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ETHIOPIA COFFEE INDUSTRY VALUE CHAIN ANALYSIS

PROFILING THE ACTORS, THEIR INTERACTIONS, COSTS, CONSTRAINTS AND OPPORTUNITIES

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1.0 Introduction

The birthplace of coffee, Ethiopia is home to some of the finest coffees in the world. Ethiopia is currently the top African coffee exporter and ranked sixth in the global market. Ethiopia exported 170,888 tons of coffee and earned $525.2 million during June/July 2007/08 period compared with 176,390 tons worth $424.2 million in 2006/07.

Coffee generates 70 percent of Ethiopia's foreign exchange earnings and provides livelihoods for 15 million Ethiopian smallholder farmers. The coffee economy employs several hundred thousand workers in processing either red cherry *(key eshet)* or dried pulp coffee (*jenfel)* in hundreds of washing stations and hulling mills around the country.

Government institutions are responsible for the state coffee plantations with approximately 8000 permanent employees and an estimated 50,000 casual jobs annually. Coffee generates a considerable number of jobs on-farm, in the processing plants and in the transport sector. In Ethiopia, coffee constitutes a very important source of casual employment for many poor people and most agro-processing employees are women.

2.0 Production

Ethiopia is home to some two thousand indigenous strains or cultivars of coffee and research has found 24 formal varieties of Arabica coffee. This is unique relative to other coffee producer countries where the coffee plant was introduced much later with much less genetic variety.

Ethiopian coffee is cultivated in four distinct production systems. *Forest Coffee* is self-sown and grown naturally wild under full forest coverage mainly in south-western Ethiopia, representing a tenth of total production. *Semi-forest Coffee,* also grown under forest canopy in the same region has limited human intervention, and accounts for a third of total production. *Garden Coffee* refers to the bulk of Ethiopian coffee (more than 50 percent). Grown by smallholder farmers it is inter-cropped with cereals, fruits, and vegetables, mainly in the southern and eastern regions. Finally, *Plantation Coffee* is grown on large state-owned or commercial farms, representing 5 percent of production. This cultivation system combined with the genetic wealth results in the production of a diversity of coffees, many with the potential to qualify as specialty coffees, by millions of smallscale producers. Coffee in other producer countries in contrast, is mainly plantation or estate cultivated, with fewer varieties, and thus more homogenous.

Agrisystems (2001) estimates the number of coffee farmers in Ethiopia at 1.3 million. With an assumed family size of six to seven people, the number of Ethiopians associated with coffee growing can be as large as 7–8 million. Moreover, coffee is labor-intensive during harvesting and processing, and provides an important source of income from casual labor for poor, rural populations. Adding those employed in transporting coffee and ancillary activities, LMC (2000, 2003) estimates that 15 million people are involved in the industry in one way or the other.

Each *woreda* (district) is classified as a major, medium and minor coffee grower based on the area coverage of coffee trees (FDRE 2003a;). Coffee production is concentrated mainly in

the Oromiya and the Southern Nations, Nationalities and People's Region (SNNPR). Major and medium growing *woredas* contain an estimated 800,000 coffee farmers with approximately 520,000ha under coffee cultivation, of which 63.3 percent is in Oromiya, 35.9 percent in SNPP and 0.8 per cent in Gambella. Smallholder producers are responsible for about 95 percent of production, while state-owned plantations account for 4.4 percent and private investor plantations 0.6 per cent (FDRE 2003a).

Yields are considered to be very low compared to other countries, with estimates of less than 200 kg per ha for forest coffee and around 450–750 kg per ha for semi-modern coffee plantations (FDRE 2003a). Most coffee farmers do not use fertilizers, pesticides or herbicides (LMC 2000).

An accurate estimate of production is difficult because part of the harvest is gathered from semi-wild and wild forests, and a good proportion of the crop is consumed on-farm or locally (Agrisystems, 2001). Most recent ICO estimates suggest that over the past five years annual production has fluctuated between 2.8 and 5 million (60 kg) bags (ICO statistical database), while the United States Department of Agriculture forecasts a harvest of 5.5 million bags in 2006/7 (USDA 2006).

Table A below shows the trends in production. Ethiopia produces nearly 6 million bags (1 bag = 60 kg) of coffee annually. Over 55% of the coffee produced in Ethiopia today is prepared for export. Given the rising demand for coffee worldwide, Ethiopian coffee production has grown at a compound annual rate of 10% from 2003 to 2007.

