

The background of the slide features a close-up photograph of coffee cherries on a branch. The cherries are bright red and round, with some showing a small stem. The leaves are green and glossy. The image is slightly blurred, creating a soft, natural feel. The text is overlaid on this background.

CPA LAE ANNUAL CONFERENCE
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Haus Win, Lae, MP

***ECONOMIC IMPACT ON AGRICULTURE- COFFEE
INDUSTRY***

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A. Significance of Coffee in PNG Economy

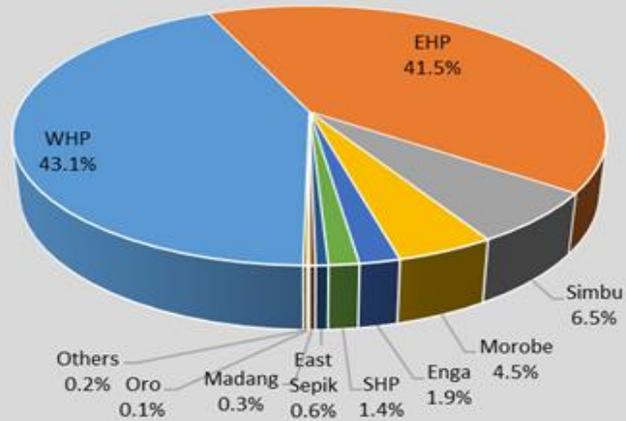
- The Government's development agenda on coffee and the agriculture sector in general is driven by the Medium Term Development Plans (MTDP), The National Strategic Plan 2030, Vision 2050, NADP and CIC's Strategic Plan 2008-2018. CIC's strategic plan has lapsed in 2018 and it is currently in the process of developing its next ten-year plan and 5-year business plan. The overarching development strategy as defined in the MTDPIII (2018-2022) is "Securing our future through inclusive sustainable economic growth". It is anticipated that this strategy will be achieved through a platform of good governance which should be supported by the sustainable use of renewable natural resources especially in agriculture.
- Coffee is one of the major agricultural export crops, export earner and possibly the largest employer in the agriculture sector in PNG. It is estimated that 397,722 households (2011 census) which is over 3 million or 40% of the total population of this country is involved with coffee. Papua New Guineans depend either directly or indirectly on coffee for their economic, social and food security needs.
- Coffee contributes over K400 million annually to the national economy. Coffee's contribution to the national purse had been the highest until oil palm took over in 2001. Coffee is the second most important crop and contributes almost 35% of the total agricultural exports and about 6% of the GDP.
- Coffee maximizes financial returns to coffee producers and contributes to the government's economic and social policy goals.
- Coffee is an important part of PNG culture, society, business and is also a net foreign exchange earner. About 85% of the coffee being exported are produced by smallholders.

B. Production Sectors

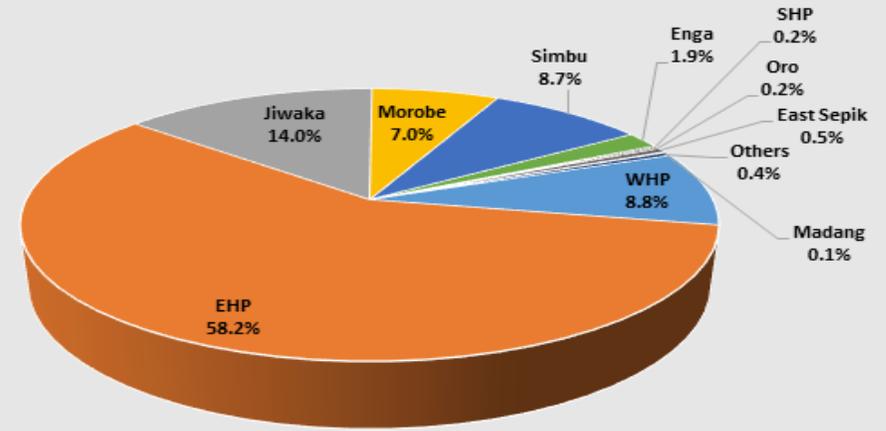
- Coffee Farmers are categorized into 3 Sectors;
 1. Small Holders
 2. Block Holders
 3. Plantation
- Smallholder accounts for 85% plus of total output & revenue.
- The plantation and blocks have shrunk from their peak in the 1980's and only accounts for 10-15%.
- Coffee is grown in 19 of the 22 province
- Eastern Highlands, Western Highlands, Jiwaka, Morobe, Simbu and Enga main producers. These provinces accounts for over 95% of production.
- Coffee has recently been introduced into the new growth areas at New Ireland, East New Britain and the autonomous Region of Bougainville.

