



## ON THIS EDITION

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### This Year's Coffee Market Prospect

We are receiving reports that coffee trees in all parts of Ethiopia are holding well and receiving sufficient rainfall. We therefore forecast that production-wise the coffee market is commendable. In fact, many parts of the coffee regions in Ethiopia such as Yirgacheffe, Sidamo, and Teppi have already started the 2023/24 harvest. The price of red-cherries sold in these places are also reported to be on the low side when compared with the previous year. For instance, in the week of December 23-27, red-cherries in Yirgacheffe and Sidama Bensa were transacted between 30-35 Birr/kg. and 25-30 Birr/kg. respectively.

On the other hand, in Guji, Hambela region where our stations are located, harvest has not started due to the high altitude. We shall update our readers when harvest starts in this area.

### National Bank of Ethiopia's New Fiscal Policy

Despite the positive prospect on the production side, it is worth noting that coffee exporters and suppliers do not seem to be enthusiastic to buy cherries and many washing stations are not doing the pre-works necessary to start production. One of the main reasons for the slow start of production is associated to lack of financing by major banks.

Recently, the National Bank of Ethiopia (NBE) announced a new fiscal policy to control inflation. This new policy will put a credit cap and strict banks not to give loans more than 14% above last year's total loan disbursement. In addition to the credit cap, the government of Ethiopia has disclosed that there are over 200 (two hundred) billion birr that is out of the bank circulation which is hurting the banking system in terms of liquidity.

Because of the credit cap limitations and liquidity problems, many exporters as well as suppliers are facing difficulties to secure enough loans for their coffee transactions. As a result, coffee prices are starting very low at different parts of coffee growing regions.

If this problem continues, the production of washed coffees may decline significantly and farmers will opt to sun-dry their coffee – thereby, increasing the volume of natural coffee to be produced in the new coffee season.



## European Union Deforestation Regulation

The European Union Deforestation Regulation (EUDR) is a bill that passed in December 2022 and it aims to reduce deforestation in global supply chains. The rationale behind this regulation is to increase the demand and supply of deforestation-free products within the EU, encouraging sustainable practices, and thereby reducing deforestation.

The reason EUDR included coffee is because its production is directly linked to forest loss. For instance, in order to maximize economic benefit from coffee, farmers gradually replace primary forest trees which are used as shades for coffee trees with more coffee trees. Also, coffee may function as indirect driver of forest loss whereby expansion of coffee plantations increases the need for agricultural land, which results in the displacement of other agricultural activities.

