Fair-trade

Evaluating opportunities for Small Coffee Growers

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Introduction

- Papua New Guinea (PNG) is rich in natural resources, with gold, copper, gas and agricultural products comprising the most important sources of export earnings.

- Despite the potential offered by its rich natural resource base, PNG’s economic development has fallen short of expectations.

- In the decades that followed political independence in 1975, the economic development of PNG has been driven by a small modern enclave sector, mainly based on mineral resource extraction, commercial logging and tree crop plantations.
- Government policies has focused exclusively on fostering the development of these activities.

- Because the PNG’s economy is heavily based on resource extraction and plantation agriculture, the economy is substantially driven by world market commodity prices.

- Overall, PNG’s enclave economy experienced significant but fluctuating growth in output and exports since independence, with little impact on the rest of the economy, particularly the agriculture sector.
Papua New Guinea is geographically and culturally diverse with over 700 languages.

A total of 80 to 85% of the population live on subsistence farming and around 40% of the population lives in poverty.

Service delivery is very expensive and logistically challenging and most communities have difficulty accessing quality health care, education and adequate transport.

Papua New Guineans have low life expectancy and high infant and maternal mortality.

There is a significant urban drift from the rural areas to towns and cities, where poverty, unemployment and civil unrest are growing.
Poor areas

- often isolated places with:
  - Very poor accessibility and a consequent lack of government and other services, most importantly education and health, an inability to market agricultural produce
  - Environmental constraints such as annual flooding, steep slopes, high rainfall, poor soils or high altitude
  - Located across distant borders of two or more provinces and no provincial administration takes responsibility for them
  - A low number of well educated people; these areas are politically and economically weak.
There are significant development challenges that PNG faces.

It is imperative that poverty is reduced and or alleviated and this is possible through sustaining economic gains while moving the economy to higher growth path through the promotion of Fair-trade
What is Fair-trade?

Fair-trade Association of Australia and New Zealand (FTAANZ) is deeply committed to working with PNG farmers and local organizations to achieve this through the promotion of Fair-trade.

“When I think of Fair-trade, I think: *Fair for the producer and fair for the consumer.*”
In our globalised world, trade is one of the most powerful forces linking our lives and a source of unprecedented wealth.

World trade could work as a powerful motor to reduce poverty and promote development but that potential is being lost.

The rules that govern international trade are unfairly biased in favour of the rich.

Millions of the world's poorest people are being left behind.

The Fair-trade movement has been one of the most powerful responses to the plight of producers in developing countries who are being excluded from the benefits of international trade.

It gives consumers an opportunity to use their consumer power to tilt the balance in favour of the poor.
Fair-trade ensures that producers in developing countries get a fair deal through:

- A fair and stable price for their product
- Long term trading relations and advance payments
- Investment in local community development
- Environmentally sustainable farming methods
- Support in gaining the knowledge and skills needed to operate successfully in the global economy
- By choosing Fair-trade products, you can make a real difference to the lives of farmers in the developing world.
Over 25 million people in the developing world depend on the coffee industry for their livelihood. But the volatility of coffee prices makes it a very unreliable source of income for farmers.
Coffee prices plummeted to a 30 year low in 2002, leaving hundreds of thousands of farmers unable even to cover their production costs.

Low coffee prices have resulted in widespread malnutrition in coffee growing regions and meant that farmers cannot afford to send their children to school.

Oxfam has found that a growing number of coffee farmers are turning to drug cultivation as a lucrative alternative to coffee production.
And the crisis extends far beyond the coffee growing communities – falling levels of coffee earnings threaten entire economies dependent on export earnings to cover the cost of imports and debt servicing.

But at the other end of the supply chain, the large multinational coffee roasters, who are able use their market power to force low prices and unfair terms on coffee farmers, continue to report substantial profits.
Fair-trade coffee ensure a stable income for farmers

- Fair-trade is about creating more equal trading relationships.
- Under Fair-trade, coffee farmers are paid a stable price that covers production costs and guarantees a sustainable living.
- When the price of Arabica on the open market fell below 70 US cents per pound in 2003, farmers selling to the Fair-trade market received a minimum of 121 US cents per pound.
- In addition, coffee producers receive a premium through the Fair-trade system for investment into local community development projects, such as schools, water wells or training.
Source: Fairtrade Foundation, UK
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Imports and Exports

- PNG’s main imports are sourced from Australia, Singapore and China
- PNG main export destinations are Australia, Japan and China
After years of decline and government deficit, PNG improved in recent years by a general rise in commodity prices and by government steps towards spending control.

The economy continues to grow modestly and the government recorded modest surplus in 2006.
However, the economic improvements are based almost entirely on high commodity prices and the nation continues to have serious problems of:

- Corruption
- A lack of law and order
- Land tenure concerns stifling investments
- Political interference in business
- Lack political will to adopt needed sweeping reforms
Access to international markets is regulated by:
- specific product technical standards
- Importing country’s official protocols
- International standards and protocols

As a member of various international trade agreements PNG’s exports also falls under the standards established under those agreements
FTAANZ carried out a study in PNG to analyze and identify the potential for development and promotion of Fair-trade certification among farmer groups in PNG.

