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Ethiopia

Coffee Annual

Coffee Annual Report

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Report Highlights:

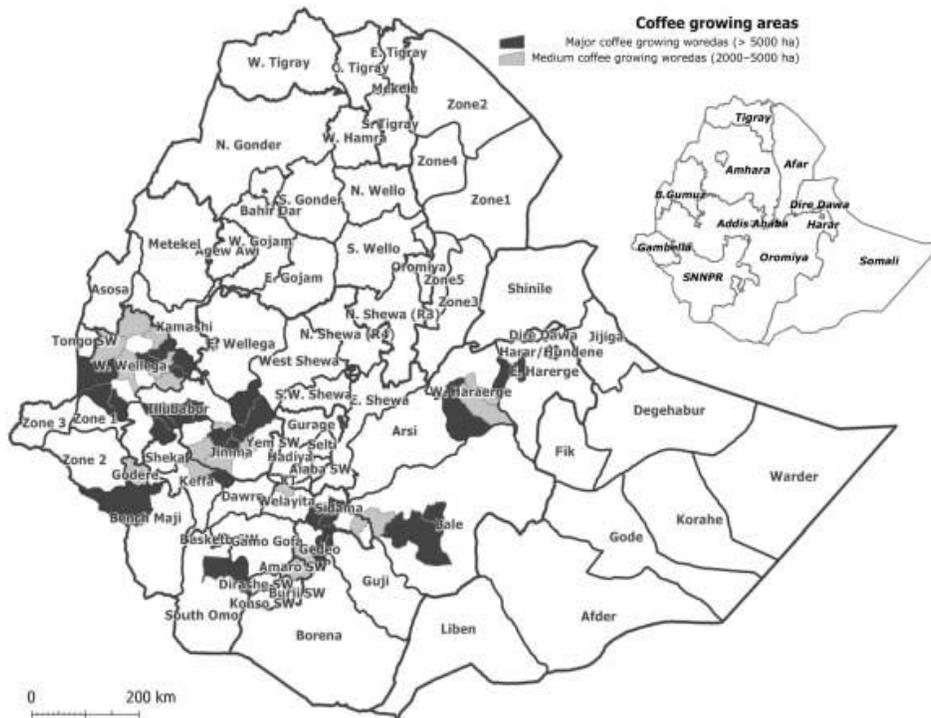
Coffee is Ethiopia's number one source of export revenue generating about 25-30 percent of the country's total export earnings. Ethiopian coffee production is predominantly characterized by traditional farm management system, limited use of fertilizers and pesticides coupled with a manual coffee cultivation system and drying method. In spite of these limitations, Ethiopia's coffee production in Marketing Year (MY) 2013/14 has marginally increased at a rate of 0.3 percent. Post also predicts coffee production in MY 2014/15 with increase slightly due to favorable rainfall during the *Bulg* rainy season (a short rainy season between mid-March and the end of May). During the current MY, Ethiopia exported large volumes of coffee. However, the larger export volume failed to generate a proportionate increase in foreign exchange earnings as a result of a decline in international coffee prices. The Government of Ethiopia (GOE) recently announced a plan to restructure the coffee development sector by designating a specialized institution that can provide technical support to the coffee value chain. *Khat* production continues to increase at the expense of coffee production.

Production:

Coffee production increased by 0.3 percent over the past year. Ethiopia remains the largest producer of coffee in Africa and is the fifth largest coffee producer in the world next to Brazil, Vietnam, Colombia, and Indonesia, contributing about 4.2 percent of total world coffee production. Ethiopia is the birthplace of Coffee Arabica and mostly produces this variety. Coffee has economic, environmental as well as social significance to the country.

Ethiopia has suitable environmental conditions for coffee production. Coffee Arabica grows naturally in tropical forest areas of the country. Coffee grown at various altitudes ranging from 1200-2750 meters above sea level, where there is sufficient rainfall with an amount between 1500-2500 mm and where there are optimum temperatures between 15-25°C.

Coffee production is vital to the Ethiopian economy with about 15 million people directly or indirectly deriving their livelihoods from it. It is mainly produced in the southwestern and southeastern parts of the country. It is predominantly produced by small holder farmers on average farms of less than 2 hectares. Around 95% of the country's total production comes from these small holder farmers.



