

Impacts of the COVID-19 crisis on coffee value chains in Ethiopia

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Highlights

1. In the first half of April, coffee trade on the Ethiopian Coffee Exchange (ECX) declined by about 30% compared to the same period in previous years. This seems explained by lower supplies to the market - by farmers as well as traders - as well as by more bypassing of the Exchange.
2. Local and international prices are diverging. This increasing wedge is seemingly driven by higher logistical and administrative costs due to the COVID-19 crisis. For example, transport costs have significantly increased in the last months, by about 15% for local transport and 70% for international transport.
3. While international prices did not decrease, ECX prices did. Consequently, farmgate prices for cherries are down as well, compared to last month by about 20% and last year by almost 10%.

Introduction

Coffee production has a very important place in Ethiopia's economy. It is estimated that coffee is cultivated by over 5 million farmers in the country and comprises an important source of livelihood for a large number of often-poor producers (smallholder farmers produce 95 percent of Ethiopia's coffee). Moreover, coffee is Ethiopia's most important export crop, typically making up a quarter to a third of the country's export earnings, but a significant part of its coffee production is also consumed locally.

To understand the effects of the COVID-19 crisis on the coffee sector in Ethiopia, we conducted a rapid qualitative appraisal of the coffee value chain. Between April 5th and 20th, we interviewed coffee farmers, millers, traders, and exporters. Given that this assessment was done based on a limited and non-representative number of interviews, caution is warranted for extrapolation of our observations. They should be seen more as hypotheses of impacts of COVID-19 on coffee value chains. We also assessed movements in coffee prices and quantities procured in the last months by the Ethiopian Commodity Exchange (ECX), the platform that a significant part of Ethiopia's coffee is traded on.

Export and local consumption

It seems that there is an important downturn in demand, for local as well as export coffee. Locally, the restrictions on social gatherings are reducing the demand at homes and in coffee shops. Internationally, the International Coffee Organization (ICO) estimates that for every 1% drop in global GDP, [there is a 0.95% drop in coffee consumption](#). It is increasingly becoming clear that global GDP growth will be significantly affected by the COVID-19 crisis. For example, IMF recently projected that [global GDP will decline by 3% in 2020](#) and that [more than 170 countries will experience negative per capita income growth this year](#). Hence, international coffee consumption is expected to decline. While some stakeholders estimate that commodity grade coffee will be less affected (as people will keep buying coffee in supermarkets in western countries, even during lockdowns), specialty coffee – often consumed in coffee shops – however will likely see a big decrease.

Due to the reduced local and export demand, compounded with global uncertainty, export prices and trading activity are on the decline in Ethiopia. Some traders active at the Ethiopian Commodity Exchange (ECX) stated that there are fewer orders from importing countries. Even for the existing orders, the

shipment dates are often extended by mutual consent between exporting and importing (from Ethiopia) companies. Moreover, it has also been reported that some importing firms in western countries are hesitating to honor the contract. Other western importers on the other hand often demand more urgent shipments. As a support to exporters, the Ethiopian government has waived fines and costs associated with 'Letter of Credit' - such letters are widely used in international trade to assure an economic guarantee from a bank to an exporter - contract extensions

Logistics and marketing

It seems that logistical issues linked to the COVID-19 crisis are creating extra costs in the coffee marketing system. The logistical and administrative issues mentioned in our stakeholders' interviews were the following:

- a. There is less access to transportation (from the ECX warehouse to the exporter's warehouse, often in Addis; from Addis to Djibouti; and from the Djibouti-Ethiopian border to the port in Djibouti). Shortages are apparently driven by fear of contracting the COVID-19 by truck owners and drivers. However, most traders indicated that some transport services were still available, though with a lower number of vehicles.
- b. Transport costs are going up quickly. Key informants stated that the transportation cost of a container from Addis Ababa to Djibouti has increased from about 15,000-17,000 birr at the beginning of March to about 25,000-30,000 birr in end of April. Local transport costs, from mills to ECX warehouses or to Addis, have increased as well in the last month but to a lesser extent, by about 15% (based on estimates from four key informants).
- c. Djibouti has a relatively high number of COVID-19 cases, pushing the government to take measures to address its further spread. In line with this, there were incidences that truck drivers that ship coffee from Ethiopia to the Djibouti port had to be quarantined for 14 days during which the shipments were blocked. This quarantine requirement creates delays and additional costs (e.g., more truck shipment costs, moisture loss, and other associated costs). Even if the quarantine requirement is not widespread, it might increase uncertainty, often associated with higher margins.
- d. Getting the [necessary and cumbersome paperwork](#) done is more complicated as many government and private offices operate in less than full capacity.

