IN DEFENSE OF THE ETHIOPIAN COFFEE EXPORTERS

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The latest reports from Ethiopia indicate that Prime Minister Meles Zenawi has revoked the licenses of six of the country's main coffee exporters, accusing them of hoarding the coffee supplies. Similar threats were passed on by the Ministry of Agriculture and Rural Development (MoARD) during its meeting with over 90 coffee exporters that was held on March 26, 2009. It is now being reported that the government has confiscated 17,000 tons of stock of coffee involving about 88 other traders and has begun exporting coffee via the state-owned Ethiopian Grain Trade Enterprise.

Hoarding of Coffee Beans: A True Fallacy

What is hoarding and why do businesses opt to hoarding? In the business sense, firms are tempted to hoarding because of the simple fear that they are throwing away their resources unless they hold on to them for the time being. Assuming that the Ethiopian merchants have been "hoarding" their coffee beans, and there is a big assumption here, it would mean that they want to weather what they believe will be the worst trading conditions they ever have faced. This makes sense since commodity prices, such as coffee have dropped over 30% lower than what they used to be a few months ago. Those who are tempted to hoard also believe that the price of coffee will rise in the future. As a practical matter, if the hoarding effectively takes place, less of the commodity will be available now but also that more of the commodity will be available in the ensuing periods as the coffee merchants try to sell their stockpiles. Assuming that what the coffee merchants expected will be realized, the commodity will garner more revenue and more foreign exchange by the time it is put up on the market. This is a win-win situation for the coffee exporters, coffee growers and the government which will fetch more foreign exchange that it so desperately needs. From this standpoint, and if one has confidence in markets, it is difficult to object to hoarding.

Hoarding also implies that the owners of the coffee beans enjoy some kind of ***market power*** just like a cartel. But the realities on the ground indicate that coffee exporting cartel could not and do not exist. First of all, Meles's total grip on the political and economic system of the country does not allow a cartel to exist in Ethiopia. Second of all, the excess supply of coffee beans would not allow the Ethiopian coffee exporters to enjoy advantages created by collusion and hoarding. The relatively huge number coffee exporters (over 94) and given the diversity of market participants (some of them being fringe players of the "game" and their temptation to "cheat" on the cartel), this fact pretty much rules out the chance of creating a cartel and existence of collusion, tacit or otherwise. Coffee merchants cannot control the supplies at the grower's level either, for such control totally belongs to the cadres of the ruling party. Since the over 700,000 coffee growing peasants are scattered among many states (regions) of the country, it is impossible for the coffee exporters to control the supplies of coffee beans at the grassroots level. Knowing this to be the fact, the government has not accused the coffee merchants of collusion and cartel creation. It is highly irresponsible to accuse coffee exporters of hoarding without any factual basis. Consequently, there must be something else behind this mysterious accusation. To that end, I present one Ethiopian proverb which roughly goes as: "Dear hyena: I know your intension is to eat me. Go ahead and eat me but please don’t try to camouflage (cover up) your true intentions by creating excuses!” “አያ ጅቦ ሆይ፡አባክህ ሳታመኻኝ ብላኝ!”. This proverb pretty much captures how hopeless the merchants feel and this hopelessness is even vividly captured by following statement that one of the coffee business managers responded to the BBC’s reporter: “We haven’t hoarded anything… We have proof that we haven’t been hoarding…”

Meles Does not Believe in Markets

The problem is that Ato Meles Zenawi does not believe in the market system, despite his many attempts in faking it. Lest people would think that I am making this up, I ask them to look into what he wrote in his so-called upcoming book titled: “***African Development: Dead Ends and New Beginnings.***” In fact, I vividly remember well Mr. Zenawi’s interview with the BBC, describing himself as a proponent of the discredited Albanian communism and an extoller of the then Albanian strongman, Enver Hoxha. Meles’s dismantling of the free press shows that his government does not want the truth to be told. Only dictators and those of communist leanings fear the existence of the free press. It is only those kinds of people who impersonate as adherents of the market system in order to hoodwink foreign donors, but they always revert to what it is at their heart when the going gets tough.

Mr. Zenawi’s distaste of private ownership also reveals his increasing appetite to control the country’s economy using his TPLF-owned conglomerates as conduits to his brinkmanship. It is revealed by his government’s unwillingness, despite being in power for over 18 years, to return city dwellings to their rightful owners which were nationalized by its processor, the Derg. The same distaste is revealed by the government’s full ownership and control of the land which has led the peasants, constituting nearly 84% of the country’s population, to be constant recipients of international food aid, year after year. Thanks to Meles’s “control everything” policy, the peasants are unable to raise their own capital since the land does not belong to them. The government’s land policies have taken away the incentives of the peasants to take-care of the land. Moreover, as the CIA web site puts it, the country’s land tenure system “continues to hamper growth in the industrial sector as entrepreneurs are unable to use land as collateral for loans.” Thanks to this inhumane policy, the country’s agricultural sector is being plagued by periodic drought, soil degradation caused by inappropriate agricultural practices and overgrazing, deforestation, high population density and undeveloped water resources. It is sad to say it but it is the millions of Ethiopian peasants who pay their ultimate price for this inhumane and arrogant land policy. This price is paid by, among other things, their hunger and starvation, dislocation and untimely death.

