

PROSPECTS FOR COCOA INDUSTRY IN THE NEW MILLENNIUM

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INTRODUCTION

Allow me to congratulate the national Government and in particular the Deputy Prime Minister and Minister for Agriculture and Livestock - the Honourable Mao Zeming, MP for the foresight in convening this workshop. The objectives of this seminar in defining policies and strategies for the Agriculture sector to take us into the new millenium is timely as agriculture is the most important sector which supports more than 85 percent of the people of this country. The challenges facing agriculture are evolving and there is a need to constantly devise strategies to meet the challenges that lie ahead of us. Today as we enter the digital economy of e-commerce and the internet, the sector must constantly change to face the challenges ahead.

The cocoa industry plays an important role in the Papua New Guinea economy supporting a significant proportion of the population and as an important source of foreign exchange. The last census held in 1990 indicated that a total of 91,000 households depend on the industry for their livelihood by providing cash crop income or wages from employment associated with the industry. The industry is the third most important after coffee and oil palm in terms of its contribution to total agricultural export earnings. In 1998 alone cocoa contributed 9% or K73.3 million of total agricultural export earnings in comparison to that of coffee of 42% (K325.9 million) and oil palm 27% (K207.1 million). Over the past 12 years, the performance of the cocoa industry has come under increasing pressure from general decline in international cocoa prices, natural disasters and adverse weather conditions, plant

diseases and the secessionist rebellion on the major cocoa growing province of Bougainville in 1989. From 1990 onwards, the industry was the recipient of a K96 million loan provided under the Government Agricultural Price Support Scheme (AGPS) that ended in 1995.

I am proud to say that the industry has continued to thrive despite these odds.

CHALLENGES FOR THE INDUSTRY

Prices

The biggest challenge to the industry has been the downward trend in commodity prices which began in mid 1980s and continued up to the present time. Nominal FOB price fell by 55 percent between 1985 and 1990 from K2,013 per tonne to K908 per tonne. The decline in prices results in falling revenues and sends the signal to the grower whether to continue to invest in cocoa or shift to other crops where the returns are higher. Though cocoa prices peaked at K3,213 in 1998, this is lower in real terms due to increases in costs.

Natural and Man-made disasters

Cocoa production reached 32,000 tonnes in 1998/99 cocoa year after declining to 25,132 tonnes in 1996/97 - the lowest in over 27 years. Record production for the industry was attained in 1988/89 at 47,678 tonnes - an increase of 50% compared to the previous year. Following from the peak, production suffered over the next two consecutive years falling by 20% and 33% respectively in 1989/90 and 1990/91, due in part to disruption to production from Bougainville as a result of the crisis and the onset of plant ds-

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eases around that time. Production reached its lowest in 1996/97 at 25,1162 tonnes due to the combined effects of the extended drought and Cyclone Justin.

Constraints

The future viability of the industry is also impeded by lack of or poor transport due to poor infrastructure, which in turn leads to high freight costs and poor marketing facilities. The high capital costs and lack of cheap credit available to farmers have prevented further investment in the industry. The general law and order problem is also a hindrance and adds to cost as cocoa dealers take out insurance against potential threats.

In recent years the increase in costs as a result of the fall in value of the Kina have reduced the margins for the highly commercialised estate or plantation sector. This has resulted in the decline of the production from the plantation sector over the years.

PRESENT INDUSTRY AND GOVERNMENT INITIATIVES

The industry and Government have instituted various measures to support the industry over the years.

Agriculture Price Support Scheme

The Government price support scheme known as the Agriculture Price Support Scheme (AGPS) ended in 1995 with total assistance of K96,859,201 extended to the cocoa industry. The scheme was funded from a K15 million Government grant, K42 million from Stabex funds and the remainder extended as a Government loan to the industry. The industry through the Cocoa Industry Board is required to repay the Government loan through stabilisation levies collected on cocoa exports when the average monthly DIS price exceeds the trigger price currently set at **K2466.75**. Repayments of the loan have ceased since September 1999 as the average monthly DIS price has remained below the trigger price.

The trigger is an estimate of cost of production for a typical cocoa producer. The balance of the Government loan still outstanding to the industry is **K29 million**.

Research and Extension

Coporationisation and privatisation of the research and extension function for the industry were implemented in 1995 to improve efficiency and the services provided to the growers. The PNG Cocoa and Coconut Research Institute (PNGCCRI) was established in 1995 and the PNG Cocoa and Coconut Extension Agency (PNGCCEA) established in 1997 to conduct research and carry out extension services in the industry. The industry has been funding its own research and extension through export levies of K20.00 and K5.00 per tonne respectively with some Government support that amounted to **K1.02 million** to PNGCCRI and a lesser amount allocated to the extension agency. The funding for extension leave much to be desired as it covers only recurrent costs and is insufficient to enable the agency to mount a comprehensive extension program.

