

ECX's coffee market :traceability and new developments

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Der es Salaam, February, 2016



ETHIOPIA COMMODITY EXCHANGE
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Outline

1. Overview on ECX's coffee market
2. Major developments in the market
 - I. ECX warehouse and quality spin-off
 - II. Electronic Trading (e-Trading)
 - III. Coffee contract consolidation
 - IV. Coffee Traceability



1. Overview about ECX

Background

Coffee

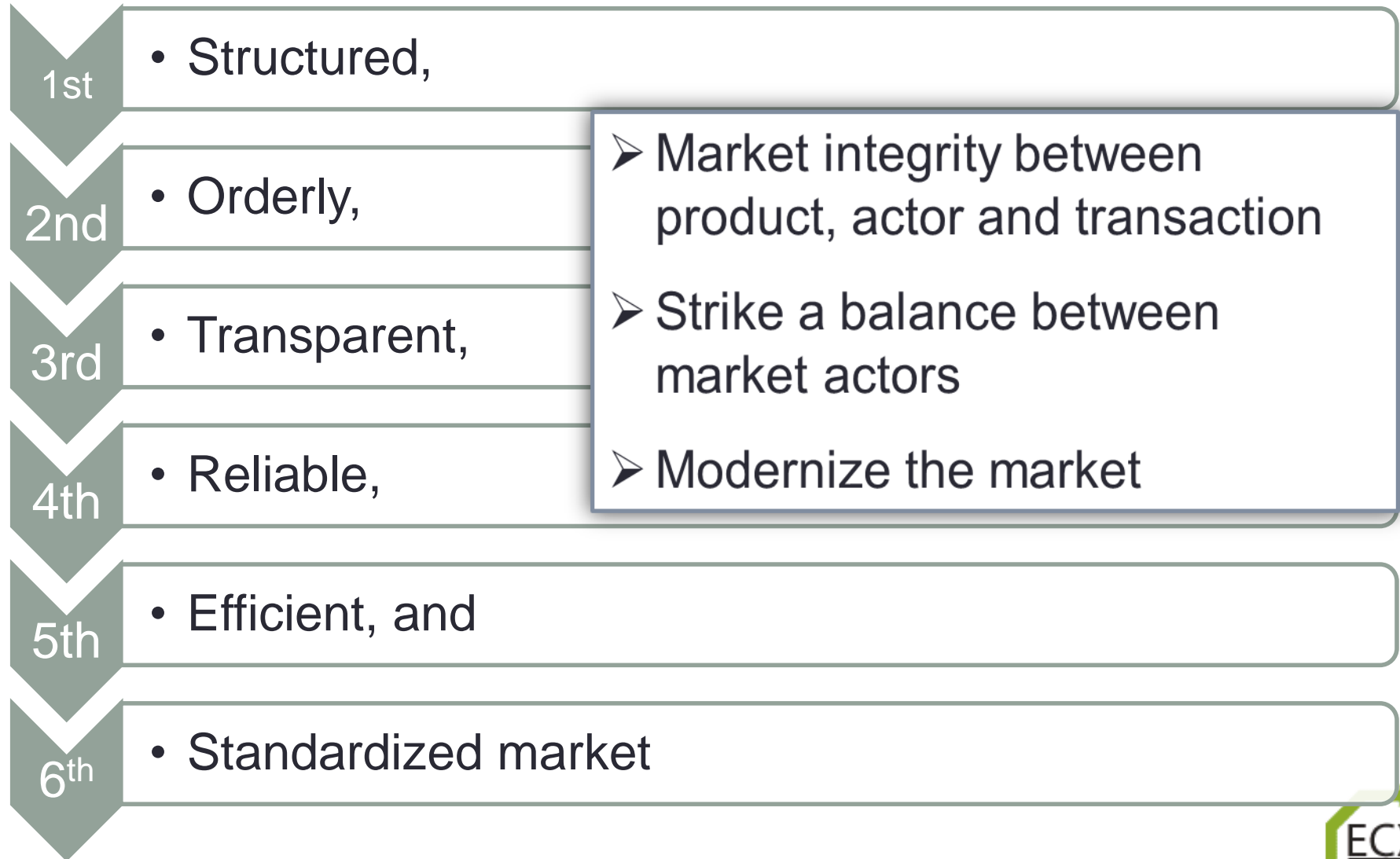
- Coffee is a strategic commodity to Ethiopia.
- It covers 24-26% of the total income of its earning.
- Is a source of income to a quarter of the population.

ECX

- Ethiopia Commodity Exchange (ECX) was established in the year 2008 with the vision **to revolutionize Ethiopian tradition bound agricultural value chain** through creating a new marketplace that serves all market actors.
- Coffee, then incorporate in to the Exchange system as of December 2008.