Production by Province in 2010 & 2015-2017

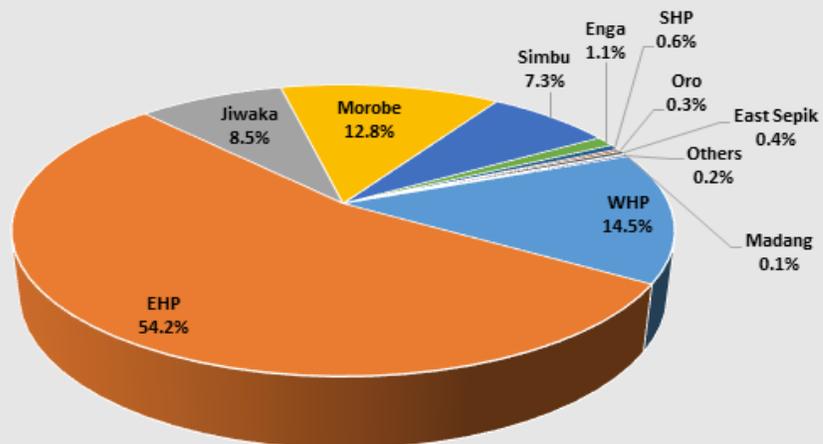
Coffee Production (%) by Province, 2010



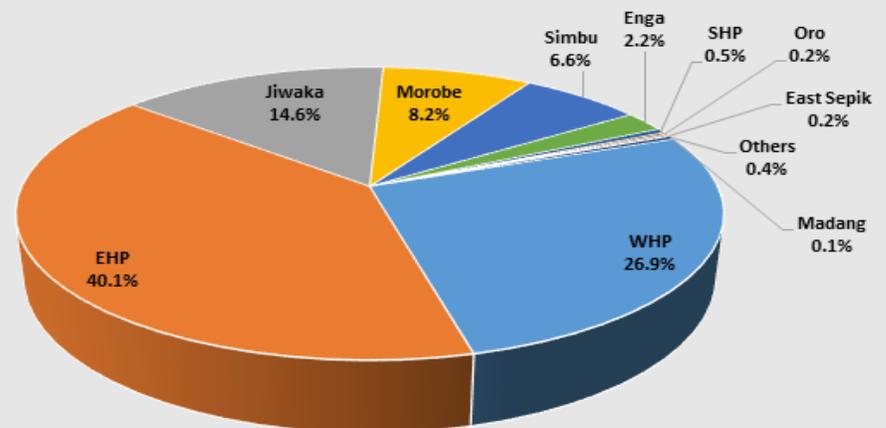
Coffee Production (%) by Province, 2016



Coffee Production (%) by Province, 2015

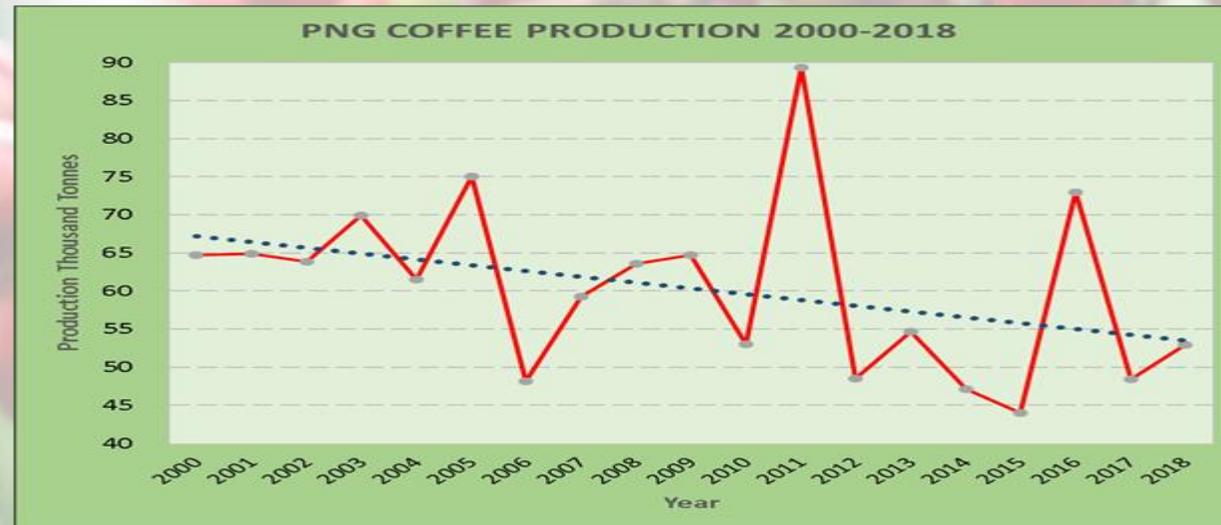


Coffee Production (%) by Province, 2017



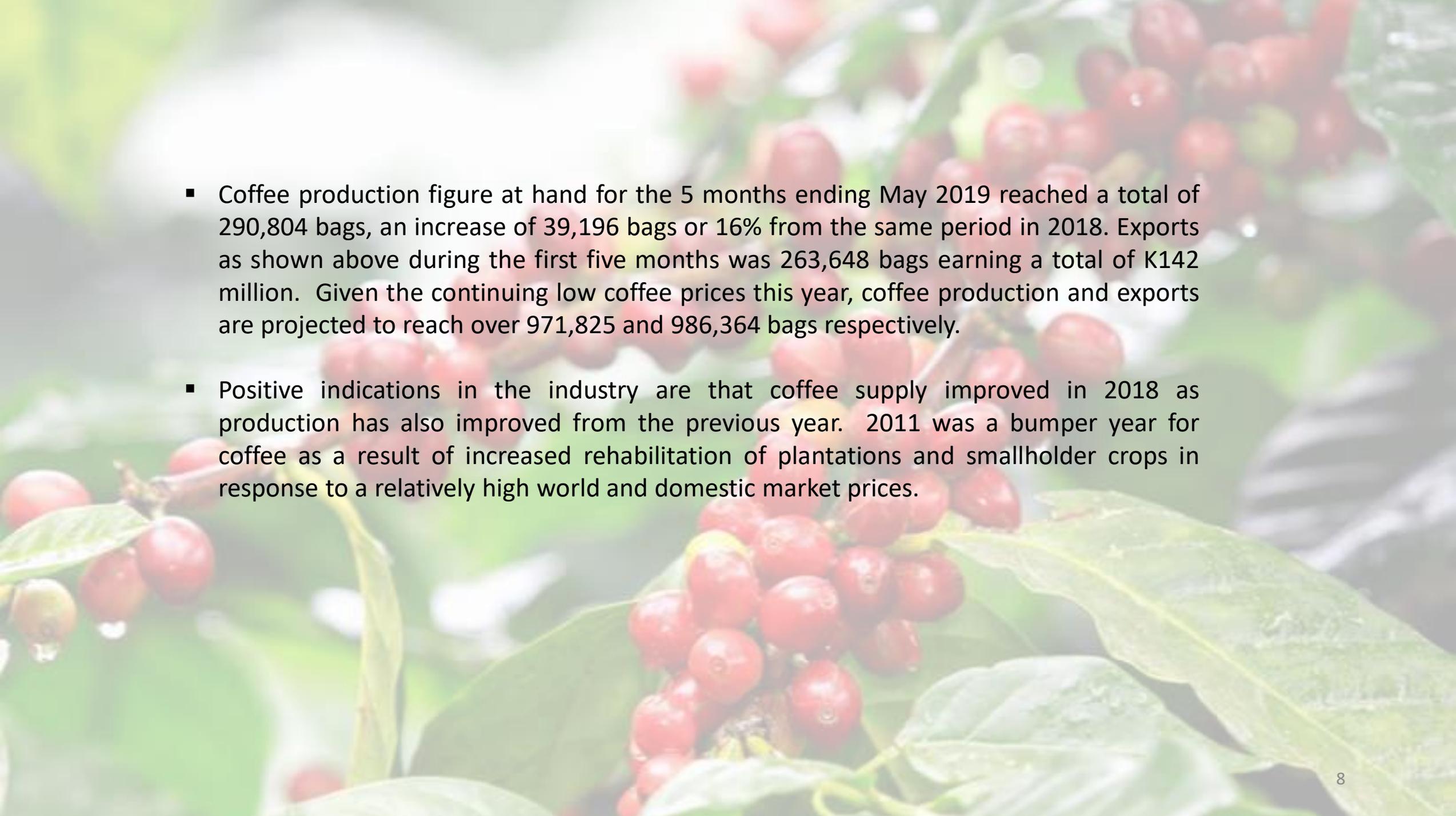
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- Arabica coffee grown in highland areas dominates production accounting for 99% of production. Small amounts of robusta coffee from coastal provinces accounts for the remainder of production. The major production areas are Eastern Highlands, Western Highlands, Jiwaka, Morobe and Simbu, and these provinces constitute 98% of total production.
 - PNG has an excellent reputation for high-quality fine flavour arabica coffee but production has been in decline over the last 20 years (see figure 1) with a general downwards trend. Coffee production in the period between 1996 and 2000 stabilized at 1 million bags per annum and PNG share of the global market was 1.07%.
 - In the period from 2012-2018 production had declined to an average of 792,000 bags per annum, PNG's share of the global market had halved dropping to 0.53%. Volume is not the only concern for coffee producers, quality is a vital factor that determines market price and price premiums or discounts for low quality.

