



USAID
FROM THE AMERICAN PEOPLE

A Rapid Assessment of the Specialty Coffee Value Chain in Indonesia

January 2007

This publication was produced for review by the United States Agency for International Development. It was prepared by Development Alternatives, Inc.

A Rapid Assessment of the Specialty Coffee Value Chain in Indonesia

DISCLAIMER

The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.



USAID
FROM THE AMERICAN PEOPLE



AMARTA
AGRIBUSINESS MARKET AND SUPPORT ACTIVITY

BRI II Building, 28th Fl, Suite 2806

Jl. Jend. Sudirman 44-46, Jakarta 10210, Phone: 62-21-571 3548/49, Fax: 62-21-571 1388

“Helping Indonesia to Grow”

A RAPID ASSESSMENT OF THE SPECIALITY COFFEE VALUE CHAIN IN INDONESIA

Anne Ottaway (Michigan State University)

For the
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
RAISE Plus IQC Task Order EDH-I-04-05-00004-00
January 2007

A Project Implemented by Development Alternatives, Inc.

Table of Contents

ACRONYMS	1
1. EXECUTIVE SUMMARY	1
2. SUMMARY OF MEETINGS	2
3. CONCLUSIONS	13
4. RECOMMENDATIONS	14
4.1 Flores.....	14
4.2 Gayo Mt.	14
4.3 Broca Traps.....	14
4.4 Direct Marketing.....	14
ATTACHMENT 1: SPECIALTY COFFEE MARKET GROWTH	16
ATTACHMENT 2: CUP OF EXCELLENCE RESULTS 2005 AND 2006	17
ATTACHMENT 3: ROYAL COFFEE NEWS "RETRO MANDHELING"	18
ATTACHMENT 4: CV LION LESTARI	20
ATTACHMENT 5: RAPID ASSESSMENT CONTACT LIST	23

Acronyms

AEKI	(Association of Indonesian Coffee Exporters) – North Sumatra
CAFE	Coffee and Farmer Equity
CQI	Coffee Quality Institute
ECOM	ECOM Coffee Group
NCBA	National Cooperative Business Administration
ICCRI	Indonesian Coffee and Cocoa Research Institute
SCAA	Specialty Coffee Association of America

I. EXECUTIVE SUMMARY

SCOPE OF WORK

For the period January 15 – 27, 2007 a rapid assessment of the specialty coffee sector of Indonesia was conducted through meetings and interviews with Indonesian exporters, processors, trading houses, farmer associations and cooperatives, research institutions and government representatives. Working in concert with Surip Mawardi, a Senior Researcher at the Indonesian Coffee and Cocoa Institute (ICCRI) and Henry Harmon USAID AMARTA Senior Industry Advisor, an assessment was designed to uncover information regarding the trade and marketing practices of Indonesian specialty coffee, more specifically to:

- Identify market channels
- Delineate market segments for coffee and set forth corresponding characteristics
- Describe distribution and logistics issues
- Discuss current sales and marketing practices and conditions
- Determine role of cupping of farmer understanding of quality and price
- Ascertain potential of production and marketing of organic coffees.

This report offers a summary of all meetings and relevant findings for each. Conclusions reached by the assessment team are presented, followed by recommendations for potential interventions. Selected interventions have been written up with explanation and detail for more considered review by AMARTA.

OVERVIEW

Indonesia exports 7% of world coffee production. Coffee represents 0.6% of total GNP and 17% of all agricultural products exports in Indonesia. Planted on 1.3 million hectares of land, coffee plantings yield approximately 600,000 tons of green coffees are broken down as follows: 85 – 90% Robusta (65% coming from Southern Sumatra), 10 – 13% Arabica and 1 – 2% others such as Liberica. As a share of agricultural exports from Indonesia, coffee is reported at 17%. Coffee is produced by a total of 2.33 million household smallholder farmers cultivating an average holding of 1.0 to 1.5 hectares and deriving approximately \$ 910.00/year per hectare (Robusta) and \$ 1680.00/year per hectare (Arabica). Coffee represents 50 – 70% of coffee farmer's income. It is estimated that Aceh is the largest Arabica production area in S.E. Asia. Exports of North Sumatran coffee (Aceh 60% and North Sumatra 40%) receive a premium of 30% over similar coffees grown in Indonesia. Owing to the unique character and body coffees of Northern Sumatra is in high demand from major specialty coffee buyers.

Coffee provinces visited by the assessment team included: South Sulawesi (Tana Toraja and Enrekang), North Sumatra (Medan), Aceh (Banda Aceh) and Bali (Kintamani highland).

2. SUMMARY OF MEETINGS

Company: PT MEGAHPUTRA SEJAHTERA

Type: Exporter

Location: Makassar

Principals: Mr. Hendra Suwiptandy (General Manager); Mr. Frans Hongahalim (Director), Mr. Faust Halim (staff)

Supply Chain:

Small holder farmers are organized into producer groups numbering 50 – 100. Three to four producer groups combine to form Associations. Each Association employs a collector to collect parchment (30% moisture) and deliver to Makassar where it is hulled, sun dried, sorted, and bagged for export.

Buyers: US (80 – 90%), almost all to Starbucks Coffee.

Farmer Training: Starbucks provides training at farm level to assure that quality standards (CAFÉ Practices) are adhered to by farmers.

Exporters in South Sulawesi: Of the 57 exporters in the region only 3 – 4 most active; Exporting coffee is “very difficult” business; risk is high and customer is very demanding; infrastructure is expensive and cupping expertise is necessary.

