

Export Potential Brief

OPPORTUNITIES FOR ETHIOPIAN COFFEE



About the brief

The Netherlands Trust Fund V (NTF V) programme's ambition is to contribute to rebuilding back better in the targeted countries with a focus on MSMEs in the digital technologies and agribusiness sectors, linking up both for synergies and business opportunities. The programme covers both sectors in Ethiopia, Ghana, and Senegal, as well as a multi-country approach aimed at the digital technologies sector in Ivory Coast, Benin, Mali, and Uganda. Through the project, ITC aims to promote more efficient and sustainable agribusiness and support services that will lead to increased trade, better incomes, and livelihood opportunities, especially for smallholder coffee farmers.

The agribusiness component of NTF V in Ethiopia is implemented through the ITC Alliances for Action (A4A) approach that seeks to build resilience and growth for farmers and small and medium enterprises through more mindful and responsible trade, production and consumption systems. A4A works as a network that promotes responsible partnerships for development and better trade and leverages investments and technical support to achieve measurable impact for smallholder farmers and MSMEs. In the framework of NTF V, A4A look beyond sustainable production to work on the enabling environment and target all steps of the coffee value chain. Digital applications are explored to increase the overall competitiveness of the agribusiness value chain as well as to scale up results and reach more partners and beneficiaries.

As part of the project, this export potential brief, prepared by the Trade and Market Intelligence (TMI) section at ITC, presents quantitative information on trade trends and export prospects of Ethiopia's coffee sector, based on the TMI tools Trade Map and Export Potential Map.

Acknowledgements

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ETHIOPIAN COFFEE EXPORTS IN THE GLOBAL MARKETS

Coffee represents 4-5% of the GDP and 10% of the agricultural production and government revenue of Ethiopia, respectively.¹ According to the USDA Foreign Agricultural Service (2022a), coffee contributes to the livelihoods of more than 15 million smallholder farmers and other actors in the country.

Largest coffee producer in the African region

In 2020, Ethiopia produced 7.4 million 60-kilogram bags or 4.3% of the world's coffee—ranking highest in Africa and 5th worldwide. For Arabica, the most consumed coffee variety in the world, the country is the 3rd largest producer globally.² The total coffee production area in the country is 1.2 million hectares, three-quarters of which is estimated to be in good condition.³ Coffee production in Ethiopia has grown steadily over the past years and, with suitable growing conditions, is forecasted to reach 7.6 million 60-kilogram bags by the end of 2022.⁴

USDA estimates that 58% of the coffee produced in Ethiopia in 2021 was for export.⁵

Comparative advantage in producing coffee

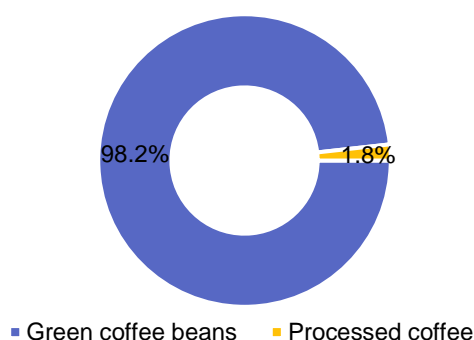
Ethiopia has a high revealed comparative advantage (RCA) in coffee, reflecting its trade competitiveness in the sector (please see the glossary for a definition of RCA).

Ideal climatic conditions, varietal diversity, and low on-farm production costs help the country maintain its edge in the global coffee market. Additionally, Ethiopia is well-positioned to transition to organic production, with 95% of the coffee being free of pesticides and fertilizers thanks to a traditionally organic cultivation system.⁶

Promising supplier of green coffee

Coffee is the primary export product of Ethiopia, accounting for \$959 million in 2021 and representing almost 30% of the country's total exports. In Africa, Ethiopia is the largest coffee exporter, followed by Uganda, Kenya, the United Republic of Tanzania, and Côte d'Ivoire — all countries primarily shipping green coffee.

Figure 1. Composition of Ethiopia's exports of coffee, by product



Note: Average for the period 2017-2021.
Source: Trade Map (2022)

On average, between 2017 and 2021, 98.2% (or \$942 million) of Ethiopia's coffee exports were green coffee beans (Figure 1).⁷ Among processed coffee products, the export value of decaffeinated coffee

¹ Hundie and Biratu (2022)

² ICO (2022b)

³ Ethiopian Coffee and Tea Authority (2018)

⁴ USDA Foreign Agricultural Service (2021)

⁵ USDA Foreign Agricultural Service (2022a)

⁶ USDA Foreign Agricultural Service (2014)

⁷ Coffee (HS 0901) can be further classified into five categories—coffee (green or HS 090111), roasted coffee (HS 090121), decaffeinated coffee (HS 090112), roasted and decaffeinated coffee (HS 090122), and coffee husks and skins (090190).

(not roasted) was \$7.3 million, followed by \$4.8 million for roasted coffee (not decaffeinated), \$3.9 million for coffee husks and skins, and \$862 thousand for roasted and decaffeinated coffee.

Roasted coffee is primarily sold domestically in most coffee-producing countries, including Ethiopia, due to its limited shelf life, special packaging requirements, and high competition with well-established brands in developed markets. For these reasons, green coffee comprises over 90% of the coffee exported from producing countries worldwide.⁸

Note: In the remainder, this brief will focus on green (HS 090111) and roasted (HS 090121) coffee.

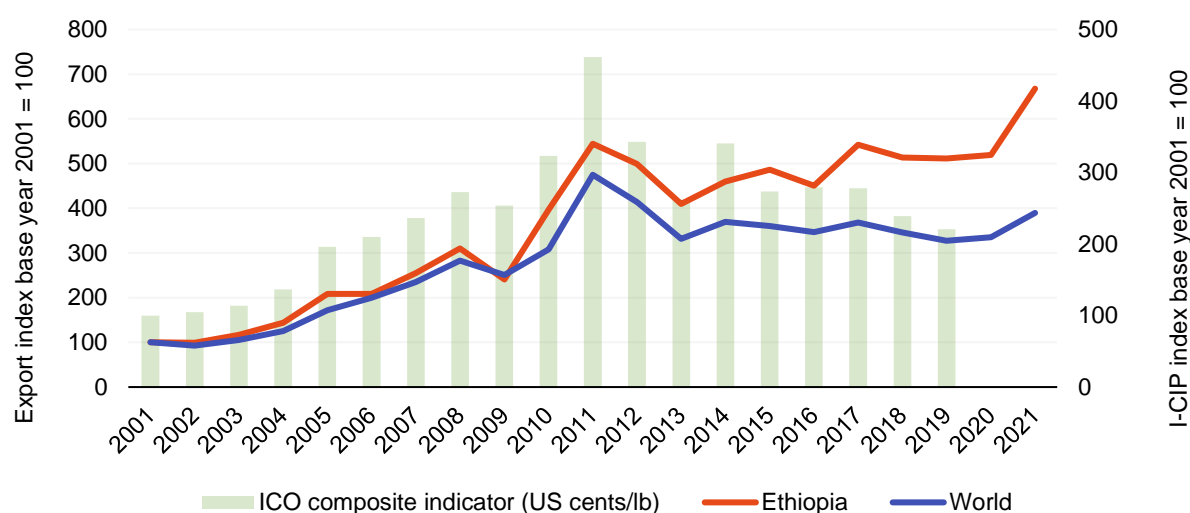
The evolution of Ethiopia as a global supplier of green and roasted coffee

Ethiopian and world exports of green coffee displayed similar trajectories in the last two decades, including hitting low points in 2009 and 2013, peaking in 2011, and registering a sharp increase after 2020—driven by the volatility in world coffee prices (Figure 2).

