

# [Coffee marketing in ethiopia](https://assignbuster.com/coffee-marketing-in-ethiopia/)

In Ethiopia, coffee production and marketing was controlled by the government through Ministry of Coffee and Tea Development prior to 1992. During that period coffee was sold by producers at permanent prices with fixed times. The huge bulk of the crop was controlled by the Ethiopian Coffee Marketing Corporation (ECMC). After the fall of Derg regime in 1991, the transitional government announced measures to promote a market economy including coffee sector liberalization. This was started as a means of enhancing production through increasing producer prices and maximizing export earnings of coffee. Since 1999 the Ethiopian coffee has been accessible when some producers were decided contract to bypass the auction system of the government. Certified farmers who are the member of a cooperative can directly sell their coffee to the western importers (Celia et al., 2004).

The government of Ethiopia has established Ethiopian Commodity Exchange (ECX) organization in 2008, the first of its kind in Africa, which aims at making the marketing of agricultural commodities more efficient and well-organized. With the establishment of ECX, the government has issued a coffee quality and marketing Proclamation no. 602/2008 which has been enforced since August 2008. The Proclamation mandates all coffees to be traded through ECX. It excludes private collectors and links suppliers (Akrabies) to trade directly with farmers at first level coffee market centers and with ECX (Alemseged and Getaneh, 2012).

The main objectives of modern coffee marketing system in Ethiopia is to competitively and efficiently supply quality coffee to the international market, to create short supply chain of coffee and appropriate payment system, to make fast and cost effective coffee marketing system, to promote small-scale farmers participation, to be reliable by providing timely and accurate information, to build confidence between partners of trade and to control illegal activities. Presently, there are two stages of transaction centers in the marketing system: primary level (primary coffee market center) and secondary level (central market auction center), i. e., the Ethiopian Commodity Exchange (ECEA, 2013).

2. 5. 1. Coffee Marketing Chain

According to the Ministry of Trade (2012), there are three coffee marketing chains in Ethiopia that gives options for the producers to supply their product into the market. These are primary level, Ethiopian Commodity Exchange and international coffee market chains.

Primary Level Coffee Transaction Centers (PLCTC): Located near to coffee farms where coffee farmers and suppliers buy and sell coffee. Farmers can take their product to the primary market in order to sell for suppliers (Aqrabis) and primary cooperatives. Now days there are about 1903 primary coffee marketing centers in the country.

Ethiopian Commodity Exchange (ECX): This is the secondary level of the chain where coffee is transacted. If farmers have more than 30 bags of coffee, they can directly supply the coffee to the ECX. The functions of ECX are receive all arrival coffee from suppliers, producers and cooperatives; undertake arrival coffee liquoring, grading and warehouse services; carry out coffee exchange between suppliers and exporters; and submission of sold coffee to exporters. There are currently ECX warehouses located at 8 different places of the country which are Dire Dawa, Hawasa, Dilla, Wollayita Sodo, Bonga, Jimma, Bedele and Gimbi. Trading is carried out by open outcry at the ECX in Addis Ababa.

International Coffee Market: exporters sell coffee to international importers in this level of chain. Green coffee is exported only by the Ethiopian citizens. We can export coffee to the international market in three ways. The first is producers supply their coffee through primary market to suppliers (Aqrabsi) or directly supply to ECX and exporters buy from Aqrabis at ECX, and then sell to international market. The second is producers supply coffee to their primary cooperatives at primary coffee transaction centers, primary cooperatives to cooperative unions, cooperative unions directly sell to international market. The last way is producers directly supply to international market.

Coffee Export Performance

Coffee is still the major export product of Ethiopia. It contributes over 25 percent of the foreign exchange earnings. On average 40 percent of the total production was exported for the last three years. In recent years the portion of total export earnings has slowly declined because of the increase of other export commodities such as flowers, Khat, gold, textiles and leather products (Abu and Tedy, 2013).

Ethiopian coffee export has increased in the last five years both in volume and value. The volume has increased from 133, 993 tons in crop year 2008/09 to 199, 103 tons in crop year 2012/13. The export volume has risen considerably with annual percentage growth rate of 7. 9% and the value has increased from 375. 8 million USD to 746. 4 million USD in the same period exhibiting an annual percentage growth rate of 13. 7% (See Figure 2. 3 below).

