EPRC ECONOMIC POLICY RESEARCH CENTRE | POLICY NOTE |

Issue 2: March 2019

Why is Coffee from Kenya and Rwanda Priced Higher Globally than Coffee from Uganda?

Swaibu Mbowa, Ezra Munyambonera, Florence Nakazi

Executive Summary

This brief examines why Uganda continues to earn the least per kilogram of coffee exported specifically in regard to Arabica coffee, compared to other East African (EA) countries. Kenya in 2017 for example, earned as high as US$ 329, and Rwanda US$ 150 from a 60-kilogram bag of Arabica coffee exported respectively. Uganda, on the other hand, earned only US$138 from Arabica coffee, and US$ 93 from Robusta coffee in the respective period. Kenya unlike Uganda, strives to market single-origin branded coffees via an auction commodity exchange—which offers competitive prices. The bulk of Uganda's coffee (85%) is sold unbranded via the conventional global coffee market—which offers less competitive prices following the International Coffee Organisation (ICO) indicative future price systems. Both Kenya and Rwanda are actively engaged in specialty coffee markets in Europe and USA, but speciality coffees accounted for only 5.5% of the volume of Uganda's coffee exports-at US$ 42 million in 2017. The value of Ugandan coffee can be improved by Uganda Coffee Development Authority (UCDA) taking measures like improving on the coffee grades; developing a national coffee traceability platform to increase capacity to tap into the growing demand in specialty and niche coffee market in USA, Asia and Europe; establish a coffee auction exchange to promote Uganda among the single source coffee exporters, and explore soluble coffee plant (as a medium term plan) to add value to the low quality Robusta and the broken half coffee pieces.

1.0 Background

Coffee continues to play a pivotal role as a foreign exchange earner for Uganda, Kenya and Rwanda. Among the three EA countries, Uganda earns more revenue from coffee in absolute terms due to the relatively large volumes exported (Table 1). However, it is interesting to observe that in 2017, while Uganda exported 4.8 million 60 kg bags of both Robusta and Arabica coffee, valued at USD 560 million, Kenya earned USD 230 million from only 0.7 million bags of Arabica coffee. In contrast, Uganda earned USD 138 million from 1 million bags of Arabica coffee. Table 1 indicates that both Kenya and Rwanda earn proportionately more from Arabica coffee than Uganda. The high earnings from Arabica coffee by Kenya and Rwanda suggest that Uganda has an unexploited capacity to increase its coffee earnings.

USD/60 KG BAG (2017)

91	**Uganda (Robusta)**
138	**Uganda (Arabica)**
329	**Kenya (Arabica)**
150	**Rwanda (Arabica)**

Table 1: **Earnings from Coffee Exports by Uganda, Kenya and Rwanda in 2017**

Country	Robusta		Arabica		Total Earnings (million USD)	% Agricultural Exports	% Total Exports
	Quantity (million 60kg bags)	Value (million USD)	Quantity (million 60kg bags)	Value (million USD)			
Uganda	3.8	346	1.0	138	560	32.9	11.6
Kenya	-	-	0.7	230	230	7.4	2.2
Rwanda	-	-	0.4	60	60	11.6	3.6

Sources: ITC calculations based on UN COMTRADE statistics (2018) and World Development Indicators-WDI (2017).

2.0 Why does Uganda earn the lowest in EA from coffee exports?

Based on literature on global coffee trade practices, secondary data from the International Trade Centre (ITC), International Coffee Organization (ICO) and the Uganda Coffee Development Authority (UCDA), we examine why Uganda's coffee earnings lag behind those of its EA peers. A major objective of the analysis is to support policymakers, especially the UCDA, in rethinking their strategy of maximising value from coffee exports, as the country targets to export 20 million bags by 2030.

The analysis is also guided by the global coffee trade literature. Specifically, it is indicated that the international coffee price received by countries is determined primarily by the following five factors: *(i) the type of coffee traded (*i.e., *Robusta or Arabica); (ii) capacity to export branded coffee; (iii) targeting niche and specialty coffee markets; and (iv) the quality of a given traded coffee; and (v) coffee marketing fundamentals.* How the five factors play out in the Uganda case is explained in the sections below.

