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Timor-Leste's Transition towards Specialty Coffee

Market Development Facility

In Brief



Coffee is Timor-Leste's biggest non-oil export, contributing to the livelihoods of approximately 35 per cent of the population.



Timor-Leste has traditionally exported commodity-grade coffee, but it has the potential to become a niche player in the specialty coffee industry.



The global market for specialty coffee is growing well, outstripping the far larger commodity-grade coffee market and providing price premiums to businesses and farmers.



Since 2015, Australia's Market Development Facility and Timorese coffee businesses have been co-investing in extension services, coffee processing and marketing, to increase production and quality and penetrate high-potential markets.



Consistent investments in quality have boosted the volume and value of Timorese specialty coffee exports in the past few years, with the proportion of specialty coffee exports increasing.



The improvements in quality have achieved higher prices and a better return on investment for businesses.



Businesses are increasingly shifting to local processing centres (wet mills and pulping stations) to manage quality closer to coffee growing areas. Higher demand has meant the businesses are looking to expand their centres and/or develop new centres.



Climate change is contributing to increasing rainfall, which can affect quality – businesses are investing in dry houses to mitigate the impact.



While Timor-Leste's coffee industry is progressing well towards the specialty market, several factors will need to be addressed to continue the transition and Timor-Leste to cement its competitive position.

Context and opportunity



1.1

Context

Coffee is Timor-Leste's biggest non-oil export, earning USD15-25 million (AUD21-35 million) annually and contributing to the livelihoods of approximately 35 per cent of the population. Timor-Leste is only a tiny player in the multibillion-dollar coffee industry, producing less than 0.1 per cent of global production.

The Timorese coffee industry is dynamic but faces productivity and quality challenges. Farm yields are among the lowest in the world, at less than 200kg of green bean per hectare (compared to the global average of 880kg¹), a consequence of aging coffee trees and inadequate farm management. Climate change is affecting yields and the consistency of production, as rainfall becomes more erratic and temperatures rise. The quality of coffee produced is generally low and historically has been sold as a low-value, low-price commodity. Farmers typically harvest unripe coffee cherries and processors use rudimentary methods that do not create sought-after flavour profiles. This limits returns to farmers and firms and provides no incentives for them to invest in improved farm management or processing. Encouragingly, in recent years some champions have emerged that are producing and processing higher quality coffee.

1.2

The opportunity in specialty coffee

The global market for specialty coffee² is growing at 12 per cent per year, outstripping the far larger commodity-grade coffee market. Consumers are willing to pay a premium for differentiated and high-quality coffee. Europe currently accounts for the largest share of the specialty coffee market at around 46.2 per cent, with an estimated market growth of 9 per cent by 2026. According to the United States National Coffee Association, in 2022 consumption of specialty coffee in the US was the highest on record³ and it is estimated that the Asia-Pacific region is the fastest-growing specialty coffee market.⁴

Although Timor-Leste has traditionally exported commodity-grade coffee, it has the potential to transition to become a niche player in the specialty industry and turn its small size to its advantage. Timorese coffee has a unique flavour profile and compelling history, as the birthplace of the Timor Hybrid, a renowned species. Transition to specialty coffee could bring benefits to the economy of

Timor-Leste. Cultivating specialty coffee generates higher incomes for farmers – a premium of up to 40 per cent. Higher returns for farmers and firms allows more investment in better practices, extension services, processing and storage, which increases productivity. Increased production, processing and exports of specialty coffee will create jobs and generate much-needed non-oil revenue. Over the longer term, as a small producer, Timor-Leste has better prospects of remaining competitive in specialty coffee than it does in commodity-grade coffee.



The coffee of Timor-Leste has strong values embedded in our culture and history, making it an important beverage. Despite this, we cannot compete with the sheer volume of coffee produced in Brazil and Vietnam. However, Timor-Leste coffee has its own distinctive qualities as it is 100 per cent original, organic, and natural. To meet the global demand and command competitive prices, we need to invest more in producing specialty coffee of the highest quality.

Evangelino Monteiro Soares,
Timor Coffee Association (ACT) President



¹ <https://ourworldindata.org/grapher/coffee-yields?tab=table>

² Specialty coffee is coffee that scores above 80 points on a 100-point scale on various attributes, such as fragrance, aroma, flavour, aftertaste, acidity, body, balance, sweetness, clean up, and flavour uniformity.