Source: *Journal of Agrarian Change*, Vol. 7 No. 2, April 2007, pp. 225-263.

Fig -1 Coffee producing area in Ethiopia

Ethiopia has a good potential to increase coffee production and productivity as it is endowed with suitable elevation, temperature, soil fertility and sufficient rainfall in coffee growing belts of the country. However, the average yield per hectare remains very low stagnating at 0.7-0.8 MT per hectare.

The major reasons for the low coffee production (in quality and quantity) are:

- The Ethiopian coffee farm management system and agronomic practices are traditional failing to inject new technologies into the country's coffee production system. Besides, extension services provided to small holder farmers are inadequate.
- Inadequate use of improved seeds as the supply of improved seed is only limited to areas located around coffee research stations in the country.
- Lack of designated government institution to technically support coffee production. In the old days, there used to be a designated specialized government agency supporting the production and marketing of coffee. This agency is dissolved many years ago leaving the sector with little institutional and technical support from the government. The Government of Ethiopia (GOE) has recently noted this problem and plans to restructure the coffee development sector by a designating a specialized institution that can provide technical support to the coffee value chain. However, this specialized coffee institution has not yet materialized.
- In recent days, *Khat*, a plant chewed by humans for its stimulating effect, is competing for farm land with coffee. Some small holder coffee farmers resorted to producing *Khat* instead of coffee as they are increasingly attracted by the high prices and greater yield they get from the cultivation of *Khat*. A significant number of farmers particularly in the eastern part of the country have switched from coffee production to *Khat* production. This phenomena has increased over the past year. The increased farmland competition from *Khat* is becoming more and more aggravated owing to the high demand as well as price of *Khat* in both the local and neighboring countries market. *Khat* is a flowering plant whose stem tips and leaves are chewed for their stimulating effect. *Khat* is a drought, disease, and pest resistant plant which can be harvested three to four times a year and generates better income for farmers than other cash crops including coffee.

Coffee is a shade loving tree that grows well under the large indigenous *leguminosae* tree species such as Acacia trees. Coffee is grown in two regions of the country namely Oromia and Southern Nations, Nationalities and People Regions (SNNPR). Ninety five percent of Ethiopia's coffee is produced by small landholder farmers on less than two hectares of land while the remaining five percent is grown on modern commercial farms.

There are four different ways of producing coffee in Ethiopia i.e. forest coffee, semi - forest coffee, garden coffee, and plantation coffee. *Forest coffee* is a wild coffee grown under the shade of natural forest trees, with no defined owner. *Semi-forest coffee* farming is a system where a farmer living near by a forest coffee does some thinning and pruning on the forest coffee to finally claim ownership of the forest coffee. The thinning will allow adequate light to reach the coffee plant without exposing the plant to too much sunlight. The farmer who prunes and weeds the forest area claims to be the owner of the semi-forest coffee and collect the annual yield of the plant. *Garden coffee* is normally found in the vicinity of a farmer's residence. Farmers use organic fertilizers to produce *Garden coffee* and inter-crop it with other crops. *Plantation coffee* is commercial farms planted by the government or private investors for export purposes. Fertilizers and herbicides are usually used in this coffee plantation farming system.

Ninety-five per cent of the coffee produced under the above systems is arguably claimed as organic as most of it grows in the traditional organic cultivation system without the use of pesticides and fertilizers. These factors give Ethiopia a comparative advantage in the international specialty coffee market. Despite all these positive factors, the country contributes only 4.2 two percent of the total world coffee production.



Fig-2 Forest coffee in southern region.



Fig -3 Semi forest coffee in eastern region.

Ethiopian coffee farmers and traders arguably claim that their coffee is organic. However, most coffee produced and traded in Ethiopia is not certified by an international organic commodities certifying agency due to high cost for certification and inability of the small land holding farmers to cover this cost. Ethiopian coffee enjoys a high demand in the international market being specifically valued for its special aroma and distinct flavor.