2.1 Type of Coffee Traded

Arabica coffee is the most expensive coffee and is the world's most popular type of coffee, comprising 60-75% or more of the world's coffee production. Generally, Arabica coffees (e.g., Colombian Mild and Brazilian Mild coffees) fetch premium prices compared to Robusta coffees on the international market. This preference for Arabica coffee is attributed to its inherent characteristics which include: less caffeine, which makes it less bitter; almost twice as much sugar content as Robusta; more lipids; and high flavour acidity, which improves the taste.

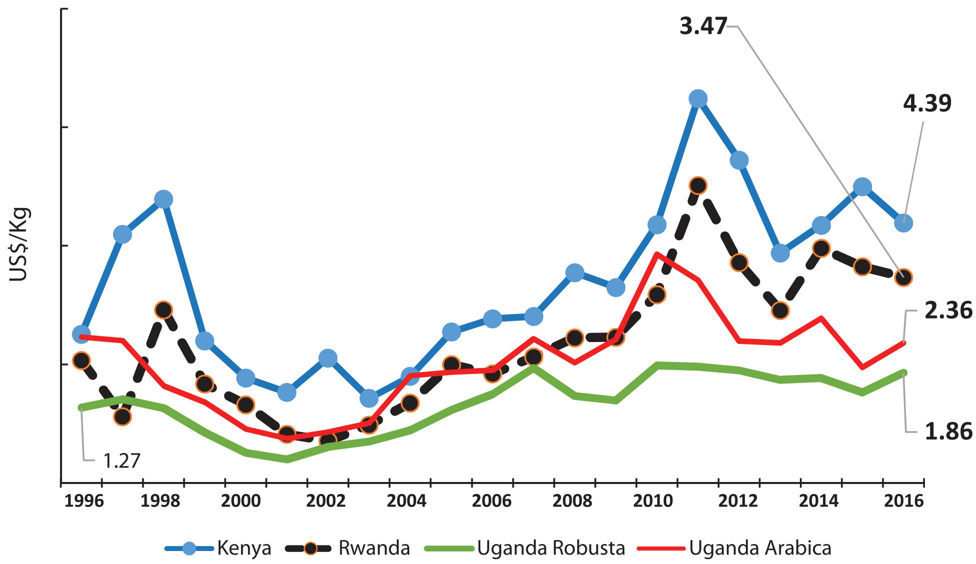
Uganda exports mainly Robusta coffee (which accounts for 80 % of exported volumes) and commands a relative comparative advantage in having the capacity to export both types of coffee. Although Uganda has higher prospects for future growth in Robusta coffee, it fetches low prices globally (Figures 1) due to differences in quality attributes.[1] Nonetheless, some observe that the "*quality attributes of Robusta and Arabica are different, but roasters also desire high quality Robusta for blending*".[2] This justifies Uganda's zeal in the pursuit of the Robusta-led coffee road map and, hence, its aim to produce 20 million bags of Robusta by 2030.

Two important facts of interest are observable from Figure 1, as follows:

(i) Aside from the comparatively low prices globally for Robusta, the unit value of Kenya's and Rwanda's Arabica coffees remains higher than Uganda's Arabica coffee on the global market;