Constraints:

Farmers do not always deliver cherries when necessary: Coffee is carried over 1.0 mile where collector accepts/rejects cherries for exporter. If coffee is unacceptable for exporter, collector will sell to another trader. There is no penalty to farmer for compromise of quality.

Cooperative: Koperasi Tani Benteng Alla Utara, Enrekang.

Type: Cooperative farmers consisting of 6 farmer groups, each with 400 families averaging six members per family.

Organizational Structure: Democratic; Fee based membership

Fees: Membership and monthly fees mandatory; Capital Investment “fee” is optional.

Additional Costs to Members: Processing 200 – 500 Rp/kg of wet parchment; 1,200 – 1,500 Rp/kg dry bean unsorted.

Buyer: PT MEGAHPUTRA SEJAHTERA (100%).

Production Quantity: 80 mt. Variety used is dominantly S 795, grown under light shade trees. Each farmer normally holds 4 – 5 goats for diversification and to produce manure.

Coffee Processing: Semi washed; sun dried by farmer families (to 40% moisture content); drying to 25 – 30 % and de-hulling by Cooperative; sell to exporter at 15 – 17 % moisture content.

Pricing: Established (and adjusted) each week by exporter and Coop. PT MS pays 200 – 500 Rp/kg more than local market; farmers paid 60% of price at time of delivery as advance payment.

Farmer Income: 50 – 80% from coffee.

Constraints:

1. Coffee drying compromised by equipment failures and limited patio space.
2. In rising markets farmers sell to other collectors in order to receive 100% of money on the spot. It may take 3 – 4 days to receive the remaining 40% of sale proceeds from Coop.

Opportunity:

With increased drying capacities could buy/process coffee from neighboring farmer group and/or villages.

Company: PT Toarco Jaya (Toarco Toraja Coffee)

Type: Japanese and Indonesian Joint Venture export company.

Location: Tana Toraja (South Sulawesi)

Principals: IR.H. JABIR AMIEN (Plantation Manager)

Supply Chain: Using wooden pulpers supplied by company farmers wet process coffee to 40% moisture content; Collector (not appointed by company but designated by farmers) accepts/rejects coffee for PT Toarco Jaya; rejected coffee is sold to other exporters.

Buyer: 100% to Key Coffee Company – Japan.

Production: 100 mt from company owned plantation and 500 mt from coffee collected from smallholder farmers. Variety used is S 795 majority, grown under light shade trees.

Price: Premium price paid to farmers for high quality coffee when it is cleaned, evaluated and sampled.

Distinctive Marketing Prices:

PT Toarco Jaya maintains its identity (a true *terroir* coffee) and is never combined with other coffee;

Farmer extension and training provides seedlings and fertilizers to grower.

Social responsibility initiatives include free health services for all growers in region, school books/supplies for children of farmers, musical instruments to secondary schools, community center and internet café built to encourage coffee tasting and assist student in development of IT skills.

Company: Unit Usaha Otomon Agribisnis (UO Agribisnis), Autonomous Unit on Agribusiness

Type: Processor

Location: Tana Toraja (South Sulawesi)

Company partner: Koperasi Jasa Usaha Bersama (KJUB) PUSPETA LUWU, Collective Cooperative Service Business PUSPETA LUWU

Type: Exporter

Principals: Mr. Ahmad Rusdianto (Coordinator), Mr. Sarjana (Purchasing), Mr. Muflih (Processing).

Organizational Structure: National Cooperative Business Administration – 51%; Puspeta Luwu (cooperative producer association) and KUD Sane (cooperative buying group of farmers) – 49%.

Suppliers: 3000-5000 farmers supplying coffee from 3 districts (Toraja, Enrekang and Mamuju).

Supply Chain: Coffee is collected by individuals employed by cooperative to collect coffee cherries directly from farmer; alternatively farmers can deliver to either of two collection points; coffee sampled from each sack and paid at time coffee delivered.

Buyers: 80% US (Starbucks Coffee – 70% and Royal Volcafe – 30%); 20% to Japan, Europe, Australia.

Production: 1000 – 1500 mt.

Price 2005: 20 – 25% above local market in Makassar; price 2006: 15 – 20% above local market; For Starbucks Black Apron Coffees price \$2.00/lbs to farmer.

Marketing Practices:

CAFÉ (Coffee and Farmer Equity) Practices, including improving quality by providing training at farmer level; promoting reputation of Toraja coffee through Black Apron coffees of Sapan and Minangan, and fulfillment of social responsibility requirements

Constraints:

None with respect to marketing/promotion-market demand far exceeds supply “cannot fulfill needs of Starbucks now.”

Production very low; more coffee plants needed in region; request was made of government 4 years ago.

Company: CV Lion Lestari

Type: Coffee Processor and Exporter.

Principals: Mr. Kornel Gartner and Mrs. Heni Sarawati (Sara).

Location: South Sulawesi (Makassar).

Supply Chain: Coffee is collected from farmers by Coffee Processor's Collector and delivered to Processing Center for drying and milling. Processor acts as agent of International Trading House (ECOM Coffee Group) and as such is paid a processing fee. Coffee is sold by ECOM to large US roasters.

The company developed "Seko Coffee". Seko is a very isolated village in Toraja highland. Coffee variety grown by the farmers is Typica, 1 – 2 containers only per year.

