

Status of Coffee Production

➤ Production

Coffee production has increased on average by 3% per year from 650,000 GB bags since independence in 1975 to stabilize at 1.12 million GB bags in the last 10 years. However, in the last decade production has increased much slower by less than 0.8% with a significant drop in 2005/06 to 803,000 GB bags (Figure 8).

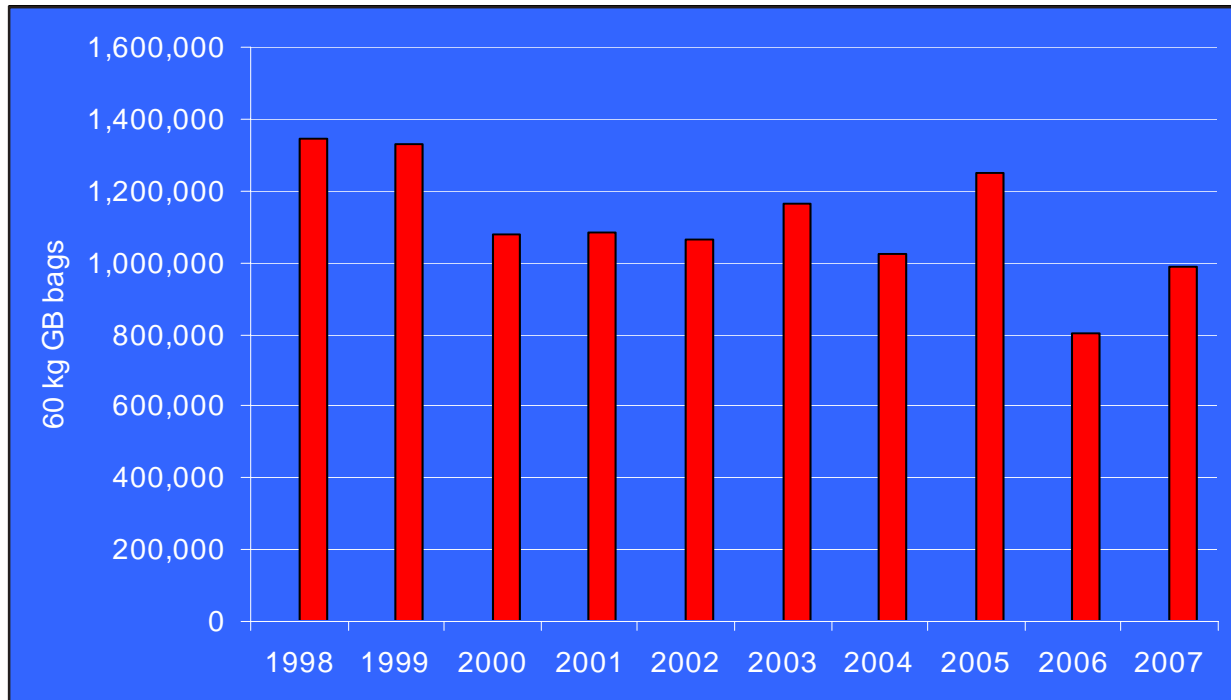


Figure 8: Coffee Production from 1998-2007 (Source: CIC Ltd).

Smallholder sector accounts for 85% of annual production while plantations and blocks account for 10% and 5%, respectively. Managed sector has declined dramatically over the last 10 years (Figure 9). The sector's production peaked at over 300,000 GB bags in 1992 before commencing its decline. In 2005/06 managed sector production stood at 135,451 GB bags. In view of the declining importance of the managed sectors, smallholder sector is the mainstay on the coffee industry in PNG.

Coffee is grown in 15 provinces, but production is centred mainly in Western Highlands, Eastern Highlands, Morobe and Simbu provinces. These provinces account for over 90% of production. East Sepik province supplies most of PNG's Robusta exports, but output has fallen drastically in the last five years due to the intrusion of vanilla in the province.