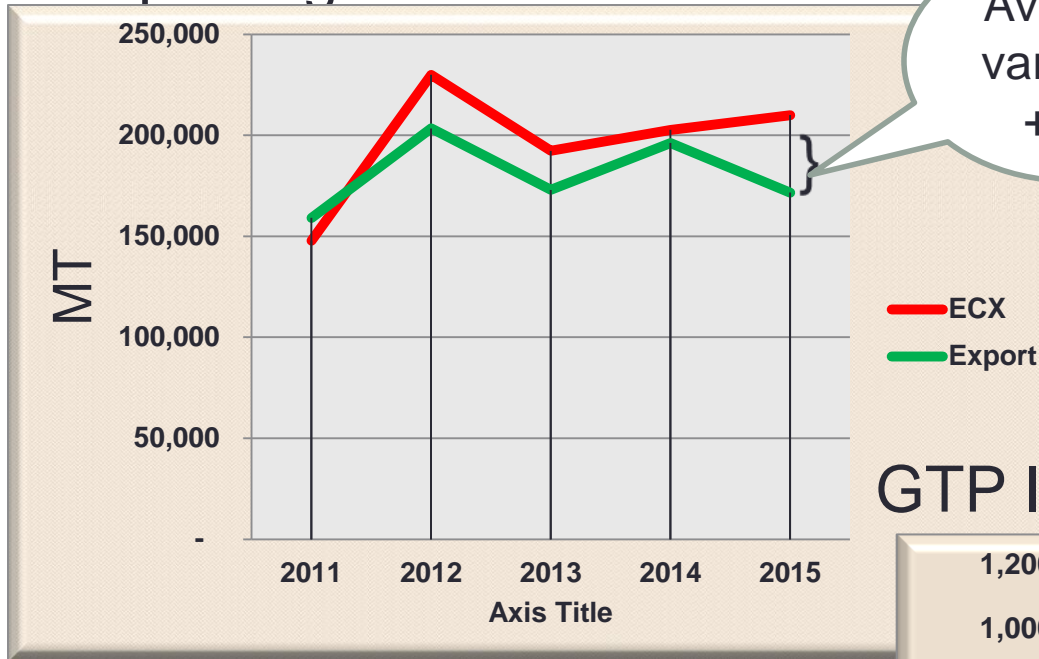
ECX's value proposition, to create a



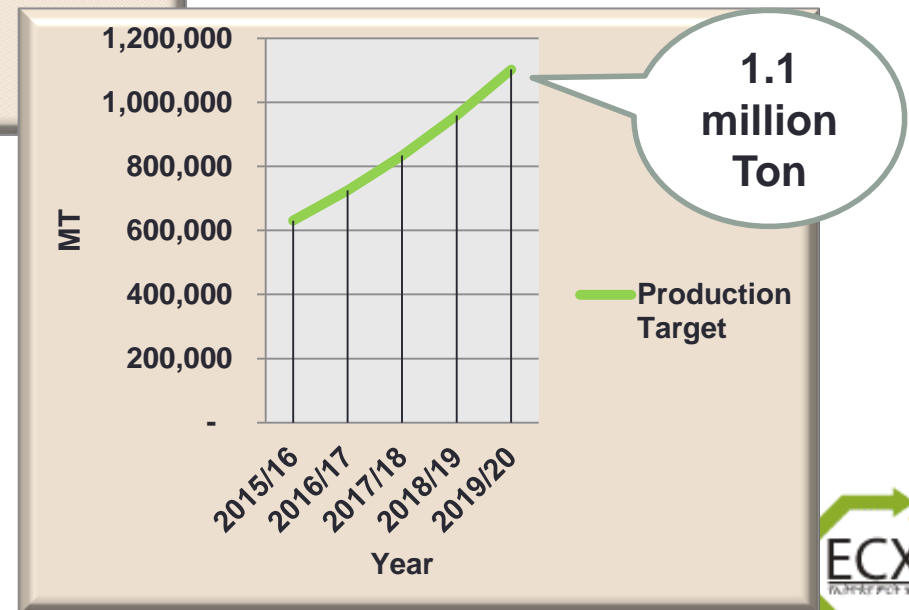
- **Membership:** Out of the 346 full members around 55% of them participate in coffee trading.
- **Volume :** Coffee contributes on average 43% of the total volume traded at ECX per annum(1.4Million MT since 2008).
- **Value:** coffee represents 60% of the value transacted .
- **Delivery centers /lab:** Out of the 20 DCs/labs, 9 (50%)are coffee DCs.
- **Farmer cooperative unions:** out of 32 member 8 engage in coffee trade.

