

AN ASSESSMENT OF THE POTENTIAL IMPACT OF THE COVID-19 PANDEMIC ON THE EAC COFFEE SECTOR



Update, November 2020

About the Paper

This paper provides an update to an earlier assessment (made in May 2020) of the potential economic impact of the COVID-19 pandemic on the coffee sector in the EAC countries, by reviewing effects on global demand for EAC coffee, effects on coffee production in EAC countries, and effects on bringing EAC coffee to the key markets. The update shows that the impact of the pandemic on the sector has been more limited than feared, mostly thanks to a lower-than projected contraction in demand in key markets. At the same time, supply-side and logistics challenges continue to affect the sector. This impact assessment update will be used to inform coffee trader associations in EAC countries of the COVID-19's effects on the EAC coffee sector and to guide MARKUP project activities in assisting EAC coffee sector stakeholders in developing recommendations on how best to respond to mitigate the negative impacts on the coffee export trade.

The paper was completed based on information available until 20 November 2020.

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INTRODUCTION

In addition to human losses and suffering, the COVID-19 pandemic also has a profound impact on the global economy, in turn affecting every single country and sector. The coffee sector in the EAC Partner States is no exception – although it might not be the most affected EAC sector – given its high export share and dependency on relatively few markets. Studying the potential impact of the pandemic on the coffee sector is also called for because of the vast number of people it employs across the EAC.

This paper provides an updated assessment of the economic impact of the pandemic on the coffee sector in the EAC countries, distinguishing effects on global demand for EAC coffee, effects on coffee production in EAC countries, and effects of bringing EAC coffee to the key markets. Although the pandemic is far from over, and much uncertainty therefore remains, compared to the original assessments made in March and May 2020 more data and experience are now available and allow for making better predictions about the impact of COVID-19.

The paper is organised as follows: The introduction provides a brief summary of the EAC coffee sector's recent export performance to set the stage for the subsequent analysis. The ensuing section explains the methodology used; this is done in a fairly detailed way to facilitate a replication of the analysis for other sectors and/or other countries or regions. Finally, main findings are presented, and followed by conclusions and recommendations for EAC coffee producers and policies.

Snapshot of the EAC coffee sector's trade performance

Table 1 shows the reported imports of coffee from the EAC Partner States in recent years. It shows that: First, overall, although volatile, the value of exports has grown over the period 2014 to 2018 by an average of 3.0% (data for 2019 are still incomplete, and hence the growth rate has been calculated up to 2018). Second, however, not shown in the table, over the same period export volume has increased by more than 5%, indicating that prices have gone down (and for 2019 the same analysis indicates a further price decrease). Third, more than half of the region's total exports – 53.9% – go to the EU27 (i.e. all EU Member States excluding the UK), but the share has slightly declined from 57.6% in 2014. The next most important individual markets are the US (12.8%), Japan, Africa and Switzerland. Asia and the Middle East as well as Africa (non-EAC) as a whole have shown the strongest growth rates, but exports to Africa in particular have also been highly volatile.

Table 1: Import of coffee (HS 0901) from EAC, in USD million, 2014-2019

Importer	2014	2015	2016	2017	2018	2019	2014 (%)	2019 (%)	CAGR2014-18
EU27	533.4	531.9	491.7	566.4	541.1	502.3	57.6%	53.9%	0.4%
USA	121.5	132.0	106.9	139.1	139.7	119.4	13.1%	12.8%	3.6%
Japan	52.6	60.1	52.3	47.2	62.0	57.3	5.7%	6.1%	4.2%
Africa	44.3	20.8	67.0	122.2	89.5	39.9	4.8%	4.3%	19.3%
Switzerland	18.0	21.8	19.5	24.5	20.1	32.9	1.9%	3.5%	2.8%
Korea	30.5	24.9	23.6	29.5	35.2	31.3	3.3%	3.4%	3.6%
India	16.9	19.1	19.5	25.0	29.6	26.9	1.8%	2.9%	15.1%
Asia & ME	11.0	11.2	11.0	12.1	24.5	26.1	1.2%	2.8%	22.2%
Pacific	11.3	13.8	12.5	13.4	19.3	18.7	1.2%	2.0%	14.3%
UK	17.4	16.2	17.2	16.8	16.6	15.8	1.9%	1.7%	-1.2%
China	3.2	5.4	3.9	5.7	4.7	6.9	0.3%	0.7%	10.3%
EAC	18.3	18.4	11.1	18.7	12.2	3.2	2.0%	0.3%	-9.8%
Other	47.5	47.5	43.9	55.2	49.4	51.7	5.1%	5.5%	1.0%
World	926.0	923.1	880.0	1,075.9	1,044.1	932.4	100.0%	100.0%	3.0%

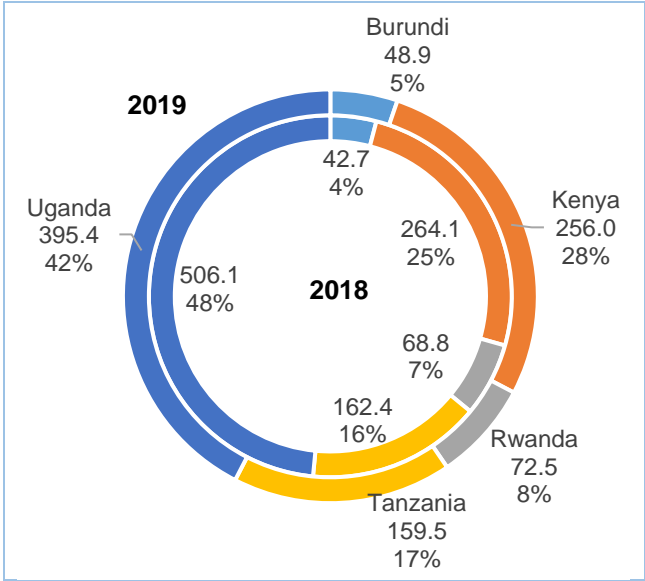
Note: Values for 2019 are less accurate due to a missing data from a number of reporters.

Source: Own calculations based on UN COMTRADE

In terms of the relative size of the coffee sectors in the EAC Partner States (Figure 1), Uganda is the largest one, accounting for more than 40% of all EAC coffee exports, followed by Kenya, Tanzania, Rwanda and Burundi.

It should also be noted that the coffee sector is among the largest job creators in the EAC, directly providing employment to more than 11 million people and income to hundreds of thousands of rural households (EABC 2020).

Figure 1: Value of coffee exports from EAC Partner States, 2018-19 (USD million)



Source: Own calculations based on UN COMTRADE

METHODOLOGY

The potential impact of the COVID-19 pandemic on Eastern Africa's coffee sector will be the result of four related factors:¹ first, changes in demand in key markets caused by the pandemic, both in the short and long term. Second, effects on coffee production in the region caused for example by regulations affecting production capacity, or limited availability of inputs or staff. Third, barriers and frictions in taking coffee beans to the market, i.e. the availability and cost of transportation, additional measures at border, etc. Lastly, structural changes in the global economy brought about by the crisis, such as an expected lower openness to trade. The impact assessment needs to consider each of these four factors and aggregate them into the total effect. The following sections describe the proposed methodology for each of these individual analyses. Given the availability of data, the analysis of demand shocks is the most developed one, whereas the other factors have to be analysed mostly qualitatively.

The analysis has been done for the five EAC coffee exporting countries individually as well as for the EAC coffee sector as a whole.

Assessment of demand shocks

Two factors determine the impact of COVID-19 on demand. First, the negative impact on economic growth leads to lower aggregate demand in an economy than without the pandemic. Second, the composition of demand changes: thus, demand for many products and services (including industrial machinery and inputs, tourism and recreation services, many durable consumer goods) has sharply decreased whereas demand for other products and services (in particular essential ones such as food and fast-moving consumer goods, those that are crucial for coping with COVID-19, and services replacing face-to-face situations with distance situations) has strongly increased.

The analysis of the demand shock for EAC coffee considers these two effects. The focus is on the key export markets for EAC coffee, i.e. the EU, the US, Japan, Korea, and India, which taken together account for about 80% of EAC coffee exports, although all markets are considered.

An important assumption for the quantitative simulation is that the demand for coffee from the EAC will be affected in the same way as total coffee demand. In other words, there will be no relative “winners” or “losers” among coffee producing countries – all will be affected in the same way, proportional to their pre-pandemic exports. Although this assumption is justified as a result of the global nature of the pandemic, the qualitative analysis will loosen this assumption to the extent possible.

The model

Normally, demand for coffee (as for any product) is a function of various variables: typically, the income of consumers, the price of coffee, the price of close substitutes (both different types of coffee and other hot beverages such as tea), and the size of a market (in terms of population) are typically considered (e.g. Kutty 2000, Galindo 2011). For a simple assessment of the impact of COVID-19, this model can be simplified considerably, because the pandemic is unlikely to affect some of the variables. For example, the size of markets in terms of the population is only marginally affected,² and there is also no indication, a priori, that relative prices between coffee and substitutes would be affected as a result of the pandemic. Therefore, consumer incomes and coffee prices remain as two variables to be considered. Technically:

$$DCoff_{i,t} = F(GDP_{i,t}, PCoff_t)$$

¹ A slightly different categorization has been used by Hernandez et al. (2020), covering however the same elements.

² Despite the massive number of deaths caused by covid-19, these hardly affect the population projections over the coming years.

Where $DCoff_{i,t}$ is the demand for coffee in market i in year t , $GDP_{i,t}$ is the GDP (in constant prices) in that market and year, and $PCoff_t$ is the world market coffee price.

A further simplification arises from the purpose of the analysis, which is to identify only the effect of COVID-19 on demand, not to project demand into the future. Mathematically, this relates to the differences in demand in a situation with COVID-19 and in a situation that would have prevailed without COVID-19.

In a first step, prices are also assumed to be unaffected, so that demand only depends on incomes; for this, real GDP is taken as a proxy. In a second step, a sensitivity analysis is undertaken that also assumes, based on the finding of the supply analysis (see below), changes in coffee prices caused by COVID-19.

An important issue to be considered is how strong demand for coffee responds to changes in incomes (or prices). For this, elasticities³ are used.

As mentioned above, the primary effect of COVID-19 to be analysed is caused by the income of consumers is reduced (proxied by GDP). For this, the **income elasticity of demand** in each market needs to be known (or assumed). Here, two alternative sets of elasticities are used. The first set is derived from Galindo (2011). He had determined, based on a dataset of 88 countries over the period 1990 to 2005, that elasticities decline with increasing income (i.e. an extra increase of income for a rich country leads to a more limited increase in demand for coffee than if the same income increase occurred in a poorer country – this finding is an indication of market saturation and is in line with the law of diminishing marginal utility). The calculated elasticities range from -0.27 for the poorest countries to almost 0 for the richest country (measured by GDP per capita).

The second set of income elasticities used are derived from a recent publication by the ICO (International Coffee Organization 2020), which estimates the income elasticity of coffee demand based on the market behaviour over a longer period (1990-2018) but in a smaller number of countries (the 20 largest coffee markets in 2018). This study estimates the elasticity at -0.95, i.e. about five times higher than Galindo's estimates (accordingly, the impact estimated of COVID-19 on the coffee market will be five times higher). The model applies Galindo's finding that elasticities are higher for lower-income countries and assumes a range of elasticities from -0.9 to -1.0.

Many studies have addressed the question how demand for coffee and other products reacts to changes in price. Among the research focusing on coffee particularly, a 2004 study by the ICO finds a generally normal (yet inelastic) price elasticity of coffee demand in major importing markets although with exceptions in some countries (International Coffee Organisation 2004). Durevall (2005) calculates the **price elasticity** for coffee in Sweden at -0.19. Niemi (2009) finds that demand for fair trade coffee was price-inelastic (elasticity of -0.5), whereas demand for conventional and UTZ-certified coffee is elastic (-4.7 and -2.7, respectively), although based on relatively small samples in Finland only. More recently, it has also been posited that demand for coffee in industrialised countries is inelastic in relation to price. Other studies which have aimed at identifying price elasticity of many products have generally confirmed this, with the price elasticity of coffee being around -0.25. This means that changes in price of coffee would lead to only small changes in demand.⁴ Conversely, however, the World Bank's SMART model of international trade uses import demand price elasticities for coffee which are substantially higher, ranging from -0.7 to -6.2, with the average being -1.26.⁵ Based on a quick review of recent market developments, there is no indication that coffee would be one of the products demand for which has slumped (such as for durable consumer goods), nor has it soared (unlike for some basic food items). For the analysis, therefore, the lower elasticity has been used, but a sensitivity analysis using SMART elasticities has also been undertaken. In any case, in the first-cut analysis presented in this paper it is assumed that coffee prices are not affected by the pandemic; this assumption would then be dropped

³ Elasticity is defined as the percentage change of a dependent variable (e.g. demand for a product) in response to the percentage change of an explanatory value (e.g. the price of the product). It is thus a measure of how strong one variable changes in response to a change in another variable.

⁴ "Coffee Cravers Ignoring Bean-Price Surge for Caffeine Fix", Marvin G. Perez and Lynn Doan/Bloomberg, 13 March, 2014, <https://www.bloomberg.com/news/articles/2014-03-12/coffee-cravers-ignoring-bean-price-surge-for-caffeine-fix> [accessed 05 April 2020]

⁵ These values refer to the simple average elasticities for all products under HS0901. SMART elasticities are available for download at <https://wits.worldbank.org/referencedata.html> [accessed 05 April 2020].

in subsequent analysis once more information on the development of prices since the beginning of the crisis has become available. In any case, the rough estimates provided by the model on the value of EAC coffee exports hold: if coffee prices decrease due to COVID-19, export volumes will decrease less, and vice versa.

Data sources

The main data sources used are UN COMTRADE (obtained through WITS) for coffee trade volumes and values (using reported imports of coffee), the IMF World Economic Outlook for GDP projections, and complementary data provided by the ICO (on prices, production, exports), primarily to validate data.

Scenarios

Because the pandemic is still ongoing, estimates of its impact – including economic impact – vary widely and change quickly: no one can predict the true impact at this stage. Therefore, the analysis distinguishes several scenarios assuming different impacts on GDP across the world:

- The **baseline scenario** consists of the situation projected prior to the outbreak of COVID-19 (the “**no crisis scenario**”). For this, projections by the IMF as reported in the World Economic Outlook (WEO) of October 2019 are used. These projections provide forecasts until 2024.
- **Scenario 1** (the “**probable scenario**”) is based on the IMF WEO of October 2020.
- **Scenario 2** (“**slow recovery scenario**”) is also based on the IMF WEO of October 2020 but assumes that GDP growth in 2021 will be 2 percentage points worse than as projected by the IMF, and 1 percentage point worse in 2022 (returning to the IMF projected values for 2023 and 2024). This scenario is comparable to McKinsey’s “muted recovery” scenario, which is not the worst case among the nine scenarios distinguished by McKinsey, but the worst case among the scenarios presented in detail (McKinsey & Company 2020).

The base year for the modelling is 2018, the latest year for which data were available at the time when the model was set up.

