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FIXING THE PRICE: THE POLITICS OF THE KHAT TRADE BETWEEN ETHIOPIA AND SOMALILAND

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As part of a wider attempt to increase export revenues amidst weak economic performance, Ethiopian authorities doubled the price of khat for exports to Somaliland and Djibouti in April 2022. Following much controversy, the decision was reversed a few months later. What was behind this trade price 'fix' and why does it matter?

Khat – a mild stimulant widely consumed in the Horn of Africa – has long flourished as a strategic resource for the Government of Ethiopia (GoE). Last June, it was announced that the cash crop generated the fourth largest volume of export revenues after coffee, gold and cut-flowers in 2021-22. When Ethiopia's Federal Ministry of Trade and Regional Integration suddenly doubled khat's long-standing export price to 10 USD/kg in April 2022, this was a controversial move. For producers and traders across the Horn of Africa the price increase was a challenging development. Not only was this the biggest increase in over two decades,² it also risked politicizing the inter-regional khat trade between Ethiopia and Somaliland and relations between the Oromo and Somali communities on either side of the border.

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2 The unit export price of khat exported from Eastern Ethiopia usually hovered around USD 5 on average since the early 1990s and price increases were uncommon and usually less than 30 per cent.

From the vantage point of the authorities in Addis Ababa, the price increase was just one of a number of measures initiated to counter currency inflation and the foreign exchange deficit. Coinciding with this, and amidst a national shortage of essential food commodities, in April import permit restrictions on wheat, rice, sugar and edible oils were lifted to narrow the supply-demand deficit. These are just some of the policy responses to the challenges currently being faced by Ethiopia's mostly agrarian economy, required due to a trio of crises currently affecting the country. These include: the protracted civil war in the Tigray, Amhara and Afar Regions; recurrent droughts (in parts of the Oromia and Somali Regions); and the international disruption to trade and aid supply lines – notably of wheat – due to the Russia–Ukraine war.³

Somali khat exporters, mostly based in Ethiopia's Somali Regional State (SRS), as well as khat distributors in Somaliland, saw the price rise quite differently. For example, a Somaliland-based khat distributor complained that the doubling of khat prices was 'a move that is politically rather than economically motivated.'⁴ Reacting to Ethiopia's price rises, the Somaliland Khat Association announced on 29 June a ban of all khat imports from Ethiopia's Oromia Regional State as of 6 July. The Association would instead turn to Kenya and Yemen as cheaper import sources of khat – a move that caused a stir among local traders and consumers. The Ethiopian khat variety is more popular among consumers in Somaliland than the varieties from Kenya (*miraa* from Meru county) or Yemen (*taizi* from the war-torn Taiz highlands). It also meant a shift away from long-established trade relations with and shorter trade routes to the Hararghe khat producing zones and Awaday's khat market in Ethiopia's Oromia Region. Nevertheless, the Somaliland Khat Association maintained that Ethiopia's newly fixed price was too high.

IMPOSING A REGIONAL BAN

Somali khat exporters in the SRS and distributors in Somaliland interpret the price rise as an internal political ploy orchestrated by the leadership of Oromia Regional State. They suggest that the Region's leadership is helping affiliated Oromo traders outcompete Somali exporters in the trade of khat from Oromia's Hararghe zones and sold via the market-town of Awaday into Somaliland. Oromia's regional leadership may be calculating that ethnic Somali traders would find it increasingly difficult to

3 For more on this, and the origins of the region's food insecurity and import dependence, see the recent RVI report for XCEPT, Steven Serels, 'Purchasing Insecurity: The African Red Sea region and the global food trade', Rift Valley Institute, October 2022.

4 It should be noted that women play a prominent role in the khat trade, particularly as khat sellers. See, Sahra Ahmed Koshin, 'Galkayo's Khat Economy: The role of women traders in Puntland, Somalia', Rift Valley Institute, March 2022.

challenge their Oromo competitors' privileged access to Hararghe's Oromo khat farmers. While most of Hararghe's khat farmers do identify as Oromos, they also have strong Somali ties, sharing religious practices (Islam) and social institutions as well as a history of resistance to integration into the Abyssinian imperial state.

