



# COFFEE INDUSTRY CORPORATION LTD CHIEF EXECUTIVE'S OFFICE

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## MONTHLY COFFEE BULLETIN OCTOBER 2008

### CEO'S COMMENTARY

All sectors of the coffee industry should be congratulated for yet another milestone achievement this month as the industry witnessed the launching of its Coffee Curriculum for schools in PNG, the first Commodity Industry to do so. The Grand Chief, His Excellency, Governor General, Sir Paulias Matane officiated at the launch.

In other issue, industry stakeholders are called on to contribute to the Review being undertaken by the CIC Board on the Coffee Licensing and Operating Guidelines as to the benefit of all involved in the industry.

Happy reading.

### INDUSTRY PERFORMANCE

#### International Market

Near-month Arabica futures has dropped for the fourth consecutive month however, this time, the fall in futures prices has been the largest by a massive 15% to 114.79 cents/lb with a high of 129.10 (1/10/08) and a low of 107.70 cents/lb (28/10/08). It may well be that the market has trended down and though we cannot rule out the market going lower, it is likely that the market will maintain October's price levels and may trade between 110 and 120 cents/lb for the remainder of the year.

In the physical coffee market, trade was very much restricted in the first two weeks of October as origins were stupefied by the drastic drop in prices that had gone from the mid 130s to about 115 cents/lb. However, as the price slide continued, roasters and

other buyers were able to buy as sellers may have realized that a reversal of trend was simply not going to happen.

In other news, in response to what it views as the most likely case, the Colombian Government and Fedecafe have set up an insurance fund to cushion its farmers against falling prices. Producers will be able to hedge up to half of their crop if parchment price drops below a predetermined level.

#### 1.1 .Chart: Near Month "KC" Settle Price (June '08 to Oct '08)



### DOMESTIC INDUSTRY

#### Prices

In line with the general fall in world prices in October, all domestic form and grade coffee prices have dived to a level many expect to remain for the rest of the year. Arabica parchment coffee prices has drastically fallen by 15% K2.59 in green bean equivalent price (GBE) with Robusta parchment similarly falling 7% to K1.34 GBE. In the green

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coffee trade itself, Arabica DIS prices fared the worst shedding 19%. Weighted average FOB price however only dropped by 3% to end at K7.45 at the end of October. The relatively smaller drop in FOB prices has been a result of higher prices that were contracted previously. However, FOB prices in October were 2% lower than the corresponding period in 2007.

### **Differentials**

Differential levels for the top grades of X and A improved to +15.27 and +35.16 cents/lb respectively. Of the smallholder coffees, Y grade improved by 7% over the month to -12.23 cents/lb, whilst PSC grade moved lower to -1.29 cents/lb.

### **Marketing Margins**

Total formal trading (exporter-mill) margin has dropped consecutively in the last four months again ending lower in October at K3.98 with a 25:75 split between Exporter and Mill. Marketing Margins as a share of FOB value were exporter, 15% and mill 46% leaving farmer/producer with 39%.

### **Production**

Production estimates for the months of September and October are still provisional at 76,978 and 85,534 bags. With the provisional production estimate for September at 76,978 bags, a provisional coffee year 2007/08 production is estimated at 1,100,792 bags with an estimated overall coffee availability (supply) for the coffee year 2007/08 at 1,306,578 bags. Progressive calendar year (2008) production estimate now stands at 961,578 bags.

### **Exports**

Export volume over the last three months has increased with October recording 132,291 bags, 22% over the corresponding month in 2007 and the highest monthly export volume so far this year. A progressive calendar year export to date is an improved 949,051 bags.

### **Exports Earnings**

Despite futures prices dropping considerably in October, contracted moderate export prices and higher export volume ensured that earnings over the month

just fell by less than 1% to K59,136,675 but still highly favorable by 19% over the corresponding month in 2007. Total value so far this calendar year is K583,403,051 which is destined to be a record revenue year for the coffee industry thanks to higher world market prices in the first three quarters of 2008.

### **INDUSTRY ISSUES**

#### **Governor General, Grand Chief Sir Paulias Matane Launches Coffee Curriculum**

The launching of the Coffee Curriculum was officiated by His Excellency, Governor General, and Grand Chief, Sir Paulias Matane on the 10<sup>th</sup> of October 2008 at the Mark Solon Auditorium, University of Goroka.

