Voluntary Report – Voluntary - Public Distribution **Date:** July 09, 2024

Report Number: ET2024-0013

Report Name: Ethiopian Agricultural Exports Thrive Despite the Red Sea Shipping Disruption

Country: Ethiopia

Post: Addis Ababa

Report Category: Agricultural Situation, Agriculture in the News, Agriculture in the Economy

Prepared By: FAS Staff

Approved By: Justina Torry

Report Highlights:

Red Sea shipping remains unstable, with attacks on ships transiting this crucial maritime corridor surging recently. This has led to unpredictable shipping schedules, caused freight costs to almost triple, and transit times to more than double. Despite these challenges, key Ethiopian agricultural exports such as coffee, sesame seeds, and kidney beans, as well as imports like wheat, rice, and vegetable oil, have grown.

Background

Since November 19, 2023, Houthi militants based in Yemen have been carrying out attacks on commercial ships in the Bab-el-Mandeb Strait and the Suez Canal in the Red Sea. This has disrupted maritime security, causing global shipping companies to suspend operations through the Red Sea. This route typically handles about 15 percent of the world's maritime trade. As a result, commercial ships are now taking the longer Cape of Good Hope route via Southern Africa, leading to increased transit times (an average of 20 extra days) and higher logistics costs. The disturbance in Red Sea shipping has resulted in heightened transit risks, increased freight and operational costs, and shipment delays. According to a report by the UN Trade and Development Agency (formerly known as UNCTAD), the amount of ship tonnage entering the Red Sea decreased by more than 70 percent between the first half of December 2023 and February 2024. In contrast, in the first week of March 2024, the tonnage of vessels passing through the Cape of Good Hope increased by 85 percent. Another report citing data from Marine Traffic revealed that in the past six months, the total number of ships passing through the Suez Canal decreased by 85 percent, while the number of ships passing through the Cape of Good Hope more than doubled. Additionally, the report noted that maritime trade through the Cape of Good Hope increased by 125 percent during the previous six months, pointing to a significant redirection of vessel traffic from both the Suez Canal and Bab-el-Mandeb Strait. The disruption in commercial traffic in the Red Sea has particularly impacted foreign trade for most of the Horn of African countries, including Ethiopia, by raising freight costs and delaying shipments.

Ethiopian Traders Facing Higher Shipping Costs and Longer Transit Times

Ethiopian importers and exporters informed Post that the Red Sea Shipping crisis is causing longer transit times, high freight charges, and shipment delays. This maritime security threat created unpredictable shipping schedules and limited availability of container vessels. Major international shipping lines like Maersk have either suspended or reduced operations. Additionally, after an increase in shipping attacks by the Houthis in the Red Sea in June 2024, the Mediterranean Shipping Company (MSC) reportedly suspended most of its operations on the Red Sea via Djibouti and Berbera ports. Ethiopian business contacts have also expressed significant concern over this development. Traders anticipate that the suspension of services by global shipping giants will lead to further increases in freight charges and shipping times.

A prominent Ethiopian importer of food and beverage products told Post that the shipping crisis in the Red Sea has tripled freight costs. Additionally, the source stated that transit times have more than doubled. The company noted that import shipments from Port of Mersin in Turkey to the Port of Djibouti typically take 15 to 20 days. However, due to the disruption in Red Sea shipping, the total transit time has increased to 55 days.

