Ethiopian Coffee: Challenges and Opportunities

Ethiopian Coffee Export Conference
8 – 9 November 2012
Addis Ababa, Ethiopia

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Head of Operations

SUMMARY

1. Key demand trends
2. Key consumption trends
3. Challenges to the coffee sector in Ethiopia
4. Opportunities for the coffee sector in Ethiopia
Production in Africa
Crop years 1980/81 to 2011/12

% share of Africa & Ethiopia in world production
Coffee years 1980/81 to 2011/12

International Coffee Organization
## Africa: Coffee Production
(Averages in thousand bags)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL AFRICA</td>
<td>19888</td>
<td>16078</td>
<td>15372</td>
<td>15712</td>
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<tr>
<td>Ethiopia</td>
<td>3128</td>
<td>2973</td>
<td>4904</td>
<td>6450</td>
</tr>
<tr>
<td>Uganda</td>
<td>2724</td>
<td>2811</td>
<td>2924</td>
<td>3002</td>
</tr>
<tr>
<td>Côte d'Ivoire</td>
<td>4338</td>
<td>3448</td>
<td>2692</td>
<td>1291</td>
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<td>Cameroon</td>
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<td>1022</td>
<td>821</td>
<td>845</td>
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<tr>
<td>Tanzania</td>
<td>875</td>
<td>779</td>
<td>796</td>
<td>686</td>
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<tr>
<td>Congo, D.R.</td>
<td>1610</td>
<td>1019</td>
<td>383</td>
<td>681</td>
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<td>Kenya</td>
<td>1726</td>
<td>1377</td>
<td>766</td>
<td>669</td>
</tr>
<tr>
<td>Madagascar</td>
<td>1092</td>
<td>780</td>
<td>490</td>
<td>566</td>
</tr>
<tr>
<td>Others</td>
<td>2625</td>
<td>1868</td>
<td>1597</td>
<td>1522</td>
</tr>
</tbody>
</table>

International Coffee Organization

## Africa: Coffee Exports
(Averages in thousand bags)

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL AFRICA</td>
<td>16664</td>
<td>14636</td>
<td>11546</td>
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<tr>
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<td>2769</td>
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<td>Ethiopia</td>
<td>1370</td>
<td>1481</td>
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<tr>
<td>Côte d'Ivoire</td>
<td>3806</td>
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<td>2393</td>
<td>1311</td>
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<tr>
<td>Tanzania</td>
<td>851</td>
<td>783</td>
<td>766</td>
<td>709</td>
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<tr>
<td>Kenya</td>
<td>1631</td>
<td>1363</td>
<td>747</td>
<td>661</td>
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<tr>
<td>Cameroon</td>
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<td>Guinea</td>
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<td>123</td>
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<td>Burundi</td>
<td>508</td>
<td>483</td>
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<td>304</td>
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<td>Rwanda</td>
<td>594</td>
<td>336</td>
<td>303</td>
<td>254</td>
</tr>
<tr>
<td>Others</td>
<td>3755</td>
<td>2193</td>
<td>793</td>
<td>683</td>
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</tbody>
</table>

International Coffee Organization
World Coffee Consumption
2001 – 2011
(In thousand bags)

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2011</th>
<th>% change</th>
<th>Absolute change</th>
<th>Average annual growth rate</th>
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</thead>
<tbody>
<tr>
<td><strong>WORLD TOTAL</strong></td>
<td>109 581</td>
<td>139 000</td>
<td>26.8%</td>
<td>29 419</td>
<td>2.4%</td>
</tr>
<tr>
<td><strong>Exporting countries</strong></td>
<td>27 799</td>
<td>42 435</td>
<td>52.6%</td>
<td>14 636</td>
<td>4.3%</td>
</tr>
<tr>
<td><strong>Traditional markets</strong></td>
<td>64 300</td>
<td>70 799</td>
<td>10.1%</td>
<td>6 499</td>
<td>1.0%</td>
</tr>
<tr>
<td><strong>Emerging markets</strong></td>
<td>17 482</td>
<td>25 766</td>
<td>47.4%</td>
<td>8 285</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

Key Trends: Traditional Markets

- Quality: specialty coffee “revolution”
- Innovation: single-serve machines; RTD etc.
- Sustainability: certification/verification
  - Fairtrade / Rainforest Alliance / Utz Certified / 4Cs / organic / others
- Strong competition from other beverages (water, juices, tea, energy drinks etc.)
Key Trends: Emerging Markets & Producing Countries

- Rising income levels
- Aspirational values
- Large populations
- Affordability
  - Soluble
  - “3-in-1”
- Marketing
  - Generic promotion
  - Coffee and health

World Consumption Outlook
(1970 to 2020)
Challenges (1)

1. Structural challenges:
   - Lack of competitiveness (low yields & productivity);
   - Poor access to market & long supply chain;
   - Lack of infrastructure;
   - Inadequate access to services (particularly financial services, risk management etc.);
   - Low value addition; and
   - Inadequate technology transfer & research (coffee genome, conservation, biodiversity etc.).

Challenges (2)

2. Policy environment:
   - Low levels of public investment in agriculture;
   - Disengagement of the state in production & marketing activities;
   - Liberalisation/agricultural reforms historically poorly executed; and
   - Weak institutional framework in many countries.
Challenges (3)

3. Sustainability:

- Adaptation and mitigation to climate change (and other adverse weather events)
- Conservation of biodiversity
- Social sustainability: empower women and attract youth
- Competition for land (subsistence farming, biofuels)

Price paid to growers as % of export value
Calendar years 2000 - 2011

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Opportunities (1)

The Ethiopian coffee sector has bright prospects:

- The country has suitable altitude, ample rainfall, optimum temperatures, appropriate planting materials, low labour costs and fertile soil.
- The country can sustainably produce and supply fine specialty coffee, with potential of producing all coffee types of the various world coffee growing origins.

Opportunities (2)

Grounds for optimism:

- Strong potential to increase supply capacity/yields (transfer of technology)
- Promote value addition
  - Differentiation through brand awareness (e.g. Yirgacheffe, Sidamo etc.)
  - Importance of traceability
Opportunities (3)

Create an enabling policy environment:

- Support agricultural research and development
- Improve access to price risk management tools
- Sustainable development
- Promote a strong institutional framework to better coordinate policy
- Macroeconomic policy

Exchange rate of Ethiopian birr to US$

Monthly averages 2000 - 2012
Opportunities (4)

Stimulate local consumption:

- Ethiopia is not only the birthplace, an important producer, and a leading exporter of Arabica coffee, but also a heavy consumer.
- Ethiopians are the highest coffee consumers in Africa.
- Coffee is strongly ingrained in Ethiopian culture ("coffee ceremony").

Thank you

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Executive Director