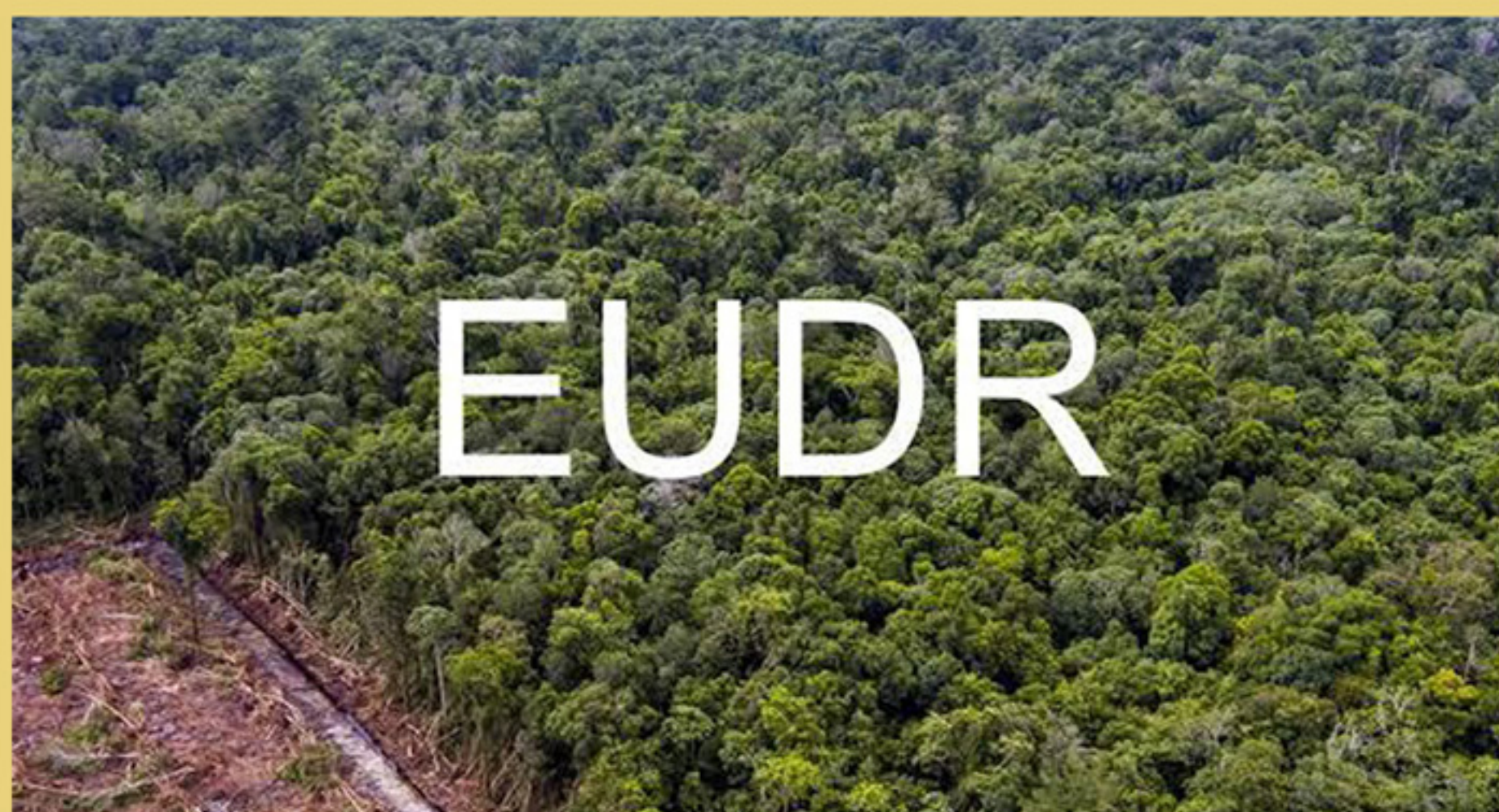


Image Curtsy: <http://landportal.org/>

The FAO defines forests as a land that is spanning more than 0.5 hectares with trees higher than 5 meters and a canopy cover of more than 10 percent. It does not include land that is under agricultural or urban land use. According to EU's deforestation regulation, coffee plantations, even when grown in agroforestry system that meets the structural requirements of forest, is considered deforestation when done in land that used to be a forest but has been converted to a coffee plantation after the cut-off date of 31 December 2020.

The only exception to this rule is the natural coffee forest in Ethiopia. Accordingly, only deforestation-free products from plantations on land that was deforested already before the cut-off date are allowed entry to the EU. In addition, the regulation assumes that a forest area is based on the size of the continuous forest that can be determined for monitoring, irrespective of the distribution of different owners. Accordingly, a forest area that is divided over land titles smaller than 0.5 hectares will be regarded as deforested if the area is converted to a coffee plantation after the cut-off date.

There is a concern in the coffee industry with the application of satellite images when analyzing whether deforestation has taken place. For instance, shaded coffees can be confused with primary or secondary forests. Structural canopy changes due to pruning or replacing old coffee trees could wrongly be considered deforestation by the inspecting authority if conducted after 31 December, 2020. In the implementation of this regulation, reliable estimates of deforestation should go beyond tree cover loss and further verification of field visits should be conducted.



## European Union Deforestation Regulation *(continued...)*

This new regulation will kick-in for large companies on 29 December, 2024 and for SMEs on 29 June, 2025. From this date, the regulation requires importers to submit the geographical coordinates of all plots of land where the coffee has been produced. If the information provided does not adhere to the regulation, then the product is not allowed to enter or exit the EU market.

It is believed that this regulation can have negative impact on the Ethiopian coffee production. It will especially hurt the smallholder farmers by increasing their financial burdens; thereby, leading the shift of coffee farms to other agricultural products and hence increasing deforestation. Accordingly, Ethiopian Coffee and Tea Authority (ECTA) has addressed its concerns to the EU and is waiting for clarifications and amendments to the regulation.

Sincerely,

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