

INSIGHT

Growing Timor-Leste's Coffee Exports Through Niche Marketing



Coffee is Timor-Leste's largest non-oil export, and is grown by more than one-fourth of Timorese households. Photo credit: Luis Enrique Ascui/ADB.

Timor-Leste can give its coffee industry a push by tapping into the niche market of high-quality, premium coffee.

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Introduction

Coffee production and consumption worldwide have increased over the last 50 years, creating new opportunities for small-scale and niche producers. At the same time, the movement toward social and environmental sustainability of coffee production, and redefining it as “specialty coffee” has gained momentum.

In Asia, demand for specialty coffee is expected to grow as consumers become richer and more discerning. A continuation of current trends would see increasing market opportunities for producers of high-quality coffee that can be differentiated according to species and variety, growing conditions, processing technique, social and environmental sustainability, flavor profile, and methods of preparation and sale.

Coffee producers in Timor-Leste, as well as other countries, can benefit from these trends if they can meet the requirements of increasingly sophisticated markets and consumers. Coffee is Timor-Leste's largest non-oil export, and is grown by around 27.5% of Timorese households. However, yields are low as more than half of the planted area reportedly consists of old, unproductive farms that need to be rehabilitated.

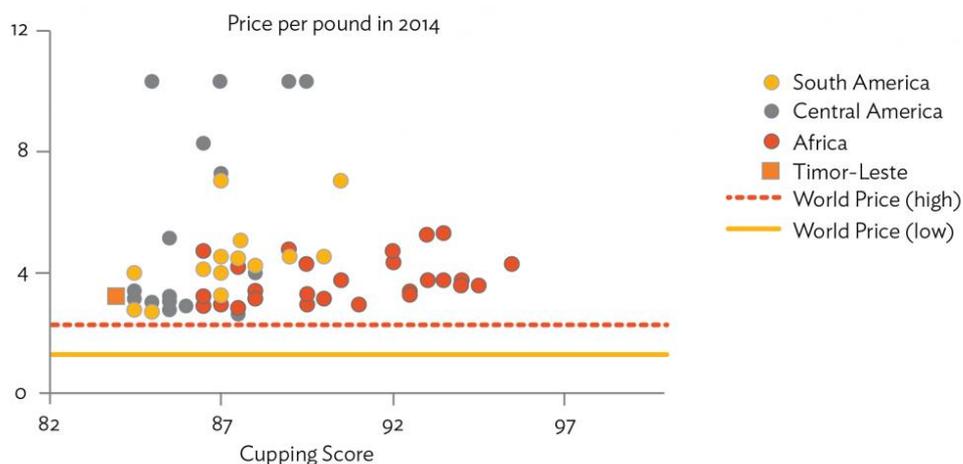
Despite such challenge, Timor-Leste has a unique place in the history of global coffee production that could be leveraged to differentiate Timorese coffees.

This insight is adapted from the Pacific Economic Monitor of the Asian Development Bank. It discusses the potential for sustainable growth of the Timor-Leste coffee industry by tapping niche markets.

Analysis

Analysis of data on the 2014 purchases of individual lots of specialty coffee made by US specialty roaster Counter Culture Coffee shows that: (i) improved quality is clearly associated with higher prices, reflecting a quality premium; (ii) small and micro-lots of coffee generally sell for a higher price per unit, reflecting an additional scarcity premium; and (iii) long-term relationships between producers and roasters appear to create additional value that may be reflected in a loyalty premium.

Figure 1. Coffee Purchase Data for a Leading Specialty Coffee Roaster



Sources: Counter Culture Coffee; World Bank Pink Sheets.

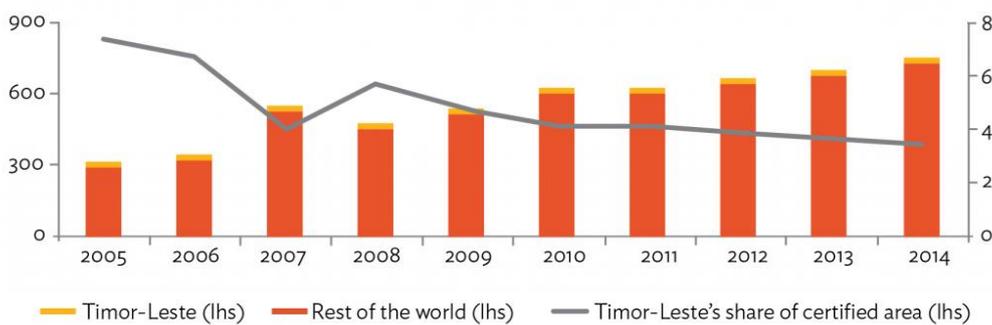
Timor-Leste has a special status in the modern history of coffee production, as it is the birthplace of a natural hybrid of Robusta and Arabica. However, it experienced a large decline in production and a loss of farming skills due to monopoly trading arrangements that started in 1975. As a result, there were low prices, minimal investment, and weak incentives for quality control. At the end of the monopoly in 1993, there was an immediate increase in the prices paid to coffee farmers and marked the beginning of a process to rebuild the industry.

Replanting senile trees and implementing good agricultural practices can triple the yield per unit area for

a typical farming household. This requires external support that will provide smallholders markets for land, access to finance, and farmer support services. A number of development partners have filled this gap by providing grants to programs that help farmers to increase production.

Coffee exporters have used three broad strategies to achieve price premiums: certification, quality improvement, and branding. The lack of attention given to coffee production during 1975–1993 meant that production was already organic and certification could be achieved relatively easily. However, as global production of certified organic coffee has increased, Timor-Leste’s share of this market has declined (Figure 2).

Figure 2. Area Certified for Organic Production



lhs = left-hand scale, rhs = right-hand scale

Source: Research Institute of Organic Agriculture (FiBL).

Timor-Leste has the opportunity to increase total coffee production through farm rehabilitation programs, and to develop a reputation in international markets as a source of unique and high-quality coffees. Concerted and well-targeted efforts are needed to realize this potential. Timor-Leste’s coffee exporters are already pursuing strategies to improve quality, increase traceability, and develop a presence in new markets. However, these efforts are unlikely to be sufficient if they are pursued in isolation.

Many of the actions that are needed to develop the coffee sector in Timor-Leste require increased coordination and cooperation across the supply chain. This is where trade associations can come in. Trade associations have made a significant impact on the growth of specialty coffee and can provide a useful mechanism for solving collective action problems when public sector capacity is limited. In Timor-Leste’s case, a trade association could provide an important mechanism for designing and implementing programs to address specific areas of weakness that constrain the broader development of the industry.

A successful trade association could empower farmers and local businesses to upgrade the quality of their coffee and sell an increasing share of their products in specialty markets. Over time, this shift would help build international awareness of Timorese coffee, and develop the country’s reputation as a source of unique and highly prized coffees.

Implications

For Timor-Leste, redirecting coffee exports to new niche markets can convert the natural disadvantages of producing on small and remote islands into selling points for consumers seeking unique products and experiences. However, accessing these markets will generally require changes in production, processing, and marketing to meet the requirements of a particular market niche.

Quality is rapidly becoming the defining factor for access to niche markets in the coffee industry. In Timor-Leste's case, the competition between exporters pursuing different business models is likely to promote efficiency and drive innovation. However, competition at the export and intermediate stages of the supply chain can also exacerbate collective action problems in the industry and undermine coordination across the supply chain.

Trade associations can provide a means for the private sector to organize the provision of industry-specific public goods, to resolve the collective action problems that hinder development of their industry, and to partner with the government and other stakeholders.

Resources

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