³ Specialty coffee consumption hit a five-year high, with 43% of coffee drinkers choosing specialty coffee in the past day, up 20% since January 2021 (<https://www.climate.gov/news-features/climate-and/climate-coffee>)

⁴ <https://perfectdailygrind.com/2022/12/is-specialty-coffee-growing-faster-than-consumption/>

2 Progress towards specialty coffee

In 2015, the Australian Government's Market Development Facility (MDF) and its industry partners identified the potential to shift from commodity-grade to specialty coffee and raise the productivity of the industry. This transition requires significant changes in farmer behaviour, business investment and market access. Dedication at all levels of the value chain is essential to deliver the quality associated with specialty coffee. It is a multi-year journey to rehabilitate farms, improve picking practices and build processing infrastructure. Consistent volumes and marketing will be crucial to building a brand in key specialty markets, such as Australia, the United States and Canada.

MDF and coffee businesses have co-invested in three main areas, to increase and achieve consistent levels of production and quality and penetrate high-potential markets.

Extension services



Improving farm productivity through rehabilitation and good agricultural practices.

Processing



Building improved processing infrastructure, e.g. wet mills with cupping laboratories, and enhancing quality management practices.

Marketing



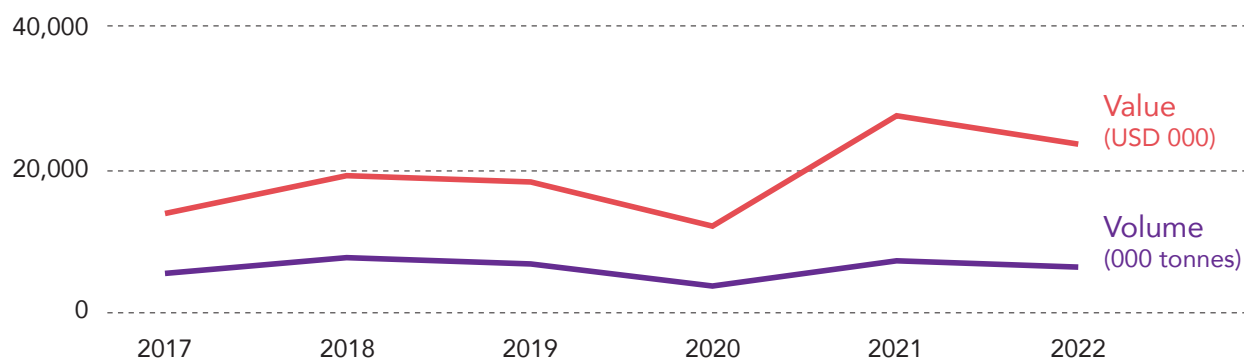
Raising awareness of Timor-Leste coffee in high-potential markets, like Australia, and increasing market access.

Over the past few years, these investments in production and quality have yielded results for both businesses and farmers – in the form of higher volumes and better prices.

2.1

Speciality coffee exports growing faster than commodity-grade coffee

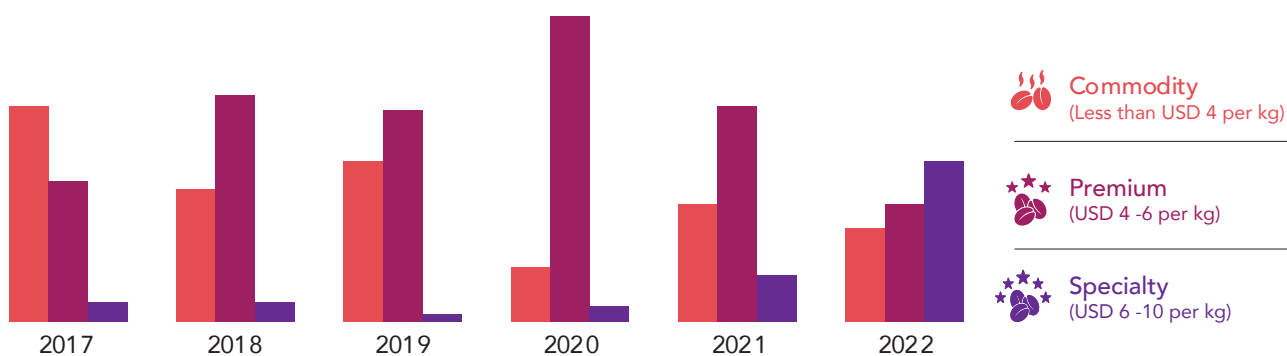
Coffee exports from Timor-Leste (all types)



