

A reflection on the Papua New Guinea coffee industry: facing reality

Joeri Kalwij¹

It is exciting to see a rekindled effort to publish another edition of the PNG Coffee Journal. Much has happened since the last edition and developments in recent years are well worth reflecting on. This may be considered a special edition, showcasing the impressive and interesting accomplishments in various disciplines of coffee research. The level of commitment and involvement from all stakeholders is excellent and something to be proud of. It is a pleasure and honour to be able to contribute to this publication. As requested, I do so with a reflective view on past and current research and developments in the PNG coffee industry.

It has been well over a decade since I started my work in Papua New Guinea's coffee industry. I have been an active participant as an exporter, through the development of farmer extension services and by implementing various certification standards in coffee growing regions. In these roles I have seen many projects and initiatives that aim to improve and strengthen the industry and support its producers. Some initiatives have been successful, many less so. The latter unfortunately is the largest group. These projects have come and gone without much meaningful impact on the industry and looking back I can make two observations:

- a) The repetitiveness of projects without learning from previous efforts.
- b) The disconnect between coffee development initiatives and the private sector.

The research presented in these articles, however, has been managed with a holistic approach in mind. The collaboration between disciplines and the opportunity to exchange thoughts is evident. It is refreshing to see the interaction from students, research institutes, universities and PNG's own CIC. During the years of this research there has been a constant interaction with all participants.

As a member of the private sector community, I feel proud to have been part of this process. This level of collaboration is to be applauded and deserves to be showcased.

Research for the sake of research, and 'feeding the academic beast' with publications is a fine objective in itself, of course. However, in addition to articles well worth reading, there is much more being presented. There is momentum for real change on project sites. There is in addition to the 'just' academic research a practical applicability that should be acknowledged, learnt from, and widely applied. This interactive approach that aims to have impact is perhaps also why I have been asked to provide a few words of reflection from a private sector point of view. Where to start? Considering the many coffee development projects in Papua New Guinea in recent history, I cannot resist by doing so with some words of caution.

One of the few stable and constant factors in the PNG coffee industry has been the global demand for PNG's coffee and the crucially important presence of a well-connected exporter. It is simple fact that exporters are one of the primary funders of the coffee industry: from pre-financing, to levy payments, to paying the many people directly or indirectly employed in the coffee industry. In recent years I may add the importance of bringing on shore much sought-after foreign currency! Most crucial to make the industry spin is of course the fact that exporters have access to global markets. If PNG produces more coffee, than there certainly is no problem finding an appreciative market for it. Yet more often than not, the role of the exporter in PNG is incorrectly portrayed as the one dictating price levels² or as the big, bad, corporate entity squeezing out every ounce of profitability from small producers. Nothing could be further from the truth.

¹New Guinea Highlands Coffee Exports, Goroka, EHP, PNG

²Although any exporter will have some flexibility in price setting based on local cost structures and whether or not it needs coffee urgently; at all times the exporter would base its price on the daily price fluctuations of the commodity as traded on the New York Stock Exchange.

Exporters are often consulted and interviewed on their experiences and views in preparation of development initiatives or research projects. The information provided is, however, seldom taken into account as a critical factor in the implementation stage or in the final reporting of these initiatives. It is not uncommon to simply add a pro-forma sentence in introductory remarks, stating: “the private sector has been consulted”. That seems sufficient to tick this particular buzzword box. It is remarkable to learn of significant initiatives where exporters have not even been a discussion partner. Considering the role and experience of any exporter in promoting PNG’s coffee, this is not only strange, it is also a lost opportunity.

In the last couple of years PNG has seen more export licenses being granted to producing groups. Promoting direct sales between producer and final buyer is understandably attractive. In theory it can increase financial benefits to the grower. I am of course in favour of supporting small growers and creating better trade opportunities for remote areas. I do not believe however that issuing an export license to inexperienced grower groups is an effective solution.

There are big risks that come with the many complexities and variables of trading a commodity. These risks and complexities do not mix well with smallholder producers who operate in logistically challenging circumstances at the best of times. Also, export initiatives by the industry’s regulator or through direct government involvement are unlikely to be successful and only create additional competition with established businesses. One could even argue there is a conflict of interest. Engaging in commercial business should not be the role of government bodies.

Although in theory all these initiatives sound attractive and may have the betterment of the small growers at heart, reality is in stark contrast to these hopes and aspirations. With all this in mind I would issue a warning: if interventions set people up to fail, they are counter-productive and do not support the sustainable development of the industry. Disappointment and disillusion as

an outcome will only undermine development efforts. This will reduce small farmers’ interest in producing coffee. An overview of all issued export licenses would illustrate my point. This list should include dormant licenses and never used licenses that have been issued over the years. Yet I have not been able to find such a list.