Coffee Export

- Export against ECX trade data



GTP II coffee production target





2. New developments in the market

What is new ?

What's NEW?

Major developments:



ECX Warehouse and Quality Spin-off



Introduction of Electronic Trading (E-Trading)



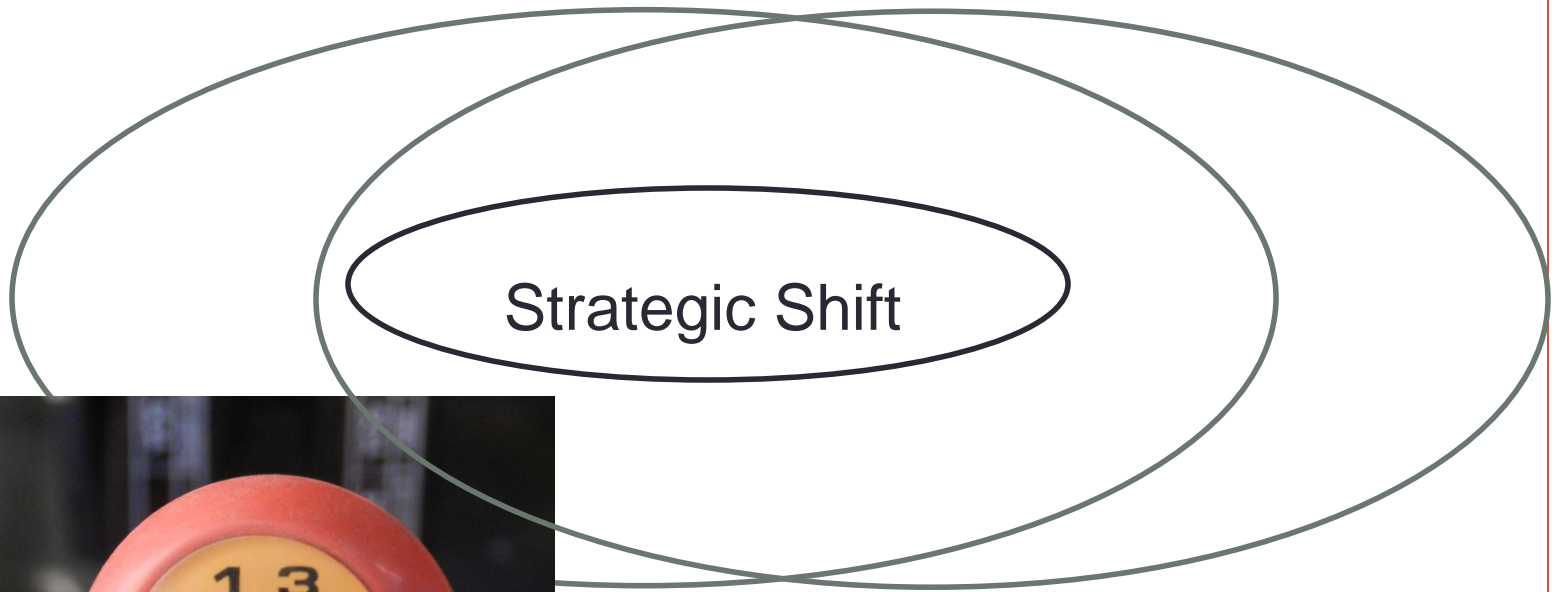
Coffee Contract Consolidation



Coffee Traceability

Outline

I. ECX warehouse and quality spin-off



Integrated ECX technology solution





Membership management, Warehouse and Quality operation
Central Depository and Trading Operation
Clearing & Settlement, Market Dissemination, Market
Surveillance

- Highly burdened operation with wide area coverage
- Result in less focus, less efficiency & response time, diminished potential to grow



Why is the strategic shift becomes important ?

ECX decided to do a strategic shift, reasons are:

