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Global Agricultural Information Network

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Ethiopia

Coffee Annual

Coffee Annual Report

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Report Highlights:

Ethiopia is a major producer (the largest in Africa) and exporter of coffee. Because of information not earlier available, estimates for Ethiopian coffee production have been revised upward substantially from earlier USDA estimates. Exports for MY 2010/11 were also revised upward, to account for the informal trade in the region. However, exports in MY 2011/12 are significantly lower, because of a new directive mandating that coffee be shipped in bulk rather than the traditional 60-kg jute bags, which led to many traders holding onto beans. The directive was retracted quickly, but was in force for most of the peak shipping months of October-December, and therefore had a large effect. In MY 2012/13, production is forecast to be strong, assuming the rains are good, and exports are forecast to rebound.

COMMODITIES

Production

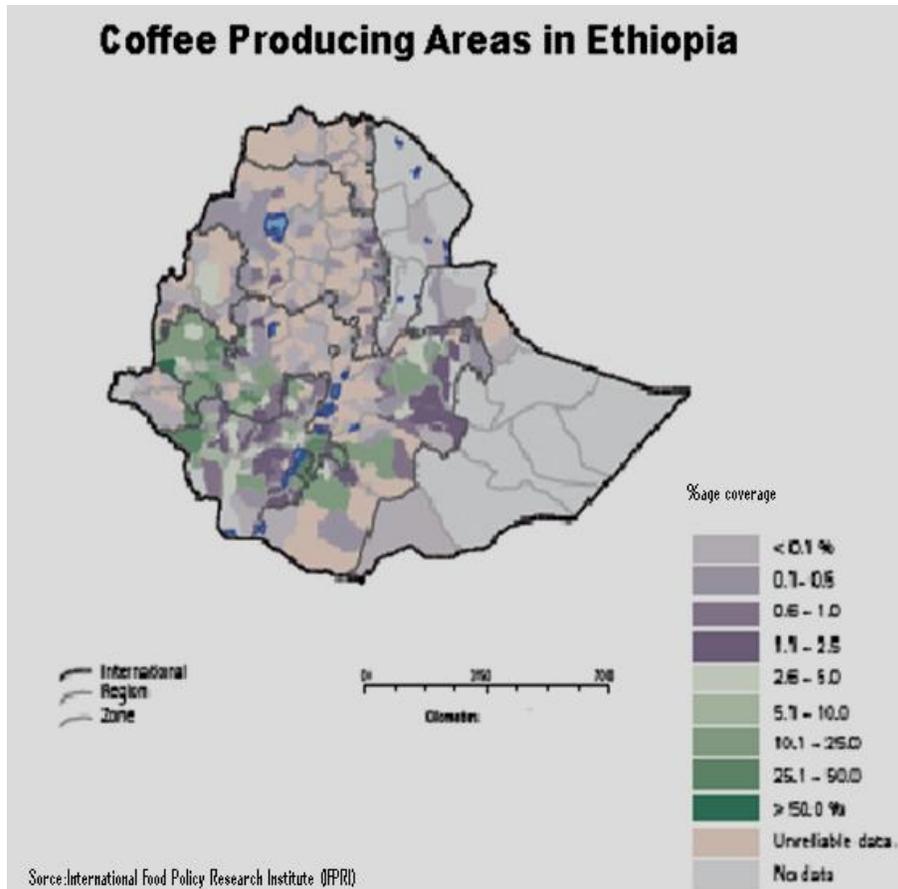
Ethiopia is famous as the origin of coffee and is the largest producer in Africa. In production of Arabica coffee, Ethiopia is the sixth largest producer in the world. About 15 million people (almost 20 percent of the total population) directly or indirectly depend on coffee for their living.

The largest volume of coffee is grown in the two large regions of Oromia (in the central part of the country) and the Southern Nations, Nationalities and Peoples Region (SNNPR). Only five percent of coffee production is grown on modern plantations, which are owned by private investors or by the government. The rest is grown by smallholder farmers, and about half of that production is in backyards or gardens. In both cases (modern plantations as well as smallholder production), coffee is generally grown under shade.

Production estimates for Marketing Year (MY) 2010/11 (October 2010 – September 2011) and for MY 2011/12 have been raised substantially from earlier USDA estimates. However, there is not much change in production from year to year. Although there is some additional planting of trees, there has been very little progress in management (e.g., disease and pest management remains poor) or input usage by smallholders. Few commercial farmers are interested in investing in coffee due to the 5-10 years required before trees come into peak production. Another limiting factor is the deforestation in the country, caused by population pressure and the need for firewood, which is inhibiting the available shade for coffee production and accelerating erosion.

