

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 5/19/2017

GAIN Report Number: ET1710

Ethiopia

Coffee Annual

Government Institutes Reforms to Boost Coffee Exports

Approved By:

Michael G. Francom, Ag Counselor

Prepared By:

FAS/Addis Ababa

Report Highlights:

Ethiopia's coffee production in MY17/18 (Oct-Sep) is forecast to remain steady at 6.545 million 60-kg bags (~393,000 metric tons). Exports during this period are expected to be roughly half of production at 3.31 million bags (~199,000 metric tons). In June of this year, the government plans to institute reforms to the country's coffee marketing and trading systems in order to spur additional export sales. The impact of these forthcoming reforms remains to be seen.

Production:

Coffee production for MY17/18 (Oct-Sep) is forecast to remain almost unchanged from the previous year at slightly more than 6.545 million bags (~393,000 metric tons).¹ Area planted and harvested for this period are likewise nearly the same as the previous year. Post is making slight upward revisions to the official USDA estimates for MY16/17 and MY15/16.

According to the second Growth and Transformation Plan (GTP II), the government is hoping to more than double current coffee production to reach around 1.0 million metric tons by 2019/20. However, considering the existing production situation, achieving this goal is not expected within such a short timeframe. In order to boost coffee yields, greater investment and resources need to be devoted to developing and distributing improved varieties, extension support, better inputs (e.g. fertilizer and irrigation), and improved tree management practices. If Ethiopia could manage to use the existing area planted and double productivity to match Brazilian yields, the country's coffee production would climb upwards of 800,000 metric tons, bringing it closer to its GTP II production goal.

The newly re-established Coffee and Tea Development and Marketing Authority (CTDMA), which is under the Ministry of Agriculture, is charged with instituting development programs to support the country's goal of boosting coffee production. For example, the CTDMA intends to offer farmers greater access to credit and a more fulsome extension package (e.g. new varieties, tree management training, etc.). The Authority also plans to restructure the country's coffee marketing system to expand exports by allowing growers and traders to sell directly to foreign buyers.

From a historical perspective, Ethiopia's coffee production over the last five years has been relatively stagnant for the reasons mentioned above. Production has hovered around 6.5 million bags (390,000 metric tons) and area planted has grown very little. See table 1. The CTDMA hopes to change this past narrative and jumpstart production by primarily using the existing land that is already under coffee cultivation.

Table 1. Ethiopia's Coffee Production						
	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018
Production (1000 MT 60- kg bags)	6,500	6,345	6,475	6,510	6,520	6,545
Area (1000 HA)	518	519	525	528	529	532

Source: PSD and Post estimates for 12/13-17/18

Consumption:

¹ One bag weighs 60 kilograms.

Consumption is forecast at 3.24 million bags (~194,000 metric tons) in MY17/18, almost unchanged from the previous year. Post is making an upward revision to MY16/17 consumption to 3.2 million bags because of strong local demand and less than expected exports. A little more than half of the country's coffee is consumed locally.

Local coffee prices have generally been trending downward since MY14/15. See table 2 below. Part of the reason for the weakened domestic prices is attributed to lower international prices. Nonetheless, local prices are usually higher than international coffee Arabica prices. For instance, Ethiopian coffee prices were on average about \$280 higher than international prices in MY15/16. It should also be noted that higher quality (non-export grade) coffee would command a higher price on the local market than what's shown in table 2.

Table 2: Average Monthly Green Coffee Price in Addis Ababa¹ (USD/MT)		
Month	MY14/15	MY15/16
October	4,430	3,890
November	4,790	3,910
December	4,580	3,860
January	4,530	3,650
February	4,530	3,580
March	4,400	3,690
April	4,340	3,740
May	4,280	3,690
June	4,050	3,610
July	4,000	3,700
August	3,980	3,760
September	3,810	3,970

1. Average quality coffee sold in Addis Ababa.

Trade:

Coffee exports are forecast to hold steady at 3.31 million bags (~199,000 metric tons) in MY17/18. The government recently announced reforms to the country's coffee marketing and trading systems that are intended to boost coffee exports. However, the actual impact of these reforms, which are supposed to become effective in June of this year, remains to be seen. These reforms are discussed in the policy section of the report.

