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**Rice and Circus in East Timor [Portugese translation is available]**

Douglas Kammen [1]

*With the regional and global spike in food prices it is naturally imperative that East Timor corner crucial sources of food, joining a queue of food deficit countries from the Philippines to Singapore. But how and why has East Timor – a land of subsistence agriculturalists and one of the world's poorest nations- been turned into a net food importer? And what is the future of East Timor's agriculture? The answers are complex but we are reminded of the "Timor problem" described Dutch geographer F.J. Ormeling in the mid-1950s in a book of the same name, a reference to Timor's delicate environmental niche including highly invariant rainfall, that always threatens to breach self-sufficiency. Apparently the food security "problem" was not understood by the World Bank which, from 1999 to 2002, prioritized irrigated rice development over and above East Timor's traditional basket of staples of which corn was dominant. Indonesian rule after the 1975 invasion did extend wet-field rice, but they also left the rice paddies abandoned in 1999. With the crisis apparent, FAO in East Timor has only belatedly acknowledged the need to address non-rice agriculture. The "problem" today, as addressed by Douglas Kammen, is that East Timor faces down the curse of other states drawing upon hydro-carbon rents for quick fixes, namely that it is cheaper to import just about everything – food included – and that agriculture – the life and blood of the country for millennium - is left to the market or to wither. But as Kammen also stresses, problems of overcoming cronyism and corruption at the interface of state and market are central to East Timor's future. This is the third in a continuing series on the world food crisis. See Walden Bello, How to manufacture a global food crisis: The destruction of agriculture in developing countries; C. Peter Timmer, Japan and a Solution to the World Rice Crisis Japan Focus*

Since coming to power in September 2007, the new Parliamentary Majority Alliance (AMP) government of East Timor has made rice a central instrument of state policy. The government has spent millions of dollars on the purchase of imported rice. Free rice has been distributed to civil servants, a constituency recruited under the previous Fretilin government and hence of questionable loyalty. Free rice is part of the incentive offered to encourage the tens of thousands of internally displaced people (IDPs) to vacate the camps and return to their places of residence. Subsidized rice is being sold to the populace at large. Lacking a distribution mechanism, the government has also granted the right to sell this subsidized rice to selected veterans, who represent another politically sensitive group.

**Lining up for rice in 2007**

Intended to address East Timor's chronic food insecurity, these side-payments, triggered a host of accusations and scandals. There are widespread allegations that government rice contracts were granted without proper tendering processes and involved collusion. The opposition Fretilin bench in parliament questioned the wisdom of providing free rice to civil servants, arguing this would place an additional strain on markets. The sale of subsidized rice has raised questions about overall government expenditures, inflation, and the

impact on domestic food production. The sale of subsidized rice via selected veterans has led to charges of profiteering, prompting Prime Minister Xanana Gusmão to instruct the police to seize subsidized rice sold above the set price of $16 for a 38 kilogram sack.

In the face of these allegations, on 9 July Prime Minister Gusmão held a press conference presenting "the facts" about food security and a blistering attack on his critics. But while the political opposition and media have focused on symptoms, the real story lies elsewhere. This article traces the politics of the Gusmão government rice contracts from September 2007 until the present.

**Transitional budget rice contracts**

The transitional budget passed by the new AMP controlled parliament to cover the period from July-December 2007 included $6,088,000 for food security. How was this money spent? Government contracts for the import of rice can be divided into three categories: (1) rice to be distributed to civil servants; (2) rice for IDPs; and (3) rice for national reserves and/or for sale to the public.

The first piece of legislation passed by the government in September 2007 was a bill to distribute 30 kilograms of rice per month to each of the 16,969 public servants for a period of six months. To this end, in late 2007 the government signed a contract with Oriental Food, a company headed by Germano da Silva. With no prior experience importing rice, Oriental Food turned to a company called Nabilan Food, owned by Singaporean Gerry Kou. A January 2008 news article reported that Oriental and Nabilan had imported 2,790 and 490 metric tons of rice respectively for provision to civil servants. [2] One informant in Dili suggested that the contract awarded to Oriental Food was actually only for 2,000 metric tons of rice at a price of about $420 per ton. Although the exact tonnage and value of the contract are not known, based on the lower figure of 2,000 metric tons at an estimated price of $420 per metric ton, this contract would be worth $840,000.