Opportunities:

Flores Island (a World Heritage Site) offers potential of exemplary coffees grown at elevation of 1,600 – 2,000 m. The island has a population of 3900 coffee farmers, among the poorest in Indonesia. Coffee is organic by default and farmers are organized into coffee groups. CV Lion Lestari have initiated interventions to improve coffee quality (See Attachment).

Organization: Subiak Abian "Kerta Waringin" – Bali Upland Farmers Group

Type: Cooperative (business entity) / Farmers Group (social entity).

Principal Representative: Mr. I Made Rida (Chief of Cooperative).

Location: Banjar (Sub village) Mabi, Desa (village) Belantih, Kintamani highland.

Producers: 60 families of Subak Abian Kerta Waringin. Farmers grow under shade trees mainly tangerine in order to have more income, also hold 1 – 2 cattle to produce manure and to improve income.

Supply Chain: Cherries are delivered to Cooperative. Fully washed coffee processing applied by cooperative, full sun drying. Dried parchment is sold to buyer for hulling, sorting bagging and exporting.

Buyer: P.T. Indo CafCo (ECOM Group) – 90%.

Cooperative production: 25 T green coffee (12% moisture content) total. Farmer's productivity is 800 kg green coffee/hectare in average.

Price: Negotiated each week based on NY C.

Processing: 60% wet processed of total Kintamani highland.

Farmer Training: As part of the ongoing Bali Highland Area Improvement project of ICCRI, Government of Bali and ECOM provide training and backstopping in production and processing. In addition this pilot has a Geographical Indication focus (Appellation)

supported by ICCRI, CIRAD, GOI-Minister of Agriculture and French Embassy as well as Bali Government and the Minister of Law and Human Rights.

Results to date:

Rise in coffee prices as a result of interventions have encouraged greater attention (measurable) to maintaining and nourishing coffee plants

Constraints:

Limited drying capability/facilities

Limited pulping machine capacity

Organization: UN Development Programme

Type: Multi Donor Project focused on examining clusters of exports with strong potential utilizing input from associations, exporters, traders, farmers and business community

Location: Aceh

Organization Representatives: Mr. Hugh Evans and Mr. Suhendra

Outputs (relating to coffee):

Overview of coffee industry

Creation of Aceh specific farmers manual including an assessment of coffee best suited for cultivation in Aceh region

Support of business organization to certify exported coffee.

Sub Group: Aceh Partnership of Economic Development (APED) including members of the specialty coffee supply chain in Aceh. Members have been formalized in the Specialty Coffee Association of Aceh. 7th Aceh Coffee Forum will meet in Feb/Mar 2007 and then monthly thereafter.

Constraints:

Effects of both the conflict and tsunami have left coffee farmers with no income to cultivate coffee.

Trade credit is scarce to none

Over 20% of acreage well suited to coffee growing in Aceh has been abandoned

Opportunities:

Aceh Specialty Coffee association has potential to inform the start up of other "chapters" of an Indonesia Specialty Coffee Association

Collaboration with AMARTA development of a sustainable trade credit program for coffee farmers

Company: Gayo Mountain Cooperative/PT Aceh Company

Type: Farmer owned Cooperative in partnership with Dry Process Mill Operation

Location: Aceh – Gayo Highlands

Principals:

T. Bachtiar Usman, Chairman (also Advisor to Aceh Government on coffee, Save the Children, Forestrade, Gayo Coffee Quality Improvement Program); Owner – Processing Plant Gayo Mt.: Rob Mc Niece-Lessee of dry mill operation (2006) for purpose of processing coffee from Gayo Mt. Cooperative.

Supply Chain: Coffee cherries in Gayo Mt. Cooperative are collected by traders and Cooperative farmer groups for pulping and hulling, then delivered to PT Aceh Company for drying, sorting, bagging and transport to Medan for export.

Cooperative Membership: 1500 farmers.

Production: 1000 mt (2007), Capacity: 1500 – 2000 mt.

Price: approx. \$1.85/lb to farmers.

Constraints:

Road from Aceh to Gayo Mt. severely compromised by the tsunami

Opportunities:

As a way to retain more of the value of coffee at the farm level cooperative is seeking to establish cooperative owned village processing units, each to include a pulping machine, drying facilities, before parchment coffee goes PT Aceh Company for drying etc.

Organization: Gayo Specialty Coffee Club

Principals: 12 Exporter members, each representing approx 400 farmers from Gayo

Location: Takengon/Gayo (growing region) and Medan (operations)

Organization/Fees: Membership predicated on adhering to principles of organization; graduated membership fee assessed (based on exporter trading volume) as well as 60 Rp/kg exported.

Purpose: To promote “real Gayo taste” of Gayo specialty coffee supporting consistency and reliability of coffee quality and traceability by controlling coffee supply chain from field to port.

Production: 6,250 mt, 57% organic

Buyers: Royal Coffee – 60%; ECOM (for Starbucks) – 30%; Germany – 10%

Supply Chain: Exporters have secured supply chain through no cost financing to farmers, infrastructure (pulpers, drying patios) and social programs supporting farmer groups,

Constraints: AEKI (Association of Indonesian Coffee Exporters) fee of 30 Rp/kg is required to be paid by all exporters with no discernable benefits to members. Exporters' image is tarnished in the marketplace by reputation of AEKI for their lack of regard for consistency/reliability of quality.

Gayo coffee production per hectare very low especially in the abandoned areas (600 kg green coffee/hectare; should be 1200-1400 kg/hectare).

