

Ethiopian Investment Agency

Investment Opportunity Profile for Roasted & Grounded Coffee Production In Ethiopia

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Roasted and Grounded Coffee Production

1. Back Ground

More than 1000 years ago, a young boy in Ethiopia's South Western high lands plucked a few red berries from some young green trees in the forested and tested them. He liked the flavors and felt good afterwards. Today, coffee berries, dried, roasted and grounded. Have become the world's second the Ethiopian province where they first blossomed kaffa gave its name to coffee.

Ethiopian Coffee is grown at altitudes from 1500 to 2100 m.a.s.l. with the temperature of 27°C and 13°C respectively. The ideal crop is slightly acidic with a PH of 4.5 to 6.5 and it requires 1500-2500mm and well distributed rainfall, and the main growing areas are the south eastern, southern and south western high lands of the Country. Ethiopia has more genetic diversity among its coffee varieties than any other country. Nine different bean varieties are cultivated in the four main growing areas. All varieties with its ecological factors such as rain fall, temperature, shade, altitude and soil give individual bean varieties their unique local character.

There are six major coffee varieties i.e. Sidamo, Limu, Kaffa (jimma) Gimbi, Harar and Yirgacheffe. Sidamo is both washed & un washed form and has a gentle fruity flavor, Limu and Kaffa are of a medium-to-light body and acidity. The limu varietal comes only washed, Kaffa only unwashed. Gimbi is grown in lower lands and comes both washed and unwashed. It has a clean fruity flavour. The two higher quality Ethiopian coffee are Harar and Yirgacheffe, both grown in highlands. Harar is un washed, Yirgacheffe washed. Both have a full, rich flavors and a slight hint of mocha.

Recently, there are about eleven roasted and Grounded coffee producer companies in the Country with a production capacity of 1424 Ton and 7.7

Million capital. Among these, Tomoka and Moka Harar coffee roasters are the earliest one's in the business. Then after the government owned Ethiopian coffee marketing corporation Branch Company dominate the local market for a long-time until its closure in 1993 E.C.

Concerning the production, almost all supplier companies purchase various types of coffee like Yirgacheffe, Harar, Limu, Sidamo, Jimma, Wollega etc. from the local market and roast and Grounded by type or blending each other. Then, they provide their product for the local market. They have not yet created external potential market except the few amount exported to some Countries.

Most of the companies have a capacity problem like capital, trained man power, machinery, packaging material etc. in order to penetrate the external market. Thus, they need external partners to join and work along with them.

Table 1. **Coffee Roasted Companies**

Company	Anual Production		Capital/ETB/	No of Employees	Establishment /E.c.
	Potential	Actual			
Great Abissinaia	1000	500	3,800,000	89	1995
Alem Coffee	1.8	1.8	100,000	8	1991
Aster Coffee	9	9	250,000	10	1990
Tsega Coffee	180	36	122,000	7	1986
Anis Coffee	24	2	30,000	7	
Lusi Coffee	90		138,000	5	1993
Bereket Coffee	1	1	5,000		1991
Tomoka Coffee	18		84,000	8	Long years
Moka Harar	15	3	109,000	10	1946
Liyu Coffee			5,000	6	1992
Roasted Grounded Coffee (Dire dawa)	95		1,050,000		1981

Source: Ministry for Trade and Industry

2. Resource Base

2.1 Raw Material

The potential for coffee production in Ethiopia is very high, thanks to the country's suitable altitude, ample rainfall, optimum temperatures, appropriate plating materials and fertile soil. Furthermore, the country is of particular interest to the world because it is where coffee Arabica originated, and thus has the best inherent quality for production potential. The total area covered by coffee is about 442,969 hectares, with a total production of 287,930 tones of clean coffee per annum.

