

POTENTIAL, CONSTRAINTS, CHALLENGES, AND OPPORTUNITY OF THE ARABICA COFFEE PRODUCTION IN INDONESIA

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OVERVIEW

- Indonesia has 1,2 million ha coffee plantation, 2nd largest after Brazil.
- Total production 674,000 ton in 2018 (4th after Vietnam). Compared to 576,000 ton in 2008.
- 77% of production is Robusta Coffee and 23% is Arabica Coffee.
- 2 million coffee workers, more than 90% of coffee farmers are smallholders with 1-2 ha coffee farm.
- Low productivity with average production 700 kg/ha/year.
- Domestic consumption is growing rapidly, 385.000 ton in 2018, compared to only 155.000 ton in 2008.
- 59% of production is absorbed by domestic market in 2018, compared to only 19% in 2008.

POTENTIAL OF ARABICA COFFEE PLANTATION IN INDONESIA

- Indonesian archipelago is located within the coffee belt and ring of fire. Therefore, it has many areas that perfectly suitable for Arabica coffee cultivation.
- A significant land extension of Arabica coffee plantation is still possible in Indonesia.



CONSTRAINTS IN ARABICA COFFEE PRODUCTION IN INDONESIA

- In 2017, out of the 1.2 million ha total coffee plantation, 1.18 million ha (96,1%) run by smallholders who own an average of 1.5 ha land of coffee farm per capita. The rest, 2.1% owned by private enterprises and 1,8% owned by State Owned Enterprise.
- Ageing coffee farmers as coffee farming is less attractive as a profession for young generation.
- Poor road condition and lack of public infrastructure in most of coffee plantation areas.
- Limited access to capital and marketplace.

CHALLENGES FACED BY COFFEE PRODUCERS

- Lack of information to all segments of the value chain, in a manner that creates transparency in business and price formulation.
- Lack of information from producing origins through traceability of offered products and their specificities to end consumers.
- Climate change: The producing regions are experiencing a significant increase in the temperatures, around 0.2 degree Celsius every decade.

Source: II World Coffee Producers Forum 2019, Campinas, Brazil.

COVID-19 IMPACT ON COFFEE SECTOR

- The COVID-19 pandemic is likely to have a profound impact on the global coffee sector, including production, consumption and international trade.
- In the short-term, out-of-home **consumption is decreasing significantly** as a growing number of countries are adopting a full or partial lockdown.
- Despite a steady overall growth in the sector, **coffee prices** have experienced a continued downward trend since 2016, **dropping 30%** below the average of the last ten years.
- Reduction in the coffee demand causes producers who were already having **difficulty covering operating costs** to pay less attention to crop maintenance and post-harvest protocols.
- **Health and safety measures** to reduce the risk of COVID-19 contagion during the pandemic and in the new normal could **increase the cost of production**.
- The delay and postponement of orders by consumers **can cause definitive closure of many farms**.

Source: ICO Coffee Break Series No. 1, April 2020.

OPPORTUNITY FOR COFFEE PRODUCERS DURING THE PANDEMIC AND NEW NORMAL

- Development of the downstream industry can generate more value to the coffee sector.
- Enhanced promotion of local beans originating from different regions can increase demand for local coffees.
- An increase in demand for home brewing and digital marketing open a good opportunity for coffee producers to sell directly their products to coffee consumers.
- Meanwhile, the pandemic can be a right time for the implementation of rejuvenation and extension program of the coffee farms.
- Furthermore, a profit sharing plasma arrangement can be introduced in coffee plantation sector.

CONCLUSION

- Despite the growing domestic demand for Arabica coffee, export contribution will still be important in the next 5 years.
- Government support is necessary to help the coffee farmers during COVID-19 pandemic and new normal.
- Government can provide funding to improve the productivity of the coffee farms and the quality of the products, as well as assistance for the rejuvenation and extension of the coffee farms.
- In the future the use of selected coffee cultivars, implementation of good agricultural practices, better usage of inputs and better information about the market will become more and more important for the success of coffee plantation.