Oromo traders now seem to be politically advantaged to profit economically in the highly competitive khat export sector. Seemingly side-lined, Somali traders claim that their Oromo competitors now have priority access to government trading facilities, such as cheap bank loans and tax exemptions for exports to Somaliland. They also fear that the newly empowered Oromo traders are strategically backed by their regional authorities who now occupy the centre of federal power in Addis Ababa via the ruling Prosperity Party (PP) and can influence Prime Minister (PM) Abiy Ahmed. Meanwhile, Somali traders still view themselves as marginalized constituents of the historically peripheral Somali Regional State. This sentiment persists, despite Somali membership of Ethiopia's ruling Prosperity Party and the insistence by Somali leaders that their Regional State is becoming part of Ethiopia's so-called centre under Abiy Ahmed's rule.

In a televised press release, the Association in Hargeisa assured local consumers that its ban on imports from Oromia is unlikely to affect the availability of khat originating from Ethiopia's Somali region. This can be seen as a politically motivated reaction by Somaliland's authorities to undermine the emerging inter-ethnic trade competition between Oromos and Somalis within Ethiopia. The aim is to mobilize support among Somali farmers and traders, portraying the khat price rise as motivated by ethnic bias on the part of Oromia's leadership at regional and federal levels. Rather than banning all khat from Ethiopia, and by openly referring to Somali traders in Ethiopia as 'brothers', the Somaliland authorities are mobilizing support among fellow ethnic Somalis, encouraging them to increase production and trade of khat and – in the long-run – ending Somalis' economic dependence on Oromia.⁵ However, this call from Hargeisa is little more than wishful thinking. The reality on the ground is that SRS does not produce enough khat of exportable quality for Somalis in Ethiopia and Somaliland to trade it independently from Oromia.

In a phone interview, the Association's spokesman Hassan Farah Weerar (aka Hassan Aruur) said that 'the ban was announced in consultation with authorities in Somaliland' and that 'the announcement speaks for all Somali khat companies',

5 It should be noted that women are increasingly playing a prominent role in the khat trade, particularly as khat sellers. See, Sahra Ahmed Koshin, 'Galkayo's Khat Economy: The role of women traders in Puntland, Somalia', Rift Valley Institute, March 2022.

including exporters based in SRS.⁶ Khat exporters to Somaliland were historically considered as domestic traders under previous Ethiopian regimes, until the GoE, under the Ethiopian Peoples’ Revolutionary Democratic Front (EPRDF), realized khat’s revenue potential and in the early 2000s began to formalize and regulate the trade – fixing the price at an average of USD 5/kg.

CUTTING OUT THE MIDDLEMAN

In a phone interview, an Oromo politician and former MP of the Federal House of Representatives⁷ accused Somali khat exporters from Somali Region of ‘middlemen’ (*delala*) who had long exploited the sector. The claim by Oromo traders is that established Somali trade companies – such as Zuhura⁸ – allegedly hinder Oromo exporters from gaining access to Somaliland’s export market, which is comparatively more lucrative than the domestic market. ‘The price raise of khat was applauded in Oromia,’ the regional official added, because the ‘Somalis used to trade Oromia’s resources at unduly low prices, earning profits out of the hard toil of our local farmers.’ While it is true that Somalis have long acted as so-called middlemen and dominated the khat trade as brokers rather than producers, Oromia’s strategy seems to be to cut out the middlemen – to increase the share of revenues generated by khat produced and exported by Oromo farmers and traders.