In his keynote address, His Excellency acknowledged this first ever industry-driven curriculum by one of the country's major agricultural industry.

“The coffee curriculum being launched is the first to make education relevant for our people. It is my view that, in partnership, we can achieve great heights in educational achievements, and provide for quality educational achievements for our children while, at the same time, address low coffee production, improve coffee quality, enable a cash income for the people growing coffee and make life worth living in the community through coffee,” said His Excellency, Sir Paulias Matane.

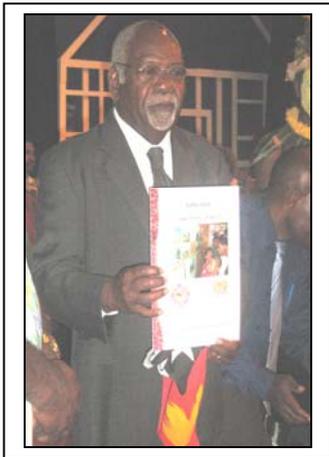
The Governor General also emphasized on the coffee curriculum being significant as it was “a truly national curriculum”, developed and printed and to be trailed by Papua New Guineans in the coffee industry.

“It shows that we are not just mere consumers of knowledge given to us by experts from overseas, but it (the Coffee Curriculum) is developed by a truly national team of technical and education specialists,” complimented the Governor General.

He also called on other agriculture industries to follow this initiative, set money aside to help prepare youths with the high level of competencies in the knowledge and skills of specific agriculture industries, so that the youth is equipped with

relevant, appropriate employable skills to live off the land and make useful and meaningful contributions to their communities.

The Chief Executive Officer, Mr. Mitio reiterated in his address that CIC is not scared to try out new ideas. The Coffee Curriculum is part of the “paradigm shift” encompassed in the Coffee Industry Strategic Plan that was also launched in July this year. It is aimed at teaching school children to become educated and knowledgeable coffee farmers in the future.



**Left-right (Pic) - GG, Sir Paulias Matane officially launches Coffee Curriculum and Mr. Mitio presents gift to the Governor General.**

**[GUIDANCE NOTES ON THE PROPOSED CHANGES TO THE STANDING CONDITIONS REQUIREMENTS FOR REGISTRATION OF OPERATORS IN THE COFFEE INDUSTRY](#)**

The Coffee Industry Corporation (CIC) has undertaken reviews of the three existing Standing Conditions Requirements for registration of:

1. Exporters
2. Processors, and
3. Manufacturers

In addition, a new *Standing Conditions* is proposed on the “Fit and Proper” Persons Requirement more specifically for entities such as Cooperative Societies, Associations or Community-Based Organizations.

The following reasons have made it necessary to undertake the reviews:

1. To bring these standards up-to-date with the changes in the regulatory environment of the industry,
2. To enhance efficiency in the regulation and registration system of the coffee industry,
3. To subject the industry to best practices in order to foster confidence by world-wide buyers and consumers,
4. To bring the Standing Conditions Requirements in line with the PNG Coffee Industry Strategic Plan 2008-2018, so that the Corporation’s objectives can be achieved,
5. More specifically to enhance the involvement of coffee businesses towards increased quantity and consistency of coffee production; and,
6. To promote more standardized processing machinery across all coffee processing facilities.

The specific changes or amendments proposed to the existing Standing Conditions Requirements are:

**1. CHANGES GENERAL TO ALL STANDING CONDITIONS REQUIREMENTS**

**(a) Fees and Charges Increased**

CIC has reviewed and is proposing increases to the fees across the industry for Registration of Exporter, Processor and Manufacturer. The details are in the respective Standing Conditions Guidelines:

- Clause 13: in Standing Conditions for Exporter and for Processor
- Clause 14: in Standing Conditions for Manufacturer

**(b) Fees Abolished**

The following fees have been abolished by the Corporation:

- Application fee for license renewal,
- Late application fee, and
- Incomplete application fee.

Application fees will only apply to new applications.

