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CEO'S COMMENTARY

The coffee Industry opens a new chapter in its outlook and direction after the launch of its 10 year Strategic plan, 2008-2018, with industry vision, **"Enjoy PNG Coffee, Rich in Aroma and Culture"**.

CIC acknowledges all those organizations and individuals that have sent in congratulatory messages on the achievement.

Other stories covered in this issue are, updates on pest problem in Simbu, the Cherry Trade and the court case between CIC and PNG Coffee Growers Federation.

Enjoy Reading

INDUSTRY PERFORMANCE

International Market

Both markets witnessed a fair degree of volatility in the month of August. Falling commodity prices especially that of rude oil and a rise in the value of the US dollar exerted a negative influence. These factors continued to undermine prices in the first 2 weeks of September, although hurricanes Hanna and Ike have helped to stem further losses. August Arabica futures (NY "C") price averaged lower at 137.26 c/lb, compared to 140.64 in the previous month.

The physical market started to pick up in the 2nd week of August after being in the summer doldrums, but price differentials remained unmoved until the last week when a number of origins in particular Brazil dropped their differentials following a short lived rally in futures prices in that week. PNG Y1's remained at minus 11 cents throughout the month.

In other news, CONAB in its 3rd estimated 2008/09 Brazil crop at 45.8 million bags. This would be the 2nd largest crop in 10 years and is 27% larger than the 2007/08 crop. In its latest estimate F.O. Licht suggested that world output will rise to 139 million bags in 2008/09, up from 121 million bags in 2007/08. They put this down to anticipated large crop in Brazil and Vietnam. The ICO on the other hand sees world output totaling 131 million bags in 2008/09, up from 118.2 million in 2007/08.

DOMESTIC INDUSTRY

Earnings in August increased by 5% over the previous month to K56, 953,852, and were also 30.8% higher than the corresponding month in 2007. Increased earnings were due to a combination of higher export volume and a decline in the US Dollar which more than offset the fall in export prices.

Prices

Arabica parchment coffee price fell by 1.5% in the month of August to K3.85/kg, whilst Robusta parchment price fell by 7.8% to K1.60/kg. DIS green bean price for Y-grade fell by 3.4%. Weighted average FOB price fell by 2.3% to K7.95 but was 7% higher than the corresponding month of 2007.

Differentials

Differentials for the main export grades improved in August; the averages stood at Y1 -12, PSC -3, X 18 and A 38 t/kg.

Marketing Margins

Total marketing margin in the month of August fell slightly from K2.93 to K2.82. This represented 36%

of the FOB value and it was split 19:16% between exporters and processors respectively. This left 64% of the FOB value going to coffee producers.

Production

Final production estimate for the month of July is 110,890 bags, compared to 102,509 bags in July 2007. We are unable to provide August estimate in this issue as major exporters have yet to submit their returns.

Exports

Export volume in August was just over 1% higher than the previous month at 112, 121 bags, and 23 % higher than the same month a year earlier. Coffee year and calendar year exports to August totaled 972, 630 bags and 679,569 bags, respectively.

INDUSTRY ISSUES

SIMBU COFFEE PEST UPDATE

Quarantine Measures in Simbu Province has been on-going following the reports of the pest out-break in the province. The boom gates were set up at three locations, Barawagi, Lodge Paia and Mata in the Sinasina/Yogomugl district to control the movement of coffee to and from the province.

Spot checks at the boom gates were done by the police and the CIC officers, on the vehicles transporting coffee to ensure that the affected coffee does not leave the province. The damaged coffees have been confiscated for further analysis to determine its acceptability.

The pests' traps were set up in six districts of the province including Watabung in the Eastern Highlands Province and Minz in Western Highlands Province. Affected coffee beans are evident in the gardens however, indications are that more than one insect are suspected to be involved, thus extensive scientific research is necessary.

National and International teams are being assembled to further evaluate and re-assess the on-ground situation and establish the primary cause.

Research operations and the quarantine measures will be the priority in the Simbu Province. CIC inspectors were tasked to impose cherry ban immediately in the

province as part of the operation to address the quality problem.

CIC, however has now been forced to suspend all field operations in the province due to the funding constraints. The problem has forced CIC to divert its limited funds for other programs to respond to the emergency in the Simbu Province, amounting to K200,000.

CHERRY TRADE POLICY

The Cherry Trade Policy imposed in 2008 continues with awareness work now being extended to Simbu, Enga and the Western Highlands Provinces respectively, while the implementation in Eastern Highlands Province is gaining momentum.

The awareness in the Simbu Province was carried out coinciding with the emergency response of the pest problem, while in the WHP, the Cherry Trade Committee convened two separate stakeholder consultative meetings in August at the Highlands Agricultural Training Institute (HATI) to gauge views on how best this policy can be implemented in the province as Cherry Trade is common business in the province.

The committee is planning other follow up meetings in WHP in September, 2008 in the other districts of the province with full scale awareness to be executed.



Mr. Sam Meninga- Regulations Manager making a point at the WHP Cherry Trade Meeting, flanked by Mr. Koimo, CIC Board Deputy Chairman.

STATUS OF COURT CASE BY PNG COFFEE GROWERS FEDERATION AGAINST CIC

In October 2006 the CIC Board sanctioned a special investigation by an independent professional accounting firm on the conduct of PNG Coffee Growers Federation Limited (PNGCGF) following complaints and allegation received by CIC concerning the irregularities of payments for coffee grower groups from Milne Bay, Eastern Highlands, Western Highlands and Simbu Provinces.

The Investigation Report was compiled by the Investigator which revealed very serious irregularities by PNGCF.

As a responsible Regulatory Authority, CIC wrote to PNGCGF on the 24 September 2007 to verify the findings of the Investigation. However, instead of PNGCGF responding to the letter, it decided to take out a National Court injunction against CIC from pursuing the Investigation. CIC has made substantive submissions to object to the reasons for the injunction and in explaining to the Court that CIC was following due process to give PNGCGF the benefit of doubt, to verify the findings and where necessary to take corrective actions. This particular case is still outstanding with no decision yet been made by the National Court.

The CIC Board in its Board meeting in December 2007 set to review all the licenses for Exporters, Processors and Roasters for renewal for 2008 financial year. The Board reviewed PNGCGF and noted its serious non-compliance status, including the lack of response to the Investigation findings. As a result the Board resolved to deny the renewal of PNGCGF license for 2008, but agreed to allow PNGCGF to carry on business in clearing off a number of forward export contracts which were not delivered upon in 2007.

In January 2008 PNGCGF again took out another Court Order seeking to have the CIC Board's decision in having denied non-renewal of PNGCGF 2008 license annulled. CIC successfully overturned this attempt and the National Court recognized the Board's decision and ruled that PNGCGF is no longer a licensed exporter to carry on normal operation in 2008, except only to fulfill the remaining forward contracts from 2007.

Any queries concerning PNGCGF can be forwarded in writing to the General Manager, Industry Operations Division, CIC, PO Box 137, Goroka, EHP.

Note : Public Relations Office regrettably apologies to our readers and especially, John Boito, Honorable MP, Obura Wonenara Electorate/Deputy Governor, EHPG for the distorted picture that was in the July Issue.

Enquiries should be directed to the CIC Public Relations Officer

YUMI LUKAUTIM KOFI NA KOFI BAI LUKAUTIM YUMI