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Ethiopia

Coffee Annual

MY15/16 Coffee Exports to Hit Record of 3.52 Million Bags

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Report Highlights:

(Note: Revised to include sections on trade and stocks.) Ethiopia is Africa's leading coffee producer and the fifth largest in the world. MY15/16 production is forecast at 6.508 million bags (390,500 metric tons), slightly under the record levels expected during the previous year. Exports are expected to continue their upward trend for their fifth consecutive year with MY15/16 exports forecast to hit a record at 3.52 million bags (211,200 metric tons). Consumption in MY15/16 is forecast to contract to 2.995 million bags (179,700 metric tons), retreating slightly from the previous year's record.

Production:

Ethiopia, which is considered as coffee's birthplace, produces high-quality Arabica coffee for both the domestic and international markets. Coffee plays a major role in Ethiopia's economy and is deeply intertwined with cultural traditions and day-to-day living. There are an estimated 15 million people, or approximately 15 percent of the country's total population, who derive their livelihoods from coffee.

Ethiopia is the single largest African producer of coffee with about half of its production going for export. And, the country is the world's fifth largest producer after Brazil, Vietnam, Colombia, and Indonesia, accounting for about 4 percent of global coffee production. See Table 1 below for Ethiopia's contribution to global coffee production.

Around 95 percent of Ethiopia's coffee production comes from an estimated 4 million smallholder farmers, many of whom live in the southwestern and southeastern parts of the country, grow 'garden coffee' on plots of land with an average size of 0.5 hectares. In addition to garden-style production, coffee is produced in other areas, namely forests, semi-forests, and plantations. Yields, with the exception of plantation coffee, remain quite low, 0.7-0.8 metric tons per hectare, but could double with the application of conventional fertilizer. Coffee production is a labor-intensive, manual process in which most farmers employ the support of their immediate family. For more background on production, please see our previous GAIN report [ET1402](#).

Production for MY15/16 is expected to hold relatively steady at 6.508 million bags (390,500 metric tons),¹ but less than record production levels registered the preceding year. The quality of the coffee crop might deteriorate somewhat due to the delayed Belg rains (Mar-Apr) and the timing/length of the Meher rains (May-Sep). However, at this stage, it is too early to tell what that overall impact on quality might be. While not expected to have a noticeable impact on production, some farmers in Harar, the eastern part of the country, are switching to *khat*, since it commands a higher price and can be harvested several times throughout the year.

In MY14/15, coffee production is expected to increase slightly from the earlier official USDA estimate to a record 6.475 million 60 kg bags² (388,500 metric tons). This anticipated increase in production is attributed to decent rainfall distribution in the main coffee producing areas during the growing season and the ongoing improvements in the coffee extension package, such as the release of disease-resistant, high-yielding varieties of coffee as well as expanded seedling production facilities.

In the future, coffee production is expected to gradually expand with the support of the Government of Ethiopia (GOE), outside investors, and development partners, such as USAID's Agricultural Growth Program Agribusiness and Market Development (AGP-AMDe) [coffee value-chain project](#). In that same vein, the GOE recently [announced](#) its intention to quadruple coffee production over the next five years as part of the country's second Growth and Transformation Plan (GTPII). One of the primary reasons for expanding coffee exports is to build the country's foreign exchange reserves. While there clearly is potential to expand production, the magnitude of this projected increase seems unattainable in such a

¹ Figures reported in metric tons are rounded to the nearest hundred.

² Individual bags each weigh 60 kgs.

short period. From post’s perspective, production could increase 20-30 percent during this period as more public and private resources are devoted to building and modernizing the country’s coffee sector.

The first five-year GTP is now winding to a close (2010/11-2014/15). This plan included coffee production and export targets. Specifically, by 2014/15, it was expected that coffee production was going to reach 7.7 million bags (462,000 metric tons) with exports at 4 million bags (240,000 metric tons). While considerable progress has been made, Ethiopia is not expected to meet these two ambitious targets. For the sake of comparison, the post production estimate for this same period (MY14/15) is 6.475 million bags (388,500 metric tons), with exports forecast at 3.25 million bags (195,000 metric tons). See Table 2 below to compare the GTP targets against the expected outcomes.

