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Report Name: Coffee Annual

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Post: Addis Ababa

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Report Highlights:

Ethiopia is Africa's largest coffee producer and the world's fifth largest exporter of Arabica coffee. Coffee is Ethiopia's number one source of export revenue generating about 30-35 percent of the country's total export earnings. All the coffee produced in Ethiopia is of the coffee arabica variety. In 2023/24 total production is forecasted to be 8.35 million 60 kg bags (501,000 MT). The coffee industry in Ethiopia is the driving force of the country's economy, socio-cultural, and spiritual life of the people. The livelihood of 25 percent of the country's population is directly or indirectly dependent on the coffee value chain will remain so in the years to come. Post Addis estimates Ethiopia's coffee production for MY 2022/23 (Oct-Sep) to reach 8.27 million 60 kg bags (496,200 MT).

Production:

In Ethiopia, coffee contributes to large part of the GDP and is a source of foreign exchange earnings for the country. Post forecasts Ethiopia's coffee production for MY 2023/24 (Oct-Sep) at 8.35 million 60 kg bags (501,000 MT) and exports to reach 4.83 million bags (289,800 MT). In 2022/23 coffee production is estimated at 8.27 million 60-kilogram bags (496,200 MT) which is 0.2% higher than the 2021/22 production.

The Ethiopian coffee sector is challenged by several factors: lack of improved varieties, diseases and pests, improper processing methods, lack of post-harvest handling, climate change, land degradation, and marketing. To mitigate these challenges, efforts have been made by development partners to strengthen the extension services, distribute improved and disease resistance coffee varieties, employ proper processing methods, construct additional storage facilities, develop varieties suitable for climate change, reforestation, discourage illegal settlement and inconsistent market regulations. Weather played a key role in the high volumes and quality of the 2022/23 coffee production. Farmers are motivated by higher prices and additional plantations started in the last few years which are coming into full production.

Jimma Agricultural Research Centre (JARC) is the only governmental research institution that took the initiative and responsibility of multiplying improved coffee seeds and seedlings. JARC produces the nationally released coffee berry disease resistant varieties and is distributing these varieties all over the major coffee growing areas of the country. In Ethiopia coffee is produced by small-scale farmers using traditional farming systems and thus considered as organic. Ethiopian coffee is also known for its superior quality.

Coffee growing in Ethiopia is negatively influenced by climate change and deforestation. Feedback from coffee farming communities, and observations on coffee production and coffee plant stress, indicate that climate change has already had a negative impact due to dramatic forest loss. Relocation of coffee farms/areas will be a key component in building resilience for the Ethiopian coffee economy. The sector will seek higher altitude areas, as more suitable for coffee production.

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

Item	2020/21	2021/22	2022/23	2023/24(Forecast)
Production (000 tons)	478	489	496	501
Area (1000 ha)	542	585	590	600
Productivity (ton/ha)	0.82	0.84	0.84	0.83

