ETHIOPIAN COFFEE INDUSTRY: Overcoming Difficulties

By Larry Luxner

Ethiopia, the undisputed birthplace of Arabica coffee, hopes better marketing will boost worldwide exports of its quality coffee and improve living standards in one of the poorest countries on Earth.

With over 60 million people, Ethiopia is now the third-most populous nation in Africa after Nigeria and Egypt. Its bustling capital city, Addis Ababa, is home to the Organization of African Unity, and its 435,000 square miles of territory encompass majestic waterfalls, burning deserts and ancient Christian ruins.

But years of Marxist dictatorship and a devastating border conflict with neighboring Eritrea have taken their toll on the country. Even though Ethiopia is no longer Communist or at war with its neighbors, its annual per-capita income of only $120 makes it one of the ten most impoverished nations in the world.

Under leftist leader Mengistu Haile Mariam, who overthrew Emperor Haile Selassie and abolished the monarchy in 1975, Ethiopia bolstered its ties with the Soviet bloc and let its relations with the U.S. deteriorate. Famine ravaged the country in the mid-1980s, resulting in the deaths of an estimated one million people. After the fall of the Mengistu regime in 1991, a transitional government was set up, leading to Ethiopia’s first multiparty general elections in 1995. Since then, the country has enjoyed relative democracy, and most private companies, including coffee exporters, are free to conduct their business without interference from government authorities.

“The outlook is certainly more positive now than it was before,” says Tshanda Kalombo, a U.S. Commerce Department official who specializes in African affairs. “The country is getting a lot of interest from the investment community. Some of that stopped when the conflict began. Before that, Ethiopia was seen as one of the most promising countries in Africa. Then all of a sudden they went to war with Eritrea-sort of a nonsensical conflict-and got lumped together with the basket cases of Africa.”

 In mid-December, Ethiopia and Eritrea signed a long-awaited peace treaty, ending two years of bloodshed. Even so, the country’s problems are enormous. According to the World Bank, average life expectancy in Ethiopia is 43 years, and the literacy rate is only 37%.

Despite efforts to diversify its economy, Ethiopia is still highly dependent on agricultural exports. Coffee, which accounts for 65% of the country’s export earnings, has been battered for the past two years not only by the war with Eritrea, but also by low world commodity prices. During two weeks of traveling throughout Ethiopia and neighboring Djibouti, Tea & Coffee Trade Journal spoke with numerous officials-both inside and outside the coffee sector-to get a sense of where the industry is headed. We began with a visit to the Coffee Processing & Warehouse Enterprise, a sprawling factory building which is owned by the government and ranks as the largest single processor of coffee in Ethiopia.

On the day of our visit, workers in a parking lot in front of the processing plant were loading up dozens of trucks with coffee sacks for the long 10-hour trip to the port of Djibouti, 500 miles to the east (see sidebar). Near the entrance was a huge covered area housing three production lines, each with the capacity to process five tons of coffee an hour, and with a storage capacity of 30,000 tons. The machines were operated by men in a meticulously clean control room.

In another, much smaller, room, professional tasters Elias Getahun and Fantu Bezabhe were cupping various varieties of Ethiopian coffees, including Harar, Wollega, Limu and Yirgacheffee, gathered at random from the day’s production.

And in a vast area next to the warehouse, hundreds of women-many of them with colorful shawls wrapped around their heads-sat at long conveyor belts, sorting green coffee beans. “The women start at 8 a.m. and work until 5 p.m. with one hour for lunch,” said company official Tadele Dargie, dressed in a long white lab coat. “They earn about 5 birr a day (roughly 60 cents at current exchange rates), though permanent workers get 500 birr per month ($60.50) on average.”

All told, about 1,000 people work in this huge complex, which processes about 42% of the 120,000 metric tons of coffee Ethiopia exports annually.

 According to Tsegaye Berhane, general manager of Ethiopia’s Coffee & Tea Authority, the country has over 400,000 hectares of coffee under cultivation, divided into several main growing areas. The largest of these areas is south and west of Addis Ababa, near the country’s border with Sudan.