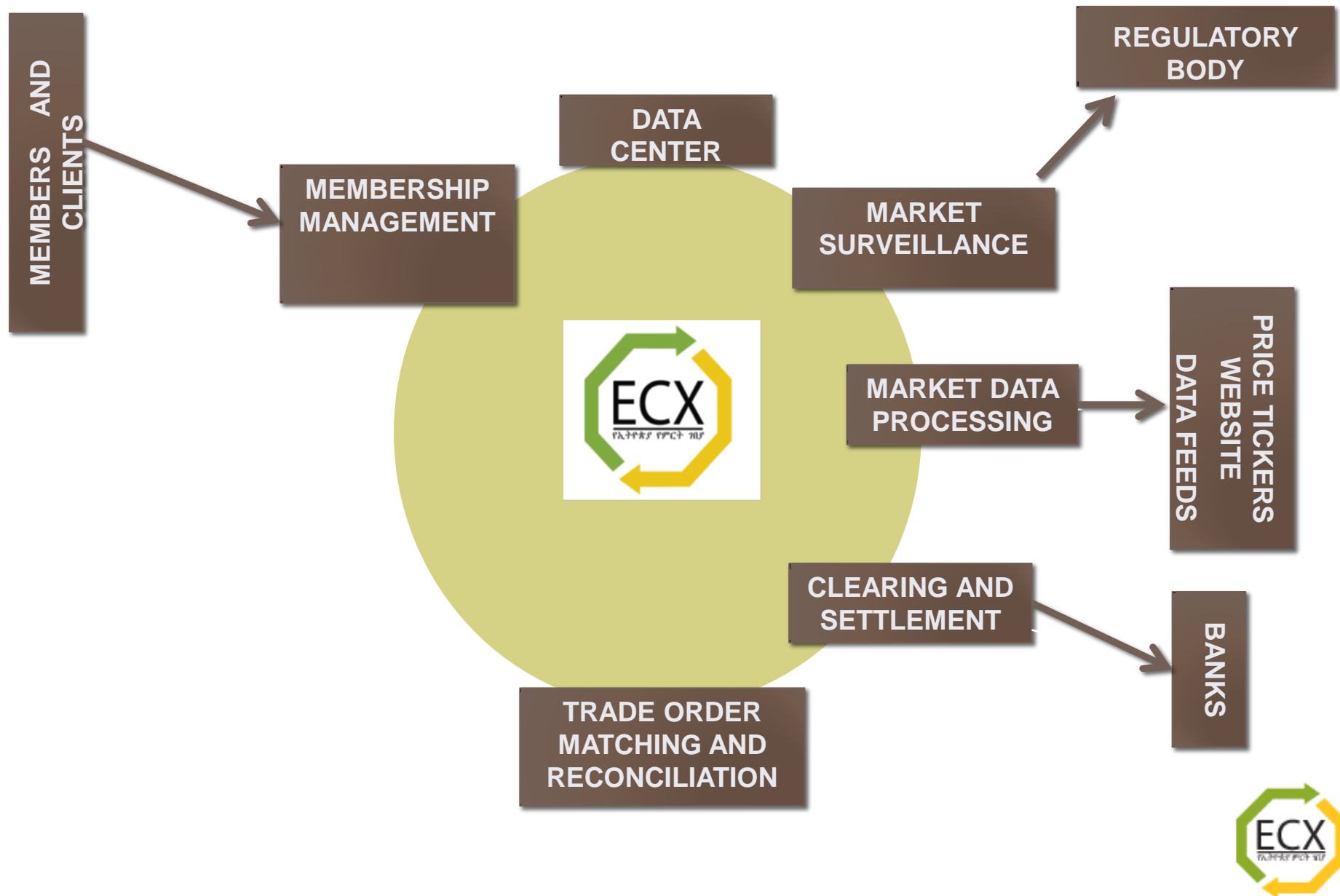


.....spin-off

- ❑ Create SPECIALIZATION – separation between Exchange and Warehouse service provision
- ❑ Operational EFFICIENCY – fast decision making
- ❑ Management FOCUS – better customer service and short response and recovery time,
- ❑ INVESTMENT opportunity – upgrading of infrastructure & technology through budgetary injection from government, other stakeholders and partners etc
- ❑ SECTORIAL growth- knowledge proliferation in exchange inventory management and quality certification



The emerging eco-system



.....after the spin-off



ECX –with Trading and Clearing and Settlement

- Focused on Member Management, Trading, Clearing & Settlement
- With open outcry and electronic trading platform



EACWSE-Warehousing service Provider –

- Specialize in warehousing service, quality certification and Central depository
- Focus on inventory Management and Infrastructural upgrade

Status of the spin-off process

- ❑ The Council of Ministers , approved the Separation of the Warehouse & Quality operations of ECX. Established a new enterprise, named **Ethiopian Agricultural Commodities Warehousing Service Enterprise** under regulation #331/2014,