**(c) Licensing and Inspection System to be Strengthened**

The amendments to the fees and fee structure are in line with the Corporations effort to

improve the efficiency of the licensing and inspection system:

- This work will entail careful scrutinizing all licensed operators throughout the course of the year to keep their files accurate and up-to-date.
- Most importantly, that any non-compliance issues are immediately addressed during the course of the year leading up to the annual renewal assessment by the CIC Board at the end of each year in December.
- The Board's deliberations on license renewals will mostly be based on reports generated quarterly by the Coffee Inspectors.
- Licensed operators will be required to cooperate by providing all relevant reports and by fulfilling all licensing requirements.

## **2. STANDING CONDITIONS 1/2008: REGISTRATION OF COFFEE EXPORTER**

The following changes are proposed:

- (a) Foreign owned companies must take positive steps to offload some of their shares to nationals.
- (b) The break up of shareholding in a joint-venture will be 51% foreign and 49% national in line with IPA guidelines.
- (c) New applicants shall be allowed to operate through established registered exporters for at least two years with their record of trade regularly checked by Coffee Inspectors before an application for permission to build or to directly export is accepted
- (d) Audited financial statements must be furnished to the Corporation within 6 months of the end of the financial year.
- (e) Registered exporters are prohibited from purchasing green bean coffee which is not accompanied by an out-turn docket or invoice from a registered processor
- (f) It is mandatory that all registered exporters must complete Pro-forma B Return of coffee exported and Return of coffee income received

and submits to the Corporation by the 14<sup>th</sup> Day of the following month.

- (g) Additional data may be requested by the Corporation from time to time through surveys, etc. It is mandatory that registered processors complied with such requirements and provide the requested data.

## **3. STANDING CONDITIONS 2/2008: REGISTRATION OF COFFEE PROCESSING FACILITIES**

- (a) All Coffee Processing Facilities are to install standardized processing machinery and equipment as listed. Refer to Clause 3.2 for wet processing and 3.3 for dry processing of the Guidelines for details.
- (b) New applications will be considered for registration on the condition that it is grower-based and/or has a minimum of 100 hectares of coffee blocks that can demonstrate sufficient volume of throughput.
- (c) The break up of shareholding in a joint-venture will be 51% foreign and 49% national in line with IPA guidelines.
- (d) Applications for re-registration must be accompanied by copies of their sets of annual financial statements for the immediate past year.
- (e) It is mandatory that all such data as may be requested by the Corporation from time to time through surveys etc must be complied with and furnished

## **4. STANDING CONDITIONS 3/2008: REGISTRATION OF COFFEE MANUFACTURING FACILITIES**

- (a) It is mandatory that all such data as may be requested by the Corporation from time to time through surveys etc must be complied with and furnished
- (b) All such imports (i.e. imports of raw material for further processing or blending in PNG or any processed coffee) must be fully documented and submitted to the Corporation.
- (c) Manufacturers of Decaffeinated or Soluble Coffee will be subject to the CIC Registration Requirement.

## 5. STANDING CONDITION 4/2008: FIT & PROPER REQUIREMENT (A NEW PROPOSED STANDARD)

The proposed Standing Conditions on Fit & Proper Requirement is for entities where those who manage or become directors of the organization are doing it on behalf of the coffee growers.

Organizations under this category include Cooperative Societies, Associations or Community-Based Organizations

This Standard is therefore proposed to protect the interest of growers who have mobilized themselves to operate a Cooperative Societies or Associations or Community-Based Organizations.

## 6. COMMENTS TO BE SUBMITTED TO CIC BEFORE 30 NOVEMBER 2008

Forward your comments to the following CIC Address:

The General Manager  
Industry Operations Division  
Coffee Industry Corporation Ltd  
PO Box 137  
GOROKA  
Eastern Highlands Province

**For any enquiries please call telephone: 7322466 or 7321266 or 7321207 or Fax: 7321431**

## 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 September 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 prices for bags of coffee it obtained from growers at the prices it promised. PNGCGF took out a Court Order against CIC from pursuing the investigation. As a result CIC could not continue the investigation.

However, the following Court decisions have been made:

- 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 Forward Contracts approved by CIC in 2007, which were carried over to 2008.
- There are 4 remaining Forward Contracts yet to be fulfilled by PNGCGF before the end of 2008 : (M6, M10, M11 and M16). CIC has written numerous letters to PNGCGF advising that the remaining Forward Contracts must be honored before end 2008.

**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.**

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

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