



## Sub-Saharan Report [Business Plus]

These reports are by Mr. Ryota Kikkawa, an expatriate employee working in Johannesburg with a view across the region.

### Business Plus

With a growing population, abundant natural resources, and enormous infrastructure and industrial development potential, Africa, particularly sub-Saharan Africa, has been called the “Continent of Hope”. In Marubeni’s mid-term management plan, “Global Challenge 2018”, sub-Saharan Africa has been cited as an important region to actively pursue opportunities to lay the groundwork for future business.

The Marubeni Research Institute has modified the “Sub-Saharan Report”, which basically presented an overview of sub-Saharan countries, to focus on the latest business trends and prominent business models in the region, including Marubeni’s own businesses. This revised version is called “Sub-Saharan Report [Business Plus]”.

## Ethiopia Coffee Business

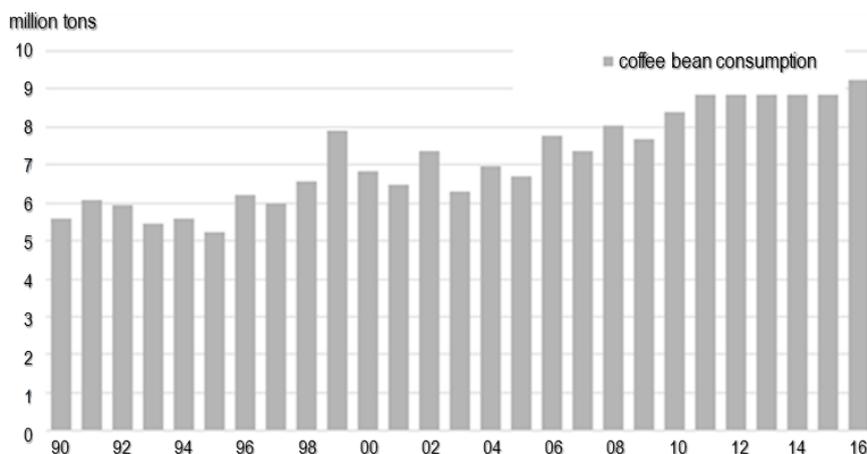
January 23, 2018

Relaxing with your mocha coffee? I think everyone is largely familiar with this type of coffee, but did you know that coffee originated in the highlands of Ethiopia? This time I would like to introduce you to the situation surrounding Ethiopian coffee and Marubeni’s coffee business in the country (note 1).

### World Coffee Market

The world’s coffee market continues to expand, mainly on the back of population growth. The roots of the habit and custom of drinking coffee sprouted in Europe long ago and Europe remains the largest coffee consumption region worldwide, followed by such countries as the U.S. and Brazil. Since 2000, coffee demand in the developed countries has grown as seen in the increase in the number of Seattle-type coffee cafes, fast-food restaurants and other types of stores increasingly serving fresh coffee. In Japan, it is not only through existing coffee shops and cafes, but also through convenience stores’ “counter” coffee and so on, that coffee drinking is spreading, with daily per capita consumption at more than 1.5 cups and growing. In addition, coffee consumption is also increasing in the emerging economy countries in countries that have not traditionally consumed coffee. Consumption in the emerging economies is now more than 600,000 tons a year, having doubled over the past 20 years.

