



# COFFEE INDUSTRY CORPORATION LTD CHIEF EXECUTIVE'S OFFICE

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## MONTHLY COFFEE BULLETIN July 2008

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### CEO'S COMMENTARY

The month of July 2008 was a memorable month for the coffee industry which will be remembered for a very long time. In July, we saw the launch of the Coffee Industry Strategic Plan 2008 -2018. The industry stakeholders must be applauded for contributing to the success of the launch and the industry should again collectively stand together to see the implementation of the plan.

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### INDUSTRY PERFORMANCE

#### International Market

Near-month Arabica futures in July improved by a mere 0.4% from the previous month with a high of 153.45 (2/07/08) and a low of 135.20 cents/lb (24/07/08). From the highs in the latter half of June, it took just the four first trading days in July for a downward revision in prices and by the end of the second week of July, it seemed that a new level of prices around the 135.00 cents/lb mark was found. In fact going into August this could just be so.

It was reported that there was really no fundamental logic behind the spike in prices at the end of June as there were no significant threat of frost in Brazil and that the harvest was coming on well. The only matter that could be correlated was that there was a general rise in the prices of all commodities.

However at the beginning of the second week of July Arabica futures price movement was very suggestive of traders' uneasiness about the size of the Brazilian

harvest, even the Vietnam crop was beginning to look huge. It finally happened in the third week of July as funds and speculators bailed out in anticipation of confirmed news that the Brazilian crop would be massive.

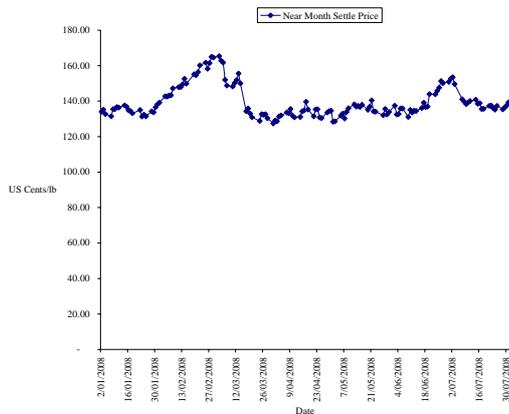
In the latter half of July, price levels began settling down and were largely bound to the predicted fundamental levels.

In the Robusta futures market, prices moved in the same direction with Arabica. Going into July Robusta prices first picked up momentum but when reports were received of the higher prices encouraging a wave of selling by growers and exporters in Vietnam, Robusta prices came under pressure in the second week. However, by the third week, prices followed Arabica's fate as players bailed out on news of huge Vietnamese and Brazilian crops.

In the physical coffee market, the first week of July was dull, however, activity picked up by the second week as roasters bought in and were reasonably active till the third week. However, the latter end of July was relatively quiet as Europe was gearing up for the summer holidays. Many origins either were unquoted or remained steady.

In other news, the ICO has raised its 2008/09 global coffee output to 128 million bags and the Green Coffee Association (GCA) stock figures for June (released in July) showed a fall of around 120,000 bags. In addition Starbucks announced in July that it would be closing 600 shops this year despite the ICO reporting that global consumption would be rising about 2% annually.

### 1.1.1 Chart: Near Month “KC” Settle Price (Jan ‘08 to July ‘08)



## Domestic Industry

### Prices

Arabica parchment coffee prices improved by only half a percent in the month of July to K3.04 in green bean equivalent price (GBE) whilst Robusta parchment prices saw the best improvement moving up 22% to K1.36 GBE. In the green coffee trade itself, there were also improvements in prices as DIS prices increased by 2% whilst Robusta DIS prices also increased by a massive 32% from the previous month. Weighted average FOB price increased by only 1% to end at K8.14 but was 12% higher than the corresponding month of 2007.

### Differentials

Differential levels improved for the main grades except for X grade. Y, PSC, and A grades differential improved by 0.6, 5.30, and 1.52 cents respectively that also saw them landing respectively at -12.98, +2.65, and 33.37 cents/lb for the month. X grade however fell sharply by 10.65 cents to end the month at 9.24 cents/lb. The fall in X grade differentials is likely to put pressure on the general differential level.

### Marketing Margins

Total formal Trading (exporter-mill) margin in the Month of July actually fell by 5% to K4.87 with a 15:85 split between Exporter and Mill. Marketing Margins as a share of FOB value were exporter, 9% and mill 52% leaving farmer/producer with 38%. Whilst futures prices rose by 0.4% in the month of July, domestic prices were eroded greatly as the kina

appreciated by about 3%. Further compounding the earnings problem were an apparent worsening of the differential level by 9% from the previous month's levels which seemed to be brought about by the huge fall in differentials of one major plantation grades.

### Production

Final production estimate for the month of June was 86,680 bags. Provisional production estimate for July stands at 87,352 bags and provisional production estimate for the first half of 2008 is 581,888 bags whilst for the progressing coffee year (Oct '07-July '08), is 806,636 bags. Overall coffee availability (supply) for the coffee year so far is an estimated 1,012,422 bags.

### Exports

Export volume in July increased by 2% to 110,890 bags and was 8% higher than the corresponding month's export volume in 2007. Progressive coffee year 07/08 exports now stands at 862,422 bags with calendar year progressive at 569,361 bags.

### Export Earnings

Earnings in July increased by 5% over the previous month to K54, 208,360 which also was 21% more than that of the corresponding month in 2007. This increased earning in the month reflects mainly the greater volume shipment. However, as was the case in June, overall earnings in July were harnessed by both the Kina appreciating and lower differentials.

## INDUSTRY ISSUES

### BIRTH OF A NEW ERA FOR THE PNG COFFEE INDUSTRY

The launching of the PNG Coffee Industry Strategic Plan 2008-2018 on July 18 2008 at the University of Goroka was the birth of a new era for the country's coffee industry. The industry stakeholders developed the Strategy to support the development of a sustainable and a competitive coffee industry in Papua New Guinea.

The PNG Coffee Industry Strategic Plan emphasizes a "paradigm shift" to revive the spirit of key players of the industry to continue working on coffee.

The Strategy aims to maximize financial returns to coffee producers and contribute to the Government's economic and social policy goals.

Through the Plan, the Coffee Industry Corporation Ltd (CIC) will provide leadership and support services to the industry.

The strategic framework captures the three main pillars that will move the industry forward in the next decade and beyond:

1. Increased and consistent production of high quality coffee so that producers obtain premium prices;
2. Increased awareness of PNG coffee locally and internationally and;
3. Enhanced CIC institutional capacity and governance to ensure that there is efficiency and effectiveness in the operation of the organization to better serve the stakeholders.

The PNG Coffee Industry Strategic Plan will drive the industry forward with refocused avenues for the industry to be better enhanced and more sustainable.

The Plan was launched by Eastern Highlands Province Deputy Governor and Member for Obura-Wonenara, Honorable John Boito.

Other delegates and invited guests for the day included provincial administrators and key players of the industry and other partners.

The Plan captures principles of the MTDS and The NADP and compliments the aspirations of the National Government.

Coffee is grown in 15 of the 20 provinces of the country and is a potential development tool to improve the lives of many in the rural areas who are associated with it.



*EHP Deputy Governor and Member for Obura-Wonenara, Honorable John Boito, launching the Plan*



*CIC Provincial officers took a pose after colorful display*