FTAANZ recognized the role that Fair-trade may play in sustaining the basic livelihood of PNGuineans and to address the question of how it can become a tool for poverty reduction and community development.
Since 1998, PNG coffee growers have received a lesser price compared to those received by growers in other coffee producing countries.

High road and shipping transport cost, profitability is low.

A disincentive to reinvest in yield enhancing inputs and other technologies.
Fair-trade system would be beneficial for our coffee farmers as it provides producers two major monetary benefits:

- **The Fair-trade minimum price**
  - a guaranteed price that covers the cost of sustainable production.
  - the set Fair-trade price is always the minimum price paid, but rises if market prices are higher.

- **Fair-trade premium**
  - Fair-trade a development focus, producers also receive a Fair-trade premium which is a separate payment for social and economic development in producing communities.
Coffee

- PNG’s most important crop is Arabica coffee
- Pioneered by estates, it is now a smallholder crop with great potential for increasing yields and raising incomes
- WHP, EHP, Morobe and Simbu account for 90% of the production
- PNG coffee has naturally low levels of caffeine and acidity; no trace of chemicals and pollutants, due to the exclusion of inorganic inputs
PNG coffee farmers are paid prices that are often below the cost of production.

In response, few coffee grower cooperative applied for Fair-trade certification in order to operate within the Fair-trade system for improved returns.
### Fair-trade Certified Coffee Producers in PNG

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<thead>
<tr>
<th>FLO ID</th>
<th>Producer Group</th>
<th>Location</th>
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<tbody>
<tr>
<td>842</td>
<td>Agoga Plantation Ltd</td>
<td>Eastern Highlands</td>
</tr>
<tr>
<td>2897</td>
<td>Highlands Organic Agriculture Cooperative (HOAC)</td>
<td>Eastern Highlands</td>
</tr>
<tr>
<td>5532</td>
<td>Kabwum Organic Agriculture Cooperative (KOAC)</td>
<td>Eastern Highlands</td>
</tr>
<tr>
<td>2761</td>
<td>Yha Hauka Kopi Pty Ltd</td>
<td>Lae</td>
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</tbody>
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AGOGA

- Organized 1981 and certified in 1997 as the 1st fairtrade certified in PNG
- Members (800) share 100 ha plot (+ small family plots)
- 15 containers/yr
- Varieties: Bourbon, Arusha, Mundo Novo
- Harvest season: April-September
- Export season: April-September
Benefits

- Establishment of various social and productive programs (e.g. scholarships to young adults in the community)
- Funding the construction of new elementary school
- Purchased
  - a new wet mill
  - Water tank
  - Depulping machines to improve the quality of coffee beans
Creating a mobile clinic to serve the rural community
Installation of basic electricity and water services at some members homes
Improving road access
New women’s centre

AGOOGA is currently under FLO-CERT corrective action. Needs assistance to improve its governance structure, bookkeeping skills and business plans

AGOOGA exports to US and Europe
HOAC

- Fair-trade certification in 2004
- 2604 registered farmers and living among 32 village communities spread over 500 km² in Purosa valley region
- Support 12,000 family members
- Farmers tend individual plots (organic farming)
- Invested some of its Fair-trade premium to acquire a piece of land in Okapa for central processing
Fair-trade registration has brought the growers together in a common cause for development through self-help.

Obtained other Fair-trade certified spices and honey.

HOAC markets expansion resulted in neighbouring cooperative, KOAC to successfully apply for Fair-trade certification (2008).

Both HOAC & KOAC have strong partnership with Coffee Connections, to whom they sell their organic & certified coffee for export to wholesale distributors in Germany, the US, the UK, Australia, Netherlands and New Zealand.
Scope for new producers

- Fair-trade coffee market is attractive due to better prices and the premium; it is a way out for farmers seeking to escape the low price and low quality trap.
- Only 4% of PNG coffee exports are Fair-trade certified, indicative of an immense potential for development.
- The Specialty Coffee Association of America (SCAA), the world largest coffee trade association ranked PNG’s Agoga Plantation as the 7th best Arabica coffee in the world (over 100 coffees that were judged by 30 judges in 2006).
Strategies

- Creating an awareness among resource poor farmers about Fairtrade
- Formation of co-operative and associations
- Empowerment of co-operatives and associations
- Extension services provided to co-operatives and associations
- Certification of co-operatives and associations
- Marketing of small holder coffee produce to Fairtrade
References

- Fair Trade Association of Australia and New Zealand. 2007. Fairtrade development in Papua New Guinea
- Fairtrade Foundation, UK
- PNG Ministry of Agriculture and Livestock, Development Plan. 2007-2026, Policies and Strategies
Thank you for listening