Source: Exports data 2017-2022 - Timor-Leste Customs Department

Global coffee export volumes have fluctuated over the past six years, largely because of climate change and pandemic disruptions. In that period, continuous improvements in quality have boosted the volume and value of Timorese specialty coffee exports. Specialty coffee as a proportion of overall coffee export volumes has grown from 2 to 24 per cent since 2017. The value of specialty coffee exports increased from USD713,000 in 2017 to over USD10 million in 2022. There is no accurate data for the number of farmers supplying the speciality industry, but based on average coffee farm size and yields, MDF conservatively estimates that in 2022, over 11,000 farmers supplied to the specialty coffee market, up from less than 1,000 farmers in 2017. Data from coffee companies⁵ show collectively a 100 per cent increase in the volume of high-value coffee exported in the last five years, pointing to a sustained improvement in quality.

Coffee exports from Timor-Leste by coffee type



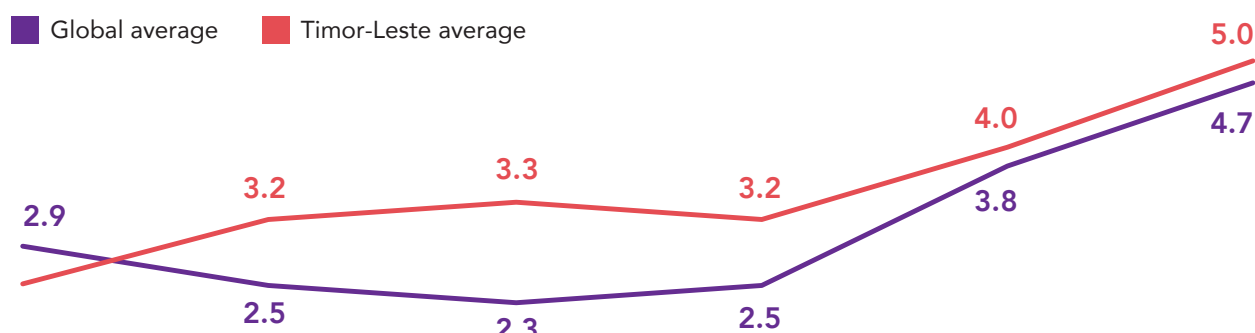
Source: Exports data 2017-2022 - Timor-Leste Customs Department

2.2

Timorese coffee earning better prices due to better quality

Prices provide another insight into changes in the quality of coffee exported from Timor-Leste. The average coffee export price from Timor-Leste increased from USD2.5 per kg in 2017 to USD5.0 per kg in 2022, outstripping average global export prices, even during their sharp rise in 2021 and 2022. This steady increase in price reflects continuous improvements in quality being rewarded in export markets. Timorese coffee firms confirm that improvements in quality, i.e., 'naturally processed' coffee, have achieved higher prices and a better return on investment than 'washed processed' coffee.

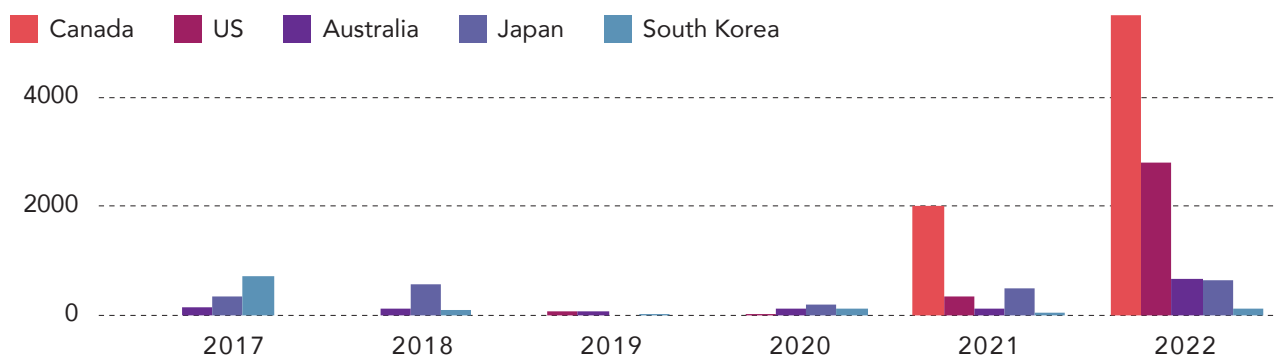
Average coffee export price (USD per kg)



Source: Exports data 2017-2022 - Timor-Leste Customs Department and Global coffee prices⁶

Timorese businesses are tapping into higher-end markets for their high-quality coffee. A major driver of growth was Canada, which accounted for 60 per cent and 55 per cent of specialty coffee exports in 2021 and 2022, respectively. The US has been the other major growth market, accounting for 28 per cent of specialty coffee exports in 2022. Australia and Japan also saw a marked increase, contributing 7 per cent and 6 per cent, respectively, towards specialty coffee exports in 2022.