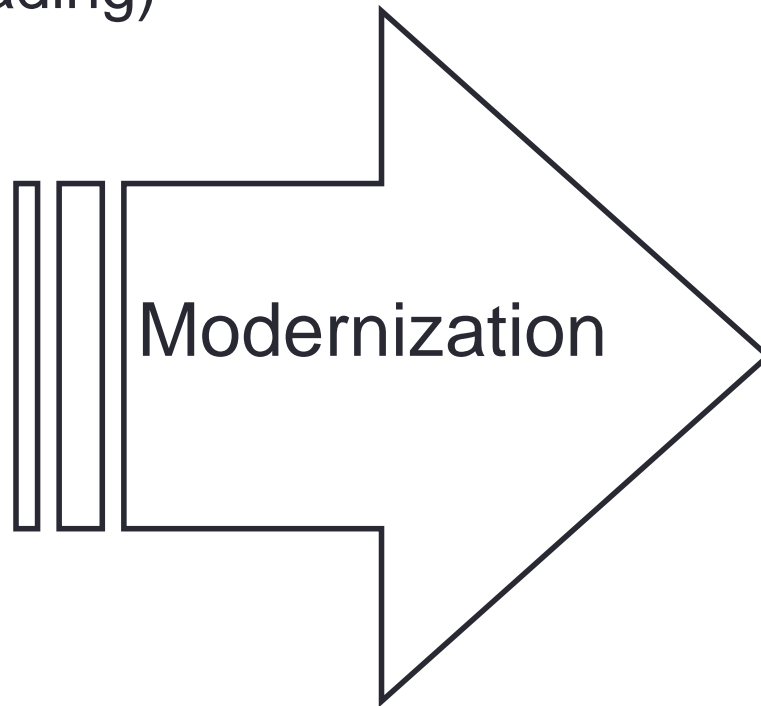
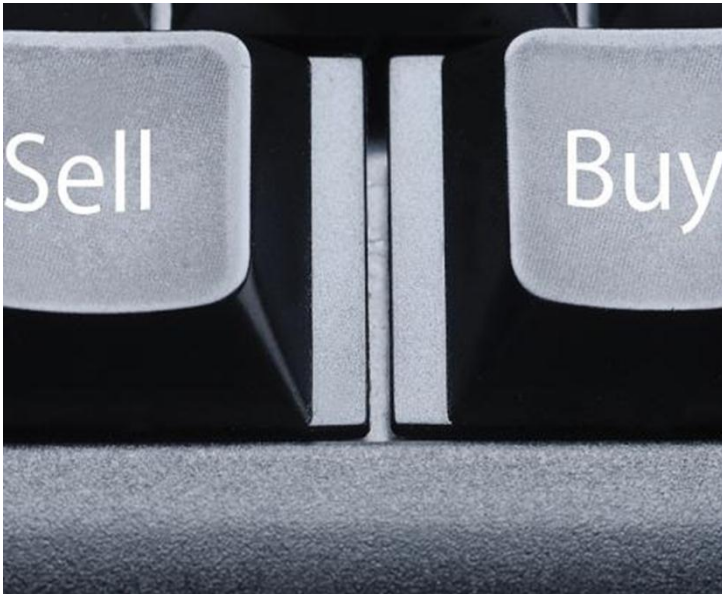


- ❑ The Enterprise is established with the mandate on the two **major functions—warehousing service and quality certification**

EACWSE is operational as of October 2015

Outline

II. Electronic Trading (e-Trading)



Why e-Trading is so preferred?

ECX commitment

Modernizing market
and creating
efficient trading
platform



Open Outcry

- Has space limitation
- Noisy and chaotic
- Time bounded
- Has physical interaction
- Hand shake is mandatory
- Difficult to market surveillance and follow up



Electronic Trading

- Operate beyond space boundary
- Efficient and time saving
- Convenient and easy
- Remotely accessible
- Easy for market surveillance

Major breakthroughs

- Enable clients to **give direct e-instruction** to traders,
- Creates efficiency, transparency & convenience,
- Facilitate robust service provision & accessibility
- Open up opportunity to **boost members capacity**



E-trade is launched as of July 2015

ECX Trading Platform

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The way forward in e-trading



Regional trading centers

- Having 4 coffee trading centers :
- The first four - at Addis Ababa, Hawassa, Jimma, Dire Dawa



Mobile trading facility

- Trading from any where
- Easy access to market information



MIK (Market Information Kiosk)

- Market data dissemination tool
- Interactive information kiosks

Outline

III. Coffee contract consolidation



ECX coffee quality grading system

Basics :

