

Implication of new Export Regulation

On Ethiopia's Sesame
Export to EU





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1. Sesame Sector Highlight

1.1 Export

Sesame is an important export commodity for Ethiopia. Over the last five years, the country exported close to 2 billion USD worth of Sesame in aggregate; USD 396 million per year on average. Though the overall trend is not consistent, it can be noted that the annual average sesame export has shown a decline over the last five years. Analyses of export data by destination for the years 2018/19 and 2020 showed that Israel has become the number one destination for Ethiopian sesame export.

Israel accounts for about 28% (gained from 22% last year) of the total exported volume in 2020 while China and the UAE account for 18% (lost from 21.9% last year) and 13% of the market share, respectively (cited in USDA and GAIN 2020). While one can account the significant decline of sesame export to China for 2020 to the threat of coronavirus; the Trade Data Monitor (TDM) report also highlighted that Ethiopia's export to China has been declining over the last three years mainly because the country has lost competitive edge with other growers in Africa; namely Sudan, Niger, Mozambique, Togo, and Tanzania. One can mention three major reasons for the declining Ethiopia's competitiveness (1) relative lower yield per ha to emerging countries such as Nigeria and Tanzania (2) limited competitiveness of sesame in Ethiopia compared to alternative crops such as soybean (3) less effective research that moved beyond demo and on shelf varieties and trails.


From the European Union, Greek, Germany and United Kingdom are the top three export destinations for Ethiopian sesame with respective shares of 1.2%, 0.8% and 0.7% of the total export. Different publications (Heiner L. and Yared S.2019, Wijnands and Loo 2009, Sjoerd and Yared 2012) indicated that the whitish Gondar/Humera sesame mainly meant for bakery industry is exported to the EU.

THE COUNTRY EXPORTED CLOSE TO 2 BILLION USD WORTH OF SESAME IN AGGREGATE



USD 396 million per year on average

years 2018/19 and 2020 showed that Israel has become the number one destination for Ethiopian sesame export. Israel accounts for about 28%




Source : TDM in USDA & GAIN 2020
https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Ethiopia%20Oilseeds%20Report%20Annual_Addis%20Ababa_Ethiopia_01-16-2020

Ethiopian Sesame Export Trend (2015-2019) Value and Volume

	2015	2016	2017	2018	2019	Average
Export Value (000 USD)	482,812	431,709	307,512	394,512.87	364,654.89	396,240.14
Export Volume (000 MT)	292,298	393,968	280,473	309,548.35	228,214.84	300,900.39

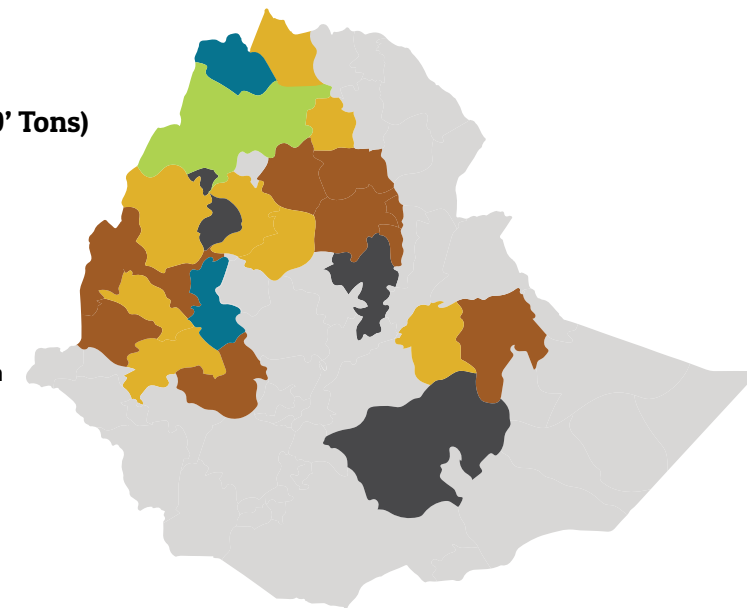
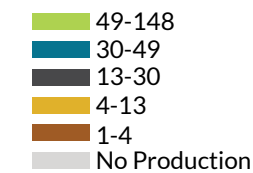
Table 1: Ethiopian Sesame Export Trend (Source EPOSPEA 2020)