Assessment of supply shocks

Business activity in EAC countries has been reduced due to lock-downs limiting the availability of personnel and inputs for coffee production. This short-term effect may also translate into a medium- and long-term shock for production capacity if producers go bankrupt.

The impact of COVID-19 on coffee production in the EAC at the farm and post-farm levels has been assessed qualitatively, using available data and reports, policy trackers⁶ and online media sources, as well as responses provided by stakeholders of the EAC coffee sector to a survey undertaken by the ITC in cooperation with the EAC coffee sector associations from September to November 2020 (MARKUP 2020).

Assessment of changes in trade rules, transport and logistics

Changes in trade rules as well as in transport and logistics in response to COVID-19 can affect trade in various ways. With regard to **trade rules**, an increasing number of countries has resorted to **export restrictions** in order to ensure supply. Medical goods and various foodstuffs (such as rice, wheat, cooking oil) have been affected. On the other hand, a number of importers have simplified certain **import rules** to facilitate imports with the objective to ensure provision of the population with essential goods and services. This can create opportunities for exporters.

⁶ Examples are the OECD policy tracker (<http://oecd.org/coronavirus/en/#policy-responses>), the IMF overview of policy responses to covid-19 (<https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>), as well as Sucafina’s updates on the situation for coffee production in the EAC (<https://www.covid19.sucafina.com/africa>).

The availability of **international transport and logistics services** has also been reduced substantially (and costs have increased) due to restrictions on transport and the movement of persons, also affecting operators of transport equipment. This has already caused major disruptions in international supply chains.

To assess the impact on the EAC coffee sector of these potential changes, a qualitative analysis has been undertaken applying the following methodology.

For trade rules, the analysis is based, first, on a review of changes in market access conditions for coffee in the EAC coffee sector's main markets (the EU, the USA, Japan, Korea and India), i.e. to which extent simplified rules (or waivers from existing rules) for imports of coffee have been put in place by the authorities in these countries. This analysis is based on information published on websites by the customs authorities or trade help desks,⁷ as well as secondary information sources, notably ITC's Market Access Database.⁸ Second, it has been reviewed whether any of the EAC Partner States have put in place restrictions on the export (or transit) of coffee in response to the pandemic. This review was based on questions in the survey among stakeholders of the EAC coffee sector (MARKUP 2020) as well as a review of notifications of export restrictions to the WTO, the ITC Market Access Database, and a review of online media.

With regard to the availability and cost of transport and logistics services, the analysis is based on information provided by regional coffee sector stakeholders, complemented with a review of online media.

Spill-over effects on coffee trade from wider economic and structural effects

In the longer term, the pandemic is expected to lead to structural changes in the global economy. Many countries are expected to re-shore production of certain goods deemed essential to reduce dependence from foreign suppliers. Likewise, global value chain (GVC) leaders are expected to restructure the value chains with the aim of reducing risks – reinforcing the already ongoing trend towards onshoring. This has already impacted negatively on foreign direct investment: according to UNCTAD's latest Investment Trends Monitor (UNCTAD 2020), in the first half of 2020 global FDI decreased by 49%, while projections for the whole year remain at the 30% to 40% decline that UNCTAD had estimated in March 2020.⁹

These developments are not expected to affect the coffee sector much. Nevertheless, there could be important consequences from structural shifts within the global coffee industry whereby some exporters that are less affected by (or found policy responses less disruptive for production to) the crisis snatch market share from other producers, and manage to hold on to these market shares. Such shifts have already taken place several times in the past (e.g. the virtual disappearance of Angola as a coffee producer, or the steep rise of Vietnam). To study to what extent the COVID-19 pandemic could trigger a similar structural shift, a qualitative analysis has been undertaken based on a review of coffee sector newsletters as well as the review of coffee producing countries' policy responses to COVID-19 (see above).

Estimation of the aggregated impact

The overall effect of COVID-19 on the EAC coffee sector depends on the aggregation and interplay of the above four factors. To aggregate them, the starting point is demand, and it is then determined whether and to what extent this demand can be met by EAC coffee production under the various supply side scenarios, and given the constraints arising from transport, logistics and market access issues. For this, it is assumed that EAC producers are price takers, i.e. regional output does not have an impact on

⁷ Specifically, the EU Trade Help Desk (<https://trade.ec.europa.eu/tradehelp/>), the US Customs and Border Protection (<https://www.cbp.gov/newsroom/coronavirus>), and Japan Customs (<https://www.customs.go.jp>).

⁸ The dedicated database on covid-19 related trade measures is available at <https://www.macmap.org/covid19> [accessed 10 April 2020].

⁹ <https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2313> [accessed 08 April 2020].

world coffee prices. Given that EAC coffee exports account for about 3% of world coffee exports (in value terms), this assumption seems reasonable.

FINDINGS

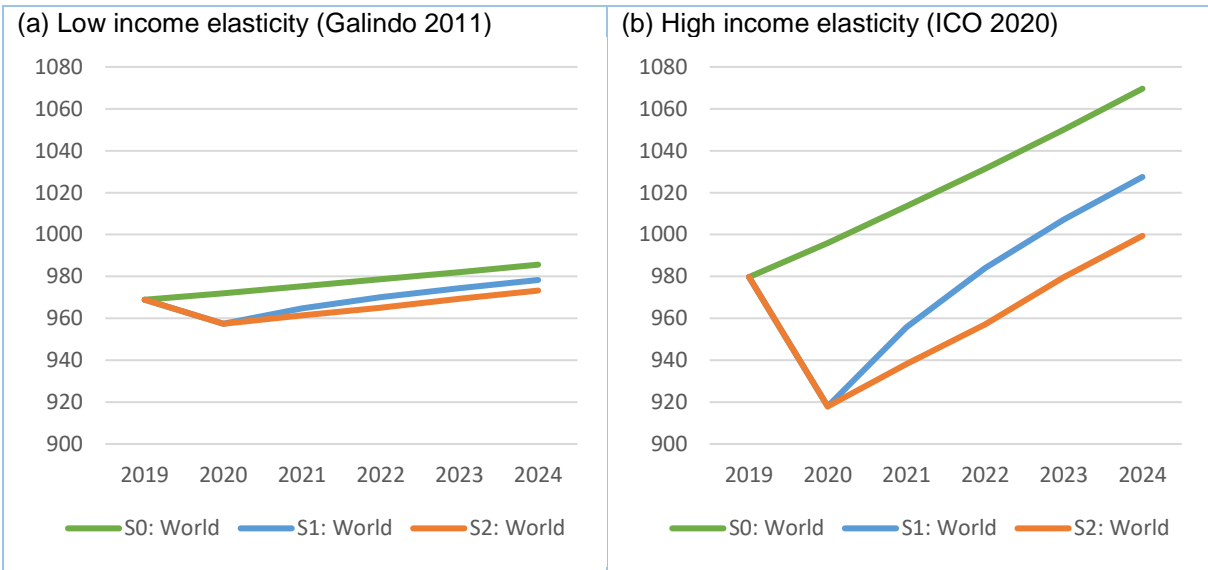
Demand side effects

Due to the projected reductions in GDP (and, hence average incomes) caused by the pandemic, **global demand for EAC coffee is expected to contract in 2020**. The magnitude of this demand contraction depends much on the responsiveness of coffee demand to the income reduction, i.e. the income elasticity. As different estimates for income elasticities are available, two have been used for the analysis. Accordingly assuming a low-income elasticity (Figure 2a), without COVID-19 export sales in 2020 would have been expected to reach USD 972 M (up from USD 969 M in 2019). As a result of COVID-19, instead, a drop to USD 957 M in 2020 is projected. Assuming higher income elasticities, the projected drop in export earning is much sharper (Figure 2b): a decrease from an originally expected USD 995 M in 2020 (up from USD 980 M in 2019) to USD 918 M.

Both scenarios expect **coffee export growth to resume in 2021, but it will take until 2022 in the probable scenario (S1) and until 2023 in the slow recovery one (S2) until export sales reach again the level of 2019**.¹⁰

Note also that these projections are slightly more positive than those in the April and May versions of this paper, which were prepared on the basis of IMF growth estimates made in April 2020.

Figure 2: Projected EAC coffee exports to world, 2019-2024 (USD M): scenarios and elasticities compared



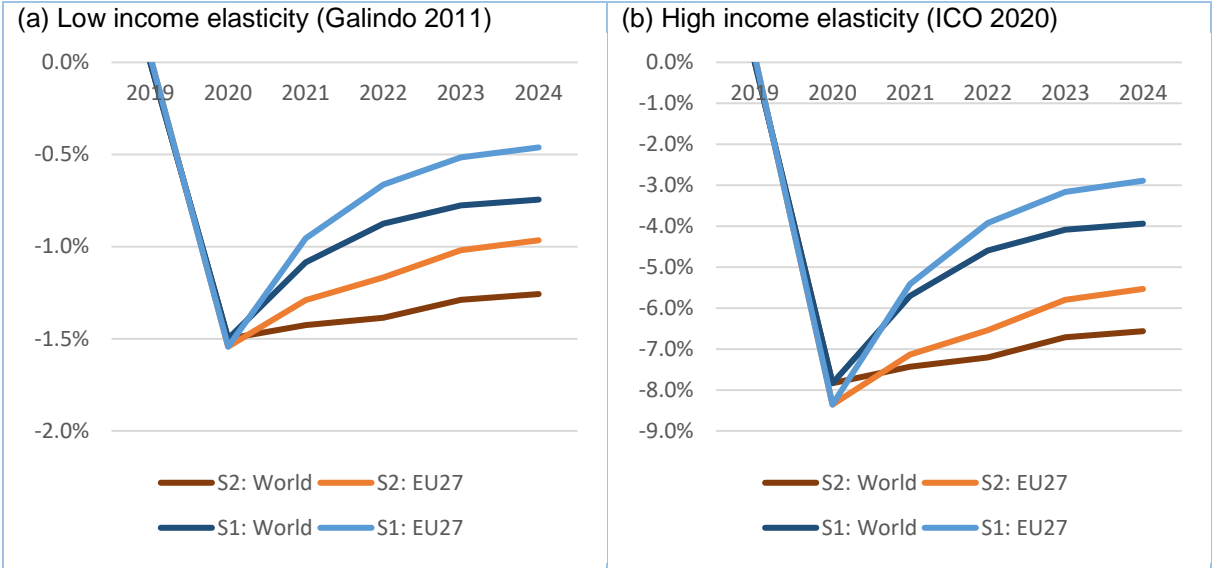
Note: Estimations based on mirror data (i.e. reported value of coffee imports from EAC)
Source: Own calculations.

The importance of the assumed elasticities is also clear when looking at the drop in exports caused by the pandemic year-on-year. With a low elasticity, in 2020 EAC coffee export volumes are expected to be 1.5% lower than without COVID-19 (Figure 3a). With a higher elasticity (Figure 3b), the loss is substantially higher, at -8.4%. Figure 3 also shows that demand in the EU, by far the largest market for EAC coffee, behaves not significantly differently from global demand in 2020 but recovers slightly faster than global demand from 2021 onwards.

¹⁰ This finding is largely independent of the elasticity used – a high elasticity simply means a higher loss in export earnings in 2020 but also a higher increase in earnings subsequently.

Note that although some recovery is expected for 2021 onwards, there will be no catch-up of exports to those that would have been realised in the absence of the pandemic: each year, exports will continue to be lower than without the crisis – assuming low elasticities (Figure 3a), by 2024 exports to the EU will still be 0.5% to 1.0% lower than they would have been without the pandemic in the probable scenario; in the high elasticity estimations (Figure 3b) this loss rises to between 2.9% and 5.5%. EAC coffee exports to the world will be affected slightly more.

Figure 3: Changes in demand for EAC coffee compared to no crisis, 2019-2024 (%): scenarios and elasticities compared (based on export values)

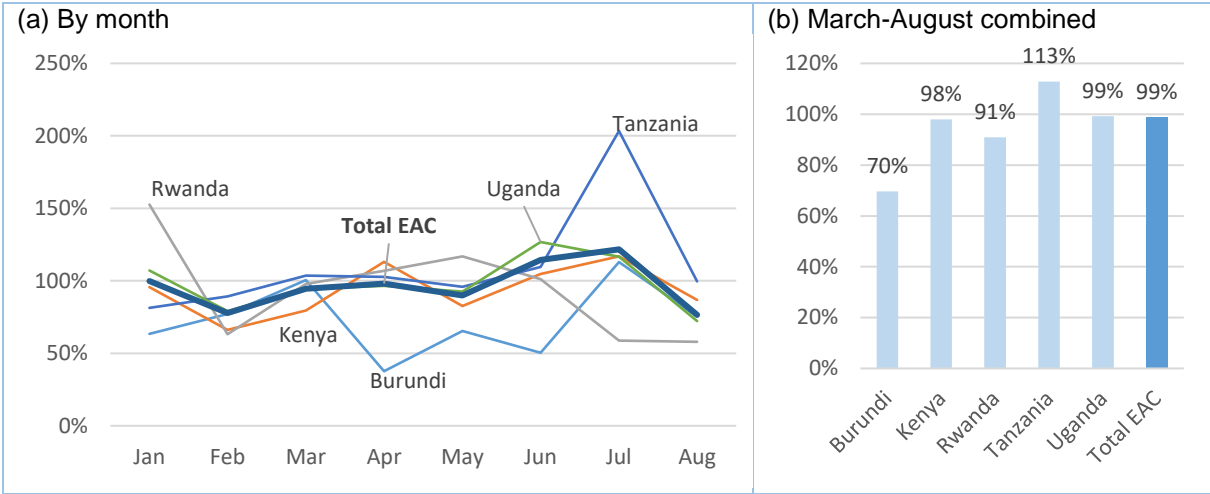


Source: Own calculations.

Actual data are available for EU coffee imports from the EAC for up to August 2020 (Figure 4). These indicate that **EAC coffee exports overall hardly changed during the pandemic period** (March-August 2020) compared to average exports in the preceding three years (Figure 4b); in terms of value, EAC coffee exports to the EU dropped from EUR 235.1 million (combined average for March-August over the years 2017 to 2019) to EUR 232.5 million. However, differences across EAC countries are strong: in particular, land-locked Burundi and Rwanda have seen declines of 30% and 9%, respectively, in their coffee exports to the EU. These declines would seem to be at least in part the consequence of supply, respectively transport/logistics issues, rather than drops in demand. In this context, it should also be noted that world coffee consumption in the coffee year 2019/20 has decreased by 0.9% compared to the previous year, in terms of volume.¹¹

¹¹ From 169.1 million 60kg bags to 167.6 million. See ICO: World coffee consumption, available at <http://www.ico.org/prices/new-consumption-table.pdf> [accessed 24 November 2020].

