EAST TIMOR

A SURVEY OF THE COFFEE SECTOR

SURVEY CONDUCTED BETWEEN APRIL AND MAY 2001
IN THE FIVE MAJOR COFFEE PRODUCING DISTRICTS OF EAST TIMOR
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OBJECTIVES

1. Despite its importance as East Timor’s major export, coffee remains relatively unresearched in terms of the characteristics of the sector’s production and intermediation process. Estimates of output vary considerably depending on what assumptions are made, namely regarding unregistered exports (production estimates for 2000, for example, vary between 2.5 and 8 thousand tons, according to an IMF report of November 2000). If coffee production is to be promoted (as most analysts suggest, since it appears that coffee is a product in which the country has comparative advantage) more needs to be known about the sector and the farmers whose livelihood depends on it, at least partially; that was the objective of this study.

CONVENTIONAL WISDOM

2. The study sought to test the existing conventional wisdom gleaned from the very few studies produced by visiting coffee experts over the past couple of years and from talking to coffee intermediaries in Dili. The experts tend to come from countries where coffee production is an important commercial activity and find, by contrast, Timor’s coffee sector to be disorganized, with very low yields and generally poor quality output, largely because of deficient processing. The raw material (coffee cherry) is of excellent quality and has the advantage of being organic but most of the final product is not of export quality, except to the undemanding regional market. Low yields are attributed to the fact that the coffee trees are very old (mostly planted some seventy years ago) and not attended to.

3. The stereotype of the Timorese coffee farmer is that of a bean-gatherer and amateur processor, paying scant attention to cleaning the ground, pruning the trees or planting new trees. One plausible explanation for this behavior could be that of land-ownership ambiguities or lack of definition – farmers would see no reason to invest in planting or caring for trees on land that did not belong to them. Another facet of the stereotype is that farmer behavior is largely price-insensitive – that they tend to harvest the available crop regardless of price and probably would not produce more if paid a better price. Also, farmers are said to be very individualistic, making it difficult to achieve efficiency gains through economies of scale.

RESEARCH METHOD

4. The study was devised and coordinated by an external consultant to the Bank\(^1\), but an important ancillary objective of the exercise was to involve Timorese economists as much as possible (recruited with the co-operation of ASSETIL – the Association of Timorese Economists – and the University\(^2\)). The project was designed to cover two distinct areas of research – literature review and field study. The first part was to be conducted by a small team of local economists and was to consist of collecting available information on coffee production in East Timor and producing a summary

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\(^1\) José Braz, with substantial collaboration from Francis Ghesquiere of the Bank’s Resident Mission and Caetano Cristovão of the Ministry of Agriculture and Fisheries.

\(^2\) The assistance of Lucas da Costa, ASSETIL, and Helder da Costa, Faculty of Economics, National University of East Timor, in recruiting the research team is gratefully acknowledged.
introductory chapter for the report, including a historical overview and a description of the sector’s evolution in terms of number of farmers, main areas, output and exports. In the event, this objective was not realized, as several discussions with the group of local economists failed to produce consensus on who could do what and the chapter was not written\[^3\].

5. The second area of research was the preparation of a questionnaire and its completion by a team of researchers who visited the major coffee producing sub-districts and interviewed farmers. To enhance local ownership of the project, coordination of this study was entrusted to a Timorese agronomist seconded from the Department of Agriculture, and the preparation of the questionnaire was a joint effort in which all the researchers participated. The planning, coordination and execution of the fieldwork was entirely undertaken by the Timorese researchers\[^4\].

6. A draft report with the survey results and some tentative conclusions was discussed in two meetings – one conducted in Portuguese, the other in English – with an informal consultative group of local stakeholders (coffee producer representatives, exporters, interested University departments) and relevant Government ministries (Agriculture, Commerce, Planning)\[^5\]. The meetings provided valuable insights, which are reflected in the section on policy implications.

THE QUESTIONNAIRE

7. The questionnaire had two main areas of focus. The first was to get information about coffee farmers in terms of household structure, levels of coffee production by type of coffee, sales by level of processing (cherries versus dried coffee), prices received for coffee sold, time spent on coffee production and other activities and relative dependence on coffee as opposed to other sources of income. Questions also were asked about land ownership and about the year-end levels of stocks, desired and actual, and household storage capacity. Data was requested for the past three years so as to gauge the effect of the 1999 disturbances, at least insofar as they affected farmers currently on the land.