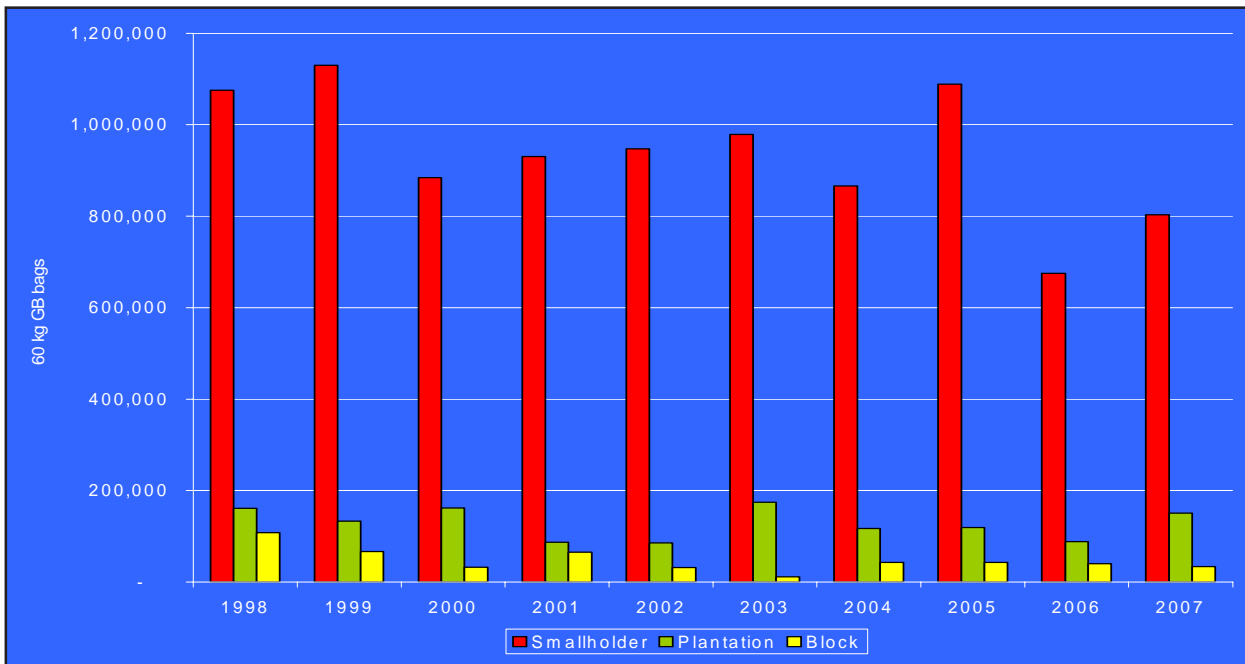


Figure 9: PNG Coffee Production by Sector, 1998-2007 (Source: CIC Ltd).

➤ Exports

PNG exports almost all (99.9%) of the coffee it produces in GB; only 1% is exported in roast and ground form. The trend in exports therefore resembles that of production. Exports have averaged 1.12 million GB bags per year worth K350 million in the past 10 years (Figure 10).

Major export grades continue to be Y-grade 52%, followed by Premium Smallholder Coffee (PSC) grade at 18%, X-grade 12% and A-grade 8% (Table 4). PSC grade was introduced recently and has fetched premium price of 50 toea per kg over Y1 over the last five years. Germany buys most of PNG Y1 grade, while Australia and Japan buy the bulk of PSC and plantation grades. The USA is also a major buyer of A and X grades, but an increasing quantity of Y1 grade has also found buyers in that country. Germany, USA, Australia and Japan are the major buyers of PNG coffee accounting for over 85% of total exports.

➤ Domestic Prices

Domestic coffee prices are a mirror image of world market prices. This is due to the fact that as a small producer, PNG is a price taker and faces an inelastic demand curve for its coffee (Figure 11). As price is an important determinant of production¹⁰, extreme volatility that characterizes the world market has a significant influence on production (quantity) and profitability of the coffee industry in PNG.

It should be noted that domestic prices for coffee and for other export commodities are higher than would have otherwise been, due to a comparatively weaker kina against other major trading currencies. For this reason coffee producers in PNG fared better than their counterparts in other countries during the recent “coffee crises” from 2000 to 2004.

¹⁰ Studies have established that coffee producers in PNG respond to changes in prices. For example Stapleton (1992) estimated smallholder price elasticity of supply at 0.38%.

Table 4: Green bean exports by grade and destination in 2006/07 - 60 kg bags GBE (Source: CIC Ltd).