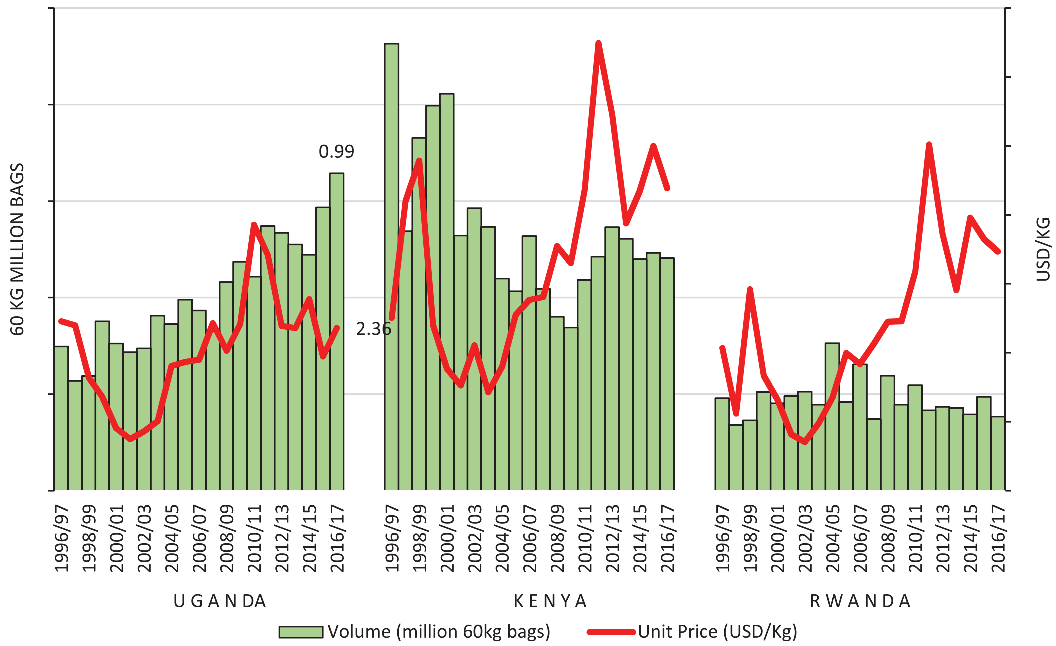
(ii) Both Kenya and Rwanda appear to earn higher prices than what the conventional international markets offer guided by the ICO.

Figure 1: **Annual Coffee Price Trends for EAC coffees, 1996-2016**



Source: FAOSTAT & UCDA (2018)

Figure 2: **Trends in Arabica Coffee Prices and Volumes Exported by Uganda, Kenya and Rwanda**



Source: A combination of ICO, FAO and UCDA (2018)

These two factors may be explained by the following: (a) internal marketing strategies pursued by both Kenya and Rwanda; and (b) the dynamics in the destination markets (i.e., importing countries) to which both Kenya and Rwanda export their coffee.[3] First, it is documented that Kenya[4] and Rwanda primarily specialise in exporting branded Arabica coffees from a single origin source.[5] Second, unlike Uganda, both Kenya and Rwanda have pursued a strategy of improving prices earned per unit and have had a limited focus on expanding volumes of Arabica coffee exported (Figure 2).

Furthermore, Figure 2 shows that even with limited growth in terms of volume exported, Kenya still earns relatively more from traded coffee on the international market by virtue of concentrating on specialty coffees.[6] Indeed, despite the decline in volumes, Kenyan beans still stand out as the best on the world market and are the most sought-after beans by roasters to blend with other world coffees (ICO, 2018).[7]