Coffee, which has been cultivated in Ethiopia for over 2,000 years, derives its name from the Kaffa region of Ethiopia where the coffee plant is believed to have originated. Known in the Amharic language as buna, the coffee plant was introduced to Yemen by either the Ethiopians or the Persians sometime between 575 and 850 A.D. From there, it was introduced by Yemeni traders to Java (now Indonesia) in 1690, to India in 1700, to Holland in 1706 and to South America-most likely French Guyana-around 1715.

Ethiopia, which had been growing coffee as a commodity crop for the past 500 years, recorded its first export in 1838 via the port of Massawa. In the 19th century, two coffee types were exported as first- and second-grade varieties to London, Marseilles, New York and Trieste: Harari (coffee produced in the Harar region) and Abyssinia (coffee from other areas). Today, Ethiopia ranks as Africa’s No. 3 coffee exporter after Cote d’Ivoire and Uganda.

In 1998, the last year for which accurate export statistics were available, Ethiopia’s top coffee customer was Germany, which purchased 40,011 tons, or 32% of all exports. In second place was Japan (21,173 tons, or 17%), followed by Saudi Arabia (14,393 tons, or 11.5%); United States (11,792 tons, or 9.5%); France (6,184 tons, or 5%) and Belgium (6,102 tons, or 5%). Other countries purchasing smaller amounts of Ethiopian coffee included Italy, Poland, Holland, Denmark, Spain, Hungary and Canada. Figures for 1999 and 2000 are not believed to have changed much since then. “About 65% of our foreign-exchange earnings come from coffee, and one-fourth of the population is engaged in coffee production. It’s very important for the economy,” said Berhane, who has spent 17 of his 42 years with the Coffee & Tea Authority - the last four of them as general manager. “To increase international trade competitiveness, the government has implemented far-reaching economic reforms in the coffee subsector. As a result of various market liberalization measures, the coffee industry has undergone unprecedented changes.”

Nevertheless, during the 1999-2000 season, Ethiopian coffee exports generated $259.2 million in foreign exchange, down from $275.2 million in 1998-99 and $410.8 million in 1997-98.

“This year the international market is down. We’ve also been affected by drought,” explained Berhane, who in November led a 30-member delegation to Sintercafe in Costa Rica-marking the first time Ethiopia has ever participated in this event. “We also haven’t promoted our coffee. We do have very good coffee, and a long history, but we don’t have enough funds. Kenya spends $3 million to $5 million a year on coffee promotion, and in Costa Rica, they promote, they have research, they have funding. Here, it’s different. We are trying to convince the government to give us money. My budget is only $1 million a year.” That’s evident to any visitor to the Coffee & Tea Authority’s 11-story headquarters, where paint is peeling and the elevators haven’t worked for years.

Yilma Yemane Berhan, general manager of Ethio-Coffee and Tea Development and Marketing Pvt. Ltd. Co., says the government ought to allocate more money for coffee promotion overseas. “Ethiopian coffee is well-known for its unique aroma, flavor and acidity. These are characteristics which you don’t find in any other country. This is where Arabica coffee originated,” he said. “Genetically, Ethiopia has the most diversified of coffee types-there are thousands. We have not utilized all of them; we’ve just scratched the surface of our genetic base.”

Best-known Ethiopian Coffees:

Harar: produced in the eastern highlands, at altitudes of 1,510 to 2,120 meters above sea level. The bean is medium in size, with a greenish-yellowish color. It has medium acidity and full body, and a distinctive mocha flavor. Harar is one of the highest premium coffees in the world.

Wollega (Nekempt): produced in western Ethiopia. The medium-to-bold bean is mainly known for its fruity taste. It has a greenish-brownish color, with good acidity and body. Many roasters put this flavor in their blends, though it can also be sold as an original gourmet or special-origin flavor.