Opportunities:

To ensure productivity as well as address quality practices and training the ICCRI Bali Project offers the precise interventions needed in Gayo. Gayo Specialty Coffee Club members can implement good agronomic practices (weeding, pruning, organic manure application, soil tillage and pest control) of 1,500 abandoned hectares under its coordination with oversight of a short term technical consultant.

Company: PT Indo CafCo (ECOM Coffee Group)

Type: Exporter established under Indonesian law and allowed to work on behalf of ECOM

Principal: Mr. Olivier Tichit (President Director), Mrs. Masitha Daud (Manager of Medan office)

Location: Medan

Trading Volumes: Medan – 7,000 mt (Arabica); Lampung – 12,000 mt (robusta); Bali – 250 mt (Robusta wet process); Bali – 150 mt (Arabica); Flores – 2 Containers (Arabica)

Supply chain: In North Sumatra PT Indo CafCo bought parchment bean and green bean as well from collectors. Provide premium for good quality coffee.

Constraints:

Presence of coffee berry borer is prevalent in all robusta coffee growing areas, as well as lower altitude Arabica regions; Borer in N. Sumatra affects 20% of Arabica coffee; Borer degrades coffee quality and lowers coffee production

Opportunities:

Mechanical Extension Intervention: "Broca Traps" developed by CIRAD and assessed in Indonesia by ICCRI and ECOM. Simple plastic device is costing \$38.50/hectare over a period of 3 years. Traps distributed (18/hectare) to farmers given necessary training; reduction of coffee defects will be recognized immediately in areas where traps are correctly applied; environmentally friendly.

Proposed Pilot Project:

Farmer Extension Training Center in Takengon (Gayo Mt.) to be supported by Neumann, NCBA, ICCRI, offering education on agronomic practices initially, and copper training in year 3. Center to promote and develop traceability through appellation study and to identify new coffee seedling varieties for Aceh.

Company: PT Sarimakmur (Opal Coffee)

Type: Exporter (#1 Exporter to Starbucks)

Principals: Mrs. Maria Goretti (marketing director); Mr. Suryo Pranoto (director); Mr. Andry S.

Location: Medan

Supply Chain: Exporters receive coffee from farmers through Collectors; Close scrutiny and oversight of collectors must be constantly applied in order that only the highest quality coffees are delivered from farmers.

Buyers: Starbucks (majority of Arabica production).

Production: 34,000 mt – 22,000 mt (robusta); 12,000 mt (Arabica).

Price: Price paid to farmer for unsorted green: \$1.20/lb; Price paid for exported green coffee: \$1.46/lb.

Processing Intervention: As a pilot project exporter has constructed a 5000 m² “covered” drying patio in Gayo for dry processing Arabica coffee; Total Cost: \$100,000; Completion date: June 2007.

Constraints:

AEKI is ineffectual and there is no other coffee body (board or association) to represent all coffee stakeholders.

Many exporters have resisted changes in coffee buying practices of coffee buyers (i.e.: evaluating coffee based on cupping vs. defects identified by appearance)

Reliable dry processing compromised by weather, especially in rainy highland regions such as Gayo.

AEKI (Association of Indonesian Coffee Exporters) – North Sumatra

Type: Private Export Association

Membership: approx. 850 members – mandatory for all exporters.

Fee Collected: 30 Rp/exported kg of coffee

Purpose: To promote Coffee from Indonesia, pay membership fee to International Coffee Organization (ICO), conduct seminars and farmer training and distribute seedlings to farmers.

Current Activities:

Cultivation of 1 hectare seed garden of 3 hectare total land near Lake Toba.

Support attendance of selected exporters to SCAA Conference 2007 in US.

Constraints:

Organization is uninformed about the workings of the specialty coffee marketplace.

AEKI reports that American buyers are unreasonable in their sensory evaluations of coffee quality through cupping.

Opportunities: None.

Company: PT Menacom

Type: Exporter.

Principal: Mr. Agam L. Sulaiman (Managing Director), Ms. Mira Sulaiman (QC).

Location: Medan

Buyer: Primarily Starbucks; One year contracts

Production: 5,000 mt

Supply Chain: Before Starbucks started buying Indonesia coffee to any degree, farmers and collectors worked together to supply exporters with coffee. In 2004 Starbucks began purchasing coffee from Indonesia through 10 exporters. Currently Starbucks has narrowed their exporter suppliers to 5:

PT Sarimakmur (supplies 4 times the amount of other suppliers), PT Indo CafCo (ECOM Coffee Group), Volcafe, PT Menacom, PT CBI

Constraints: As a prerequisite to maintaining their supplier status exporters must adhere to Starbucks CAFE Practices; costs of applying practices correctly increases the exporters operating and reduces margins for exporter

Opportunities:

Controlling coffee borer with the use of trap on abandoned hectares being replenished as part of exporter's pilot project in Lake Toba

Company: NCBA (National Cooperative Business Administration)

Type: Export

Principal: Mr. Sam Filliaci

Other Coffee Companies: CBI Cooperative Business Association

Coffee Projects :

N. Sumatra (Lake Toba) – Joint ownership: 80% PT CBI, 20% Cooperative

Aceh (Lake Tower) –Joint Project- USAID and CBI–100% coop- 5200 farmer members; Fair Trade certification in process

Sulawesi (Toraja) – Joint ownership 51% NCBA, 49% Cooperative

Relevant Findings:

Sam is in discussions with GOI to dissolve AEKI and does not support replacement with a Coffee Board, but rather a Specialty Coffee Association of Indonesia (see UNPD initiative in Aceh).