Figure 4: Value of coffee imports by the EU from EAC, January-August 2020 compared to averages for January-August 2017-19



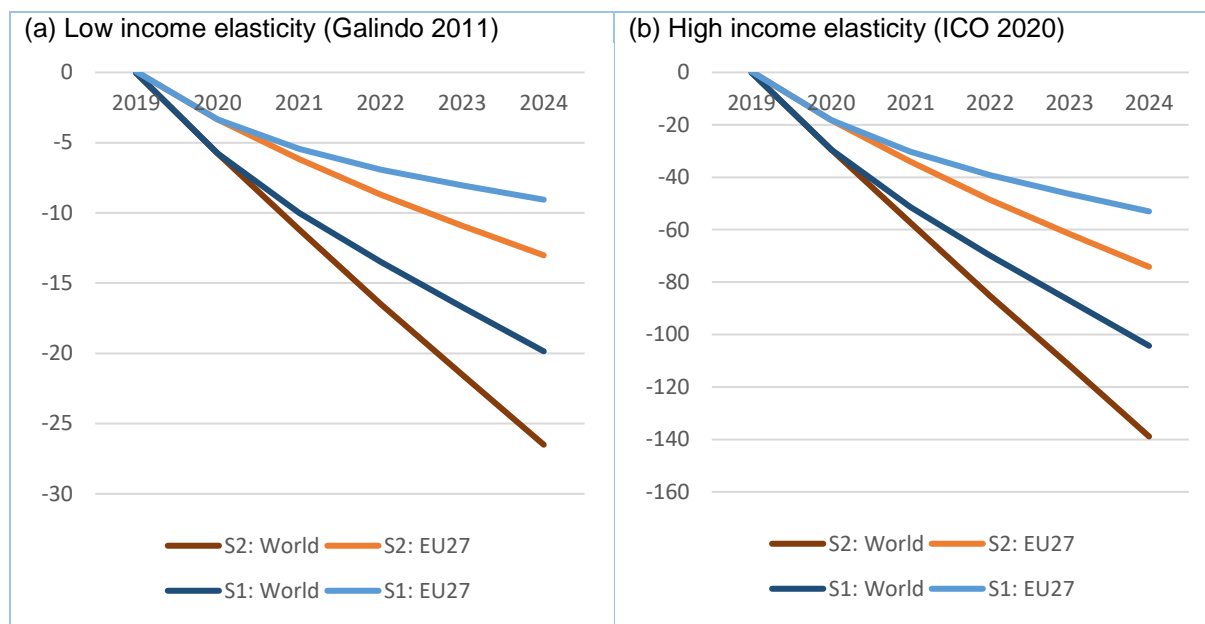
Source: Own calculations based on EU COMEXT.

From these observed developments it follows that the elasticities estimated by ICO in 2004 are too high. Real changes are more in line with the lower elasticities estimated by Galindo. This is good news for EAC coffee exporters, **as demand has held up much stronger than projected on the basis of the high elasticities, and the negative effect of the pandemic is therefore considerably lower than feared early on in the crisis.** Note, however, that the model results do not take into account other factors (such as weather) which also impact on productions, and therefore the actual observed production and export numbers necessarily differ from the model estimates.

A consequence of the new growth path (respectively the three to four years lost due to COVID-19) is that the **cumulated effect of COVID-19 on exports increases each year** (Figure 5). Thus over the period 2019 to 2024, the cumulated reduction in the volume of EAC exports to the world is estimated, in the slow recovery scenario, at 27 thousand tonnes (low elasticity¹²). In the probable scenario, the loss would be at about 20 thousand tonnes.

¹² For the sake of better comparison with the projections made in the original version of this paper, Figure 5b also shows the cumulated change estimated based on the high ICO elasticity.

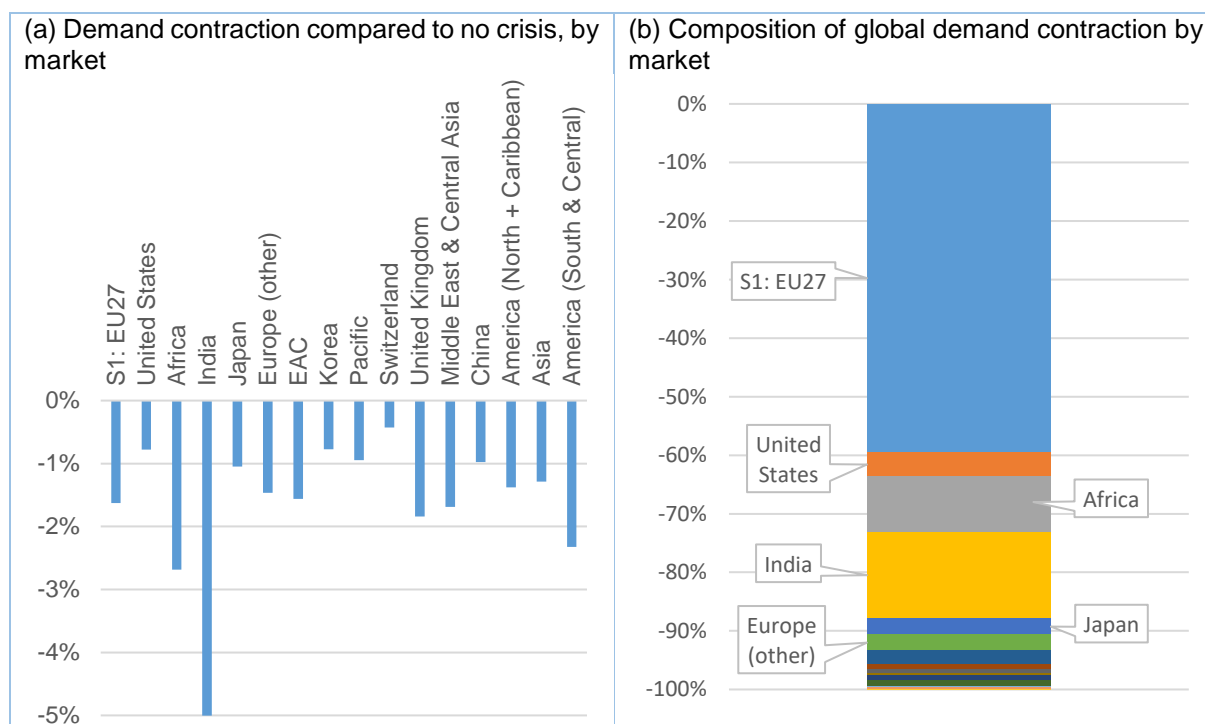
Figure 5: Cumulated effect of COVID-19 on EAC coffee export volume, 2019-2024 ('000 tonnes): scenarios and elasticities compared



Source: Own calculations.

Because the pandemic is expected to affect incomes globally, the **negative effects on EAC coffee exports will occur in all markets**. Depending on the magnitude of COVID-19 on a market's GDP and the income elasticity of coffee demand in that market, the magnitude of the demand contraction varies, in the probable scenario and assuming low elasticities (Figure 6a), from -0.4% in Switzerland to -1.6% in the EU27 and -5.0% in India, with the global average being -1.7%. Because the EU market constitutes about 55% of total EAC coffee exports, by far the largest impact comes from demand contraction in the EU – about 60% of the total, followed by India (14.8%) and exports to non-EAC Africa (9.4%).

Figure 6: Composition of COVID-19 effect across EAC coffee markets in 2020 (low elasticity, probable scenario, based on volumes)



Source: Own calculations.

The effects reported so far refer to total EAC coffee exports but do not consider that coffee is not one single commodity but a group of products consisting of different varieties, types, qualities and more or less value-added products. Unfortunately, only few and aggregate data are available to provide a quantitative assessment of COVID-19 effects on different market segments. These show that, as is to be expected in a crisis, which reduces purchasing power of many consumers in coffee markets, demand has shifted towards lower priced varieties. In this regard, the ICO notes that:

“In coffee year 2019/20, global coffee shipments fell by 4.9% to 126.9 million bags compared with coffee year 2018/19. In October 2019 to September 2020, Robusta exports recorded the smallest decrease, declining by 1.4% to 48.68 million bags. Shipments of Other Milds [Arabica] fell by 9.8% to 25.15 million bags, Colombian Milds [Arabica] by 7.2% to 13.88 million bags and Brazilian Naturals [Arabica] by 4.9% to 39.18 million bags” (International Coffee Organisation 2020b: 3f).

Anecdotal evidence further supports the theoretical expectation that in response to income reductions caused by COVID-19, **coffee demand has shifted to lower-priced varieties**¹³ and buyers have re-negotiated prices (MARKUP 2020). As one observer notes, “Global consumers are still drinking coffee, but few are visiting cafes. Instead they are buying medium-quality supermarket beans to drink at home, foregoing high-end coffee shop offerings and spelling disaster for specialist suppliers.”¹⁴ Indeed, based on coffee trader observations early on during the pandemic, in Asia some buyers reported a 60% reduction in order volumes for high-quality coffee over the period in January-March 2020. Similarly, in the US and Europe, the “coronavirus has driven down speciality coffee demand by 40%.”¹⁵ In the MARKUP survey among EAC coffee stakeholders, it was also confirmed by Ugandan respondents that “the specialty coffee market is especially hit as consumers are choosing to buy ordinary coffee to save money” (MARKUP 2020). Thus, while overall demand decline might still be bearable, speciality coffee exporters are hit particularly hard. Given the relatively high importance of speciality coffee production in the EAC, this is a matter of concern. It should also be noted that small-scale speciality coffee exporters are not only affected by this demand contraction, but also by challenges related to supply and logistics (see below).

In terms of **world coffee prices**, the pandemic’s impact seems to have been limited so far, as both supply and demand reduced similarly in the 2019/20 coffee year compared to the previous year. Whereas the ICO had expected in its March 2020 report that global coffee demand would exceed supply (International Coffee Organisation 2020a), the most recent Coffee Market Report (of October 2020) finds that: “Although both production and consumption decreased, 2019/20 is seen in surplus, with global output exceeding consumption by 1.24 million bags” (International Coffee Organisation 2020b: 3). Nevertheless, prices still rose during the year: “The ICO composite indicator reached 107.25 US cents/lb in coffee year 2019/20. This compares to an average of 100.47 US cents/lb in 2018/19 when the surplus reached nearly 4 million bags” (International Coffee Organisation 2020b: 3). The ICO and IFPRI have however also noted that coffee price volatility has been high during the pandemic as a result of the combined supply and demand shocks (Hernandez et al. 2020).

In terms of **time effects**, it has also been reported that big roasters especially in developed country markets asked exporters to advance orders in order to mitigate against disruptions and delays in the logistics chain, particularly delays at ports and borders.¹⁶ This has contributed to the observed high volatility of coffee prices (see e.g. Hernandez et al. 2020). EAC producers and exporters therefore need to closely follow market trends and be in close contact with buyers in order to not miss out on short-term opportunities.

¹³ In relation to this, Yohannes et al. (2016) found that the price elasticity for coffee beans and powder was smaller than for coffee in bottles/cans, and this again lower than elasticity for coffee bought in coffee shops in Japan.

¹⁴ “Kenya’s speciality coffee growers hit as lockdowns close global coffee shops,” Ayenat Mersie/Reuters/Nasdaq, 09 April 2020, available at <https://www.nasdaq.com/articles/kenyas-speciality-coffee-growers-hit-as-lockdowns-close-global-coffee-shops-2020-04-09> [accessed 17 April 2020].

¹⁵ Ibid.

¹⁶ “Coffee roasters fear port logjams could disrupt supplies,” Fabiana Batista and Isis Almeida/Bloomberg/The Jakarta Post, 08 April 2020, available at <https://www.thejakartapost.com/news/2020/04/08/coffee-roasters-fear-port-logjams-could-disrupt-supplies.html> [accessed 17 April 2020].

Finally, the model predicts that all EAC Partner States' coffee sectors will be affected by the pandemic in similar ways, i.e. percentage changes are similar. Given the difference in the size of coffee sectors across the EAC countries, the absolute effects are necessarily higher in the large producing countries (especially in Uganda) and smaller in the countries with lower coffee output (such as Burundi or Rwanda). Some additional effects stem from the differences in the coffee markets being served by the EAC Partner States. In the annex, graphs are presented showing the projected impact of COVID-19 on each of the five coffee exporting EAC countries (equivalent to the figures above for the EAC combined).

Summary. Global demand for EAC coffee is expected to drop by 1.5% in 2020 compared to a no-pandemic scenario. It is also expected that it will take three to four years until EAC coffee exports reach 2019 levels again. Cumulated export losses for the EAC coffee sector over the period 2020 to 2024 are estimated to reach up to 27,000 tonnes in a slow recovery scenario. In the probable scenario, the effects are estimated to be about two thirds of the slow recovery one (about 20,000 tonnes).

As all coffee markets globally are responding to the crisis in similar ways, without major differences in the demand changes, it will be impossible for EAC coffee producers to evade the negative effects by switching to non-affected markets.

Smaller speciality coffee producers are particularly affected by COVID-19, as demand in major markets has switched to lower-priced coffee in response to the closure of many outlets for coffee consumption and also income losses.

Supply side effects

The number of registered COVID-19 infections across EAC Partner States has been relatively low by international comparison and, itself, has not created major issues for operation of coffee producers. As of 24 November 2020, there were close to 100,000 cases across the region, and about 1,500 confirmed deaths, since the beginning of the outbreak.¹⁷ At the same time, case numbers have been rapidly increasing since mid-October, especially in Kenya and Uganda, thereby having an impact on the sector.

The May version of this paper had reported that measures taken by EAC governments to contain the spread of COVID-19 had somewhat affected coffee production. Unfortunately, six months later this is still the case:¹⁸

- In Burundi, there has been no major impact on coffee production for now.
- In Kenya, a country-wide daily curfew has been extended until 03 January 2021. However, movement of food supplies and other cargo such as coffee continues without too many obstacles.
- In Rwanda, the lock-down is still in place, with nightly curfews, and some internal travel having been banned, and only 50% of employees allowed to work at the work place.
- In Tanzania, coffee production proceeds normally, although under heightened health and safety measures.
- In Uganda, the nightly curfew is still in place (from 9:00 pm to 6:00), but otherwise restrictions are gradually being lifted despite an increasing number of infections. Business operations continue, with heightened health and safety precautions.
- Across the region, the level of coffee theft has increased substantially, presumably by people whose livelihoods have been negatively affected by the economic consequences of the pandemic and the lockdowns.

According to Sucafina's COVID-19 updates for the coffee sector, **production of coffee in EAC countries has so far not been affected more than in other countries** (Figure 7 below). However, almost two thirds of the respondents to the MARKUP survey of EAC coffee businesses stated that the pandemic had already affected or was affecting coffee harvests at the time of response. The share of businesses affected was even higher in Uganda and Rwanda, where 75% of respondents noted that

¹⁷ See <https://www.eac.int/coronavirus> [accessed 24 November 2020].

¹⁸ The following information is primarily based on information provided by Sucafina. See <https://www.covid19.sucafina.com/africa> [accessed 24 November 2020].

harvests had been or were being affected by the pandemic, primarily as a result of insufficient availability of inputs – especially imported inputs – and insufficient labour for harvesting (MARKUP 2020): almost half of the respondents reported that they had been affected by employee absences and temporary shutdowns during the pandemic, 50% stated that they had been affected by increased costs of inputs and other needed supplies (such as sanitizers and disinfectants), and 55% complained about increased administrative bottlenecks. 80% of respondents furthermore expected that the challenges for production will continue in the next season. Almost one third of respondents stated that the negative effects would be even more pronounced then; in this context, shortage of workers is the most important problem: 82% of respondents referred to this; 23% consider that infections will lead to this, and 59% expect that government containment measures will result in worker shortages.