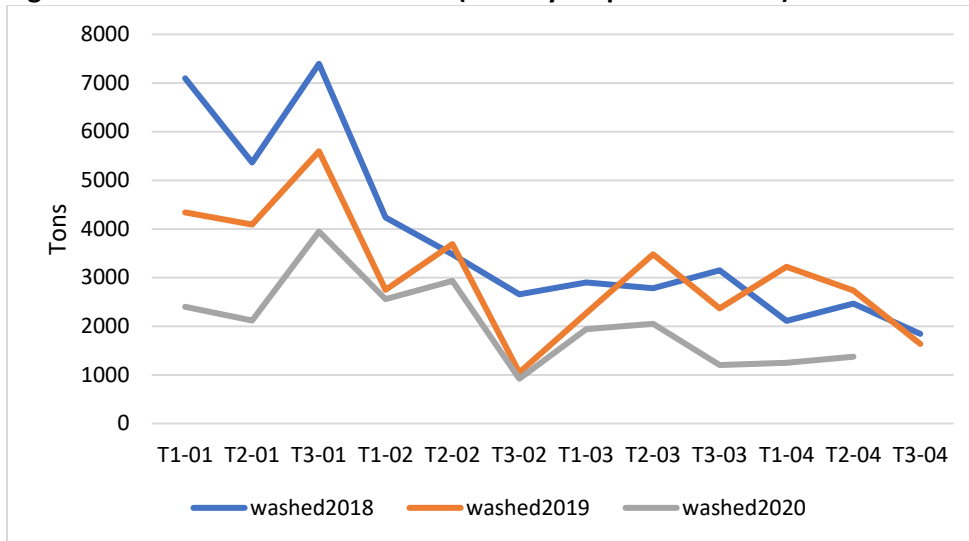
As Ethiopia is a price taker in international markets (as their coffee supply is too small to influence international prices), these extra hurdles seemingly lead to higher local marketing costs, and therefore relatively lower prices for farmers. However, as [international prices for coffee were relatively high at the end of last year](#) and [these prices are typically \(but imperfectly\) transmitted to Ethiopian farmers](#), coffee cherry prices might therefore still have been relatively good compared to previous seasons.

Marketing of coffee on the ECX

One-third of the coffee exported from Ethiopia is typically washed coffee while two-third is unwashed natural coffee. In the case of washed coffee, red cherries are harvested and then need to be processed immediately in washing stations. Farmers have mostly sold the red cherries in November and December 2019 and they seemingly enjoyed the high price at the end of last year. While global coffee prices spiked during the last harvest season, they fell back rapidly in January. That benefited farmers as washing

station owners paid higher prices in anticipation of higher prices, but many washing station owners may not have benefited from the price rally as it was short-lived. Not all washed coffee has been exported. The graph below shows to what extent trade in washed coffee has been significantly below those in the two previous years. This lower quantity is especially clear – compared to last year – from March onwards. It is important to note that this not all COVID-19 related as the government allowed coffee to be sold outside the ECX since 2018 and increasing volumes are therefore being sold outside ECX, explaining the drop in trade over time.