8. The second set of questions was meant to yield information regarding possible policy options. Questions had to do with the motivations for farmers’ effort or lack thereof, their opinion regarding the age of the trees and the benefits of replanting and pruning, their attitudes to sharing facilities and participating in communal structures, the types of common facilities that they considered would be most useful, and their view on what were the main impediments to increased output.

9. The questionnaire was responded to by a total of about 1000 households with 727 sets of responses being deemed as statistically acceptable. The geographic distribution was based on the relative share of the major coffee-producing regions in total recorded production in 1997, as shown in the graphs below. In the event, ease of access caused

\[^3\] The reading list at the end of this report provides several references that include useful background information.
\[^4\] The researchers are listed in Appendix 1.
\[^5\] A list of the participants in this consultative group is provided in Appendix 2.
close-by Liquiça to be somewhat over-represented and distant Manufahi to be under-represented in the sample.

<table>
<thead>
<tr>
<th>Principal coffee growing districts</th>
<th>Tons</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ainaro</td>
<td>1,498</td>
<td>16%</td>
</tr>
<tr>
<td>Bobonaro</td>
<td>339</td>
<td>4%</td>
</tr>
<tr>
<td>Ermera</td>
<td>4,562</td>
<td>48%</td>
</tr>
<tr>
<td>Liquiça</td>
<td>1,381</td>
<td>14%</td>
</tr>
<tr>
<td>Manufahi</td>
<td>1,786</td>
<td>19%</td>
</tr>
<tr>
<td>Total</td>
<td>9,566</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Survey sample distribution</th>
<th>April - May 2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufahi</td>
<td>11%</td>
</tr>
<tr>
<td>Ainaro</td>
<td>17%</td>
</tr>
<tr>
<td>Liquiça</td>
<td>19%</td>
</tr>
<tr>
<td>Bobonaro</td>
<td>5%</td>
</tr>
<tr>
<td>Ermera</td>
<td>48%</td>
</tr>
</tbody>
</table>

**Main Results: Households, Effort and Income**

10. This first section summarizes results relating to farmers in terms of household structure, levels of coffee production by type of coffee, sales by level of processing (cherries versus dried coffee), prices received for coffee sold and relative dependence on coffee as opposed to other sources of income and time spent on coffee production and other activities.

11. The questions relating to family size permit two conclusions – that families are relatively small (around six persons on average) and that the number of working-age persons per household has remained stable over the past three years. This could indicate either that the 1999 disturbances did not very much affect household size in the coffee-producing areas or that the families that were displaced moved as a unit and most of the members of families that were interviewed had returned by the time of the survey.

12. The average family size of coffee farmers interviewed was 6.04 with, on average, 4.42 persons of working age. On average, the smallest families were found in Ainaro and the largest in Ermera. These numbers are somewhat higher than the national average household size calculated through the Suco Survey conducted by the Statistics Department in 2001. The household survey conducted later in the year did, however, show families in the highlands to be larger than in the lowlands.
13. Asked about who owned the land on which they produced coffee, 90% of households replied they worked on family land. Out of 727 respondents, only 3 indicated that they pick cherries on land that is not owned by their family.

<table>
<thead>
<tr>
<th>Out of 727 respondents</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>90.6%</td>
<td>Family land</td>
</tr>
<tr>
<td>0.3%</td>
<td>Land owned by someone else with exclusive access</td>
</tr>
<tr>
<td>0.0%</td>
<td>Community land with exclusive access</td>
</tr>
<tr>
<td>0.0%</td>
<td>Public land with open access</td>
</tr>
<tr>
<td>8.9%</td>
<td>No answer</td>
</tr>
</tbody>
</table>

14. Coffee growers work on average 71 days a year on coffee, indicating that although coffee is not their main activity, they spend a significant amount of time on it. Cherry picking is the principal activity of farmers during the coffee season, which lasts from May to September. Household help is used primarily for cherry picking and, to a lesser degree, for clearing the land.

<table>
<thead>
<tr>
<th>Person/days</th>
<th>days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cleaning the land (cáfe)</td>
<td>67.8</td>
</tr>
<tr>
<td>Pruning</td>
<td>11</td>
</tr>
<tr>
<td>Cleaning shade trees</td>
<td>8.6</td>
</tr>
<tr>
<td>Cherry picking</td>
<td>176.9</td>
</tr>
<tr>
<td>Processing</td>
<td>55</td>
</tr>
<tr>
<td>Total:</td>
<td>319.3</td>
</tr>
</tbody>
</table>

15. Coffee is the main source of cash for farmers in the areas surveyed, where an average family earns about US$ 200 per year from coffee sales. This represents about 90% if its cash income, but there are significant differences between districts, both in terms of total income (Liquiça is about 75% higher than Manufahi) and in terms of the relative importance of coffee (almost 100% in Ainaro, about 65% in Bobonaro).
16. The data on **production** show a significant reduction of about 30% in 1999, with the 2000 crop at about the same level as the pre-disturbance year.