1.2 Production

Sesame can grow in many parts of Ethiopia. However, the western and north western parts of the country (West Amhara, Benishangul Gumuz, West Oromia and Tigray) are the principal growers. Both commercial and smallholder farmers grow sesame. According to Central Statistical Authority (CSA) of Ethiopia, the smallholder farmers account for about 60% of production. It is to be noted that commercial farmers generally include individuals who own land size of 10 ha and above.

An overview of national production of sesame for the last five years (between 2015-2019), indicated that production has declined by over 86 thousand MT (nearly 30% drop in five years). The decline in production can be attributed to declining yield per ha compared to other competitive crops (soybean and mungbean) due to limited investment in the former case. Though the official statistics show productivity of 0.7 MT per ha, most stakeholders indicated that yield is around 0.4 MT/ha.

Average Sesame Production ('000' Tons)



Oilseed	2015	2016	2017	2018	2019	Average
Sesame	288,770.08	274,217.43	247,724.82	255,903.43	201,664.64	253,656.08
Neug/Niger Seed	224,462.51	256,327.17	317,765.32	323,344.88	296,322.75	283,644.53
Groundnuts	103,706.24	103,939.53	131,861.92	145,172.82	144,091.26	125,754.35
Linseed	83,130.51	88,551.14	90,276.11	88,209.65	96,685.59	89,370.60
Rapeseed	53,704.93	55,042.99	39,832.30	32,866.16	38,215.97	43,932.47
Sunflower	6,325.06	6,731.05	7,873.57	9,576.88	8,039.48	7,709.21

Table 2: Ethiopian Oilseed Production Trend in MT (2015-2019): Source CSA

1.3 Trading and Utilization

Sesame is primarily grown by farmers as cash crop and over 97% is exported. There are over 1300 exporters dealing with oilseeds according to data from MoT; nearly all of these deal with the same.

In relation to sesame, there are two types of export-raw and processed. Raw sesame accounts for over 95% of the volume exported. Israel and China are the principal destination for Ethiopian sesame. In the past China used to be by far a major buyer. In some cases, Chinese companies form a joint venture or delegate a local agent who purchases on their behalf during the harvesting season. Processed sesame export is done in the form of hulled and tahina. There are few companies doing hulling (Selet Hulling (organic hulled sesame), Ambasel (hulled sesame and Tahina), Agri-Prom (hulled sesame), Hajuta Trading (hulled sesame), Guna Trading (hulled sesame).

Raw sesame exporters can broadly fall into two: farmer organizations and private businesses. Tsehay, Metema, Selam and Setit Unions are farmer organizations actively engaged in export of sesame seed. Until the issuance of the new regulation in October 2019, most private companies have been exporting sesame to get access to foreign currency. These companies have import trading or manufacturing businesses. They have limited investment for cleaning and do not have long term business.



2 Short Account of ECX Trading System

2.1 Sourcing through ECX

Sesame is one of the six agricultural commodities that are mandatory for trading on ECX floor.; the other being soybean, coffee, red kidney bean, whit pea bean, mungbean. There are three group of companies exempted from trading on ECX floor: (1) processing companies (includes Hulling, Tahina, Oil Extraction), (2) commercial farmers for the product grown on own farm (3) cooperative unions who can directly purchase from primary market. Currently the bulk of the commodity (over 95%) is exported by buyers on ECX floor. In order to engage in purchasing of sesame on a national level, membership is required. This membership has two categories: full membership and Limited membership. Full members can take part in the trading of any commodity whereas members with limited status have a maximum of one-year licensing period and can engage in trade of only one commodity. Each type of membership has two sub-categories: Trading Member™ and Intermediary Member (IM). In TM, trading is only allowed in the member's account whereas in the case of IM trading on trader's account as well as on behalf of non member client that wish to trade on ECX is allowed i.e. seat can be rented.