The government also faced the ongoing problem of providing humanitarian assistance to IDPs. Much of this assistance came from international agencies, led by the World Food Programme. However, the government also sought to secure rice for this purpose. According to sources the government granted a contract to the Timor Food Company, owned by Mr. Jong Fu Kong (alias James Jong and Jaime dos Santos).[3] It has not been possible to obtain specific information about either the total volume of rice or the price for this contract. However, according to informants in late March 2008 Timor Food received a shipment of 4,000 metric tons of rice, approximately half of which was to fill the government contract for humanitarian assistance and the other half for sale on the open market. Again assuming a contract for 2,000 metric tons of rice and a price between US$400-450 per ton, the Timor Food contract would have also been worth about $840,000.

**East Timor rice fields**

The third category of contracts was for the purchase of rice for national reserves and/or the sale of subsidized rice to the public. Granted without an open tender process, three contracts were signed in November 2007.[4] Star King, headed by Lay Siu Hing, is reported to have been awarded a contract for 3,615 tons of rice at a price of about $400 per ton. People Food Company, headed by Julio Alfaro and Kathleen Gonçalves (the wife of Minister of Economics and Development João Gonçalves) is reported to have received a contract for 4,000 tons at a price just over $400 per ton. Gerry Kou's Nabilan Food is reported to have received a contract for 3,000 metric tons at a price of $420 per ton. Taken together, these contracts are for an estimated 10,600 metric tons of rice at an average price of $420 per ton, bringing the total value of the three contracts to $4,452,000.

The estimated value of all three categories of contract – rice for civil servants, rice for IDPs, and rice for national reserves and sale -- comes to $6,132,000, a figure that is extremely close to the budget line of $6,088,000 allocated for rice. But cronyism and ersatz importers were only the beginning.

**The 2008 rice contracts**

In the national budget for the 2008 calendar year, the Ministry of Trade, Commerce and Industry is allocated $4,864,000 for food security goods and services.[5] With national food security reserves running low, on 29 January Minister of Tourism, Commerce and Industry Gil Alves invited rice importers to a meeting. The following day a second meeting, attended by Prime Minister Xanana Gusmão, was held with both rice and cement importers to announce that the government sought bids for the import of 16,000 metric tons of rice. [6] In the wake of these meetings, Germano da Silva of the Três Amigos company, an apparent new-comer to the rice business, submitted a bid to the government to supply rice at a price of $510 per metric ton. The two other "amigos" were Kathleen Gonçalves (director of the People Food Company), and Indonesian businessman Frans Holiwono (who had built his construction business, which includes the import of cement, during the Indonesian occupation).[7] During the rice tender meeting, Da Silva and Holiwono convinced the government that only Três Amigos had the capacity to store the large amount of rice required. According to Prime Minister Gusmão's account:

> The Government decided to accept this bid on three deciding factors: 1) The market search by way of the meetings held

with the suppliers of rice indicated lack of ability to import; 2) the bid from Mr. Da Silva was reasonable, represented value for money and offered favourable payment conditions, 3) the country's need for rice stocks was becoming an urgent issue.

As a consequence on February 29th the Government signed a contract with the Três Amigos Company regarding the purchase of 8,000 tons of rice, at a price of US$510.00 per ton, totaling US$4,080 million (Attachment 3). The balance of 8.000 tons would be bought at the contractor's risk and paid only after the mid year review (MYR) budget.[8]

**Winnowing rice in East Timor**

The government purchase order, which was leaked, contains several curious features. First, the original quantity of rice has been crossed out, the figure of 10,000 tons has been written in by hand, and this figure has also been crossed out and replaced by a total order for 8,000 tons. Second, although various sources including the UN have stated that this order was supposed to be delivered between April and June, the delivery date on the contract is for the period between 30 June and 30 August 2008. Third, despite the fact that the purchase of rice for food security falls under the budget of the Minister of Tourism, Commerce and Industry, this purchase order was signed by Prime Minister Gusmão.[9] Sometime in April, according to the Prime Minister's account, "the contracting company was informed by the Vietnamese supplier that it could no longer supply rice at the price of US$510 as previously agreed. The supplier requested a new price of $800 at origin, with the Três Amigos Company adding US$100 more for transportation costs (adjustments considering rising fuel prices), insurance, operational costs and profit. Therefore the price for the government became US$900 per ton. (Attachment 4)"[10] Concerned about soaring international rice prices, on 7 May the government amended the original 29 February Três Amigos rice contract, increasing the tonnage from 8,000 to 16,000 tons and the price from $510 to $900 per ton with delivery to be made by 30 June 2008. This amended contract worth $14.4 million is signed by Germano da Silva and Prime Minister Gusmão.[11]