17. Similarly, the reported levels of **coffee-related work** show a downturn in 1999. The average household planted 117 trees in 1998, 75 in 1999 and 186 in 2000 and pruned 20, 13 and 31 trees in the same years, respectively. Again, regional differences are significant, with average harvested areas in Manufahi almost double the size of those in Bobonaro.

<table>
<thead>
<tr>
<th>Average*</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harvest area (ha)</td>
<td>2.00</td>
<td>2.02</td>
<td>2.03</td>
</tr>
<tr>
<td>Number of trees planted</td>
<td>117</td>
<td>75</td>
<td>186</td>
</tr>
<tr>
<td>Number of trees pruned</td>
<td>20</td>
<td>13</td>
<td>32</td>
</tr>
</tbody>
</table>

2. Bobonaro (min)

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harvest area (ha)</td>
<td>1.66</td>
<td>1.21</td>
<td>1.66</td>
</tr>
<tr>
<td>Number of trees planted</td>
<td>82</td>
<td>14</td>
<td>137</td>
</tr>
<tr>
<td>Number of trees pruned</td>
<td>15</td>
<td>0</td>
<td>7</td>
</tr>
</tbody>
</table>

3. Manufahi (max)

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harvest area (ha)</td>
<td>2.53</td>
<td>2.46</td>
<td>2.56</td>
</tr>
<tr>
<td>Number of trees planted</td>
<td>239</td>
<td>114</td>
<td>284</td>
</tr>
<tr>
<td>Number of trees pruned</td>
<td>31</td>
<td>21</td>
<td>35</td>
</tr>
</tbody>
</table>

* Excludes a 800 ha plantation in Liquiça

18. Some 70% of households employ **hired help** to work the coffee crop. On average, households that employ outside workers use about 35 days of hired help for picking cherries, 3 days for cleaning the ground and 2 days for processing activities.

19. East Timorese farmers have been negatively affected by the drop in international prices of coffee. Farmgate **coffee prices** in Rupiah terms declined sharply over the past three years. Cherry prices fell from an average of about 2,100 Rps/Kg in 1998 to 1,600 Rps/Kg in 1999 and 1,300 Rps/Kg in 2000. The prices paid for dried Arabica beans fell even more sharply, from 8,600 Rps/Kg in 1998 to 5,400 Rps/Kg and 4,300 Rps/Kg in 1999 and 2000, respectively. In terms of US cents/Kg, farmgate prices rose in 1999 and fell in 2000, to roughly their 1998 level. This evolution contrasts with the continued decline in world prices during the same period, perhaps reflecting the increased emphasis placed on quality by exporters and the increasing premium paid for quality

Coffee prices on the international market

Note: Rp/US$ conversion at the average inter-bank rate for June-August each year.
RESULTS: INCENTIVES

20. The questions about incentives showed that 99% of farmers reported that they would work harder to produce more coffee if that would increase their earnings – they don’t now work harder because the price does not compensate the effort (87% of respondents) and because they don’t have time (52%).

<table>
<thead>
<tr>
<th>Why don’t farmers produce more coffee</th>
</tr>
</thead>
<tbody>
<tr>
<td>87% Price doesn’t compensate</td>
</tr>
<tr>
<td>52% Don’t have time</td>
</tr>
<tr>
<td>8% Processing the cherries is too much work</td>
</tr>
<tr>
<td>6% Don’t have access to more trees or land</td>
</tr>
<tr>
<td>6% Don’t have enough storage space</td>
</tr>
<tr>
<td>0% Don’t own the land</td>
</tr>
</tbody>
</table>

21. It is interesting to note that when asked the reasons for not currently working the land more, the option “I don’t own the land” had a response rate of 0%. This answer seems to indicate that issues of land tenure uncertainties are not considered an impediment to additional work on the coffee trees. This is confirmed by the fact that investment-type activity, pruning and planting new trees, has risen to levels above those pre-disturbance (see paragraph 17).

