

# Feed the Future Ethiopia Value Chain Activity

*Partnering with the Agricultural Growth Program*

## COFFEE PRICE OUTLOOK BRIEF 02

Coffee is a popular beverage and an important commodity. More than 2.25 billion cups of coffee are consumed in the world every day.<sup>1</sup> Although the COVID-19 pandemic continues to put pressure on the global economy and greatly limits out of home consumption, global coffee demand is only expected to decrease by 0.9 percent.<sup>2</sup> This suggests that the switch to increasing home coffee consumption has compensated for disruptions to retail sales.

Arabica coffee is the most widely consumed, accounting for more than 70 percent of global production volume. Ethiopia is the center of origin and diversity of Arabica coffee. According to the USDA, there are more than 4.5 million smallholder coffee farmers in Ethiopia and an additional 15-20 million people dependent on this industry.

Coffee plays a significant role in the political, economic and social areas in Ethiopia. Coffee is also a major source of Ethiopian export earnings, and accounts for nearly one-third of total exports by value.

### GLOBAL GREEN COFFEE MARKET

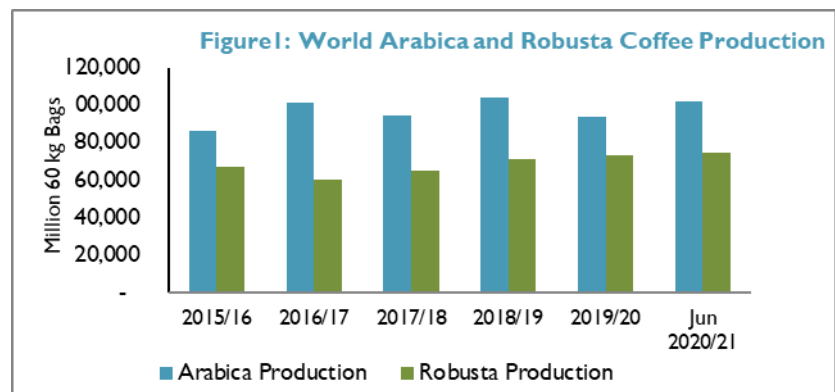
World coffee production for 2020/21 is forecast at 176.1 million bags (60 kilograms/bag) according to the USDA report; representing a 5 percent growth over the previous year as shown in Figure 1. Global ending stocks are expected to jump to a six-year high as production outpaces consumption.

Brazil's coffee crop, equivalent to 39 percent of global production, will account for most of the volume gain. Other key players include Vietnam and Colombia, with 27 and 8 percent, respectively, of world production.

Ethiopia is the largest coffee producer in Africa and the fifth largest producer in the world and accounts for 4.3% of the global coffee production.

Ethiopia's coffee production for 2020/21 is forecasted to be 7.5 million bags or 450,000 metric tons, reflecting static growth. A distinguishing feature in Ethiopia is the strength of the domestic market with around half of the national crop consumed locally.

The price data from the Intercontinental Coffee Exchange, shown in Figure 2, shows fluctuations between \$1.19/pound to \$1.29/pound. These price levels remain well below what is required to give farmers a sustainable return.



<sup>1</sup> Wikipedia Economics of coffee

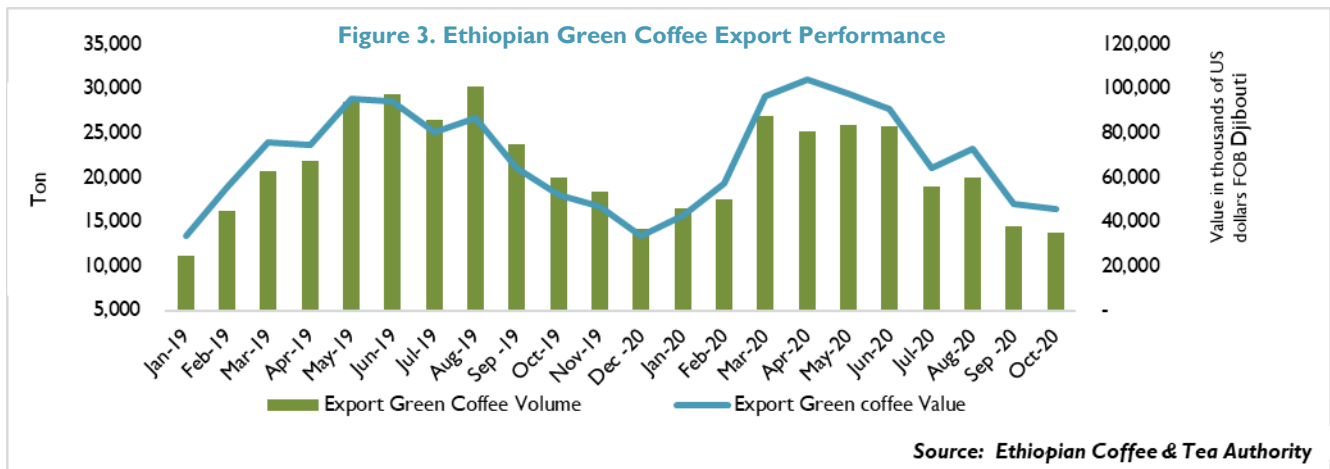
<sup>2</sup> International Coffee Organization Coffee Market outlook November 2020





