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Ethiopia

Coffee Annual

Coffee Production and Exports Remain Steady

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Report Highlights:

Ethiopia's coffee production this year (MY15/16) is expected to climb slightly upward despite the El Nino drought. For the upcoming year, coffee production is expected to remain steady at 6.515 million bags (390,900 metric tons). Coffee exports for the current and outward year are forecast to remain largely unchanged at around 3.52 million bags (212,000 metric tons), which is a little more than half of total production.

Production:

Coffee production for MY16/17 (Oct-Sep) is forecast to remain almost unchanged from the previous year at 6.515 million bags (390,900 metric tons). MY15/16 production climbed slightly from the previous year despite the El Nino drought. While national production was up, production in the eastern half of the country declined. These losses, however, were more than offset in the major coffee-growing areas in the southwestern part of the country where the impact of the drought on coffee production was negligible.

Over the last several years, production has grown slightly, but would have climbed even higher with the planting of newer trees, proper management, and an increased use of improved inputs, such as fertilizer, improved coffee varieties, and crop protectants. Small farm size has also hampered productivity gains; the majority of production is on small backyard farms averaging less than 2 hectares in size. As a result of these above-mentioned factors, coffee yields remain low at around 0.7 - 0.8 metric tons per hectare. By comparison, yields in Brazil, the largest producer of Arabica coffee, are nearly double Ethiopia's at 1.5 metric tons per hectare.

Furthermore, the production of backyard and forest-grown coffee is reportedly declining in some of the traditional coffee-growing areas in the southwestern part of the country, but these losses are being compensated for by increases coming from the opening of new commercial plantations as well as new backyard farms popping up in the northern regions of Amhara and Tigray.

Recognizing the above-mentioned challenges, the government is working with the local coffee industry and international partners to increase the productivity, quality, and exportability of the country's coffee. With regards to the government-related interventions, the Ministry of Agriculture is supporting research to improve yields and identify coffee varieties that are adaptable to climate change. Jimma University is also leading research in these areas. At the same time, the government is offering incentives to spur investment in the coffee sector and just recently re-established the Coffee & Tea Development Authority, under the Ministry of Agriculture, to enhance its activities to support the development of the various points along the coffee value chain spectrum.

In addition to the perennial pest and disease pressures confronting Ethiopia's coffee production, climate change is considered to be a growing threat to the future of the country's coffee industry. According to local researchers, Arabica coffee, which is said to have originated from Ethiopia, is more susceptible to changes in temperature compared to Coffee Robusta. Researchers posit that Ethiopia's coffee production could move to higher elevations as temperatures rise. In fact, there are reportedly smallholder highland farmers who have begun to grow coffee in areas that previously were not suitable for production. In addition, some researchers believe that, if left unaddressed, climate change will lead to increased levels of coffee disease and pests, which will lower future productivity.

Coffee is Ethiopia's most important cash crop, with more than 15 million people directly or indirectly depending on it for their livelihoods. It plays a central role in Ethiopia's economy and as the country's leading export is an important source of foreign exchange. In addition to its economic importance, coffee is deeply intertwined in the country's social, cultural and historical identity. On the world stage, Ethiopia accounts for about 4.5 percent of global coffee production. Refer to table 1 for Ethiopia's share of the world coffee market. For additional background on Ethiopia's coffee production situation, please refer to ET1402.

Table 1: Ethiopia's Share of the World Coffee Market (1000, 60-kg bag)				
	2012/13	2013/14	2014/15	2015/16
Ethiopia's coffee production	6,325	6,345	6,508	6,515
World coffee production[1]	154,933	155,671	149,535	150,122
Ethiopia's contribution to world coffee market	4.1%	4.1%	4.4%	4.3%

1/ Official USDA PSD figures

Consumption:

Coffee consumption for MY16/17 is estimated to reach 3,000 million bags (180,000 metric tons), nearly unchanged from the previous year. About 45 percent of production is consumed in country with the rest going for export. Higher-grade coffee is reserved for export, while the lower-grade is consumed in country.

While consumers want to drink their coffee, the government continually seeks to increase the volume of coffee exports. These competing demands sometimes put the government and consumers into a coffee tug-of-war. From post's perspective, the best way to increase exports is by raising production, not by depressing local consumption.

You can find coffee almost anywhere in Ethiopia. The latest trend is restaurant-style coffee shops and roadside coffee stands. However, most coffee is still consumed at home. Ethiopia is the biggest coffee consumer in Africa and one of the largest consumers in the world.

Trade:

MY16/17 coffee exports are forecast 3.525 million bags (212,000 metric tons) of coffee, nearly unchanged from last year. Ethiopia mainly exports green coffee beans with only a very small amount of roasted beans. Most exports are going to Germany, Saudi Arabia, Japan and the United States.

