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## **Ethiopia**

### **Coffee Annual**

### **Coffee Annual Report**

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**Report Highlights:**

The Ethiopian traditional coffee production and farm management system is characterized by limited use of fertilizers and pesticides coupled with manual coffee cultivation and drying processes. Despite this fact, Ethiopia's coffee production in Marketing Year (MY) 2012/13 has marginally increased. Post also predicts coffee production in the coming MY 2013/14 will further increase due to favorable rainfall distribution 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 as a result of huge stocks carried over from last year's production. The large export volume, however, failed to generate a proportionate increase in foreign exchange earnings due to a substantial decline in international coffee prices.

### Production

Coffee production is important to the Ethiopian economy with about 15 million people directly or indirectly deriving their livelihoods from coffee. Coffee is also a major Ethiopian export commodity generating about 25% of Ethiopia's total export earnings. Ethiopia is the largest producer of coffee in Sub-Saharan Africa and is the fifth largest coffee producer in the world next to Brazil, Vietnam, Colombia, and Indonesia, contributing about 7 to 10% of total world coffee production. Ethiopia is the birthplace of Arabica coffee and produces mostly Arabica coffee. Coffee has economical, environmental as well as social significance to the country.

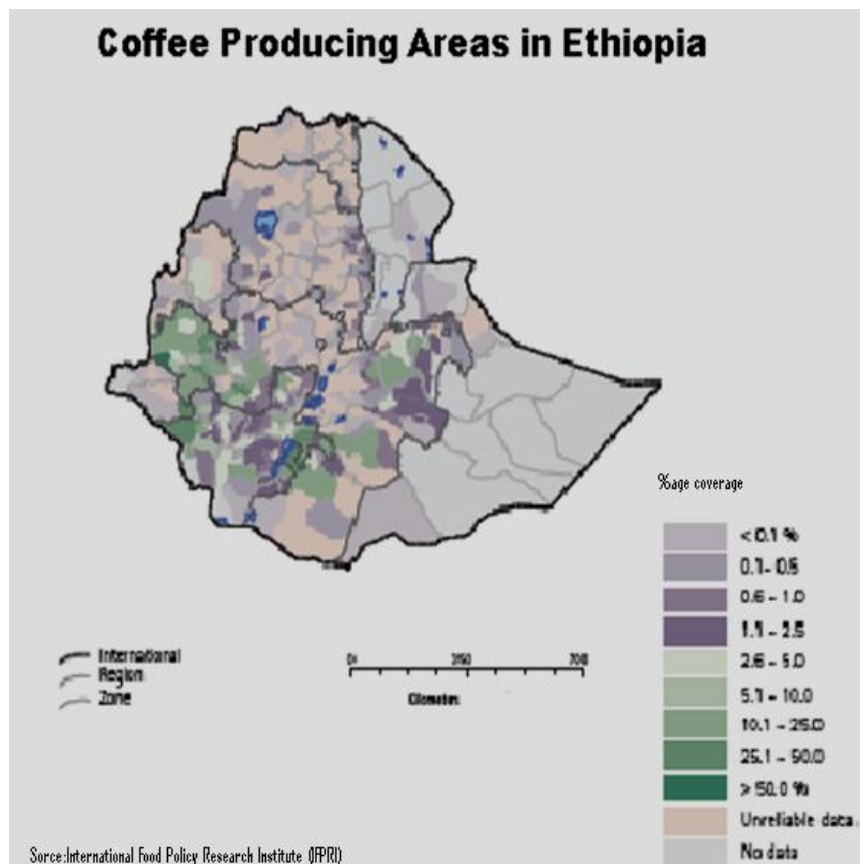


Fig -1 Coffee producing area in Ethiopia

Ethiopia has huge potential to increase coffee production as it is endowed with suitable elevation, temperature, soil fertility, indigenous quality planting materials, and sufficient rainfall in coffee growing belts of the country. Coffee is a shade loving tree that grows well under the large indigenous trees such as the *Cordia Abyssinica* and the Acacia species. 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 holder farmers on less than two hectares of land while the remaining five percent is grown on modern commercial farms.

Despite Ethiopia's immense potential for increasing coffee production, average per hectare yield remains very low at 0.72 MT per hectare. Three major factors cause low coffee production:

1. Khat (*Cata edulis*) is increasingly competing with coffee for farmlands particularly in the eastern part of the country in the Hararge region. It is a fresh leaf that is chewed as a stimulant in many towns in Ethiopia and in neighboring countries. Khat is developing a growing demand in major Ethiopian towns and countries such as Somalia, Kenya and Yemen; those countries import Khat from Ethiopia. Khat is a crop with relatively high resistance to drought, disease, and pests. It can be harvested three or four times a year and generates better income for farmers than other cash crops including coffee. Several small scale farmers in the Hararge region have switched from coffee production to Khat production. The fact that coffee farms are being changed into Khat farms has offset newly planted coffee farms in other regions resulting in a very marginal increase in overall size of area planted to coffee during the current MY.
2. The Ethiopian coffee farm management system and the agronomic practices are traditional. Moreover, extension services provided to small holder farmers are inadequate.
3. GOE doesn't have a specialized institution that provides extension support for coffee production.

