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Post: Addis Ababa

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Report Highlights:

Ethiopia is the region's largest producer and consumer of coffee. Coffee production in Ethiopia has grown steadily over the past three years and, with suitable growing conditions, is forecasted to reach to 7.62 million bags (457,200 MT) in 2021/22. 50-55% of Ethiopia's production is consumed domestically. Local consumption is estimated to increase to 3.55 million bags in MY 2020/21. Ethiopia is the largest coffee exporter in the region and its shipments are primarily green coffee. In 2019, the country enacted a new marketing and export policy to allow direct coffee exports by smallholders with minimum of two hectares of land and by commercial farms in order to encourage vertical integration and improve coffee traceability. Exports from October 2019 to September 2020 reached to 4.135 million bags (248,129 MT), 2326 MT lower than MY 2018/19. Ethiopia's primary export destinations in 2019/20 were Saudi Arabia, Germany, the USA, Japan, and Belgium.

Production:

MY 2021/22 coffee production is forecasted at 7.62 million bags (457,200 MT), 20,000 million bags higher than the current 2020/21 crop estimate, assuming suitable weather and adequate rain. The 2020/21 crop estimate is revised a little bit upwards to 7.6 million bags compared to our projections in 2019/20 which was 7.5 million bags. The growth in production volume is mainly due to the higher yields observed in the coffee growing belts mainly in southern and western regions of the country. The amount and distribution pattern of rain was normal to higher than normal during the coffee growing season of MY 2020/21. There was some coffee loss in the western part of coffee growing belts due to Coffee Berry Disease (CBD). CBD cause significant crop losses although the magnitudes of damage vary due to coffee variety and rainfall amount. Coffee experts are advising coffee farmers to take all possible phytosanitary measures such as regular field monitoring, to uproot and burn infected coffee trees.

The two common coffee processing methods of are sun-dried and wet processing. Ethiopian coffee is currently 70-80% unwashed or sun-dried, and 20-30% washed coffee. Unwashed coffee earns a lower price in many markets, including the U.S where consumers prefer "cleaner" washed coffee. Other countries, like Japan, specifically require unwashed coffee for a more natural and richer taste.

Despite of the various negative effects associated with the growth and use of khat (a bushy plant with stimulate properties), the total volume of khat grown for the last five years (2015-2020) has increased by around 220%. Many farmers are switching from growing coffee to khat for economic reasons. A farmer would need ten coffee trees to earn the same as one kilo of khat. While one coffee plant yields 8 to 12kg of cherries, khat plants require less care compared to coffee. The government of Ethiopia (GOE) neither encourages the cultivation of khat in any form nor takes any action against its cultivation, trade, and use. The GOE collects significant revenue from the export and local taxation of khat.

Table 1: Ethiopia's Coffee Production estimate with respect to area

	2017/18	2018/19	2019/20	2020/21	2021/22*
Production (000 tons)	423.6	423.6	448.5	456	457.2
Area (1000 ha)	532	532	538	540	541
Productivity (ton/ha)	0.8	0.8	0.83	0.84	0.85

* Forecasted amount
Source: Post estimate for MY 2017/18-2020/21

Consumption:

Domestic coffee consumption in MY 2021/22 is forecast at 3.5 million bags (210,000 MT) assuming that the domestic consumption returns to normal after the COVID-19 pandemic. For MY 2020/21, post estimates global consumption to reach 3.55 million bags. This is due to better local price of coffee than export price. Coffee consumed in the local market is mainly coffee rejected or failed to meet the Ethiopian Commodity Exchange (ECX) export quality standards. However, the local price is usually higher than international price for coffee arabica. Coffee plays a vital role in both cultural and social life of Ethiopians. The GOE has imposed measures like social distancing and special seat arrangement based on room size, which has had a huge impact on coffee shops, micro-roasters, restaurants, and other out-of-home outlets. However, the current trend towards more consumption at home and offices are forcing retailers, roasters, and consumers to adapt to this new situation.

Trade:

MY 2021/22 coffee exports projected at 4.1 million bags (246,000 MT), assuming that a complete worldwide recovery from COVID-19 pandemic crises and improved security situation in the country. Based on export performance during the first half of MY 2020/21, we predict total exports to reach only 4 million bags (240,200 MT), lower from the official USDA estimate of 4.15 million bags. The anticipated decrease is mainly due to low interest of some exporters to the revised government policy on minimum export price fixation to avoid under invoicing by exporters and security situation in some parts of coffee growing regions. MY 2019/20 coffee export reached to 248,129 MT valued at USD 821,140.

Table 2: Share of total coffee supply, consumption, and export estimate (metric tons)

Item	2018/19	2019/20	2020/21	2021/22
Total coffee supply ('000MT)	442.6	463.2	468.6	471.6
Export ('000MT)	250.4	248	250.2	250.8
Consumption ('000MT)	192.2	215.2	218.4	220.8
% export	56	53	53	53

Source: Post calculation

The retail price of standard coffee in Addis Ababa is around USD 3.5 to 4.5 compared to the International Coffee Organization which has the arabica price range between USD 2.2 to 2.8 per kg. This price variation results in competitive tension between local sales and coffee exports. The ongoing security concerns in eastern and western parts of the country are still exerting downward pressure on availability of labor and logistic services. In the 2020/21 marketing year low credit availability, international price volatility, limited accesses to international market promotion and, low price were reported to be the major challenges of coffee marketing in Ethiopia.