About 95 percent of the country’s coffee is produced under organic conditions, without the use of fertilizers and pesticides. However, only a fraction of total production is certified as organic because certification costs are relatively high and the returns for organic coffee are somewhat minimal. Further, in many cases, the organic certification becomes meaningless since a considerable portion of this coffee is traded through the Ethiopia Commodities Exchange (ECX) where it currently is difficult to maintain product identity. To address this challenge, the ECX is collaborating with some of the top international coffee buyers as well as development partners to institute a traceability system that would allow the coffee to be traced back to the hulling or washing stations.

Table 1: Ethiopia’s Share of the World Coffee Market (1000, 60 kg bag)

	2011/12	2012/13	2013/14	2014/15
Ethiopia’s coffee production	6,320	6,325	6,345	6,475
World coffee production	144,040	153,268	150,465	149,800
Ethiopia’s contribution to world market	4.39%	4.13%	4.16%	4.32%

Source: USDA PS&D for MY11/12-13/14. MY14/15 is post estimate.

Table 2: GTP Production & Export Targets and Expected Outcomes for MY14/15

	GTP I	Post Estimates	Difference
Production	7.7 million bags (462,000 metric tons)	6.475 million bags (388,500 metric tons)	1.225 million bags (73,500 metric tons)
Exports	4 million bags (240,000 metric tons)	3.25 million bags (195,000 metric tons)	0.75 million bags (45,000 metric tons)

Consumption:

As mentioned above, the GOE is seeking to boost coffee production in order to increase the country’s exportable supplies of coffee, which is in turn expected to generate foreign exchange to help fund major infrastructure projects and imports. At the same time, to maximize the availability of exportable coffee, the GOE aims to minimize local coffee consumption. However, this is a difficult task as coffee remains

an integral part of the social and cultural fabric of the country and, consequently, Ethiopians love to drink coffee at mealtimes, special occasions, and during social gatherings. In terms of per capita consumption, Ethiopia is the largest coffee drinking country in Africa and one of the biggest in the world.

Consumption for MY15/16 is expected to recede slightly to 2.995 million bags (179,700 metric tons) as the government continues its attempt to minimize consumption. Meantime, MY14/15 consumption is estimated at 3.22 million bags (193,200 metric tons), up slightly from the earlier official USDA estimate. This anticipated increase in consumption is partially attributed to exportable-grade coffee entering the domestic market to take advantage of strong local prices.

Nearly 45-50 percent of Ethiopia's coffee production is locally consumed. Most of this coffee is considered lower quality and may have been originally destined for export, but was rejected since it did not meet ECX quality standards. Interestingly, even though it may be a lower quality than what is exported, the price of coffee in the local marketplace is sometimes higher than the international price.

Over the past few years, small roadside coffee stands have emerged and flourished in and around major towns. These shops serve coffee in the traditional sit-down fashion and have become popular among a segment of consumers who are growing increasingly frustrated by the escalating coffee prices and the deteriorating quality of coffee being served at upper-end cafes. Unlike regular coffee shops, these small roadside stalls pay neither VAT nor exorbitant rental costs, making their cost of serving coffee lower and more competitive than the regular coffee shops.

High coffee prices have pushed some consumers, particularly those residing in non-coffee growing areas with low purchasing power, to boil and drink the skin of coffee grains as a substitute for normal coffee.

Trade:

Coffee is the number one source of export revenue, generating about 25-30 percent of the Ethiopia's total export earnings. There is strong international demand for Ethiopian coffee which is prized for its special aroma and distinct flavor. About half of Ethiopia's coffee is exported abroad.

Exports are expected to continue their upward trend for their fifth consecutive year with MY15/16 exports forecast to hit a record at 3.52 million bags (211,200 metric tons). MY14/15 exports are, likewise, estimated at a record 3.25 million bags (195,000 metric tons), slightly up from the earlier USDA official estimate. To date (Oct-Apr), coffee exports are about 1.533 million bags (92,000 metric tons). To reach this estimate, post expects that the pace of exports will accelerate as the coffee harvest season draws near. There are some reports of middlemen and exporters delaying coffee sales in hopes that international coffee prices might increase in the coming months. However, these traders cannot hold their coffee stores indefinitely as they have limited storage capacity and are restricted from warehousing more than 500 metric tons, unless the surplus is under contract.