Specialty coffee exports value by country - Top 5 (USD 000)



Source: Exports data 2017-2022 - Timor-Leste Customs Department

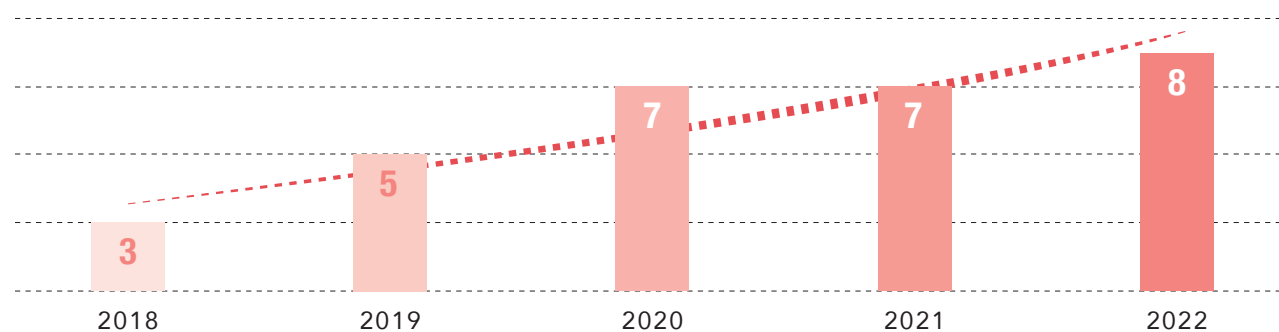
2.3

Private sector investment in quality and productivity

To sell to speciality markets, coffee processors and exporters need to manage and maintain quality. MDF has supported firms to invest in quality control. A feature of this has been local processing centres (wet mills and pulping stations) to manage quality closer to coffee growing areas. Thirteen processing centres have been established and firms have plans to expand to new areas to meet rising demand. They have also invested in dry houses to mitigate the effects of increasing rainfall, which affects quality.

MDF's co-investment with the industry has demonstrated that the transition to speciality coffee is feasible and lucrative. This has stimulated a wave of further independent investment by the private sector. One large international investor is looking to invest in Timorese exporters - an encouraging sign that consistent quality is being maintained. Many new entrants rely on close contact with their farmers, producing micro-lot batches that have captivating stories as part of their brand appeal. There has been an uptake of Timorese speciality coffee by small-scale roasters in the Australian, United Kingdom and European markets.

Number of specialty coffee exporters from Timor-Leste



Now that businesses are earning higher returns from speciality coffee, they have also begun to invest in boosting productivity, specifically, providing extension services to farmers and rehabilitating coffee farms. MDF has supported five firms to develop extension models to support farmers in their supply chains, to improve practices and productivity. Rehabilitation is also vital to the industry's productivity. The Timor-Leste Government has initiated a nationwide effort, which rehabilitated over 8,000 hectares of coffee land in 2022 and has ambitious plans to continue rehabilitation in the future. The involvement of firms and farmers is essential to the success of government efforts. Accordingly, MDF has worked with Ministry of Agriculture and Fisheries to increase firms' and farmers' knowledge of rehabilitating farms.



The majority of Timor-Leste's coffee exporters are small businesses, exporting between 20 tonnes and 200 tonnes of green bean per annum. Only a few businesses can be classified as large-scale exporters, shipping over 1,000 tonnes of green bean annually.

⁵ These include businesses supported by MDF to improve quality, processing and marketing. The names have been omitted to maintain confidentiality.

⁶ <https://www.investing.com/commodities/us-coffee-c-historical-data>

Timor-Leste's coffee industry is growing and increasingly gaining recognition as an origin for specialty coffee. A profitable business case for investors and farmers has been demonstrated. However, several factors will still need to be addressed if this transition is to continue and Timor-Leste is to build its competitive position.



Investing in productivity and climate resilience

Inconsistent supply and low productivity hinder the growth of exports. The industry must continue investing to maintain quality, boost productivity and improve resilience to climate change. Private sector and government investment in extension services and rehabilitation will be vital in this regard.