Table A: Ethiopian Coffee Production, Consumption and Export 2002/03 to 2006/07

Coffee Season	2002/03	2003/4	2004/05	2005/6	2006/07
Domestic Consumption	105,639.00	127,601.00	109,980.00	109,980.00	167,590.00
Exports	126,801.00	146,479.00	130,200.00	124,980.00	176,390.00
Total Production	232,440.00	274,080.00	240,180.00	234,960.00	343,980.00

Source: Ministry of Agriculture and Rural Development, Customs of Ethiopia, and The Africa Group Research, May 28, 2009

2.1 Production Constraints

Historically, it has been more expensive to produce coffee in Ethiopia than in any other region of the world[1]. Indexed against the US dollar, producing one ton of coffee in Ethiopia is 93% more expensive than in Brazil.

The constraints most commonly referred to include:

- Due in large part to the growing arrangements discussed above, yields in forest, semi-forest, and garden arrangements have lower yields and are therefore more expensive to produce than other major coffee producing nations.
- The high incidence of Coffee Berry Disease (CBD), with an estimated 50–60% of production potentially at risk.
- The shortage of improved cultivars adapted to different localities.

[1] Ethiopian Coffee: Brewing a recovery, The Africa Group Research, May 28, 2009

- Poor harvest and post-harvest practices reducing coffee quality, and weak linkages between research, extension services and producers.
- Lack of accurate and topical data considerably reduces the scope for informed analysis and the diverse taste profiles of Ethiopian coffees are not fully reflected in the current national classification system.
- Environmental degradation is a serious concern, with rates of deforestation estimated at 10,000 ha/year in the coffee growing areas of the south-western parts of Ethiopia, threatening its coffee genetic resources (Gole 2003).
- Quality losses also occur in poor post-harvest on-farm processing, including weak storage infrastructure and contamination with other products.

3.0 Internal Coffee Trading

Primary coffee collectors (‘*sebsabies*’) are locally licensed coffee traders that purchase coffee from individual farmers. They play an essential role of bringing coffee from very remote areas to the market. They have no warehouses of their own and therefore immediately transfer the coffee to suppliers/ wholesalers (‘*akrabies*’). There are currently over 2,291 legal collectors in Ethiopia.

Suppliers/wholesalers acquire red coffee cherries from collectors or producers and process their coffee before bringing it to auction. They are not allowed to export on their own account. Some have storage facilities as well as their own hullers or pulperies. Currently there are over 1,068 *akrabies* in the country.

Service Cooperatives (primary societies) made up of different local peasant associations play an important role in organizing farmers. Many cooperatives own washing stations and warehouses. Currently, there are four cooperative unions (Oromia, Yirgacheffe, Sidama and Kaffa Coffee Farmers Cooperative Unions). From 2001, they obtained a concession to bypass the auction and export coffee directly to overseas buyers. Their main functions are to assist in developing producer/buyer linkages (by facilitating organic and fair trade certification, for example), to export members’ coffee directly, provide warehouse and transport services, promote high-quality coffee production, and provide saving and credit services as well as training and education programs for members.

Founded in June 1999, **Oromia Coffee Farmers Cooperative Union (OCFCU),** is represents 22,734 farmers from 34 cooperatives that produce around 16,000 tons of coffee. Infrastructure includes 32, pulperies, 3 hulleries, and warehouse capacity of 9,550 tons. **Sidama Coffee Farmers Cooperative Union (SCFCU), f**ounded in July 2001, comprises 39 primary cooperatives representing 82,275, farmers producing around 35,000 tons of coffee (60% washed). SCFCU owns 89 pulperies, one huller and has a warehouse capacity of 5,000 tons. **Yirgacheffe Coffee Farmers Cooperative Union (YCFCU), f**ounded in July 2002 by 21 primary cooperative members representing 42,065 coffee farmers and has 46 pulperies, 4 coffee hullers and warehouse space for 4,600 tons. **Kaffa Forest Coffee Farmers Cooperative Union (KFCFCU), f**ounded in March 2004 by 26 primary cooperative members representing 6,032 coffee farmers.

4.0 Primary Processing

4.1.1 Wet Processing

Once the cherries are harvested, they are immediately pulped, fermented in tanks and then finally washed in clean water to remove the mucilage. The wet parchment coffee obtained is then dried in the sun on raised tables and sorted at 11.5 % moisture content (IFPRI 2003).

Currently there are more than 637 washing stations with a combined capacity of 102,200 tons per year. Estate coffee farms own 32, the 4 farmers' cooperatives own 169 and the private sector owns the balance of 406.

Historically, over 90% of Ethiopian coffee was sun-dried. However, since washed coffee sells at significant premiums over sun-dried coffee, the government has encouraged cooperatives and traders to invest in machinery to raise the output of washed coffee (LMC 2003). In 1980-81, washed coffee was only 9.1 per cent of total coffee exports; by 2004-5, it equaled 32.7% (FDRE 2006).