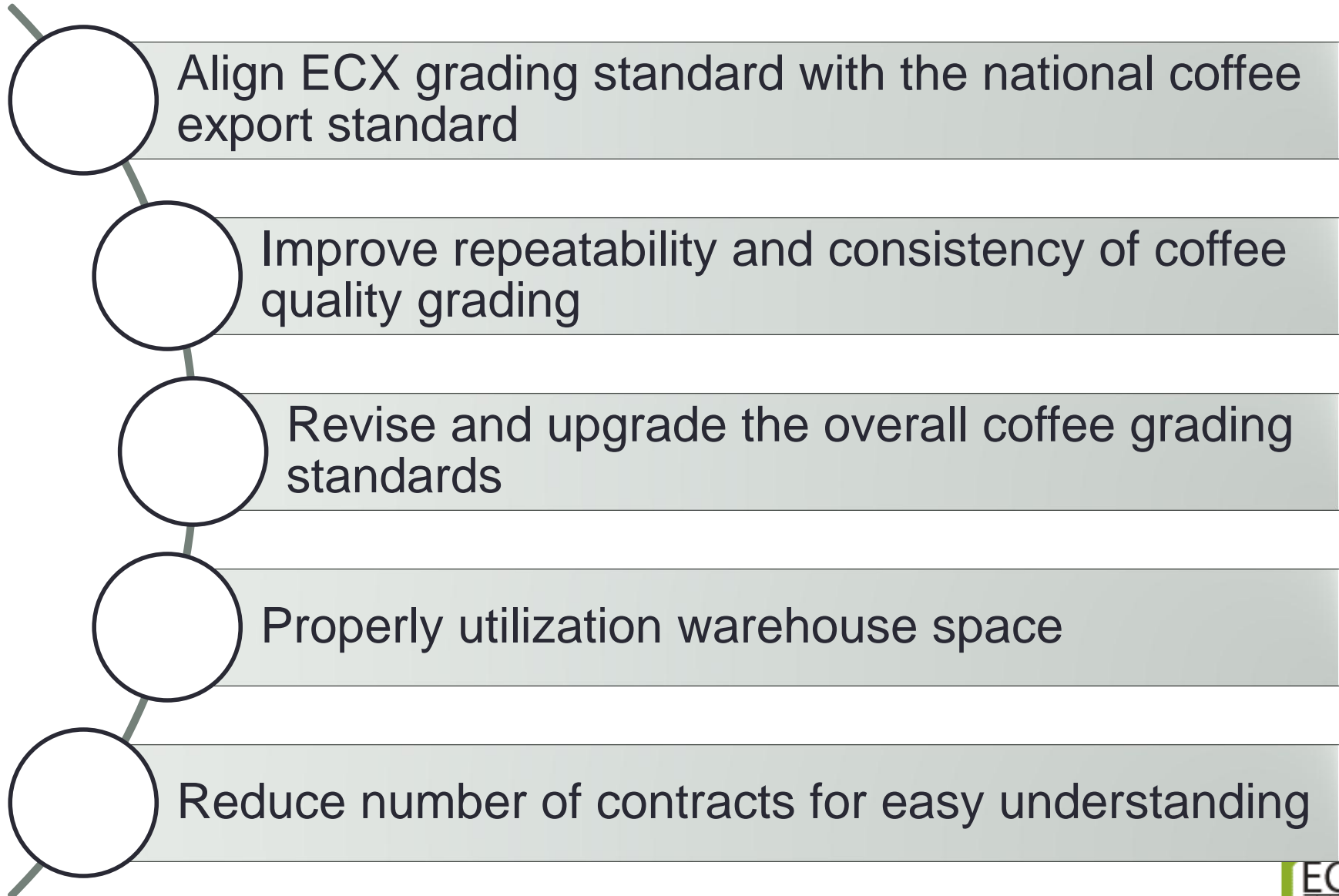
- Ethiopia has multi-genetic potential source and center of origin for Coffea arabica L.
- Ethiopia exports coffee based on their specific geographical origins.
- Each coffee has their own distinguished; physical and Organoleptic character,

So:

- **Both physical and sensory assessment** are used to determine the quality of coffee.
- Previous arrival coffee grading system **unbundled the coffee grades up to 10**



Why is important to consolidate coffee contract?



Previous coffee grading standards

ECX old coffee grading standard			
Grade levels	Grade range points	Variation between the highest and lowest pts	Remark
Grade 1	91 - 100	10	Potential for Specialty 1 and 2
Grade 2	81 – 90	10	Potential for Specialty 1 and 2
Grade3	71 – 80	10	Commercial
Grade 4	63 – 70	8	Commercial
Grade 5	58 – 62	5	Commercial
Grade 6	50 - 57	8	commercial
Grade 7	40 – 49	10	Commercial
Grade 8	31 – 39	9	commercial
Grade 9	20 – 30	11	Commercial
Grade UG	15 – 19	5	Commercial

