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Ethiopia

Coffee Annual

Coffee Exports Continue at Record Levels

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Report Highlights:
Ethiopia's coffee production for MY18/19 (Oct-Sep) remains largely unchanged from the previous year at 7.1 million 60-kilo bags (~426,000 metric tons). Exports are forecast to remain at a record 3.98 million bags (~239,000 metric tons). The United States is the fourth largest buyer of Ethiopian coffee, accounting for nearly 10 percent of total exports by volume.

Production:

MY18/19 (Oct-Sep) Arabica coffee production is forecast to remain largely unchanged from the previous year's new estimate at 7.1 million 60-kilo bags (~426,000 metric tons). Under the government's second Growth & Transformation Plan (GTP II), MY18/19 production was supposed to be a little more than double this estimate. However, this ambitious target was not achieved because of different constraining factors described below. See tables 1 and 2 for production figures.

MY17/18 production is estimated at 7.05 million bags, up from the official USDA estimate of 6.54 million bags. This revision is based on better than expected growing conditions, specifically adequate and timely rainfall, which is the single most important productivity-determining input. Nearly all coffee production is rain fed.

While coffee production has increased over the last decade, there are a number of constraints still holding the sector back from reaching its full potential. Some of these constraints include poor tree management practices, low-yielding older trees, degraded soil conditions, rising temperatures, and increasingly erratic weather conditions. There are various government and partner-led efforts underway to overcome some of these challenges, but more investment is required if the GTP II targets are ever to be reached.

With regards to weather, there is growing concern that rising temperatures could adversely impact the country's coffee production capacity. There are reports of farmers starting to plant coffee in higher elevations, which were previously unsuitable for growing coffee. More research is needed to develop weather-adapted coffee varieties. In addition, with increasingly erratic rainfall conditions, access to groundwater to irrigate and process coffee could become a challenge in the future.

At the same time, there are reports of farmers uprooting their coffee trees and replacing them with khat, the leafy green stimulant because it is more profitable and resistant to drought and pests compared to other crops. The production lost to this practice is thought to be offset by incremental increases in productivity and area harvested.

Ethiopia is the birthplace of coffee Arabica. It is grown by over 4 million smallholder farmers and employs 15 million people, or roughly 15 percent of the country's population at different points along the value chain. Nearly 95 percent is cultivated on small plots, generally less than half a hectare. Pesticides and fertilizer typically aren't used on smallholder coffee farms and harvesting is done by hand.

Ethiopia is the world's sixth largest coffee producer, accounting for 4 percent of production. It is also the largest producer in Africa, accounting for about 40 percent of continental production.

Table1. Ethiopia's Coffee Production						
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Production (1,000 MT 60-kg bags)	6,345	6,475	6,510	6,943	7,055	7,100
Area (1,000 HA)	519	525	528	529	532	535

Source: Official USDA PSD for MY13/14-MY15/16 and Post Estimates for MY16/17-18/19

Table 2. Status of GTP II Coffee Production Targets (1,000 Metric Tons)					
	2015/16	2016/17	2017/18	2018/19	2019/20
GTP II Target	504	605	726	871	1,103
Production 1/	391	417	423	423	N/A
% Achieved	78%	69%	58%	49%	N/A

1/ Official USDA PSD for MY15/16 and Post Estimates for MY16/17-18/19
Note: Figures are rounded.

Consumption:

Consumption in MY18/19 is forecast at 3.12 million bags (~187,000 metric tons) almost unchanged from the previous year. For MY17/18, Post is slightly trimming its estimate to 3.11 million bags, which is slightly below the official USDA figure.

Slightly less than half of production is consumed locally and the rest is exported. See table 3 for details. As the country's number one export and top source of foreign exchange, the government seeks to maximize coffee export revenues, while conversely limiting domestic consumption. For example, the highest-graded coffee is strictly reserved for export while lower grades are for local consumption.

Coffee consumption is growing, albeit slowly, as the population expands. Coffee is an integral part of Ethiopian tradition, culture, and religion. Families roast, prepare, and drink coffee at home as part of a traditional ceremony as many as three times a day. However, in the capital and bigger towns across the country, the emergence of coffee shops and roadside coffee-serving kiosks is competing with this longstanding tradition.

Table 3. Share of Coffee Production that is Exported (1,000 MT 60-kg bags)					
	2014/15	2015/16	2016/17	2017/18	2018/19
Production [1/]	6,475	6,510	6,943	7,055	7,100
Exports	3,500	3,405	3,853	3,950	3,980
% Exported	54%	52%	55%	56%	56%

1/ Official USDA PSD for MY13/14-MY15/16 and Post Estimates for MY16/17-18/19
Note: Figures are rounded.

Trade:

MY18/19 coffee exports are projected at a record 3.98 million bags (~239,000 metric tons), slightly up from the previous year's new estimate. Based on export performance during the first half of the marketing year, exports in MY17/18 are expected to reach a record of 3.95 million bags, up from the official USDA estimate of 3.31 million bags. The anticipated increase in exports is believed to attributable to a combination of factors, including the recent government reforms to the coffee marketing system, the devaluation of the local currency, and ongoing marketing efforts.