The ECX trading is a spot exchange, buyer and seller settle prices and delivery is "on the spot," or immediately. The available product with quantity and grade is announced on the bidding screen or loudspeaker in an open trading hall and then offers follow. Until digitized recently, the offers and counter offers were announced in outcry.

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- 1** Processing companies (includes Hulling, Tahina, Oil Extraction)
- 2** Commercial farmers for the product grown on own farm
- 3** Cooperative unions who can directly purchase from primary market

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OVER 95%
IS EXPORTED BY BUYERS ON ECX FLOOR

2.2 Collection and Delivery

The current ECX trading system has three trading/exchange points: primary market, ECX regional warehouses and national trading platform. The primary market is the place where farmers bring their produce for sell. Here only ECX licensed traders can collect sesame from farmers. In many cases the collectors are liaisons of an approved buyer who has the financial capacities to purchase in bulk and deliver at ECX warehouse. The collectors then deliver the sesame to the nearby ECX warehouse. The existing regulation allows both traders and farmers to bring their sesame to the ECX warehouses. Traders are expected to supply at least 5 tons at a time whereas farmers can deliver directly if they have a volume of more than 1 tone and above.

One of the major challenges mentioned about ECX is the long distance from farm to warehouse. There are 11 warehouses for sesame in the entire country. Since farmers can not travel long distance, the licensed collectors make significant price differentiation between farmers with closer access to warehouses and those that are further from these warehouses. The fact that only licensed traders can collect the sesame or farmers with volume 1 ton and above can deliver to those warehouses means that there are limited options for farmers to choose to whom to sell. Evidence suggests that the majority of sesame coming to ECX warehouse is collected from primary market by traders.

“The current ECX trading system has three trading/exchange points: primary market, ECX regional warehouses and national trading platform.”

2.3 Type and Grading

Under the existing ECX trading system; Ethiopian Sesame is categorized in to two major types: Humera/Gondar and Welega Type. The Humera/Gondar types are white, bigger sized seeds often suitable for bakery and confectionary industries. The Welega type is relatively darker in color and smaller seed size but with up to 56% oil content; compared to 50% for Humera/Gondar type. The Humera/Gondar sesame type is seen as a benchmark for quality not only for the national market but also has a well established reputation in the world market. The Welega type is often preferred for the oil industry.

Both Humera/Gondar and Welega sesame types have four grades (1-4, in a decreasing order of quality), depending on the level of admixture, damaged seeds, moisture content and color. Grading is determined by ECX quality experts at the warehouse gates but this has been contested in some cases due to (1) lack of consistency in measurement and (2) lack of transparency and some fraudulent practices. Until the recent new legislation was put in effect, price of sesame on ECX floor depends on both the type and grade. Often the Humera/Gondar type is sold at 10-15% higher price than the corresponding Welega type grade. Likewise, there was up to 20% price difference between two grades of similar types of sesame. However; this differentiation seems to disappear following the new trade regulations as discussed below.



ETHIOPIAN SESAME IS CATEGORIZED IN TO TWO MAJOR TYPES: HUMERA/GONDAR AND WELEGA TYPE.