According to Sam the specialty coffee of Indonesia is well known in the industry, commands a very high price and is experiencing growing demand in the marketplace. With the difficulties in matching supplies to current demands, he does find it necessary to market/promote or build image.

Diversity of buyers already exists. As an example Volcafe Specialty Coffee (Alan Neitlesbach) will be conducting a buyers tour of Indonesia in Feb., 2007 including roasters from Green Mountain Coffee, Allegro Coffee, Caribou Coffee and other major US roasters.

Constraint/Opportunity:

Though currently constrained by a variety of factors, including compromised access to coffee growing areas, the island of Flores offers an intervention opportunity to develop market linkages, increase coffee production and perfect coffee quality. (See Attachment)

There are already a host of projects working to rejuvenate abandoned hectares in Aceh and caution should be taken not to overlap.

Government of Indonesia: Ministry of Agriculture

Location: Jakarta

Principals: Prof. Dr. Djoko Said Damardjati, Director General, Mrs. Tri Widjanti, Deputy Director International Market Development

Priorities of Ministry:

“Close and direct supply chains”

The overarching objective for the government of Indonesia is to institute quality standards and they seek to promote quality standards to farmers

Part of their goal is to “change farmer from producer to supplier”

Opportunities:

Through the Minister of agriculture government funds may be available for infrastructure development (ie: dry processing in needed regions)

Government funds may also be available for microfinance needs of farmers.

Company: PT OLAM

Type: Supply Chain Management

Principals: Mr. Darshan Raiyani (President Director), Mr. Milan Bist

Locations: Jakarta; Panjang (Bandar Lampung)

Constraint:

Reduction in both robusta coffee quality and yields in Lampung region has led to encroachment of coffee growing production in wildlife sanctuaries as made public recently in the World Wildlife Foundation report.

Opportunity:

Implementation of Project proposed by OLAM to identify specific region of Lampung Province (300,000 farmers) where 2 – 5 farmers would be selected in each of approx. 8 villages to participate. Through targeted education and training at the farm level in good agronomic practices and their relationship to the attainment of quality, an increase in both production and quality can be demonstrated after one year. Increased coffee yields and prices to participating farmers are expected to influence farming practices at neighboring farms of other village farmers. Intervention would engage involvement of Lampung University (Agriculture Faculty) in Lampung as well as ICCRI for agronomist support and education and training in the field. OLAM will execute program on the ground with their personnel in Lampung and looks to AMARTA for financial/technical assistance as may be necessary in program design and oversight. Current quality improvement program of ICCRI in Lampung which has been funded by GOI interfaces with intervention objectives.

Overarching goal of intervention is the certification of coffee farms utilizing geographic indicators, providing traceability certificate issued by a reliable agency to represent that coffee originates from defined boundaries.

3. CONCLUSIONS

Currently the majority of Arabica coffee exported from Indonesia (estimates range from 60-80 %) is sold to one buyer: Starbucks Coffee. Exporters supplying coffee for Starbucks adhere to their CAFÉ Practices and are promoting training at the farm level to demonstrate correlation between good agronomic practices and quality coffee.

Supply chains for specialty coffee are extended and there is little evidence that farmers have direct relationships with buyers. Market linkages exist between those in the middle of the supply chain (exporters and importers, exporters and international trading companies).

Demand for specialty coffee of Indonesia is very high and the inability to increase production is a constraint reported by a number of suppliers. Efforts are underway to rehabilitate abandoned hectares in Aceh and to rejuvenate undernourished hectares in other regions.

Concerns regarding coffee traceability were expressed at all levels of the supply chain. Mingling of coffees from various regions in order to satisfy customer contracts have served to compromise integrity of coffee from specific regions and obfuscate taste profiles. The importance of defining the origin of coffee using geographic boundaries and establishing taste profiles for those “*terroir*” is well understood at institutional levels but only starting to be implemented through pilot projects at the farm level.

There is an absence of any organized professional marketing and promotion of the specialty coffee of Indonesia. AEKI is ineffective in this regard and it is questionable that the formation of any other board or association would accomplish the desired objectives of creating more direct linkages between specialty coffee buyers and sellers.

Coffee certification by Utz Kapeh was reported by a number of exporters and cooperatives, and to a lesser extent organic and fair trade certifications.

There seems to be a good understanding of the certification process and the associated costs/benefits.

Owing to the weather conditions, especially in highland areas of North Sumatra where the majority of high quality specialty coffee originates, proper dry processing presents a challenge. Some exporters are addressing this with interventions which may provide guidance for the sector at large. However as coffee production increases current dry mill capacity appears inadequate.

Cupping skills appeared well developed among exporters and labs existed in most export operations visited. ICCRI offers twice yearly cupper trainings at both a basic and more advanced level. Class participants consist primarily of exporters and are well attended. Overall, exporters do not support cupper training at the farm level at this time. However it is strongly recommended that a move in that direction be undertaken. In expanding cupping capacities of farmers the importance of cupping as a way to promote quality is more clearly established. Costs for equipping a cupping lab have been submitted to AMARTA.

4. RECOMMENDATIONS

4.1. Flores

One of the poorest regions in Indonesia, Flores has approx. 30,000 farmers who rely largely on coffee for their livelihood. Currently underway is an initiative described in the attached program description. An intervention is proposed to address the issues of quality improvement through continued and expanded work with farmers on agronomic practices to increase both the quantity and quality of their coffee production and to promote development of organic coffee. As an island Flores offers the distinct opportunity of developing a coffee appellation by studying the physical variables resulting in the unique coffee taste profile of Flores coffee. This will hopefully serve as a pilot to further coffee traceability initiatives in other coffee Indonesian coffee regions. Currently ICCRI is working on all of these activities and could be expected to collaborate with AMARTA should an intervention be taken.