Osman Abdirahman, an Oromo khat trade representative based in Awaday, explained that ‘there are currently only four Oromo companies licensed to export khat from Oromia’. Initially, under the new Prosperity Party government, Oromia saw a proliferation of small-scale Oromo traders, but they were unable to compete with more established Somali traders during the pandemic. More recently, these smaller Oromo traders are being driven out of the market again – many of them declared to be ‘illegal’ or ‘smuggling’ – and their licences have been cancelled by the regional government. Priority has now shifted towards a select group of Oromo companies, such as Biftu Adugna, supported by the Oromia Development Association. Yet even such government supported Oromo trading companies under the regional khat association (*khat mahiber*) struggle to find local agents in Somaliland to partner with and sell to. Asked if Oromia’s leadership is attempting to monopolize all stakes in the sector or to push Somalis out, Mr Osman remarked that ‘there is nothing

6 Phone interview with Hassan Farah Weerar, Spokesman of the Somaliland Khat Trade Association, 7 July 2022.

7 Phone interview with Oromo politician, 19 October 2022.

8 While the business of Jijiga-based trader Zuhura Esmail Kehim – under the brand number 571 – ran the most prominent and profitable khat trading company in East Ethiopia under the EPRDF, by now there are a number of Somali competitors that have emerged, including Gaafane-G99, Faras-725, and Soofe among others.

wrong with Oromo traders exporting their local resources.”⁹

While Somalis are well aware of the increased presence of Oromo traders in the market, their main concern is what they perceive as ethnic bias among federal and regional authorities. Somali traders lament that cheaper bank grants are issued to Oromo traders.¹⁰ This enables them to export khat (amounting to hundreds of thousands of USD) from farm-gates in Hararghe or Awaday’s market to export destinations, at lower transaction costs than their Somali competitors. Asked why they fear that Oromo traders are granted preferential bank permits, one Somali trader explained, ‘under EPRDF, Tigrayan war veterans used to be in charge of issuing bank permits for export, primarily to Somali khat traders.’ Under the Prosperity Party this changed. At customs, ‘the Tigrayans have been replaced with Oromo bank permit providers and are now issuing permits to traders from their region, basically for free.’¹¹ With the onset of civil war in Tigray, the rates of accessing bank permits for the export of khat continuously decreased for local traders. The suspicion among Somali traders is that Oromo exporters are thus able to enter the sector with the advantage of being able to obtain tax free export permits from regional banks. This only increases mutual mistrust and fear of ethnicization of the khat trade by Oromia’s authorities.

REGULATING KHAT

Long before the recent controversy over price increases, state regulation of the khat market faced numerous challenges. Formally fixed khat prices never really reflected the (informal) prices at which khat was actually bought from producers in Ethiopia and exported to consumers in Somaliland. The long-time fixed price of 5 USD/kg of khat – the price at which a given quantity to be exported by a trader had to be deposited in an Ethiopian bank – used to be mocked as a ‘federal tax’ by Somali traders. Although khat is officially transported on a Letter of Credit (LC) basis, the way this is managed is exceptional in the Ethiopian context. Until recently, the majority of khat trade transactions between Ethiopia and Somaliland – while conducted illicitly in cash – were tolerated as long as traders deposited US dollars in cash at Ethiopian banks, which is illegal in Ethiopia for most other exportable goods.

9 Phone interview with Osman Abdirahman, Awaday-based khat trade representative, July 2022.

10 Group interview with Somali khat exporters, Jijiga, August 2022.

11 Interview with khat trader based in Somaliland, Jijiga, August 2022.

The khat trade from Ethiopia to Somaliland is also unique in the sense that there is no classic buyer-seller transaction. In other words, a Somali khat trader is both buyer and seller. There is also no formal trade contract between two trading parties through an official bilateral regulator. A large variety of khat types are exported informally as contraband at varying prices per bundle. Before the trade was formalized in the early 2000s, the main khat variety exported to Somaliland was *dadar*, which was the most affordable for consumers in Somaliland. Since then, two other high value varieties, known as *jabis* and *fujis*, emerged as the most lucrative khat cash crops for export. Given constant fluctuations in production due to dry and wet seasons, as well as increasing climatic extremes in Hararghe, real (i.e. informal) prices of khat at the farm gate and in the trading town of Awaday tend to fluctuate. Despite such variations in quality, climatic conditions of production and consumer preferences, the highly diverse cash crop is regulated at a universally fixed price. Confronted with this reality, a khat regulator in Ethiopia acknowledged that ‘the khat export trade from East Ethiopia continues to take place in a grey zone – it is neither fully formalized nor entirely illicit and thus in need of reform.’¹²