Source: Post estimate

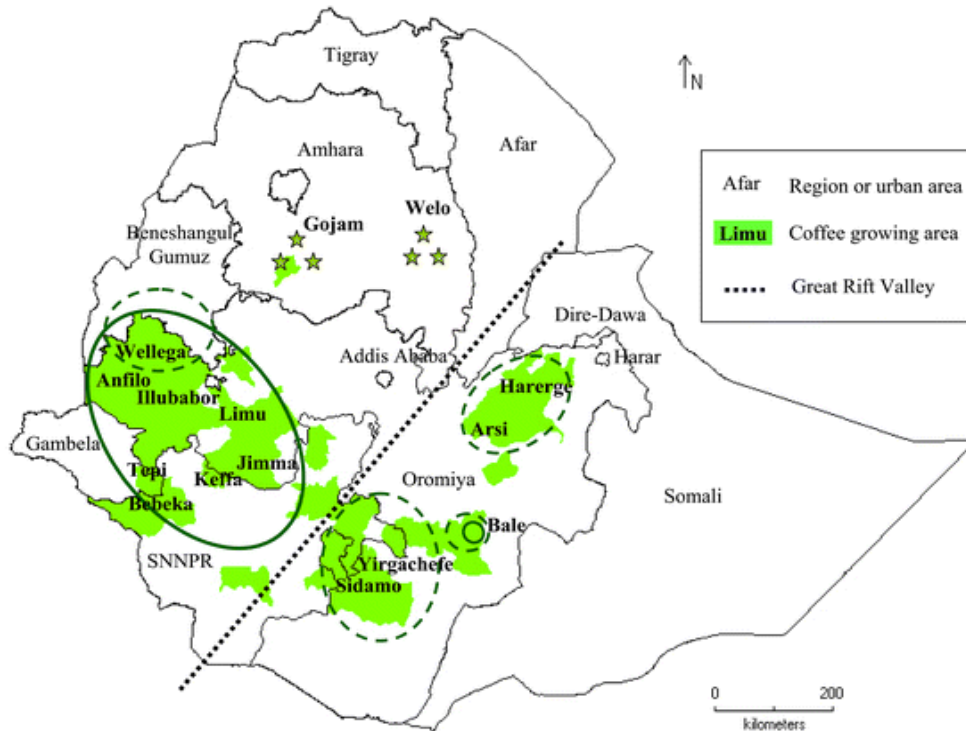


Fig. Coffee growing area in Ethiopia.

The coffee plant by nature is sensitive to climate change. In Ethiopia coffee cultivation is shifting from the lower most optimal cultivation areas now from mid high land to 1800 m above sea level. This may result in a significant reduction of Ethiopian coffee growing region in the country. Climatic effects have always been the main factor responsible for the fluctuations of coffee yields in Ethiopia. Compared to any other crop production systems, coffee production contributes to ecosystem sustainability and biodiversity. It also mitigates the impact of climate change and reduces GHG emissions since coffee growing requires restoring and maintaining the tree cover and adequate soil cover.

Climate change negatively affects coffee farmers as they experience late harvests due to lack of rainfall and lack of knowledge and technology to implement climate smart agriculture practices. Some coffee farmers in the eastern and southwestern parts of the country switched to farming *khat*, a drought tolerant plant used as a stimulant drug. *Khat* has short term economic advantages and a better price but long term negative environmental and health consequences.

Premature coffee harvesting to ensure immediate cash for farmer's families remains an issue. Almost all Ethiopian coffee farms are free of fertilizers with the exception of commercial farms. The Ministry of Agriculture (MOA) does not encourage applying fertilizer on coffee farmlands. Use of pesticides on coffee farms is also discouraged. 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.

Ethiopian coffee can be processed in one of the two main 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" which employs a more advanced technology. In the wet method the fruit is immediately removed from the beans in a series of complex operations before the beans are dried.

Curfews and security force presence resulted in limited accessibility and data collection in 2022/23. Therefore, Post relies on information collected from traders, farmers, development agents, and partners.

Consumption:

Coffee is an essential component of Ethiopian culture and society. An invitation to drink coffee is considered a symbol of friendship, respect, and great hospitality. Ethiopian coffee is considered special due to its complex taste and vibrant fruity and flowery characteristics. The final flavor of coffee is determined by the processing techniques used.

Ethiopian major cities are experiencing an expansion of small roadside coffee stalls selling coffee to passersby. This phenomenon has expanded over the years. The small roadside stalls serve coffee in a traditional manner. They have emerged and flourished in Ethiopia’s major towns over the last 15 years. These coffee stalls are growing popular among coffee consumers affected 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 prepare coffee in front of consumers and pay neither VAT nor expensive rents, making the cost of serving coffee lower and more competitive than the more commercial coffee shops.

Table 2: Share of total coffee supply, consumption, and export estimate (1000 60kg bags)

Item	2021/22	2022/23	2023/24 (Forecast)
Total coffee supply	8150	8270	8350
Local consumption	3364	3430	3480
Export ('000MT)	4831	4820	4830
% export	59	58	58

Source: Post calculation

Trade:

In 2023/24 exports are forecast to reach to 4.83 million 60 kg bags (289.800 MT). Exports in MY 2021/22 reached 4.831 million 60 kg bags (289,863 MT) and exports in MY 2022/23 are estimated at 4.820 million 60 kg bags (289,200 MT) (less by 11,000 60 kg bags). This is due to better coffee prices on the local market verses the export price in MY 2021/22.