In the longer term, supply might also be negatively affected due to business closures and shift to other crops. Given the current situation, 20% of respondents to the MARKUP survey expected that they would have to close their business permanently within the next 6 months because of COVID-19.¹⁹ Respondents also stated that some farmers and farm workers diverted their efforts to subsistence and other cash crops that sell domestically, such as bananas and avocados.

¹⁹ “Businesses” here refers to commercial farms, millers, roasters, traders and exporters, not smallholder farmers.

Figure 7: Status of coffee production, selected countries

	FARMER TRAINING	HARVESTING	WET MILL	DRY MILL	SAMPLING	EXPORT DOCS	LOGISTICS TO FOB
BRAZIL	😊	😊	😊	😊	😊	😊	😊
BURUNDI	😞	😊	😊	😊	😊	😊	😊
COLOMBIA	😞	😊	😊	😊	😊	😊	😊
ETHIOPIA	😞	😊	😊	😊	😊	😊	😊
GUATEMALA	—	😊	😊	😞	😊	😊	😞
HONDURAS	—	😊	😊	😞	😊	😊	😊
INDIA	😊	😊	😊	😊	😊	😞	😊
INDONESIA	😊	😊	😊	😊	😞	😊	😊
IVORY COAST	—	😊	—	😊	😊	😞	😞
KENYA	😞	😊	😊	😊	😊	😊	😞
MEXICO	—	😊	😊	😊	😊	😊	😊
NICARAGUA	—	😊	😊	😊	😊	😊	😊
PAPUA NEW GUINEA	😊	😊	😊	😊	😞	😞	😞
PERU	—	😞	😊	😞	😞	😞	😞
RWANDA	😞	😊	😞	😊	😊	😊	😞
TANZANIA	😞	😊	😊	😊	😞	😊	😊
TIMOR LESTE	😞	😊	😊	😊	😞	😞	😞
UGANDA	😞	😊	😊	😊	😊	😊	😊
VIETNAM	😊	😊	😊	😊	😊	😊	😊

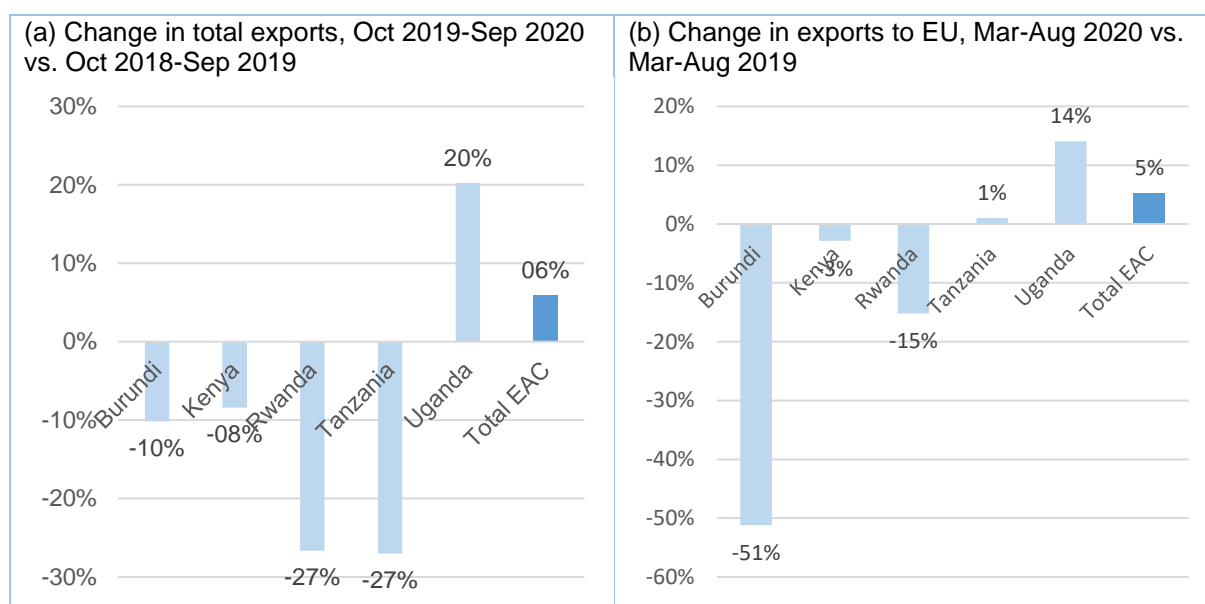
- 😊 **NORMAL** - Operations proceeding without disruption; business as usual.
- 😞 **DISRUPTIONS** - Operations proceeding but with potential delays due to in-country Covid-19 measures.
- 😞 **SUSPENDED** - Operations stilled temporarily due to in-country Covid-19 measures.
- No Sucafina Offices and/or No Information Available.

Source: Sucafina COVID-19 Updates, Supply chain and logistics updates by origins, <https://www.covid19.sucafina.com/> [accessed 24 November 2020]

Globally, according to the ICO, export volumes in the coffee year 2019-20 have declined by 4.9%,²⁰ with EAC countries having performed better on average – with a total increase of 6% – but quite heterogeneously: changes in total exported coffee volumes year-on-year range from -27% for Tanzania to +20% for Uganda (Figure 8a). Based on reported imports by the EU, EAC coffee export volumes to the EU during the pandemic period also performed positively, with an overall increase of 5%, but even more heterogeneously than overall exports, ranging from a drop by 51% for Burundi to an increase by 14% for Uganda (Figure 8b).

²⁰ ICO: Monthly export statistics (Members & Non-Members) - September 2020, available at <http://www.ico.org/prices/m1-exports.pdf> [accessed 24 November 2020].

Figure 8: EAC coffee exports 2019/20 compared to 2018/19 (volumes)



Source: Own calculations based on (a) ICO export statistics and (b) EU COMEXT (reported EU imports).

Explaining these observed changes in exports is not straightforward. In particular, the strong contraction of exports from Burundi and the increase in exports from Uganda are difficult to explain, especially when looked at in comparison: both are land-locked countries, with exports facing similar issues in intra-EAC transport, and in addition, the government of Burundi has not taken any restrictive measures comparable with those of Uganda that might have affected coffee supply.

Summary. Although the EAC has not been affected by COVID-19 more than other coffee producing regions, both the pandemic and measures taken by EAC governments have affected coffee production; this has not yet been a critical challenge, but because the pandemic is far from over, with infection rates increasing and corresponding measures continuing (or even tightening), the risk of severe disruptions in supply remains extraordinarily high: if the number of cases increases, if it affects neuralgic points in the coffee supply and logistics chain, and/or if governments take more stringent measures, the impact could still be that production and export are significantly impeded. As had been mentioned in the original version of this note, the likelihood of this occurring is difficult to assess, but the risk is definitely real, all the more so as public health systems are not prepared to handle a wider spread of the disease. In addition, given the increasing rate of infections, there is still a **high risk that the situation might worsen.**

Effects of changes in trade rules, transport and logistics

Changes in trade rules affecting EAC coffee exports

No changes in trade rules affecting EAC coffee exports could be identified. In terms of changes in **import rules in key markets:**

- The European Union did not change rules for coffee imports. Only the rules for imports of medical equipment were eased (removal of duties and VAT) by a Commission Decision of 03 April 2020.²¹
- Likewise, the US only took measures to facilitate the import of medical goods needed to fight COVID-19, such as removing duties on imports from China for such goods,²² and providing

²¹ See https://ec.europa.eu/taxation_customs/sites/taxation/files/03-04-2020-import-duties-vat-exemptions-on-importation-covid-19.pdf [accessed 17 April 2020].

²² See the Cargo Systems Messaging Service (CSMS) messages related to covid-19 published on <https://www.cbp.gov/newsroom/coronavirus> [accessed 17 April 2020].

specific task forces to help importers in expediting the administrative paperwork (“COVID-19 Cargo Resolution Team”).

- Similarly, Japan introduced simplified customs clearance procedures for COVID-19 relief goods.²³
- Many other countries removed or reduced duties and other taxes, such as VAT, and/or simplified the import regime for medical goods and protective devices, and some did the same for selected agricultural products (but not coffee).

The only countries that could be identified which applied import measures that might also affect coffee imports are, according to the ITC Market Access Database, China and Qatar. China enacted, on 06 February 2020 a “temporary decrease of import tariffs on certain products, e.g. medical supplies, raw materials, agricultural products, [and] meat.” Qatar suspended customs duties on 905 goods for 6 months on 23 March 2020. It is not clear, however, whether coffee would fall under the scope of these measures; apparently, this is not the case.

In terms of **export restrictions**, none have been imposed on coffee in the EAC Partner States in response to COVID-19. However, transport and transit in the EAC appear to have been affected by measures at the border taken by various Partner States (see next section).

Summary. Coffee trade does not appear to have been affected (positively or negatively) by changes in trade rules, nor is this expected to happen in the foreseeable future.

Changes in transport and logistics affecting EAC coffee exports

Although the vast majority of EAC coffee is exported via road and sea – e.g. about 95% of Ugandan coffee exports (Mugenyi 2020) – small speciality coffee producers also use air transport, especially when shipping directly to consumers abroad. The impact analysis therefore needs to look at the different logistics chains separately.

For exporters mostly relying on **air transport**, the impact of COVID-19 has been harsh. In the initial stages of the pandemic, i.e. in spring 2020, the availability of storage in passenger flights was virtually eliminated due to the grounding of most airlines serving the EAC. Although cargo flights continued to operate, air cargo operators more than doubled the price per kilo of cargo to between USD 4.5 and USD 7 per kg in March to May 2020 from a range of USD 1.3 to USD 3.3 per kg in January 2020.²⁴ This has significantly affected small-scale speciality coffee exports.²⁵ Since May 2020, as more airlines have resumed flights, the situation has somewhat improved, but capacity still remains substantially lower, and prices significantly higher, than before the pandemic; the International Air Transport Association (IATA) has warned in August 2020 that Africa’s air transport industry may suffer permanent damage from the pandemic.²⁶ Speciality producers using air transport have therefore been forced to increase prices, which has also contributed to the observed contraction in demand for high-end, high quality coffee in developed country markets. In addition, some of the loss in markets might be longer term: some market share has probably been lost to Ethiopia, where speciality producers benefitted from the continuous operation of air cargo by Ethiopian Airlines, which helped coffee exporters increase the export value by 16% up to June 2020.²⁷

In terms of **ground transport**, export of coffee from landlocked Burundi, Rwanda and Uganda has been especially affected by measures taken by several governments restricting the entry of trucks from Partner States. For example, in the initial stages of the pandemic, according to the EIF, Kenya prohibited

²³ See <https://www.customs.go.jp/english/news/covid-19/index.htm> [accessed 13 April 2020].

²⁴ “Hope for flower exports as Europe eases restrictions,” Gerald Andae/Business Daily Africa, 14 April 2020, available at <https://www.businessdailyafrica.com/markets/commodities/Hope-for-flower-exports-as-Europe-eases-/3815530-5523116-145dko8/index.html> [accessed 17 April 2020].

²⁵ “Kenya’s speciality coffee growers hit as lockdowns close global coffee shops,” Ayenat Mersie/Reuters/Nasdaq, 09 April 2020, available at <https://www.nasdaq.com/articles/kenyas-speciality-coffee-growers-hit-as-lockdowns-close-global-coffee-shops-2020-04-09> [accessed 17 April 2020].

²⁶ <https://www.iata.org/en/pressroom/pr/2020-08-13-03/> [accessed 20 November 2020].

²⁷ “Ethiopia looks to its airline for an exports boost,” Bloomberg/Air Cargo News, 10 June 2020, available at <https://aircargoworld.com/news/carriers/ethiopia-looks-to-its-airline-for-an-exports-boost/> [accessed 20 November 2020]

the entry of trucks with licence plates from DRC and Rwanda.²⁸ Similarly, Burundi allegedly – government spokespersons have denied that such a policy was in place – blocked the entry of Kenyan and Ugandan trucks entering through Rwanda, which prompted Rwanda to also deny entry of these trucks into its own territory.²⁹ These measures would have been at odds with a Joint Statement by EAC Ministers responsible for Health and EAC Affairs of 25 March 2020, which aimed at ensuring free movement of goods across the EAC, and directed Partner States to take certain measures to ensure smooth transit of transport equipment operating crews.³⁰ Nevertheless, these initial challenges had a relatively limited effect on coffee exports, mostly resulting in delays. For example, delays were reported for the Northern Corridor (Rwanda/Uganda to Mombasa) route due to congestions at borders, with border crossing times averaging 12 hours.³¹

It is worrying that, eight months later, the same issues continue to be reported. The measures taken at borders – including mandatory truck cleaning and testing – are estimated to extend the time spent at borders by two days per border crossing, leading to delays of four days for Rwandan coffee exported through Mombasa, and two days for exports through Dar es Salaam. In addition, for some border posts long waiting times have been reported: at the Malaba (Kenya-Uganda) border post, congestion has been reported to reach approx. 60 km, with waiting times to cross the border of around 6 days.³²

To complement this, half of the respondents to the MARKUP survey stated that the reduced availability of international transport during the pandemic period constituted a barrier to exports, followed by stricter rules and an increased cost of transport. In terms of the availability of international transport, challenges mentioned by survey respondents included “restricted access to ports, cancellations of flight to countries facing lockdowns, fewer flights to certain destinations, fewer ships coming to port, delays in arrivals of cargo ships and the erratic availability of empty containers” (MARKUP 2020). Regarding the cost of transport, as an illustration, a “respondent based in Burundi explained that truckers have increased the cost of transport as a way to compensate for the reduction in business and the additional time spent at the border for testing and quarantining” (MARKUP 2020).

On the destination market side, some frictions were reported especially during the early stages of the pandemic, and even then they were limited and mostly led to delays, rather than impeding trade. Also, the situation has mostly normalised since April 2020 (Figure 9).

Summary. Although it is impossible to quantify the impact of these issues, the pandemic without a doubt has negatively affected exports of EAC coffee, and the global competitiveness of the region in general. First, in view of the high importance of speciality coffee exports from all EAC countries (when compared to other large coffee exporters), the limited availability and high cost of air transport caused by COVID-19 affects EAC exporters on average more than coffee exporters from other regions. Second, added to this the containment measures taken at intra-EAC borders cause significant delays for road transport and hence extra costs for coffee exporters, further weakening the competitiveness of the sector. Third, the functioning of the logistics chain continues to be highly at risk, depending on the absence of further COVID-19 cases among port and other border agency staff, as well as on a sufficient number of vessels coming to the ports of Mombasa and Dar es Salaam.

²⁸ “Covid-19 in Africa – some reflections on trade matters. Reality check, Trudy Hartzenberg, 09 April 2020, available at: <https://trade4devnews.enhancedif.org/en/op-ed/covid-19-africa-some-reflections-trade-matters> [accessed 15 April 2020].