Almost all Ethiopian coffee farmers don't use fertilizers except on commercial farms. The Ministry of Agriculture (MOA) doesn't encourage the practice of applying fertilizer in coffee farmlands. Use of pesticides on coffee farms is also inadequate. There are only a limited number of farmers who use pesticides despite the presence of Coffee Berry Disease (CBD), Coffee Wilt Disease (CWD), and Root Rot Disease (RRD) in major coffee growing areas.



Fig-4 Newly planted coffee seedlings on a commercial farm.



Fig-5 Coffee berry collection.

Coffee production is a labour intensive farming system and therefore provides much employment in rural areas. Coffee harvesting is done mostly by family labor, as the size of the average coffee farm is as small as 0.5ha.

Ethiopian coffee is processed in two different processing methods. The first one is called "the dry method" where the beans are dried inside the fruit. The second method called the sophisticated large-scale "wet method" employs a more advanced technology in which the fruit is immediately removed from the beans in a series of complex operations before the beans are dried.

The production estimate for 2013/14 is based on field observation at the major coffee growing areas of the country, discussion with farmers, and development agents at grass root level.



Fig -6 Coffee berry dry processing method at household.

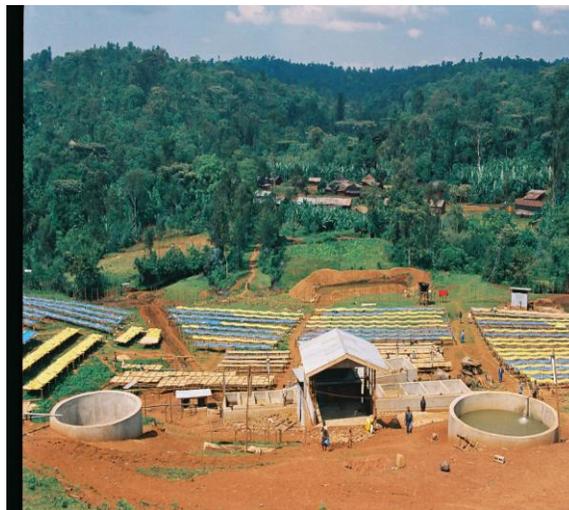


Fig-7 Large scale wet coffee berry processing plant.

Consumption:

Coffee consumption over the past year has not changed significantly. Ethiopians remain heavy coffee drinkers, ranked as one of the largest coffee drinking countries in Africa. Nearly half of Ethiopia's coffee production is locally consumed. Coffee has both social and cultural value. It is mainly consumed during social events such as family gatherings, religious celebrations, and at times of mourning.

Coffee supplied and traded in the local market usually has lower quality, mainly comprised of coffee originally meant for the export market but rejected for failing to meet the Ethiopian Commodities Exchange (ECX)'s quality standards. In spite of the fact that coffee supplied to the local market is low quality, the price of coffee in the local market is usually higher than export prices.

As reported last year, Ethiopian major cities are experiencing the emergence of small roadsides coffee stalls selling coffee to passer-by consumers. This phenomenon has expanded over the past year. The small roadside stalls serve coffee in a traditional manner. They have emerged and flourished in Ethiopia's major towns, growing very popular among coffee consumers who are frustrated by the escalating price of coffee and the deteriorating

quality of coffee served in cafes and coffee shops. Unlike regular coffee shops, the small roadside stalls pay neither VAT nor expensive house rents making their cost of serving coffee much lower and more competitive than the regular coffee shops. The exorbitant local coffee prices have also pushed some consumers, particularly those residing in non-coffee growing areas, to boil and drink the skin of coffee grains as a substitute for normal coffee.

Trade:

Ethiopia is one of the few countries where coffee trade is not liberalized. All coffee traders must purchase coffee through the ECX market with the only exceptions for co-operatives and large scale growers who are exempted to trade coffee internationally without the ECX Market by merely obtaining quality certification from the ECX laboratories.

Coffee marketing occurs at three different marketing levels. The first is a primary level coffee transaction where coffee farmers and suppliers trade coffee at a local level. These markets are located near coffee farms. The second transaction chain operates at the ECX Addis Ababa floor where transactions are done in an open outcry system. The third level is the usual international coffee market where exporters sell coffee to importers.