Farmers' groups, cooperatives, non-governmental organizations, private individuals and government farms are involved at the higher level and mainly own coffee washing stations and hand pulpers.

4.2 Dry Processing

After harvesting, coffee cherries are processed by either dry or wet processing. For unwashed Arabica (or sun-dried coffee), the cherries are dried on mats, concrete, or cement floors immediately after they have been picked. After drying to a moisture content of about 11.5%, the outer layer of the cherries is removed by hulling and the green bean obtained is ready for marketing.

Ethiopia has over 488 sun-dried coffee processing plants with a combined capacity of over 273,000 tons per annum. In the Oromiya region they are 273, in Southern Nation 113 and in Gambella, two. Since the liberalization of the coffee processing, the private sector accounts for roughly 68% of the milling capacity, farmers' cooperatives 15% and estates 17%.

Smallholder producers mainly use sun drying methods for coffee processing and a few use hand pulpers to semi-wash their coffee.

4.3 Constraints

- Coffee is dried on the ground due to the farmers' inability to construct drying beds because the costs of erecting them are too high.

- Many smallholder farmers do not own or have access to hand pulpers. The washing stations are also few and the average distances to nearest pulpers or washing station is roughly two kilometers. This raises the transports costs and hinders immediate processing, a key requirement for wet processed coffee.

- High levels of river pollution are also a major problem near coffee pulping and washing stations (Agrisystems 2001).

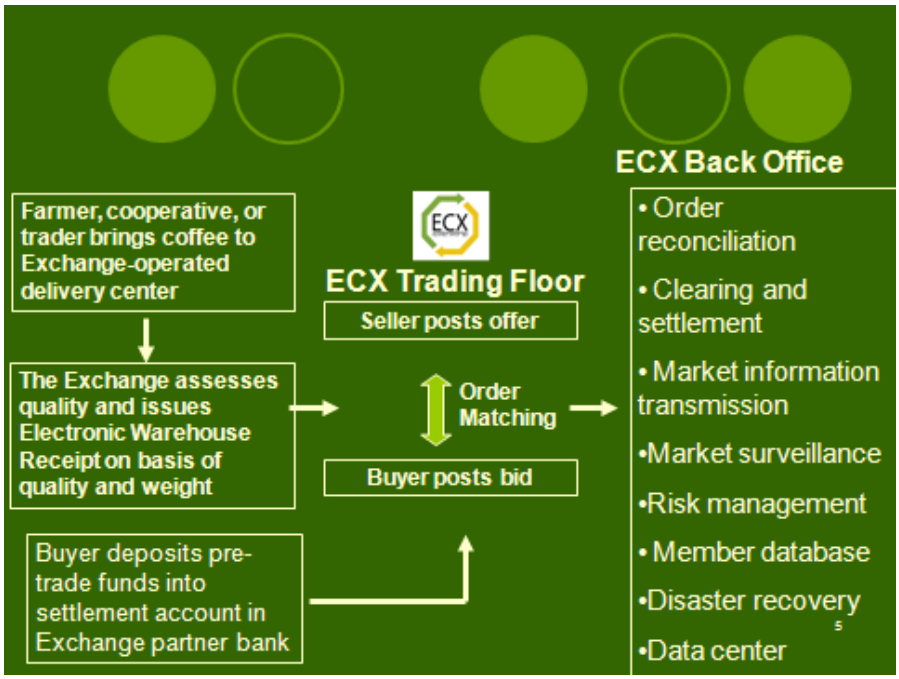
5.0 Ethiopian Commodity Exchange

Coffee marketing in Ethiopia has undergone several transformations over the decades. Recent initiatives to increase value and benefit the coffee sector include fair trade certification by cooperatives, organic and specialty coffee promotion, and the trade-marking and licensing initiatives that has successfully established international branding of three of Ethiopia's major coffee types: Sidamo, Yirgachefe, and Harar. In July 2008, a new law (Proclamation 702/2008) and the supporting regulation issued by the Council of Ministers replaced the existing coffee quality control and marketing legislation governing the sector for the past nearly four decades. The law stipulates that all supply coffees, with the exception of grower direct exports, are to be traded in the newly established Ethiopia Commodity Exchange (ECX).

Small farmers sell to local merchants, who in turn sell to distributors and collectors who export through the ECX. Cooperative farms sell directly to the ECX and capture margins that would otherwise be captured by merchants and collectors. Prior to listing on the exchange, coffee producers must submit coffee to the coffee inspection centers for grading and consolidation through mills/warehouses. The government's goal is to standardize coffee by region (Harar, Sidamo) and grade (1-9) rather than regionally or locally specialized produce. This enables buyers to source a standard region at a standard grade, and trade for a set price on the ECX.

