



# COFFEE INDUSTRY CORPORATION LTD CHIEF EXECUTIVE'S OFFICE

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## MONTHLY COFFEE BULLETIN NOVEMBER 2008

### CEO'S COMMENTARY

I take this time to thank all the stakeholders of the coffee industry for their efforts and contributions to the industry throughout the year, 2008.

It has been a very successful year for the industry, firstly the launching of its 10 year (2008-2018) Strategic Plan, followed by the launching of the School Coffee Curriculum, the two milestone achievements for the coffee industry.

The coffee prices had been very favorable to our growers for the most part of the coffee season and I am sure everyone, especially our smallholder farmers benefited.

I urge the industry stakeholders to maintain their commitment and prepare to face the challenges and embrace the changes as part of the implementation process of the industry's strategic plan in 2009 and beyond.

Finally, I take this opportunity on behalf of the CIC Board, Management and Staff to wish you all and your families a Very Merry Christmas and a Fruitful New Year, 2009.

Enjoy reading.

### INDUSTRY PERFORMANCE

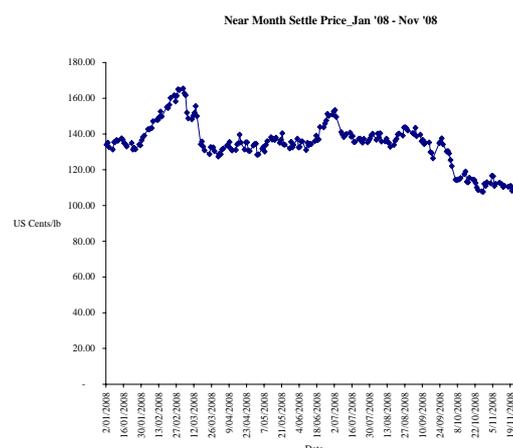
#### International Market

Near-month Arabica futures has again dropped for the fifth consecutive month however, this time, the fall from October to November was not as dramatic (2%) as it was from September to October (15%). The price eventually ended up at 112.06 cents/lb with a high of 116.70 (4/11/08) and a low of 108.30 cents/lb (20/11/08). Into the month of December, it would appear that the downward spiral is slowing down, but whether a bottom is emerging, we have yet to see.

The physical coffee market was very active in the first two weeks of November largely reflecting the usual increased roasting activity and coffee consumption during the winter months in the US and Europe. This time however, good quality African and Central American Arabica are in demand as the usual good Colombian quality coffees are too highly priced at the moment. As a result other washed Arabica (including PNG's) may or may not face increased demand.

In other news, the Indonesian government announced it will provide post-shipment guarantees to commodity exporters as credit lines are getting leaner, even constricted. This is following the news of coffee export defaults of about 1 million bags as investors and depositors are continuously withdrawing hence forcing banks to cut back on outgoing transactions.

**Chart: Near Month "KC" Settle Price  
(Jan '08 to Nov '08)**



### DOMESTIC INDUSTRY

#### Prices

Parchment coffee prices have again fallen over the month of November. Arabica has fallen by 9% and 22% since

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September's level whilst Robusta parchment ending lower over November by a whopping 25%. Also in the green coffee trade, Arabica prices have shed 3% over the month and 21% since September. At point of export weighted average FOB price also dropped by 8% over the month to end at K6.88. This is 12% lower than the corresponding period in 2007.

### Differentials

Differential levels for the top grades sees X grade improve 7% to +16.32 and A grade falling 25% to +26.49 cents/lb. Smallholder coffee Y grade improved by 14% over the month to end at -10.48 cents/lb, whilst PSC grade improved by more than two-fold to end at +1.90 cents/lb at month's end.

### Marketing Margins

Total formal trading (exporter-mill) margin in November was K4.07 with a 25:75 split respectively. Marketing Margins as a share of FOB value were exporter, 16% and mill 48% leaving farmer/producer with 36%.

### Production

Provisional production estimates for the month of November and progressive calendar year are 69,557 and 1,001,155 bags respectively.

### Exports

Export volume in November fell 40% from the previous month to 79,577 bags, still 29% lower than the corresponding month in 2007. Progressive calendar year export is an improved 1,028,628 bags.

### Export Earnings

Export Value over the month of November was K32,865,303 a staggering 44% drop from the previous month's value. On a similar scale, this was also 38% lower than the corresponding month in 2007.

## INDUSTRY ISSUES

### **SIGNING FOR NEW COFFEE PROJECTS**

The signing of the agreement this month between the Coffee Industry Corporation and the PNG- Australia Agriculture Research and Development (ARDSF) Support Facility for two new projects is an additional boost to extend the work of the Lowland Robusta farming in PNG.