Research by PNGCCRI has been successful so far in developing hybrid and clonal varieties that has the potential to increase production. Current research is focussed on improving cocoa quality through the use of solar driers. Papua New Guinea is a leader on the use of solar technology for drying of cocoa where several proto-types of the solar drier have been introduced and adopted by a number of farmers. The adoption of this technology depends upon costs and level of cocoa prices.

The primary function of the PNGCCEA is to improve productivity through timely and effective provision of extension services as well as to improve and maintain quality of cocoa produced and exported to international market.

The Board introduced the Drought and Seed Subsidy Schemes in 1996 and 1997 to assist farmers affected by the drought and cyclone Justin. The Drought Relief Scheme provided

100% subsidy for new planting materials whilst the Seed Subsidy Scheme targeted farmers who expressed interest in expanding their areas under cocoa. These farmers are provided a subsidy of 50% on the cost of new planting materials. Both these schemes were implemented at an estimated cost of **K600,000**.

FUTURE POLICIES AND STRATEGIES

The design of future policies and strategies for the industry must take into consideration the realities of the industry and well-defined limits and factors. There is a need to separate the rhetoric from the realities by focussing on those strategies that could be implemented without incurring significant costs to the industry and Government. For the cocoa industry, the policies and strategies must aim to fulfil the Board's Vision Statement of assisting **"Papua New Guinea cocoa industry participants to have a sustainable livelihood by maximising real wealth in the growing, exporting and manufacturing of cocoa and cocoa products"**.

Strategy 1: Production Target of 100,000 tonnes by 2015.

Guided by this vision statement and mindful of the need to support National Government development objectives, the Board has set a production target of 100,000 tonnes to be achieved over the next 15 years by the year 2015. Current initiatives by the industry - including the expected pick-up in production of 17,000 tonnes from Bougainville is likely to propel production to 57,000 tonnes over the next three years to 2003. We need to plan to achieve at least 2,870 tonnes or 6,825 hectares planted per annum over the next 15 years to achieve our target. In order to achieve this target require annual funding of K3.2 million or K470 per hectare. The Cocoa and Coconut industries are putting together submissions for funding of a 5 year rehabilitation and development program for the two industries which we hope the Government will consider favourably in the coming budget.

Village Cocoa Development Scheme

To achieve the production target the Board enunciated the Village Cocoa Development Scheme (VCDS) as a continuation of previous schemes to assist the farmers overcome the effects of the drought. This scheme has received funding of K200,000 in the Board's current budget. Under this scheme, growers who qualify for assistance receive subsidies on purchases of seedlings and farm equipment and tools. Funding has been exhausted due to the high demand for assistance.

Targeting Resource Project Areas.

The Village Cocoa Development Scheme is targeting new areas for planting cocoa where the mining and forestry infrastructure is already in place and in the case of timber projects the land which is highly suitable has already been cleared and is under-utilised. Some of these areas can be found in West New Britain, New Ireland and West Sepik. The only requirement is to assist the growers by providing them with cocoa seedlings and appropriate tools.

Cocoa Growers and Producers Savings and Loans Society

To support the production drive, the Cocoa Board has decided to part with the rhetoric of diagnosing the problems of the sector by pioneering the establishment of the Cocoa Growers and Producers Savings and Loans Society in June 1999. The establishment of the Growers Savings and Loans is intended to pool the savings of the growers and make it available as cheap loans for further investment in the industry. So far more than 1000 members have signed up and members savings have surpassed the K200,000 mark. We remain hopeful the scheme will address a major constraint in the sector.

Focus on Smallholder Sector

Future policies and strategies will need to target the smallholder sector that has replaced the estate or plantation sector as the dominant pro-

ducer of cocoa in Papua New Guinea accounting for 80 percent of production compared to less than 20 percent in the seventies. The low cost nature of smallholder production which uses minimal inputs such as chemicals and fertilisers explain the resilience of the sector in absorbing the increases in cost of production. Production costs have soared as a result of the depreciation in the value of the Kina.

Revitalisation of the Plantation Sector

Production by the plantation sector sustained heavy losses due to increases in costs of production, poor management and the series of disasters including the Bougainville crisis. In Bougainville alone a total of 56 plantations remain run-down due to the crisis resulting in a significant loss in production of almost 20,000 tonnes. There is a similar story in East New Britain where a number of plantations are now run-down due to poor management. Plantation quality cocoa carries a premium on the world market and it is important that any program for increased production should focus on revival of this sector.

Strategy 2: Increasing Industry Competitiveness

A strategy of maintaining and increasing competitiveness in the industry is important to maintain producer incomes and grower loyalty to an industry facing competition from other export crops and enterprises.

