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BULLETIN

Africa Increases Control over Natural Resources

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From October this year, new rules on the sale of cocoa beans entered into force, agreed between Côte d'Ivoire and Ghana—the crop's two largest producers in the world—to ensure a profit for farmers. The agreement is an example of a departure from the raw material export model that is unfavourable to African producer countries. This change should increase the stability of African states. These processes will require a revision of the European business approach to Africa and the EU's trade policy towards the continent.

Postcolonial Structure of Trade in Raw Materials. Africa is the source of a number of key minerals and agricultural resources that are highly desirable on global markets. In addition to traditional goods, such as crude oil, gold, and diamonds, they include uranium ore (Niger), rare minerals such as coltan, used in electronics (and mined mainly in the Democratic Republic of Congo), or graphite with parameters suitable for the production of electric car batteries (Mozambique). Some 80% of the total exports from Africa are unprocessed mineral and energy resources. Among agricultural products (which amount to 10% of total exports), for example, 95% of cashews are exported without processing, with an average price of about $800–900/t, while after processing they reach a value of $10,000/t.

This situation blocks Africa's economic potential and is one of the main reasons for the persistence of developmental lags on the continent. The disproportions are particularly visible, for example, in the countries of Central Africa and the Sahel that supply key raw materials: six of them were among the 10 countries with the lowest human development index (HDI) in the world in 2019. Climate change also affects the condition of African countries, hindering production and influencing price increases (e.g., cocoa). The producer countries are therefore looking for ways to keep a greater part of industry profits. They have adopted new regulations with regard to international mining companies, increasing *ad valorem* royalties (from 2016, DRC, Senegal, Tanzania, Sierra Leone, and others). They are also expanding facilities for processing agricultural raw materials on site and starting to use price agreements similar to OPEC.

Cocoa Producers' Agreement. Côte d'Ivoire and Ghana supply about 65% of the cocoa beans to global markets. Until now, however, they had no influence on the prices of semi-finished and chocolate products, determined by importers and processors. The share of African producers, which also include Nigeria and Cameroon, in the profits of the chocolate industry is about 3%. In recent years, overproduction also kept prices low. Then, the differences in purchase conditions between Côte d'Ivoire and Ghana fuelled cross-border smuggling and pushed trade in the beans in the shadow economy. To guarantee producers stable profits, in 2018 Ghana and Côte d'Ivoire—in the so-called Abidjan Declaration—decided to harmonise cocoa bean sales policies.

In mid-2019, producer unions from the two countries set a minimum selling price at $2,600/t in what are called FOB sales contracts (with a marked port of loading). They also agreed to introduce a fixed and obligatory charge in the price, a so-called "living income differential" (LID) of $400 paid from each sales contract directly to farmers. These changes turn the Fairtrade International standards, so far used by importers on a voluntary basis, into rules applicable on the entire regulated market of Côte d'Ivoire and Ghana. To force the industry to accept these terms, the countries suspended forward sales, which immediately pushed global prices up to around $2,500/t in July 2019. As a result, the proposals were accepted, and in Ghana, after two months, farmers obtained a 5.2% increase in purchases. LID entered into force at the beginning of the current harvest season (October 2020–March 2021). Côte d'Ivoire, the largest producer, will also cap production at 2 million tonnes per year, which is to allow it to control prices to a greater extent.

Processing Problem. Resource-rich African countries often do not obtain the added value generated by processing raw materials, and then often import processed products for their own needs. Obtaining processing capacity is therefore key to strengthening their economies and increasing the share of profits. To this end, Nigeria, for example, is preparing to open in 2021 one of the largest oil refineries in the world, capable of processing 650,000 barrels of crude per day. Its launch is to curb gasoline imports (of about $11 billion a year), both to cover domestic demand and increase budget revenues.

The agricultural sector is facing similar challenges. In the countries of the Sahel, over 90% of acacia resin is collected (mostly in Sudan, Chad, and Nigeria), from which gum arabic is produced, used, among others, in the production of soft drinks as an emulsifier, and in confectionery, cosmetics, and pharmaceuticals. The global demand for it has tripled in the last 25 years to over 100,000 tonnes per year. However, the companies that transform the resin into a soluble powder or granulate are in Europe and North America, providing end users with about 90% of the processed products (French Nexira alone covers 50% of global demand). The gap between the profitability of resin production and its derivatives is growing: the average value of the exported crude product has increased by 58% since the 1990s, but its derivatives by 158%. Although a large part of the local population is involved in the harvesting of the resin, the structure of exports makes it a low-wage occupation. This only changes as the local industry develops. There is one small gum arabic pulverising plant in Nigeria and Senegal, with the latter increasing export capacity. In Sudan, the launch of some dozen plants since 2003, mainly in Port Sudan, and the competition between them resulted in a fourfold increase in collectors' profits in the following years. Further plants processing gum arabic will be established in Sudan country, among others in Darfur and Kordofan, where most of the resin is collected, thanks to cooperation with the Netherlands. This European country wants to import more processed material, for example, for its confectionery industry, directly from Sudan.

Côte d'Ivoire and Ghana are expanding cocoa bean initial-processing capacities. The former plans to launch new plants in San-Pédro and Abidjan by 2022, thanks to which it will grind 1 million tonnes per year (today it is 500,000 tonnes) and become the worldwide leader in this field. However, 80% of the cocoa industry's profits come from the sale of a further stage of processing—cocoa paste. In Africa, there is still no independent capacity to produce it—only branches of foreign concerns run them on a limited scale, and chocolate producers, including Polish ones, obtain it from companies in third countries, such as Belgium.

Conclusions. The Ghana–Côte d'Ivoire agreement on the production of cocoa beans (possibly extended to Nigeria and Cameroon) may set an example for other agricultural industries, such as vanilla and cashews. Extraction of mineral resources, particularly those related to new technologies, will be subject to requirements to leave a greater part of the potential profits in the countries with the resources. African producer countries will increasingly use their position in relation to consumers of natural resources to stimulate their own development. Thus, they will gain a political tool of pressure in relations with the EU and others. While it will not be felt in the current cycle of trade agreement negotiations, it could play a significant role in a future agreement between the EU and the emerging African Continental Free Trade Area (AfCFTA).

While the EU formally supports the economic transition in Africa, increasing the availability of African-processed products, especially food, on global markets will create tensions with European industries. In the longer term, these changes will be beneficial for the EU, as they will increase the stability of African countries by expanding the labour market and satisfactory wages and widen the economic growth dividend. That is why some European countries, such as the Netherlands, are already actively supporting processing capacities in Africa, despite the expected short-term effect of an increase in the prices of goods in recipient countries, for example, the retail price of chocolate in Poland.

Changes in the distribution of profits along the value chains of certain goods are also an opportunity for African countries to adapt to climate change, a key factor in the new EU-African Union strategy, prepared for the summit in Brussels in 2021. Changing weather conditions make it difficult to grow, for example, grapes or cocoa beans, and will make the products obtained from them more exclusive and expensive. Greater profits also will allow African states to limit the uncontrolled exodus of people.