The coffee export business is reserved for citizens of Ethiopia. Out of the total number of coffee exporting companies, ninety three percent are private companies, five percent are coffee growing farmers’ cooperative unions, and two percent are government enterprises.

Table-1 Coffee export in value and volume from 2008/09 to 2012/13.

No	Year	Volume(Tone)	Value(USD)
1	2008/9	126,313	344,442,394
2	2009/10	189,501	575,561,823
3	2010/11	179,256	878,919,927
4	2011/12	177,831	818,654,520
5	2012/13	193,459	694,617,826

Source: Ethiopia customs and revenue Authority.

Coffee is Ethiopia’s number one export commodity. It accounts for 25 to 30 percent of Ethiopia’s total export earnings. Over the years, the share of coffee to total export earnings has gradually declined as a result of increased exports of other commodities such as gold, flowers, Khat, textiles, and leather products.

The total volume of coffee exports in 2012/13 is presented in Table-1. This doesn’t include the informal trade of coffee across the borders with neighboring countries.

Table-2 Coffee export in value and in volume by destination for 2012/13.

No	Country	Volume (1000 60-kg bags)	Value (USD) (1000)	%share in volume
1	Germany	853	167935.2	26.5
2	Saudi Arabia	462	104113.9	14.3
3	Japan	392	78514.4	12.2
4	Belgium	256	56014	7.9
5	USA	231	64079.1	7.2
6	France	162	30061.1	5

7	Sudan	147	21230.6	4.6
8	Italy	146	32246.1	4.5
9	Korea Republic of	80	19392.3	2.5
10	Sweden	75	16652	2.3
11	United Kingdom	67	19369.7	2
12	Australia	51	12933.8	1.6
13	Russia	35	6675.4	1.1
14	Canada	27	6901	0.8
15	Spain	27	6762	0.8
16	Other countries	215	51737	6.7
	Total	3224	694,618	99.5

Source: Ethiopia customs and revenue Authority

The export volume of coffee in 2012/13 is eight percent higher than in 2011/12. However, the value obtained from the export of coffee dropped by fifteen percent from the value obtained in 2011/12. The large export volume failed to generate a proportionate increase in foreign exchange earnings due to a substantial decline in international coffee prices. There is a gradual increase in the export price of coffee in February 2014 which may result in improved export earnings in the coming MY.

Addis Ababa hosted the second International coffee workshop on November 04, 2013 with a motto of “Building a sustainable coffee future.” The conference attended by high-level officials from the GOE and main foreign donors to the sector. It also attracted a large number of participants from all corners of the world with more than three hundred local and international delegates. During the workshop, experts presented the prevailing situation of the global coffee market and the Ethiopian coffee industry. Participants were all presented with slides on business opportunities from industry leaders, such as Starbucks, Nestle, and Mondelez International.

Table-3 Ethiopia contribution to world coffee market. (1000, 60 kg bag)

Description	2010/11	2011/12	2012/13	2013/14
Ethiopia coffee production	6113	6320	6325	6345
World coffee production	140,447	144,040	153,268	150,465
Ethiopia contribution to world market	4.35%	4.39%	4.13%	4.16%

Table 4: Ethiopian Coffee Exports by Destination (1000 60-kg bags)

Destination	MY2011/12	MY2012/13
Germany	994	853
Saudi Arabia	421	462
Belgium	120	256
France	187	162
USA	168	231
Japan	160	392
Italy	155	146
Sudan	154	147
Sweden	77	75
D.R.korea	65	80

Jordan	57	20
UK	54	67
Australia	50	51
Russia	40	35
Spain	38	27
Israel	26	19
Canada	25	27
Others	350	174
Total	3141	3224

Source: Ethiopian Customs Authority.

Stocks:

The coffee stock situation has not changed over the past year. Coffee stocks are primarily held by coffee cooperative unions and the ECX. Most cooperative unions have their own stores whereas ECX established about ten coffee warehouses; most of these warehouses are leased from private owners near production areas. The GOE has issued a directive that dictates severe penalties for hoarding coffee in individual coffee exporter warehouses. In this MY, the government is pushing coffee exporters to sell coffee stocks instead of holding them in the hope of future higher prices. Private exporters are only allowed to store coffee not exceeding 500 tons. A trader who wants to store more than 500 tons should first sign a written contractual agreement with an importer. This regulation is, however, not applicable to local cooperatives and the ECX.