Limu: known for its spicy and winey flavor, and particularly popular in Europe and the U.S. Produced at altitudes of 1,400 to 2,020 meters above sea level, it has good acidity and body, and the washed Limu is one of Ethiopia’s premium coffees. It has a medium-sized bean, and is greenish-bluish in color and mostly round in shape.

Sidamo: this variety, accounting for 30% of all Ethiopian coffee production, has a medium-sized bean, greenish-grayish in color. Sidamo washed coffee, known for its balanced taste and good flavor, is called sweet coffee. It has fine acidity and good body, and is produced in southern Ethiopia, at altitudes of between 1,400 and 2,200 meters above sea level. It is always blended for gourmet or specialty coffee.

Yirgacheffee: this has an intense flavor known as flora. The washed to pay a premium for it. Between 80% and 85% of the coffee Ethiopia exports is sun-dried, while 15% to 20% is wet-processed coffee. Since consumer preference is for wet-processed coffee, Ethiopia intends to gradually increase its capacity for that kind of processing. Currently, Yirgacheffee is one of the best highland-grown coffees, grown at altitudes of between 1,770 and 2,000 meters above sea level. It has fine acidity and rich body. Many roasters are attracted to its delicate, fine flavor.

There are more than 400 coffee-washing plants throughout the country, owned by cooperatives, former state enterprises and private companies. At full capacity, these plants can produce about 52,000 tons of washed coffee per year.

Ethiopia has two auction centers-one in Addis Ababa and one in Dire Dawa-and auctions begin precisely at 2 p.m. weekdays throughout the year. From February to April, at the peak of the season, auctions are held twice a day. The sellers and their coffee-loaded trucks come to the auction centers, where samples are taken and visual inspections of the coffee are made before the auction takes place. After the highest bidder acquires a “lot,” the truck is driven to the warehouse, where the coffee is unloaded, weighted and paid for against the price agreed at the auction. In theory at least, export is prohibited unless the Coffee & Tea Authority’s grade and cleanliness standards are met.

“Every year, export volume is increasing, and yield is going up,” says Ethio-Coffee’s Yemane. “Our farmers are now getting 5.5 to 6.0 quintales per hectare, up from 4.7 five years ago. In Kenya, where they use fertilizers, farmers can get 12 quintales. But in Ethiopia, no fertilizer is applied to coffee. It’s all organic. Every peasant uses animal dung. We want to keep our coffee as it is, natural.” Ethio-Coffee is a division of Midroc, a large Ethiopian conglomerate whose 20 or so subsidiaries extend to agribusiness, construction and tourism. Midroc also exports flowers and vegetables to Europe and owns everything from a 2,000-hectare tea plantation to the Sheraton Addis, one of Africa’s most luxurious hotels.

Recently, Midroc decided to get into the coffee business, so it launched the Gemadro Coffee Plantation Project on a 2,300-hectare tract of land in the Kaffa-Shaka Zone of southern Ethiopia.

During the 1998-99 season, Ethio-Coffee planted 310 hectares with more than a million coffee seedlings from its own nursery, and planted another 400 hectares with two million seedlings in 1999-2000, bringing the total to 710 hectares. In the 2000-01 season, the company will plant another 300 hectares, for a total of 1,010 hectares. Total investment in Gemadro is around 30 million birr ($3.6 million), and the project employs 250 regular and 650 seasonal workers.

“The company is confident that it will, in the near future, emerge as a major foreign-currency earning member of the Midroc Ethiopia Group,” says a company report. Not far from Yemani’s office in downtown Addis Ababa-and within walking distance of a huge Marxist monument given to Ethiopia in the 1970s by North Korea-is the office of Abdulrezak Sherif, managing director of Ethiopian Commodities PLC.