²⁹ “Rwanda blocks cargo trucks destined to Burundi from Kenya and Uganda,” Kungu Al-Mahadi Adam/Soft Power News, 05 April 2020, <https://www.softpower.ug/rwanda-blocks-cargo-trucks-destined-to-burundi-from-kenya-and-uganda/> [accessed 17 April 2020].

³⁰ Joint Statement by the Ministers Responsible for Health and East African Community Affairs issued on 25th March 2020 on Covid-19 Preparedness and Response in East African Community Region, available at <https://www.eac.int/statements/1705-joint-statement-by-the-ministers-responsible-for-health-and-east-african-community-affairs-issued-on-25th-march-2020-on-covid-19-preparedness-and-response-in-east-african-community-region> [accessed 13 April 2020].

³¹ See <https://www.covid19.sucafina.com/africa> (information as per 15 April 2020) [accessed 17 April 2020].

³² See <https://www.covid19.sucafina.com/africa> (information as per 20 November 2020) [accessed 24 November 2020].

Figure 9: Status of coffee logistics chain, destination side, selected markets

	CAN COFFEE GET DISCHARGED TO PORT WAREHOUSES?	CAN COFFEE AND SAMPLES LEAVE PORT WAREHOUSES?	
Australia			NORMAL - Operations proceeding without disruption; business as usual. DISRUPTIONS - Operations proceeding but with potential delays due to in-country Covid-19 measures. SUSPENDED - Operations stilled temporarily due to in-country Covid-19 measures. No Sucafina Offices and/or No Information Available.
Hong Kong			
Middle East & North Africa			
US & Canada			
Europe			

Source: Sucafina COVID-19 Updates, Supply chain and logistics updates by destinations, <https://www.covid19.sucafina.com/> [accessed 24 November 2020]

Structural effects

So far, there are no indications that the pandemic would lead to structural shifts in the global coffee sector. Nevertheless, a slow recovery from COVID-19 in developed country markets poses a particular risk for speciality coffee producers. Furthermore, the current situation creates headwinds for the attempts to increase value addition for coffee within the EAC; it is to be expected that buyers will increasingly prioritise price and purchasing bulk, keeping processing in their markets in order to benefit from economies of scale. This could also constitute an additional challenge for smaller producers serving niche markets.

CONCLUSIONS AND RECOMMENDATIONS

Summary of effects of COVID-19 on the EAC coffee sector

The analysis in this paper has shown that, as of now and based on the information available, the impact of the COVID-19 pandemic on global **demand** for coffee is an important factor affecting the EAC coffee sector, although supply-side and logistics issues are becoming increasingly important. Due to income reductions, global demand for coffee is expected to drop by 1.5% in 2020, compared to projections made prior to the outbreak. This means that EAC coffee exports are expected to decline by the same amount. Furthermore, all markets are affected without major differences in the contraction in demand.

Depending on the severity of the crisis, it might take three to four years until EAC coffee exports reach pre-crisis (i.e. 2019) levels again. Cumulated export losses for the EAC coffee sector over the period 2020 to 2024 are estimated to reach up to 27,000 tonnes in a slow recovery scenario. In the probable scenario, the effects are estimated to be about two thirds of the slow recovery one.

While these effects of the demand contraction apply to the EAC coffee at large, smaller speciality coffee producers are particularly affected, as consumers in the main markets have switched to lower-priced coffee in response to closure of coffee shops and income losses. Speciality coffee producers and exporters are furthermore especially affected because a higher share of exports uses air transport, which is the transport mode most affected in terms of availability and costs.

Other impact channels of COVID-19 have become increasingly important for the EAC coffee sector as the pandemic has progressed. Thus, while initially the impacts on **production/supply** as well as on the **transport and logistics** chain were seen as less important, these have over time become more severe. Although the EAC has not been affected by COVID-19 more than other coffee producing regions, both the pandemic and measures taken by EAC governments have affected coffee production; this has not yet been a critical challenge, but because the pandemic is far from over, with infection rates increasing

and corresponding measures continuing (or even tightening), the risk of severe disruptions in supply remains extraordinarily high: if the number of cases increases, if it affects neuralgic points in the coffee supply and logistics chain, and/or if governments take more stringent measures, the impact on production and export could still become severe. As had been mentioned in the original version of this note, the likelihood of this occurring is difficult to assess, but the risk is definitely real, all the more so as public health systems are not prepared to handle a wider spread of the disease. In addition, given the increasing rate of infections, there is still a **high risk that the situation might worsen**. On a positive note, the coffee sector has not been affected by restrictive changes in export or import rules taken by governments in attempt to counter the effects of the pandemic.

Recommendations

It is obvious that the EAC coffee sector cannot affect the development of the pandemic as such. The main measures that are needed therefore relate to the mitigation of the (actual and potentially coming) negative effects that the pandemic has for the sector. The following recommendations therefore propose certain measures in response to the changes in demand, the supply-side, and transport and logistics caused by the pandemic.

With regard to **mitigating the demand shock**, coffee producers and exporters cannot do much. As all markets are affected by the pandemic in similar ways, diverting to non- or less affected markets provides only limited relief. Nevertheless, first, coffee producers should to the extent possible try to diversify the customer base (both individually and at the national level – in particular Burundi and Uganda, which largely depend on the EU market). Although the EU remains a reliable destination market, exporters should seek out buyers in countries that have been able to get the pandemic under control much sooner, such as China, Taiwan, Vietnam, New Zealand or Australia. These countries offer promising markets and have shown their ability to weather international shocks through coordinated and effective prevention and mitigation strategies. Coffee associations and national coffee boards should work hand in hand with producers to this effect.

Second, as speciality coffee producers and exporters are more affected than others, governments should consider providing specific support to help these businesses weather the crisis. In addition, further research is needed to determine if the stronger-than-average contraction in demand for high-quality coffee is just a transitory consumer behaviour during the crisis, or if it will be permanent – in which case the business model of speciality coffee producers would have to be adapted. The same applies to opportunities for value addition in EAC countries.

Third, noting that coffee is a long-term crop with any adjustments in production to changes in demand requiring at least three years, any measures to address the short- and medium- term impact of COVID-19 need to be limited to marketing and distribution changes, including pricing policies. Coffee producers should remain in close contact with buyers abroad – this would also be required in response to the reported requests from buyers for advancing orders.

Regarding **measures to ensure the continued production and export of coffee** from EAC Partner States, recommendations focus on the minimisation of risk as well as providing support to coffee businesses hit by the pandemic.

It goes without saying that, first, the precautionary health and safety measures taken to avoid the spread of coronavirus in the coffee supply chain need to continue. This may require additional training and support (in terms of providing the necessary materials and equipment) by sector associations and governments (with the support from donors).

Second, financial support programmes should be made available to coffee businesses to help them weather the crisis caused by the pandemic and the containment measures taken in response, which have resulted in increased costs for producers and traders. To this effect, low-interest credit line or credit guarantee programmes targeting the coffee sector, as well as tax holidays or waivers should be considered. In particular, duties on imported inputs needed for coffee production should be reduced or eliminated.

Third, coffee associations need to be in close contact with EAC governments to ensure that any containment measures that may still be taken are not overreaching and allow the operations in the sector to continue as well as possible given the circumstances.

Finally, in terms of **ensuring transport and logistics for coffee exports**, coffee sector representatives (in collaboration with other business representatives) need to impress on Partner State governments to address the delays in intra-EAC road transport, notably at the border posts, to ensure that the intra-Community flow of goods reverts to a normal situation.

Second, governments should ensure that air (cargo) service capacity increases again as soon as possible – if needed with a focus on increasing cargo capacity – and should negotiate with global logistics companies to ensure that port calls of vessels do not further reduce.

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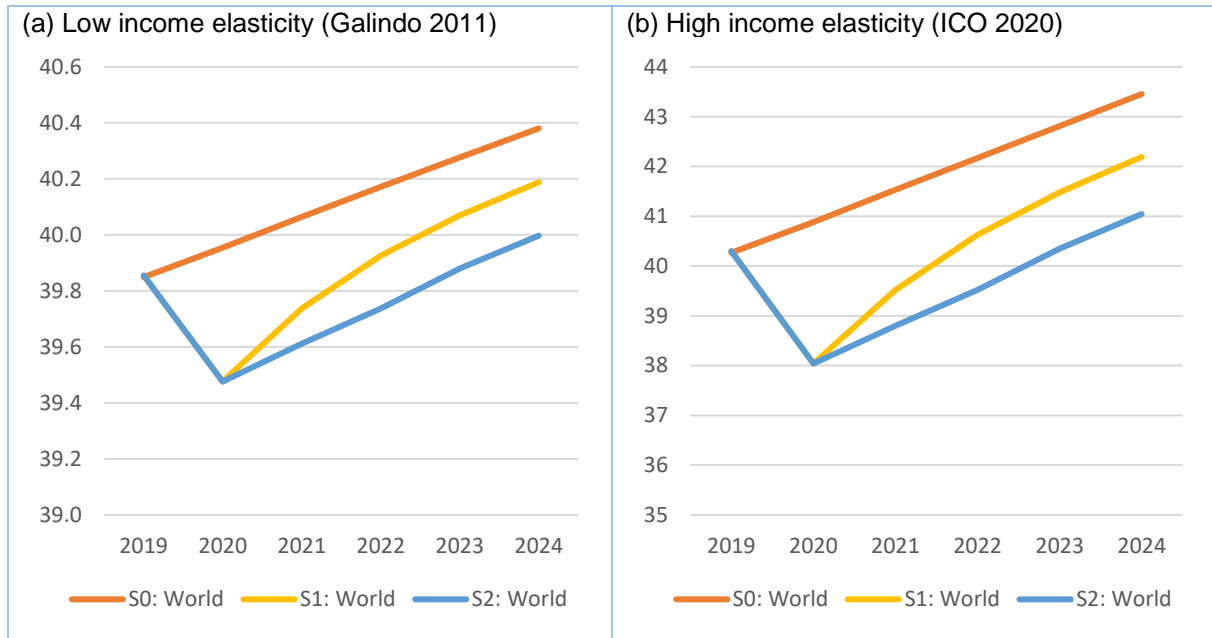
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ANNEX:

Burundi

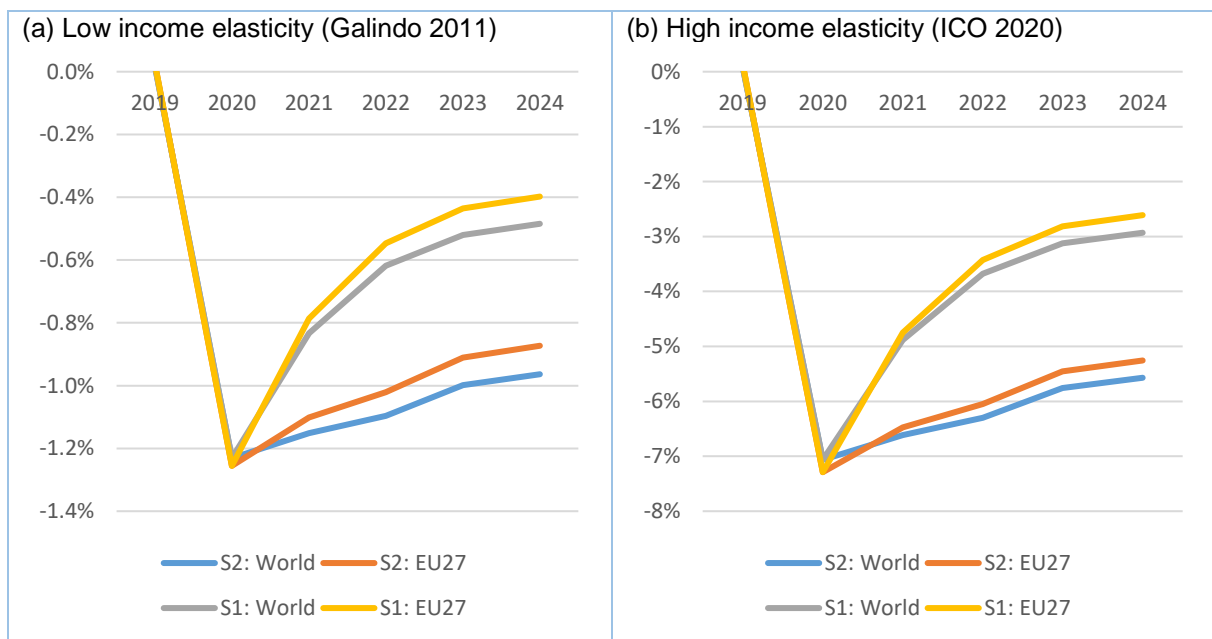
Figure 10: Projected coffee exports from Burundi to world, 2019-2024 (USD M): scenarios and elasticities compared



Note: Estimations based on mirror data (i.e. reported value of coffee imports from EAC)

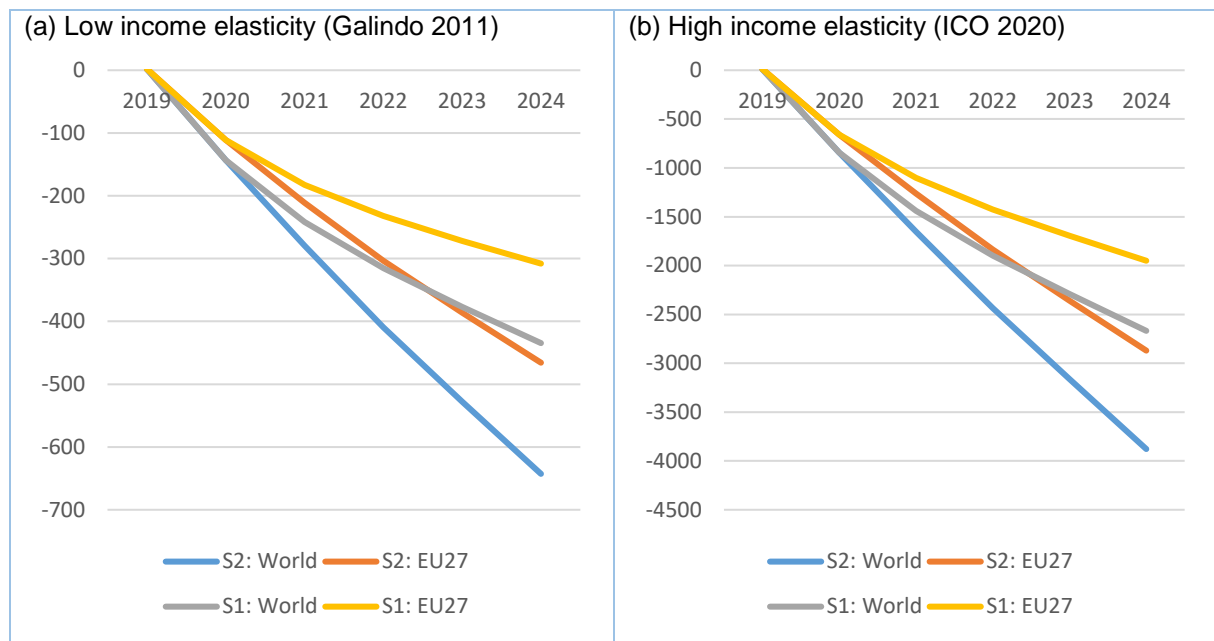
Source: Own calculations.