3 The New Export Trade Regulation

3.1 Short Account of the Regulation

Over the last seven years, Ethiopia has been suffering from a serious shortage of foreign currency. Analyses of import and export data from Ethiopian Customs Authority indicates that earning from export are about one-fourth of expenditures on import. The Ministry of Trade and Industry issued a new directive " Export Products Contract Registration and Execution Directive No. 21/2019. This new regulation is currently executed on oilseed and pulse crops traded on ECX floor; namely sesame, soybean, mung bean, white pea bean, red kidney bean and chickpea. Though coffee is also traded on ECX floor, the directive is not yet executed for coffee. The regulation among others have the following five important pillars (1) sales contract registration (2) price regulation (3) limiting stocking period (4) sales contract enforcement (5) new role and organization

The rationale for this regulation is to combat the declining export competitiveness of Ethiopian Sesame in the world market by protecting genuine exporters from those engaged in export to generate forex for import. On the other hand, the Ethiopian government continued to promote export oriented businesses to address the shortage. For this it has kept the three major incentive instruments (1) facilitating low interest rate loan (export loan is up to 40% cheaper than other loan) (2) allow exporters to use their own foreign currency to import goods within 28 days (3) option to retain 30% of export earnings in forex for an indefinite period of time.



The regulation among others have the following five important pillars

- 1 Sales contract registration**
- 2 Price regulation**
- 3 Limiting stocking period**
- 4 Sales contract enforcement**
- 5 New role and organization**

3.2 Highlights of Key Pillars of the new Regulation

Contract Registration

The directive requires exporters to register each export contract with the ministry of trade and industry for the first time. The contract registration among other things requires information about (1) volume to be delivered (2) agreed upon price (3) delivery time and (4) details of the buyers and seller. In cases where the export agreement doesn't stipulate price, the ministry will assign estimated price based on current market. Registered contracts can be modified or cancelled within the contract period by the request of the exporter. The ministry monitors the performance of the exporter against the registered contract. If a foreign buyer submits a complaint on issues such as quality and delivery time, the ministry will intervene to take appropriate legal enforcements as per the terms and agreements between the parties. Exporters are expected to serve the agreed contract within three months of registration.

The contract registration among other things requires information about

- 1 VOLUME TO BE DELIVERED**
- 2 AGREED UPON PRICE**
- 3 DELIVERY TIME**
- 4 DETAILS OF THE BUYERS AND SELLER**

Price Regulation

The new directive does not allow loss from export contracts. The directive requires each contract to declare price upon registration and this price should be inline with the range of international prices for each commodity reviewed by experts of the ministry. Exporters are also required to submit their purchase price to compare with initially registered contract price and the contract will be accepted if the purchase price plus estimated costs of cleaning, handling, forwarding and transport are below or at least equal to the priorly agreed contract price. The major rationale for the price regulation is to discourage exporters doing export business at a loss to finance import with high margin. This attempt is seen as a mechanism to ensure the country gets fair value from its export commodities and the prices both local and international account for that. On the other hand, this is also considered as a solution for the increasing sales contract default by genuine exporters as they cannot compete with inflated local prices set by short term export for import financing businesses. The expected re-emergence of genuine and capable sesame exporters is a result of the regulation. These type of exporters will be able to provide the required products and contribute to bringing in foreign currency into the country.

“The major rationale for the price regulation is to discourage exporters doing export business at a loss to finance import with high margin.”

Stocking Period

The stocking period requires each exporter to ensure the product purchased from the ECX platform is exported within a period of three months. Though this regulation did exist in the past, the ministry has started taking enforcement measures following the new regulation. In addition, unless a special waiver is issued, the product purchased from ECX can not be sold in the local market.

Limiting the stocking period has two major rationales; **(1) discourage speculative behavior of exporters by hoarding products that generate forex for the country (2) reduce behaviors of creating artificial shortage by holding products for longer period which often negatively affects genuine exporters.**

Contract Enforcement

As stated above, the ministry regulates sales contracts registered in its database. Exporters are required to report to the ministry for any amendments. Failing to report registered contract changes as well as failing to deliver as per the contract will result in cancelation of the business license and enforcement of compensation measures agreed with the buyer. So far eight companies have been issued with a last warning and the authorities seem very strict in enforcing it. The main intention of this move is to enhance trustworthiness of Ethiopian exporters to foreign buyers. Likewise, it also discourages entry to export business for short term oriented businesses.