Table 2. **Production**

Product	Weight	2001/2002 1994	2002/2003 1995	2003/2004 1996	2004/2005 1997	2005/2006 1998	2006/2007 1999	2007/2008 2000
Coffee (Roasted Milled)	Tons	300	115	259	563	16,317	1544	2767

Source CSA Industrial survey 2009

2.2 Labour

With population over 77 million, Ethiopia has abundant, hard-working, inexpensive and easily trainable labour force. The average wage for unskilled labour generally ranges from Birr 20-30 (US\$ 1.58-2.37) per day. The salaries of fresh university graduates normally range from Birr 895-1050(US\$ 100-117) per month.

3. Market

According to WTO data, 1.2 billion value roasted coffee purchased in 2002. Among these 30 countries mainly members of EU take 90.7% that is the lion share and another 35 countries purchase 9.7%. At the same, period, Ethiopia import mainly soluble coffee that weights 5 Tons and value 59.6 thousand Birr.

Table 3. **Roasted and soluble Coffee Import**

Product	2004	2005	2006	2007	2008
Weight (Tons)	1.7	16.1	14.7	96.5	57.7
Value 000(ETB)	19.00	835.2	302.6	1807	1726.2

Source- customs Authority

The data also indicates, 80 countries has also involved in roasted coffee sales market and of these 30 countries mainly euro pians export roasted coffee which values 1.2 billion dollars and another 50 countries export roasted coffee that values 39 million dollars.

Table 4. **Roasted Coffee Export**

	2003	2004	2005	2006	2007	2008
Weight (Tons)	1	2.2	3.1	297.6	48.7	3.1
Value(ETB)	34.6	99.2	118.8	5319.1	1711	125.3

Source- customs Authority

The potential markets are United Arab Emirates, Lebanon, Saudi Arabia, Israel, Jordan, Bahrain and Qatar. In the Middle East, South Africa , Mozambique, Morocco, Egypt, Algeria, Sudan, Djibouti in Africa. Romania, Russia & Check republic in Eastern Europe. Japan, Korea republic and Taiwan in east Asia and also EU and USA.

4. Investment Incentives

To encourage private investment, the Ethiopian Government has developed a package of incentives under Regulation No. 84/2003 for investors engaged in new enterprises and expansions, across a range of sectors. These incentives are available both to foreign and domestics investors and the said Regulations doesn't discriminate between a foreign and domestic investor or between foreign investors of different nationalities. The type of incentives that are available both to foreign and domestic investors are the following.

4.1 Customs Duty Exemption

- ❖ A 100 percent exemption from the payment of import customs duty and other taxes levied on imports is granted to investment capital goods and construction materials necessary for the establishment of a new enterprise or for the expansion or upgrading of an existing enterprise as well as spare parts worth up to 15 percent of the value of the imported capital goods:
- ❖ Investment capital goods imported without the payment of import customs duties and other taxes levied on imports may be transferred to investors enjoying similar privileges:
- ❖ Exemptions from customs duties or other taxes levied on imports are granted on raw materials and packing materials necessary for the production of export goods. Taxes and duties paid on raw materials and packaging materials are drawn back at the time of exports of finished products. The voucher system and bonded manufacturing warehouse facilities are also in place.
- ❖ All goods and services destined for export are exempted from any export and other taxes levied on exports.

4.2 Income Taxes exemption

- ❖ Any income derived from an approved new manufacturing, agro-industrial or agricultural investment is exempted from the payment of income tax ranging from 2-8 years depending up on the area of investment, the volume of export and the location in which the investment is undertaken.
- ❖ Income derived from an expansion or upgrading of an existing manufacturing, agro-industrial or agricultural enterprise is exempted from the income tax for a period of two years if it exports at least 50% of its products and increases, in value, its production by

4.3 Loss carry forward

Business enterprises that suffer losses during the tax holiday period can carry forward such losses for half of the income tax exemption period, after the expiry of such period.