Ethiopia Commodity Exchange (ECX), a modern trading system based on standard coffee contracts establishes standard parameters for coffee grades, transaction size, payment and delivery, and trading order matching, while, at the same time, preserving the origins and types of coffee as distinct. Unlike the existing auction trading system, quality control is undertaken in liquoring and inspection units located in the major coffee producing areas and the coffee is then weighed and inventoried in ECX operated warehouses. Trade is thus on the basis of warehouse receipts issued to the depositor rather than on sample basis. ECX manages a Central Depository of electronic warehouse receipts, removing the risks of paper loss or fraud.

Figure A: How the Ethiopian Coffee Exchange Works



ECX quality certification is based on a modification of the existing quality grading system, with a new coffee classification based on coffee classes, types, and grades. The two processing classes are washed, unwashed, and types are determined according to regional and sub-regional origins. The original set of grades was expanded from five grade distinctions to nine. ECX inventory management is based on a non-identity preserved, first-in-first-out system, in which coffee is stocked by classification rather than by identity of the depositor. Moreover, quality and quantity are certified both at initial deposit by the depositor and at delivery (pick-up) by the buyer.

Trading can only occur on the basis of warehouse receipts and can only be conducted by registered members of the Exchange, trading either for themselves or on behalf of clients. The trading platform is an open outcry competitive bidding system, with a trading floor in Addis Ababa and sequential trading sessions according to different classes and types of coffee.

Trades are entered into a data system and order reconciliation is undertaken automatically to ensure the validity of the trade. Following reconciliation, at the end of each trading session, the ECX Clearing and Settlement system automatically undertakes a netting exercise to determine net obligations of members after multiple buy and sell trades and then proceed to settle all trades through an electronic interface with partner settlement banks in which all Members are required to hold accounts and to make pre-trade deposits. This ensures a zero default system.

At settlement, which occurs within less than a day of trade, the warehouse receipt title is transferred to the buyer and the buyer can take the delivery. Prices of traded coffee are transmitted in real time (in less than five seconds) to a number of data outlets: electronic display boards in regional towns and rural centers, instant mobile messaging, websites– and at the end of trading day– to radio, TV, and print media.

The coffee cooperative unions were established and strengthened to buy, consolidate and market cooperative supplied coffee internationally. In the supply chain model they would be the lead firms in the local value chain. As of the end of 2005, cooperatives had formed four coffee unions owned and directed by the member cooperatives. Altogether there were 154 cooperatives in the four unions with nearly 180,000 farmer members. The Oromia Coffee Cooperative was established in June 1999 but the other three, Sidama, Yirgacheffe and Kafa Forest Coffee Unions, were established with direct support by ACDI/VOCA under Agriculture Commodity Exchange for Africa (ACE). All received capacity building assistance. A listing of the types of assistance provided is set out below.

5.1 Constraints

- Exporters must seek out quality in the auction and are not able work with producers and processors at the farm level to build quality.
- Traceability, which is becoming increasingly important for organic coffee and EU regulations, is not feasible in the present Ethiopian auction system. The rigidity of the auction and export processes —including the inability of buyers to taste the coffee in advance of sales— creates a highly inefficient marketing chain.

- Local consumer demand for the higher quality export beans has created an illicit market that yields higher profits than exporting, albeit in local currency.

6.0 Exports

6.1 Volume and Grades of Exports

ECX has over 450 registered buyers/exporters that are members of the exchange with licenses to bid for and export coffee. Unlike other producing countries in the region, Ethiopia does not allow multinational companies (MNCs) to register as exporters. Daviron and Ponte(2005, 108) suggest that 'as a result of the absence of MNC competition at the auction level, the industry is much more locally controlled than elsewhere in Africa'.

Table B below shows the exports by for period 2004/05 to 2008/2009 season. Over the period the washed coffees exported average at 30%.