In early MY14/15, the Ethiopian Exporters Coffee Association (EECA) announced that it expected to hit an export record of 3.917 million bags (235,000 metric tons) due to tight international coffee supplies resulting in large part from the drought in Brazil. However, based on Ethiopia's coffee exports to date (Oct-Apr) and the improved situation in Brazil, post does not expect exports to reach this level in

MY14/15. Again, we estimate MY14/15 exports at a record 3.25 million bags (195,000 metric tons), which is 667,000 bags (40,000 metric tons) lower than the EECA figure.

Ethiopia mainly exports green beans with only a very small amount of roasted beans. Ethiopian coffee is currently 70-80 percent unwashed or sundried and 20-30 percent is washed coffee. Unwashed coffee generally commands a lower price in many markets, including the United States. The image of washed coffee being somehow ‘cleaner’ is prevalent in some countries, while other countries specifically require unwashed coffee for better and richer taste.

Ethiopia exports coffee to markets around the world. In MY13/14, Germany accounted for the largest share of Ethiopia’s coffee exports by volume at nearly 22 percent, followed by Saudi Arabia at 17 percent, and Japan at 11 percent. The United States was the fourth largest destination, accounting for 9 percent of total exports. Collectively, these top four markets accounted for nearly 60 percent of Ethiopia’s total coffee exports in MY13/14. Tables 3-4 below show the value and volume, and destination for Ethiopian coffee for the last several years.

Ethiopia is one of the few countries where coffee trade is not liberalized. For instance, only Ethiopian citizens are allowed to export coffee. In addition, most of the coffee (95%) bought and sold for export must go through ECX. The only exception is for cooperatives and large-scale growers. Out of the total number of coffee exporting companies, 93 percent are private, 5 percent are cooperative unions, and two percent are government enterprises.

No	Year	Volume (Tons)	Value (USD)
1	2009/10	189,501	575,561,823
2	2010/11	179,256	878,919,927
3	2011/12	177,831	818,654,520
4	2012/13	193,459	694,617,826
5	2013/14	190,734	749,014,800
6	2014/15 (est)	195,000	N/A

Source: Ethiopia Customs and Revenue Authority

Note: ERCA-reported volumes might differ from those reported in the PSD since it (PSD) includes informal trade with neighboring countries.

Destination	MY2011/12	MY2012/13	MY2013/14	MY 13/14 % Share in Volume
Germany	994	853	685	21.5
Saudi Arabia	421	462	525	16.5
Japan	160	392	349	11.0
USA	168	231	292	9.2
Belgium	120	256	235	7.4
France	187	162	190	6.0
Italy	155	146	163	5.1

Sudan	154	147	141	4.4
S. Korea	65	80	102	3.2
UK	54	67	83	2.6
Australia	50	51	72	2.3
Sweden	77	75	57	1.8
Jordan	57	20	45	1.4
Russia	40	35	35	1.1
Canada	25	27	28	0.88
Spain	38	27	27	0.85
Israel	26	19	11	0.35
Others	350	174	139	4.4
Total	3,141	3,224	3,179	100

Stocks:

MY15/16 stocks are forecast at 38,000 bags (2,300 metric tons), down slightly from the previous year. Coffee stocks at the end of MY14/15 are estimated at 45,000 bags (2,700 metric tons), down 40,000 bags from the earlier USDA official estimate. The anticipated decrease in year-ending stocks is primarily due to strong domestic coffee prices relative to international prices. At present, however, current stock levels are thought to be higher (i.e. > 45,000 metric tons) as traders are waiting to see if international coffee prices may improve before locking in their export contracts.

