



CEO'S COMMENTARY

Futures coffee prices raced ahead in the month of May bringing the market to new highs or simply to levels previously reached in the beginning of the last quarter of calendar year 2008. In our local market, parchment and green coffee prices followed however, FOB prices were just marginally up owing to both previously secured lower prices and an appreciating kina.

As production increased almost two-fold, so export volume increased by the same proportion such that the high revenue recorded for the month was determined largely by sheer volume as the exchange rate worked in tandem with price offsetting any real gains.

We take this time to pay tribute to two CIC officers who were called to eternal rest; the Late Moses Alu and Late Tebi Naged. Late Moses served the industry for 12 years as a statistician with the economics section of CIC Limited. Late Tebi worked for CIC 22 years, holding positions of public relations and executive officer to the CEO. CIC and the PNG coffee industry acknowledge their commitment and hard work in serving the industry.

Besides the usual market report, in this issue we keep abreast of events in the industry. Enjoy reading.

INDUSTRY PERFORMANCE

International Market

A bullish run was seen in May as Arabica futures prices were consistently on the rise. Ending the month 19% higher, prices had ranged from a low of 119.85 cents/lb (1/05) and a high of 137.40 cents/lb (29/05).

The sharp contrast of the market (from the previous months) was largely due to a lower US dollar and increasing optimism for the equity markets which saw a torrent of funds into major trade commodities, thought to be a safer haven than financial markets.

Come June there should be some confirmations of the general thoughts, or it may just be that a general shortage in top quality milds and the potential threat of a Brazilian frost playing in traders' conscience.

In the physical market, there was little activity at first but then picked up which saw the differential levels of many origins racing ahead during the month. But by month's end, some thought the rally was too strong for such a short period of time and that the market

may have been technically overbought. If this be the case opposing bets could easily sell off this favorable market in June.

Domestic Industry

Following closely, domestic prices, especially parchment and green been increased in May. As well both production and export volumes increased marking the beginning of the peak coffee season. Despite the futures price for coffee and market differentials improving considerably in the month, exchange rate moved in tandem with price such that movement in FOB price was marginal.

Prices

Parchment and green coffee prices improved 8% and 7% respectively over April but were 8% and 1% lower than the levels a year ago. Despite good pre-export prices weighted average FOB price merely improved by less than half a percent to K7.21.

Differentials

A favorable month for smallholder coffees as Y1 grade improves 27% to -6.99 cents/lb whilst PSC improves to -2.21 cents/lb. However, with the premium grades X and A there is a mixed response as X grade differentials improved considerably by 27% whilst A decreased by 13% from the previous month.

Marketing Margins

Total formal trading (exporter-mill) margin in May increased 4% to K3.75 with a 31:69 split respectively. Marketing Margins as a share of FOB value were exporter, 14% and Dry mill 32% leaving the parchment producer with 54%. However Cherry producers in the month were able to get 74% of the FOB value whilst processor and exporter shares were 11% and 15% respectively.

Production

Provisional Production estimate for the months of April and May are 62,937 and 57,095 bags respectively to give a total volume of 229,655 bags for the first five months of the calendar year.

Exports

Export volume in May improved 90% to 80,195 bags as the peak season begins, but was 23% lower than that for May 2008. Calendar year export volume up to May is 267,046 bags, 24% lower than that for the same period in 2008.

Export Earnings

Value of coffees exported in the month also improved by 89% over April's value to total K34, 694,895. This significant increase in export value is attributed to sheer volume.

INDUSTRY NEWS

Rekindling coffee in Bougainville

Coffee has garnered interest by farmers in the Autonomous Region of Bougainville with expectations to assist in the restoration efforts of bringing the region to normalcy and to reach autonomy status.

The farmers have shown interest in growing coffee as a major alternate cash crop to cocoa and copra. The Autonomous Bougainville Government (ABG) and its people coffee would play a part in making the region prosperous and build an economy base alongside other cash crops.

The onslaught of Cocoa Pod Borer in the neighboring East New Britain is giving second thoughts to farmers in the region. Thus Bougainville farmers are looking at alternative cash crops and coffee is a logical choice for them.

The Coffee Industry Corporation (CIC) Limited will develop a program to reignite coffee production on Bougainville. CIC Chief Executive Officer, Mr Ricky Mitio, will launch the Program later this year.

Many farmers expressed a need for market access and CIC would work closely with ABG to create interest and to get the coffee industry moving in the region.

Technical officers from CIC visited the region to undertake a feasibility study last week upon invitation by the ABG. They visited Bana in the South; Panguna, Kongara Wakunai in Central Bougainville and Buka in the North.

A meeting with representatives of the ABG and the Mekamui eventuated, revealing great interest in the cash crop. “We want to grow coffee” stressed the leader of the self-styled government, Mr Moses Pipiro.

Coffee was introduced by the formerly Department of Primary Industry officers and missionaries into Bougainville in the early 1960s and many elderly farmers grew coffee. In Central and South Bougainville, coffee trade thrived well before the Bougainville Copper Limited started operations which then lured many to work in the mine project leaving behind coffee cultivation. However, in the North coffee was grown for local consumption, which is still practiced today in the Gagan area of Buka Island. “We will be your disciples for coffee here,” pledged two village chiefs from Buka Island.

Cherry Ban on the move

The coffee Cherry Trade ban imposed by the CIC last year 2008 to stop or reduce the escalating cherry theft from coffee blocks, plantations and smallholder gardens has been effective but continuous surveillance would see the end of illegal cherry trade.

CIC has taken firm steps to deal with unscrupulous cherry trade which has been an ongoing activity in a largely unregulated market.

The Cherry Trade Policy restricts all private coffee buyers from buying cherry coffee along the roadsides, except with the consent of CIC. All growers are prohibited from selling coffee cherry along the roadside to any private coffee buyer, except with CIC’s consent.

Also under the Policy, selling and buying of cherry are to be conducted by operators of licensed wet processing factories or their contracted buyers certified by the CIC at the processing centre under specific requirements. The carriage and conveyance of coffee cherry is prohibited in all the restricted areas, except through CIC approved contractual arrangements by operations of licensed wet processing factories, or with the direct consent of CIC.

Lately, CIC policing operations have ventured Eastern Highlands, Simbu and Western Highlands provinces. Operations are currently active in Enga Province and the upper Highlands provinces.

Despite the prosecution of offenders, the cherry ban policing exercise needs to beef up and maintain its surveillance to closely monitor cherry trading and gradually rid it.

Village magistrates, councilors and leaders have embraced the Policy and are working in partnership with CIC and the police to report cases of cherry trade. Meanwhile, farmers have commended CIC for the exercise which is combating cherry theft, allowing them to process their coffee for sale.

Enquiries should be directed to the Scientific Liaison Officer

“YUMI LUKAUTIM KOPI NA KOPI BAI LUKAUTIM YUMI”