Table B: Coffee Exports by Grades 2004/05 to 2008/2009 [Metric Tons]

Coffee Type	2004/05	%	2005/06	%	2006/07	%	2007/08	%	2008/09	%
UNWASHED	**97,341**	**63**	**111,995**	**72**	**122,445**	**73**	**104,634**	**66**	**101,497**	**76**
Djimma 5	37,732	25	40,244	26	51,061	30.4	41,809	26.5	32,099	24
Lekempt	30,726	20	33,664	21.5	34,440	20.5	26,621	17	34,180	26
Sidamo 4	19,012	12	18,768	12	17,665	10.5	15,536	10	9,181	7
Harrar 4 & 5	9,871	6	15,612	10	13,800	8.3	10,040	6	12,539	9
Others			3,707	2.5	5,480	3.3	10,629	6.5	13,499	10
WASHED	**56,227**	**37**	**44,424**	**28**	**45,259**	**27**	**52,939**	**34**	**32,149**	**24**
Sidamo 2	31,944	21	25,334	16	26,769	16	34,180	22	17,610	13
Limu 2	5,059	3	4,872	3	3,386	2	4,269	3	3,330	2.5
Yirgachefe 2	8,638	6	6,804	4.2	6,950	4	6,917	4	4,985	3.8
Tepi 2	1,278	1	750	0.5	1,035	0.6	1,370	1	415	0.3
Bebeka 2	471	0.3	490	0.3	288	0.3	666	0.4	510	0.4
Others	8,837	5.7	6,174	4	6,830	4.1	5,536	3.6	5,299	4
Grand Total	**153,568**		**156,419**		**167,704**		**157,573**		**133,646**	

Source: Ministry of Agriculture and Rural Development, Customs of Ethiopia

6.2 Destination

Table C shows importers of Ethiopian coffee. Germany, Japan and Saudi Arabia are the largest importers followed by Belgium. The US, Italy and France also import significant quantities. It is worth noting that in 2008-09, exports to Japan fell drastically due to pesticide-related issues that prompted Japan to suspend importation of Ethiopian coffees.

Table C: Coffee Exports Destination 2003/04 to 2008/09 (Metric Tons)

Country/Season	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Germany	37,479	55,246	39,346	46,138	39,739	42,172
Japan	34,958	32,648	35,162	29,893	29,460	944
Saudi Arabia	17,832	14,226	23,504	22,819	26,871	25,935
France	10,091	7,519	8,740	8,755	5,646	5,290
Italy	5,972	8,154	7,389	8,054	8,239	7,121
U.S. America	6,743	9,753	13,888	11,939	19,426	9,449
Belgium	13,104	9,625	11,496	17,865	16,057	10,946
Others	17,299	16,395	16,890	22,228	12,135	32,135
Total	143,478	153,566	156,415	167,691	157,573	133,992

Source: Ministry of Agriculture and Rural Development, Customs of Ethiopia

6.3 Constraints

Japanese import restrictions: the Japanese placed restrictions on importing coffee from Ethiopia due to high traces of pesticide residue on beans. Japan is currently considering lifting this import ban. Japanese pesticide requirements are 100 times stricter than US requirements. The chemical contamination has been blamed on bags imported from Bangladesh. Japanese buyers purchase over 20% of the Ethiopian exports.