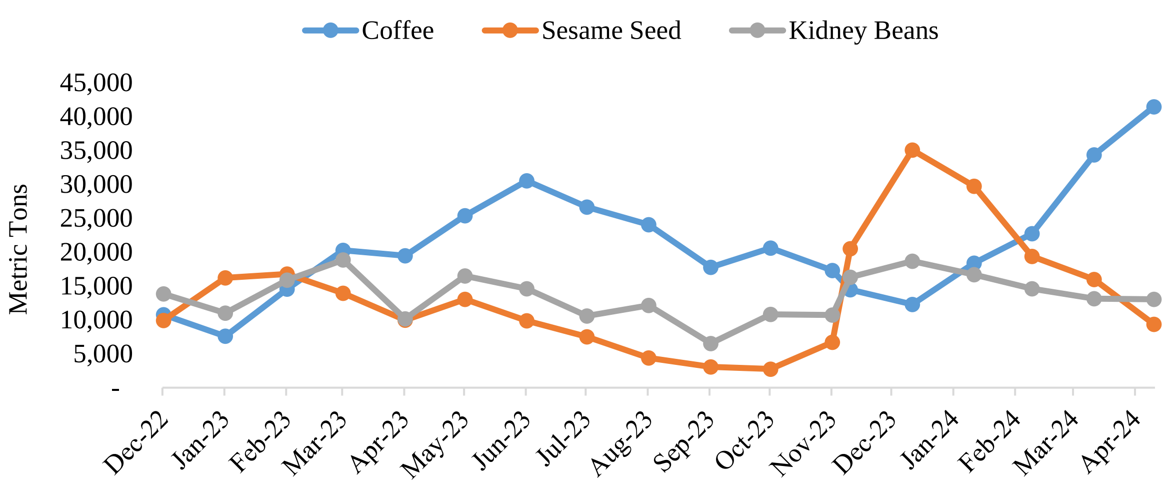
An Ethiopian import-export company revealed to Post that the cost of shipping a 40-foot full container from Shanghai Port in China to the Port of Djibouti has risen from $2,000 to $6,000. The company also stated that shipping rerouting and transshipments have led to longer transit times and additional handling costs. The company further mentioned that a consignment from Busan Port in South Korea was rerouted to Ningbo Port in China. And then the cargo was transshipped to the Port of Djibouti, taking a total of 90 days, while the usual transit time takes 30 to 35 days. Consequently, traders are incurring extra costs for cargo handling and hefty penalty fees due to expiring Letter of Credits (L/Cs), ultimately leading to increased prices for consumers and the risk of rising inflation.

Moreover, a source from the Ethiopian Pulses, Oilseeds, and Spices Producers and Exporters Association (EPOSPEA) noted that the Red Sea shipping situation has not improved. The source highlighted that oilseeds and pulses export cargoes are facing delays due to a shortage of empty containers and limited availability of ships. This shipping disruption and unpredictability of vessel bookings is causing delays and high demurrage costs for traders.

Despite achieving a remarkable export performance in the current year, Ethiopian coffee exports have also been affected by the Red Sea shipping crisis. A source from the Ethiopian Coffee Exporters Association (ECEA) informed Post that the shipping disruption has an impact on the coffee export sector. The source from ECEA explained that the disruption has resulted in logistics challenges, including shipment delays and a reduced availability of vessels. In spite of the disruption, coffee exports[1] have shown record-breaking progress in the last 11 months of the 2023/2024 Ethiopian fiscal year (July to June). Industry contacts further stated that price increases in the international coffee market, driven by tight supplies from Brazil have created better market opportunities for Ethiopian coffee exports. This has contributed to the growth in coffee exports and record export earnings.

Ethiopian Coffee Exports Boom Amid the Shipping Disruption

Post examined the trends of three major agricultural exports from Ethiopia to the world using Ethiopian Customs data. Post compared the monthly export volumes of coffee, sesame seeds, and kidney beans to examine the performance of these exports during the Red Sea shipping crisis. Together, these top three agricultural exports contribute to 55 percent of the total revenue from Ethiopia’s agricultural exports in the calendar year 2023 (January-December). Figure 1 below illustrates that from January to May 2024, coffee export tonnage significantly increased compared to the same period in 2023. Similarly, the export volumes of sesame seeds and kidney beans were higher than the previous year's levels.



Source: Trade Data Monitor LLC (TDM)

Figure 1: Major Agricultural Exports from Ethiopia to the World

[1] The Ethiopian Coffee and Tea Authority (ECTA) reported that Ethiopia exported approximately 252,000 metric tons (MT) of coffee, earning $1.2 billion within the last 11 months (July 2023-May 2024). The top five markets for Ethiopian coffee exports were Saudi Arabia, South Korea, the USA, Germany, and Belgium.

