



# COFFEE INDUSTRY CORPORATION LTD CHIEF EXECUTIVE'S OFFICE

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## MONTHLY COFFEE BULLETIN June 2008

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### CEO'S COMMENTARY

It is now mid year and coffee prices as compared to earlier in the year, 2008 have moved closer to the underlying fundamentals of the supply, however the coffee prices still remains high at the peak season and I renew my call to the coffee farmers to take advantage of these prices.

May I also take this opportunity to inform the coffee industry stakeholders of the Oribius weevil pest outbreak in parts of the Simbu province, growers should not panic as CIC is taking all necessary measures to address this problem and I encourage you all to assist.

Happy Reading.

### INDUSTRY PERFORMANCE

#### International Market

Near-month Arabica futures in June improved 4% from the previous month with a low of 131.05 (9/06/08) and a high of 151.25 cents/lb (26/06/08). It was at the end of June that prices again moved over the 150 cents mark and this may have given the impression of an eminent bull market. However, well into July, an underlying downward trend is becoming more apparent.

Towards the end of May and the beginning of June, the market began speculating about the likelihood and impact of the coming frost season in Brazil. However, into the first week Arabica coffee prices retreated as funds exited long positions and took up shorts as a frost-free winter in Brazil was the most likely case. This recession of prices continued into the second week.

In the Robusta futures market, prices continued their downward march in the first two weeks. However, in the latter end of June both markets recovered albeit under shaky news that the cold weather in Argentina might blow over into the southern areas of Brazil. In addition two other factors which may have contributed to the end rally were harvesting delays in Brazil and a weaker US dollar.

In the physical coffee market, the first two weeks of June saw some active buying with some significant interest in Robusta and Colombian coffees. However, when prices rallied at the end of June, roasters became quite selective as opinions over differentials clashed. Into July, there is again report of reasonable demand for Central and Colombian coffees.

In other news, the USDA attachés in Brazil and Colombia released reports projecting Brazilian production in 2008/09 to be around 51.1 million and Colombian production forecast in 2008/09 to be 12.2 million bags. In addition it was reported that production estimate for 2007/08 Colombian crop was up by 1.9% to 12.4 million bags.

### DOMESTIC INDUSTRY

#### Prices

Arabica parchment coffee prices fell by less than a percent (1%) in the month of June to K3.02 whilst Robusta parchment prices remained the same as the previous month, K1.12 in green bean equivalent prices (GBE prices). Arabica green coffee DIS prices also increased by just a little over 1% whilst Robusta DIS price actually fell by 25% from the previous month. Also in June, weighted average FOB price increased by 1% K8.08 and was 13% higher than the corresponding month of 2007.

## Differentials

Differential levels against ICE futures for the two main exportable grades of Y1 and PSC were again slightly eroded to -13.58 and -2.65 cents/lb. Differentials against the two top quality grades X and A also ended lower at +19.89 and +31.85 cents/lb respectively.

## Marketing Margins

Total formal Trading (exporter-mill) margin in the Month of June was K5.12 with a 21:79 split between Exporter and Mill. Marketing Margins as a share of FOB value were exporter, 13% and mill 50% leaving farmer/producer with 37%. In hindsight, marketing margins could have been higher, had it not been for the appreciation of the kina again last month which continued since February.

## Production

Final production estimate for the month of May was 125,052 bags. Provisional production estimate for June stands at 86,680 bags and provisional production estimate for the first half of 2008 is 494,536 bags whilst for the progressing coffee year (Oct '07-June '08), was 719,284 bags. Overall, coffee availability (supply) for the coffee year so far is an estimated 925,070 bags.

## Exports

Export volume in June increased by 5% to 108,902 bags and was more than doubled (52%) the corresponding export volume in 2007. Progressive coffee year 07/08 exports now stands at 751,532 bags with calendar year progressive at 458,471 bags.

## Export Earnings

Earnings in June increased by 6% over the previous month to a total value of K52, 819,602. Over the corresponding period of 2007, this is 72% higher. This increased earning in the month reflects mainly higher FOB prices and to a lesser extent, volume. However, overall earnings were hampered by both the Kina appreciating (consistently on the climb for five consecutive months) and lower differentials.

## INDUSTRY ISSUES

### Chimbu coffee industry at risk

The recent outbreak of the coffee pest, oribius weevil, in Chimbu province has posed a major threat to the coffee industry of the province and the country.

The Oribius weevil is native to Papua New Guinea but has heavily infested gardens in the Sigewagi area of Gembogl district of Simbu province.

The pest has shifted from being a minor pest to a major pest.

Oribius weevil is dark grey, brown or black in colour, approximately 5mm long. Some have white spots or stripes on their body, head extended into a type of snout. Hosts plants of oribius include aibika, capsicum, avocado, ginger leaves, hibiscus, common bean and other plants.

Simbu province is one of the major coffee producing provinces in the country accounting for up to 900 tonnes of coffee worth about K60 million.

The outbreak of the oribius weevil is affected by climate change, forging a drastic change to its feeding habits.

An Emergency Response Plan is effective in Simbu province since last week. CIC will require Simbu provincial and community collaboration to contain the problem. Simbu provincial authorities have been informed of the situation and have pledged their support.

Member for Kundiawa, Honourable Joe Mek Teine expressed concern when CIC alerted him of the situation.

"Despite the pest being native to the country, but the fact that it is affecting the coffee bean is dangerous for the economy of Simbu province and PNG," said Mr Teine. He added that he would alert the National Government so that special funding be made available to contain the situation.

CIC officers have been on the ground since the outbreak and currently carrying out insecticide spraying of coffee gardens to help minimise the infestation.

Responsible authorities are closely monitoring coffee movement from the affected districts and throughout Chimbu province.

Boom gates have been established to conduct spot checks on the movement of coffee to and from Chimbu province.

The Boom gates are set up at three locations:

1. Barawagi: Boom gate operations will be from 6am to 10pm
2. Lodge Fire in Kundiawa town during business hours
3. Mata in the Sinesine/Yogomugl District for 24 hours.

CIC and police officers are at the boom gates to do inspections on coffee. All coffees being transported will be inspected.

This operation has given CIC and DPI officers extra powers together with NAQIA and the Police to inspect all conveyed coffee within Chimbu Province. Cooperation from all coffee stakeholders and the general public is therefore essential during this emergency operation to sustain our coffee industry.

The native pest, oribus weevil, has now shifted from being a minor coffee pest to a major causing damaging to the coffee beans and the quality of coffee.



*Damages on coffee beans by the pest*

*nnor*

**YUMI LUKAUTIM KOFI NA KOFI BAI LUKAUTIM YUMI**

**Enquiries should be directed to the CIC Public Relations Officer**