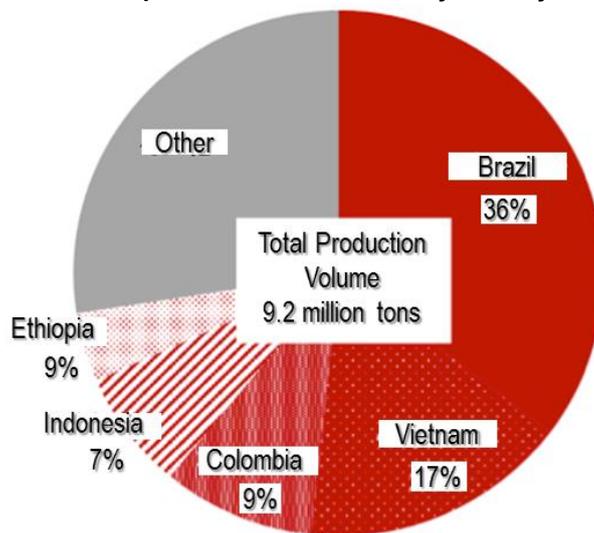
Graph 1: World Coffee Consumption



Source: International Coffee Organization

The main coffee producing regions are Central and South America, Southeast Asia and Africa. Coffee production is concentrated at a north-south longitude of 25° across the equator in these regions and is known as the “coffee belt”. The two species of coffee beans that are most widely cultivated (accounts for almost all cultivation) are the “Arabica”, which has a distinctively sour flavor, and the “Robusta”, which has a somewhat bitter taste and is inexpensive compared to Arabica. In Brazil, large-scale production of Arabica-type coffee beans has been made possible through improved efforts by farmers to raise productivity even though coffee cultivation area has been decreasing, Brazil’s coffee production volume is 2.2 million tons, which is the world’s largest. In Vietnam and India, the main coffee producers in Asia, productivity has improved through better bean breeding with focus on expanding production on the cheaper Robusta-type coffee beans. Both these coffee beans are native to Africa (having originated there) though, with more than 10% of the world’s coffee now being produced in 10 African countries led by Ethiopia and Uganda.

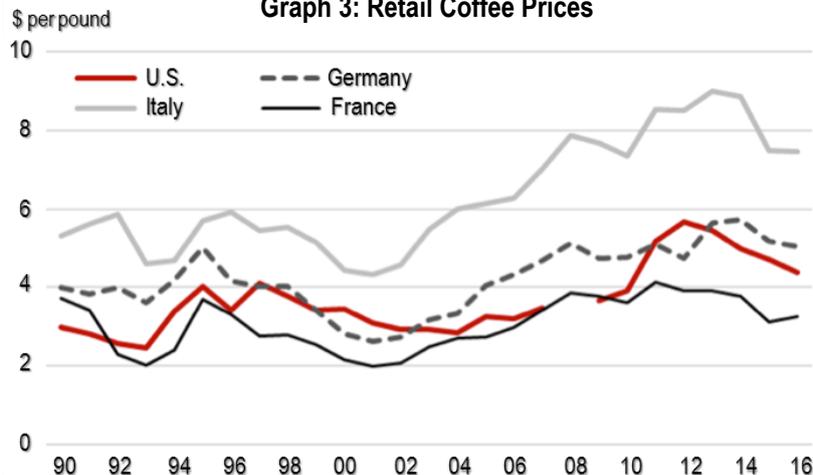
**Graph 2: Coffee Production by Country**



Source: International Coffee Organization

Looking at the coffee market, in such major coffee producing countries as Vietnam where improved coffee bean transplants have increased yields resulting in higher production, the rise in coffee prices has been moderate. As with other agricultural products prices will fluctuate depending how the crop has been affected by the weather, however, as demand is expected to continue to grow in the emerging economy countries the price of coffee will likely increase, albeit moderately, in the mid to long-term.