New consolidated grading standards

ECX new coffee grading standard			
Grade levels	Grade range points	Variation between the highest and lowest points	Remark
Grade 1	≥ 85.0	15	Potential for Specialty 1 and 2
Grade 2	75 – 84	9	Potential for Specialty 1 and 2
Grade 3	63 – 74	11	commercial
Grade 4	47 – 62	15	Commercial
Grade 5	31 – 46	15	Commercial
UGp & UGnp*	15 – 30	15	Commercial

- p and np = with and without parchment respectively

Outline

IV. Tracing coffee (Traceability)



**Value addition
to the value
chain**

Rationale:

Tracing the coffee



Inventory management



Operational efficiency



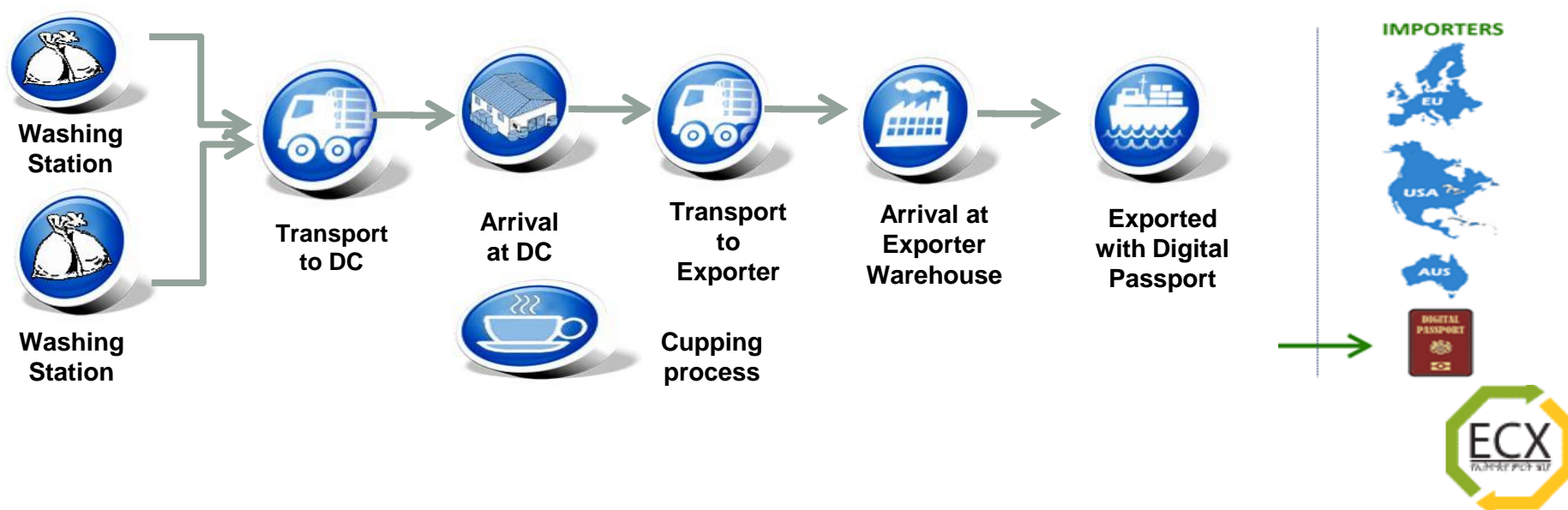
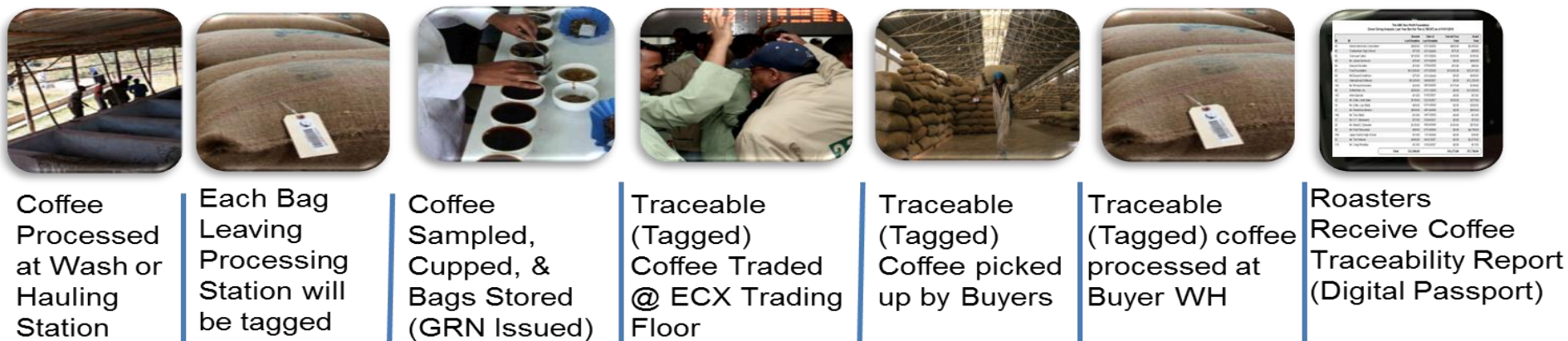
Why traceability initiative for?