Figure 11: Changes in demand for coffee from Burundi compared to no crisis, 2019-2024 (%): scenarios and elasticities compared (based on volume)



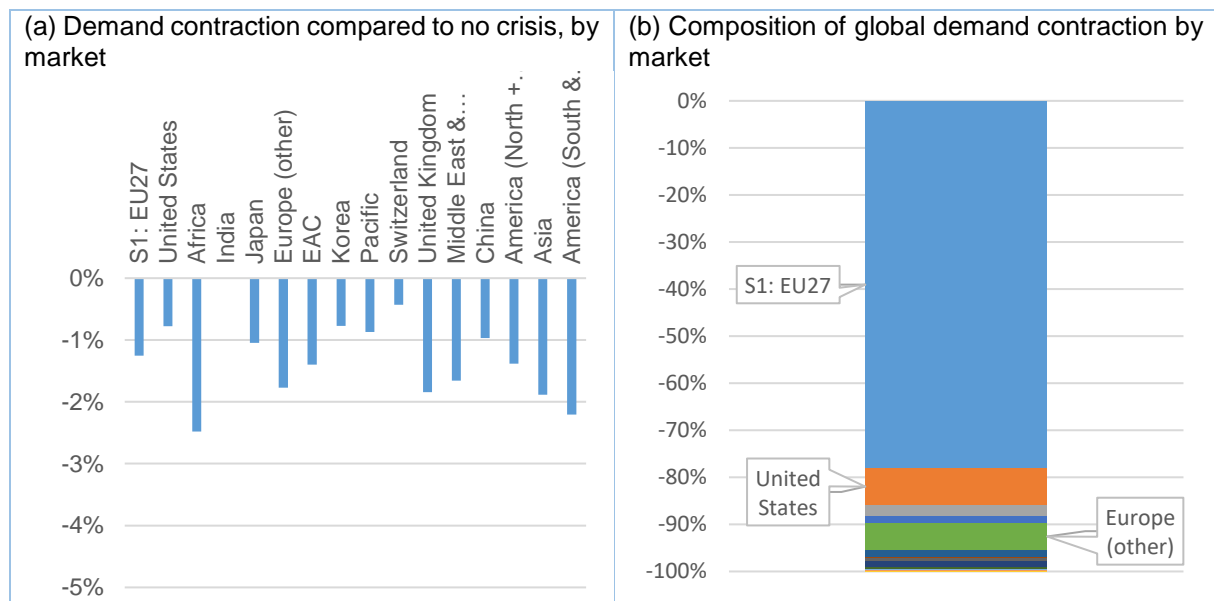
Source: Own calculations.

Figure 12: Cumulated effect of COVID-19 on Burundi's coffee export volume, 2019-2024 (tonnes): scenarios and elasticities compared



Source: Own calculations.

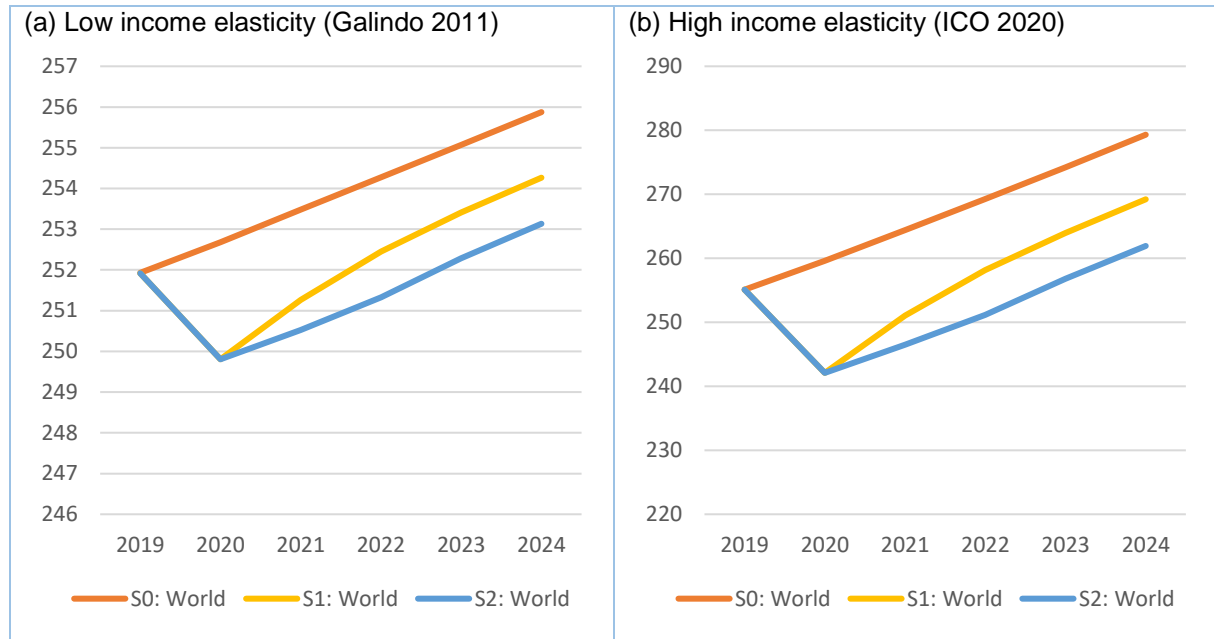
Figure 13: Composition of COVID-19 effect across Burundi's coffee markets in 2020 (low elasticity, probable scenario)



Source: Own calculations.

Kenya

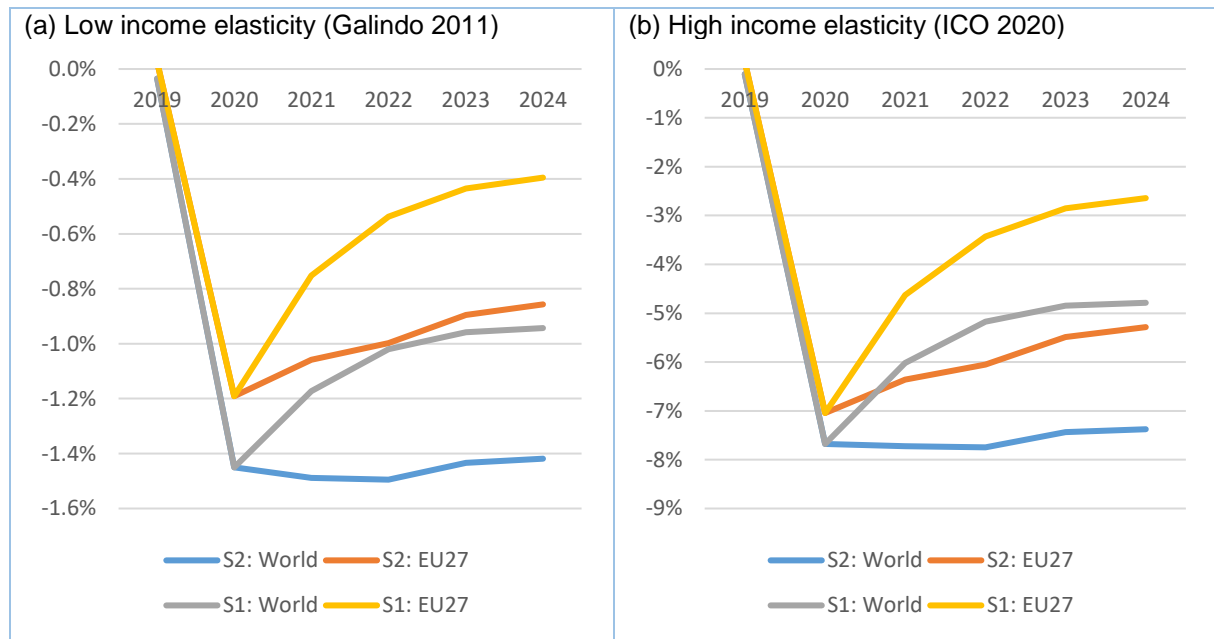
Figure 14: Projected coffee exports from Kenya to world, 2019-2024 (USD M): scenarios and elasticities compared



Note: Estimations based on mirror data (i.e. reported value of coffee imports from EAC)

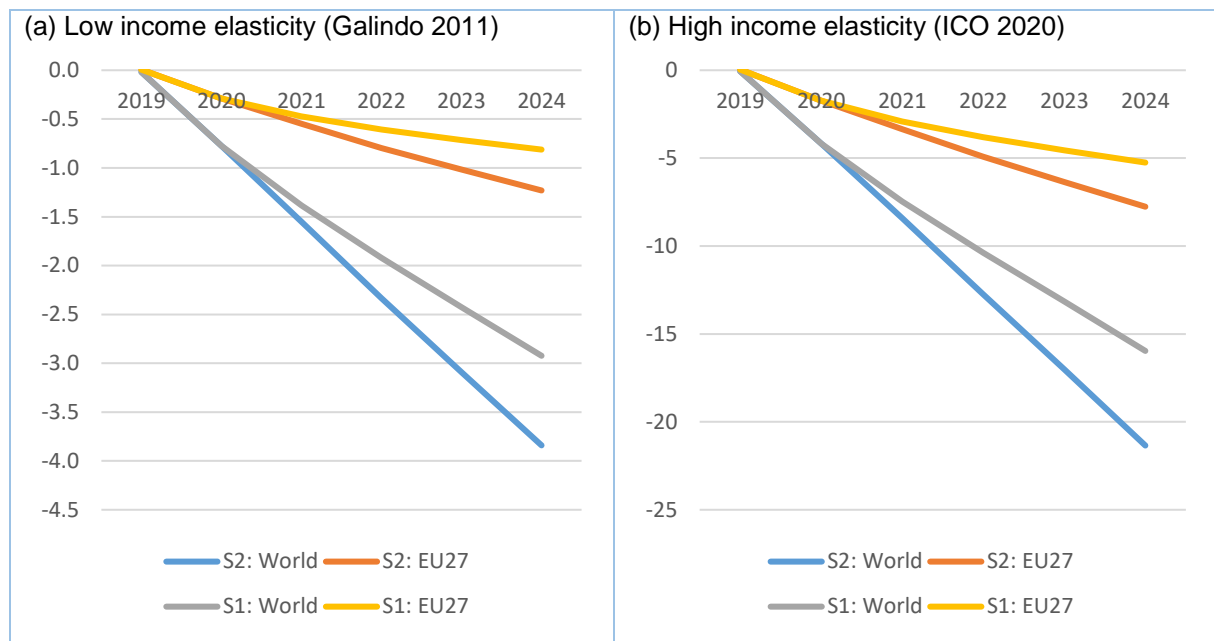
Source: Own calculations.

Figure 15: Changes in demand for coffee from Kenya compared to no crisis, 2019-2024 (%): scenarios and elasticities compared (based on volume)



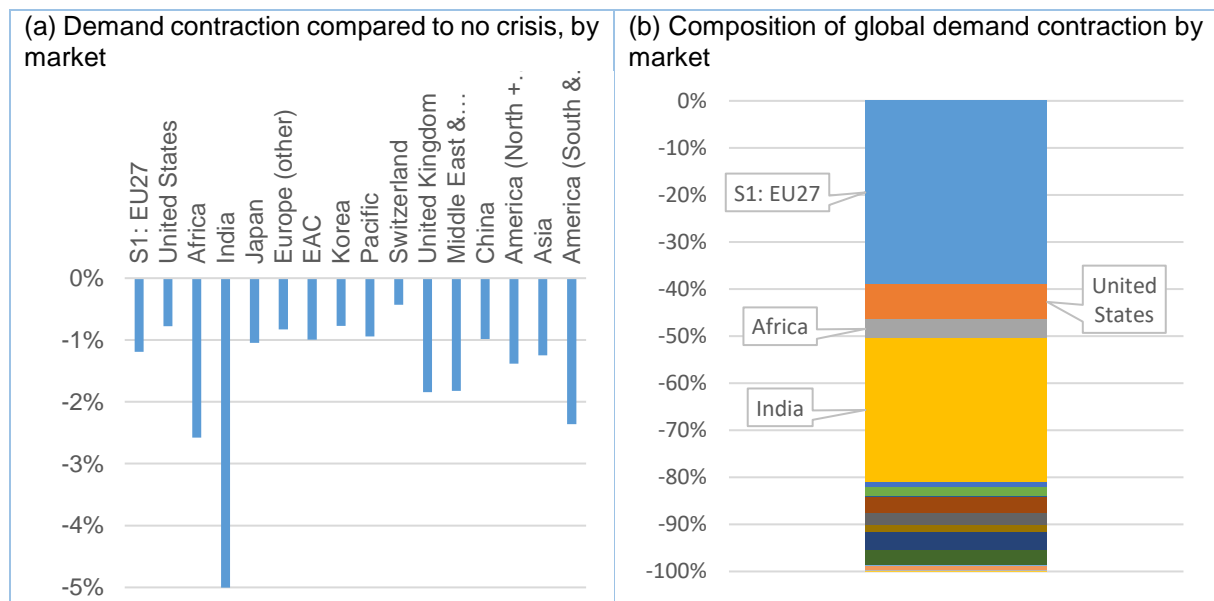
Source: Own calculations.

Figure 16: Cumulated effect of COVID-19 on Kenya's coffee export volume, 2019-2024 ('000 tonnes): scenarios and elasticities compared



Source: Own calculations.

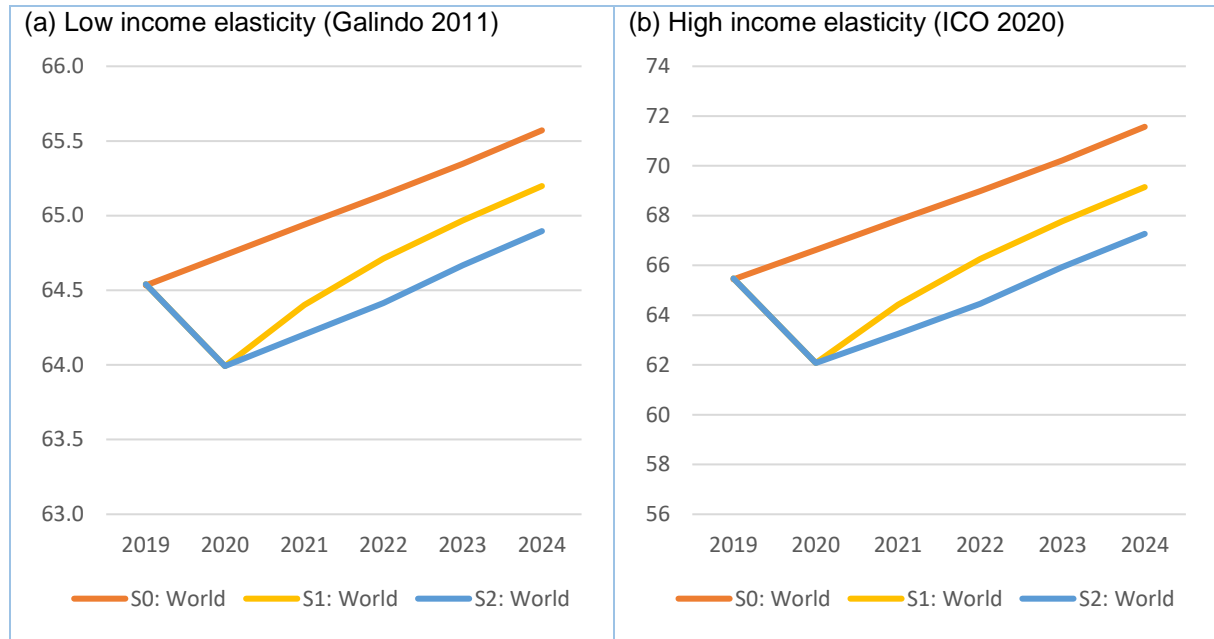
Figure 17: Composition of COVID-19 effect across Kenya's coffee markets in 2020 (low elasticity, probable scenario)



Source: Own calculations.

