



Assessing and extending schemes to enhance the profitability of the PNG coffee industry via price premiums for quality

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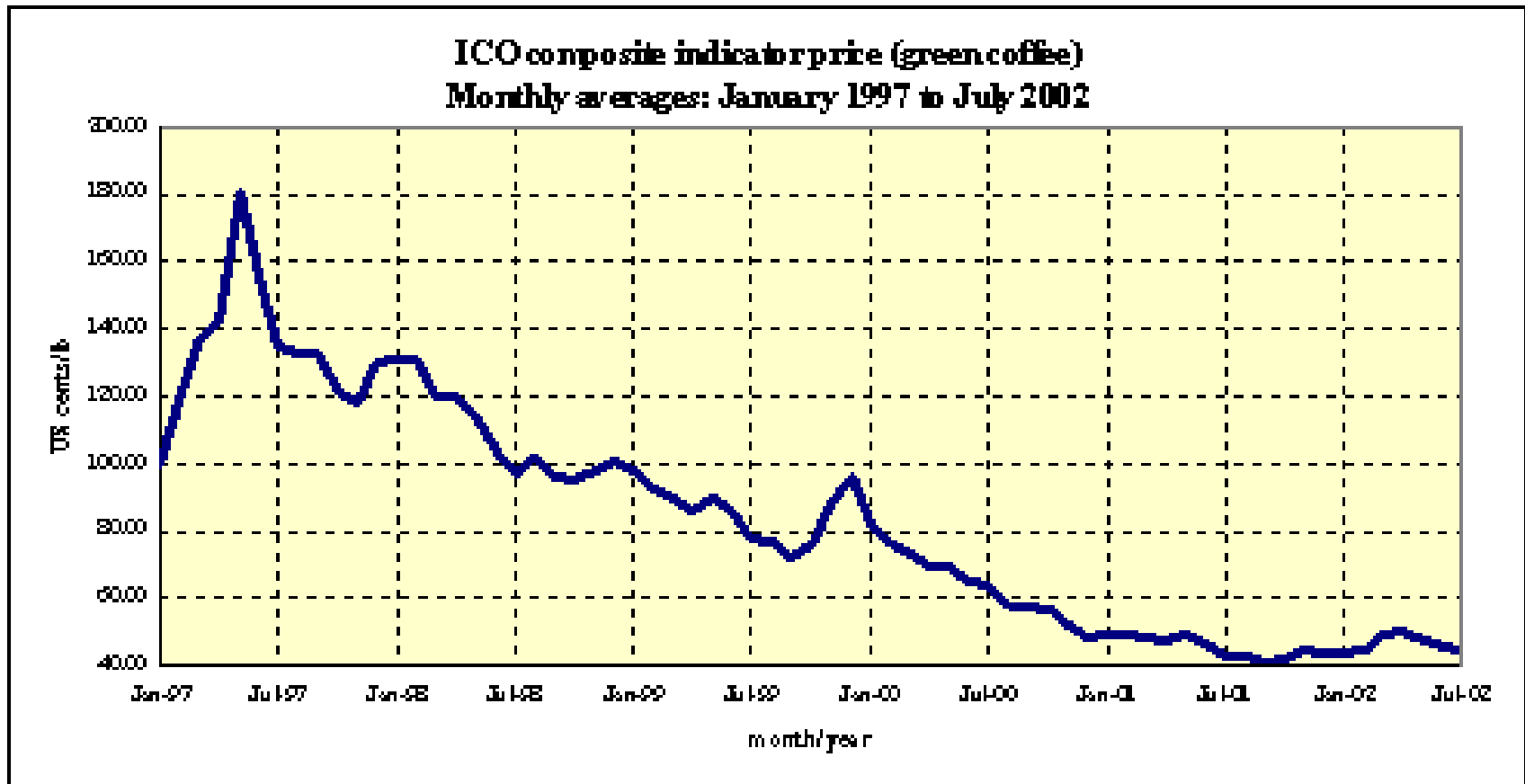


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Overview of world coffee industry