TRADING KHAT

The export of khat from Ethiopia to Somaliland was first pioneered by Somali traders in the 1940s. In the 1990s, under the EPRDF ruling coalition, the trade began to flourish with Somali traders mostly based in Jijiga and Togwajaale at the forefront. Benefitting from the close social ties they have with consumers in Hargeisa, they have continued to dominate the trade. In contrast, Oromo smallholder producers and local traders were mostly confined to the domestically priced market, selling their khat in bundles to Somali traders who controlled the more lucrative export trade. With the development of infrastructure, including transport and telecommunications, as well as increasing interregional integration, Oromia based traders attempted to overcome traditionally static socio-economic roles that have hitherto hindered them from establishing trading partnerships in Somaliland.

High quality khat is mainly produced by Oromo smallholders in the Hararghe zones of Oromia and then bought and transported by local, Oromo traders to Awaday market. For domestic and export companies, it is an important economic activity that generates a significant number of local jobs, to some degree along an ethnic division of labour and exchange. Khat quality deteriorates rapidly after harvest as it cannot be stored in stock for lengthy periods of time and so must be transported

to consumers swiftly. In Awaday, Oromo workers, employed by Somali trading companies, quickly arrange freshly harvested khat in bundles that have different weight costs according to variety. Bundles of *dadar* weigh around 250g, *jabis* around 500g and *fujis* up to 1kg. The bundles are loaded onto 12 tonne ISUZU trucks or FCR Nissan lorries, usually owned by Oromo businessmen. Their drivers, who may be of both Oromo and Somali origin, then transport the bundles at great speeds via Harar through SRS to Togwajaale in Somaliland. Other trade routes access the lowland Somali regional territories in Ethiopia, including the Ogaden zone.

The relationship between the Oromia and Somali Regional States is always delicately balanced and the current conditions influence the khat trade irrespective of its destination – including Somaliland. While the two communities historically share close socio-cultural and religious customs and inter-marriages as well as strategic alliances in the struggle against Abyssinian imperial expansion, there have been regular episodes of violent conflict over territory and resources, not least since the introduction of ethnic federalism under EPRDF in 1994.

POLITICISING KHAT

Recent history serves as a reminder of how risky the politicization of the khat trade can be. [Towards the end of EPRDF-aligned Abdi Mohamoud Omar ‘Iley’s’ rule](#) over the Somali Region, the cross-border khat trade was heavily ethnicized, particularly during the Oromo uprisings from 2016 – 2018. At the time, Oromo and Somali Regional Special Police forces – known as *Liyu* police – clashed along the Oromia-Somali borderlands in a regional power struggle over federal influence. In response to [border skirmishes](#) and the killings of ethnic Somalis by Oromo rioters in Awaday town, in September 2017 Abdi Iley banned the trade of what are sometimes referred to as ‘Oromo products’, including khat. This also affected exports to Somaliland. With this decision, he presented himself as the protector of ‘Somali interests’ in Ethiopia and beyond. Most major Somali exporters based in SRS, though dependent on buying khat from Awaday for export, were not in a position to challenge the ban – a *de facto* trade barrier between two Regions that contravened federal law. At the time, Abdi Iley was also in a position to influence Somaliland too, as most of the victims of the Awaday massacre belonged to persons of Somaliland origin, including traders. Abdi Iley thus received popular backing from Somaliland, where he compensated the victims. His politically motivated ban on khat was accompanied by incursions of Somali *Liyu* forces along the Oromia-Somali borderlands against Oromo residents, scores of whom were violently displaced.

