

Ethiopian commodity exchange and niche markets

Several commodities, amongst which important export crops like coffee and sesame, are now sold through the ECX. Since 2009 it has been compulsory to sell all coffee through the ECX. For sesame, trade through the ECX will become mandatory from the 2010 season onwards. Since the establishment of the ECX, the ECX itself and the subject of specialty produce has been a much debated and sometimes politically sensitive issue. Can the two be combined?

International markets

Ethiopian sesame is predominantly sold to low value export markets, rather than high value markets in the United States, Europe or others. High value markets request assurance of high food safety standards that Ethiopia currently cannot provide. The price paid for Ethiopian sesame seed is below world average because of this. The demand for sesame seed is growing. The Chinese market demand, presently Ethiopia's main export market for sesame seed, is also increasing rapidly, but remains a low value export destination.

Niche markets

Worldwide, the concept of quality products among consumers is

growing: taste is important but so are the conditions in which products were made. Hence, product quality increasingly include criteria related to environmental and socio-economic sustainability. This can be clearly identified by looking at market trends in Western countries.

High value niche markets could be of interest to Ethiopian farmers who are willing to invest to receive a premium price. Research has shown that farmers' margins are much higher if sesame is produced for a high end market. However, a high value product can also entail higher production costs. Experience from other countries has shown that the private sector is committed to co-invest in high value export chains to bring about a higher productivity and improved quality. But what are the most important requirements of high value markets?

Requirements of high value markets

The assurance of high **food safety standards** is a requirement that has grown in importance over the past years in Western markets. To guarantee the customers that food marketed in the EU is safe, the EU has formulated the 'General Food Law'. All food manufactured and sold in the EU should be safe and fully traceable "from farm to fork" and

back again. Therefore, traceability is the cornerstone of the EU's food safety policy. Food legislation in America and Japan is also moving in the direction of transparency of origin and traceability of the final product.

There are several organizations that are promoting **fair trade**. Therefore, it is not possible to present one checklist of requirements for fair trade. There are however, several main points that are important when verifying whether the procedures of the Ethiopian Commodity Exchange would comply with the requirements of the major fair trade schemes (see Research Report).

There are two major sets of regulations for **organic production and certification**: one for the USA and one for the EU. According to the 1999 EU regulation, only products that have been produced and processed following the EU regulation on organics can be marketed in the EU as organic. In the United States, Congress passed the Organic Foods Production Act in 1990, requiring the United States Department of Agriculture to develop standards for the production and management of organic products, which were developed under the National Organic Program.



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For quality of life

The Ethiopian Commodity Exchange and niche markets

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The ECX and niche markets

The introduction of the ECX caused a storm of controversy over the inclusion of coffee in 2009. Importers complained that the ECX did not acknowledge “specialty” or “gourmet” coffee, neither organic nor fair trade coffee.

Following this commotion, the ECX created new grade combinations (for example for coffees originating from specific geographical areas) and through the incorporation of environmental and social certifications into the ECX standard contract specifications (for example for organic and fair trade certified products).

Experience of the past two years that the ECX has been operational, has shown that trade through the ECX meets the demands for a good and constant quality product. However, there are certain market demands that the ECX currently cannot meet.

Firstly, the ECX currently does not have a traceability system in place. It therefore does not meet the demands of the organic and fair trade market, nor of the EU, USA or Japanese food markets. At present, a product can be traced back to an ECX warehouse, not to the farmer. It is technically feasible to introduce a full traceability

system. However, because many smallholder farmers produce small quantities for sale through the ECX, this will be a major and costly operation.

Secondly, for organic certification all actors, inputs and activities in the supply chain need to adhere to organic procedures. This implies separate transport to and from the ECX warehouse, separate storage space in ECX warehouses, ‘organic’ treatment against post harvest losses during storage, separate administration so that the organic products can be followed from the very first inputs to the sales of the final product. Technically speaking this is feasible. But the fulfilment of all the requirements for organic certification will require important investments by the ECX.

Finally, fair trade markets require longer-term relationships between buyers and sellers, contracts to be agreed upon by both parties before the start of the growing season, require buyers to provide pre-financing at the start of the growing season, etc. For this contract farming is more suited. However, contract farming does not mix well with selling through the ECX. The ECX in essence is a spot market system and trading is anonymous.

Conclusion

Ethiopia’s coffee and sesame sectors have the potential to serve higher-end markets, as the quality produced is generally high in Ethiopia.

The major obstacles to serving niche markets are the absence of a traceability system and guarantees that compliance to social and environmental standards are adhered to. While it is technically feasible to adjust ECX procedures, this will require considerable investments.

Building strong chain relationships (for example through contract farming) is part of the strategy of high value markets. Experiences in other countries have shown that strong relations between value chain actors are an incentive for the private sector to invest in smallholder agriculture.

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