2.2 Capacity to Export Branded Coffee

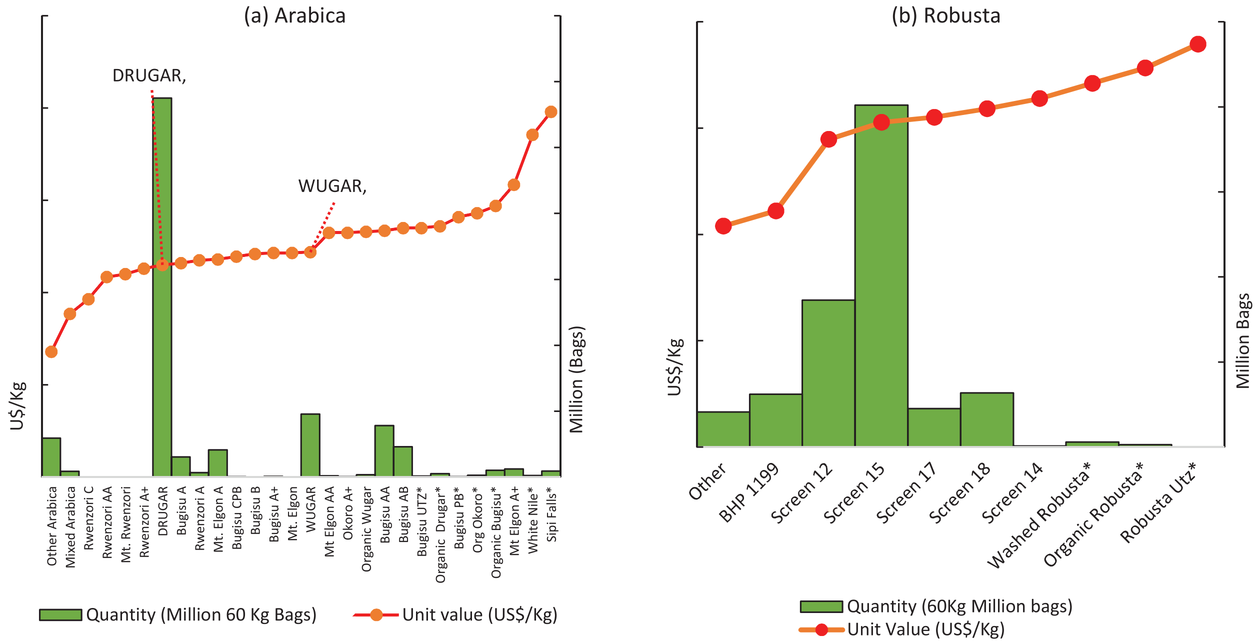
The value of Kenyan coffee has been consistently on the rise due to the marketing of top grades of Arabica under brand names, such as Meru AA, Riakiberu AB, and others. There is increasing focus on widening the brand markets for Kenyan coffee. For example, in January 2018, the high-grade Arabica–Meru AA realised the highest price: 13.10 USD per kilogram. According to ICO, Kenya Arabica coffee is classified in the same category as Colombian Mild coffee or fine Arabica coffee—and these fetch the highest prices on the world market (Nairobi Coffee Exchange, 2018).

It is documented that Uganda Arabica coffees are among the best in the world.[8] However, the country has not fully taken advantage of this great opportunity to optimally develop its capacity to tap into high-value global Arabica specialty coffee markets by concentrating on producing low high-grade Robusta and Arabica.

2.3 Quality of Traded Coffee

Uganda has in recent years faced challenges in producing high-grade Robusta and Arabica. For example, the bulk of Arabica coffee (58 %) is exported as dry processed Uganda Arabica (DRUGARS) priced at USD 2.3 per kilogram, compared to USD 4.0 per kilogram for speciality coffees (e.g., SIPI falls, White Nile, Mt.Elgon A). Dry processing yields lower-quality coffee beans, which affects the prices received. Wet-processed or washed coffee fetches a significant premium on the world market. Exporting of DRUGARS is partly attributed to the limited number of washing stations. Uganda has approximately 22 washing stations, compared to Rwanda's 261 washing stations.[9]

Figure 3: **Uganda's Coffee Exports by Grade and Prices in FY 2016/17**



Source: EPRC (2018)

Uganda's Arabica coffee is sorted into 28 different grades fetching prices that range from USD 1.4 to USD 4.0 per kilogram, depending on the grade on the international market (Figure 3a). On the other hand, in FY 2016/17, Uganda exported over 10 grades of Robusta coffee, with prices ranging between USD 1.3 (for low grades, such as Screen 15, Screen 12, Screen 18, Screen 17) and USD 2.4 per kg (for grades such as Robusta UTZ, Organic Robusta). However, the bulk (85 %) of Robusta coffee exports are the low-grade Robusta – mainly screens 15 and 12 (Figure 3b).