Impact of climate change



Temperature changes outside coffee's optimal range can reduce productivity and quality.⁷ Higher or more unpredictable rainfall make it more difficult to harvest and dry coffee. Drier conditions reduce plant growth and quality. Higher temperatures increase the risk of pests and diseases such as the coffee berry borer (CBB) and coffee leaf rust.⁸



Pursuing international partnerships

If the industry is to continue its transition, closer collaboration between Timorese firms and international coffee businesses will be important to penetrate new markets, provide market information and technical assistance, and mobilise more finance for investment.



Improving road infrastructure

Public investment in rural roads would improve the sector's competitiveness. Inadequate roads significantly affect businesses' ability to source coffee as they restrict access to remote growing areas, increase transportation costs, and cause delays and quality deterioration.



Improving certification support

Timor-Leste coffee is de facto organic because of its low use of inputs. However, to access certain premium markets and generate the highest price premiums, coffee needs to be certified. Certification can be expensive, particularly since Timor-Leste lacks a domestic certification architecture, so experts need to be flown in. Establishing national certification support services will provide a cost-effective solution for coffee businesses looking to invest in certification.



Timor-Leste's coffee industry is well-placed to capitalise on its opportunity to shift from commodity-grade to specialty-grade coffee, where it will be more competitive, earn higher returns in international markets, and make more money for firms and farmers. MDF supports the industry to make this transition by increasing quality, productivity and access to premium markets. MDF co-invests with coffee businesses to improve farmer practices, rehabilitate coffee farms, introduce better processing technology and quality control, and raise the visibility of Timorese specialty coffee in high-end markets, such as Australia.

⁷ <https://www.climate.gov/news-features/climate-and/climate-coffee>.

⁸ Ministry of Agriculture and Fisheries. (2019). National Coffee Sector Development Plan Timor-Leste: 2019 - 2030.

Specialty coffee

Specialty coffee is coffee that receives a Grade One green grading score above 80 points on a 100-point scale on various attributes, such as fragrance, aroma, flavour, aftertaste, acidity, body, balance, sweetness, clean up, and flavour uniformity.

Premium coffee

Premium coffee beans are those which receive a Grade Two in green grading. They have the same standards as specialty coffee beans but have a maximum of 3 quakers (unripe or poorly roasted coffee beans) and a maximum of 8 full defects per 300 grams of coffee.⁹

Commodity-grade coffee

Commodity-grade, also known as commercial-grade, is defined as a uniform product that is interchangeable with another coffee of the same type. Commodity coffee is typically lower quality and makes up most of the coffee consumed around the world.

Coffee cherry

Coffee fruit, also known as coffee cherry or coffee berry, is a small, round stone fruit produced by the coffee plant.

Green bean

Green coffee beans are the raw seeds of coffee cherries that have been separated or “processed” (i.e. from which the silver skin has been removed) and have yet to be roasted.

Coffee wet mills

Coffee wet mills are centres where coffee is processed after the coffee cherries are harvested and dried, known as the wet milling or washed process.

Coffee cupping

Coffee cupping, or coffee tasting, is a professional method of assessing coffee quality. It involves carefully smelling and tasting coffee to evaluate its flavour characteristics.

Washed coffee

In a washed coffee, the organic matter is stripped off the bean (to separate the coffee beans from the outer skin of the cherry) within days of the coffee cherry being plucked from the tree. The beans are then washed (this removes any remaining sticky mucilage from the bean) before being dried.

Naturally processed coffee

In natural processed coffee, the whole coffee cherry is dried first before the fruit surrounding the bean is removed. This means that the coffee bean is in contact with the fruit of the coffee cherry throughout the drying process.

How coffee works

Click on the link to understand the lifecycle of coffee from seed to cup.

<https://www.ncausa.org/about-coffee/10-steps-from-seed-to-cup>

⁹ Coffee grading system: <http://www.coffeeresearch.org/coffee/scaaclass.htm>



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- Timor-Leste: 2nd Street, Palm Business & Trade Centre, Surik Mas, Dili
- Fiji / Pacific Regional: Garden City Business Park, Grantham Road, Suva, Fiji
- Sri Lanka: No. 349, 6/1, Lee Hedges Tower, Galle Road, Colombo 03, Sri Lanka
- Samoa: Pat Ah Him Building (Nia Mall), Unit 20, Second Floor, Saleufi St, Apia, Samoa
- Vanuatu: YumiWork, Lolam Building, Kumul Highway, Port Vila, Vanuatu
- Tonga: SCH Lawyers, Level 2, Fifita House, Mailetaha, Nuku'al, Tonga

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