4.2. Gayo Mt.

Because of the vast amount of abandoned coffee growing hectares in the Gayo highlands of Aceh, the priority to restore Arabica coffee husbandry to this region is vitally important to increasing farmer capacity to benefit from high value coffees originating from this region. This intervention already has broad based support through the UNDP and the exporter members of the Gayo Specialty Coffee Club and the Gayo Mountain Cooperative. ICCRI's Bali Project is similar to the initiatives required to implement this program.

In conjunction with this intervention we recommend consideration be given to the needs of farmers for pulping machines and drying capacity in order to increase quality potential of this highly regarded specialty coffee. A Farmer Extension Training Center in Takengon has been introduced by industry stakeholders (ECOM, NCBA) and ICCRI may offer the framework within which to operate.

4.3. Broca Traps

The use of this simple device, already developed by CIRAD and tested by ICCRI and ECOM Coffee Group, has potential for immediate results in increasing production and quality for Robusta coffees as well as those Arabicas in lower elevations. Coffee berry borer is an insect which affects up to 20% infestation in coffee beans during production of robusta and low altitude Arabica coffees. ECOM Coffee Group will commercially manufacture/sell the traps and participate in the program implementation, specifically to train farmers on the proper use of the device and to measure impacts.

4.4. Direct Marketing

The formation of a Specialty Coffee Association of Indonesia, initially by chapter, is recommended as a way to bring all specialty coffee stakeholders together to establish and work toward common goals of promoting quality and creating a market image. One organization to consider for guidance in the formation of such an association is the

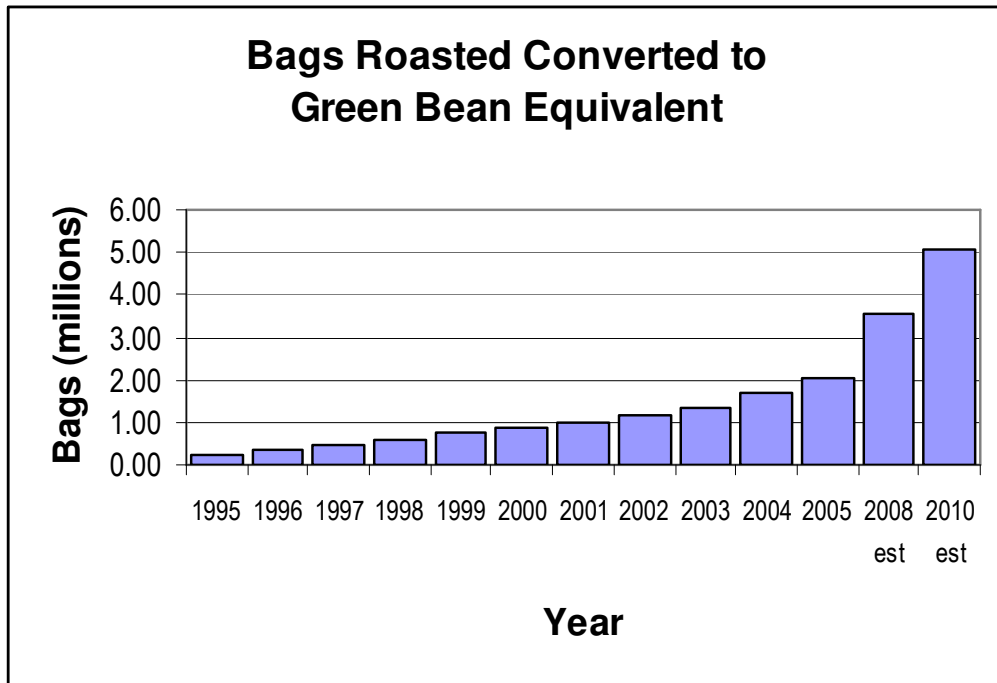
Coffee Quality Institute (CQI) (part of SCAA). Currently Ted Lingle (former Chairman of SCAA) is Executive Director of CQI.

Direct market linkages, bringing farmers closer to the markets of their roaster buyers is also an important ingredient for creating sustainable trading relationships. It is therefore recommended that steps be undertaken to bring strategic high quality buyers to Indonesia to introduce possibilities for developing the relationship coffee model, including the opportunity for farmers and roasters to cup and calibrate coffee profiles and to develop capacities to promote distinctions of specific coffee regions to the marketplace. Ultimately this type of intervention would accomplish the objective of diversifying the buyers of Indonesian specialty coffees and help farmers understand the role of quality premiums in direct trading relationships.

As a start to this process coffee samples from Flores will be transmitted to selective high quality US roasters for evaluation. Based on the specialty coffee interventions AMARTA selects for implementation, and as part of a direct marketing intervention, appropriate specialty coffee stakeholders from Indonesia should be selected to attend the 2007 Specialty Coffee Association of America Convention in Long Beach, CA. Indonesian specialty coffee suppliers can witness the mechanisms for market development of specialty coffees at work, and attend strategic meetings (arranged beforehand) with potential new roaster buyers.