With attractive export price levels in mind for the grower, why is an export license not a realistic goal to have? The problem becomes evident especially in a situation where a grower-group has limited road access or can only move the coffee by airplane. Allow me to clarify with some perhaps rhetorical questions. Who is going to pay for (air)freight in advance? Who is organizing (and paying) for parchment processing in a dry mill? How long does it take for a small grower group to produce a full container load (coffee tends to get exported in 20 ft container loads, not by the bag or pallet)? How is storage and transportation of green bean to the port of Lae organized? Who will work with freight forwarders and chew through the bureaucratic requirements of getting a commodity shipped out? Who is to take on the challenge of opening a bank account and operate to everyone’s expectation of full financial transparency? How will all this be paid for? There is of course also the need for the exporting producer to find a buyer for their coffee on the international market.

Even if all these things go 100% right (what are the odds of that?), it will take many months before a producer gets paid. The needed finance for continued trade in the coffee season is tied up until payment by the final buyer has been made³. There is an obvious role to play for a specialist to mitigate and navigate the above listed obstacles and risks: the exporter.

Despite decades of coffee development and research initiatives, PNG’s export figures speak for themselves. Change does not come easy and exported volumes are certainly not on the rise. There must be a vast library out there with a treasure trove of project outcomes, conclusions, recommendations, constraints and opportunities. Are past initiatives really looked at before starting

³Perhaps (micro) financing schemes would be a textbook support mechanism to overcome this issue. This is true, but as far as I am aware this is uncharted waters.

new project adventures? Does the industry have the ability to access research outcomes and findings? Do regulators, law makers and extension personnel have an opportunity to read up on and learn from previous efforts and outcomes? It seems to me that there are many re-runs of previous approaches through different partners and financiers without learning from earlier efforts and from past failures and successes.

Do not get me wrong; I do not want to be the bearer of bad news and paint a doom-and-gloom picture of the industry. PNG's coffee is an amazing product that has ample marketing opportunity. If anything, the demand for our coffee is only on the rise. I firmly believe that anyone working with smallholder coffee growers to create better opportunities deserves to be commended! We should never stop aiming for development and improvement. These are all admirable efforts. Opportunities certainly are out there if we (i.e. all industry participants) choose to engage more.

Engagement should also mean getting a better understanding of the complexities of all facets of the industry. Learn from them to improve success rates. The research presented here certainly leaves you with a good impression of the wide variety of issues at play. There simply is no silver bullet to fix and improve the industry quickly. There is not one single major issue to address after which the rest would follow naturally. We need to improve many different aspects of the coffee industry simultaneously to be able to make progress.

One of the most overlooked elements would have to be the need to understand and appreciate smallholder decision-making processes. It is this group of producers that is responsible for the vast majority of PNG's coffee production. What makes a smallholder decide whether or not to invest (more) in coffee? What makes a subsistence household tick? What are the opportunity costs, and how can we meaningfully contribute to positive change? This requires a firm understanding of the challenges at farm household level.

Accessibility to markets (literally: road access), and the cost of transport are the main restricting factors for a significant portion of coffee growers. We also need to consider access to cash, to labour, and decisions regarding time investment in other income generating or leisure activities. All of these play a role in how (coffee) development initiatives will be adopted and adapted to fit local circumstances.

To illustrate this, I use the example of a hypothetical investment in the roll-out of high yielding varieties to amp up yield and quality. It works elsewhere in the world, so why not invest in this in PNG to replace (or add to) the many old and tired coffee plots? So far this sounds good, but let's start by simply looking at the many unsuccessful attempts at developing coffee seedling nurseries. These are often accoladed events with grand openings and newspaper coverage. I have however never seen a follow up showcasing the '12 months later' scenario. In my experience, even if seedlings are given away for free, it is hard to find a loving and caring home for them. Why is that? Just to mention a few reasons: increasing production does not improve market access. Planting more trees is hard work. Rejuvenating a typical smallholder coffee garden (with hundreds of trees) with only a spade and a bush knife at your disposal, and with the help of only a few family members, is an immense task.

If a promising high yielding variety were to be introduced to boost smallholder production, we would add more complications; these seedlings would in a rural PNG setting be a rather costly investment requiring multiple chemical fertilizer applications per annum to be able to deliver to their full potential. In a cash-poor environment with little road access to most coffee gardens, the chances are pretty slim that smallholder producers will invest in bags of fertilizer and carry these to their coffee gardens.