Coffee destined for specialty markets require traceability from farmers, hullers, and intermediaries to brewers (roaster).[10] The specialty coffee market involves further differentiation and grading based on aroma and intrinsic quality values of a coffee cup, which involves meticulous and appropriate intersection of cultivar, microclimate, soil chemistry, and crop and plant husbandry that are all essential to the preservation of quality attributes in specialty coffee.[11]

The current system in Uganda, i.e., UCDA-organised private-sector-led coffee marketing, does not promote the quality of coffee based on characteristics of place of origin (traceability). Countries such as Ethiopia and, to a lesser extent, Kenya have developed such marketing strategies, tracing geographical indicators or terroirs of origin for coffee. Such initiatives are yet to be implemented in Uganda. Consultations undertaken as part of this research with industry players such as NUCAFE revealed that Uganda's coffee suffers from issues of certification and verification despite requirements from various buyers who demand certified coffee – such as "shade grown", "organic coffee" and "Rain Forest Alliance" – and are willing to pay all the returns on investment required to obtain it. This type of coffee fetches better prices on the world market compared to conventional coffee types.

2.4 Targeting Niche and Speciality Coffee Markets

The three countries export over 90% of their coffee. But Kenya has a more diversified market space (20 destination countries), followed by Uganda (15 countries), then Rwanda (11 countries). Kenya exported mainly to the USA (19%), Germany (17%), Belgium (11%), Korea (8%), Sweden (7%), and Switzerland (4%). It is worth noting that the top 10 countries where Kenya exports its coffee offered prices above USD 6.0 per kg. Strategically, Kenya has, over time, branded its Arabica Mild coffees that are being sold in specialty markets at relatively higher premium prices.[12]

Rwanda also targets specialty markets in the USA and Europe, but because of relatively lower volumes, the Rwanda Arabica has not attracted a premium price similar to Kenya's. Rwanda, for example, in 2016, exported approximately 0.35 million 60 kg bags mainly to Switzerland, the USA, Belgium, the UK, and Singapore. These are considered to be niche markets and offer the relatively better prices of USD 2.74 per kg, owing to the fact that Rwanda exports washed, good-quality Arabica coffee. [13]

It is estimated that 94.5 % (4.4 million bags) of Uganda's coffee is exported to conventional markets. Conventional international coffee market prices are determined following ICO indicative prices. Specifically, prices for Robusta are based on future prices on the London commodity exchange market, whereas Arabica is guided by future prices on the New York commodity exchange.

For Uganda, approximately 61% of its coffee is exported to the European Union (EU), but the major importing countries have paid relatively low average prices (for both Arabica and Robusta), ranging from USD 1.84 to USD 1.99 per kilogram. The EU buyers of Uganda's coffee use it for value-addition processes, such as blending and roasting with other origins. The earnings from Arabica can be enhanced if Uganda moves to brand its Arabica and invests more in penetrating the emerging specialty coffee markets in North America, Europe and Asia. There is also a high potential for Uganda Robusta coffees to penetrate the specialty markets as wet-processed coffee, which is proven to command a premium price. Therefore, based on volume, Uganda has an opportunity to earn higher revenues from coffee.