For the past 10 years, Sherif has also served as chairman of the Ethiopian Coffee Exporters Association, whose 83 members represent 98% of all Ethiopian coffee exports by volume. In an interview, the 50-year-old businessman expressed little nostalgia for the 1975-91 military regime-also known as the Derg-when Mengistu kept a tight rein on everything in Ethiopia, including the coffee industry. “The regime followed a Communist philosophy. They monopolized the export business,” said Sherif, whose association was forced to operate clandestinely while the Marxists were in power. “The government corporation, Ethiopian Coffee Marketing Corp., exported 95% of all coffee and private firms exported the other 5%. In 1991, the new government took power, liberalizing trade and opening the market to competitors. In the last eight years, the private companies have grown to export 90% of all coffee.”

Today, he said, there are over 100 Ethiopian coffee exporters, compared to just 17 during the Derg. The largest is Nejat International PLC, with 11% of total exports, followed by government-owned Ethiopian Coffee Export Enterprise (8% of the total) and Moplace Trading Co. Ltd. (5%). “In the last ten years, production has grown because of the liberalization,” said Sherif. “Producers are happy because they’re getting a better price at the auction. There’s no interference from the government. Quality has improved, especially Ethiopian washed coffee. It used to be 10% of the total, but now it’s 35%. Now all our export coffees are examined by cup.”

On the other hand, says Sherif, exporters aren’t thrilled with coffee prices, especially over the last two years. “Most of the suppliers don’t want to sell their coffee for export. Ethiopia consumes 50% of its coffee production, and growers get a better price if they sell locally, because there is no export tax for local consumption,” he said. “If coffee prices continue like this, we don’t know what will happen. Maybe producers will switch to other commodities.”

In 1999-2000, total exports reached 115,000 tons, of which 32,000 tons represented washed Arabica and 83,000 tons unwashed. (For sake of comparison, in Kenya the ratio is 90% washed, 10% unwashed). This is important, because washed coffee generally earns a 25-cent premium above New York C, while unwashed gets 15 cents below. Sherif cautioned that for the 2000-01 season, “we think there’ll be a reduction in volume because of drought. In Sidamo, it will drop by at least 40%, though other areas like Jima and Wellega won’t be affected as much.” Sherif, who became general manager of Ethiopian Commodities in 1981 and acquired it from parent company Cargill two years ago, says Ethiopia ought to better exploit the fact that its coffees are 100% organic-a possible marketing advantage in the U.S.

“Specialty coffee is popular worldwide, but organic is much more preferable in the last five years,” he said. “Most of our farmers are small holders, and they’re not using pesticides or fertilizers. We’re trying to certify this as organic coffee. We hope we’ll get results in a few months.” Coffee still represents a relatively small part of overall trade between Ethiopia and the U.S.-only around 10% of the $30.2 million worth of goods Ethiopia exported went to the U.S. in 1999. That compares to 1997, when exports to the U.S. had hit a high of just under $70 million.

“Trade with the U.S. isn’t much, but compared to [U.S.-Ethiopian commerce during] the Marxist regime, we can say that it has increased dramatically,” says Mohammed Yahya Garad, trade and investment counselor at the Ethiopian Embassy in Washington. “During the 1980s, there were less than 20 U.S. companies operating in Ethiopia. Today, there are over 300.” Nevertheless, Garad says his country “hasn’t done a very good job” marketing its coffee. “It’s really the power of advertising that, for example, makes Colombian coffee famous,” he said. “Roasters know that Ethiopian coffee is superior, but they can’t sell it because there’s no demand at the consumer level. We are handicapped because we’ve not approached it systematically. We’ve been too timid to spend money on advertising. We need to take a systematic approach to the marketing of Ethiopian coffee in the U.S.

“We are trying to convince the coffee exporters as well as the Coffee & Tea Authority to spend money on smaller companies that can help them with marketing,” Garad continued. “The roasters tell us we have the best coffee in the world, and that it’s a shame we can’t sell more of it.” Sherif agrees.

“When you compare Latin American countries like Brazil, Costa Rica or Colombia, they advertise their coffees in a very nice way. But we are not strong financially,” he told us. “Two years ago, the Ethiopian government established an export promotion agency to promote our agricultural products. We’re doing our best, but we haven’t done enough.”

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