The ban represented a major – albeit temporary – disruption of the khat trade across the Horn of Africa. It prompted Somali traders to find alternative sources of khat for import, supplanting their imports from Oromia to Kenya for a few months in late 2017 in order to satisfy consumer demand in Somaliland. Other Somali traders re-routed their transport, temporarily acquiring khat from local Oromo traders at a new border-crossing market in Bombas in East Hararghe (70 km from Jigjiga).¹³ In turn, the move by Abdi Iley motivated Oromia’s leadership to empower its own exporters in order to bypass what they perceived as so-called Somali middlemen. While Abdi Iley was deposed soon after the regional khat ban in 2018, and relations between the Oromia and Somali Regions have since improved, the episode was a precursor to recent attempts by Oromia’s leadership to empower local trading companies to dominate the export business. The spokesman of the Somaliland Khat Trade Association, interviewed in August, labelled this as an attempt by Oromia’s leadership to put ‘Oromo products by Oromo traders first.’¹⁴ The doubling of the khat price enforced by Ethiopia’s federal authorities in April 2022, as well as the backtracking from that decision only three months later, must be seen as part-and-parcel of ethnicized politicking in the khat trade.

FIXING TRADE RELATIONS

The decision to reverse the doubling of khat prices came after an Ethiopian delegation, led by the transport and logistics Minister Dagmawit Moges and the Prime Minister’s security advisor Redwan Hussein, negotiated with authorities in Hargeisa on 6 June. A second round of talks is scheduled for February next year. To what extent the decision to reverse the price increase was based on economic reasons (dwindling tax incomes, low export rates, increase in contraband trade) or political factors (high inflation, social discontent, cross-regional instability), requires further scrutiny.

It is also likely that the outcome of the elections in Mogadishu, which saw Hassan Sheikh Mohamoud re-emerge as president, influenced the decision by Ethiopian authorities. In June, the newly elected Somali president lifted the ban on khat that his predecessor had placed on Kenyan miraa from Meru, in order to boost trade relations between the two countries. At the risk of being outcompeted by Kenyan producers and in the face of the Somaliland authorities’ strong backing of ethnic

13 See, Mustafe M. Abdi, ‘Regularly Irregular: Varieties of informal trade in the Ethiopian – Somaliland borderlands’, Rift Valley Institute, October 2021.

14 Phone interview with Hassan Farah Weerar, Spokesman of the Somaliland Khat Trade Association, 29 July 2022.

Somali traders across national boundaries, Ethiopia had to rethink its decision to increase prices. It is worth noting that Somaliland's government announced on 11 June that Ethiopia – a landlocked nation – would lose its 19 per cent share in Berbera port on the Red Sea where 95 per cent of its trade is processed. This came just weeks before Somaliland had placed the aforementioned regional import ban on any khat produced in and exported from Oromia. It is likely that this alerted Ethiopia's federal authorities to the possibility that long-standing diplomatic and trade relations with Somaliland were deteriorating.

The cross-border trade between Ethiopia and Somaliland, including the lucrative khat trade, is vital for local communities and governments, not least to generate taxable incomes, on both sides of the border. Yet time and again it has become embroiled in politics – both inter-communal tensions between Oromo and Somalis as well as competition between their respective political and economic elites. Given the explosive and destabilizing potential, and bearing in mind the past history of inter-ethnic animosity between Oromos and Somalis in the borderlands, it is important that a negotiated settlement is found on the matter of khat exports to Somaliland. Ideally such a settlement should provide a fair share of revenues to both Oromo and Somali khat traders engaged in the export business to Somaliland. In that sense, there is also potential for trade to contribute to regional peace if the issue is given sufficient attention and ethnic tensions are de-escalated. Otherwise, the vicious circles of ethnic economic divisions and political violence may intensify between the two communities. The danger is that if the politicization of the khat trade escalates further, even a minor incident could reignite regional cross-border conflicts.

CREDITS

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