- To provide buyers with **traceable information on coffee** purchased at ECX.
- **To create accountability** through barcode tags with the respective coffee processing (washing or hulling) station



Traceability process flow

The diagram below provides a high-level process flow of the traceability business process when fully implemented:



Scope and time line

Coffee type in scope

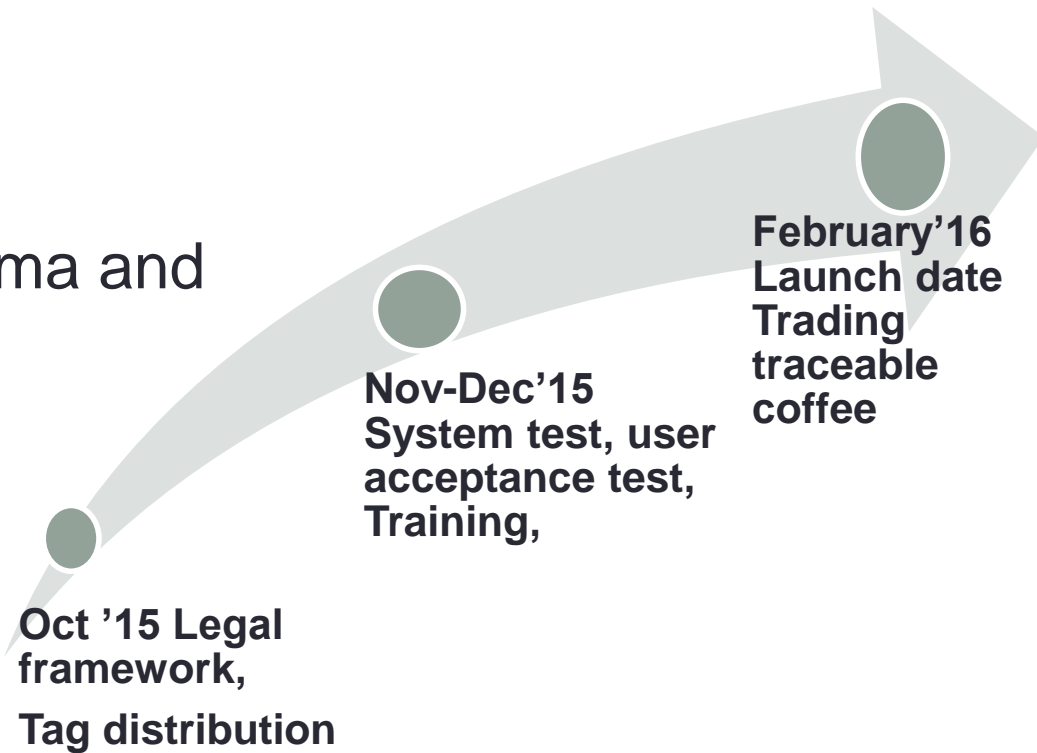
- Sidamo A, Yirgachefe, Jimma and
- Lekempti

Coffee bags/tags (1 Mill)

- Washed = 550,000
- Unwashed = 450,000

Processing stations (834)

- Hawassa (219), Ghimbi(280)
- Dilla(250), Jimma (85)



Overall view

Farmers/Primary Market/Co-ops

Smallholder Farmer



Primary Markets



Cooperatives



Washing/Hauling Station (Traceability Begins Here)

Washing/Hauling Stations



Tag Delivery and Bag Tagging



Alert Sent/Truck to ECX



EACWSE Warehouse

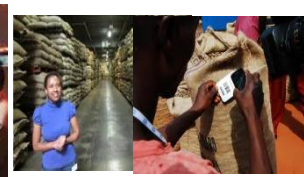
ECX Warehouse / Lab



Scanned In/Unloaded/Stacked



Scanned Out/Delivered



Exporter Warehouse

Scanned In/Unloaded/Stacked



Processed



Shipped



ECX

Certificate \$

Lot	Quantity	Price	Total
1	1000	1000	1000
2	2000	2000	2000
3	3000	3000	3000
4	4000	4000	4000
5	5000	5000	5000
6	6000	6000	6000
7	7000	7000	7000
8	8000	8000	8000
9	9000	9000	9000
10	10000	10000	10000



The journey started



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ETHIOPIA COMMODITY EXCHANGE
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