**Reassessing Gusmão's "facts"**

What actually happened during the 68 days between the time the first contract was signed on 29 February and the amended contract was signed on 7 May? The only experience Germano da Silva and Kathleen Gonçalves had importing rice was a few months before when each had received a contract under the transitional budget; they had filled those orders by sub-contracting to others who knew the business. In 2008 Três Amigos again turned to the experienced Gerry Kou of Nabilan Food. The next step was for the parties involved to visit the supplier in Vietnam. During the third week of March a delegation consisting of Germano da Silva, Frans Holiwono, and Minister of Tourism, Commerce, and Industry Gil Alves (and , presumably, Gerry Kou) traveled to Vietnam to meet with a supplier.[12] In late March the supplier and Três Amigos/Nabilan Food agreed to a contract for 8,000 tons of rice at a price of $430 per ton. Several sources noted that after insurance, transport, stevedoring, and other operational costs, this left a profit of $30 per ton. When the shipment was due to depart from Vietnam, however, the supplier is reported to have informed Três Amigos that it could only provide 2,700 metric tons of rice and that an additional $50 per metric ton would have to be added. Três Amigos, it seemed, would take a loss on the contract.

Then something strange happened. On 7 May, the government of Timor-Leste amended the Três Amigos rice contract: the original price of $510 per ton was changed to $900 per ton and the total tonnage was doubled from 8,000 to 16,000.[13] This led to heated charges of corruption. But where? One key question concerns whether or not Três Amigos/Nabilan Food ever signed an amended (or new) contract with the supplier in Vietnam. In March, as international rice prices skyrocketed and domestic inflation soared, Vietnam curtailed its rice exports. More drastic measures were taken on 2 April when the Vietnamese Food Association reported that Prime Minister Nguyen Tan Dung had ordered a ban on the signing of rice exports through June 2008.[14] While this placed new pressure on international markets, existing contracts were still to be honored. So did the government of Timor-Leste agree to the amended contract because Três Amigos in turn had to sign an amended contract with the supplier? If that is the case, the signing of a new contract would have to wait until the three month ban expired, which would not be until July.

A second key lies in the date of arrival for the first shipment of 2,700 tons of rice. On 16 April, Timor Post reported that 8,000 tons of rice ordered by People Food (German da Silva's own company, not Três Amigos) would arrive at the end of the month.[15] On 14 May, the Suara Timor Lorosae daily reported that the ships carrying the rice for the government contract were on the way to East Timor.[16] On the same day, however, the United Nations Integrated Mission in Timor-Leste held a press conference at which Acting Senior Representative of the Secretary General Finn Reske-Nielsen stated: "Currently there are 7,500 tonnes of rice in stock in Timor-Leste and a further 16,000 tonnes are being imported. 2,500 tonnes [sic, 2,700] have arrived from Vietnam and a further 2,500 tonnes are expected this week. The remainder is due in the near future."[17] So had some of the rice already arrived in Timor or not?

On 24 July I walked across the street from Landmark Plaza to an unmarked lot strewn with old construction equipment and asked if Gerry Kou of Nabilan Food was there. He was away in Singapore. Employees explained that the rice in the warehouse is only a fraction of what was purchased; the warehouse had been absolutely full. They said that this rice was "for the government contract." When I

commented on the size of the warehouse, the employees said that the warehouse is one of the reasons Germano da Silva had used Nabilan Food to fill his contract with the government. They said about 3,000 metric tons of rice had arrived several months ago. So the first shipment of 2,700 tons had arrived. Given the UN statement about the arrival of rice before 14 May and shipping time from Vietnam to Dili (10-11 days), this shipment had to have departed from Vietnam before the government amended the Três Amigos contract on 7 May.