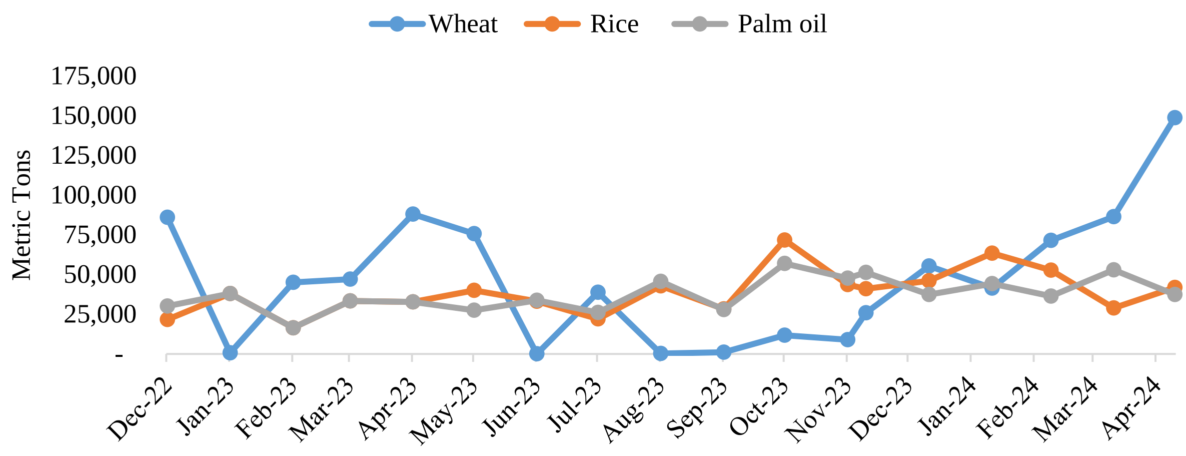
Between January and May 2024, the monthly export volume of Ethiopian coffee increased rapidly from 12,300 MT to 41,400 MT. This represents an average monthly growth of 36 percent. Despite the Red Sea shipping issues, total coffee export volumes increased by 50 percent compared to the same period last year. This growth can be attributed to improved local production, marketing reforms, and attractive international prices. Ethiopia has also diversified its coffee exports to non-traditional markets such as China. The volume of Ethiopian coffee exports to China grew by an average of 45 percent per annum during the past five years. For more details on coffee production, supply, and demand situation, please refer to the FAS Coffee Annual Reports.

Meanwhile, the export tonnage of sesame seeds and kidney beans from January to May 2024 increased by 57 percent and 5 percent respectively, compared to the same period the previous year. However, the monthly exports of sesame seeds in 2024 declined sharply due to local prices being higher than international market prices. Currently, the export price for Ethiopian sesame seeds is around $1,850 per MT, while international prices range between $1,600 and $1,650 per MT. During the last five months, the major export markets for Ethiopian sesame seeds were Israel, UAE, Turkey, Singapore, and Jordan. Specifically, exports to the UAE more than tripled, while shipments to Singapore and Japan grew by more than 90 percent compared to the same period the year before. However, exports to Israel dropped by 23 percent due to the Gaza-Israel conflict. Overall, Ethiopia's export trends in the past five months show that major agricultural exports thrived despite the Red Sea shipping crisis.

Wheat Imports by Private Traders Soared

Between January and May 2024, Ethiopian traders imported around 400,000 metric tons of milling wheat, marking a 57 percent increase compared to the same period the previous year. The top three import markets were Russia, Romania, and Ukraine, together supplying 93 percent of the total wheat shipments to Ethiopia. Russia was the largest supplier, accounting for 75 percent of the total wheat purchases, followed by Romania (14 percent) and Ukraine (4 percent). The Ethiopian milling industry confirmed to Post that private traders purchased the wheat using the franco-valuta[2] scheme. Although the Ethiopian government claimed self-sufficiency in local production and ceased foreign wheat purchase since 2023, private traders are still buying inexpensive wheat from the Black Sea region due to price competitiveness and unmet demand on the local market. The current market price for higher grade locally produced wheat is nearly $1,000 per MT, while a similar quality of Black Sea origin wheat is being sold locally at $790 per MT, approximately 20 percent lower than local wheat prices. Dring the review period, TDM data shows that there was no U.S. wheat shipment to Ethiopia, which has been distributed for food aid programs.

[2] The franco-valuta scheme allows traders to use their own foreign currencies to import food commodities including wheat, sugar, rice, and edible oils with zero import duties and taxes. This scheme has been in place by the Government of Ethiopia since 2021 to stabilize food inflation in the country.