22. When asked whether the trees are too old, most farmers replied in the affirmative. At the same time, the number considering that the trees are not too old (more than 25%) is high when one considers the expert opinion that virtually all the trees need replacing. Again, regional differences are significant. Farmers in Bobonaro, Ermera and Manufahi are more convinced their trees are old than those in Liquiça and Ainaro (where “no” answers were more than double the “yes” answers).

23. The majority of farmers would be willing to replant if they were given free trees to replant their current lot. Only 17% of respondents indicated they would not replant; the majority (66%) would replant about one-tenth of their trees each year, 5% would replace one-fifth of the trees annually and 11% would replace one-third annually. The main concern appeared to be lost revenue while new trees grow to production level, as
the vast majority (93%) replied that they would replant more rapidly if compensated for the temporary revenue shortfall.

24. The question about pruning habits appears to contradict the conventional wisdom that farmers do not take care of their trees – three-quarters of respondents claim to prune their trees. However, while most farmers say they prune and replant trees, they do not do it extensively, pruning only about 1% of their trees every season. Those who don’t prune claim, in most cases, to lack enough free time for pruning – there does not seem to be any cultural reason not to prune.

25. On the other hand, the traditional habit of processing their own coffee seems to be deeply ingrained in farmers. Even if they had buyers for all their cherries and even if they could receive payment in dried coffee to store (since dried coffee is used as a store of value), most farmers (60%) reported that they would still prefer to process some of the cherries themselves.

26. Farmers do not, however, insist on having their own facilities – virtually all (97%) were ready to use nearby communal facilities, if available. The most popular shared facilities would be depulping equipment (82%), washing tanks (75%), a clean surface for drying (57%), transport trucks (46%) and storage sheds (27%).

27. Farmers are willing to work together to get access to joint facilities – 50% would join a cooperative, while 30% would join a company and 19% would be part of an association. About 40% of respondents reported that they already belonged to a cooperative. Only 1% of respondents said that would not join any of the options listed.
28. When asked to list the **main problems** they faced (multiple answers were allowed), coffee farmers overwhelmingly (82%) answered that the main problem was a lack of buyers for their product. About half (49%) also mentioned lack of transport equipment as a major problem, while 15% listed bad roads as a problem. Regional differences are significant. Problems with roads are of particular concern in the Bononaro area (mentioned by virtually all farmers, more than any other problem) but are a non-issue for farmers in Ainaro and Manufahi.

![Bar chart showing percentage of farmers facing various problems](chart.png)

29. The **organic nature** of Timor’s coffee seems to be assured – 99% of respondents claimed not to use pesticides, neither on coffee nor on other plants.

**POLICY IMPLICATIONS**

30. The survey results were used as a **basis for discussion** in two meeting with the informal Consultative Group and subsequent discussions with other stakeholders. Various policy implications were presented and debated to ascertain which could be considered as potentially useful and viable. The results of the debate suggested two areas for policy action – first to increase the quality of coffee processed by farmers and second to ensure regeneration of the coffee planted area. Other areas for policy actions that could help increase farmers’ income included various facets of marketing and logistics.

31. **Improving quality** Coffee is by far the main source of cash for farmers in the areas surveyed. Any policy that would help increase revenues earned by farmers through coffee would have an immediate impact on the livelihood of an estimated 45,000 families. At the current stage much value is being lost due to inappropriate processing of cherries by farmers who do not have access to processing facilities or do not have the technical knowledge. Shared facilities that would allow farmers to properly process the cherries could help farmers to offer for sale a better quality product at a better price. Given the resource constraints of the Timorese administration, donors could be requested to fund the establishment of communal facilities, with subsequent maintenance costs being the responsibility of the community. According to the answers to the questionnaire, depulping equipment and washing tanks would be the most useful communal equipment to invest in. Coffee intermediaries already offer higher prices for higher quality coffee, providing an incentive for extra effort (see Box 1). Encouraging this practice by ensuring greater competition among buyers would help increase the share of farmer income in the value chain.
Box 1 - Quality Exports Pay More

The destination of East Timor’s coffee exports is clearly correlated to the quality of the coffee exported, as can be seen in the following graph summarizing the available data on volume and value of exports between March 2000 and March 2001. During this period, most of the volume (62%) went to Indonesia but accounted for only about 40% of the value. The equivalent value was recorded for exports to the USA even though the volume exported to that market amounted to little more than 20% of East Timor coffee exports. The implicit average price for export to the USA was $1.14/Kg while the average price for export to Indonesia was only $0.42/kg.