The rush to the expropriation of the privately owned coffee exporting business would not be any different than ensuring the TPLF’s control of the "commanding heights" of the Ethiopian economy. The control of the "commanding heights" of the economy by the TPLF and its surrogates means that economic activity would be directed, more so from here on than in the past, neither by profit and loss nor by human needs and the satisfaction of those needs (as rationed by the mechanics of supply and demand) but by the directions of the TPLF, Mr. Zenawi being at the helm. Meles’s erratic behavior revealed by his angry responses to questions raised by some parliamentarians and by his expropriation of the privately owned businesses further reveals that the government has come to strongly believe that the pricing system would be unable to rationally allocate the scarce resources. With such a belief system, the economy will be abused by political pressure groups, such as his regional surrogates and political cadres. Unfortunately, markets don't like coercion, and such interference in the market system will be replete of shortages and increased government controlled rationings. Meles's actions to revoke the licenses of the coffee exporters and his confiscation of their coffee beans would indeed be cataclysmic.

Meles's Action Could Abrogate Ethiopia's Membership to the WTO

In addition to hampering the already malfunctioning economy, this expropriation of the privately owned businesses and the revocation of their licenses will send a chilling signal to those who want to invest in Ethiopia, which may include members of the Diaspora community. It raises what is known in international business as the political risk of investment. This risk covers the potential conflicts (both internal and external) and expropriation risk. The act will indicate to them that the government of Ethiopia interferes in business operations including the chance of the decision-making process being hijacked by special interest groups and angry politicians who always scapegoat others for their own policy failures. Investors will fear that such an irresponsible action will force them to lose money and the potential for political violence. In addition to negatively affecting the business climate, such an action will raise the interest rate charged by potential international lenders. Sadly, this act is also in contradiction to what Dr. Eleni Gabra-Madhin, the head of the Ethiopian Commodity Exchange, once said at the time of establishment of the ECX: the establishment of the ECX means that people and business are free to "what to buy, what to sell, from whom, to whom, when and how…."

Moreover, this illegal act against the coffee exporters is in contradiction to international norms of doing business. It is in contradiction to the principles of promoting free trade, competition, nondiscrimination, transparency, and the protection of private property rights that the WTO and other organizations, such as the UN promote. If the expropriation includes foreign-owned interests, the act will be in contradiction to the UN's 1962 Resolution 1803, which states that, among other things, the owners would have to compensate appropriately. The same Resolution also stipulates that any expropriation or revoking of licenses should fully be debated by the parliament and approved by the courts. Alas, Ato Meles Zenawi making all the shots, not only he did not allow his rubber-stamping parliament and his regional surrogates to debate on the issue, but his ministries, such as the aforementioned MoARD, followed through his threats and "cut the hands of the merchants."

The Roots of the Problem and the Contradictions

1. ***The meltdown in the global economy***

The reasons behind the confiscations of the coffee beans and revoking of the coffee exporters' licenses are different than what the regime is trying to tell us: hoarding. One obvious fact is that the regime has been facing foreign exchange shortages, to the point that the shortfall could only cover a mere one-month of imports of goods and services. But the coffee exporters could not be blamed for this, for the shortfall has been taking place over many years and both the IMF and the World Bank have been warning the government about the impending dire consequences of this problem. If coffee is to be blamed for the shortfall, the regime should have designed policies which would have diversified the country's exporting opportunities. Of course, the global economic meltdown has exacerbated the foreign exchange reserve problem. The meltdown has led, as expected, a fall in commodity prices, which includes coffee, cut flowers and other non-manufactured products. And this meltdown is not peculiar to Ethiopia either, for coffee farmers all over the world are facing similar difficulties. For example, one report indicated that the "price of Vietnamese export coffee has fallen by 34.7% from its peak last year, making it difficult for small and medium exporters to raise loans for further production and expansion." But unlike the Ethiopian case, the government of Vietnam government is encouraging coffee growers and merchants "to keep coffee in stock to avoid the price fall!"