Fluctuating international coffee prices

Coffee prices were highest in 2011, with the value of the ICO Composite Index at 210.39 US cents per lb. The European sovereign debt crisis in 2011 resulted in a decrease in demand from Europe, one of the largest markets globally, which caused substantial drops in international coffee prices between May 2011 and December 2013. Thereafter, coffee prices marginally increased in 2014 and dropped again in the following years.⁹ The last quarter of 2021 recorded an average price of 193.27 US cents per lb—the highest in the decade.¹⁰

Figure 2. Evolution of green coffee exports, Ethiopia vs world



Note: ICO Composite Indicator Price (I-CIP) is the price calculated based on the weighted market share of coffee exports, with available annual data until 2019.

Source: Trade Map (2022)

Ethiopia's rising green coffee exports—not entirely price driven

Although both Ethiopian and world coffee export values align with the fluctuations in coffee prices, their trends differ to some extent. Ethiopian exports of green coffee have outpaced world exports, registering almost a seven-fold increase in the last twenty years. International coffee prices negatively impacted the global export values between 2011 and 2013, following which green coffee exports plateaued (growing by a net 1.1%) between 2013 and 2020.

⁸ CBI (2022)

⁹ Fairtrade Foundation (2022)

¹⁰ ICO (2022a)

In Ethiopia, green coffee exports grew by 4% annually, on average, between 2010 (\$669.5 million) and 2019 (\$862.3 million) and then stagnated between 2019 and 2020. While production increased, low export volumes and high labour and logistics costs prevailed due to the COVID-19 pandemic, the minimum export price directive instated in 2020, and the ongoing security concerns in some areas. Conversely, in 2021, in addition to the rising coffee prices, Ethiopian exports substantially increased to \$1.12 billion (28.6% year-on-year increase) due to more transparent trading, an increase in production volume (due to favourable weather conditions, minimum pest disease infections, and additional production by seedlings planted 5-10 years ago), and more export opportunities due to recurrent drought and frost in the Arabica production areas of South America.¹¹

Policy interventions such as an allowance for exporters to sell directly to foreign buyers (2017), marketing reforms (2018), the Homegrown Economic Reform Plan (2019), and the Comprehensive Ethiopian Coffee Strategy (2022) (for more details, please refer to Box 1) likely have influenced production and export patterns.

Ethiopia's roasted coffee exports have stagnated at relatively low levels

On average, between 2017 and 2021, Ethiopia exported roasted coffee worth \$4.8 million. Ethiopia's exports of roasted coffee were rather erratic over the last two decades, recording a low of \$340 thousand in 2001, peaking at \$29.5 million in 2015, falling to \$10.9 million in 2016 and further down to \$5.4 million in 2021. Apart from 2015 and 2016, Ethiopian exports have stagnated, registering significantly lower growth rates than the rest of the world.

Exceptional values in 2015 and 2016 derived from the exports to the Czech Republic in 2015 (comprising 85.3% of Ethiopia's total roasted coffee exports in that year) and to the Czech Republic and Japan in 2016 (comprising 76% of the total exports). This sudden gain in market share is likely explained by the 2015-2016 El Niño phenomenon, which affected the harvests in several traditional coffee suppliers to the Czech Republic, such as Brazil, Guatemala, Honduras, and Indonesia.

Box 1. Measures for a liberal and competitive coffee sector

Before 2017, Ethiopia was one of the few countries with a controlled coffee market, implying that all traders must pass through the Ethiopian Commodity Exchange (ECX). The change in this regulation that year meant to open new opportunities for exporters to sell identity-preserved coffee to foreign buyers directly.* The net impact on export revenues, however, highly depends on international prices and local demand.

The government has taken several steps in recent years towards strengthening exports. These include creating a certification body and a new marketing system, limiting the amount of coffee stored by exporters, improving agricultural extension services, and re-establishing the Coffee and Tea Development and Marketing Authority (CTDMA) under the Ministry of Agriculture.

In 2020, the CTDMA coordinated with the National Bank of Ethiopia to establish a directive, 'Export Coffee Contract Administration', which fixes a minimum coffee export price based on the global weighted average price assigned to different grades of coffee from various regions. This step was taken to stop coffee traders from exporting coffee at a loss to earn foreign currency, which distorted the market price of coffee (as the Ethiopian Birr (ETB) is not a convertible currency). Additionally, Ethiopia launched a state-of-the-art coffee training centre to enhance sustainability and value chain integration.

Source: USDA Reports (2014-2022)

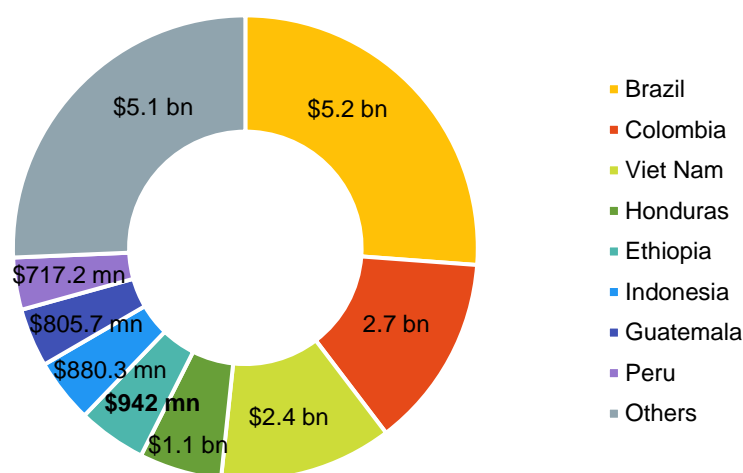
*Identity-preserved products are those marketed in a way that isolates and preserves the identity of a shipment of unique characteristics, for example, geographical origin, organic production or varietal information.

¹¹ USDA Foreign Agricultural Service (2022a)

Ethiopia's global position as an exporter of green and roasted coffee

Ethiopia ranks 5th globally for exports of green coffee, accounting for 4.8% of world exports. Brazil, Colombia, Viet Nam, and Honduras are Ethiopia's top competitors, capturing a 57.4% combined share of the global market (Figure 3). Among all exporters, Ethiopia has the highest RCA for green coffee.

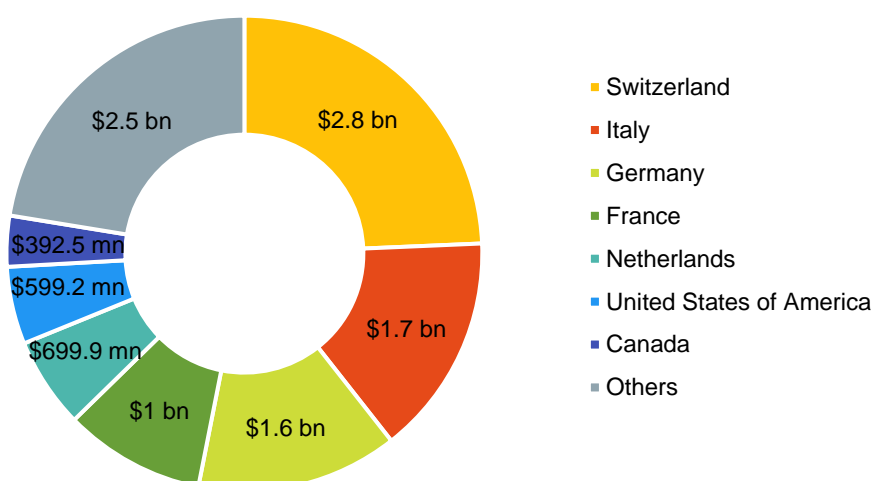
Figure 3. Top exporters of green coffee, by country



Note: Average for the period 2017-2021.
Source: Trade Map (2022)

On the other hand, Ethiopia is only the 51st largest roasted coffee exporter worldwide. Switzerland (\$2.8 billion), Italy (\$1.7 billion), Germany (\$1.6 billion), France (\$1 billion), the Netherlands (\$669.9 million), the United States (\$599.2 million), and Canada (\$392.5 million) dominate this market, together responsible for over three-quarters of world exports (Figure 4). Switzerland has the highest RCA in roasted coffee.