New Roles and Organizations

The new regulation gives the ministry the mandate to undertake export price study on a daily and weekly basis by looking at credible international markets. The outcome of the review serves as a basis to determine whether price on sales contract are realistic or not. Besides, the regulation gives room to establish a price study advisory board which shall consist other ministries, the customs authority, private sector associations and individuals assigned by the ministry. The logic behind having strong reference price derivation mechanism is to improve transparency across the value chain and control exporters as stated under price regulation.

3.3 Pros and Cons of the New regulation and Its Implication on Export to EU

3.3.1 Exporters View of EU Market

Ethiopian exporters agree that the EU market offers better price compared to that off Asia. Most of the genuine exporters used to sell to the EU market. Over the last decade, the market share of EU export has declined due to several reasons. The EU market is still seen as a key potential for organic sesame seed export and processed products such as Edible Oil, Tahina. However; there is also a general agreement that meeting quality requirements of EU buyers is tedious and expensive. There are no accredited laboratories that can do pre-shipment quality testing as per the EU regulations. Slight deviation on some quality aspects such as aflatoxine and maximum residual limit is often not acceptable and results in rejection of shipment. As a result, many exporters prefer a less risky and lower value Asian market. In addition, Ethiopian exporters think the EU sesame demand is decreasing in recent years and compared to other export destinations.

3.3.2 Advantages from EU Export Perspectives Contract Registration and Regulation

The introduction of contract registration and subsequent monitoring of performance against registered sales contract can reduce default; which is crucial for many European buyers compared to their Asian counterparts. EU buyers often look for a reliable supplier who strictly adheres to contract and when contracts could not be fulfilled they require proper communication in advance to plan their sourcing. Besides they often want proper legal protection against any default. Contract default with major EU buyers has been one of the many factors that accounted for declining export to EU over the last decade. The national Exporters code of conduct developed by EPOSEA a decade ago was hardly adhered as exporters shifted their export to China and other countries that are less demanding. The involvement of ministry of trade in tracking and taking enforcement mechanism may enhance adherence to contractual obligation and improve adherence to the code of conduct.

Price Regulation

Over the last years trading volume was the principal driver for Ethiopian Exporters. This has resulted in strong shift to bulk importing markets such as China. The EU market is generally a value drive market that offers better price for better quality and reliability. The price regulation that accounts international market may shift focus from volume driven to value driven export. The fact that exporters couldn't make a loss on each contract means that they will make effort to find EU buyers who usually give better price.

Long-term Investment and Value Addition

The new regulation is expected to have a positive effect on purchase for local processing. In the past the escalated sourcing price didn't encourage local processing for both export and domestic market. But with the new regulation, the local price has gone down from ETB 6000-7000 to ETB 3800-4200. It is to be noted that the latter is considered a likely non inflated price which the farmers should get. This added to the fact that there is no price fixing on processed sesame-edible oil, tahina means that processors can compete in the international market. Similarly, many exporters who wanted to make long-term investment at smallholders' level were discouraged by the artificial price created in the market and thousands of buyers who easily lure farmers to side sell the product. However; with the new regulation the opportunity for establishing long-term partnership with farmers seems more plausible.

Planning and Communication

The regular communication needed from exporters about their performance and the need to formally submit contractual amendment could improve the culture of communication and planning by Ethiopian exporters. Communication and planning are being important parts value propositions for EU buyers. Besides, this can serve as a soft screening of serious exporters who have the credential to deal with EU buyers. The fact that the quality parameters are publicly registered means that the companies will not attempt to overlook.

3.3.3 Disadvantage from EU Export Perspectives Incentive for Quality

Though this was the originally anticipated and possible long term scenario, the existing reality from the trading platform showed that all price differentiations for quality has completely disappeared following the new regulation. This is mainly because the volume of product coming to the trading floor daily is far below the demand. Local prices are aligned to international price means that farmers and suppliers get less compared to what they used to get in the past. As a result, a severe shortage of sesame traded on the ECX floor has occurred; leading to everyone bidding at the highest allowed purchase price.