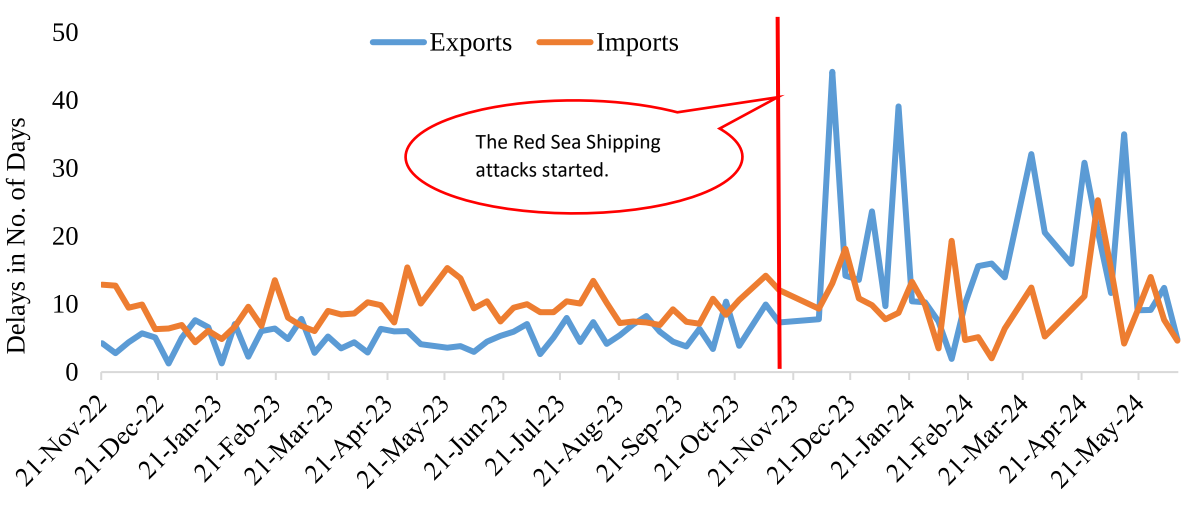
Source: Trade Data Monitor LLC

Figure 2: Major Agricultural Imports from the World to Ethiopia

The chart above also shows that from January to May 2024, rice and palm oil imports increased by 45 percent and 40 percent, respectively compared to the same period in the previous year. Despite the logistics costs and delays caused by the shipping disruption, the trade figures indicate that key agricultural imports and exports increased, compared to the same period last year.

Port Statistics Signals Freight Delays, Increased Transshipments

Ethiopia, the world's most populous landlocked country, depends on Djibouti's port. Located at the southern entrance of the Red Sea, the Port of Djibouti is the main port for handling Ethiopian cargo. It manages 95 percent of Ethiopia's international trade operations. Besides being crucial for Ethiopian import-export trade, the port also plays a vital role in handling food aid shipments to the Horn of African countries. Post analyzed trends at the Port of Djibouti to provide insights into vessel traffic before and after the Red Sea crisis. Overall, the port statistics show shipment delays, increased transshipments, and reduced vessel capacity.

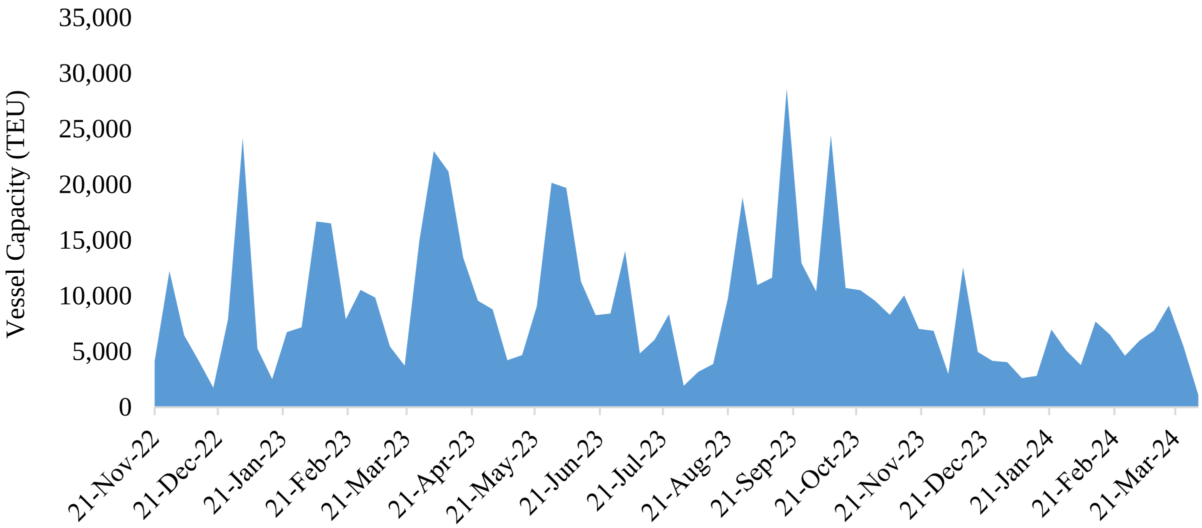


Source: Data from Econdb.com

Figure 3: Shipment Delays, Days between Load/Discharge and Terminal Gate at Port of Djibouti

*Shipment delays***:** Post looked at the import-export shipment delays before and after the Red Sea shipping crisis. Between January and June 2024, export shipments spent an average of 17 days at the Port of Djibouti. The average figure was five days in the same period last year. In other words, since the beginning of the Red Sea shipping disruption, export shipments at the port were delayed by an additional 12 days on average between loading/discharging and terminal gate. During the same period, import shipments were delayed on average by 10 days, slightly up by one day compared to the same period in 2023. The data also shows that before the Red Sea shipping crisis, delays for import shipments were more than those of export shipments. Unpredictable vessel booking schedules and shortage of empty containers have largely affected export shipments.