The two new coffee projects under the funding are, the 'H6-High Yielding Robusta Variety' and the H8-Profiling of coffee, both projects would be funded at the costs of K143, 513 and K216, 000 respectively and the

signing paves the way for the implementation work to begin in December, 2008.

The agreement was signed by the Regional Facilitator, Mr. Bernard Pillon of the Agriculture Innovations Grant Scheme (AIGS) and the CIC Chief Executive Officer, Mr. Mitio at the CIC Head Office in Goroka.

The PNG-Australia Agriculture Research and Development Support Facility (ARDSF) is an innovative and flexible funding mechanism aimed at strengthening the capacity of the National Agriculture Research System (NARS) to deliver improved services to their rural stakeholders, improved delivery of services will increase opportunities for smallholders in PNG to generate income, improve food security and their living standards.

The two collaborated partners who will help CIC implement these projects are, East Sepik Provincial Department of Agriculture and Livestock (PDAL) for high yielding Robusta coffee and the University of New South Wales for the Coffee Profiling Project respectively.

CIC had also benefited through the assistance of the AIGS, with the other major impact project, the PNG Schools Coffee Curriculum that was successfully launched in October, 2008.

Mr. Pillon explained during the signing that ARDSF has now shifted its focus away from production based projects. All future project proposals submitted to ARDSF for funding should be based on marketing and value added gains, aimed at returning maximum benefits to the rural communities.

Mr. Mitio in signing the agreement thanked ARDSF for its continued assistance to the Coffee Industry.



*CIC Chief Executive Officer, Mr. Mitio (right) shakes hands with ARDSF Regional Facilitator, Mr. Bernard Pillon at the signing of the project agreement. Looking on is CIC Project Officer.*

## **K500, 000 to REHABILITATE KUNDIAWA/GEMBOLG COFFEE**

Kundiawa/Gembogl Electorate is expected to see a rise in coffee production in coming years when coffee rehabilitation work program commences in the district in 2009.

K500, 000 from the K3 million earmarked for Coffee under the National Agriculture Development Plan (NADP) has been allocated for coffee rehabilitation work in Kundiawa/Gembogl Electorate in Simbu Province. The commitment was announced during the Kundiawa/Gembogl Electorate Project launching initiated by the member, Honorable Joe Mek Teine, this month at the Dickson's Oval in Kundiawa.

The Coffee Industry Corporation (CIC) Ltd will work in partnership with the districts' farmers to rehabilitate smallholder coffee farms with the aim to increase production.

CIC Chief Executive Officer, Mr. Ricky Mitio, complimented the Kundiawa/Gembogl Electorate member for his initiative in buying and distributing 104 coffee pulpers for his electorate. He commended the member for making coffee work and the restoration of the Highlands Highway a priority.

Mr. Mitio challenged the people of Simbu to increase their coffee production as Simbu's coffee industry's annual export earnings have dropped from K70 million to K50 million.

Honorable Joe Mek Teine said as a leader, he aims to make a difference for his people and encouraged other leaders to stand up for the interest of the people before the people become second class citizens in their own country.

Kundiawa/ Gembogl Electorate was selected to pilot the CIC's District by District Coffee Rehabilitation Program.

**Any queries concerning PNGCGF can be forwarded in writing to the General Manager, Industry Operations Division, CIC, PO Box 137 Goroka, EHP or by fax to: 7321431 EHP.**



*Jerry Kapka from Kongo Coffee Ltd, launching delivery of 104 coffee pulpers for the Kundiawa/Gembogl District*

## **FURTHER UPDATE ON THE COURT CASE BY PNG COFFEE GROWERS FEDERATION TAKEN AGAINST CIC**

The coffee grower groups and individual growers who were part of the PNG Coffee Growers Federation Limited (PNGCGF) have been enquiring to know the latest information concerning the Federation. This update is further to the one which CIC put out in the last October Monthly Coffee Bulletin.

Those who have an interest in PNGCGF are hereby informed that the first National Court injunction which PNGCGF took out against CIC from pursuing an investigation on the Federation's operations is still at large. CIC in 2007 conducted an investigation on the management and operations of PNGCGF as a result of complains CIC received from members of the PNGCGF concerning, among many issues, the unfair pricing and PNGCGF's failure to pay the correct

However, the following Court decisions are in force:

- ✚ That the National Court threw out the second National Court application by PNGCGF and upheld CIC Board decision not to renew PNGCGF license for 2008. This decision remains in force today.
- ✚ The National Court directed that CIC allows PNGCGF to export the remaining coffee per prices for bags of coffee it obtained from growers at the prices it promised.
- ✚ Forward Contracts approved by CIC in 2007, which were carried over to 2008.
- ✚ The remaining Forward Contracts to be fulfilled by PNGCGF before the end of 2008.

**ENQUIRIES SHOULD BE DIRECTED TO THE PUBLIC RELATIONS OFFICER**

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