Informal Trading

Following the price fixation another critical emerging challenge is increasing informal cross boarder trade. Most of the sesame is grown around the boarder areas of Sudan; which also have strong established market but not regulated. Many farmers and traders around Humera, Metema and Quara areas are selling their product at the Sudanese market of Gedarif; which currently is believed to offer 50-60% better price than ECX. Considering the fragile security situation along the boarder of both Ethiopia and Sudan, this might further push more sellers to smuggling sesame to Sudan.

Production Shift

As stated in the sections above, evidences suggest that the yield per ha for Ethiopian Sesame growers has been declining. The major incentive for farmers to keep-up production was the relative high price offered in the past. With the new regulations, farmers will be forfeiting the price advantage. This may result in further shift of production from sesame to alternative crops such as soybean, mungbean, sorghum and nuts. It should be noted that both soybean and mungbean are also part of the ECX trading platform. However, their historic price hike in local price compared to international market price was not as big as that is sesame has been the most widely traded commodity and its local price has been more inflated compared to soybean and mungbean.

Effect on Organic Export

The new regulation doesn't exempt certified organic products. This will have a downside impact on potential export to EU, which is the major organic market. Over the years' organic sesame exporters from Ethiopia have struggled to get the volume needed due to the complex certification procedure and the expensive production practices that are not matched by yield.

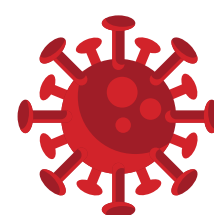
3.3.4 Effect of COVID 19 on Sesame Export from Ethiopia:

The Ethiopian government has tried to take a series of proactive measures to minimize the effect of COVID 19 on agriculture and the business community in general. The government has allocated funds for SMEs to minimize bankruptcy. Also it has become more proactive in sourcing agricultural inputs ahead of time and the state didn't push for a full lock down considering the economic consequences. The latest quarterly export earnings by the Ministry of Trade and Industry reveal that the country has done better compared to the same period in 2019.

However, discussion with exporters and other stakeholders indicated that COVID 19 has three major impacts potential impacts on Ethiopian Sesame export; particularly if the pandemic spreads further and stays longer. First there is a risk of production fall due to potential threat of the pandemic hitting farm households and possible challenges to reach inputs on time due to mobility constraints. Second, the cost of transportation from production belts to processing centers as well as to the Djibouti port has already shown signs of increase and hence could affect export competitiveness and may cause delay in delivery. Third, international lock downs could result in delay in delivery and contract cancelation. Thus said most exporters underline that the global demand for food stuff has not shown a significant fall and hence as long as enough volume is available on ECX platform market might not be a major challenge.

3.3.5 Conclusion and way forward

The trading landscape for Ethiopian sesame has significantly changed following the regulation. While most exporters appreciated the intent to regulate; there is also notion that the regulation has made the market highly unpredictable. The regulation has brought unwanted consequences such as decreased quantity supplied, undermined quality based price differentiation, increased cross boarder smuggling and high dissatisfaction of farmers. The overall notion is the effect of the regulation will be felt until two years. This implies interventions focusing on sesame seed export may not bear reliable outcome in the short term. However; after two years there is a general consensus that farmers will adopt to the regulation and long term oriented exporters will start investment on smallholder farmers which can bring meaningful growth of the sector. The new regulation is believed to have a positive impact on domestic processing and value addition (hulling, tahini and oil extraction). As such investment that focuses on promoting processed sesame to EU could be more viable than the raw seed.



Effect of COVID 19

1

There is a risk of production fall due to potential threat of the pandemic hitting farm households and possible challenges to reach inputs on time due to mobility constraints

2

The cost of transportation from production belts to processing centers as well as to the Djibouti port has already shown signs of increase and hence could affect export competitiveness and may cause delay in delivery

3

International lock downs could result in delay in delivery and contract cancelation





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