2. *Mismatch between excess supply and limited demand*

One should not disregard the supply factors either. Even before the world-wide economic slump, coffee growing countries and their farmers have been besieged by excess supply of coffee. As one source put it, '[C]offee production is consistently outstripping consumption, with the result that excess stocks are driving down prices." [i] At the same time, food prices have been rising, thereby putting coffee growers at a greater risk. The same source reports: "The case of Ethiopia, where the first coffee crop originated, illustrates the problem. After years of war and repeated droughts, the country is now among the poorest in the world. Coffee is an integral part of the national economy and society. More than 700,000 households are involved in its production, and the livelihoods of 15 million people depend in part on the coffee economy. The crop accounts for about two thirds of export revenues. However, Ethiopia has lost almost US$300 million in export revenues over the last two years as a consequence of the slump in prices, an amount equivalent to half the country's annual export earnings… Over the past three years the export price of coffee as a proportion of the retail price has fallen by half, to less than seven per cent."[ii] This being the reality, one is forced to ponder if there are indeed some other reasons why the government of Meles Zenawi decided to use the coffee merchants as scapegoats. Let's look at the some more of them.

3. *Government control of coffee trade using Ethiopian Grain Trade Enterprise (EGTE)*

Those who know the matter indicate that the government has been planning to nationalize the coffee exporting business and put it under the control of the Ethiopian Grain Trade Enterprise (EGTE). In addition, the local newspaper, *Capital* had reported that the TGTE had informed Dr. Eleni Gabra-Madhin its intensions to be involved in the coffee exporting business. The newspaper has quoted her as saying that: "Months earlier the enterprise [that is, TGTE] told us about their intention to be involved in the coffee trading business and last week they came with their coffee trading license, so we allowed them to participate."[iii] It is also reported that the government had decided to establish about seven coffee brands, mix the coffee beans from different growers, label and sell them under those brands. These imply that the government had planned to control the coffee trading business as it has done with the other sectors of the economy. Such a lack of transparency – saying something to the unsuspecting public, hiding the truth from them and doing entirely differently have been the trademarks of Meles Zenawi's government. Moreover, as the BBC and the Bloomberg reporters reported on many occasions, the ECX is unpopular with exporters "as it does not yet allow the separation of specialty and organic coffees. These have to be mixed in with the rest and can no longer be sold to top-end buyers for premium prices." If this is the case and there is a "free market", the merchants should have been allowed to take care of their business!

4. Confusion and total chaos

As reported in the *Seattle Times* and elsewhere, this action is known to have angered the "specialty roasters who prefer beans from certain growers and processors, and sometimes have worked with them to improve quality."[iv] Many observers, buyers, and the general public are also reporting that there is a lot of ***confusion and chaos*** in the country as a result of the government's decision. The confusion involving the government authorities emanates from their lack of understanding how the Ethiopian Commodity Exchange system they set up last year works. On the other hand, the confusion involving the coffee importers and some of the unsuspecting public emanates from the fact that the government talks about something else – hoarding- while its real intensions are quite different as I described them above. Sadly, some of the coffee exporters are also talking about winning their case in the courts since they know they have "not hoarded anything!" Unfortunately, the case was settled at the higher ups way before Mr. Zenawi had said he would cut their hands! All of these clearly indicate that half- hearted believes in the market system, coupled with dictatorship are dangerous to the working of an economy.

5. The "hoarded coffee beans" are found: either they don't exist or are smuggled or both!

Moreover, a deeper scrutiny of the whole affair indicates that the coffee merchants are not the cause of the problem. As the Bloomberg reporter noted-quoting Dr. Eleni, the drop in income from coffee is due to "a poor coffee harvest, weak world prices and a ban on Ethiopian beans in Japan…"[v] This indicates that, if there are any coffee beans that are missing, they are missing at the grassroots level. Other reports also indicate that some of the coffee is being smuggled through the neighboring countries' borders. Since the EPRDF is in charge of the borders, it is the government that is partly to blame. And since a good portion of the traffickers of "illegal goods" are members of the TPLF, the government of Mr. Meles Zenawi has to look into the mirror, stare at its face and honestly ask itself who is the culprit behind the "missing coffee beans" is. If the government interference does not allow the coffee producers to fetch the market given prices they deem necessary, production will fall and there will be increasing smugglings and further shortages. In particular, this move will anger the coffee farmers, who are being put at greater risk due to the ever increasing food prices, and will create a disincentive for increased production. The TPLF leaders and their cadres, whom I have heard boast coffee being their "black gold" will see less of it in the future if their blotted interference continues. Unfortunately, communists and dictators fail to understand this fact and repeat the same mistakes that their predecessors and their ideological leaders they so extol have committed.