- Figure 1 below shows PNG coffee production over the last 19 years from 2000 to 2018 calendar years



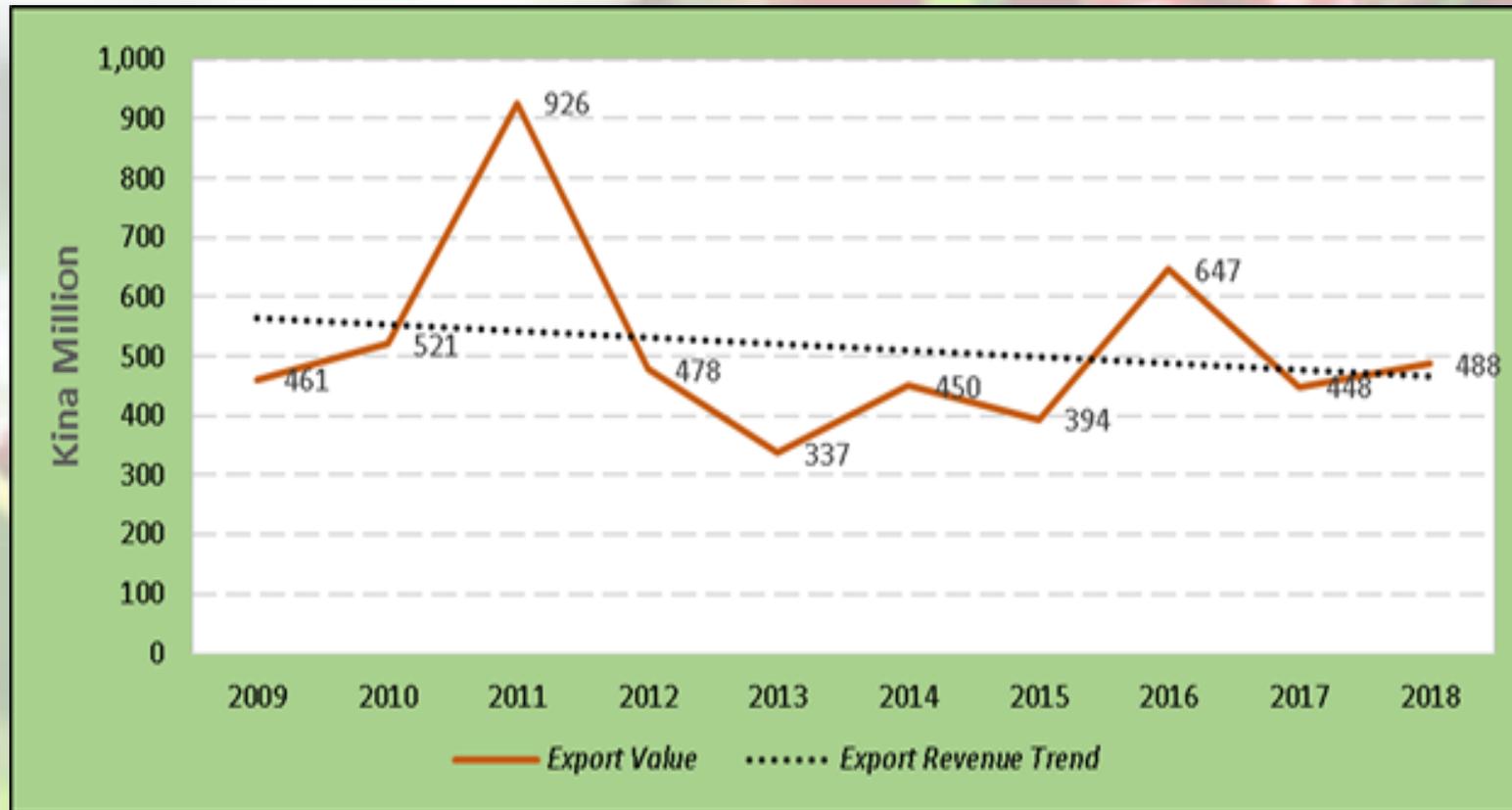
- Coffee production in the last 5 years averaged at 886,000 bags with smallholders accounting for over 85% of annual production while plantations and block sectors accounts for 10% and 5% respectively.
- Coffee production reached the highest in the history of the crop to record 1, 224, 523 bags in 2011. The increase in production in that year was not only attributed to favorable weather conditions but also due to ongoing higher prices during the period, coffee rehabilitation initiated 3 years ago and freight surety program that is an incentive to farmers to improve farm management and productivity improvement.
- Table 1 below shows coffee export volume and value over the last 10 years from 2009 to 2018 calendar years and 5 months of 2019. *(Source: CIC Export Records **Jan – May)*

