromac), is encouraging new farmers to enter the sector by providing subsidised seedlings through the national NR development fund. Under this scheme, Apromac pays for 50% of the cost of new plants – typically XOF150 and XOF225 for one- and two-year-old plants, respectively – which is repaid by a levy on NR sales of XOF10-15/kg.

Farmers have secured high prices for their rubber

A key factor in the success of Côte d'Ivoire's NR sector is the ability of Ivorian farmers to capture high prices for their crop. Each season Apromac sets an indicative farmgate price that is equal to 61% of the CIF price as quoted on the Singapore Commodity Exchange (SICOM, Table 1). This system has proved effective at encouraging farmers to increase production, and has been supported by strong international NR prices. After a prolonged slump in 1997-2001, caused by oversupply from South-East Asia, NR prices picked up from 2003, driven by strong demand from China, the world's largest NR importer and manufacturer of tyres (the key product made from NR). NR prices rose to a record 219 US cents/kg in 2011, before falling back to an estimated 127 US cents/kg in 2013, again in response to oversupply. Apromac's farmgate prices have broadly tracked international prices, with the margin between Ivorian prices (calculated at the average XOF:US$ exchange rate) remaining broadly constant over the past decade (Chart 3).

Other factors have also helped farmers to secure decent prices for their rubber crop. Given that processing factories are located close to producing areas, NR companies typically buy their rubber directly from outgrowers, cutting out the need for intermediaries and enabling farmers to secure the full mandated price at the farmgate. Moreover, the surge in processing capacity since 2009 has boosted competition for feedstock, forcing some Ivorian NR companies to pay premiums from XOF10-30/kg to farmers and to spread their factories across the underdeveloped west of the country in order to secure supplies; the number of buying centres has also increased.

Chart 3: NR prices, US cents/kg

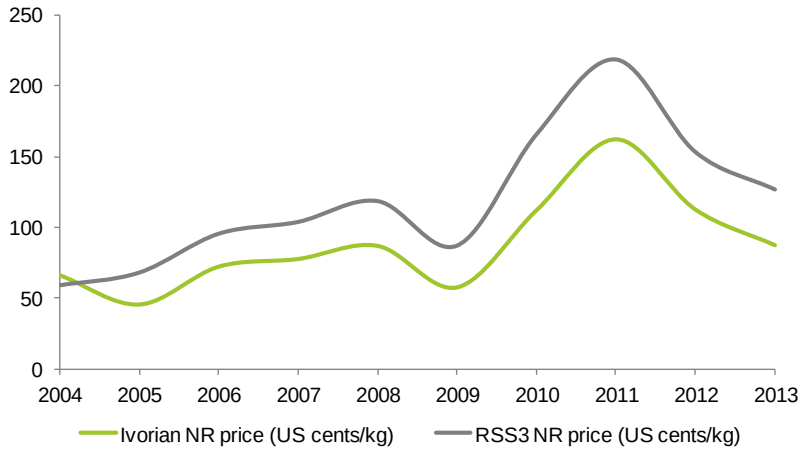


Table 1: Average farmgate prices, XOF/kg

Year	Price
2004	217.3
2005	237.5
2006	346.0
2007	345.1
2008	404.8
2009	271.3
2010	554.4
2011	766.2
2012	570.0
2013	444.9

Sources: Apromac, Bloomberg. Average XOF:US$ exchange rate; RSS3 NR price from SICOM.

Most Ivorian NR is destined for export

The vast majority of Côte d'Ivoire's NR production is destined for export, with just 10% being used by the domestic industrial sector. Exports revenues from Ivorian NR have surged over the past five years, reflecting both rising production and volatile international prices. From just US$113mn in 2003, total exports surged to US$1.1bn in 2011, before moderating to US$962mn in 2012 (Chart 4). This makes NR the country's second most valuable soft commodity export, after cocoa, easily eclipsing the value of exports of cashew nuts, cotton and coffee. The leading offtaker of Ivorian NR is the EU, which accounts for 48% of exports, mostly of which go to Germany, Spain, France & Italy (Chart 5). The single largest importer of Ivorian NR is South Africa, which imported US$181mn in 2012 for use in its industrial sector. Malaysia & the USA are the next most important markets, each importing round US$140mn of Ivorian NR in 2012. Among the smaller export markets, China is rising in prominence. Although China accounted for just 6% of Ivorian NR exports in 2012, the value of these exports has increased eighteen-fold over the past three years, indicating exponential growth in demand.