Figure 4. Top exporters of roasted coffee, by country



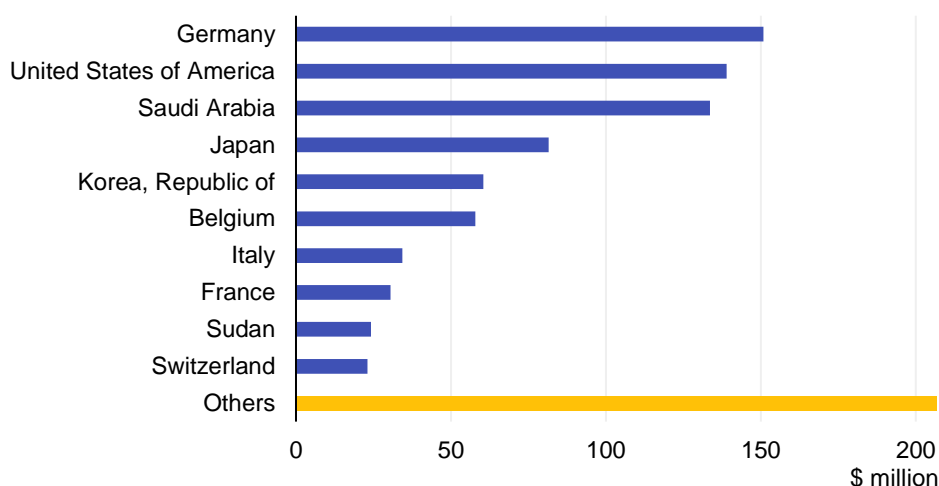
Note: Average for the period 2017-2021.
Source: Trade Map (2022)

Key destinations for Ethiopian coffee

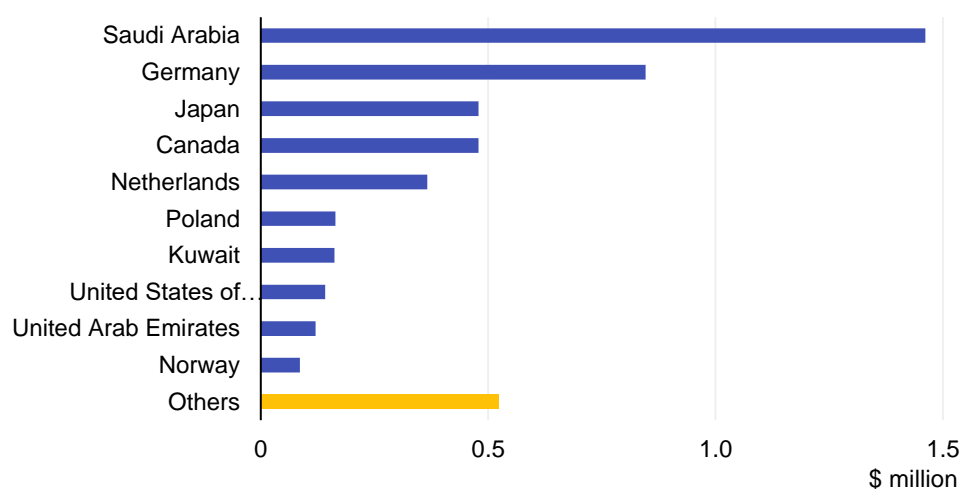
The majority of Ethiopia's exports of green coffee between 2017 and 2021 (96.5%) were directed to countries outside of Africa.¹² The main markets, Germany (\$150.8 million), the United States (\$138.9 million), Saudi Arabia (\$133.6 million), Japan (\$81.5 million), the Republic of Korea (\$60.4 million), Belgium (\$57.9 million), Italy (\$34.4 million), France (\$30.5 million), Sudan (\$24.2 million), and Switzerland (\$23.1 million) jointly accounted for 78% of Ethiopia's green coffee exports (Figure 5 (a)).

Figure 5. Key markets for Ethiopia

(a) Green coffee exports



(b) Roasted coffee exports



Note: Average for the period 2017-2021.

Source: Trade Map (2022)

Simultaneously, 97.8% of Ethiopia's exports of roasted coffee between 2017 and 2021 were destined for countries outside of Africa. Exports worth \$1.5 million and \$846 thousand went to Saudi Arabia and Germany, respectively, followed by Japan (\$479 thousand), Canada (\$478 thousand), and the Netherlands (\$366). Smaller amounts in the range of \$86 thousand to \$164 thousand reached Poland, Kuwait, the United States, the United Arab Emirates, and Norway (Figure 5 (b)).

¹² Of the \$161.4 million worth of raw coffee exported to Africa, 81% was directed to the Eastern African market.

GROWING DEMAND FOR GREEN AND ROASTED COFFEE

Global coffee production, consumption, and trade have increased consistently over the last few decades. With around 166.3 million 60-kilogram bags in 2020, coffee is one of the most consumed beverages worldwide.¹³ To keep up with the rising demand, global coffee production has increased by more than 60% (in volume) since 1990, generating an annual income of \$200 billion.¹⁴

This section disaggregates and discusses the demand for green coffee and roasted coffee in selected markets—focusing on (i) North America, the Republic of Korea, China, the Middle East, Europe, and Australia for green coffee; and (ii) Saudi Arabia, South Africa, Israel, Japan, the Republic of Korea, and China for roasted coffee.¹⁵