During the reporting period the number of coffee exporters increased due to the requirement of foreign currency needed for imported goods to trade and for importing inputs for manufacturing industries. Coffee is getting expensive locally but getting cheaper in the international market. This is forcing exporters to spend a lot of money for the procurement of coffee from farmers while getting lower export value. The Government of Ethiopia (GOE) set a goal of exporting two billion USD during this market year (2022/23). Unfortunately, the price on the international market indicates that the expected revenue from coffee exports may be an unrealistic target for the GOE.

Demand for Ethiopian specialty coffee has increased and continues to grow. Its higher quality status is achieved by implementing the best agricultural practices in farming, harvesting, and processing methods, combined with elevated levels of quality control. In an ideal model, the extra income generated by specialty coffee is distributed throughout the supply chain, including the coffee farmers. Importantly, the increases in income via specialty coffee were achieved without the need for more land, or increased inputs, such as artificial fertilizers, irrigation, herbicides, and pesticides. Most Ethiopian coffee farmers use organic fertilizer for their coffee.

The Ethiopia Cup of Excellence program was initially made possible through a partnership between United States-based ACE and the Ethiopian Coffee and Tea Authority, with support from the United States government's Feed the Future's Value Chain Activity (FTFVCA). The last two years, the Ethiopia Cup of Excellence program has resulted in some of the highest prices ever paid for green coffees at any global auction while gaining interest from high-end coffee buyers all over the world.

Among the export destinations in the 2021/22 marketing year the lion's share (20%) went to Germany, which purchased 57,631 MT of coffee for USD 262,614,628, Saudi Arabia (13.7%) having purchased 39,757 MT for USD 176,237,893, Japan (10%) purchased 29,375 MT for USD 134,715,128, USA purchased (9.3%) 27,058 MT for USD 183,534,212 and, Belgium (8%) 23,188 MT for USD 135,629,029. The rest in the top ten includes: South Korea, UAE, China, Italy, and France. MY 2022/23 coffee exports are estimated at 4.831 million bags (289,873 MT).

Country	2020/21			2021/22		
	Volume (MT)	Value (USD) (1000)	% Share in volume	Volume (MT)	Value USD) (1000)	% Share in volume
Germany	53182	186684	20	57631	262614628	20
Saudi Arabia	48532	160183	19	39757	176237893	13.7
Japan	20045	73546	7	29375	134715128	10
USA	29657	102083	10.6	27058	183534212	9.3
Belgium	27018	125241	9.5	23188	135629029	8
South Korea	17739	79059	6.2	18926	110906181	6.5
UAE	1635	49018	0.6	13187	81373120	4.6
China	10221	43914	3.4	12968	79204018	4.5
Italy	8384	34686	3	9172	49132777	3.2
France	8157	30545	3	7315	35134954	3.2
Sudan	9079	20261	3.2	7279	20473333	2.5
Taiwan	3972	23612	1.3	5340	36666585	1.8
Malaysia	2681	7819	1	3169	14065374	1.1
Russia	4352	15303	1.5	2517	10904388	0.9
Israel	1671	5382	0.6	2486	11337884	0.86
Canada	2577	10976	0.9	1672	9091557	0.58
Netherlands	1420	7387	0.5	1650	10743425	0.57
Other	30285	162555	10.5	27184	155112616	9.38
Total	280,607	1138254	100	289873	1516877102	100

Source: Trade data Monitor

Table: 4 Coffee exports in value and volume from 2019/20 to 2021/22 MY.

Year	Volume (MT)	Value (USD)
2019/20	248,129	821,140,000
2020/21	280,607	1,138,254,000
2021/22	289,873	1,516,877,102

Source: Trade data Monitor

Table: 5 Ethiopia's contribution to the world coffee market (1000, 60 kg bag).