Chart 4: Côte d'Ivoire's NR exports, US$ millions

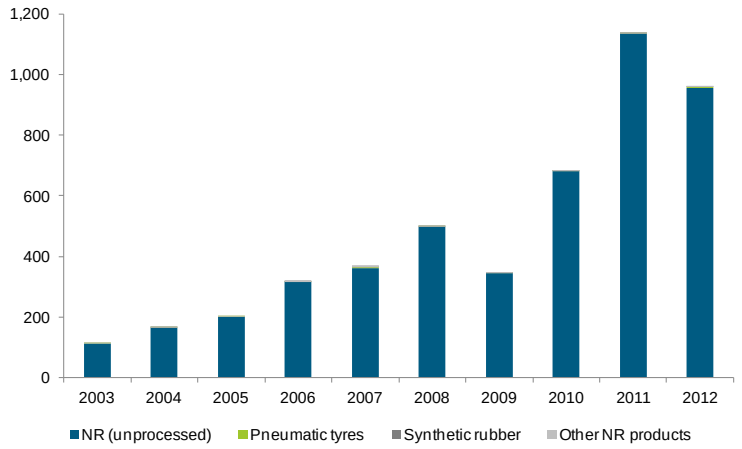
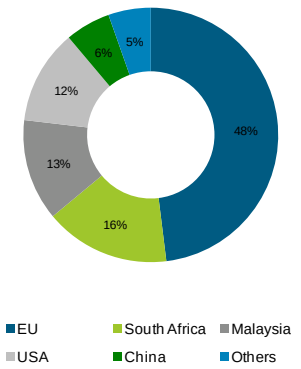


Chart 5: Key export markets



Sources: Intracen, Ecobank Research.

A handful of companies dominate the NR sector

Despite the entrance of a number of new players in recent years, Côte d'Ivoire's NR sector remains dominated by three companies: Société Africaine des Plantations d'Hévéa (SAPH), Société des Caoutchouc de Grand-Béréby (SOGB) and Tropical Rubber Côte d'Ivoire (TRCI). SAPH, which is a subsidiary of the Ivorian agribusiness conglomerate, SIFCA, is the sector giant, accounting for 44% of production. The company, which operates industrial plantations and also sources rubber from outgrowers, produced 120,000 MT of NR in 2012/13. SOGB, which is majority owned by Belgian holding company, Socfin, and TRCI, a subsidiary of Singapore-listed GMG Global, each have a market share of around 20%. Numerous small companies and small-scale outgrowers account for the remaining 15% of national production.

The dominance of the Big Three is also apparent in the NR processing sector (Table 2, next page). SAPH holds the largest share of processing capacity – estimated at 28% in 2012 - which is expected to reach 124,416 MT this year on the completion of expansion plans, while its rivals SOGB and TRCI hold market shares of 17.6% and 5.9%, respectively. There are also a host of small players with processing capacities ranging from 21,000 MT to 41,000 MT, the largest of which, Compagnie Hévéicole de Cavally (CHC), has a 9.4% market share. Thanks to heavy investment by six of the market leaders – SAPH, SOGB, CHC, EXAT, SCC and CCP – Côte d'Ivoire's total processing capacity is forecast to increase from an estimated 380,000 MT in 2013 to 440,640 MT by the end of 2014.

The manufacturing of latex and NR products – notably tyres – is poorly developed in Côte d'Ivoire, as evidenced by the overwhelming dominance of unprocessed NR in rubber exports (Chart 4).

Just three companies, Société Ivorienne de Traitement de Latex (SITEL) , Compagnie de Caoutchouc de Pakidié (CCP) and Zenith Plastique, process dry NR into latex for producing rubber-based goods. Their combined annual uptake of dry rubber is 760 MT, less than 1% of the country's NR output. This reflects the stiff competition they face from cheap Chinese imports, notably of latex gloves, which is blocking development of local manufacturing.