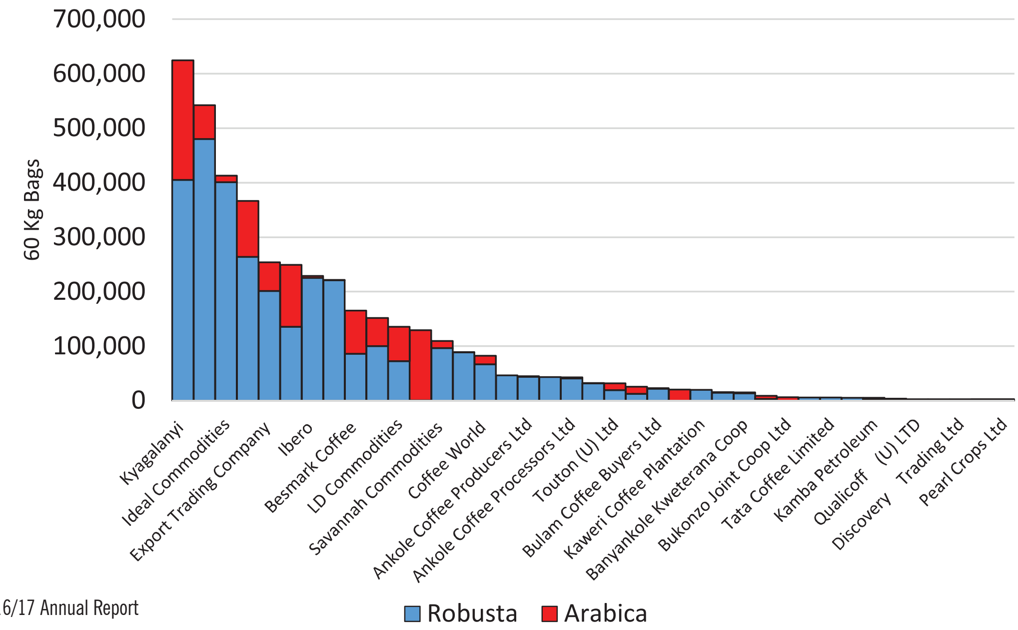
2.5 Coffee Marketing Fundamentals

Approximately 80% of Ugandan coffee is exported by 10 big foreign companies to the EU guided by the ICO indicative prices (Figure 4).[14] Apparently the business interests of the ten big EU-based companies do not align with promoting grass-roots farm-anchored specialty coffee production and marketing activities within the country. The nature of the Uganda coffee export business is such that the largest coffee exporters also double as international coffee houses and roasters within the EU. Such an arrangement revolves around fixed contracts on agreed-upon terms, and there is no flexibility in negotiating prices.

Unlike in Kenya, which has an Auction Commodity Exchange coffee market, coffee trading operational activities in the conventional market is influenced by large international coffee houses, which leads to information asymmetries in market fundamentals (including price). With an auction commodity exchange in Kenya, prices are determined through competitive market bidding at the exchange market. Exporters offer the highest prices through bidding, and there is limited influence of large international coffee houses, enabling the transparent flow of market information.

Close scrutiny of the key destination markets and dominance of low-grade coffee in the business activities of the top 10 exporting firms confirm the notion that ***the key objective of the top companies exporting Uganda's coffee is to***

Figure 4: **Coffee Exports by Individual Companies, Financial Year 2016/17**



Source: UCDA (2017) 2016/17 Annual Report

maximise volume, specifically the volume of Robusta coffee, for blending with other coffees of other origins, especially with Arabica coffees. Large foreign-owned companies are not interested in promoting specialty coffee production and marketing activities in the country. This is because of the likely effects of undermining the attainment of the maximum volume targets destined for the conventional markets for re-export of blended coffees. The concentration at the export level and the lack of competition through the commodity exchange could be the reasons why most of the large exporters continue to market Uganda coffees in the conventional market.

3.0 Conclusion and Policy Actions

The policy note shows that the reasons why Uganda is the least earner from coffee exports among the EAC countries include: -

1 There is no strategy in place for an auction market to export coffee as a Ugandan brand in niche markets;

2 Uganda is trading in low-grade coffee, both Arabica and Robusta, which is excluding the country from niche coffee markets;

3 Poor post-harvest handling and limited processing infrastructure (e.g., washing stations) and lack of traceability are affecting coffee grade and, consequently, price;

4 The use of Uganda's Robusta coffee for blending results in lower prices. The top 10 foreign-based coffee trading companies operate under a business model tied to transacting in high volumes of Uganda Robusta for blending with other coffees, especially Arabica, on the European market for further re-export;

5 The failure of the government to pass the National Coffee Bill into law (an Act) is slowing the UCDA, a body charged with developing the coffee industry by improving coffee grades. The National Coffee Bill would help the UCDA improve grades through stronger enforcement of standards; and

6 There is an over-dependency on the conventional coffee market and a lack of development of a parallel national coffee exchange market to help the country sell coffee as a Ugandan brand.