5. Remittance of Funds

Foreign investors are entitled to make the following remittances out of Ethiopia in convertible foreign currency at the prevailing rate of exchange on the date of remittance:

- Profits and dividends accruing from investment;
- Principal and interest payment on external loans;
- Payments related to a technology transfer agreement;
- Proceeds from the sale or liquidation of an enterprise;
- Proceeds from the transfer of shares or of partial ownership of an enterprise to a domestic investor;
- Expatriate employees may remit, in convertible foreign currency, unspent salaries and other payments accruing from their employment in hard currency.

6. Investment Guarantee and Protection

In Ethiopia both the Constitution and the investment Code protect private property. Ethiopia is also a member of MIGA, which issues guarantees against non-commercial risks to enterprises that invest in signatory Countries. Besides, the Country has signed bilateral investment promotion and protection treaties with a number of Countries and is also in the process of signing such treaties with a number other Countries.

7. Cost of Land and Utilities*

7.1 Land

* 1US\$ = Birr 12.67 (as of 92007)

In Ethiopia, land is public property. Both urban and rural land is available for investment on leasehold basis. Lease right over land can be transferred, mortgaged or sub-leased together with on-build facilities. Leaseholders have the right to use urban land for up to 60 years in Addis Ababa and in at own designated as of the grade of Addis Ababa, and up to 80 years in other towns. The period of lease may also be renewed.

The average costs of land in industrial zones designated so far are as follows

- Addis AbabaUS\$ 32.2 per m² for the lease period
- Dire DawaUS\$ 3.38 per m² hectare for the lease period
- Oromia.....US\$ 0.06 per m² hectare per year

7.2 Utilities

The cost structure of utilities is as follows:

a) Electricity

- Low voltage time-of-day industrial:
Equivalent flat rate.....US\$ 0.0466 per KWh
- High voltage time-of-day industrial 15kv:
Equivalent flat rateUS\$ 0.032 per KWh
- High voltage time-of-day industrial 132kv:
Equivalent flat rate..... US\$ 0.03 per KWh.

b) Telephone

- Fixed telephone.....US\$ 0.016 per six minute
- Mobile telephone
 - Mobile to mobile.....US\$ 0.057 per minute
 - Mobile to fixed.....US\$ 0.057 per minute

c) Water (in Addis Ababa)

- Residential
 - 0-7 m³US\$ 0.14 per m³
 - 7-20 m³US\$ 0.25 per m³
 - above 20 m³US\$ 0.30 per m³
- Non-residential.....US\$ 0.30 per m³

8. Taxation

The principal tax rates of the Country are as follows:

- Corporate income tax.....30%
- Turnover tax
 - From goods supplied to the local market and rendering of construction, grain mill, tractor, combine harvesting services undertaken in the Country.....2%
 - On other sectors.....10%
- Excise tax.....10-100%
- Customs duties.....0-35%
- Export tax.....nil
- Withholding tax.....2%
- Value added tax.....15%
- Dividend tax.....10%
- Royalty tax.....5%
- Capital gains tax
 - Shares of companies.....30%
 - Building held for business,

- factory and office.....15%
- Building held for residence..nil
- Income tax from employment0-35%

9. One-stop Shop Service

Foreign investors obtain pre-and post-approval services from the Ethiopian Investment Agency (EIA). In addition to facilitation and promotional services, the EIA offers the following services under the one-stop shop arrangement:

- issuance of investment permit.....in 6 hours
- issuance of commercial registration certificate» 6 »
- issuance of business license» 6 »
- issuance of work permit.....» 1 hour
- registration of technology transfer agreement.....» 2 hours
- registration of export oriented non-equity based foreign collaboration.....» 1 hour
- facilitation of the acquisition of land and utilities .

Hence, the availability of basic raw material, coffee the existence of abundant and cheap labour force, the growing world and domestic demand for roasted and grinded coffee and the favourable investment climate existing in the country provide an opportunity for the establishment of roasted coffee manufacturing industries in the Country.