The export estimate for MY16/17 is trimmed back from the USDA official estimate to 3.3 million bags (~198,000 metric tons) because of smaller than expected export volumes. According to Ethiopian government statistics, coffee exports to date (Oct-Mar) are about 77,000 metric tons compared to about 84,000 metric tons the same time last year.

The final export figure for MY15/16 has been updated to 3.4 million bags (~204,000 metric tons). During this period, the top five destinations (by volume) for Ethiopian coffee are Germany, Saudi Arabia, Japan, the United States, and Japan. See table 3 for details.

Table 3: Coffee by Value and Volume for 2015/16				
No	Country	Volume (MT)	Value (USD)	% Share (in Volume)
1	Germany	40,680	130,970,587	20%
2	Saudi Arabia	37,340	113,934,887	18%
3	Japan	18,489	57,486,113	9%
4	USA	17,870	94,974,207	9%
5	Belgium	14,213	57,033,315	7%
6	France	12,598	35,139,926	6%
7	S. Korea	9,467	41,480,264	5%
8	Sudan	8,726	17,909,628	4%
9	Italy	8,353	34,881,581	4%
10	UK	4,789	25,006,463	2%
11	Australia	3,884	17,571,575	2%
12	Sweden	2,485	9,122,176	1%
13	Russia	2,389	7,141,632	1%
14	Spain	2,200	10,711,703	1%
15	Jordan	1,956	8,646,399	1%
16	Canada	1,431	6,763,756	1%
17	Israel	1,016	2,722,545	0.5%
18	Others	16,144	77,503,243	8%
	Total	204,030	749,000,000	100

Policy:

In recent months, the Prime Minister's Office has been spearheading efforts to explore and implement the appropriate mix of policy and structural changes that are needed to increase export revenues across different sectors of the economy. The country is heavily dependent on inflows of foreign exchange, especially from export sales of coffee and other agricultural commodities, to pay for government expenditures and imports. Coffee alone accounts for about one-quarter of Ethiopia's export revenues.

As part of the PMO-led effort, the government is proposing several reforms to improve the coffee marketing and trading systems. One of the most notable anticipated reforms is that coffee will no longer

have to pass through the Ethiopian Commodities Exchange (ECX) prior to export.² This change is designed to give coffee exporters the opportunity to sell identity-preserved (IP) coffee to foreign buyers, which has not been possible under the ECX platform. IP coffee exports are expected to translate into more value-added coffee being sold abroad since international buyers are willing to pay a premium for the IP marketing claim.

How these reforms impact coffee export revenues will largely depend on international coffee prices, something that is out of Ethiopia's control. However, these reforms appear to clearly put Ethiopia in a better position to reap greater benefits from future coffee export sales. At the same time, the impact of these reforms on export volumes is uncertain given the strong local demand for coffee.

Stocks:

Coffee stocks are forecast at 20,000 bags in MY17/18. Stocks for MY16/17 are lowered to 25,000 bags from the current USDA official estimate.

² Cooperative Unions and commercial farms are already sell their coffee abroad without having to first go through ECX.

Coffee, Green Market Begin Year Ethiopia	2015/2016		2016/2017		2017/2018	
	Oct 2015		Oct 2016		Oct 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	528	528	0	529	0	532
Area Harvested	520	520	0	522	0	525
Bearing Trees	1290	1292	0	1300	0	1312
Non-Bearing Trees	30	28	0	25	0	18
Total Tree Population	1320	1320	0	1325	0	1330
Beginning Stocks	30	30	38	25	0	25
Arabica Production	6500	6510	6500	6520	0	6545
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
Total Production	6500	6510	6500	6520	0	6545
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	6530	6540	6538	6545	0	6570
Bean Exports	3520	3405	3525	3300	0	3310
Rst-Grnd Exp.	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
Total Exports	3520	3405	3525	3300	0	3310
Rst,Ground Dom. Consum	2972	3110	2975	3220	0	3240
Soluble Dom. Cons.	0	0	0	0	0	0
Domestic Consumption	2972	3110	2975	3220	0	3240
Ending Stocks	38	25	38	25	0	20
Total Distribution	6530	6540	6538	6545	0	6570

(1000 HA) ,(MILLION TREES) ,(1000 60 KG BAGS)