![Graph showing volume and value of coffee exports](source: UNTAET Border Control Unit)

32. **Regeneration of the production capacity.** Current yields are estimated at between 150 to 200 kg by hectare, less than half the potential if improved cultivation techniques were used. With a large proportion of trees well beyond their peak productive age, there is a risk that the capacity of trees to bear coffee beans will continue to go down and eventually disappear. The results of the survey are encouraging, indicating that two-thirds of farmers would be willing to replace about one-tenth of their trees annually if they were given free saplings, even without any compensation for revenue shortfall while the trees grow. The apparent policy response would seem to be a large-scale program to give farmers good-quality saplings so as to permit the renovation of the bulk of the trees over a ten-year period. Some bilateral assistance is already engaged in providing free coffee and shade trees; perhaps donors could be requested to increase this sort of assistance.

33. **Technical assistance.** Proposals for improving coffee quality and yields invariably raise the issue of technical assistance. There is ample, albeit anecdotal, evidence of processing facilities being recuperated and then not made use of, and of good quality saplings being made available to farmers but being left unplanted. One possible explanation is that price incentives are not adequate to justify the extra effort. Reportedly, there are buyers for even the worse quality coffee, at prices above half what is paid for top quality beans. A more frequent explanation, after more than two decades of being concerned only with producing as much volume as possible, regardless of
quality, is that farmers need to be provided with technical assistance for replanting shade and coffee trees, for processing the cherries into better quality beans, and especially with organizational and management techniques. Some assistance is already provided by donors and by buying agents, but a concerted effort to improve quality probably will require that the Agriculture Ministry devise and implement a program of technical assistance, or extension services. This might cover other cash crops as well, providing coffee farmers with a more diversified income stream. Such a program would entail extra costs, for which interested donors might provide assistance, at least initially. Ideally, the services provided to farmers should be sufficiently valuable to them that they might be prepared to pay a service fee, thus covering at least part of the cost and ensuring that the service is in fact in demand (See Box 2).

Box 2 - The Economics of Better Processing

The secret to a quality coffee bean lies mostly in the processing. East Timor has excellent quality cherries but these have to be processed within 24 hours of picking, to prevent fermentation. Clean water and a clean drying surface are essential. Most coffee producers in East Timor do not have access to such conditions, prompting the suggestion that quality, and higher prices, be promoted by building and equipping small processing plants to be used by a group of farmers within easy walking distance.

On average it costs between US$5,000 and US$7,000 to build and equip a small processing plant capable of handling 200 tons of cherries per harvest. This yields about 40 tons of dried coffee beans. Based on the price differential reportedly applied during the 2001 harvest (50 cents/Kg for good quality beans, 30 cents/Kg for poor quality) the quality premium would amount to US$8,000 each year or about the cost of the initial investment. Even if the plant is used at less than full capacity, it would still seem possible to repay the investment in the first few years of operation.

A problem sometimes mentioned is that of very small farmers, harvesting less than a bag of cherries a day and reluctant to mix their cherries with those of other users of the joint facility. This problem could be overcome if a few larger farmers provided a core quantity daily and bought the cherries from small harvesters; the price differential for quality should make the exercise worthwhile for both parties.

The above simple calculation appears to indicate also that a small group of farmers could have an economic basis for purchasing service inputs such as agricultural extension services and technical training, management, accounting, and equipment maintenance. If so, a case could be made for an initial "seed investment" financed by donors or even the government budget, to set up service provision centres that would later become autonomous and viable.

34. Arrangements for coffee intermediation. The main problem mentioned by farmers – a lack of buyers – does not have a simple, direct solution. At minimum it would seem to justify a conscious decision not to discourage the work of intermediaries through taxes or over-regulation. More direct intermediation measures were suggested by participants in the discussions. Some suggested increasing efforts to broadcast price information daily during the coffee season. Others suggested establishing an indicative price floor, but there was no consensus on how to then ensure that all coffee would find a buyer. For areas of low production, competition could be increased by reestablishing the old coffee markets, on a given day of the week, bringing together many buyers and sellers. For selected areas or groups of producers, fair trade prices (typically higher than world
prices) could be obtained by having interested NGOs provide technical assistance and direct access to fair trade outlets abroad.

35. **Improved transportation facilities.** The lack of transportation suggests two policy responses. Road infrastructure in the major coffee areas should receive priority in terms of maintenance and loan facilities could be considered for individuals to purchase trucks for use in transporting coffee. The overall need for transportation can be reduced by increasing the facilities for local processing, as dried coffee requires substantially less transportation (about one fifth) and is not as time-sensitive as cherry coffee.