Table 2: Côte d'Ivoire's NR processors, 2012

Company	Capacity (000s MT)	Market Share
Société Africaine des Plantations d'Hévéa (SAPH)	124	28.2%
Société des Caoutchouc de Grand-Béréby (SOGB)	77	17.6%
Compagnie Hévéicole de Cavally (CHC)	41	9.4%
Exploitation Agricole Tehui (EXAT)	31	7.1%
Sud Comoe Caoutchouc (SCC)	31	7.1%
Tropical Rubber Côte d'Ivoire (TRCI)	26	5.9%
Compagnie du Caoutchouc de Pakidié (CCP)	26	5.9%
Cote d'Ivoire Hevea Company (CIH)	21	4.7%
SAIC	15	3.5%
Ivoirienne d'Hévéa (IDH)	15	3.5%
Hevetec	15	3.5%
Asaf Rubber Industry	15	3.5%
Total	440,640	100%

Source: Apromac.

There are major constraints on the sector

Despite strong fundamentals, Côte d'Ivoire's NR sector is facing a number of constraints that could limit its growth. By far the most serious is the slump in international NR prices, which have fallen by over 40% over the past two years, impacting Ivorian farmgate prices. The price slump is mainly the result of China cutting back on its imports of NR as part of a broad-ranging strategy to shift the economy away from exports (including tyres & latex products) towards higher domestic consumption. The slump in international prices has been reflected in Ivorian farmgate prices, which have dropped from a peak of XOF766/kg in 2011 to XOF265/kg in March 2014. Should prices fall further, this could dissuade Ivorian smallholders from expanding production further.

Changes to the tax regime have also hampered the sector. In line with a general tightening of taxes on the agricultural sector, in 2012 the Ivorian government introduced a 5% tax on NR companies' revenues, which is levied in addition to an existing 25% tax on industrial and commercial profits and a XOF7,500/ha tax on industrial plantations. Moreover, NR companies must also pay Value Added Tax (VAT) on their exports, ending a previous exemption which had been introduced to encourage domestic production. Although the country's NR producers are entitled to a refund from the Treasury, the reimbursement can take up to two years to complete and is plagued with bureaucratic difficulties. Higher taxes, coupled with the slump in international prices, have caused a drastic decline in profits for NR companies; for example, SOGB's H113 profits plummeted by 48% year on year to XOF3.68bn. The squeeze on profits has forced NR companies to reduce their direct purchases from smallholders, forcing farmers to sell their increased production to illegal intermediaries who pay well below the mandated minimum price at the farmgate. Typically these middlemen pay just XOF350/kg, securing a margin of XOF100/kg when selling on to the leading offtakers, compared with a margin of just XOF30/kg granted to authorised intermediaries.

The outlook for production remains bullish

Despite the weakness of international NR prices, production in Côte d'Ivoire is unlikely to slow down in the short term, although the medium-term outlook is less clear. Given that rubber trees have a gestational period of 6 years for industrial plantations and 7-8 years for outgrowers, production is forecast to continue rising for the next 4-5 seasons, reflecting heavy planting by farmers when NR prices reached their peak in 2011. This additional production should easily be absorbed by the expansion in processing capacity by the country's leading NR companies. But production could start to decline from 2019/20 if, as is feared, farmers stopped planting new trees in 2012/13 in response to the fall in prices. Moreover, the expected return of the El Niño weather phenomenon – which tends to bring drier weather to West Africa – could negatively impact yields in 2014/15, although on the upside the equally negative impact on South-East Asia – which produces most of the world's NR – could substantially buoy prices.

For now, the critical issue for the government to address is reform of the tax regime, which is curbing NR companies' ability to purchase from outgrowers and is disrupting the supply chain, encouraging the entry of unlicensed middlemen who are not respecting official prices. The Ministry of Industry has held meetings with industry stakeholders – who are pressing for the withdrawal of the 5% tax on revenues – and has indicated its willingness to amend the tax regime later this year. Without addressing the current pricing crisis, the country will struggle to reach Apromac's target of producing 600,000 MT of NR by 2020.

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