Coffee has maintained its position as Ethiopia's top export for many years. While it accounts for about one-third of the country's export earnings, this percentage is gradually declining with increased export sales of gold, cut flowers, textiles, leather products and *khat*. According to Ethiopia's official export statistics for 2014/15 (Oct-Sep), coffee exports reached nearly 207,000 metric tons, valued at nearly $812 million. See tables 2 and 3. Foreign exchange is largely used to support the government's major infrastructure products, like dams, bridges, roads, buildings, etc.

Table 2: Ethiopia's Coffee Export by Value/Volume				
No	Year	1000, 60-kg bags	Metric Tons	Value (USD)
1	2010/11	2,988	179,256	878,919,927
2	2011/12	2,964	177,831	818,654,520

3	2012/13	3,224	193,459	694,617,826
4	2013/14	3,179	190,734	749,014,000
5	2014/15	3,445	206,700	811,710,000

Note: Volume includes both official and post-estimated informal coffee trade. Value is officially-reported figure given by the Ethiopia Revenue & Customs Authority.

Table 3: Coffee Exports by Destination (MY12/13-MY14/15) (1,000 60-kg bags)				
Destination	**MY12/13**	**MY13/14**	**MY14/15**	**MY14/15 Share**
Germany	853	685	666	19%
Saudi Arabia	462	525	634	18%
Japan	392	349	326	9%
USA	231	292	332	10%
Belgium	256	235	175	5%
France	162	190	137	4%
Italy	146	163	128	4%
Sudan	147	141	174	5%
S. Korea	80	102	104	3%
UK	67	83	81	2%
Australia	51	72	62	2%
Sweden	75	57	58	2%
Jordan	20	45	37	1%
Russia	35	35	32	1%
Canada	27	28	8	0%
Spain	27	27	42	1%
Israel	19	11	16	0%
Others	174	139	433	13%
Total	3,224	3,179	3,445	100

Note: These figures include both official and post-estimated informal coffee trade.

Marketing:

There are three interrelated marketing channels through which coffee moves before reaching its final destination. The three channels are: (1) village-level trading that occurs between growers, collectors, and cooperative unions; (2) Ethiopia Commodity Exchange (ECX) in Addis Ababa where exporting companies purchase coffee that was originally collected at the village; and (3) cooperative unions and large commercial farms which sell coffee to the international market without passing through ECX.

In order to improve export marketability, ECX is developing a traceability program to track coffee from its origin of production to export. At this time, with the exception of the larger commercial coffee farms, traceability can only be done down to the washing station. Tracing back to individual smallholder farms is not practical given their small volumes of production. This traceability system is also expected to help improve export prices.

The coffee bean export business is reserved for Ethiopian citizens. Out of the total number of coffee exporting companies, 93 percent are private companies, 5 percent are coffee growing farmers' cooperatives, and 2 percent are governmental enterprises.

Policy:

The government's coffee policy mainly deals with licensing exporters, wholesalers and roasters, while monitoring and promoting coffee exports, and controlling the hard currency generated from these sales. There are storage limits in place to prevent traders from holding their stocks too long. Marketing of export-grade coffee on the local market is prohibited even when domestic prices are higher than the international market.

Stocks:

MY16/17 stocks are forecast at 20,000 bags (1,200 metric tons). Coffee stocks are primarily held by coffee cooperative unions and the newly-formed Ethiopia Agricultural Commodities Warehousing Service Enterprise (EACWSE).

The GOE has issued a directive that dictates severe penalties for hoarding coffee in individual coffee exporter warehouses. The government is usually pushing coffee exporters to sell coffee stocks instead of holding them in the hope that international prices will increase in the future. Private exporters are not allowed to store more than 500 metric tons, unless they have a written contractual agreement with a foreign buyer(s) for a larger amount. This storage limit does not apply to cooperative unions and big commercial farms.

Production, Supply and Demand Statistics						
Coffee, Green	**2014/2015**		**2015/2016**		**2016/2017**	
Market Begin Year	**Oct 2014**		**Oct 2015**		**Oct 2016**	
Ethiopia	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Area Planted	525	525	528	528	0	529
Area Harvested	515	515	520	520	0	522
Bearing Trees	1288	1288	1290	1292	0	1300
Non-Bearing Trees	28	28	30	28	0	25
Total Tree Population	1316	1316	1320	1320	0	1325
Beginning Stocks	40	40	30	35	0	30
Arabica Production	6475	6475	6500	6508	0	6515
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
Total Production	6475	6475	6500	6508	0	6515
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	6515	6515	6530	6543	0	6545
Bean Exports	3500	3445	3520	3519	0	3525
Rst-Grnd Exp.	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
Total Exports	3500	3445	3520	3519	0	3525
Rst,Ground Dom. Consum	2985	3035	2972	2994	0	3000
Soluble Dom. Cons.	0	0	0	0	0	0
Domestic Consumption	2985	3035	2972	2994	0	3000
Ending Stocks	30	35	38	30	0	20
Total Distribution	6515	6515	6530	6543	0	6545
(1000 HA) ,(MILLION TREES) ,(1000 60 KG BAGS)						