- production exceeds 120 million bags and is increasing
 - Brazil (40 million)
 - Vietnam (15 million)
 - consumption is stable at 110 million bags
 - 70 million bags in storage
 - prices are declining
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Other reasons for the decline in prices

- new technology
 - consolidation and aggregation
 - in 1991, the industry was worth USD30 billion, producers received USD12 billion
 - in 2001, the industry was worth USD55 billion, producers received USD8 billion
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Coffee is the second most important agricultural export crop in PNG

- ❑ 340 million kina
 - ❑ 43% of agricultural exports
 - ❑ 10% of all exports
 - ❑ 397,000 rural households derive the majority of their income from coffee
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In the world coffee market, buyers want

- good quality
 - competitive price
 - consistent and reliable delivery
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PNG produces mild arabica

- produce 1.1 million bags
 - quality is highly variable
 - inconsistent and unreliable
 - significant discount to NY C
 - few economies of scale
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To improve the quality of the coffee produced by smallholder coffee farmers in PNG, three key issues have repeatedly emerged:

- ❑ poor road access
 - ❑ lawlessness
 - ❑ problems associated with land tenure and ownership (tribal conflict)
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At the individual farm level
the fundamental problem to emerge
is the need for capital
to meet both the anticipated household
and farm expenses

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Lesson 1

Farmers must be encouraged to save a greater proportion of the income generated from the sale of coffee and to develop and manage a farm and household budget

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The principles of budgeting rely upon managing two key variables

- income

- yield

- agronomic components

- price

- supply and demand in the international market
- the investment decisions made by international financial institutions
- quality and quantity

- expenses

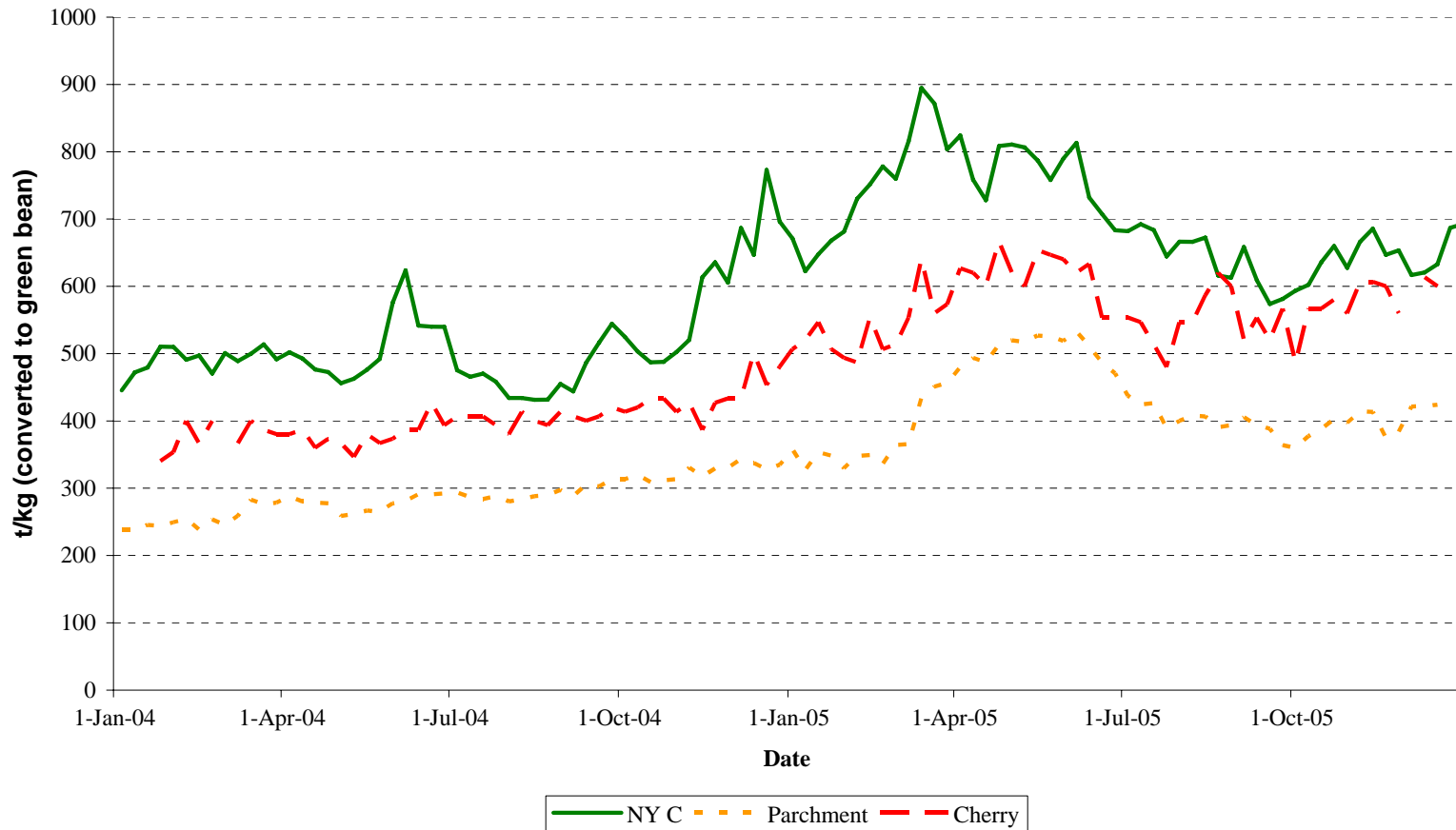
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Lesson 2