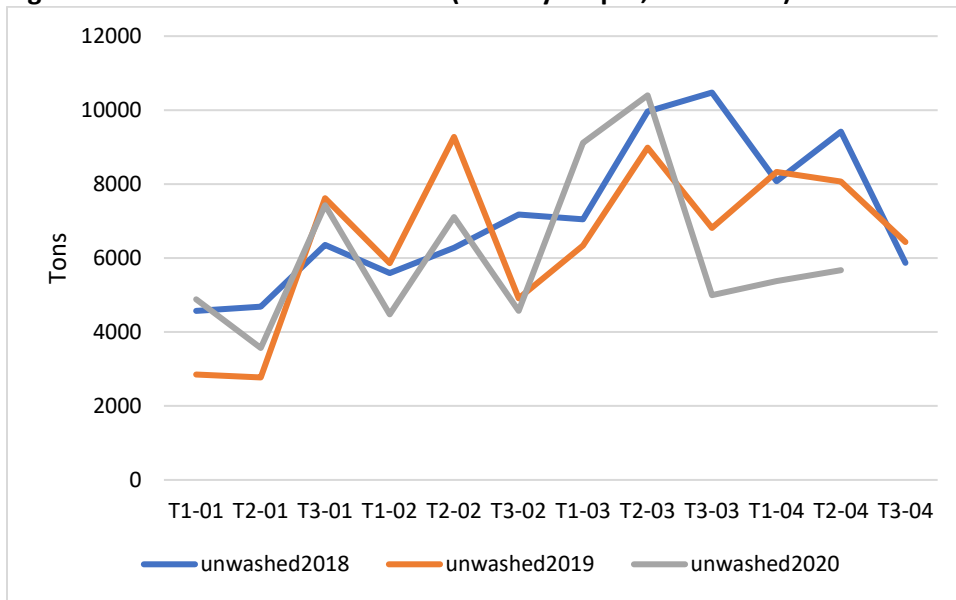
Figure 1: ECX trade in washed coffee (January – April 2018-2020)



Note: Source: data ECX; T1 (days 1-10) T2(days 11-20); T3 (days 21-30)

[The months from March to May are typically the peak season of exports for natural coffee.](#) Natural coffee exporters’ warehouses are normally full, and exporters are busy purchasing, cleaning and processing, and doing deals for exporting. However, due to the COVID-19 crisis, there is significantly less trade taking place compared to previous years (see graph below). A number of exporters reported they sit idle and while they could lay-off the daily laborers, they are however obliged to pay their permanent employees (as required under the recent State of Emergency) and also bear other costs, often linked to longer storage. However, not only COVID-19 issues are causing delays in sales. The Ethiopian Coffee and Tea Authority (ECTA) has imposed minimum prices this year, contributing to delays in sales as the ECTA minimum price might have been set too high initially and exporters are waiting for an adjustment in this minimum price.

Figure 2: ECX trade in natural coffee (January – April, 2018-2020)



Note: Source: data ECX; T1 (days 1-10) T2(days 11-20); T3 (days 21-30)

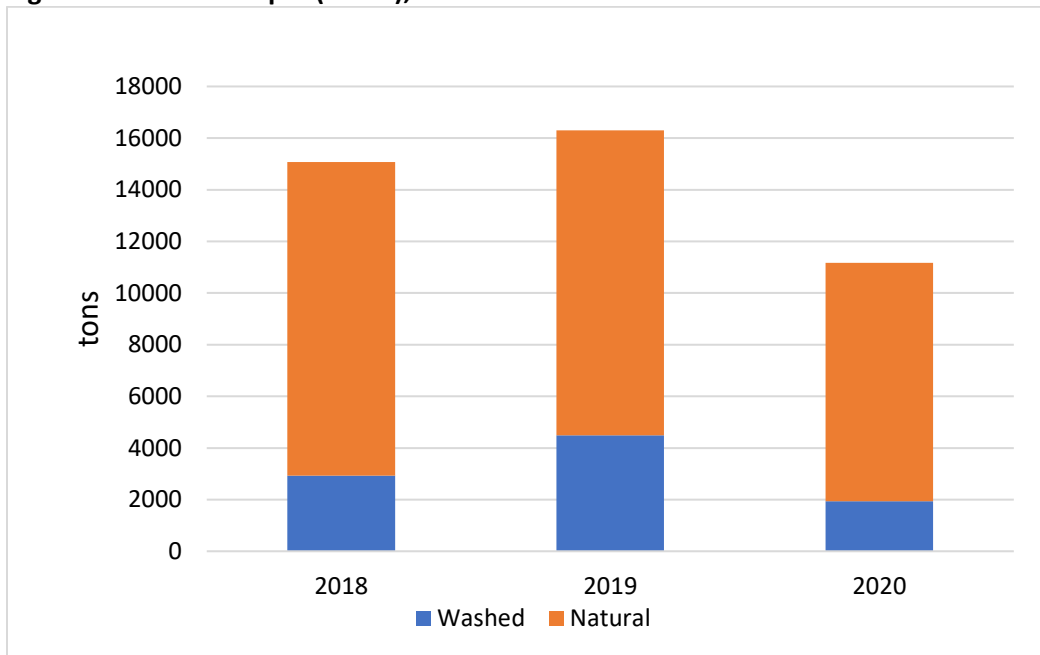
Adding total quantities of natural and washed coffee, we saw during the first 15-days of April in 2020 a decline in coffee trade compared to 2019 and 2018 by 32% and 26% respectively (Figure 3 below). There has been a drop in coffee trade for a number of reasons linked with the pandemic:

- a. Offices important for coffee transactions, such as the Ministry of Agriculture offices and ECX warehouses, are working below their capacity as some of their staff stay at home, delaying transactions.¹
- b. Warehouses of some of the exporters and unions are closed, due to fear of the pandemic.
- c. Some owners of mills and cooperatives are reluctant to transport coffee because of ongoing uncertainties in policies and exports.
- d. Exporters are reluctant to buy given the uncertainties in the international environment.
- e. The informal coffee export trade is becoming more important as the government control bodies are relatively weaker because of the pandemic.

On the other hand, not everything is linked to covid-19. Some stakeholders also mentioned increasing insecurity, especially in the west of the country, as a major deterrent for coffee trade.

¹ The ECX has reduced the number of coffee sessions for trading. In accordance with physical distancing, ECX has grouped coffee ECX traders into two: 'group A' and 'group B'. Accordingly, unlike the pre-COVID 19 period where traders were allowed to participate 5 days a week, now each group is only allowed to participate 2 days a week. The ECX staff are also working in shifts.

Figure 3: ECX trade April (1-15th), 2018-2020

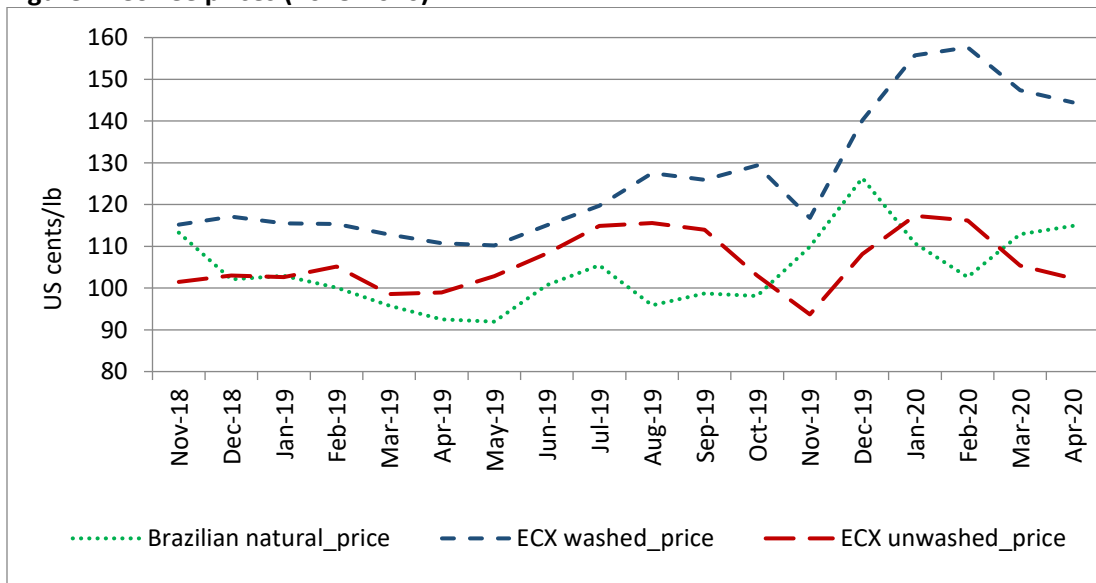


Source: data ECX

Pricing

Coffee prices in Ethiopia markets have not been in complete sync with international prices due to a number of reasons, most importantly due [to exchange rate policies and foreign exchange shortages](#) and [lack of liquidity at banks](#) in the beginning of the year. These disruptions have especially started in the middle of last year (see Figure 4 below). However, movements up or down in international markets are usually followed after a lag of a month on the ECX platform.