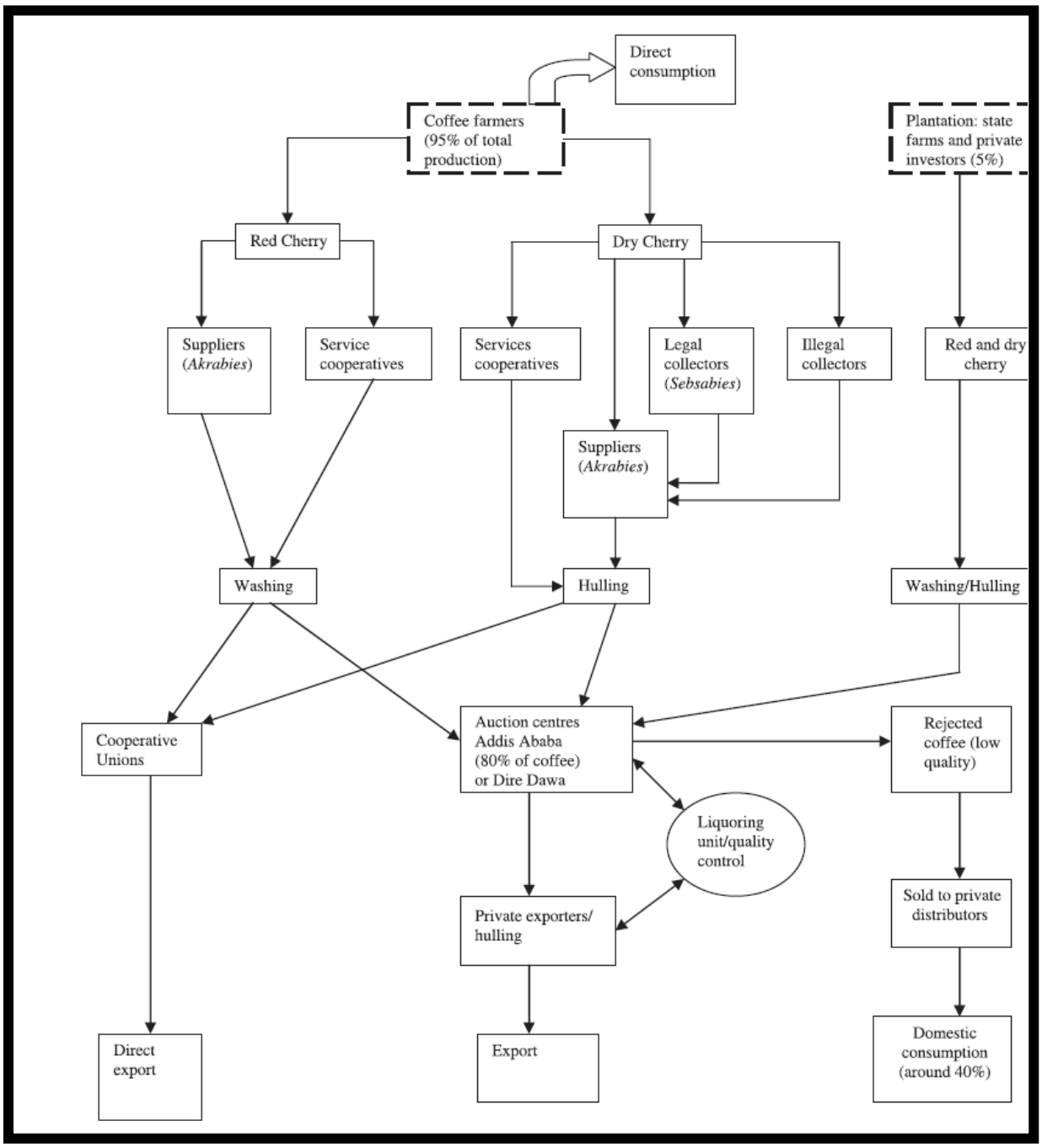
Ethiopian Commodity Exchange: in a dual-purpose strategy, the Ethiopian government mandated all coffee exported to be traded through the ECX. In August 2008, the Ethiopian government established through the "New Coffee Law," or "Coffee Quality Control and Marketing Proclamation" to control all exportation of coffee through the ECX, aiming to both drive volumes through the exchange and control rampant under the table manipulation of commodity prices. The legislation calls for the aggregation of all beans by region produced which threatens demand of specialty coffee.

Quality is also eroded during the marketing phase by adulteration of coffee origins as well as improper bagging and storage practices. For this reason, Ethiopia's export coffee does not have deliverable grade status on the international coffee market (New York), which requires maintenance of a consistent and relatively high quality set of coffees which would be priced with a constant differential to the New York price. Thus, despite its status as a relatively important producer country, Ethiopia is unique in not having acquired this status, in contrast to most producing countries.

7.0 Ethiopia Value Chain Participants

Figure B illustrates the domestic coffee value chain from farm gate to export. Market participants are numerous and include smallholder coffee farmers or state farms, primary collectors (' *sebsabies* '), suppliers ('*akrabies* '), processors, service cooperatives, unions, exporters and various government institutions. Many participants are required to have specific licenses for their respective functions. For example, *sebsabies* have to sell to *akrabies* and *akrabies* are required to deliver their coffee to the auction and are not permitted to export it. Finally, exporters are permitted to buy coffee exclusively from the auction (LMC2003).

Figure B: Ethiopian Domestic Coffee Supply Value Chain Participants Interactions



Deliveries which do not meet export standards are rejected and redirected for the domestic market. Ethiopia, along with Brazil, is one of the only producing countries with a strong coffee-drinking culture. A large proportion of coffee consumption in Ethiopia is on-farm, which makes levels of consumption difficult to assess (LMC 2003). The ICO estimate for local consumption in 2005 was 1.83 million (60 kg) bags, more than 40 per cent of production (ICO statistical database).

8.0 Ethiopia Arabica Coffee Value Chain Costs

Table D: Washed Arabica Coffee Supply Value Chain Costs in US$ 2007/2008 – Smallholder