Price Stabilisation

The usual intervention of supporting producer prices has its limitations and has been rejected by both the IMF and World Bank as strategies to beef up crop production. This is for the simple reason that the criteria for continued investment in any enterprise is the return or difference between price received and cost per unit of output. The returns for cocoa output would only increase if price increase or due to a reduction in costs of production. This is the universal law governing investment.

Price support and stabilisation has limited value and cannot be sustained as evident in the Agricultural Price Support Scheme introduced in 1989 and terminated in 1995. The industry has an outstanding loan of K29 million to repay the National Government.

Market Information

The free flow and availability of market information an important characteristic of a perfectly functioning market and in promoting a competitive industry. Cocoa prices are determined on a daily basis at the London and New York terminals. The availability of the internet service in Papua New Guinea will be explored to improve the flow of information regarding the market to the growers and other stake-holders in the industry.

Plans are underway to provide weekly information on the cocoa market and prices utilising the radio services in all cocoa growing provinces.

Price Risk Management

The Board is exploring the possibility of introducing commodity price risk insurance in PNG right to the producer level as a means of managing the fluctuations in cocoa prices and lessening the risk and uncertainty faced by small growers. The Board has sought Stabex funding for a study of the use of price-risk management instruments by cocoa farmers and traders in PNG.

Strategy 3: Quality Improvement

Improvement to the quality of cocoa increases the demand and hence return to the grower. A concerted program is required to run courses for growers on better techniques for harvesting and processing of cocoa. Some years ago quality inspection before export was decentralized to exporters. Unfortunately, there had been laxity resulting in some low quality cocoa being exported. Adequate manpower is required to conduct these programs and to carry on the spot checks on fermentaries to detect weaknesses in quality control. The Board currently has four

operational regional offices manned by Senior Inspection officers whose primary function is to monitor compliance by growers and buyers of cocoa to quality standards set by the Board. There are plans by the Board to increase the number of regional offices to cover most of the main cocoa-growing provinces. Implementation of this plan will depend on availability of funds.

Papua New Guinea is a pioneer in promoting the use of solar-powered dryers with the aim of alleviating the quality problems associated with smoke, taint and poor processing. A number of farmers have adopted the proto-type after the successful field-testing carried out by the PNG Cocoa and Coconut Research Institute. The Cocoa Board is moving to legalize the use of solar dryers in approved areas. Solar dried cocoa will certainly fetch premium prices on the world market.

Strategy 4: Organic Cocoa

An outstanding feature of our cocoa is the fact that it is grown on village plots utilising minimal or no inputs such as chemicals and fertilisers. Papua New Guinea can target the growing niche market for environmentally friendly and organic cocoa with ease. Setting higher standards for organic cocoa and the introduction of accepted organic certification will enhance entry into the organic market.

Strategy 5: Downstream Processing

Downstream processing continues to be a major policy of the National Government and the Board is vigorously pursuing strategies to achieve this objective. The advantage of downstream processing is that it increases value of the product and the returns to the grower.

In addition, downstream processing makes it possible for PNG cocoa to penetrate markets that do not import PNG cocoa directly due to lack of semi-processing facilities. This includes Japan, Australia and New Zealand. A small amount of our cocoa is exported in cocoa butter form that has a higher value than cocoa beans. The Board

is continuing to encourage the private sector to invest more in adding value to their exports.

The Board engaged the services of Wilex and Coconut Product Limited of Western Samoa to undertake a pre-feasibility study on the establishment of a chocolate factory in the country. A number of cocoa companies have expressed interest in participating in such a venture if it does eventuate. Such a project increases the demand for our cocoa and the price growers get for their produce.

CONCLUSION

I conclude by saying this: as far as cocoa is concerned, suitable land is still available in many provinces. At the same time, there is enormous interest in cocoa farming and a lot of people are ready and willing to go into cocoa farming. In the East New Britain and Bougainville Provinces where land availability is becoming a problem, people still express strong interest to go into cocoa farming. There is a need to look at the acquisition of abandoned plantations and have them sub-divided into smallholder plots.

Unfortunately, on the other hand there are certain constraints that must be overcome with the assistance from the National and Provincial Governments, donors and local members of Parliament. These constraints include lack of poor infrastructure, lack of marketing services in some areas and limited marketing services in most areas, lack of credit facilities, poor extension services and high freight costs.

It is our conviction that cocoa is a comparatively and competitively viable tree crop, thus cocoa is here to stay. The challenge is not to rest on our laurels but strive to improve the viability of the cocoa industry further. I hope you agree that with the appropriate financial support from the National Government and Provincial Governments and donors we can achieve a lot for the cocoa industry.

The Board is counting on Government and donor

support to implement these strategies for the benefit of the cocoa growers who live in villages throughout the country. We hope that the development of appropriate strategies that will result from this seminar will be matched by increased resources from the National Government to assist the industries realise their full potential and contribute to achieve the economic and social objectives of the National Government.