Training must be delivered to farmers
agronomy and crop husbandry
to maintain yields
and improve bean size

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New York C, Cherry & Parchment prices 2004-2006 (in t/kg Green Bean equivalent)



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Comparison of NYC, Parchment and Cherry Prices		
	US c/lb	PNG t/kg
NYC	105.45	764
- Discount	-16	-116
FOB (Lae) Y grade per kg		648
Parchment (per kg) at factory door		353
Green bean equivalent		441
% FOB		68
Cherry (per kg) at factory door		83
Parchment equivalent		415
Green bean equivalent		518
% FOB		80
Advantage to cherry		
Green bean equivalent		77
Parchment		62

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Lesson 3

Farmers need to understand how prices are determined in the international market in order for them to appreciate the financial risks that exporters endure in a highly volatile commodity market

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Lesson 4

Farmers should not be encouraged to by-pass the exporters and to market direct

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Lesson 5

Where farmers are close enough to a wet mill
to deliver the cherry
on the same day of harvest
farmers are being actively encouraged
to sell cherry
rather than to produce parchment

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By having control of the process from pulping, fermenting, washing and drying processors are able to produce a finished product with similar characteristics to plantation style coffees which deliver a more consistent product and a higher price

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Farmers who do not have access to a wet mill have no option other than to produce parchment

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In order to produce good quality parchment

- the cherry must be processed on the same day of harvest
 - the process of
 - fermenting
 - washing
 - dryingmust be standardized
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Lesson 6

Training must be delivered
to farmers

to encourage the greater adoption
of standardized processing systems
to facilitate the production
of superior quality parchment

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Smallholder coffee farmers
are unlikely to benefit
from any improvement in quality
without achieving a parallel increase in scale

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Lesson 7

The formation of collaborative groups where the members either collectively or individually follow a strict quality assurance system to reduce the variation in quality must be encouraged

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The formation of collaborative groups will offer a more cost effective means to deliver extension and training

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Lesson 8

Collaborative farmer groups

must be transparent

encourage individual participation

be appropriately led

establish appropriate controls to reward quality

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Lesson 9

To facilitate the formation of these farmer collaborate groups the project will adopt the Participatory Rural Appraisal and Planning (PRAP) approach

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Participatory Rural Appraisal and Planning (PRAP) approach requires

- ❑ each area to be mapped
 - ❑ gender roles to be identified
 - ❑ interactions with other groups and organisations to be identified
 - ❑ a SWOC analysis
 - ❑ the establishment of membership rules and a draft constitution
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