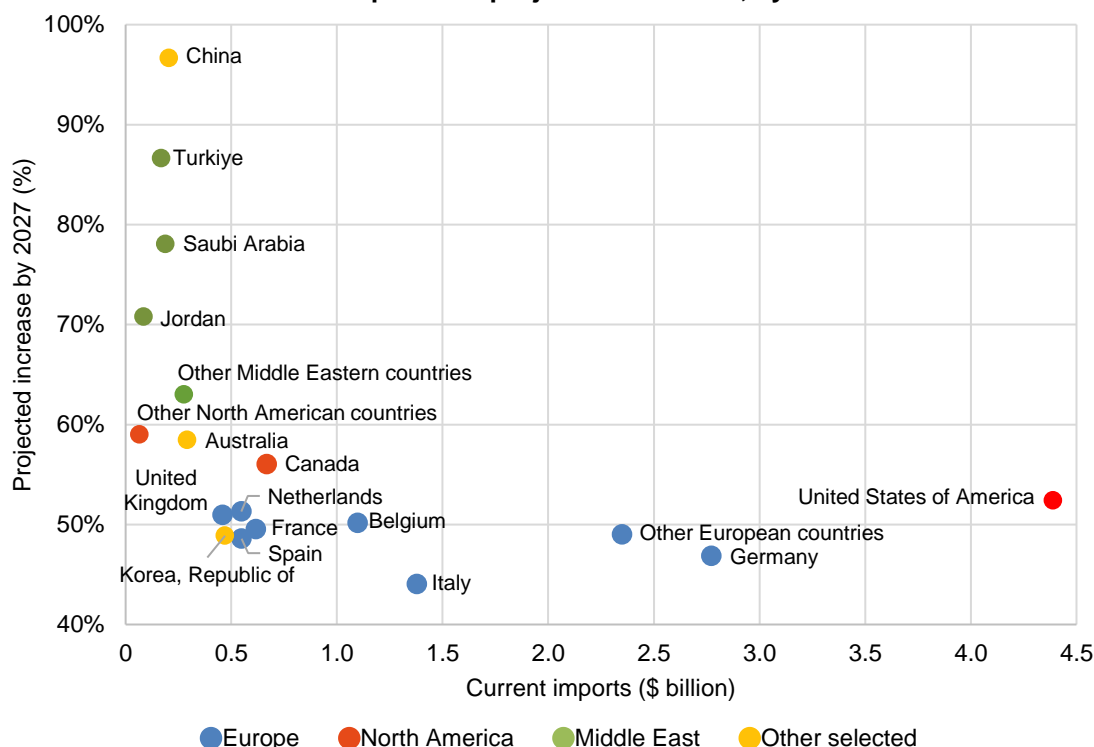
Trends in green coffee imports across the selected markets

The value of import demand is expected to reach almost \$14.5 billion for Europe, \$7.8 billion for North America, \$1.2 billion for the Middle East, \$700.7 million for the Republic of Korea, \$461.1 million for Australia, and \$401.6 million for China, in 2027.

However, on average, between 2017 and 2021, over 70% of Europe's current import demand was concentrated in Germany, Italy, Belgium, France, Spain, and the Netherlands, whereas 85.7% of North America's current demand was derived from the United States. Similarly, Saudi Arabia and Türkiye drove half of the demand from the Middle East, followed by Jordan (11.9%) and Israel (9.3%).

Figure 6 plots current imports and projected increases in imports by 2027 in the key countries of the selected markets—Europe (in blue), North America (in orange), the Middle East (in green), and other countries, namely, the Republic of Korea, Australia, and China (in yellow).

Figure 6. Green coffee current imports vs. projected increases, by selected market



Note: Average for the period 2017-2021. For a definition of projections, please see the glossary.
Source: Own estimations based on Trade Map (2022).

¹³ ICO (2022c)

¹⁴ ICO (2020)

¹⁵ The selection of the markets is based on project requirements. These markets are referred to as the 'selected markets' throughout the brief. The complete list is available in Appendix I.

Europe and North America remain key markets for global exports of green coffee throughout the period (2017-2027) due to the strong demand for raw coffee beans to be further processed locally into roasted and instant coffee. Additionally, the demand for green coffee extract in North America is growing across the fitness industry to manufacture functional food and beverages.¹⁶ Overall, most countries in these regions will see a growth in import demand of around 50% by 2027.

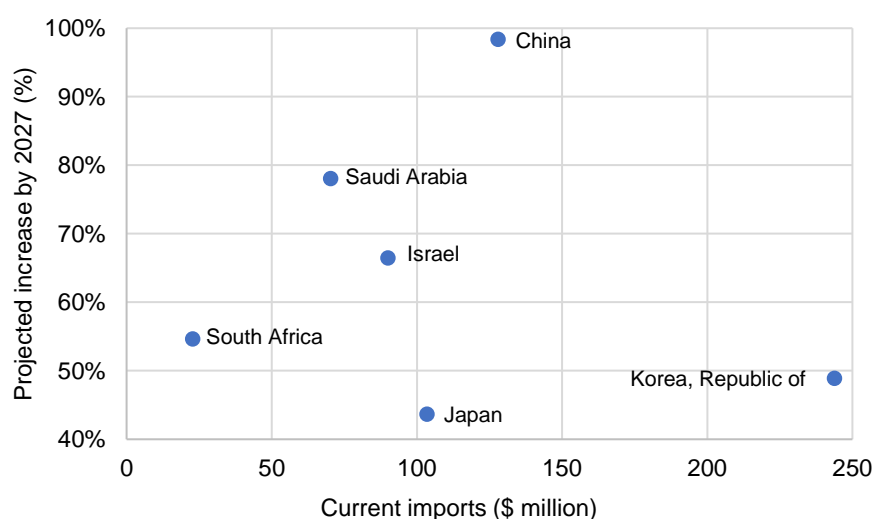
China and the Middle East, however, are catching up, registering the highest projected increases of 97% and 73%, respectively, reflecting their growing coffee consumption. Already between 2018 and 2020, coffee consumption in China increased by 140%.¹⁷ Simultaneously, the coffee market of the Middle East flourished due to the young generation's preference for speciality coffee and the recent relaxation of a regulation requiring coffee businesses to segregate their male and female customers in one of the fastest growing markets in the region, Saudi Arabia, among other reasons.¹⁸ Saudi Arabia and Türkiye drive this region's expected increase in import demand, accounting for \$335.2 million (78% increase in current imports) and \$314.1 million (87% increase in current imports) worth of green coffee imports, respectively, in 2027.

Trends in roasted coffee imports across the selected markets

On average, between 2017 and 2021, the top importers of roasted coffee in the selected markets were the Republic of Korea (\$243.8 million), China (\$128 million), and Japan (103.5 million) (Figure 7).

The value of import demand for roasted coffee is expected to reach \$363 million for the Republic of Korea (49% increase), \$253.8 million for China (98%), \$149.9 million for Israel (66%), \$148.7 million for Japan (44%), \$125.1 million for Saudi Arabia (78%), and \$35.3 million for South Africa (55%), in 2027. China's import demand is projected to increase the most among the selected markets, reflecting the growing coffee culture among Chinese consumers—increasingly demanding cold brews, flavoured coffees, and drip bags.¹⁹

Figure 7. Roasted coffee current imports vs. projected increases, by selected market



Note: Average for the period 2017-2021. For a definition of projections, please see the glossary.
Source: Own estimations based on Trade Map (2022).

¹⁶ Fortune Business Insights (2022)
¹⁷ USDA Foreign Agricultural Service (2022b)
¹⁸ Perfect Daily Grind (2020)
¹⁹ MTPAK (2022)

Box 2. Other significant importers of roasted coffee, including Europe

With a per-person consumption of \$5 kilograms of coffee each year, Europe surpasses the selected markets substantially in terms of import demand, currently standing at \$8 billion and projected to increase to \$12 billion by 2027. The Americas (including North, South, Central America, and the Caribbean) account for \$1.9 billion of roasted coffee imports today and \$2.9 billion in 2027.

However, competition in these markets is fierce, with ten multinationals (including Nestle and Starbucks) responsible for roasting 35% of the world's coffee in proximity to their largest consumer bases.

EXPORT PROSPECTS FOR ETHIOPIAN COFFEE IN THE SELECTED MARKETS

This section disaggregates and discusses the bilateral trends in Ethiopian exports to (i) North America, the Republic of Korea, China, the Middle East, Europe, and Australia for green coffee; and (ii) Saudi Arabia, South Africa, Israel, Japan, the Republic of Korea, and China for roasted coffee.