Rwanda

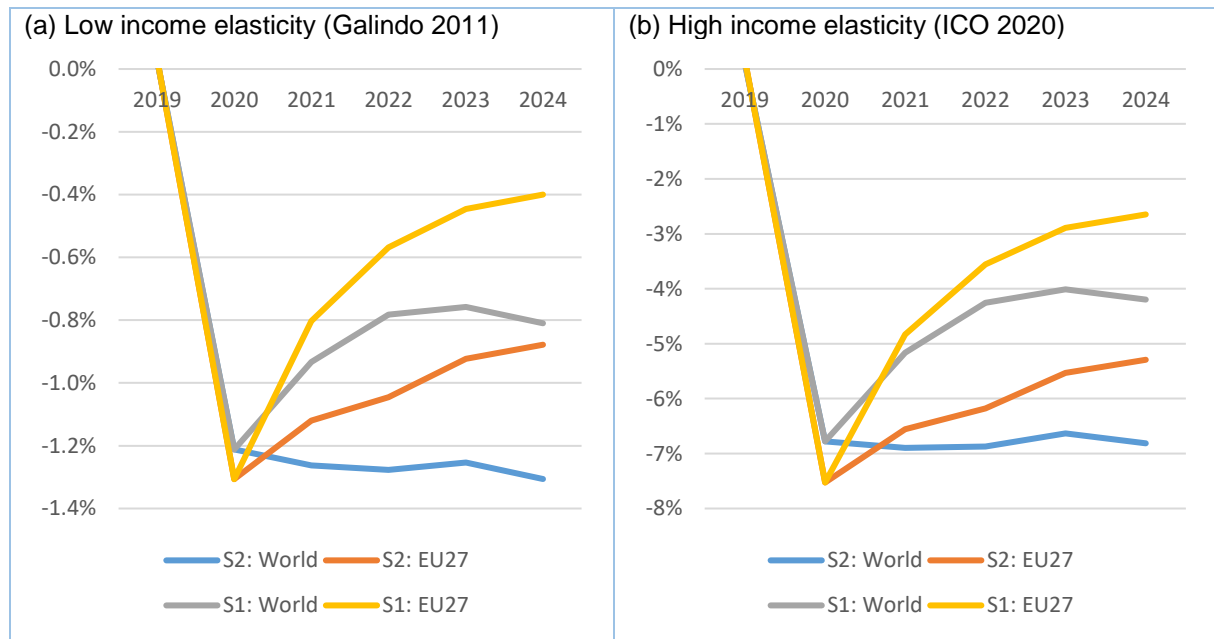
Figure 18: Projected coffee exports from Rwanda to world, 2019-2024 (USD M): scenarios and elasticities compared



Note: Estimations based on mirror data (i.e. reported value of coffee imports from EAC)

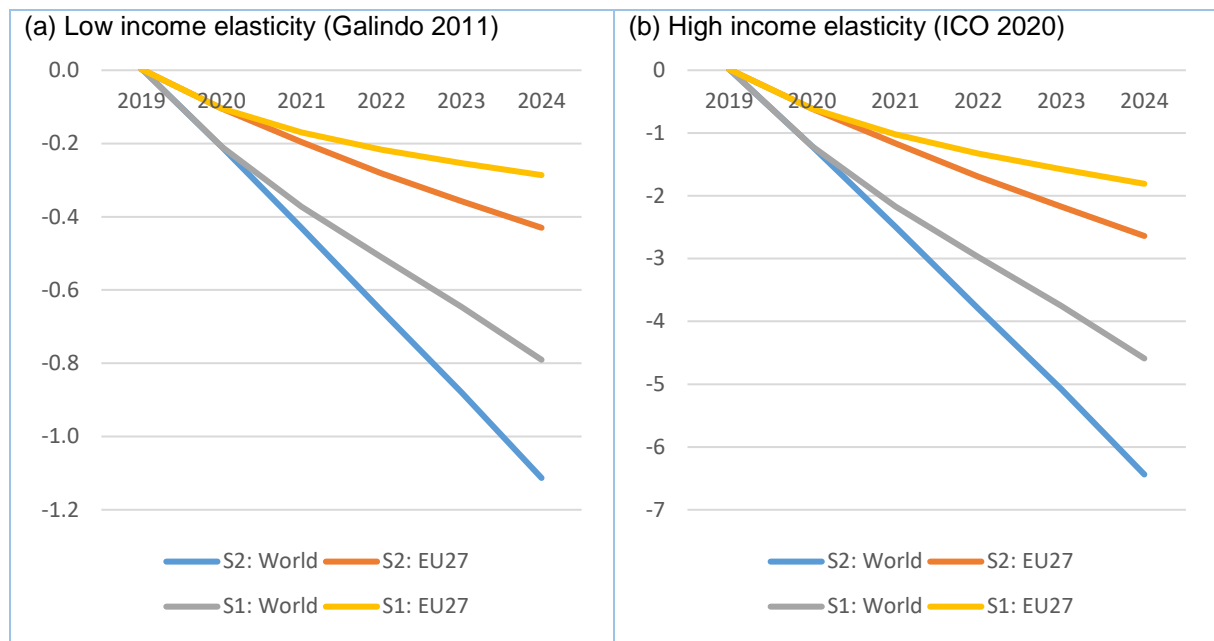
Source: Own calculations.

Figure 19: Changes in demand for coffee from Rwanda compared to no crisis, 2019-2024 (%): scenarios and elasticities compared (based on volume)



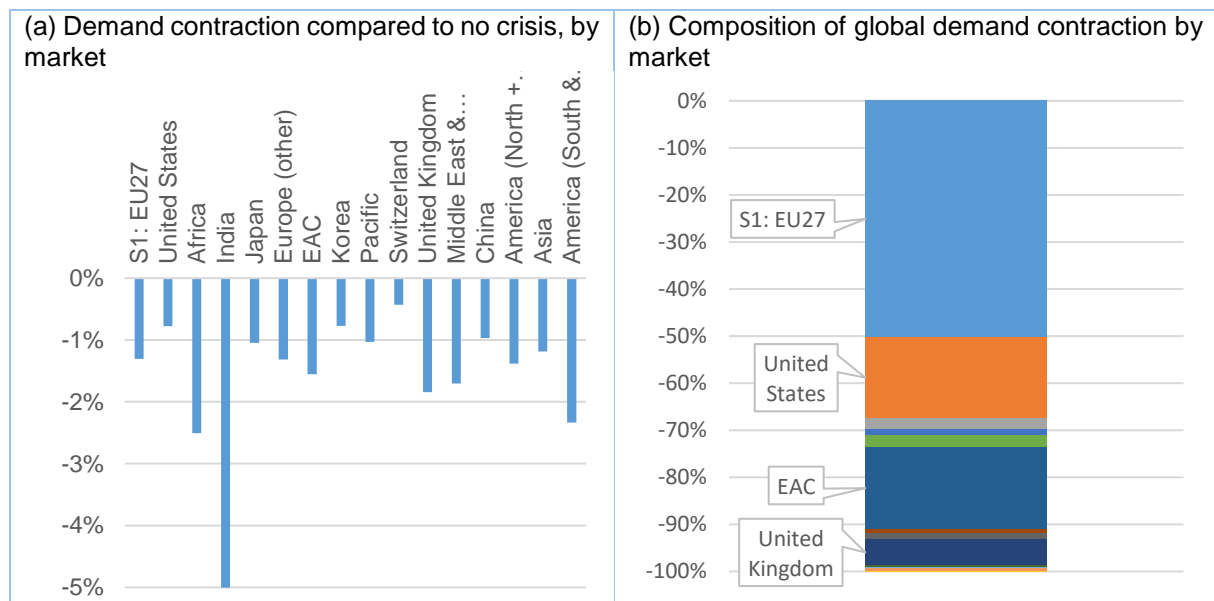
Source: Own calculations.

Figure 20: Cumulated effect of COVID-19 on Rwanda's coffee export volume, 2019-2024 ('000 tonnes): scenarios and elasticities compared



Source: Own calculations.

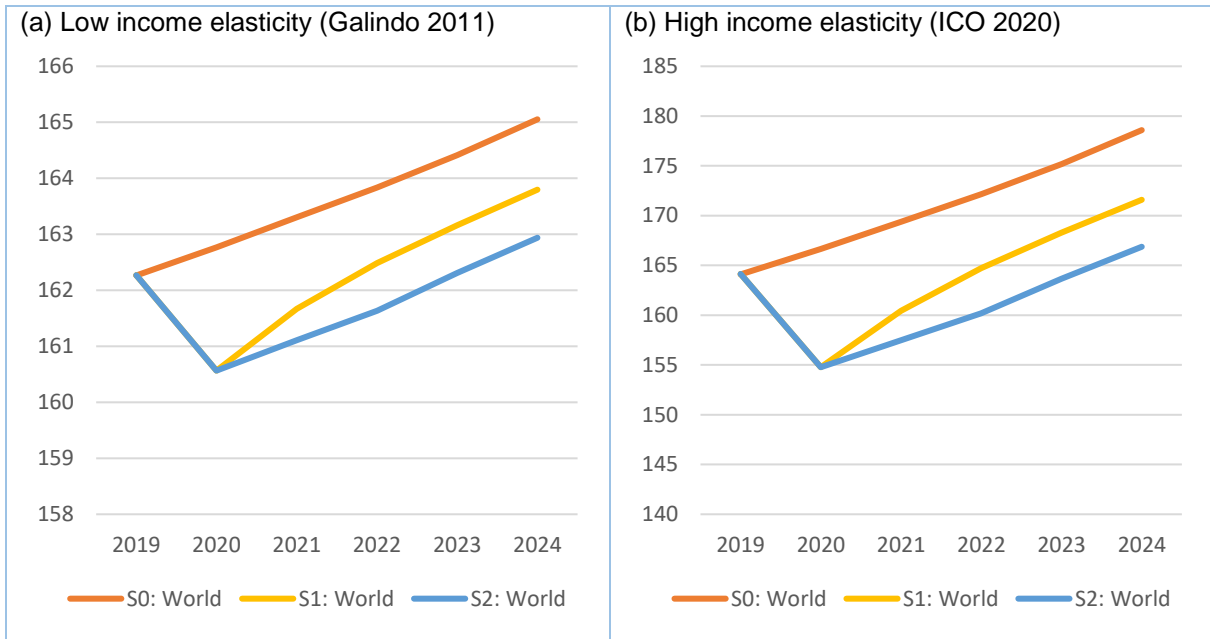
Figure 21: Composition of COVID-19 effect across Rwanda's coffee markets in 2020 (low elasticity, probable scenario)



Source: Own calculations.

Tanzania

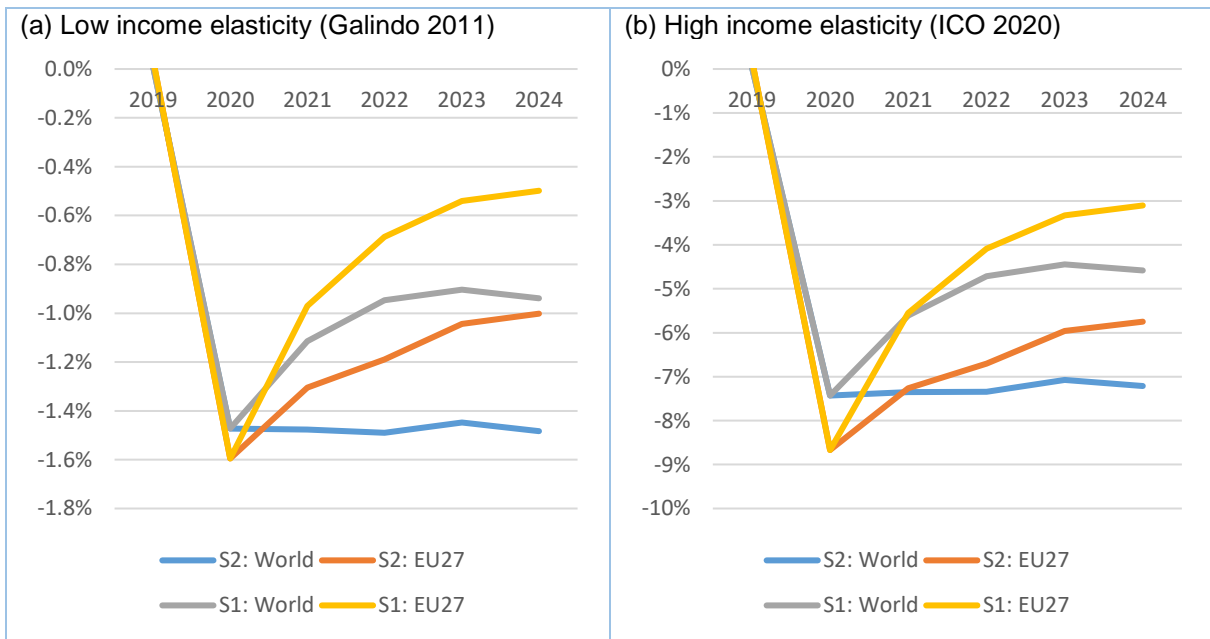
Figure 22: Projected coffee exports from Tanzania to world, 2019-2024 (USD M): scenarios and elasticities compared



Note: Estimations based on mirror data (i.e. reported value of coffee imports from EAC)

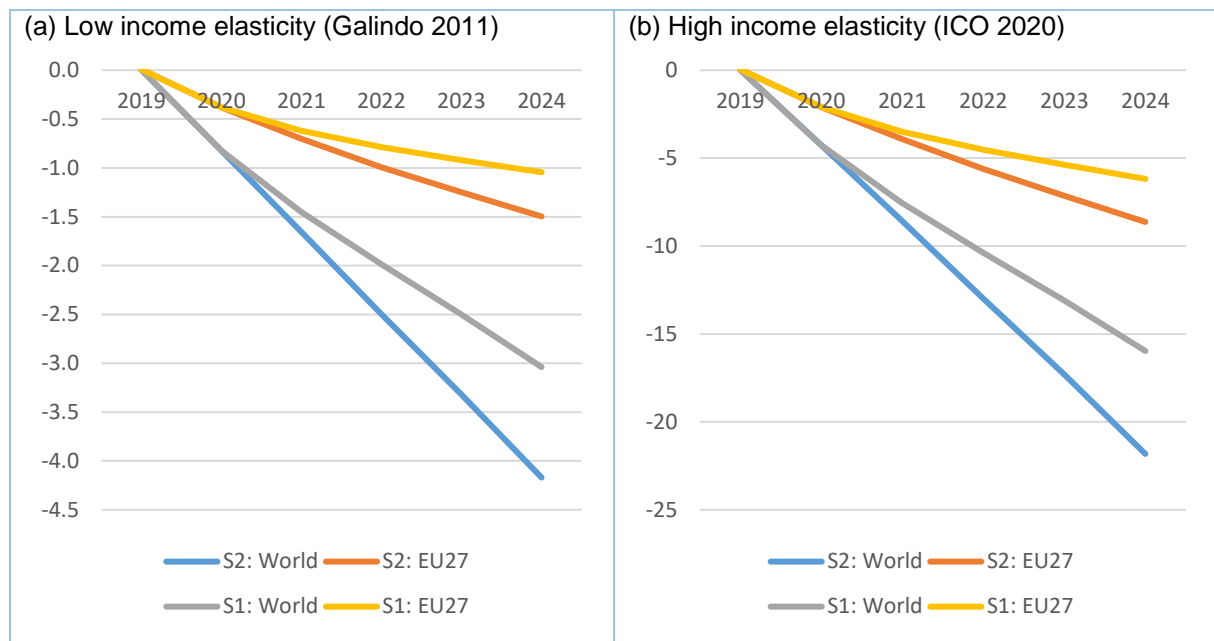
Source: Own calculations.