Production in MY 2011/12 is slightly higher than the year before, because of good rainfall distribution in most of the coffee growing areas, except for the southern part of Oromia. In addition, because of a large development project, a large number of seedlings were planted about five years ago, and these are just coming into fruit. MY 2012/13 production is forecast to be slightly higher again, because of additional trees and because the short *belg* rains (usually February-May), although late, have been good. The late start of the *belg* rain this year may delay the harvest by about a month.

Two factors may negatively affect coffee production over the long term. In parts of Oromia, a root rot disease is gradually affecting trees, and even affects new seedlings if planted where a diseased tree has been uprooted. In addition, especially in the eastern part of the country near the trade routes with the Middle East, farmers are increasingly inter-cropping coffee with *khat*. A legal stimulant, *khat* is relatively resistant to drought, disease and pests, can be harvested three or four times a year, and commands high prices in neighboring countries, such as Djibouti, Somalia and Yemen. Recently the government has imposed a new tax on *khat* aimed at discouraging domestic consumption (which accounts for 80 percent of Ethiopian *khat* production). This likely will lead to more exports and to higher prices for *khat* farmers, which may exacerbate the shift from coffee in the eastern regions.



Consumption

Ethiopians consume about half of all coffee produced in the country. Ethiopian households normally prepare and consume coffee two or three times a day, and the Ethiopian coffee ceremony is a traditional way to welcome guests to one's house. This marketing year has seen a steady rise in local coffee prices, with the price of green coffee currently at 8 USD/kg. In MY 2012/13 the expected higher production, coupled with high ending stocks, may depress local prices somewhat and lead to increased domestic consumption.

Because of the current high prices, some coffee shops are known to mix coffee with barley, as a way to extend the coffee and maintain profits. The high prices have led to a trend in urban areas for small roadside coffee stalls, not subject to VAT tax and therefore cheaper than normal coffee shops. Because they deal in such small quantities of coffee, they do not use barley and are therefore popular with Ethiopians. In some non coffee-growing areas, people even boil the skin of the processed coffee beans to make coffee, as a way to have a coffee drink at low cost.

Trade

Coffee is the most important export item for Ethiopia, accounting for 25-30 percent of total export revenues in the last two years. The trade figures in the PSD are higher than official export figures, or import figures from destination countries, in order to account for estimated informal trade to neighboring countries, including Eritrea, Somalia, and South Sudan.

Exports in the current marketing year (MY 2011/12) are considerably lower than in recent years because of a response to government policy. In an effort to modernize coffee shipments and in an attempt to avoid using contaminated bags (see below), in November 2011 the Ministry of Trade imposed a new directive requiring that coffee be shipped in bulk containers rather than the traditional 60 kg. jute bags. However, in addition to the fact that many operations are not physically equipped to handle shipments in bulk, traders objected to the new policy because it undermined the identity of specialty Ethiopian coffees. Therefore, many traders held onto their beans instead of shipping.

The situation was exacerbated by the Ministry of Trade’s earlier action, in October 2011, to ban 41 exporters because of hoarding coffee. An additional 57 exporters were suspended for varying lengths of time, up to a year. Therefore, during the peak export time of October –December, many export contract obligations were not fulfilled. In order to reverse the new directive, the issue was taken up to the prime minister’s level, and on December 17, 2011, the Ministry retracted the directive. But the major shipping season was coming to a close, with the result that the short-lived directive is having an impact throughout the marketing year.

MY 2010/2011 Ethiopian Coffee Exports by Destination
(1000 60-kg bags)

Destination	MY 2010/2011
Germany	998
Saudi Arabia	415
USA	265
Belgium	220
France	169
Italy	153
Sweden	129
Japan	122
Sudan	89
UK	86
Others	342
Total	2,987

Source: Ethiopian Customs Authority

Prior to 2008, the Japan market was the second destination for Ethiopia coffee, but a problem with DDT-tainted jute bags that year dramatically reduced this trade. The Ethiopian government reacted by mandating that all export coffee be tested at a Ministry of Agriculture coffee laboratory. The Ministry is working with the Japanese development agency as well as other donors to improve overall laboratory systems, in order to avoid similar problems in the future.