Foreign Exchange Reserves Shortfalls

1. Fundamental reasons for the shortfall – the coffee traders have nothing to do with it!

For those of you who may not know what is meant by foreign exchange reserves, in the simplest sense, they are just the foreign currency deposits and bonds held by central banks and monetary authorities of a country. These assets are dollars, euros, yens, gold and other similar currencies that the country owns. Now**, e**veryone knows that the government of Meles Zenawi has been facing a shortfall of hard currency for a long time. The government has been replenishing this same shortfall using the money it receives from its bilateral and multilateral donors and lenders, the influx of remittances, selling everything it has on its hands, and as of last year, invading the black market foreign currency shops and confiscating the assets of private citizens.

The culprits behind the shortfalls of the foreign exchange reserves are many but they emanate from the sustained current account balance (a continuous imbalance between imports and exports), the existing problems exacerbated by the declines in export earnings due to the declines of commodity prices such as coffee, cut flowers, and other commodities that the country depends on for its exports. The meltdown in the global economy has also resulted in the decrease of donor aid and declines in the expected increases of remittances. In the process, the real exchange rate of the birr has been appreciating thereby making the goods and services that the country imports to be artificially cheaper. As long as these other imbalances not mentioned here continue to exist, and all indications are that they will, the country will continue to face shortfalls in its foreign exchange reserves. Given the unsustainable shortfalls of the exchange rate reserves which have existed for a long time, and given that the government has been soaking the economy with an excess supply of the birr, one could legitimately ask why the country had not faced a currency collapse. Fortunately, this has not happened yet, but we are not out of the woods, either. The high inflation rates (the country's inflation rate being the second highest in the continent, following Zimbabwe) and the recent decline in the value of the birr are reflections of the aforementioned imbalances and the excess supply of money. The excess supply of money is partly due to loans extended to TPLF-owned parastatals at negative real interest rates! To overcome the shortfalls, the government may resort to accommodate the shortfall by further depleting its foreign exchange reserves, but there are almost none to be used. It may accommodate the shortfall by borrowing from the multilateral organizations just like the $50 million loan it obtained from the IMF. Thanks to the G20's willingness to increase the IMF's funding, the IMF may extend more loans to Ethiopia as Mr. Meles so begged by travelling to London twice in less than two weeks. [by the way: there two kinds of leaders who attend the G8 and G20 meetings. The first kinds are the ones whose stature has grown since their economies are to be reckoned with. The second kinds are those who go there to beg and/or whose county that they lead are known to give a headache to the world. Meles fits both of the latter and attended the meetings! This being the case, his attendance does not make him a good statesman!] But the assistance coming out of the coffers of the IMF may not be enough. Alternatively, the government may try to minimize the decline of the reserves by following protectionist policies or devaluing the birr. The government is already doing the latter, but it is evident that the devaluation by itself will not do the trick. The former may be difficult since the act would be against the WTO principles and the act may anger the country's trading partners. Since this will require the curbing of imports, the pain will be on the people who depend on the imported goods and could be unacceptable to those people. [Is this the reason why Mr. Zenawi has been talking about public uprising lately?] The other two more alternatives are rationing the foreign exchange currency the country earns and tightening its foreign exchange controls. The government has been doing both of these. But these last two measures will worsen the shortfalls and increase the dual (black) market activities.

Now, one may be tempted to ask: “What do the coffee exporters have to do with this shortfall?” Good question, but hopefully this short article has helped you find the answers to this good question. In any case, the pain inflicted on the people and the country emanating from these shortfalls will be tremendous, unless some bold and drastic measures are taken to reverse the situation. Unfortunately, it is reported that the shortfall has already “led to rationing and shortages, including cement and medical supplies, because companies can’t import goods or raw materials.”[vi] God forbid!

2. ***The expected devaluation of the birr***

Every rational person who knows how the exchange rate system works, knows that the birr’s real exchange rate is too high (the birr is overvalued.) The coffee exporters being some of these group of people who know and should anticipate this to take place, it has been reported that they were expecting the government to devalue the birr at least one more time. Their expectation of a further devaluation of the birr is, of course, as expected. And it is their right to act rationally, too! In fact, both Prime Minister Meles Zenawi and the trade minister, Ato Girma Biru, after devaluing the birr by 10% last January, had suggested that the government may further devalue the birr. Obviously, as exporters who earn their money in foreign exchange, the coffee traders were trying to minimize their losses due to this anticipated devaluation. The further devaluation of the birr would also allow them to export more coffee since the goods that the country exports would be more attractive to foreign buyers after the birr is devalued. Now, assuming that there are indeed “hoarded coffee beans” and again, there is a big “if” here, who is to be blamed here: the government which has triggered the expectations by telling the world that the birr would be further devalued or the coffee traders who are trying to minimize their losses? You be the judge.

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