Fig- 8 Coffee bagging system in Oromia Coffee Farmers Cooperative Union.

Policy:

The Ethiopian Government’s coffee policy revolves around its trade and controlling the hard currency earned from exports aiming to maximize foreign exchange. There are no polices affecting coffee production. However, there are some regulations that affect the marketing process such as:

- It is illegal to sell export quality coffee on the local market even if there is a better local market price.
- Any coffee related business requires a special license for domestic wholesaling, coffee exporting, or coffee roasting.
- The coffee exporting business is strictly reserved for Ethiopians.
- In May 2011, the GOE introduced a coffee storing and exporting regulation limiting the amount of stock that an exporter can store. Any exporter found storing more than 500 tons of coffee without having a shipment contract with an importer will be penalized by revoking the trader's right to buy or sell coffee at the ECX for three months.

Marketing:

GOE established the ECX to handle the marketing of agricultural commodities like coffee, sesame, and beans. Nearly all coffee is sold on the ECX floor either directly through organized coffee producer's cooperatives or middle men. ECX is a public market facilitating institution that was established in 2008 with the help of USAID. ECX's board members are GOE officials, providing them an opportunity to have a regulatory hand in the coffee marketing process. The main reason for establishing ECX was to eliminate the huge number of middlemen involved in coffee distribution and to enable coffee farmers to benefit from prevailing market prices. Coffee sold through ECX is considered as commodity coffee and will not get the possible premiums of being organic coffee. Ethiopia mainly exports green beans with only a very small amount of roasted beans. Ethiopian coffee is currently 70-80% unwashed or sundried and 20-30% washed coffee. Unwashed coffee commands a lower price in many markets including the US. The image of washed coffee being somehow "cleaner" is strong. Some countries specifically require unwashed coffee for better and richer taste especially in the Japanese market.

Coffee grading is conducted by ECX using a well-established laboratory. Grading is conducted by analyzing two aspects of the coffee bean: First, the raw green beans are visually evaluated for defects, and second, ECX uses coffee testers to identify sensory aspects of a roasted bean, including the aroma, taste, acidity, and other flavors. ECX bidding system is an "Open Cry Out" system where sellers and buyers meet on an open trading floor to negotiate and finalize the sales deals.



Fig-9 Coffee quality testers before grading.

Fig - 10 Physical screening of defected coffee grain in the Oromia Coffee Farmers Cooperative Union.

Production, Supply and Demand Data Statistics:

Coffee, Green Ethiopia	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Oct 2012		Market Year Begin: Oct 2013		Market Year Begin: Oct 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	518	0	519		520
Area Harvested	0	508	0	509		510
Bearing Trees	0	1,270	0	1,271		1,273
Non-Bearing Trees	0	26	0	27		27
Total Tree Population	0	1,296	0	1,298		1,300
Beginning Stocks	230	230	220	220		160
Arabica Production	6,325	6,325	6,350	6,345		6,350
Robusta Production	0	0	0	0		0
Other Production	0	0	0	0		0
Total Production	6,325	6,325	6,350	6,345		6,350
Bean Imports	0	0	0	0		0
Roast & Ground Imports	0	0	0	0		0
Soluble Imports	0	0	0	0		0
Total Imports	0	0	0	0		0
Total Supply	6,555	6,555	6,570	6,565		6,510
Bean Exports	3,280	3,280	3,300	3,285		3,300
Rst-Grnd Exp.	0	0	0	0		0
Soluble Exports	0	0	0	0		0
Total Exports	3,280	3,280	3,300	3,285		3,300
Rst,Ground Dom. Consum	3,055	3,055	3,100	3,120		3,125
Soluble Dom. Cons.	0	0	0	0		0
Domestic Use	3,055	3,055	3,100	3,120		3,125
Ending Stocks	220	220	170	160		85

Total Distribution	6,555	6,555	6,570	6,565		6,510
1000 HA, MILLION TREES, 1000 60 KG BAGS						