Stocks

Coffee stocks are primarily held by coffee cooperative unions, with some quantities held by the Ethiopian Commodity Exchange (ECX) (see Marketing section below), coffee exporters and wholesalers for the local market. The government, however, has severe penalties for hoarding, and

exporters are not allowed to store more than 500 tons of coffee over a two-month period, unless they have a contract with an importer. ECX, cooperative unions and local market wholesalers are not affected by this restriction. Storage capacity is a major issue, and ECX continues to invest in warehouses throughout the country.

Policy

There are no particular policies affecting coffee production. As noted above, however, coffee storage is regulated, as is the export trade. Because coffee is one of the most important export items, the government imposes a number of regulations to maximize the foreign currency resulting from this export. It is illegal to sell export quality coffee in the domestic market, and businesses must have special licenses to be roasters, domestic wholesalers, or exporters. In order to maintain export quality, all parties in the export supply chain are required to be certified by the Ethiopian government in order to collect, process, store or transport coffee.

Marketing

The Ethiopian Commodity Exchange (ECX), a public-private enterprise, was established in April 2008 with the help of USAID to reduce transaction costs and risk to growers, as well as to control foreign exchange. It started with export items like coffee and sesame, and is now extending to haricot beans and grains, including for the local market. Over the past four years, it has become a well-organized market institution where local buyers and sellers come together to trade, assuring quality, quantity, payment and delivery. It now handles about 90 percent of all coffee exports, and has its own laboratories and warehouses. Unwashed coffee accounts for over 60 percent of all ECX transactions.

Many farmers have benefited from the ease in marketing and better prices afforded by trading through ECX. However, there are some complaints by producers and traders. First, some growers object to the fact that trading through ECX is mandatory; by law all coffee must be traded either through ECX, through a cooperative, or by a commercial operation. (Sesame is also required to be traded through ECX; using ECX is voluntary for other crops.) Second, ECX handles coffee in commodity fashion, to the disadvantage of growers (and buyers) of specialty coffees. This has given an advantage to commercial farms and certain coffee cooperatives, which do not have to sell through ECX and are able to get premium prices by marketing their coffee either by *terroir* (e.g., Yirgachefe) or by production process (e.g., organic, or bird-friendly). In an effort to address this, ECX is taking steps now, working on a pilot project with Starbucks, to identity-preserve specialty coffee.

Production, Supply and Demand Data Statistics:

Coffee, Green Ethiopia	2010/2011		2011/2012		2012/2013		
	Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: Oct 2012		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Planted	0	499	0	516		530	(1000 HA)
Area Harvested	0	489	0	506		520	(1000 HA)
Bearing Trees	0	1,223	0	1,264		1,300	(MILLION TREES)
Non-Bearing Trees	0	25	0	26		25	(MILLION TREES)
Total Tree Population	0	998	0	1,290		1,325	(MILLION TREES)
Beginning Stocks	53	53	28	95		762	(1000 60 KG BAGS)
Arabica Production	4,400	6,113	4,700	6,320		6,450	(1000 60 KG BAGS)
Robusta Production	0	0	0	0		0	(1000 60 KG BAGS)
Other Production	0	0	0	0		0	(1000 60 KG BAGS)
Total Production	4,400	6,113	4,700	6,320		6,450	(1000 60 KG BAGS)
Bean Imports	0	0	0	0		0	(1000 60 KG BAGS)
Roast & Ground Imports	0	0	0	0		0	(1000 60 KG BAGS)
Soluble Imports	0	0	0	0		0	(1000 60 KG BAGS)
Total Imports	0	0	0	0		0	(1000 60 KG BAGS)
Total Supply	4,453	6,166	4,728	6,415		7,212	(1000 60 KG BAGS)
Bean Exports	2,660	3,235	2,800	2,733		3,650	(1000 60 KG BAGS)
Rst-Grnd Exp.	0	0	0	0		0	(1000 60 KG BAGS)
Soluble Exports	0	0	0	0		0	(1000 60 KG BAGS)
Total Exports	2,660	3,235	2,800	2,733		3,650	(1000 60 KG BAGS)
Rst,Ground Dom. Consum	1,765	2,836	1,850	2,920		3,200	(1000 60 KG BAGS)
Soluble Dom. Cons.	0	0	0	0		0	(1000 60 KG BAGS)
Domestic Use	1,765	2,836	1,850	2,920		3,200	(1000 60 KG BAGS)
Ending Stocks	28	95	78	762		362	(1000 60 KG BAGS)
Total Distribution	4,453	6,166	4,728	6,415		7,212	(1000 60 KG BAGS)
Exportable Production	2,635	3,700	2,850	3,849		4,371	(1000 60 KG BAGS)
TS=TD							
Comments							
AGR Number							
Comments To Post							