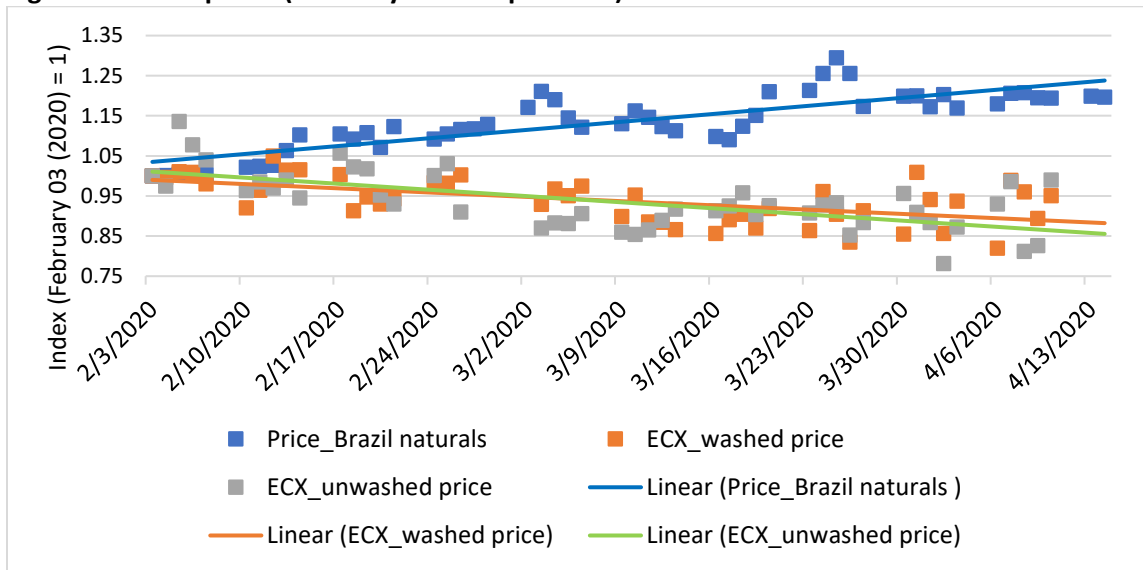
Figure 4: Coffee prices (2018-2020)



Source: data ECX and ICO

Most recently (i.e. the last two months, the period since COVID-19 related shocks started influencing international markets), we see international and local prices in Ethiopia diverging. Figure 5 below illustrates that while prices for Brazilian naturals - a price setter for Ethiopian coffees, as they are rather similar in quality and taste - have been increasing in the two last months by about 20%, prices have been on the decline on the ECX for washed as well as natural coffee. Such divergence might possibly be linked to the increasing costs in logistical and marketing systems.

Figure 5: Coffee prices (February 2020 - April 2020)



Source: data ECX

The months from March to May are also peak months for the transaction of dry cherries by coffee farmers. The farmers were expecting good prices, similar to those seen for the red cherries' season. However, farmgate prices are clearly down. Based on 9 price observations from different coffee producing areas, prices were down by approximately 10 percent compared to the same period last year and by almost 20 percent compared to a month ago. Moreover, traders are reluctant to buy given the significant volatility and a downturn in the international market. At primary marketing centers in coffee producing areas, less coffee is seemingly marketed as gatherings of more than 4 people is prohibited by the emergency law and farmers are therefore hesitant to travel to these markets, postponing sales to later.

Implications

These findings on Ethiopia's coffee value chains have a number of implications:

- a. Foreign exchange earnings from coffee are important during this part of the year. However, as the peak is now happening later (or not at all) than in previous years, there will likely be a shortage of foreign exchange earnings linked with this in the next months.
- b. Reduced trade leads to a reduction in employment in coffee-related business such as processing, transportation, and trading, and workers in those business - often relying on daily wages - will not be able to make a proper living.

- c. Dried cherries are typically used [as a savings mechanism for coffee farmers](#) to help them get over the difficult lean season and therefore coffee incomes [help to improve their food security status](#). Given lower level of sales, coffee might not be able to play that role anymore, likely leading to hardship for a number of the poorer farmers.
- d. Some of the coffee farmers will have lower income and will be pushed to distress sales for some of their coffee and as some of the income is typically used to buy inputs for next production year, often for other crops than coffee, this might possibly jeopardize some of next crop harvests.

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