Destination	A &AA	X	PSC-A/AA	PCS X	Y1	Y3	Robusta	Other grades
Germany	6,237	9,893	6,840	4,680	257,357	3,311	-	26,866
Australia	10,155	5,601	7,048	63,901	57,262	20,763	756	5,005
United States	33,368	62,147	3,083	1,130	30,520	5,403	600	20,989
Japan	4,230	795	-	26,338	26,628	-	-	70
New Zealand	4,530	4,290	150	2,880	-	-	-	1,800
Other destinations	6,890	14,495	4,664	10,140	19,227	1,822	2,372	4,335
Total	65,410	97,221	21,785	109,069	390,994	31,299	3,728	59,065

Locally, coffee is traded in a 'free market' through a licensing and regulatory process and about 250 blocks, 60 plantations, around 500 roadside buyers, 50 dry processors and 40 wet processors, 15 GB exporters and five roasters are involved. Competition in the market place is fairly high resulting in the transfer of 60-70% of the FOB value to coffee growers. Marketing margins have averaged 28% of net FOB value in the last 10 years, with 14%: 13% split between exporters and processors, respectively. Marketing margins in the coffee industry tend to move in tandem with export prices. Exporter margins tend to be more variable, while processing margins have been relatively stable. Variability in exporter margins is often due to competition amongst exporters. The increase in margins does not necessarily reflect profitability of market operators as costs have also risen.

➤ **Downstream Processing**

The first roast and ground manufacturing plant was established 17 years ago and today there are five of them. Roast and ground coffee exports have been below 3,000 bags GBE. In 2006, roast and ground coffee exports amounted to less than 0.8% of total exports at 820 bags GBE.

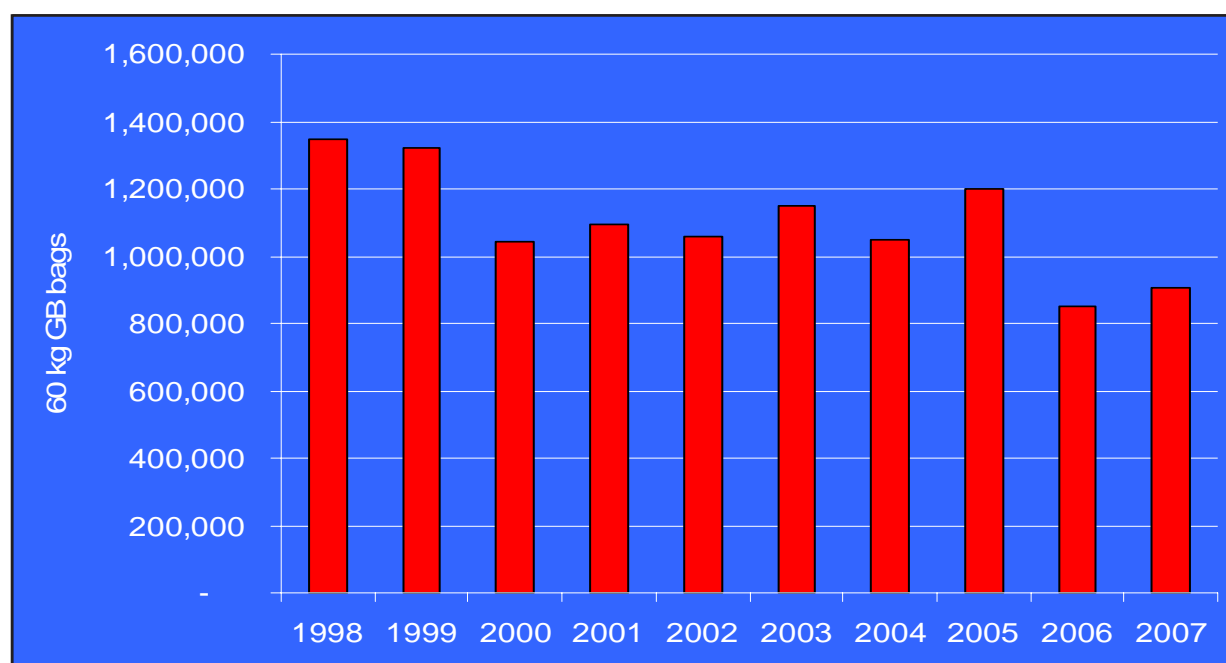


Figure 10: PNG coffee exports, 1998-2007 (Source: CIC Ltd).