Attachment I: Specialty Coffee Market Growth

Specialty Coffee Market Growth



Source: Starbucks

Attachment 2: Cup of Excellence Results 2005 and 2006

Cup of Excellence Results 2005 and 2006

Cup of Excellence 2005 Results

Competition/Auction	# Bags	# Lots	# of Pounds	\$ Value	Price \$/lb	# Bids	Top Price \$/lb
2005 Colombia 1st Harvest Auction	350	25	54,013	327,774	\$6.07	1606	\$19.10
2005 Honduras Auction	940	41	142,992	334,943	\$2.34	853	\$17.60
2005 Nicaragua Auction	747	35	113,633	383,235	\$3.37	935	\$8.25
2005 El Salvador Auction	412	17	62,673	298,340	\$4.76	980	\$16.30
2005 Colombia 2nd Harvest Auction	537	33	82,872	299,203	\$3.61	1082	\$16.25
2005 Bolivia Auction	352	19	54,322	253,816	\$4.67	1031	\$12.55
2005 Brazil Auction	807	36	106,748	427,752	\$4.01	1754	\$49.75
	592	29	88,179	332,152	\$4.12	1,177	
	4,145	206	617,252	2,325,063		8,241	

Cup of Excellence YTD 2006 Results

Competition/Auction	# Bags	# Lots	# of Pounds	\$ Value	Price \$/lb	# Bids	Top Price \$/lb
2006 Colombia 1st Harvest Auction	439	23	67,748	352,784	\$5.21	1502	\$12.05
2006 Honduras Auction	632	33	96,139	319,921	\$3.33	979	\$7.95
2006 Nicaragua Auction	468	25	71,192	294,609	\$4.14	1268	\$7.30
2006 El Salvador Auction	570	23	86,708	407,440	\$4.70	1536	\$17.04
2006 Guatemala Auction	403	25	61,304	403,170	\$6.58	2172	\$25.20
	502	26	76,618	355,585	\$4.79	1,491	
	2,512	129	383,091	1,777,924		7,457	

Attachment 3: Royal Coffee News "Retro Mandheling"

Royal.Coffee.News

Fresh News on Fresh Coffee

Tuesday, January 09, 2007

RETRO MANDHELING

Throughout the 1980's and early 1990's Royal sold a couple of different Sumatra types. Our most popular, simply called Mandheling Grade I, made up most of our volume and still does. Back then most "Mandheling" was grown between Medan and the Northern shore of Lake Toba.

Occasionally we also sold a small amount of Lintong and Sibolga from the western shores of Lake Toba and areas south of the lake.

But there were two other types, since disappeared, that I am sure some of our older customers would remember.

One of these, Aceh Arabica, still exists, but not in its prior condition. In the Eighties, the growing areas further up the Aceh Peninsula around Lake Tawar were considered new growing areas. The first coffees from these northern areas had tremendously high moisture content and often arrived very soft and damp, looking like green and white salt and pepper.... This was called Aceh arabica and it was more of a life form than a coffee. Treacherous business as you can imagine, but when it was good, despite its ugly appearance, it was really good. At some point, drying techniques changed and this coffee, in the mutable tradition of coffee in Indonesia, became part of the Mandheling supply.

The other coffee we used to buy was famous, and one in which we have very fond memories. It was a brand known as "Golden Mandheling". The genuine Golden Mandheling was sold exclusively by the Pawani Company. It was generally a little bit cleaner tasting, but not too clean; it still had a lot of body and distinct Sumatra character. The beans were bigger, longer and fatter and all but a minuscule amount of defects were picked out. The deliveries, refreshingly, were known for their clock- work consistency. Relatively expensive at the time, it was very popular and we had a hard time getting enough.

Indonesia has always had its share of pirates and counterfeiters, so it came as no surprise that many other "Golden" types came and went. If you want a \$15 dollar Rolex, a 50 cent DVD, or a bag marked anyway you want it, Indonesia is still the place to go.

But after a very long successful run, Pawani faded away and we could not seem to find a “Golden Mandheling” like in the good old days. The coffee grown in Sumatra has changed some what as smaller faster-growing, higher-yielding and easier-to-harvest trees are replacing old types.

I recently reminisced with a long-time Sumatra dealer about the Golden Mandheling and he said it was still possible to find similar coffee... Of course I told him he was more than welcome to try. After rejecting a few preliminary attempts, we settled on a promising sample. This week the first “Retro Mandheling” container arrived. We feel it is a fitting tribute and close representation of the original Golden. In any case, it is real nice Sumatra, and like the Pawani Golden Mandheling, it's a bit higher priced but we think it's worth every penny.

REF 14624 Sumatra Retro Mandheling: 93.5 % above screen 17 (heck, 62% above 19).

Clean sweet cup, no defects, big fat beans.

CV. LION LESTARI

Our Company is specialized in processing and exporting high quality Arabica Coffee from various parts of Indonesia.

All our coffees are sold as Specialty Coffees and we are specialized in the development and improvement of processing techniques to improve mediocre commercial qualities to superior high quality Specialty Coffees. This is done in cooperation with local Farmer groups which we provide with education and equipment. As a result the income of poor farmers is vastly improved by improving farming and processing techniques.

Our company is located in Makassar, South Sulawesi with buying offices in Sulawesi (Toraja) and Flores. In Flores we are located in the Cities of Ruteng, and Bejawa.

All our Coffees are directly purchased from the Farmers and then processed in our own Facilities for Export, to ensure the freshest and highest quality Coffee. In 2003 we started to develop Flores Arabica Coffee for the international Market. At this Time Flores Arabica was unknown in the world Market as good quality Coffee and thus it was sold primarily in the domestic market at very low prices. Now after three years work of development in conjunction with coffee farmers we have achieved a truly outstanding average quality.