## ETHIOPIAN COFFEE EXPORT PERFORMANCE

According to Ethiopian Coffee and Tea Authority data of November 2020, Ethiopia’s annual coffee exports in 2019/2020 reached \$854 million, a growth of 12 percent over the previous. This sales growth primarily came from the 17 percent increase in volume of green coffee exports compared to 2018/19. The trends for export volume and export value are shown in Figure 3. The period from April to June is the peak season of coffee exports, accounting for 35 percent of the total annual coffee export volume.



Source: Ethiopian Coffee & Tea Authority

## ETHIOPIAN COMMODITY EXCHANGE (ECX) COFFEE MARKET

ECX plays a major role in coffee marketing in Ethiopia. During the 2019/20 fiscal year, ECX traded 303,303 tons of coffee, with a total sales value of ETB 24.8 billion (\$628 million).<sup>3</sup> ECX has three types of coffee contracts: export commercial, export specialty, and local coffee. The coffee price is transacted in terms of Ethiopian Birr per Feresula, a traditional unit equivalent to 17 kilograms. Additionally, all prices are quoted at an ECX Warehouse

<sup>3</sup> ECX Gebeyachin E News Letter July 2020



Delivery Center (WDC) and are inclusive of the parchment in the case of washed coffee grades (3 to 5), and without parchment for grade UG (under grade) exclusive of taxes, fees, and charges.<sup>4</sup>

Analysis of ECX coffee export data in Figure 4 shows that unwashed commercial coffee takes the lion's share of traded volume with 95 percent of the total coffee exports. Comparing the March-June periods for 2019 and 2020, shows a decline in export volumes of around 40 percent. The drop in coffee traded volume coincided with the beginning of COVID-19 related restrictions, which created high transportation costs. Other factors influencing coffee marketing performance include price competition from domestic sales, stock carryover from 2018/19 and security instability in coffee production areas.



Although washed coffee remains a very small part of overall crop, it has started to attract premium prices compared to unwashed coffee as shown by the export price trends in Figure 5.