The Ethiopian coffee exported to the international market has increased in volume in the marketing year of 2012/13. But, there is no significant increment on the revenue earned from this large volume of coffee exports because of the reduced coffee price in the international market (Abu and Tedy, 2013).

The key reason for the increased coffee exports volume in the marketing year of 2011/12 is the elimination of the new directive by the government of Ethiopia which is introduced in November 2011. The directive requires coffee exporters not to use the traditional 60 kg jute bags rather to ship coffee in bulk containers. The traditional 60 kg jute bags are usually preferred by the Coffee traders since the bags benefit to preserve the identity of Ethiopian coffee. Furthermore, there is lack of financial and material capacity of the coffee traders in order to export coffee in bulk containers. Therefore, the directive had a negative effect on the volume of exported coffee since many coffee traders ceased from exporting coffee and put bulky stocks in their warehouses (Ibid).

2. 5. 3. Coffee Export Markets by Destination

Ethiopia is exported green coffee to more than 50 countries which includes USA, Europe, Australia, Asia, Africa and Middle East. According to the Ministry of Trade data (2013), Ethiopian coffees were marketed to 25 European countries that accounted for 53 percent of total coffee export volume with about 52 percent in value over the past two years (2011/12 -2012/13). Out of this, 20 European Union (EU) countries accounted for nearly 98 percent of export volume and value. The rest non – European Union countries only accounted for only 2. 3 percent in volume and 2. 1 percent in value.

As we can see from the table below, the share of 4 European Union countries is accounted for 51. 8 percent in volume and 50. 4 percent in value from the total green coffee export. On the other hand, 18 Asian countries accounted for 31. 2 and 31. 4 percent in volume and value, respectively. American regions held a share of 9. 05 percent in volume and 10. 99 percent in value. The share of Australia and Africa is accounted for 2. 02 and 4. 7 percent of the total export volume and 2. 53 and 3. 61 percent of export value respectively.

Coffee import by individual importing countries for the year 2012/13 shows that Germany, Saudi Arabia and Japan were the highest buyers of Ethiopian coffees which contribute 26. 47, 13. 84 and 11. 56 percent in volume and 24. 07, 14. 55 and 10. 83 percent in value respectively. United States and Belgium were also other big markets accounting for 7. 95 and 7. 75 percent in volume and 9. 77 and 8. 01 percent in value respectively. In general, Germany, Saudi Arabia and Japan were the three major coffee buyers of Ethiopia that accounted for nearly 52% of the total volume of export and 50% of the total value of coffee. More than 93 percent of the total export volume and value of Ethiopian coffee is obtained from 15 countries; most of them are from the developed economies.

Countries from the European Union are continued to be the permanent market for the export of Ethiopian coffee. Nevertheless, Japan, which was the main market in Asia for the Ethiopian coffee in the previous years, seems to make a comeback during 2012/13 coffee marketing year, as it progressed to the third place in importing the Ethiopian coffees with a volume of 22, 798. 17 metric tons. This is a significant volume and a big market improvement which greatly exceeded the total import volume standing at 7, 172 metric tons in the marketing year of 2011/12.

The remaining Ethiopian coffee importing countries which are included in the others category in the above table accounted for less than 7 percent of the total export volume and value. The export market of Ethiopian coffee remains reliant on traditional markets demanding the necessity to search for further new markets in other high income countries and emerging economies. Therefore, there is a need to have abundant, sustainable and new markets in order to export larger volume of coffee with the increase in improved quality of coffee production and faster progress of the coffee industry in the country (Alemseged and Getaneh, 2012).

2. 6. Challenges and Opportunities of the Ethiopian Coffee Sector

Coffee farmers all over the world face different challenges related to the availability, cost and quality of labor, land, water, inputs, access to reasonable production credit, and proper technical advice in response to diseases and pests. Ethiopia has a reputation of high quality coffee due to its branded varieties of coffee. But, most of the coffee farmers in Ethiopia are not capable of getting the benefits connected with production and marketing of a finest quality product. There is production, processing, storage and functioning of domestic and international market related constraints for this fact (ODI, 2009).