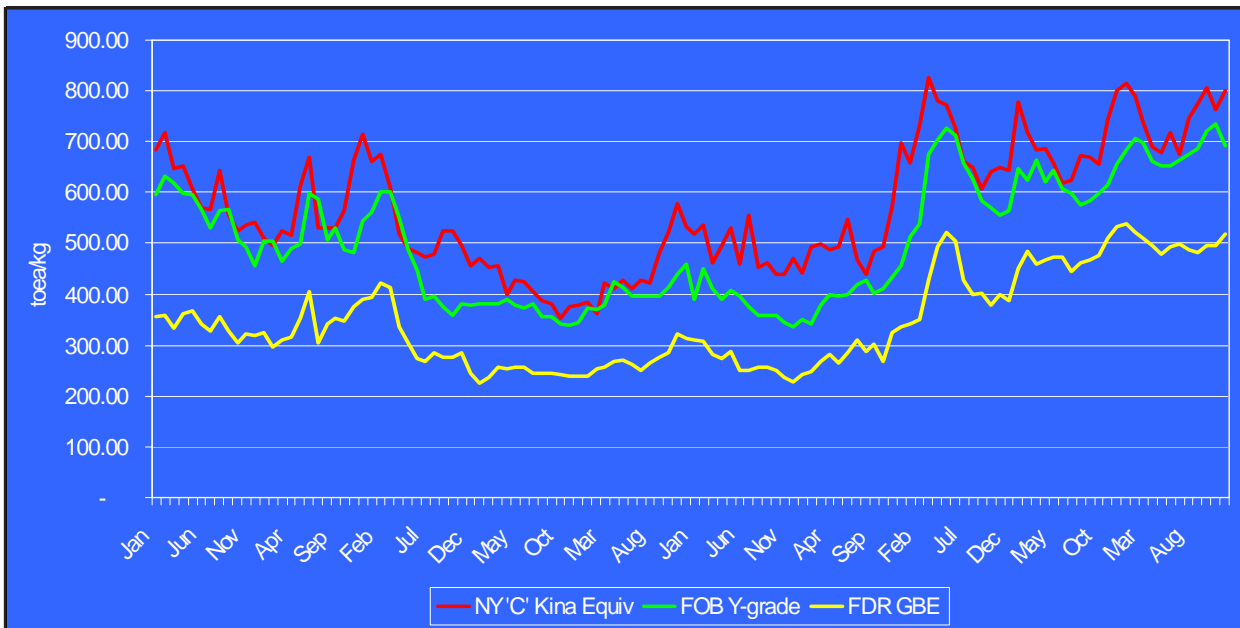


Figure 11: Average Y-grade prices: 1998-2007 (Source: New York Board of Trade).

The possibility of manufacturing instant coffee in PNG has been ruled out as economically unviable due to high establishment costs and inadequate supplies of locally produced Robusta, high costs of Arabica and possibility that the proposed venture could not satisfy economies of scale.

➤ **CIC Response to this Market Outlook**

In order to thrive in this new business environment, CIC and its stakeholders must understand the characteristics and the nature of these structural changes. The government must be more agile in creating favorable business environment to allow growers to successfully adapt to the new demands and take advantage of new opportunities offered in the marketplace.

The Strategic Plan is CIC’s response to the global market segmentation, aiming to link up the PNG coffee industry to be able to capitalize on the associated high financial returns.

The CIC intends to assist and facilitate the restructuring and reorienting the PNG production system and the crop profile. The Strategy is focused in the production of sustainable coffee that is demanded by the high value niche segments of the market. The PNG production sectors will be assisted to re-organize their production and processing systems to produce specialty, organic, fair-trade, shade-grown, Oxfam and bird-friendly coffees.

The CIC will be refocused to service the specialty coffee production systems. The CIC will revise the PNG coffee grading system to incorporate intrinsic or liquor characteristics. The CIC intends to assist in setting up an independent certifying agency to administer the certification process. This will facilitate value adding in the marketing chain through its grower direct marketing policy.

“Yumi Lukautim Kofi na Kofi bai Lukautim Yumi”

CIC BOARD OF DIRECTORS
August 2005 - September 2008



PUGMA KOPI
CHAIRMAN
PNG Blockholders
Association



JAMES KOIMO
DEPUTY CHAIRMAN
Western Highlands SHCGA



PATRICK KOMBA
DIRECTOR
ENBP, Enga & Others
SHCGA



ANTON BENJAMIN
DIRECTOR
Department of Agriculture
& Livestock



PAULUS MUMNA
DIRECTOR
Southern / Central Region
SHCGA



ORRY BECKER
DIRECTOR
Department of Trade &
Industry



NICK LALOP
DIRECTOR
Momase SHCGA



MAX KUMBAMONG
DIRECTOR
Plantations & Processors
Association



RODDIE WADA
DIRECTOR
Department of Treasury &
Finance



MORRE KAMTAI
DIRECTOR
Simbu SHCGA
(Resigned April 2007)



PAIA URI *(late)*
DIRECTOR
Eastern Highlands SHCGA
(Passed away in July 2007)



NANDU NANAI AH
DIRECTOR
Coffee Exporters Council
(Resigned August 2007)





RAIT TIC

RESPECT
ACCOUNTABILITY
INTEGRITY
TRANSPARENCY

Moral

TEAMWORK
INNOVATION
COMPETENCE

Intelligence