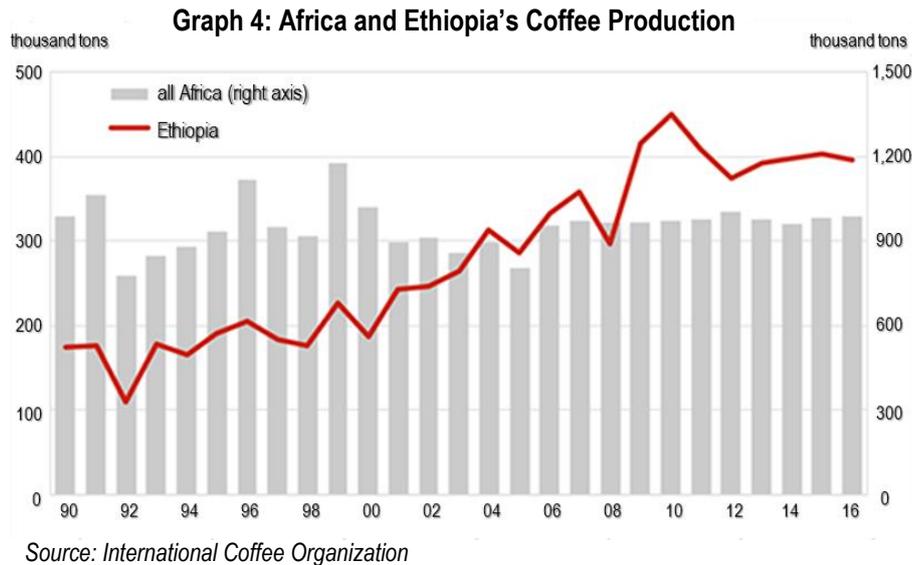
**Graph 3: Retail Coffee Prices**



Source: International Coffee Organization

### Ethiopia

Coffee production is Ethiopia's main industry, and last year they produced 400,000 tons of coffee making Ethiopia the world's 5<sup>th</sup> largest producer (note 2). In the 2000s, with the rise of Asia as a major coffee producer, the market price of coffee fell. As such, in some countries in sub-Saharan Africa, for example Kenya, farmers began to switch from the cultivation of coffee to other crops with coffee production stagnating. Even under these circumstances, Ethiopia, which has suffered from a lack of foreign exchange, doubled its annual production of coffee over the last 20 years with the support of the government as one means to acquire needed foreign currency.



In particular, the Arabica coffee bean originated in Ethiopia. I don't think there is anyone who doesn't like the unique aroma of mocha coffee (mocha coffee is quite popular in Japan). In Japan, the word "mocha" is quite familiar, and in fact, is taken from the Ethiopian mocha coffee bean, which is a blended derivative of Arabica. This is one of the strengths of Ethiopian coffee and the strong demand for "mocha" coffee in Japan. One of the most famous coffee producing areas in the world is in Irgachefe in Ethiopia that is known for its very popular fruity and refreshing variety of coffee. In the world of coffee, there is now a "third wave" coffee trend attracting attention that maximizes that characteristics of each coffee producing region (like wine), following on the "second wave" that was led by the "Seattle"-type coffee cafes most notably represented by Starbucks. Given Ethiopian coffee's distinct and refreshing shallow roasted taste, Ethiopian coffee, as its own unique genre, should do well given this new trend (note 3).



**Picture 1:** Arabica coffee beans growing in the virgin forests of the Kaffa area

**Marubeni’s Ethiopian Coffee Business**

Marubeni is involved in the trade of coffee beans worldwide including procurement in Brazil, Vietnam and Columbia with Ethiopia now also playing an important role as one of our suppliers. In Ethiopia we are securing about 4,000 tons of coffee beans from such regions as Sidamo, Irgachefe, and Kaffa (where Arabica coffee originated) among others, which are then sold to a number of roasters, from large-scale roasters to small self-roasters.

Mr. Taisuke Horie, a Marubeni expatriate in Ethiopia from the Beverage Department said that Marubeni will work with our existing customers of Ethiopian produced coffee beans to explore and develop new coffee products to deepen and increase the handling of specialty coffee (specialty coffees are highly-graded, distinctive coffees, Arabica-type, grown in ideal climates, usually at high altitudes). He also said Marubeni will advance the selection of exporters in Ethiopia, and expand and secure specialty coffee sources by strengthening our procurement and coffee selection functions.

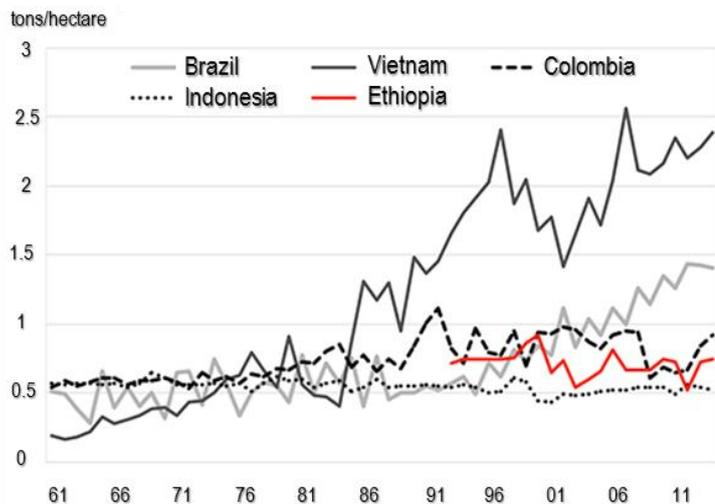


Picture 2: A Kaffa coffee plantation (showing the drying process)