In order to discourage hoarding, the GOE issued a directive in 2011 to restrict private exporters from storing more than 500 metric tons of coffee. A waiver to go above the 500 ton limit is only allowed when the exporter has a contractual agreement with a foreign buyer for the excess amount. Otherwise, exports going above this limit will lose their ECX trading rights for three months. This directive, however, does not apply to local cooperatives and commercial farms.

Policy:

For the last three years, the GOE has been considering the creation of a specialized state-run institution, like the state-run Sugar Corporation, to provide dedicated leadership and technical support to the coffee value chain. However, at this date, there are no announced plans or timeline for standing up such an entity.

There are no specific governmental policies related to coffee production, though the GOE does support its production through various extension services (e.g. seedlings, research, etc.). Separately, there are market-related regulations that dictate how coffee is bought and sold in the marketplace. Several examples include: the prohibition on selling exportable grade coffee on the local market, even when the local market price is better than the international price; special business licenses are required for wholesaling, exporting, and roasting; storage limits; and the coffee business is exclusively limited to Ethiopian-owned companies.

Marketing:

Coffee export sales are generally done through three consecutive channels: local, ECX, and the international market. At the local level, coffee farmers sell their coffee to traders or cooperatives whereupon most of it ends up going to ECX for eventual export. In addition, a small percentage of exportable coffee bypasses the ECX and is sold directly to foreign buyers. However, this direct sales option is only available to cooperative unions and large commercial operations.

In 2008, the GOE established the ECX to handle the marketing of agricultural commodities like coffee, sesame, and beans. The main purpose for establishing ECX was to stabilize prices, eliminate the huge number of middlemen involved in coffee sales and distribution, and to enable coffee farmers to benefit from prevailing market prices. The 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. Nearly all coffee is sold on the ECX floor either directly through organized coffee producer cooperatives or middle men. ECX also conducts coffee grading.

In addition to its support to boost coffee production, USAID's Agricultural Growth Program Agribusiness and Market Development (AGP-AMDe) [coffee value-chain project](#) is also focused on marketing Ethiopian coffee abroad with the aim of achieving the government's GTP export targets. For example, with the support of the AMDe program, GOE officials, co-op leaders, and Ethiopian exporters participated in the April '15 Specialty Coffee Association of America Expo where Ethiopia was able to showcase its coffee as the 'portrait country' and connect with prospective international buyers. Aside from this international event, Ethiopia has been selected as the host of the 4th World Coffee Conference which will be held in conjunction with the International Coffee Council in March 2016. This will mark the first time the WCC is held in Africa.

Another area where USAID is providing support, in cooperation with the private sector and ECX, is building a functional traceability system to trace back coffee to where it is washed and hulled. The installation of such system is critical to meet the demands for international coffee buyers. In addition, it will help facilitate the marketing of organic-certified coffee which is currently a challenge since the identity of the coffee cannot currently be maintained when it reaches ECX.

Production, Supply and Demand Statistics:

Coffee, Green Market Begin Year Ethiopia	2013/2014		2014/2015		2015/2016	
	Oct 2013		Oct 2014		Oct 2015	
	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Planted	0	519	0	525	0	528
Area Harvested	0	509	0	515	0	520
Bearing Trees	0	1,271	0	1,288	0	1,290
Non-Bearing Trees	0	27	0	28	0	30
Total Tree Population	0	1,298	0	1,316	0	1,320
Beginning Stocks	100	100	160	40	0	30
Arabica Production	6,345	6,345	6,350	6,475	0	6,508
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
Total Production	6,345	6,345	6,350	6,475	0	6,508
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
Total Supply	6,565	6,445	6,510	6,515	0	6,538
Bean Exports	3,285	3,285	3,300	3,500	0	3,520
Rst-Grnd Exp.	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
Total Exports	3,285	3,285	3,300	3,500	0	3,520
Rst,Ground Dom. Consum	3,120	3,120	3,125	2,985	0	2,980
Soluble Dom. Cons.	0	0	0	0	0	0
Domestic Use	3,120	3,120	3,125	2,985	0	2,980
Ending Stocks	160	40	85	30	0	38
Total Distribution	6,565	6,445	6,510	6,515	0	6,538

1000 HA, MILLION TREES, 1000 60 KG BAGS