Cost Lines	**US$**	
Variable Production Cost per Kg (green equivalent)	**1.06**	
Sub-total	$1.06	
Yield/ha/year Kg [Small Holder/Cooperatives]		
Total cost/kg of green	**$1.06**	
Average farm gate price/kg of green	**$2.16**	**54 %**
Coffee grower's margin/kg of green	$1.10	
Gross income/ha/year	$970.87	
Net income/ha/year	$494.40	
Collectors/Suppliers' Costs and Margin US$/Kg		
Transport	0.0107	
Other costs (income tax, local drying material, etc)	0.0051	
Sub-total Collectors/Suppliers' Costs US$/Kg	**0.0158**	
Collectors/Suppliers' Margin	***0.024***	
Price of Red Cherry - green equivalent at washing mills	**2.20**	
Wet Mill Costs US$/Kg		
Labour, Salary and other operation costs	0.2578	
Fuel Costs	0.0040	
Maintenance and repairs	0.0356	
Other costs (income tax, local drying material, etc)	0.0289	
Sub-total Wet Mill Costs US$/Kg	**0.326**	
Millers' Margin	***0.362***	
Auction Price/kg	**$2.89**	**73 %**
Exporters' Costs		
Transport , Clearing, Warehouse, Milling, finance Costs, etc]	$0.58824	
Total Exporter costs	**$0.5882**	
Exporters' Margin	$0.49993	
Export price US$/kg [Average export price for Washed Arabica]	**$3.9733**	

Source: Primary Coffee Processing in Ethiopia: Richard Musebe & Charles Agwanda 2007; Crisis in the Birthplace of Coffee: Oxfam International Research Paper and Interviews of selected stakeholders in Ethiopia by Author (ACA)

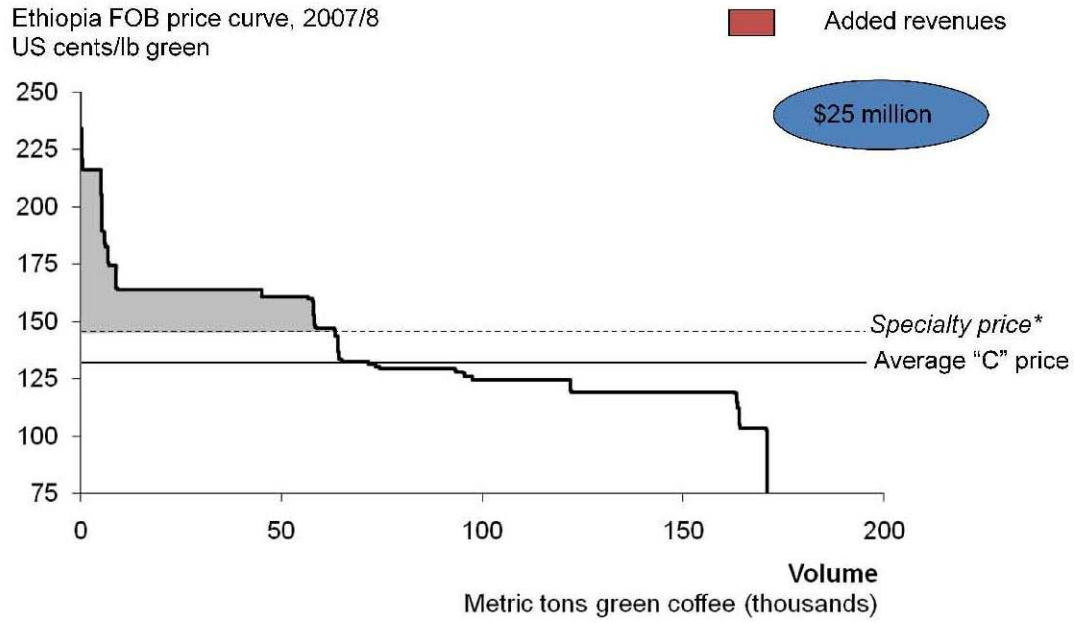
9.0 Opportunities in the Ethiopia Coffee Industry

9.1 Volumes for Specialty Coffee

Ethiopia has a natural abundance of indigenous coffee varieties, numbering in the thousands and bred over millennia of natural and human cultivation. This makes Ethiopia the recognized home of specialty coffee, where more market differentiation exists than possibly anywhere on the planet. It can be said that Ethiopia is endowed with a "specialty advantage'.

As shown below, an estimation of value premium over New York City prices (with a minimum threshold of $1.48/lb to qualify as specialty) would enable Ethiopia to add $25 million to export earnings with an estimated volume of 50,000 tons of specialty out of a total production of 285,000 tons in 2007/08.

Figure C: Estimated Additional Export Revenue from 20% Specialty Share



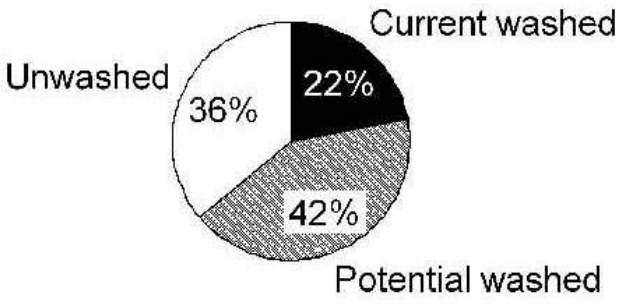
Source: TechnoServe

More importantly, estimates of the potential to increase the volume of specialty coffee suggest that up to two-thirds of Ethiopian coffee can be qualified as specialty. An identified critical factor to unlocking the specialty advantage is through increasing washing stations and thereby increasing the share of washed coffee exports.