**Issues**

For Ethiopian coffee to maintain its competitiveness in the global market it must further improve productivity as well as create higher value-added products. In terms of productivity, Ethiopia’s coffee-related productivity is not very high compared to other countries. Cultivation is mostly carried out by small farmers on 0.5 hectares of land. Furthermore, land ownership is a political problem due to complicated ethnic circumstances. As such, the bundling of land into large plots and introducing such wide-scale mechanisms as irrigation is difficult, making the creation of large-scale integrated farming challenging to say the least (note 4). Concerning value-added, as the Arabica-type coffee bean is of the high value-added variety and native to Ethiopia, expectations for the potential of Ethiopian coffee are rising. However, related to this is the need to raise educational levels, especially in the rural areas. Certainly, there can be conflicting elements

**Graph 4: Coffee Cultivation Productivity**



Source: Food and Agricultural Organization (FAO)

between productivity improvement and higher value-added, however, given the state of coffee production in Ethiopia there is room for improvement in both productivity and value-added.



Picture 3: Sorting harvested coffee

**Coffee Business Prospects**

As coffee consumption is growing on a worldwide scale led by the emerging economy countries Marubeni’s coffee sales are expected to expand. As for the demand for new types of coffee in the emerging economies, while there are still many issues to be resolved, a strong response to meet this demand could be made by developing and introducing, for example, specialty coffees from Ethiopia. The further growth of Marubeni’s coffee business can be expected through these types of initiatives.

So, you can see the strengths of Marubeni’s coffee business, but as a further example, did you know Marubeni’s coffee beans are used in our own cafeteria? And, if you have recently visited one of the many KALDI cafés in Japan you probably didn’t realize the very famous Japanese KALDI coffee brands use our coffee beans or that the coffee beans we handle can be found in the coffee served to All Nippon Airways’ premium and business class passengers, just to mention a few of many more examples.

**Note 1:** The origins of coffee are old, as legend has it, dating back to the 6th century with the discovery of a coffee tree by a boy (goat herder) named Kaldi in what is today Ethiopia. The origin of the name of KALDI Coffee Farm in Japan, which is operated by Camel Coffee Co. Ltd., comes from this legend

Chronology	Coffee History
Around the 6th century	An Ethiopian goat herding boy discovers the coffee tree
1454	Coffee's qualities introduced in most of the Islamic world
1517	Coffee drinking appears in Ottoman Turkey
1615	Coffee drinking finds its way to Europe (Venice)
1668	Coffee spreads to North America
1699	The Netherlands introduces coffee tree seedlings to Indonesia
1727	Coffee tree seeds/seedlings planted in Brazil, production starts
1818	Brazilian coffee exported to Europe for the first time

**Note 2:** The amount of specialty coffees (beans) not being distributed through the regular coffee bean market is expanding, so it is difficult to judge the price of coffee by looking at the price of coffee in the New York and London markets.

**Note 3:** Ethiopia is not just a mass coffee producing country, it is also a mass coffee consuming country. The picture shows beans being roasted into a strongly flavored coffee to be served in a hut-like café.



**Picture 4:** Coffee drinking and the way it is served in Ethiopia

**Note 4:** While the Ethiopian economy has been growing rapidly, the government is focused on the manufacturing industry as part of its structural transformation policy, so it is hard to imagine large-scale investment in the agricultural industry to improve productivity at this point.



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In order for the Marubeni Research Institute to acquire first hand information from the field and contribute to the company's strategy, young Marubeni staff well-versed in economic and industry analysis have been posted to the region.

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