A. GREEN COFFEE

Ethiopia's growing exports to the selected markets

Trends in green coffee exports have transformed over the last two decades. On average, between 2001 and 2005, the selected markets imported green coffee ranging from \$57 thousand (China) to \$121 million (Europe) from Ethiopia. In comparison, recent exports (2017-2021) from Ethiopia to Europe were worth \$366.2 million, followed by the Middle East (\$160.2 million), North America (\$155.3 million), the Republic of Korea (\$56.8 million), China (\$25.2 million), and Australia (\$19.2 million).

Figure 8 (a). Green coffee exports to selected regions, 2001 to 2021

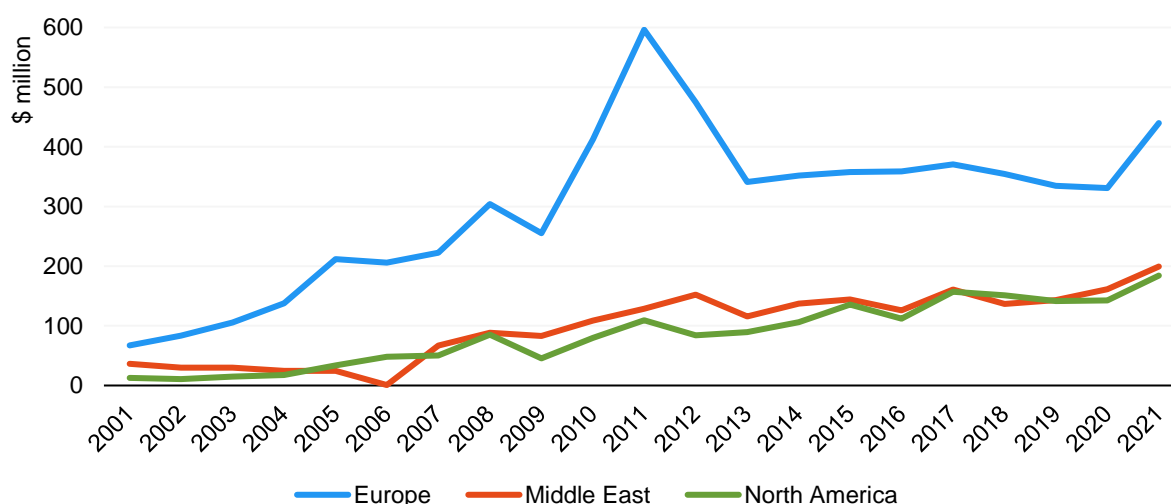
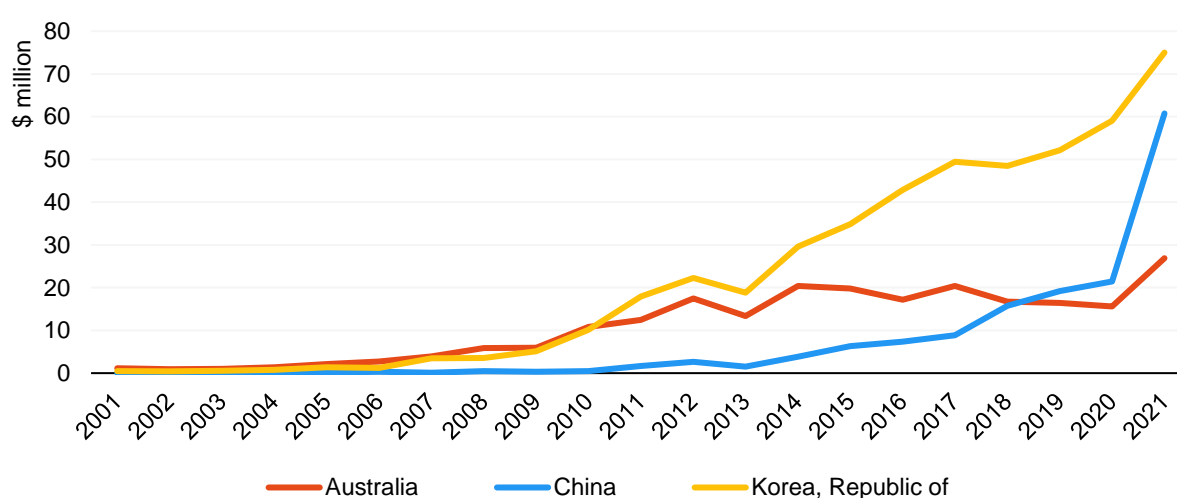


Figure 8 (b). Green coffee exports to other selected markets, 2001 to 2021



Source: Trade Map (2022)

Notably, all selected markets experienced a spike in export values from Ethiopia between 2020 and 2021—driven by a sharp increase in international coffee prices. Ethiopian green coffee exports to China increased by 183.7% that year, followed by Australia (72.7%), Europe (32.9%), North America (29.1%), the Middle East (23.5%), and the Republic of Korea (27.1%)

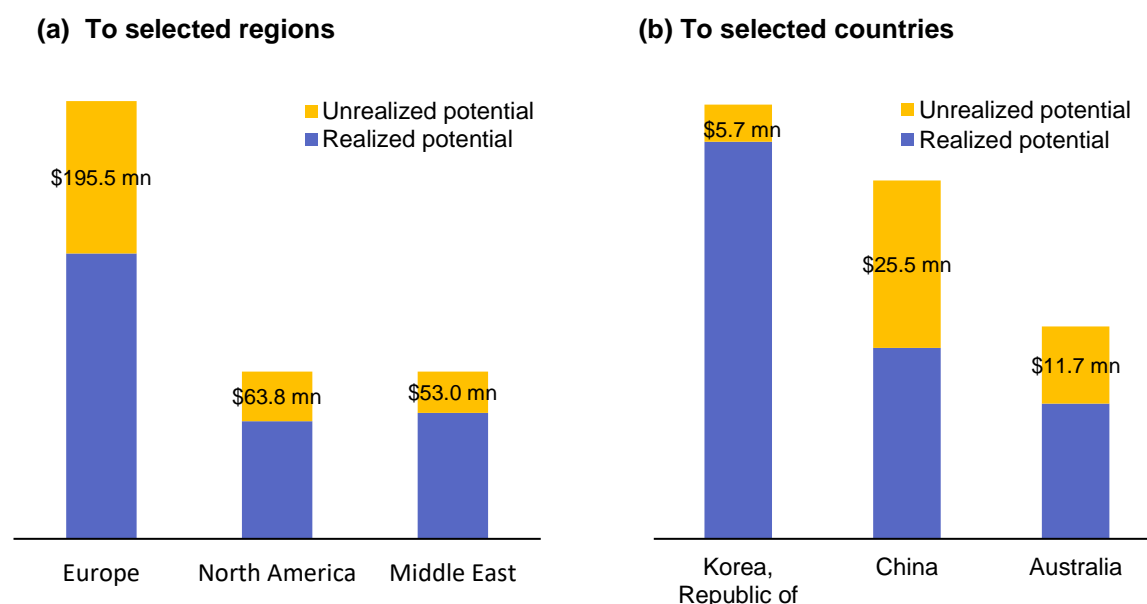
Over the years, Europe remained the top green coffee importer among all selected markets despite facing an average 24.3% year-on-year drop between 2011 and 2013 (Figure 8(a)). Thereafter, export growth rates fluctuated between a 5.6% decrease and a 3.2% increase until 2020. Ethiopian exports to the Middle East and North America increased by 5.4% and 8% on average, year-on-year, respectively, between 2010 and 2020.

Exports to the Republic of Korea and Australia crossed \$10 million in 2010—following different trajectories thereafter (21.8% and 6.2% average year-on-year increase, respectively) (Figure 8(b)). Exports to Australia fluctuated significantly over the years.