Year	Export Volume (60Kg Bags)	Export Value (K'million)
2009	1,026,932	461
2010	931,149	521
2011	1,224,523	926
2012	924,930	478
2013	810,927	337
2014	806,834	450
2015	711,482	394
2016	1,133,180	647
2017	794,100	448
2018	869,934	488
2019**	263,648	142

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- Coffee production figure at hand for the 5 months ending May 2019 reached a total of 290,804 bags, an increase of 39,196 bags or 16% from the same period in 2018. Exports as shown above during the first five months was 263,648 bags earning a total of K142 million. Given the continuing low coffee prices this year, coffee production and exports are projected to reach over 971,825 and 986,364 bags respectively.
 - Positive indications in the industry are that coffee supply improved in 2018 as production has also improved from the previous year. 2011 was a bumper year for coffee as a result of increased rehabilitation of plantations and smallholder crops in response to a relatively high world and domestic market prices.

C. Coffee Exports

- PNG exports about 99% of its coffee in Green Bean (GB) form whilst only 1 % is roast and ground and follows production trend and averaged 863,000 bags per year valued at an average of over K400 million per annum over the years.
- PNG's main coffee markets are Germany, USA, Australia and Japan. Figure 2 shows PNG's coffee export earnings over the last 10 years.
- Figure 2 shows coffee exports earnings in million kina in the last 10 years from 2009 to 2018



D. Funding Support to Grow the Industry

- The CIC in the past usually received Government funding of K6 million each year from 1991 to 1996 through the normal budgetary process under the Re-current Budget to support the industry Research and Extension functions, however, were stalled in 1997. Since 1997, the coffee growers have been paying for these important statutory functions through the payment of levies.
- Total amount of levies collected each year, averages at K5.5 million.
- The current levy collected is 10 toea per kilogram or K100 per ton from all GB coffee exported forms the main source of CIC's income. From an average exports of 55,000 tons per year for over the last 10 years, the average income level for CIC is K5.5 million. The CIC revenue and operational funds is taken from levy collection. Some funding comes from EU, ACAIR and AusAid under the Agriculture Innovation Grant Facility (AIGF) some support from Pacific Horticulture & Agriculture Market Access (PHAMA) Plus program.
- In the first six months of 2019, the National Government released a total of K1.7 million to fund CIC's recurrent budget. In addition, government has invested into the industry by way of allocating K7.5 million so far this year for the District by District Coffee Rehabilitation Program (K0.5m), Freight Surety Scheme (K0.5m), Coffee Berry Borer (K1.5m), Lae Export Office Development (K2m) and building of Coffee Access Roads (K3m).