Regardless of huge potential for collective production of coffee in Ethiopia, the average yield per hectare remains very low at 0. 72 metric ton per hectare (Ministry of Trade, 2013). Abu and Tedy (2013) revealed three major factors for the basis of low coffee production. First, there is a direct and increasing competition of Khat ( Cata edulis ), a plant with mild narcotic effects, with coffee for farmlands in different areas of the country particularly in the Hararge region. Khat is chosen by many farmers because it is more profitable and brings a consistent income during the year. Second, the farm management system of coffee and the agronomic practices in Ethiopia are traditional. In addition to this, coffee producing farmers do not get adequate extension services. Lastly, there is no specialized institution that offers extension support for production of coffee in the country.

According to Taye (2010), in Ethiopia, there are several attributed factors for the low level of average production and income of coffee by the world standard. These includes insufficient credit and distribution of input devices for coffee growing farmers, principal use of conservative husbandry and processing as well as unimproved local coffee landrace practices, which in turn extremely hinders the national production and productivity of coffee produced by small-scale farmers in the country.

Harvesting, post-harvest storage and processing is important in order to assure the quality of coffee. Non-selective picking practice is common by smallholder farms which contributes to poor quality coffee regardless of whether it is wet or dry processed. In addition, sorting and grading of coffee berries before further processing is a practice that is long forgotten among most smallholders because of low net earnings, high cost of labor and lack of incentives for high quality coffees. Most of the coffee growing farmers in Ethiopia have traditional and temporary storages which have its own negative effect to maximize the quality of coffee, with implications for price, profit and income (ODI, 2009).

The conventional coffee value chain in Ethiopia involves a large number of intermediaries and is largely state-controlled. Licenses are required for every function in the market chain (Petit, 2007). The Ethiopian government issuing licenses for direct export has changed recently. The former system was exposed to rent seeking and political control and did not offer an inducement for quality. Coffee deliveries for export markets have adversely been affected by lack of price incentives to farmers, fluctuation of production supply due to climatic variations and unstable prices (ECX, 2009).

According to the Ministry of Agriculture (2013), the Ethiopian coffee sector faces persistent challenges. The major ones include very low quality control, the deficiency of a strong coffee seed supply system, inadequate consideration to the input credit provision for efficiency and quality enhancement, and lack of strong vision and path in order to support the coffee sector. Limited use of enhanced technology; land degradation and population pressure; limited access to inputs such as fertilizer, seeds, credit and irrigation; and high costs of quality coffee production and processing are also mentioned as the major challenges of the coffee sector of the country (Taye, 2013).

According to Jim and Ruth (2012), the challenges to the coffee sector in Ethiopia looked devastating. They pointed out the constraints as low and inconsistent coffee quality due to poor processing; regulation of export sales through a national auction that mixed coffees from different places into a single portion and forbidden cupping earlier to sales; coffee cooperatives were technically and institutionally weak; loan capitals for production, processing and marketing investments in were absent; and lack of international market demand understanding leads to focus on quantity rather than quality.

Despite the challenges, there are several opportunities of the coffee sector in Ethiopia. The country has fertile soil, optimum temperatures, sufficient rainfall and suitable altitude for coffee production. It has diverse agro-ecology and climatic conditions, genetic biodiversity and sole distinctive characters of quality coffee. Fine specialty coffee can be produced and supplied sustainably, with producing potentially all the various types of coffee in world coffee cultivating origins. Ethiopia has an ordinary benefit in organic coffee markets as over 90% of coffee production is de facto organic (Mekuria et al. 2004).

Moreover, Ethiopia is the only producer of natural forest coffee Arabica, providing scope for shade-grown coffees sale, for instance, through the certification of Rainforest Alliance. The government’s decision to allow cooperatives to directly export is significant because it opened a potentially new channel of value chain for export of coffee (USAID, 2010). Positive image of the country as origin of coffee and a strong indigenous coffee culture, well established coffee brand, prospective for expansion of volume and quality coffee due to existence of adequate land and low-cost labour, high commitment of government and favourable policy environment are among the major opportunities of the coffee sector in Ethiopia (Ministry of Trade, 2013).