Coffee production systems in Ethiopia are generally categorized into four areas 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, and it doesn't have a defined owner. Semi-forest coffee farming is a system where farmers thin and select forest trees to let sufficient sunlight to the coffee trees and to provide adequate shade. A farmer who prunes and weeds the forest area once a year claims to be the owner of the semi-forest coffee. Garden coffee is normally found in the vicinity of a farmer's residence. It is normally fertilized with organic material and usually inter-cropped with other crops. Plantation coffee is planted by the government or private investors for export purposes. Fertilizers and herbicides are usually used in the coffee plantation farming system.



Fig - 2 Community owned nursery site for coffee seedling supply

Fig - 3 Semi-forest coffees under Acacia trees

Ethiopian coffee farmers and traders claim that their coffee is organic, but their coffee is not certified by an international organic commodities certifying agency. Ethiopian coffee is in high demand in the international market, and it is 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 in major coffee growing areas.



Fig - 4 Newly planted coffee seedlings on a commercial farm



Fig -5 Previous coffee farm changed into a Khat farm in the Eastern part of the country.

### **Consumption**

Ethiopians are heavy coffee drinkers, ranked as one of the largest coffee consumers in Sub-Saharan Africa. Nearly half of Ethiopia's coffee production is locally consumed. Coffee in Ethiopia has both social and cultural value. It is mainly consumed during social events such as family gatherings, spiritual celebrations, and at times of mourning.

Coffee supplied and traded in the local market usually has a lower quality. Coffee on the local market is mainly coffee destined for export through the Ethiopian Commodities Exchange (ECX) market but was rejected for failing to meet ECX's quality standards. In spite of the fact that coffee supplied to the local market has low quality, the price of coffee in the local market is usually higher than export prices. As a result of this price disparity, some coffee shops in most large cities have started mixing coffee with barley grain to get more profit.

An interesting new development in Ethiopian major cities regarding coffee consumption is the emergence of small roadside stalls selling coffee to passer by customers. 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 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 a coffee grain as a substitute for normal coffee.

### **Trade**

Coffee is still Ethiopia's number one export item. It accounts for 45 to 50% of Ethiopia's total export earnings but, its share of total export earnings has gradually declined in recent years as a result of increased exports of other commodities such as gold, flowers, Khat, textiles, and leather products.

In MY 2012/13, Ethiopia exported an increased volume of coffee to the international market. However, the revenue generated from this large volume of coffee exports hasn't increased significantly as a result of reduced international market coffee prices. The major reason for the increased volume of coffee exports in this marketing year is the removal of the new Ethiopian government directive launched in November 2011 requiring coffee traders to ship coffee in bulk containers rather than using the traditional 60 kg jute bags.

Coffee traders usually prefer the traditional 60 kg jute bags because the bags help to maintain the identity of Ethiopian coffee. In addition, coffee traders also lack both material and financial capacity to export coffee in bulk containers. The directive had therefore negatively affected export volumes in MY 2011/12 as many coffee traders refrained from exporting coffee and held large stocks in their warehouses. It is those stocks that were carried over from MY 2011/12, which are being exported in the current MY. The export data presented in the PSD tables includes estimated informal trade across the border.



Fig-6 Coffee bag ready for export to the US

**MY 2011/2012 Ethiopian Coffee Exports by Destination.  
(1000 60-kg bags)**

| <b>Destination</b> | <b>MY2011/12</b> |
|--------------------|------------------|
| Germany            | 994              |
| Saudi Arabia       | 421              |
| Belgium            | 120              |
| France             | 187              |
| USA                | 168              |
| Japan              | 160              |
| Italy              | 155              |
| Sudan              | 154              |
| Sweden             | 77               |
| 7R.O.korea         | 65               |
| Jordan             | 57               |
| UK                 | 54               |
| Australia          | 50               |
| Russia             | 40               |
| Spain              | 38               |
| Israel             | 26               |
| Canada             | 25               |
| Others             | 350              |
| <b>Total</b>       | <b>3141</b>      |

*Source: Ethiopian Customs Authority and post estimate of the informal cross border trade.*

**Stock**

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 Government of Ethiopia (GOE) has recently endorsed a directive that dictates severe penalties for hoarding coffee in individual coffee exporter warehouses. 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.