China's recent trends reflect its growing importance as a destination for Ethiopian coffee. Chinese coffee imports from Ethiopia increased from \$512 thousand in 2010 to \$60.7 million in 2021.

Ethiopia has a large export potential to Europe, waiting to be tapped

Figure 9. Ethiopia's export potential for green coffee

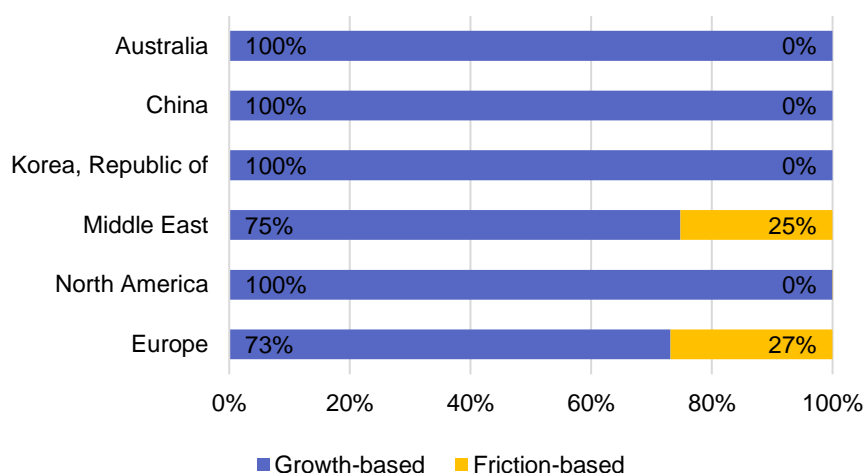


Source: Export Potential Map (2022)

Among the selected markets, Ethiopia has the highest export potential to Europe worth \$562.1 million, of which 34.8%, or \$195.5 million, remains unrealized—reflecting enormous opportunities (for a definition of export potential, please see the glossary of key terms).

Significant opportunities for export growth remain in North America (\$63.8 million or 29.7%), the Middle East (\$53.4 million or 24.7%), China (\$25.5 million or 53.3%), and Australia (\$11.7 million or 63.7%)—in decreasing order of unrealized export potential (Figure 9). Interestingly, Ethiopia has successfully tapped into a major share of the export potential to the Republic of Korea, with only 8.6% of the total export potential unrealized, although of a significant value—\$5.7 million.

Figure 10. Composition of unrealized export potential



Source: Export Potential Map (2022)

The unrealized export potential can be growth-based or friction-based (please see the glossary of key terms for definitions). While the former derives from expected GDP growth, expected population growth, or expected tariff reduction, the latter refers to trade frictions such as lack of market research.

As demand for green coffee is expected to increase strongly over the coming years, the unrealized export potential is mostly growth-based. Any growth in exports in Australia, China, the Republic of Korea, and North America will be growth-driven, while in Europe and the Middle East, about a quarter of the unrealized potential is due to frictions (Figure 10).

Therefore, it is crucial to strategically increase investments to ensure future supply capacity matches market potential and observe new developments in the green coffee market. To increase exports to Europe and the Middle East, it will be beneficial also to identify and address the frictions in the markets.

Ethiopia's export potential to key markets, by region

Europe: Several European markets have high export potential for Ethiopian green coffee, led by Germany (\$159 million), with significant shares of unrealized potential (Figure 11(a)).

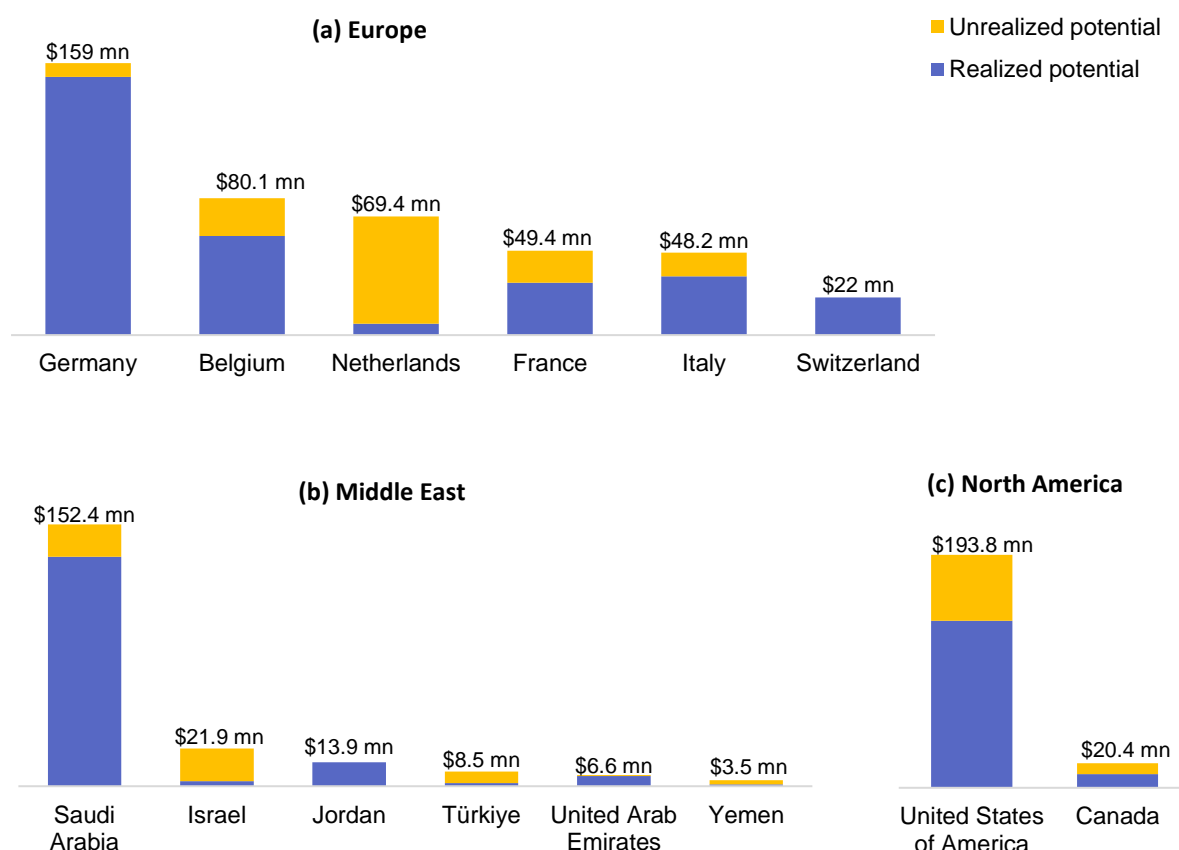
Of these markets, large values remain unrealized in the Netherlands (\$62.7 million), Belgium (\$22.2 million), France (\$18.8 million), Italy (\$13.8 million), and Germany (\$8 million), whereas Ethiopia has fully tapped into the export potential to Switzerland. The unrealized export potential to these markets is growth-driven, except in the Netherlands, where frictions cause nearly half of the export opportunities to remain untapped.

Middle East: Ethiopia has a large export potential to Saudi Arabia (\$152.4 million), Israel (\$21.9 million), Jordan (\$13.9 million), Türkiye (\$8.5 million), the United Arab Emirates (\$6.6 million), and Yemen (\$3.5 million) (Figure 11(b)).