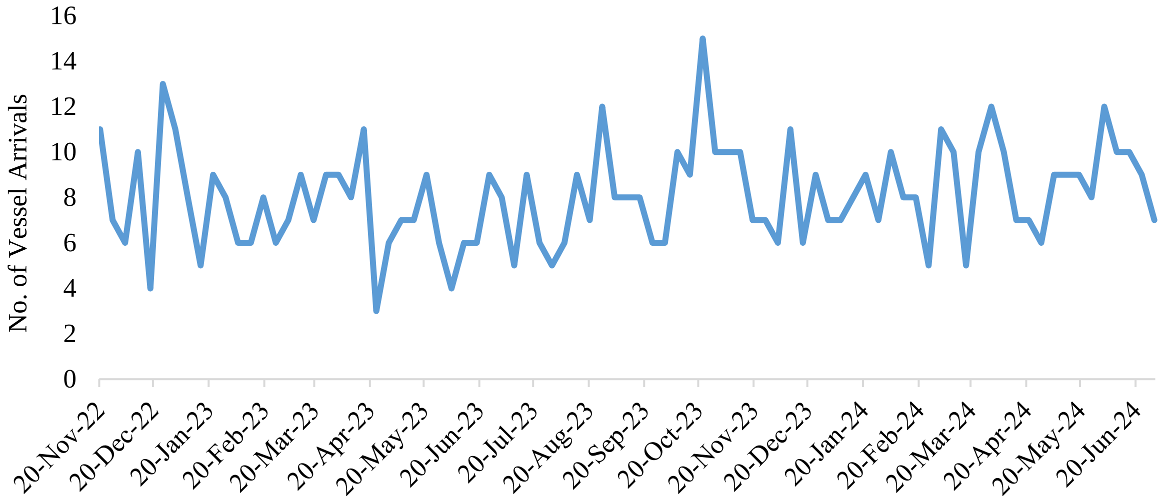
Vessel capacity reduced: Between January-April 2024, the average monthly vessel capacity at the Port of Djibouti was approximately 5,200 Twenty Feet Equivalent Units (TEU) of containers, a decrease of nearly 54 percent, compared to the capacity for the same period last year. The decrease in container tonnage was prompted by larger vessels avoiding the Red Sea and Suez Canal and choosing to reroute around the Cape of Good Hope.



Source: Data from Econdb.com

Figure 4: Vessel Capacity (in 20-Foot Equivalnet Units- TEU) at Port of Djibouti

Transshipments increased, but larger vessel arrivals dropped: Between January to June 2024, the weekly average number of vessel arrivals at the port stood at approximately nine vessels. This is 30 percent higher than the figure for the same period last year. The increase in vessel arrivals was driven by a surge in transshipments via medium-sized feeder vessels. During the last six months, the feeder vessels accounted for 64 percent of the total container vessel arrivals at the port.



Source: Data from Econdb.com

Figure 5: Total number of Vessel Arrivals at Port of Djibouti

Conclusion

Due to recent increased attacks by the Houthis, the Red Sea shipping route remains unstable. As a result, global shipping companies are expected to continue using the longer alternative route via the Cape of Good Hope in Southern Africa. Meanwhile, this shipping disruption is leading to higher transaction costs for traders, including elevated freight costs, longer transit times, and shipment delays. Despite the Red Sea shipping crisis in the past six months, Ethiopia's top agricultural exports and imports have shown an upward trend. This trade performance is notable considering Ethiopia's challenges, such as a chronic shortage of foreign exchange, limited access to finance, armed conflicts, etc. However, if the shipping crisis continues, the trade disruption combined with these internal factors could hinder the growth of Ethiopia's foreign trade sector in the medium to long term. Hence, the economic fallout from the extended trade disruption is expected to worsen inflation and further widen existing macroeconomic imbalances. The FAS office will continue to monitor this situation and provide updates as needed.

Attachments:

No Attachments.