E. CIC Strategic Plan

- CIC Strategic Plan 2008 – 2018 lapsed last year. Whilst in view of the new and emerging challenges and opportunities within the global and domestic environments, CIC has commenced drawing a 10 year Strategic Plan (2019-2028) to chart the map for the coffee sector primarily aimed at providing a strategic guide for improved research, development and extension service delivery to the coffee industry. This plan is in its final stages for compiling and should be launched in the third quarter of 2019.
- The Industry Strategic Plan has been more importantly aligned to Medium Term Development Plan III (MTDP3) which in essence is the implementation plan for the coffee sector and which being mindful of the development goals of National Development Strategic Plan (NDSP) 2030 and the National Strategic Plan (NSP) and Vision 2050. The Plan calls for a strategic approach, networking, alliance, partnerships and collaborations by sharing of resource to better serve coffee farmers.
- The CIC has identified projects and programs under the 6 Thematic Areas to implement the Strategic Plan. These 6 Thematic Areas are:-
 1. Scale of Production,
 2. Marketing Systems,
 3. Productivity Improvement,
 4. Information & Communication,
 5. Legal & Policy Framework, and
 6. Institutional Capacity Building.

F. Intervention and Development Programs

- With regards to its core activities of promoting the coffee industry, the Corporation is now putting in place a Strategic Plan (2018-2028) which generally caters for and addresses the changes that have taken place since the inception of the Corporation in 1991.
- This Strategic Plan has been brought about chiefly because of the adoption of the MTDP3 and other higher cascading Government Plans, which would have significant influences in the coffee sector.
- A major focus of the amended Act and the Strategic Plan is to promote the activities of the smallholders of the Coffee Industry. This will entail the establishment of coffee seedling nurseries at strategic locations or coffee growing districts and to a lesser extent in some areas to involve the Block and Plantation sectors of the industry.

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- Promotion of co-operatives is an important area that the Corporation is promoting to take the industry forward. The approach of utilizing co-operatives, formally established grower groups, NGOs, church groups, and Private Service Providers etc. in the delivering coffee research, extension and marketing program is being promoted as the way forward because of the cost effectiveness, efficiency and the mutually benefiting outcomes as opposed to trying deliver these services on an ad hoc basis.
 - The main programs currently undertaken by the Corporation are:
 - i. World Bank/IFAD sponsored PPAP project
 - ii. District by District Coffee Rehabilitation Project
 - iii. Coffee Freight Surety
 - iv. Research and Grower Service
 - v. School Coffee Curriculum Project
 - vi. Emergency Response on Coffee Berry Borer
 - vii. Coffee Access Roads
 - viii. Nursery Program & Development and Mini Processing Mills

G. Industry Issues

- A number of constraints including those common in concern to the overall agriculture industry, business, commerce and trade and specific to coffee industry to be addressed in order that the Corporation is able to carry out its programs more effectively are:
 - The deteriorated and in most cases, inaccessible road infrastructure to undertake the business of coffee,
 - Coupled with inaccessibility and fallen-apart infrastructure, cost to conduct coffee business is exorbitant to the extent of nil breakeven levels,
 - Law and Order continues to be a major issue everywhere and mostly in coffee producing provinces is a high risk to coffee business,
 - Threat or competition to the industry for land, labour and capital from competing interests like oil and gas industries, and other cash crops
 - Increased volatility and long term decline in coffee market (domestic & international) prices,
 - Ageing coffee trees. Trees in smallholders sector are between 25 and 45 years old whilst plantation trees are equally old or possibly older consequently affecting production.
 - Coffee quality. As long as the industry exists, the issue of quality is paramount. As a small producer (1%) selling to and increasingly small number of buyers in a very competitive overseas market, the country must produce high quality coffee meeting specific market requirement in order to survive.
 - Coffee Pest and Diseases. Whilst the spread of coffee leaf rust has been contained, other pests and disease are potentially dangerous. One that has the greatest destructive potential is the Coffee Berry Borer (CBB) which cause premature fruit-fall and reduce bean weight and quality.

H. CONCLUSION

- Given that agriculture and coffee for that matter is an important sector and a vital engine for economic development for Papua New Guinea (PNG) in the medium to long term, the government must be seen to be moving away from the rhetoric to reality by ploughing adequate financial resources to this sector.
- Under the MTDP3 all agriculture sector industries are called on to provide a growth rate of 25% per annum. That is, government under this plan expects coffee production and exports to reach 120,000 tons (2 million bags) by 2022 from the current average level of 53,000 tons (886,000 bags). This is a big ask and may be achieved if the above impeding issues are addressed and with substantial material investments in to the coffee sector by the GovPNG.

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