Description	2020/21	2021/22	2022/23
Ethiopia coffee production	7976	8150	8270
World coffee production (USDA)	176,361	167,134	175,000
Ethiopia contribution to world market	4.52%	4.88%	4.73%

Source: Trade data Monitor

Table: 6 Value of coffee exports as a share of total exports (in billions USD)

Item	2018/19	2019/20	2020/21	2021/22
Total export value	2.7	2.67	3.41	3.6
Total value of Agricultural export	2.3	1.94	3.16	3.3
Agricultural exports share out of the total exports (%)	85	73	93	92
Coffee export	0.789	0.82	1.1	1.52
Coffee exports share of the total agricultural exports (%)	34	42	35	46
Coffee exports share of total exports (%)	29	31	32	42

Source: Trade data Monitor

Policy:

The Government of Ethiopia's coffee policy revolves around its trade and regulating hard currency earned from exports aiming to maximize foreign exchange. There are no policies 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 and coffee exporting business is strictly reserved for Ethiopians. The GOE had to take measures to stop traders from selling coffee at a loss to earn foreign currency, distorting the agricultural market. The Coffee and Tea Authority on 10th of January 2020 in coordination with the National Bank of Ethiopia, established guidance called the "Export Coffee Contract Administration". This guidance fixed a

minimum coffee export price based on the global weighted average price given to different grades of coffee from various regions. ECX streamlined the coffee value chain so that coffee farmers with a minimum of two hectares, coffee unions, commercial farmers and coffee processors could export coffee directly to the international market without using intermediaries.

Stocks:

Coffee cooperative unions and the Ethiopia commodity Exchange (ECX) traders primarily hold coffee stocks. Most cooperative unions have their own stores whereas ECX established fourteen coffee warehouses for coffee. Most of the ECX warehouses are leased from private owners near production areas. The GOE has issued a directive in 2020 that dictates severe penalties for hoarding coffee in individual coffee exporter warehouses. The GOE continues inspecting and pushing coffee exporters to sell coffee stocks instead of holding them in the hope of future higher prices.

Production, supply, and Distribution

Coffee, Green Market Year Begins Ethiopia	2021/2022		2022/2023		2023/2024	
	Oct 2021		Oct 2022		Oct 2023	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (1000 HA)	550	585	0	590	0	600
Area Harvested (1000 HA)	540	575	0	580	0	590
Bearing Trees (MILLION TREES)	1425	1438	1450	1450	0	1460
Non-Bearing Trees (MILLION TREES)	40	40	45	45	0	50
Total Tree Population (MILLION TREES)	1465	1478	1495	1495	0	1510
Beginning Stocks (1000 60 KG BAGS)	135	135	110	90	0	110
Arabica Production (1000 60 KG BAGS)	8150	8150	8250	8270	0	8350
Robusta Production (1000 60 KG BAGS)	0	0	0	0	0	0
Other Production (1000 60 KG BAGS)	0	0	0	0	0	0
Total Production (1000 60 KG BAGS)	8150	8150	8250	8270	0	8350
Bean Imports (1000 60 KG BAGS)	0	0	0	0	0	0
Roast & Ground Imports (1000 60 KG BAGS)	0	0	0	0	0	0
Soluble Imports (1000 60 KG BAGS)	0	0	0	0	0	0
Total Imports (1000 60 KG BAGS)	0	0	0	0	0	0
Total Supply (1000 60 KG BAGS)	8285	8285	8360	8360	0	8460
Bean Exports (1000 60 KG BAGS)	4800	4831	4725	4820	0	4830
Restaging Exp. (1000 60 KG BAGS)	0	0	0	0	0	0
Soluble Exports (1000 60 KG BAGS)	0	0	0	0	0	0
Total Exports (1000 60 KG BAGS)	4800	4831	4725	4820	0	4830
Rst,Ground Dom. Consum (1000 60 KG BAGS)	3375	3364	3500	3430	0	3480
Soluble Dom. Cons. (1000 60 KG BAGS)	0	0	0	0	0	0
Domestic Consumption (1000 60 KG BAGS)	3375	3364	3500	3430	0	3480
Ending Stocks (1000 60 KG BAGS)	110	90	135	110	0	150
Total Distribution (1000 60 KG BAGS)	8285	8285	8360	8360	0	8460
(1000 HA),(MILLION TREES) ,(1000 60 KG BAGS)						

Attachments:

No Attachments