## ***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 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 price. Any coffee related business requires a special license for domestic wholesaling, coffee exporting, or coffee roasting. 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 Ethiopian Commodities Exchange for three months.

## ***Marketing***

GOE established the Ethiopia commodity Exchange (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 sun dried 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 in the US. 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 taste 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 -7 Coffee ready for export in the Oromia Coffee Farmers Cooperative Union store.

Fig - 8 Physical screening of defected coffee grain in the Oromia Coffee Farmers Cooperative Union.

**Production, Supply and Demand Data Statistics:**

| Coffee, Green Ethiopia | 2011/2012                   |          | 2012/2013                   |          | 2013/2014                   |          |                   |
|------------------------|-----------------------------|----------|-----------------------------|----------|-----------------------------|----------|-------------------|
|                        | Market Year Begin: Oct 2011 |          | Market Year Begin: Oct 2012 |          | Market Year Begin: Oct 2013 |          |                   |
|                        | USDA Official               | New Post | USDA Official               | New Post | USDA Official               | New Post |                   |
| Area Planted           | 0                           | 516      | 0                           | 518      |                             | 520      | (1000 HA)         |
| Area Harvested         | 0                           | 506      | 0                           | 508      |                             | 509      | (1000 HA)         |
| Bearing Trees          | 0                           | 1,264    | 0                           | 1,270    |                             | 1,273    | (MILLION TREES)   |
| Non-Bearing Trees      | 0                           | 26       | 0                           | 26       |                             | 27       | (MILLION TREES)   |
| Total Tree Population  | 0                           | 1,290    | 0                           | 1,296    |                             | 1,300    | (MILLION TREES)   |
| Beginning Stocks       | 100                         | 100      | 100                         | 230      |                             | 220      | (1000 60 KG BAGS) |
| Arabica Production     | 6,000                       | 6,320    | 6,500                       | 6,325    |                             | 6,350    | (1000 60 KG BAGS) |
| Robusta Production     | 0                           | 0        | 0                           | 0        |                             | 0        | (1000 60 KG BAGS) |
| Other Production       | 0                           | 0        | 0                           | 0        |                             | 0        | (1000 60 KG BAGS) |
| Total Production       | 6,000                       | 6,320    | 6,500                       | 6,325    |                             | 6,350    | (1000 60 KG BAGS) |
| Bean Imports           | 0                           | 0        | 0                           | 0        |                             | 0        | (1000 60 KG BAGS) |
| Roast & Ground Imports | 0                           | 0        | 0                           | 0        |                             | 0        | (1000 60 KG BAGS) |
| Soluble Imports        | 0                           | 0        | 0                           | 0        |                             | 0        | (1000 60 KG BAGS) |
| Total Imports          | 0                           | 0        | 0                           | 0        |                             | 0        | (1000 60 KG BAGS) |
| Total Supply           | 6,100                       | 6,420    | 6,600                       | 6,555    |                             | 6,570    | (1000 60 KG BAGS) |
| Bean Exports           | 3,100                       | 3,140    | 3,500                       | 3,280    |                             | 3,280    | (1000 60 KG BAGS) |
| Rst-Grnd Exp.          | 0                           | 0        | 0                           | 0        |                             | 0        | (1000 60 KG BAGS) |
| Soluble Exports        | 0                           | 0        | 0                           | 0        |                             | 0        | (1000 60 KG BAGS) |
| Total Exports          | 3,100                       | 3,140    | 3,500                       | 3,280    |                             | 3,280    | (1000 60 KG BAGS) |
| Rst,Ground Dom. Consum | 2,900                       | 3,050    | 3,000                       | 3,055    |                             | 3,100    | (1000 60 KG BAGS) |
| Soluble Dom. Cons.     | 0                           | 0        | 0                           | 0        |                             | 0        | (1000 60 KG BAGS) |
| Domestic Use           | 2,900                       | 3,050    | 3,000                       | 3,055    |                             | 3,100    | (1000 60 KG BAGS) |
| Ending Stocks          | 100                         | 230      | 100                         | 220      |                             | 190      | (1000 60 KG BAGS) |
| Total Distribution     | 6,100                       | 6,420    | 6,600                       | 6,555    |                             | 6,570    | (1000 60 KG BAGS) |



|                       |       |       |       |       |  |       |                      |
|-----------------------|-------|-------|-------|-------|--|-------|----------------------|
|                       |       |       |       |       |  |       | BAGS)                |
| Exportable Production | 3,100 | 3,270 | 3,500 | 3,270 |  | 3,250 | (1000 60 KG<br>BAGS) |
| TS=TD                 |       | 0     |       | 0     |  | 0     |                      |