Realities like these need to be understood before engaging in projects with the same objectives again and again without getting the desired result.

We need to look at expected project outcomes from all angles. It is therefore especially exciting to read in the collection of articles presented here for example about the value of garden waste, kitchen scraps and cherry pulp. All these are sources of organic fertilizer to cost-effectively improve or maintain soil fertility. With the variety of research that has been carried out there are of course many more examples we can learn from.

Improving access to markets and simple low-cost and low-tech improvements are the most important (first) steps to take on the long road to improve production and to contribute to improving livelihoods. We learn in one of the articles that it does not matter whether a producer lives in a remote area with little market access or has ample selling opportunity on its doorstep. In both settings there seems to be a substantial lack of awareness on generic pest management practices. The article points out that improved pest and disease management in coffee plots could be accomplished through better shade management. Absence of this knowledge indicates a shortage of (access to) extension services. In my view, this would apply to access to knowledge on best practices in general. Yet we also need to consider this lack of knowledge to be a camouflaged version of a lack of motivation to apply already existing knowledge.

The decline in extension services in Papua New Guinea over the years is in detail described in one of the articles presented here. The article continues to explore alternative approaches to extension services and the value of a more contemporary approach: market driven extension. It is evident to me that no development effort will have any real impact for the grower if a few key points are not met: a firm link between producer and buyer; and a holistic understanding of the supply chain. I am taking the opportunity to add a new but equally important point — the need for price differentiation based on quality, at the producer level.

Imagine that you as a small producer have adopted improved farming techniques and improved post-harvest processes. This was more work but

resulted in a clear uplift in yield and quality. A neighbour who chooses not to bother with all this hard work and instead strip-picks ill-maintained coffee trees, sells its mediocre parchment to the same buyer as you do, and does so at exactly the same price.

An important comment to make here is that appreciation and reward for quality must go both ways. Better cleaning practices are well worth the investment. The increased price an exporter would (or should) pay for a superior coffee is substantial and outweighs the investment of better cleaning of the coffee. If the 'middleman' (the buyer of either parchment or cherry) or the producer him/herself does not understand quality issues or frankly just does not care, we find ourselves in a stalemate position where no quality improvement efforts will be made. Everything will get thrown on the same pile of average quality.

If there is no price difference between superior and mediocre coffee, there is understandably no motivation to improve practices or separate lots based on quality. There must be an opportunity to reward quality and discount second grade coffee when the coffee changes ownership for the very first time.

The differentiation in grades that some dry mills or buying-points apply when purchasing parchment is inconsequential to the overall quality of green bean outturn (and price). These different parchment grades tend to get mixed in the same bulk outturns. This approach does not cater for any special pricing for a producer who delivers properly sun-dried high quality parchment or excellent cherry. Price differentiation at exporter level does happen: coffee is evaluated on all aspects of quality to determine a final price. This is however too late in the supply chain to impact the price received by the actual producer. Keep in mind that smallholder coffee does not get sold to exporters directly by the producers themselves; the volumes per individual are simply too small. The parchment buyer or cherry buyer is the first point of sale.

An immediate improvement would be to effectively enforce existing (quality) regulations. The industry's regulating body, the CIC, has an important role to play. In my view it can and must do more to enforce quality regulations at mill level. A badly operated mill reduces the quality of the coffee it processes (high defects, contamination) and ultimately this has negative price consequences for the producer.

Many amazing and well-meant private initiatives and government financed projects alike, look great on paper. Without a wide-angled look at the supply chain complexities, without the ability to differentiate in quality and price, and without the ability to physically reach markets, any project's success will be short-lived. When after great effort there is no tangible outcome in terms of a better price, the result will be a loss of interest in coffee. Smallholder coffee production is already struggling to compete with other food crops and other smallholder priorities. It is our joint responsibility to be supportive and invest more

time in extension services, in developing market access and rewarding amazing quality. I would like to add: be realistic and do not make promises you cannot keep.

The fruits of an amazing long-term research project that is presented here, brings various research disciplines together and allows us to combine lessons learnt. Be it through valuable soil fertility and nutrient-flow findings, intercropping studies, new processing techniques or insights in socio economic decision-making processes. Let's lead by example where we can, and let's aim to incorporate new (and old) knowledge in our interaction with producers. This can be in the form of market driven extension services, informal contact moments, our day-to-day business decisions or even formal policy making. Appreciate each other's efforts and acknowledge that a firm link between producer, buyer and exporter is crucial to better access to (international) markets. PNG's excellent coffee deserves to be showcased even more on the global stage.