Among these countries, there is a large unrealized export potential in Israel (87% or \$19 million), Saudi Arabia (12% or \$18.8 million), Türkiye (79% or \$6.7 million), and Yemen (70% or \$2.5 million). Conversely, the export potential to Jordan is fully tapped. The unrealized export potential to Saudi Arabia and the United Arab Emirates is entirely growth-based, whereas frictions comprise significant shares of the unrealized potential to Israel (45%), Türkiye (29%), and Yemen (35%).

North America: Of the total export potential to the United States and Canada, 28% or \$193.8 million and 44% or \$20.4 million remains unrealized, primarily due to expected growth by 2027 (Figure 11(c)).

Figure 11. Countries with the highest export potential for green coffee, by region



Source: Export Potential Map (2022)

Ethiopia has a tariff advantage in China, the Republic of Korea, and Türkiye

Whether Ethiopia faces a tariff advantage or disadvantage in the destination market depends on the effectively applied tariffs on (i) Ethiopia and (ii) its main competitors in the destination market.

For green coffee, in markets with a 0% MFN (most favoured nation) tariff, Ethiopia is not at a tariff advantage or disadvantage as all exporters can export duty-free.²⁰ This is the case in markets of the European Union, for example.

With MFN tariffs above 0%, different exporters can face different tariffs due to preferential trade agreements, putting them at a disadvantage or an advantage with respect to other exporters. For instance, among the selected markets, Ethiopia is at a disadvantage while exporting to Mexico (20% MFN tariff), as exports to Mexico are free of duty for some of the main competitors (Colombia and the United States), implied by the relevant trade agreements.²¹ A similar case applies in Bosnia and Herzegovina, the Republic of Moldova, North Macedonia, and Serbia.

Conversely, Ethiopia has a tariff advantage in exporting to China, the Republic of Korea, and Türkiye.

²⁰ MFN tariffs are the highest tariff that WTO members can charge one another (applied by the destination country to all exporters)

²¹ The trade agreements include (i) the FTA between Colombia, Mexico, Panama, and the Bolivarian Republic of Venezuela and (ii) the USMCA between Canada, Mexico, and the United States, respectively.

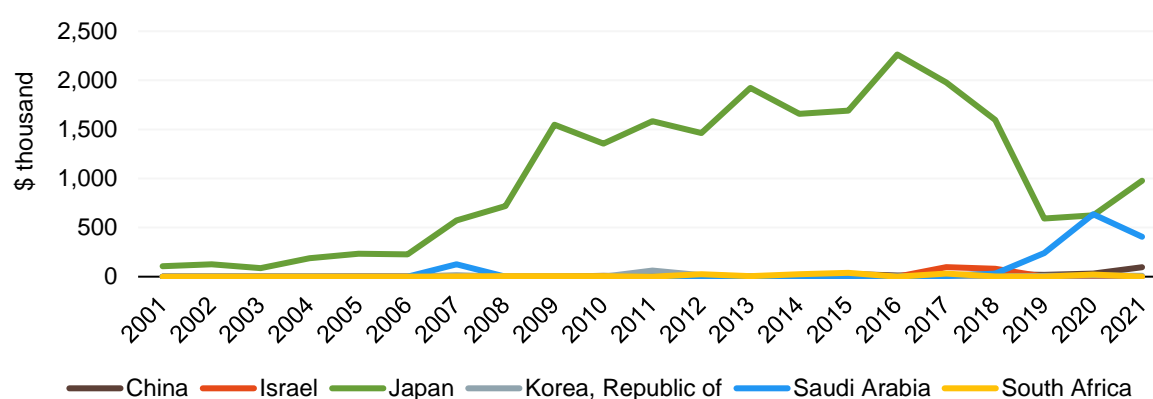
B. ROASTED COFFEE

Exports of Ethiopian roasted coffee

Of the selected markets, Ethiopia exported the most to Japan (\$1.2 million) and Saudi Arabia (\$263.4 thousand), on average, between 2017 and 2021. Ethiopian exports of roasted coffee to China, Israel, South Africa, and the Republic of Korea were well below \$50 thousand (Figure 12).

Export trends of roasted coffee to the selected markets have not been stable over the years. Ethiopian roasted coffee gained popularity in Saudi Arabia after 2018, with exports rising from \$30 thousand in 2018 to \$636 thousand in 2019 and dropping to \$407 thousand in 2020. Conversely, Japan's status as a popular destination has declined since 2018 as exports strikingly dropped from \$1.6 million in 2018 to \$592 thousand in the subsequent year. Thereafter, exports to Japan recovered partially, reaching close to \$1 million in 2021.

Figure 12. Roasted coffee exports to pre-selected markets, 2011 to 2021

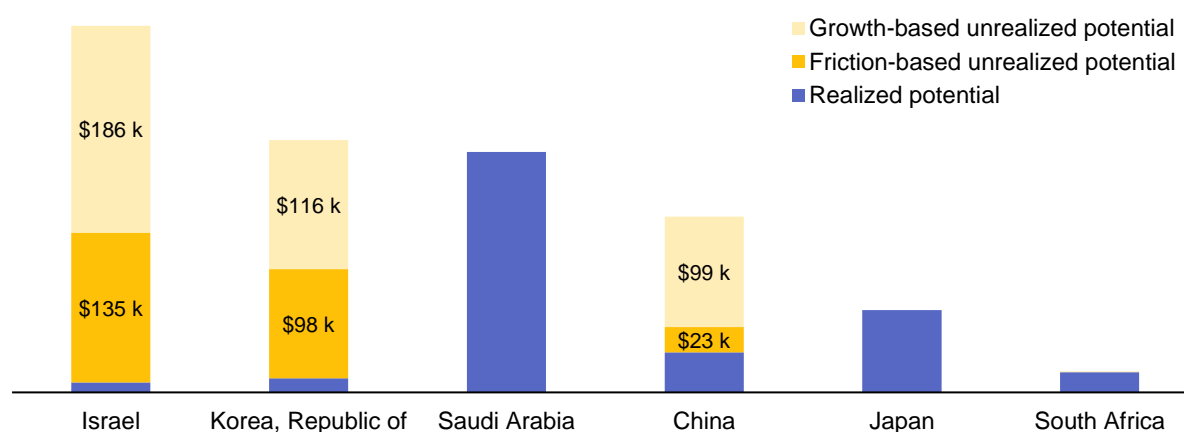


Source: Trade Map (2022)

Ethiopia has a large untapped export potential to Israel, the Republic of Korea, and China

Ethiopia has significant export potential to export roasted coffee to Israel (\$330 thousand), the Republic of Korea (\$227 thousand), Saudi Arabia (\$216 thousand), and China (\$158 thousand) (Figure 13).

Figure 13. Ethiopia's export potential for roasted coffee, by country



Source: Export Potential Map (2022)

In Israel, the Republic of Korea, and China, 97.3% (\$321 thousand), 94.4% (\$214 thousand), and 77.1% (\$122 thousand) of the export potential remains untapped, respectively. Conversely, Saudi Arabia, Japan, and South Africa display no further export growth potential.

While it is essential to channel investments in all markets for the future supply capacity to match market potential (especially in China, where four-fifths of the unrealized potential is due to growth expectations), almost half of the unrealized potential to Israel and the Republic of Korea derives from frictions. Identifying and addressing frictions in these markets could capture opportunities and boost exports.

Ethiopia's tariff advantage in China and Japan

Among the selected markets, Ethiopia is at a tariff advantage in China and Japan and a tariff disadvantage in the Republic of Korea. Ethiopia could capture larger market shares by increasing its exports to China and Japan, where its main competitors face higher tariffs.