But this raises more puzzling questions. Was the first ship from Vietnam carrying 2,700 tons of rice sent on the understanding that after receiving an amended contract from the government of East Timor, Três Amigos would also agree to pay the supplier a higher price for this shipment? Or, as it appears, was this rice sold and sent at the price of $430 plus $50 reportedly agreed to in April? If that is the case, then the government was defrauded and/or culpable in corruption to the tune of $1 million for the first shipment alone. A far worse scenario, supported by two well placed sources in Dili, is that the price from the supplier for the entire order of 16,000 tons was not in fact the $800 per ton reported to the government. If the actual price paid for the entire order of 16,000 tons was the original $435 per ton plus the additional $50 demanded by the supplier in Vietnam, and adding an additional $100 per ton for operating expenses and profit margin (which is what the government readily agreed to in the amended contract), then the actual cost to Três Amigos was $585. In that case, the $800 per ton quoted to the government of Timor-Leste represents a "mark-up" of $315 per ton, which comes to a total of $5,040,000 for the entire contract.

**Conclusion**

East Timor's parliament recently concluded debates concerning the amended budget proposed by Prime Minister Gusmão that calls for a 122% increase in the 2008 budget from the current total of $347.7 million to $773.8. This includes a modest $15,355,000 for food security, of which $11,867,000 is for goods and services. Serious attention to food security in East Timor is absolutely essential. However, it must be carried out with transparency, efficiency, and to serve the best interests of the East Timorese, a people who know hunger all too well. The possible loss of between $1 million and $5 million in a single contract for food security raises serious questions about the ability and even the willingness of the current government of East Timor to manage the enormous new budget now under debate. That discussion – and indeed all political discussions in Timor – should begin with and be based on one simple question: who eats what?

Notes

[1] Douglas Kammen is Assistant Professor in the Southeast Asian Studies Programme at the National University of Singapore. He would like to thank the many individuals (most of whom requested anonymity) who shared their time and provided information used in this article.

[2] "Fos 3280 Toneladas Ba Funsionario To'o TL," Suara Timor Lorosae, 19 January 2008.

[3] He carries three passports – one from Timor-Leste, one from Australia, and a third from China (Macau?). In February 2007 Mr. dos Santos told the author that he is a "Fretilin stand-by."

[4] An email dated 6 December 2007 that circulated widely reported that Germano da Silva, Kathleen Gonçalves, and Antonio Seisal were each granted contracts for 2,500,000 tons. This grossly inflated figure is presumably the result of the mistranslation of the Portuguese word "mil" meaning thousand. See "Politika Fahe Foos iha Governo AMP – Korrupsaun!!!," sent by Tatoli, 6 December 2007.

[5] See "Decreto n.o 3/II sobre o Orçamento Geral do Estado da República Democrática de Timor-Leste para 2008," promulgated 29 December 2007, p. 28.

[6] The following discussion draws on the account provided by Prime Minister Xanana Gusmão, "Press Conference: Food Security – The Facts," dated 9 July 2008.

[7] Information kindly provided by an AMP member of parliament, 27 July 2008.

[8] "Press Conference: Food Security – The Facts," p. 3.

[9] República Democrática de Timor-Leste, Serviços de Aprovisionamento, Ordem do Compra/Purchase Order number 81586.

[10] "Press Conference: Food Security – The Facts," p. 3. $510 per ton was the price of the contract between the government and Três Amigos, not the price from the supplier, as Gusmão claims. The attachments cited were not in fact provided with the press release.

[11] República Democrática de Timor-Leste, Ministério do Finanças, Servicão de Aprovisionamento, "Amendment to Contract RDTL – 81586, 'The supply and warehousing of white rice'," number 080508, dated 7 May 2008.

[12] Frans Holiwono of BTK is said to have paid Gil Alves' travel expenses.

[13] República Democrática de Timor-Leste, Ministério do Finanças, "Amendment to Contract RDTL – 81586, 'The supply and warehousing of white rice'," number 080508, dated 7 May 2008.

[14] See "Vietnam Extends Rice Export Ban Through June," Reuters, 3 April 2008.

[15] "Presu Fos Sae: Governu Pronto Halo Prevensaun." Timor Post, 16 April 2008. This article, based on an interview with the head of the food security department within the Ministry of Tourism, Commerce and Industry, suggests that in mid-April the ministry still expected fulfillment of the total order for 8,000 tons.

[16] See "Pemerintah Sediakan 4.000 Ton Beras," Suara Timor Lorosae, 14 May 2008.

[17] "UNMIT Press Conference – 14 May 2008 – Near Verbatim Transcript," dated 14 May 2008. Many of the "facts" presented in an accompanying WFP/FAO/UNMIT "Fact Sheet" (distributed by east-timor@lists.riseup.et, dated 14 may 2008) are incorrect. A source who requested anonymity was certain that the first shipment of 2,700 tons of rice had arrived in April or early May.

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