Figure 23: Changes in demand for coffee from Tanzania compared to no crisis, 2019-2024 (%): scenarios and elasticities compared (based on volume)



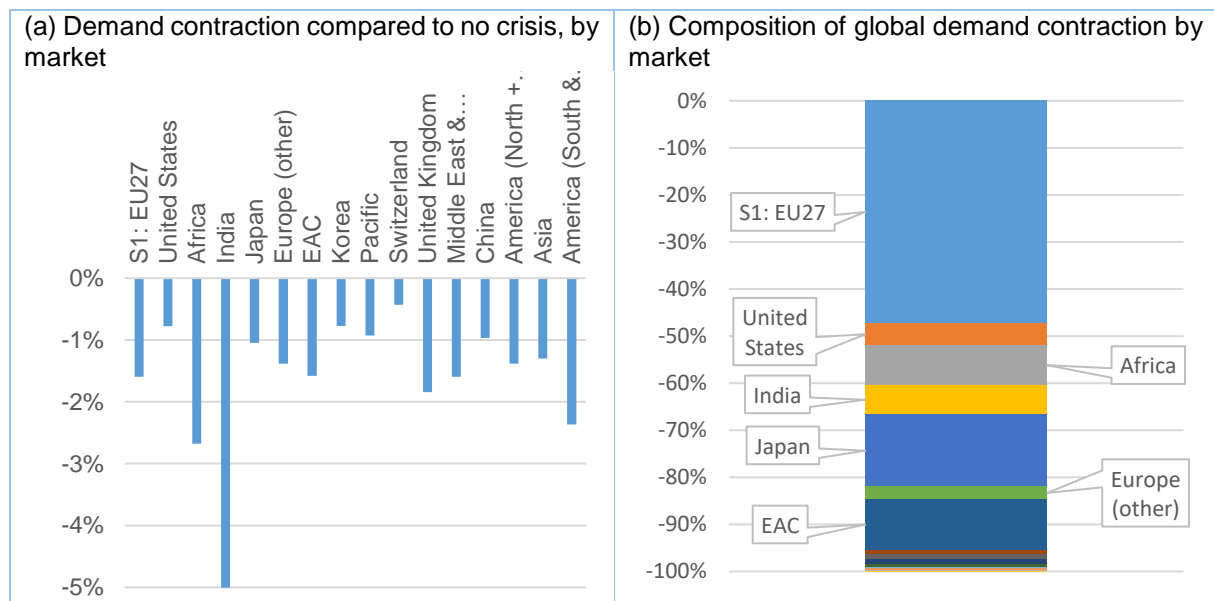
Source: Own calculations.

Figure 24: Cumulated effect of COVID-19 on Tanzania's coffee export volume, 2019-2024 ('000 tonnes): scenarios and elasticities compared



Source: Own calculations.

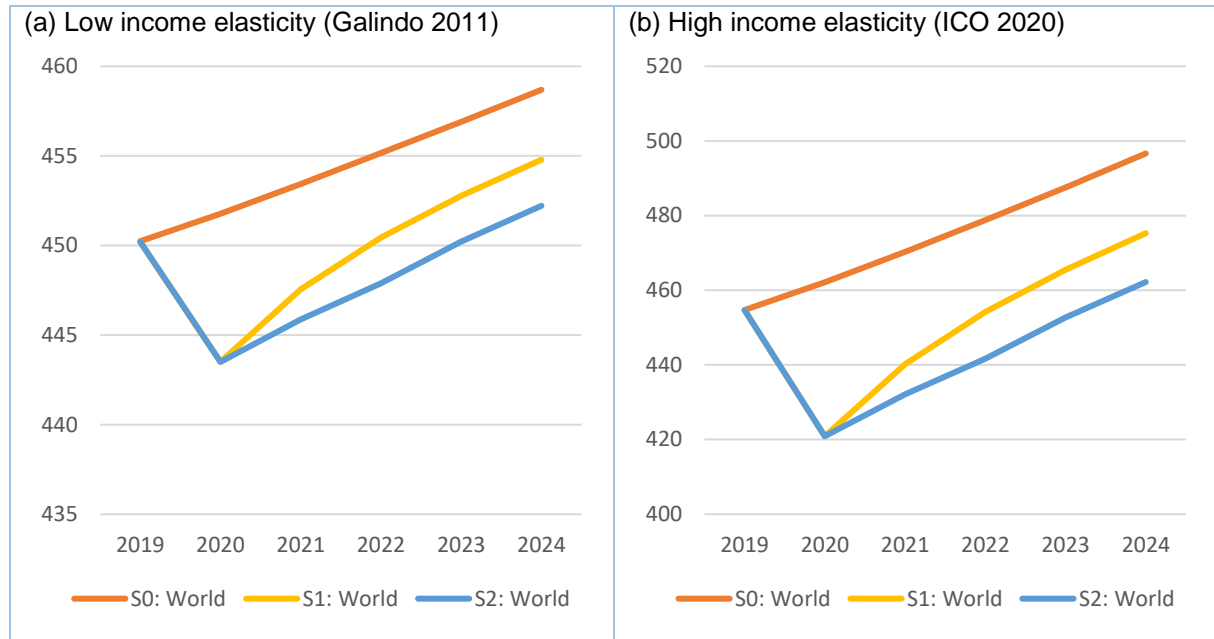
Figure 25: Composition of COVID-19 effect across Tanzania's coffee markets in 2020 (low elasticity, probable scenario)



Source: Own calculations.

Uganda

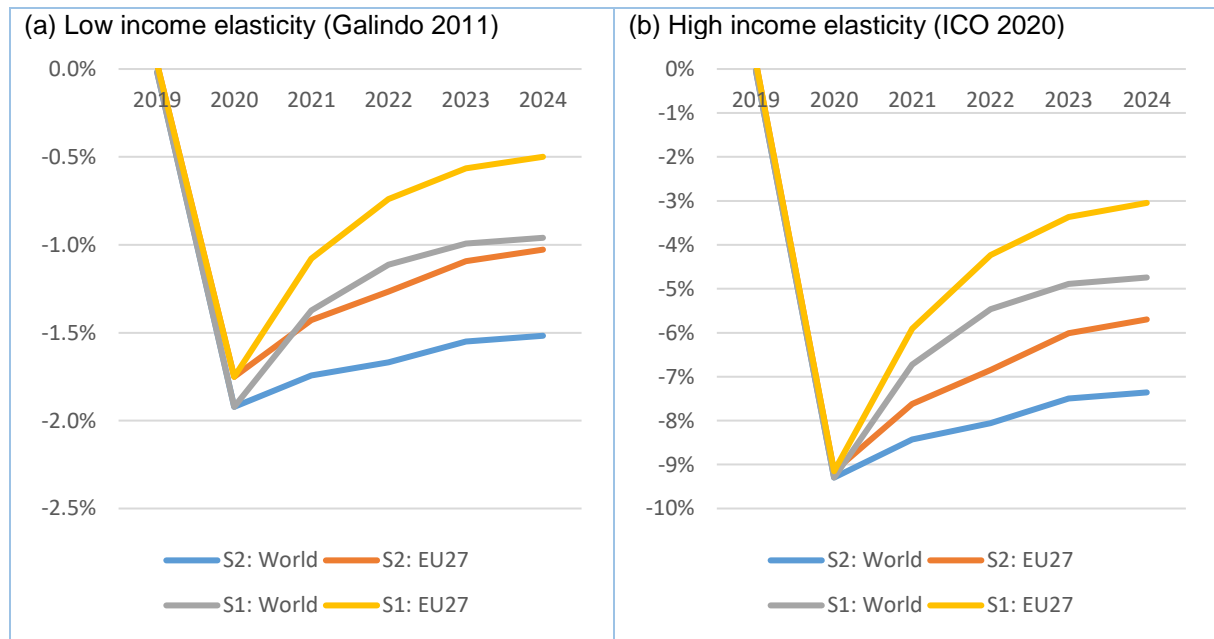
Figure 26: Projected coffee exports from Uganda to world, 2019-2024 (USD M): scenarios and elasticities compared



Note: Estimations based on mirror data (i.e. reported value of coffee imports from EAC)

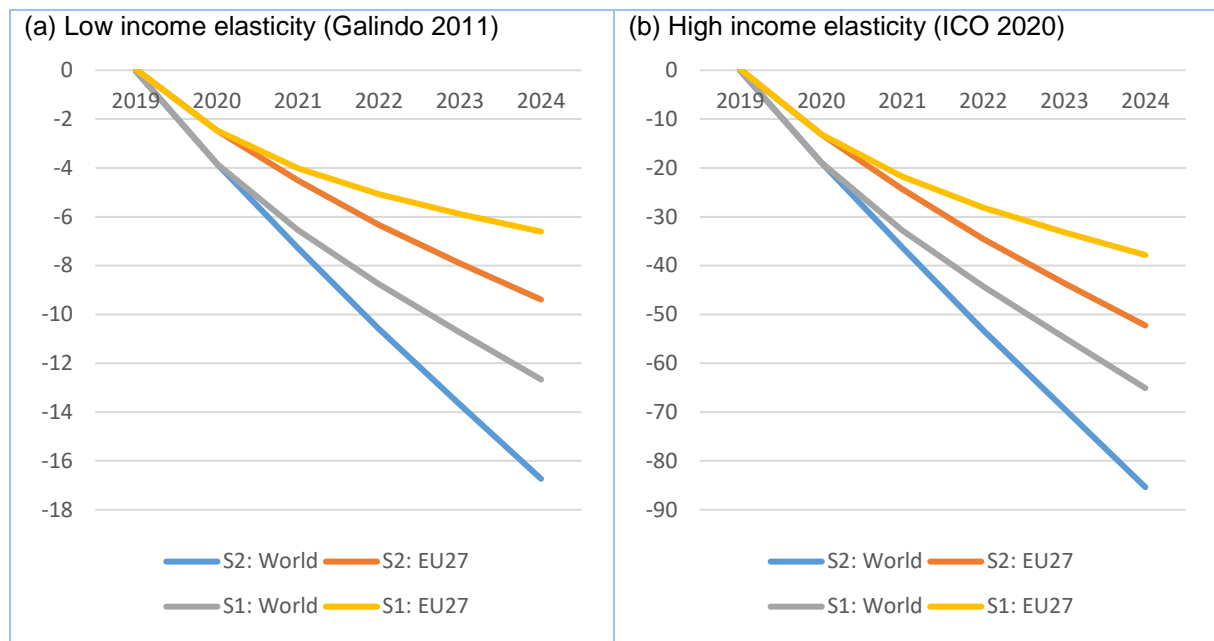
Source: Own calculations.

Figure 27: Changes in demand for coffee from Uganda compared to no crisis, 2019-2024 (%): scenarios and elasticities compared (based on volume)



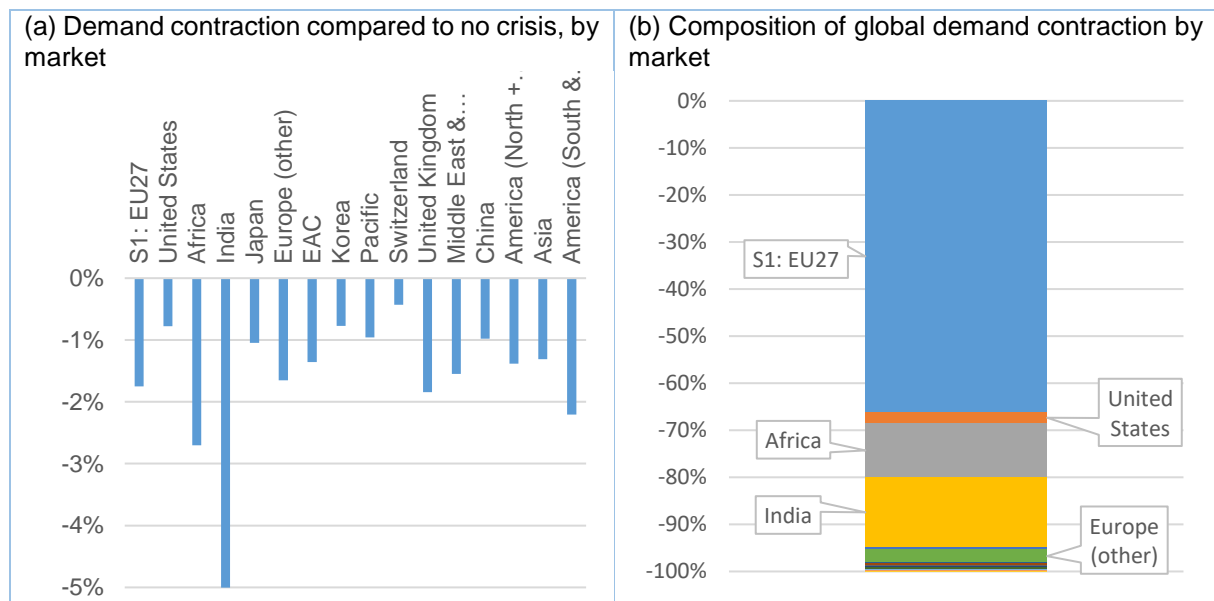
Source: Own calculations.

Figure 28: Cumulated effect of COVID-19 on Uganda's coffee export volume, 2019-2024 ('000 tonnes): scenarios and elasticities compared



Source: Own calculations.

Figure 29: Composition of COVID-19 effect across Uganda's coffee markets in 2020 (low elasticity, probable scenario)



Source: Own calculations.