36. **Integrating the value chain.** Several participants suggested performing more value-adding stages of the processing cycle in East Timor, including roasting and packaging. International experts generally advise against such an option. Coffee traders usually spend a considerable amount of resources developing their brand and prefer to stay in control of these last stages of processing. In addition, roasted coffee doesn’t store well and packaging costs are high unless distributed over very large volumes. In fact, the current high labour costs in East Timor and the strong US dollar are resulting in less rather than more value adding activities being performed locally. Even some of the functions traditionally performed in East Timor, such as sorting, are increasingly moving to locations with lower labour costs (see Box 3). When quality has improved and grading standards are more generally utilized and if packaging costs decline, it may be viable to produce in East Timor a premium roasted coffee directed at niche markets, but this does not seem viable with current quality and grading levels and packaging technologies.

**Box 3 - Declining Competitiveness in Coffee Processing**

The coffee sector in East Timor has traditionally been a large employer, albeit on a seasonal basis. Employment takes place both in the production areas, to transform the cherries into green beans, and in Dili, to prepare the beans for exporting. Total seasonal employment has been estimated at about 11,000 people, excluding transportation workers. According to a major processing and exporting firm, events since the 1999 ballot have made East Timor the most expensive producer of coffee in the world. Infrastructure construction and transport are very costly; security costs are high and labour is more expensive than in Brazil. Daily wages are now US$3.50, as opposed to 90 cents in 1999. By comparison, daily rates are about US$1.00 a day in Indonesia and even less in Vietnam. In relatively high-cost Brazil, coffee workers earn US$60 per month.

In response, exporters have reacted in two ways, both resulting in a reduction of jobs in East Timor. Where possible, mechanization has been increased to reduce dependence on labour. A major processor has brought in sorting equipment and in 2000 employed only 150 workers for sorting, as opposed to the usual 400 to 500 workers. The largest exporter (in volume terms) has started exporting parchment coffee to Indonesia for processing, instead of performing that function in East Timor. Again, the result is fewer jobs in East Timor.

37. **Organic coffee.** East Timor’s coffee production represents a mere one tenth of one percent of the world production of coffee and as a result has no influence over prices on the international exchanges. Some participants mentioned the possibility for East

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Timor to find itself a niche in the higher priced market for organic coffee. The demand for organic produce worldwide is growing, and certified organic coffee from East Timor may become a valuable source of export revenue in the future. However, two elements must be taken into account. First, it is important to note that only high quality coffee can earn high-end margins in the organic market niche. At present only about 35% of East Timor’s production is suitably processed and could be sold as quality coffee (i.e. wet processed within 24 hours of picking). Second, the market for organic coffee is still relatively small. Indeed, while all of East Timor’s quality coffee could be certified as organic, only about third of it is actually sold as such. In other words, two-thirds of East Timor’s organic production does not find a buyer as organic coffee and is simply sold as high-grade coffee. The conclusion is that while it is important to ensure that the organic characteristic of coffee in East Timor is maintained, there is greater income-enhancing potential in helping farmers improve the general quality of their production.

38. **A national grading system.** An important step toward improving quality standards overall would be the introduction of a national grading system. This is essential to establish and protect East Timor’s name in the international coffee markets. Presently each exporter is responsible for ensuring quality, with the result that inferior quality coffee sometimes finds its way to markets that demand higher quality, with potentially negative implications for the reputation of East Timorese coffee overall. If exporters can agree on a grading system, perhaps with official support, and all exports have to be labeled accordingly, East Timor can start establishing a reputation for quality and reliability.
FURTHER READINGS

J. Pomeroy, May 2000, “Coffee and the Economy in East Timor.” A short note outlining the role of coffee in the East Timorese economy and examining some of the key short-term and longer-term issues which need to be addressed in order to obtain the maximum long term benefits the coffee industry can provide.

J. Pomeroy, February 2002, “Coffee and the Economy in East Timor.” In Hill, H. and Saldanha, J.M. East Timor Development Challenges for the World Newest Nation. This paper was developed from J. Pomeroy 5/2000 and includes additional and updated information on the coffee sector in East Timor.

O. Brown, C. Charvériat and D. Eagleton, 2001, “The Coffee Market – A Background Study.” This Oxfam GB background report looks at general trends in the coffee market and proposes policy changes to address the precarity confronting coffee farmers around the world.


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