As shown in the figure below, if the share of washed coffee increases, there is potential for two-thirds of Ethiopian coffee to be specialty. Added to this is the possibility of organic or rainforest certification for top quality sundried coffee, capturing up to 80% of exports as specialty.

At the 2007/08 production levels of roughly 300,000 tons, 60% (180,000 tons) of which are exports would represent 144,000 tons of specialty coffee. This would place Ethiopia in the range of 2 million bags of specialty annually, and position Ethiopia as among the global leaders in the specialty market.

Figure D: Ethiopia's Potential to Double Washed Coffee Volume



Source: TechnoServe

The financial impact, even at the same production levels, is significant. In value terms, as shown in the table E below, moving from 20% to 50% specialty share—achievable even with the current number of washing stations– represents an increase of 11% above 2007/08 export values. Increasing specialty export share to 80% would increase export revenue by 21%. A 10% increase in export volume (either through increasing production or through moving more production into exports) increases export earnings by 34% above 2007/08 value, as shown in the table E below.

Table E: Scenarios of Export Revenue (USD) With Different Specialty Shares, Using Base 2007/08

	20% share Specialty	50% share Specialty	80% share Specialty	80% share and 10% export increase
Commercial coffee export earnings (assumed USD 1.3/lb)	391,248,000	244,530,000	97,812,000	107,593,200
Specialty coffee export earnings (assumed USD 1.8/lb)	135,432,000	338,580,000	541,728,000	595,900,800
Total export revenue	526,680,000	583,110,000	639,540,000	703,494,000
% change		11%	21%	34%

Source: computed.

9.2 Sustainable Coffees

The potential of sustainable coffees in Ethiopia also deserves particular attention because of their increasing popularity. For example, Ethiopia has a natural advantage in markets for organic coffee as more than 90% of production is *de facto* organic (Mekuria et al. 2004). Moreover, it is the only country that produces natural forest Arabica coffee, providing scope for the sale of shade-grown coffees, for example, through the Rainforest Alliance certification.

These niche coffee market opportunities can be exploited by Ethiopian cooperative producers at a significant competitive advantage. International buyers pay premiums for these certifications. Certifications are an important demand opportunity to achieve higher prices as well as increased sales. Moreover, demand for certifications is strongest when the

quality of the coffee is high. The price impacts have proved to be most significant for certifications. For example, Fairtrade coffee was fetching almost double the market price during the depths of the coffee crisis from 2001 through late 2003.

9.3 Opportunities for Increased Efficiency

The government's decision to allow cooperatives to directly export is significant because it opened a potentially new value chain channel for coffee export. The institutions and structures of that channel were missing in some cases, but the potential for increased efficiency was enormous. This new value chain stands in stark contrast to the rigid and narrow auction system that other private sector operators in Ethiopia must use for export.

10.0 Conclusions and the Way Forward

- There is a need to increase f national production volumes through extensification (new plantings) and/or intensification (higher productivity), improving quality and increasing the proportion of coffees selling at significant premiums (i.e. washed coffee, semi-washed coffee or differentiated/certified coffees.

- Group ownership of processing facilities should be encouraged. Provision of credit facilities for purchase of washing stations would address current shortages of wet processing facilities that force farmers to walk long distances and thus discourage wet processing.

- Standardization of beans stabilized the wildly variable pricing schemes in Columbia and made it a more attractive and efficient market to do business. Ultimately, the Columbia exercise enabled higher bean prices across the country and today Columbia has the highest yield per acre while still commanding a market premium. There is ample opportunity for Ethiopia to mirror Columbia's success. With standardization and government regulation, yields and efficiencies should rise. Ethiopia is one of the most expensive places to produce and has one of the lowest yields. Small innovations will afford large gains for Ethiopia.

- Regardless of the origin of the problem of the pesticides in the coffee export bags, the government should ensure more comprehensive chemical testing to provide assurances to buyers and prevent future incidents like the current Japanese import ban due to traces of DDT in the coffee bags.

- For Ethiopia to move into the 2 million-bag specialty bracket the following is required: a) create incentives to invest in washing stations and to improve the across b) create a platform in the ECX for discovering quality and other attributes of specialty coffee and capturing the associated market value through a mechanism that enables direct or traceable trade between specialty coffee producers and the international market.