Ethiopia's balance of trade has historically had a deficit and this trend will continue in the years to come. The Ethiopian Birr (ETB) is not a convertible currency. This means that all imports and payment of foreign debt must be made in U.S dollars. Prior to 2019 many coffee traders would export the coffee at a loss to earn more foreign currency and then use that currency to import construction materials and vehicles to sell at a huge profit domestically. This practice distorted the market price of agricultural products. For information on how the GOE addressed this situation, please see the "Policy" section of this report.

Table 3: Coffee Export by Volume and value for 2018/19 and 2019/20						
	2018/19			**2019/20**		
Countries	**volume (MT)**	**Value ('000USD)**	**% volume**	**volume (MT)**	**Value ('000USD)**	**% volume**
Saudi Arabia	47519	125428	19	46598	136548	19
Germany	42215	113203	17	46500	123099	18.7
Japan	33824	93269	13.5	25240	72310	10.2
USA	24080	119915	9.6	23615	124674	9.5
Belgium	17921	58509	8	21146	74413	8.5
Sudan	13059	25304	5.2	12758	25855	5.2
South Korea	10913	41320	4.4	14076	57478	5.7
Italy	10477	34210	4.2	7805	26930	3
France	6069	16881	2.4	9497	24829	3.8
UK	4106	17569	1.6	2612	11900	1
Australia	4616	17610	1.85	3878	14887	1.5
Taiwan	3457	15098	1.4	4505	21607	2
Russia	3334	9003	1.34	2789	7880	1
Jordan	3222	10019	1.3	4047	14257	1.6
Spain	2528	8622	1	1657	5378	0.7
others	23115	83381	9.2	21406	77724	8.6
Total	**250,455**	**789,341**	**100**	**248,129**	**821,140**	**100**

Table: 4 Value of coffee export as share of total (in billions)					
Item	2015/16	2016/17	2017/18	2018/19	2019/20
Total export value	2.65	2.9	2.8	2.7	2.67
Total value of Agricultural export	2.3	2.34	2.38	2.3	1.94
Agricultural exports share out of total exports (%)	86	81	85	85	0.73
Coffee exports	0.722	0.897	0.767	0.789	0.82
Coffee exports share of total agricultural exports (%)	31	38	32	34	0.42
Coffee exports share of total exports (%)	27	31	27	29	31

Policy:

The GOE had to take measures to stop traders from selling coffee at a loss in order to earn foreign currency, distorting the agricultural market. On January 28, 2020, the Coffee and Tea Authority, coordinated with the National Bank of Ethiopia, established a directive called the “Export Coffee Contract Administration”. This directive fixes a minimum coffee export price based on the global weighted average price given to different grades of coffee from various regions. The introduction of a minimum price caused some disruption to the flow of coffee to export markets. In MY 2019/20, after a few months of adjustment, normal trade resumed.

The Government of Ethiopia implemented reforms in the coffee value chain in 2019 in order to enhance coffee production, productivity, and exports. The reform address challenges within coffee sector through improved coordination among the government and the private sector focused on the value chain, financial institutions, service improvement by Ethiopia Commodity Exchange (ECX) and most importantly to improve coffee production and quality through strengthened research and development by coffee breeders. For example, the Ethiopia Coffee and Tea Authority (ECTA) and ECX streamlined the coffee value chain so that coffee farmers with a minimum of two hectares, commercial farmers, and coffee processors can export coffee directly to the international market without using middlemen.

As a result, we have seen increased foreign currency generation since the revised policy came into force. The new policy has improved exports and empowered farmers engaged in the sector. The coffee sector policy complements the whole-of-government “homegrown economic reform” that is liberalizing the economy across sectors, streaming the business climate in order to boost exports. The government has been striving towards specializing coffee varieties to modernize the sector and increase production but also higher-value coffee.

Production, Supply, Demand Data Statistics

Coffee, Green	2019/2020		2020/2021		2021/2022	
Market Year Begins	Oct 2019		Oct 2021		Oct 2022	
Ethiopia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (1000 HA)	538	538	540	542	0	550
Area Harvested (1000 HA)	528	528	529	538	0	540
Bearing Trees (MILLION TREES)	1328	1328	1333	1334	0	1335
Non-Bearing Trees (MILLION TREES)	30	30	31	32	0	33
Total Tree Population (MILLION TREES)	1358	1358	1364	1366	0	1368
Beginning Stocks (1000 60 KG BAGS)	10	10	220	210	0	260
Arabica Production (1000 60 KG BAGS)	7450	7475	7500	7600	0	7620
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)	7450	7475	7500	7600	0	7620
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)	7460	7485	7720	7810	0	7880
Bean Exports (1000 60 KG BAGS)	4100	4135	4150	4000	0	4100
Rst-Grnd 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)	4100	4135	4150	4000	0	4100
Rst,Ground Dom. Consum (1000 60 KG BAGS)	3140	3140	3400	3550	0	3500
Soluble Dom. Cons. (1000 60 KG BAGS)	0	0	0	0	0	0
Domestic Consumption (1000 60 KG BAGS)	3140	3140	3400	3550	0	3500
Ending Stocks (1000 60 KG BAGS)	220	210	170	260	0	280
Total Distribution (1000 60 KG BAGS)	7460	7485	7720	7810	0	7880
(1000 HA) ,(MILLION TREES) ,(1000 60 KG BAGS)						

Attachments:

No Attachments