<sup>4</sup> [www.ECX.com.et](http://www.ECX.com.et) Coffee contracts

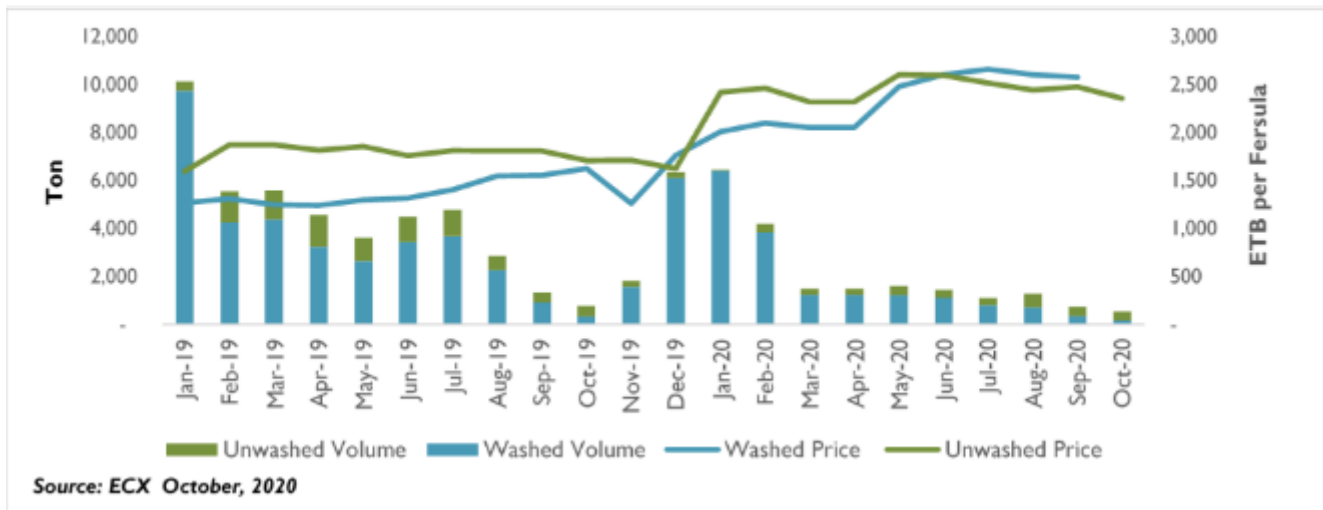




## ECX SPECIALTY COFFEE MARKET

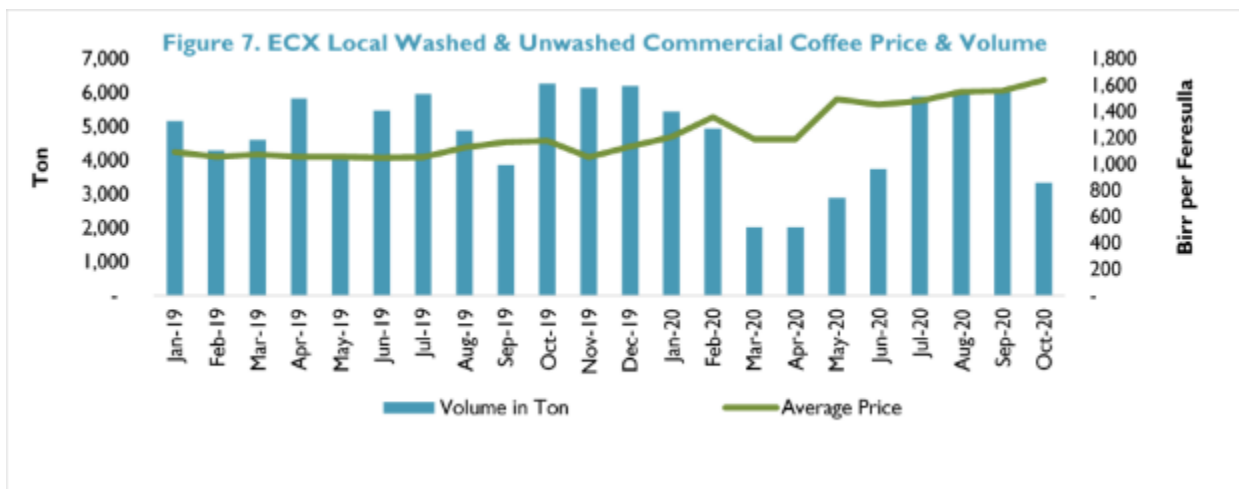
Ethiopia is recognized for the diversity and quality of its specialty coffee sector. In overall terms, specialty coffee accounts for 15 percent of the national exports and is a fast-growing sector. In stark contrast to the overall exports, washed coffee accounts for 85 percent of total trades in specialty grade exports. Prices for both washed and unwashed varieties have been stable, as shown in Figure 6. The decline in the volume of specialty coffee exports handled by ECX, comparing 2020 to 2019, reflects the increasing proportion of specialty coffee that is now exported through direct channels under the more flexible direct-trade policy framework to encourage fully-traceable, premium-value exports.

Figure 6. ECX Washed & Unwashed Specialty Export Coffee Price



## ECX LOCAL COFFEE MARKET

ECX is the dominant market channel for the domestic market. Performance trends over the last two years are shown in Figure 7. Apart from a seasonal blip in low volume during March-June 2020, overall prices have increased steadily providing stiff competition for supply.





# FEED THE FUTURE

The U.S. Government's Global Hunger & Food Security Initiative

## FARM GATE PRICES

The coffee harvest season in most areas runs from September to December, with farming communities extremely busy picking the red cherry fruit from productive coffee trees. During the 2019/20 harvest, farmers sold their cherries to washing stations for an average of 18 Birr/kg. Regional variations in price between adjacent coffee production areas can be significant. Prices in October 2020 within the zones of Kaffa, Bench Shako and Sheka ranged from 14 to 18 Birr/kg. Farm gate prices in the zones of Gera, Gomma, and Limu Seka ranged from 23 to 28 Birr/kg. Comparison of farm gate prices is complicated by the end-of-season payments made to members by Coffee Cooperatives.

In overall terms, despite the trend of increasing farm gate prices. Farmers receive the equivalent of \$0.46/kg, equivalent to \$0.21/lb. The proportion of the international value of coffee reaching the farmers pocket has to increase substantially to incentivize smallholder farmers to invest in new plantings and best practices.

## CONCLUSION

Global stocks of green coffee are expected to jump to a six-year high as production outpaces consumption. Therefore, coffee prices are likely to remain well below levels required to give farmers a sustainable return. The strong demand from the Ethiopian domestic market, combined with increasing competition for export foreign exchange for commodity trading, is contributing to the rising trend of Ethiopian farm gate prices. The positive prospects to improve the volume of the Ethiopian crop sold as a premium specialty grade is reflected in growth of direct trades that bypass the ECX commodity channel.



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