Especially in China, tariffs applied to Ethiopia (0%) are significantly lower than those to its main competitors—Italy (15%), the United States (15%), Japan (15%), Switzerland (6.90%), Malaysia (5%), the United Kingdom (15%), Chinese Taipei (15%), Netherlands (15%), and Viet Nam (5%).

Box 3. Share of Ethiopian green and roasted coffee exports in the selected markets

Of the total green coffee imports to the selected markets, the Middle East imported 22.7% from Ethiopia, followed by China (14.2%) and the Republic of Korea (12.8%), on average, between 2017 and 2021. The shares of Ethiopian coffee in some of the top importers of green coffee globally were markedly lower—North America (2.9%) and Europe (3.7%). Although Europe and the United States are the main markets for Ethiopian green coffee, Ethiopia has yet to establish its position in those regions.

The selected roasted coffee markets import close to zero per cent of their roasted coffee from Ethiopia—0% in China, Israel, South Africa, and the Republic of Korea, 0.5% in Japan, and 2.1% in Saudi Arabia.

OVERVIEW

GREEN COFFEE	ROASTED COFFEE
<p>Strong stance as a global supplier</p> <ul style="list-style-type: none"> ✓ Highest revealed comparative advantage (RCA) globally ✓ Ethiopia's rising green coffee exports have outpaced world exports <ul style="list-style-type: none"> → \$929 million exported per year, on average, between 2017 and 2021 ✓ 5th largest exporter globally <ul style="list-style-type: none"> → Main competitors: Brazil, Colombia, Viet Nam, and Honduras. ✓ 96.5% of Ethiopia's exports destined for countries outside Africa (2017-2021) <ul style="list-style-type: none"> → Key export markets: Germany, the United States, Saudi Arabia, Japan, and the Republic of Korea. 	<p>Opportunities remain largely unexplored</p> <ul style="list-style-type: none"> ✓ Revealed comparative advantage (RCA) in roasted coffee ✓ Ethiopia's roasted coffee exports have stagnated at relatively low levels <ul style="list-style-type: none"> → \$4.8 million exported per year, on average, between 2017 and 2021. ✓ Ranks 51st globally as an exporter <ul style="list-style-type: none"> → Top exporters: Switzerland, Italy, Germany, France, and the Netherlands. ✓ 97.8% of exports destined for countries outside Africa (2017-2021) <ul style="list-style-type: none"> → Key export markets: Saudi Arabia, Germany, Japan, Canada, and the Netherlands ✗ 0.5% of coffee exports from Ethiopia was roasted coffee (2017-2021).
<p>Import demand expected to increase significantly by 2027 in all selected markets²²</p>	
<p>Export prospects for Ethiopian coffee in the selected markets</p>	
<ul style="list-style-type: none"> ✓ Exports from Ethiopia to the selected markets have increased over the last decades. ✓ \$366.2 million exported to Europe and \$270.6 million to the other selected markets (2017- 2021). ✓ Large unrealized export potential to Europe (\$562.1 million), North America (\$63.8 million), and the Middle East (\$53.4 million). ✓ Substantial shares of export potential remain untapped in Australia, Canada, and China. ✗ Frictions exist in Europe and the Middle East. ✗ Tariff disadvantage in Mexico and some European countries. ✓ Tariff advantage in China, the Republic of Korea, and Türkiye 	<ul style="list-style-type: none"> ✗ Exports from Ethiopia to the selected markets have not been stable over the last decades. ✓ \$1.2 million exported to Japan and \$44.6 thousand to the other five selected markets. ✓ Unrealized export potential to Israel (\$321 thousand), the Republic of Korea (\$122 thousand), and China (\$122 thousand)—mostly based on expectations of growth. ✗ No unrealized opportunities for growth in Japan, Saudi Arabia, and South Africa. ✓ Tariff advantage in China and Japan ✗ Tariff disadvantage in the Republic of Korea

²² The selected markets are (i) North America, the Republic of Korea, China, the Middle East, Europe, and Australia for green coffee; and (ii) Saudi Arabia, South Africa, Israel, Japan, the Republic of Korea, and China for roasted coffee.

GLOSSARY OF KEY TERMS

Revealed comparative advantage	<p>The revealed comparative advantage (RCA) of a specific country in the trade of a given industry's products is measured by the industry's share in the country's exports relative to its share in world trade.</p> <p>If the RCA is less than 1, this implies that the country is not specialized in exporting the product (the share of that product in the country's exports is less than the corresponding world share). Similarly, if the index exceeds 1, this implies that the country is specialized in exporting that product.</p>
Projected import demand	Each market's current total imports of a specific product are projected to 2026 based on the country's expected GDP per capita growth subject to estimated revenue elasticities at the HS2 chapter level.
Export potential	The export potential is an indicator developed by ITC. This indicator provides a potential export value for products already exported by the country in new or existing target markets. It combines three components: supply, demand, and ease of trade. The supply and demand components are projected into the future (to 2027) using expected GDP and population growth rates as well as forward-looking tariffs for goods.
Dynamic untapped export potential	The untapped export potential comprises dynamic untapped export potential and static untapped potential. Dynamic or growth-based untapped export potential refers to the untapped export potential deriving from expected GDP growth, expected population growth, or expected tariff reduction.
Static untapped export potential	The untapped export potential comprises dynamic untapped export potential and static untapped potential. Static or friction-based untapped export potential comprises unmeasurable trade frictions such as lack of market research, difficulties in complying with non-tariff measures, difficulties in finding buyers, etc.
Tariff advantage	The tariff advantage is an indicator that compares the tariff an exporting country faces in a target market with the weighted-average tariff applied by that market to the world (bilateral imports of the product are used as weights).

Note: For additional details, see Decreux and Spies (2016).

Appendix I

The full list of countries in the respective selected regions is included below:

Selected region	Countries		
Europe	Albania	Germany	Poland
	Andorra	Gibraltar	Portugal
	Austria	Greece	Romania
	Belgium	Hungary	Russian Federation
	Bosnia and Herzegovina	Iceland	Saint Helena
	Bulgaria	Ireland	Serbia
	Belarus	Italy	Slovakia
	Croatia	Latvia	Slovenia
	Cyprus	Lithuania	Spain
	Czechia	Luxembourg	Sweden
	Denmark	Malta	Switzerland
	Estonia	Moldova, Republic of	Ukraine
	Faroe Islands	Montenegro	Macedonia, North
	Finland	Netherlands	United Kingdom
	France	Norway	
	French Southern and Antarctic Territories		
North America	Bermuda	Mexico	United States of America
	Canada	St. Pierre and Miquelon	United States Minor Outlying Islands
	Greenland		
Middle East	Bahrain	Jordan	Saudi Arabia
	Palestine, State of	Kuwait	Syrian Arab Republic
	Iran, Islamic Republic of	Lebanon	United Arab Emirates
	Iraq	Oman	Türkiye
	Israel	Qatar	Yemen

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Sources

Data used in this brief was retrieved from the ITC Market Analysis tools (as of 01 November 2022):

- ◇ **TRADE MAP** (www.trademap.org) for trade statistics;
- ◇ **MARKET ACCESS MAP** (www.macmap.org) for tariffs and market access requirements;
- ◇ **EXPORT POTENTIAL MAP** (exportpotential.intracen.org) for information on new potential market destinations and the untapped export potential.

To discover the ITC Market Analysis tools, visit <http://www.intracen.org/itc/market-info-tools/market-analysis-tools/>.

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