Flores is currently one of the poorest Islands in Indonesia. The Flores population of 1,938,318 are almost entirely dependent on agricultural production for their livelihood. Coffee, which was introduced on these Islands hundreds of years ago, is one of the largest agricultural products. The total production of Coffee on the Island is about 8,000 tons, of which 4,000 tons is Arabica and about 4,000 tons is Robusta. Due to a lack of knowledge the coffee has not been processed correctly and consequently has been sold domestically at very low prices for many decades. Culturally the Island is 90% Christian and enjoys a rather good infrastructure.

Situation before 2003:

Flores Coffee was sold to the local market at a price which could not support the daily life through out the year of the farmer and his family. Local buyers provided some credit during the off-season to the farmers with high interest rates and therefore dictated the purchase price of the coffee beans. Farmers had no other choice but to sell their coffee to the local buyers. The quality of the coffee was very low due to the lack of traditional credit, lack of information, lack of knowledge and training for the coffee farmers.

Current Situation:

We estimate that Flores has a current annual production of high quality Arabica Coffee from 4,000 to 5,000 metric tons. Produced by about 30,000 farmers and their families.

the production area spread from west to east on the Island and cover as much as 35% of the entire Island.

During the last two years we organized and trained 3.042 farmers in farming techniques, cropping techniques as well as the production of very high quality coffee beans.

All of the farmers are very happy with our program but most of them still have credits outstanding with the local buyers and consequently it is not possible to sell their coffee to us at a higher price. They have to sell partly locally at a lower price.

Our higher purchase price now enables them to extend their quantity, get from below the poverty line to above the poverty line and to provide a better life for them and their families.

Future:

We are planning to organize more Farmer groups to extend our technical support through the Coffee growing Area, which will enable Farmers to improve their quantity and quality of produced Coffee.

Additionally it is our future plan to obtain Organic and Fair Trade certifications for these cooperatives, to ensure continuous demand and thus stable prices and a good market in the future for these farmers.

History:

Coffee planting was first introduced to Flores from Sulawesi. Ethnic Sulawesi farmers planted the first coffee trees in 1750 in Flores. Quickly the coffee spread through the whole Mountain range of the island. Most of the plantations and farms are for generations owned by the same family. We would be a great loss to see that coffee and the farmers disappear because of the local market situation and very low prices paid by the local buyers. This would be devastating to the entire population of Flores. However if we don't change the system, farmers might be forced to leave their farms and look for a better life elsewhere.

Market:

We introduced the Flores Specialty Coffee to the international market during the last 3 years. To market this Coffee we need roasters who really want to have something special and want to give their Customers something different. This Coffee has a story to tell like many other Coffees and we hope that the Story and the Taste of this origin will help to wake interest and bring People some physically and some in their Dreams to the Islands "Of the Dragon".

Production:

The production for the international Market is currently about 5 to 10% of the entire available production. We plan to increase this amount to a minimum of 50% in the Future because we strongly believe there is demand by the international market for this exquisite quality of the Flores coffee.

The organization and financing of farmers cooperative are key to the future success of this coffee and the life of all the Coffee farmers in Flores. We can really make a difference for the poorest Indonesian Island and its people!

Attachment 5: Rapid Assessment Contact List

AMARTA
Rapid Assessment of Specialty Coffee Value Chain in Indonesia
Contact List

Surip Mawardi	Indonesian Coffee and Cocoa Research Institute	Surip.mawardi@gmail.com
Ahmad Rusdianto	Collective Cooperative Service Business	
Sarikeembang	Koperaci Tani Bentang Alla	
Vikram Watal	OLAM	vikram@olamnet.com
Hendra Suwiptandy	PT MEGAHPUTRA SEJAHTERA	mpseja@indosat.net.id
Tri Widjanti	Ministry of Agriculture	triwdjoko@yahoo.com
Frans Honga Halim	PT MEGAHPUTRA SEJAHTERA	mpseja@indosat.net.id
IR. H. Jabir Amien	PT. TOARCO JAVA	0423 21059 21091
Kornel Gartner	CV. Lion Lestari	gartner@indostat.net.id
Suhendra	UN Development Programme	suhendra@undp.org
Hugh Evans	UN Development Programme	hugh.evans@undp.org
T. Bachtiar Usman	Tawar Benji in Bener Meria (Cooperative in Gayo Mt.)	bachtiarusman98@yahoo.com
A. Syafrudin	PT. SABANI INTERNASIONAL	sabani@sabani.com

H. SYAHRIAL	Gayo Specialty Coffee Club	(061) 8471677
CV. SAHABAT MULIA	ALAMSYAH	62 61 7352 492
Olivier Tichit	PT INDO CAFÉ ECOM CoffeeGroup	otichit@ecomtrading.com
H. SAIDUL ALAM	AEKI-Assoc. of Indo. Coffee Exporters	bpd_aeki_sumut@yahoo.com
SURYO PRANOTO	PT SARIMAKMUR TUNGGALMAND	spranoto@idola.net.id
AGAM SULAIMAN	PT. MENACOM LTD	Agam_mnc@yahoo.com
Prof. Dr. Djoko Said Damardjati	Ministry of Agriculture-Director	dirjenp2hp@yahoo.co.id
Sam Filliaci	NCBA	0811292729
Darshan Raiyani	OLAM	darshan@olamnet.com
Milan Bist	OLAM	milan@olamnet.com