Last July, in an effort to bolster export earnings, Parliament approved reforms allowing coffee washing stations, coffee mills, and farmers with more than 2 hectares of coffee farms (at least 1MT/HA) to export directly without having to go through the Ethiopia Commodity Exchange (ECX) platform as previously required.[1] This change has broadened the number of companies that can export higher-valued, traceable coffee. Meanwhile, the government devalued the Ethiopian Birr by 15 percent against the U.S. dollar this past October in hopes of spurring exports and discouraging imports.

Coffee is the country's top export. According to Ethiopia trade data, MY16/17 exports reached a record of almost 232,000 metric tons, valued at $897 million. Coffee accounts for nearly one-third of total exports by value. Major export destinations are Germany, Saudi Arabia, the United States, and Japan. The United States is the fourth largest destination by volume (10%) and third by value (15%). See tables 4 and 5 for trade data.

The local retail price of average standard coffee in Addis is currently around $3.60 per kilogram. By comparison, the IOC indicator prices for Arabica coffee have ranged roughly between $2.50-3.20 per kilogram this month.[2] This local-international price spread often results in a competitive tension between local sales and exports.

Stocks:

[1] Commercial farmers and cooperative unions could export directly to foreign buyers prior to this change.
[2] IOC Arabica coffee price data for Colombian Milds, Other Milds, and Brazilian Naturals for May 1-21, 2018.

Coffee stocks are forecast at 10,000 bags (~600 metric tons) in MY18/19, unchanged from the previous year's revised estimate. MY17/18 stock estimate is reduced to 10,000 bags because of increased exports.

Table 4. Value of Coffee Exports as a Share of Total Exports				
	2013/14	2014/15	2015/16	2016/17
Total Export Value	$2.54 billion	$2.75 billion	$2.65 billion	$2.76 billion
Total Value of Agricultural Exports	$2.17 billion	$2.35 billion	$2.27 billion	$2.32 billion
Agricultural Exports Share of Total Exports	86	86	86	84
Coffee Exports	$0.749 billion	$0.812 billion	$0.722 billion	$0.897 billion
Coffee Exports Share of Total Ag Exports	35	35	32	39
Coffee Exports Share of Total Exports	30	30	27	33

Source: Post calculations based on ERCA data.

Table 5: Coffee Export by Volume and Value for 2015/16 and 2016/17

2015/16				2016/17			
Country	**Volume (MT)**	**Value ('000 USD)**	**% Share (Vol)**	**Country**	**Volume (MT)**	**Value ('000 USD)**	**% Share (Vol)**
Germany	40,666	130,932	20	Germany	40,107	135,985	17
Saudi Arabia	37,340	113,974	19	Saudi Arabia	36,313	131,772	16
Japan	18,482	57,507	9	Japan	25,861	83,696	11
USA	17,867	94,967	9	USA	23,877	130,380	10
Belgium	14,213	57,049	7	Belgium	20,770	86,159	9
France	12,599	35,146	6	Korea, Republic	11,874	50,809	5
Korea, Republic	9,466	41,488	5	Italy	11,189	46,578	5
Sudan	8,727	17,919	4	Sudan	10,959	23,803	5
Italy	8,353	34,888	4	France	10,059	31,892	4
UK	4,788	25,016	2	UK	6,388	33,418	3
Australia	3,884	17,575	2	Australia	4,917	21,360	2
Sweden	2,485	9,116	1	Russia	3,334	10,246	1
Russian	2,389	7,147	1	Jordan	2,931	10,993	1
Spain	2,206	10,714	1	Taiwan	2,775	13,916	1
Jordan	1,956	8,648	1	Spain	2,277	11,667	1
Greece	1,719	5,093	1	Sweden	2,263	9,777	1
Taiwan	1,639	7,675	1	China	1,749	8,102	1
Others	11,219	47,433	6	Others	13,534	56,614	6
Total	**199,997**	**722,286**	**100**	**Total**	**231,175**	**897,167**	**100**

Source: ERCA

Production, Supply and Demand Statistics

Coffee, Green	2016/2017		2017/2018		2018/2019	
Market Begin Year	Oct 2016		Oct 2017		Oct 2018	
Ethiopia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	529	529	532	532	0	535
Area Harvested	520	522	525	525	0	528
Bearing Trees	1300	1300	1310	1315	0	1320
Non-Bearing Trees	25	25	20	25	0	28
Total Tree Population	1325	1325	1330	1340	0	1348
Beginning Stocks	25	25	25	15	0	10
Arabica Production	6520	6943	6545	7055	0	7100
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
Total Production	6520	6943	6545	7055	0	7100
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	6545	6968	6570	7070	0	7110
Bean Exports	3300	3853	3310	3950	0	3980
Rst-Grnd Exp.	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
Total Exports	3300	3853	3310	3950	0	3980
Rst,Ground Dom. Consum	3220	3100	3240	3110	0	3120
Soluble Dom. Cons.	0	0	0	0	0	0
Domestic Consumption	3220	3100	3240	3110	0	3120
Ending Stocks	25	15	20	10	0	10
Total Distribution	6545	6968	6570	7070	0	7110
(1000 HA) ,(MILLION TREES) ,(1000 60 KG BAGS)						