Policy actions and way forward

a) Invest in productivity-enhancing farm practices and post-harvest handling capacity to produce higher volumes of high-grade coffee;

b) Develop a National Coffee traceability platform or Geographical Indicator System to develop the capacity to tap into the wider specialty-coffee market;

c) Expedite the operationalisation of the specific intervention areas in the National Coffee Strategy 2015/16-2019/20, such as profiling and traceability initiatives, which the UCDA is spearheading. A number of coffee-quality profiles have been developed based on the intrinsic quality attributes, altitude, soils and agro-economic zones.

d) Promote wet processing of Dry Uganda Arabica (DRUGARS) to improve its grade and value on the export market.

e) Promote the grading of Wet Uganda Arabica (WUGARS) to increase the value of Arabica coffee in the foreign exchange earnings for Uganda.

f) Increase the volumes for specialty coffees for both Robusta and Arabica coffees to meet the growing demand in consuming countries; and

g) In the medium-term, explore the soluble coffee manufacturing for low-quality and low-priced Robusta coffees, including the utilisation of broken-half pieces (BHPs).

Endnotes

1 In terms of prices, Robusta prices have fluctuated between 1.27 US$ per KG in 1996 to US$ 1.86 per KG in 2016, but reached the bottom lows of about US$ 0.4 in 2001/02 following the global coffee crisis in CY 2001/02 arising from oversupply.

2 James Rogers Kizito-Mayanja (January 2019). Personal commentary on Opportunities for Robusta Coffee on the international market. Market Intelligence and Information Manager, Uganda Coffee Development Authority (UCDA).

3 Wim Pelupessy (2007). The World behind the World Coffee Market. Cafes et cafeiers Vol. 180/2007 p. 187-212. https://journals.openedition.org/etudesrurales/8564

4 Coffee Master (2018). The Kenyan Coffee: History, Characteristics, Brends, Production, Making and Drinking Coffee Tradition in Kenya. Published January 17, 2017 · Updated March 14, 2018.

5 Nizeyimana I. (2018), Optimizing Arabica coffee production systems in Rwanda: a multiple-scale, PhD Thesis, Wageningen University, Wageningen, the Netherlands (2018).

6 Specifically, Kenya Arabica coffee production has been declining over years; currently, production level is about 50,000 MT (0.8 million bags) compared to 130,000 MT (2.17 million bags) in 1988/89, about a 60% reduction.

7 International Coffee Organization (2018). Coffee Market Report

8 Morjaria, A. and M. Sprott. 2018. Ugandan Arabica coffee value chain opportunities. Final paper published by International Growth Centre (IGC), Reference No. F-43410-UGA-1

9 It should be noted that in 2016/17, fully-washed coffee (high-value coffee) represented about 52% of Rwanda's total coffee exports. Furthermore, in 2016/17, over 26 new coffee-washing stations were constructed with an installed capacity of 12,000 tons (National Agricultural Export Development Board. Annual report 2016/17).

10 EPRC (2018). Fostering a Sustainable Agro-industrialisation Agenda in Uganda, November 2018.

11 Ric Rhinehart (March 17, 2017). What is Specialty Coffee? Specialty Coffee Association Newshttp://www.scanews.coffee/2017/03/17/what-| is-specialty-coffee/.

12 In addition, Kenya has widely promoted its Arabica coffee and has mainly targeted niche markets (in the USA, Switzerland, and Belgium). The two strategies, *(i) pursuing specialty coffee markets*; *(ii) targeting emerging niche markets,* have enabled Kenya over time to earn "superior" coffee prices far above the ICO global published indicator coffee prices.

13 International Trade Centre (ITC) (2012). Niche Markets for Coffee: Specialty, Environment and Social Aspects. Geneva: ITC, Technical paper; Doc. No. SC-12-224.E

14 There were 40 coffee-exporting firms during FY 2016/17 (UCDA, 2016/17 Annual Report).

The Economic Policy Research Centre (EPRC) is an autonomous not-for-profit organization established in 1993 with a mission to foster sustainable growth and development in Uganda through advancement of research –based knowledge and policy analysis.

Address:
Economic Policy Research Centre
51, Pool Road, Makerere University Campus,
P. O. Box 7841 Kampala, Uganda
Tel: +256414541023/4 Fax: +256414541022
Email: eprc@eprcug.org, Website: www. eprc.or.ug

Learn more at:

www.eprcug.org TWITTER:@EPRC_official www.facebook.com/EPRCUganda eprcug.org/blog