On the margins: Third Party Certification among Papua New Guinea small-holder coffee producers

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Demand for Third Party Certified coffee is rising

- Third Party Certification (TPC) describes the process by which a product is certified as meeting the minimum criteria associated with a standard (FairTrade, Organic, Rainforest Alliance, UTZ) via an independent audit (involving a third party).
- TPC offers producers and processors a small premium (2-10%)
- TPC coffee currently represents 8% of the market
- Consumer demand for TPC coffee has grown 25% a year as opposed to about 2% for conventional coffee
- At this growth rate, by 2015 TPC will represent 205 of the market
- Where will it all come from?

Retailers' response to rising consumer demand has pushed TPC into new territories

- Supply has not kept up with demand
- Costs of compliance often lead to the exclusion of smallholders
- 75% of TPC coffee currently comes from Latin America where there are well established co-operatives and rural institutions, as well as public subsidies, to assist small-holders gain access to TPC
- In other regions, like Asia and Oceania, this assistance is increasingly being offered by private-sector
- However the private sector can only provide assistance where the volume of coffee supplied, and the margins they earn, allows them to cover costs

This poses two special problems for the Pacific:

1. Small and remote producers with low volumes are unlikely to be helped
2. The premiums enjoyed by small-producers who do have access, are reduced as these are used to cover the costs of the private sector

PNG Small-holder coffee producer profile

- PNG produces 600,000 tonnes of coffee p.a.; supports 2.5 million people
- 85% of the coffee produced in PNG is produced by smallholder farmers on less than 2 hectares, intercropped with food crops and other cash crops
- Achieve low yields (650kg per ha) because of poor crop and pest management, and low labour inputs because of distance of coffee gardens from home and commitment to food production and social obligations
- 92% of coffee production comes from 3 Highlands provinces located in the remote mountains of PNG

Production and marketing severely hampered by poor condition of roads – indeed estimated that 40% of production fails to make to market

SPC private-sector led coffee certification program

- In 2009 only 5% of PNG coffee TPC; PNG Coffee strategy to increase that to 25%
- Between 2010 and 2012, SPC supported Certification of 6 different small-holder coffee networks in Papua New Guinea, in partnership with 3 different coffee exporters
- Included FairTrade (FLO), Utz, Rainforest Alliance and Organic TPC
- Each exporter maintain their own extension division, funded by coffee sales and donor supports

Evaluation of coffee TPC program

- In 2012 investigated the costs and benefits of private-sector TPC support to 1400 producers in 3 different networks under 3 different TPC standards

Farmer Network A (FairTrade FLO)

- 237 farmers located 1.5 hours from coffee exporter. Average number of coffee trees was 1351 spread across 0.5 ha of land. Coffee supplied to exporter per farmer: 146.33 kg

Farmer Network B (Rainforest Alliance)

- 238 farmers located 4.5 hours from coffee exporter. Average number of coffee trees 1985 spread across 0.8 ha of land. Coffee supplied to exporter per farmer was 82.44 kg

Farmer Network C (Utz)

- 617 farmers located 6 hours from coffee exporter. Average number of coffee trees was 3310 spread across 1.4 ha of land. Coffee supplied to exporter per farmer was 419.51 kg

Costs and Benefits of TPC coffee

Figure 1: Financial benefits of certification for farmers 2010-11 (PGK)

	A (FLO)	B (RFA)	C (UTZ)
Green bean supplied (KG)	34,680	19,620	258,840
Premium per KG	0.65	0.92	0.46
TOTAL PREMIUM	**22,542.00**	**18,050.40**	**119,066.40**
Number of farmers in the sample	237	238	617
BENEFIT PER FARMER	**95.11**	**75.84**	**192.98**

Note: FX PGK to the USD, 2011 average: 2.123

Figure 2: Cost of certification to the Coffee Exporter A, 2010-11 (PGK)

	A (FLO)	B (RFA)	C (UTZ)
Number of farmers	237	238	617
TOTAL COST	74,612.04	51,035.80	147,679.62
TOTAL COST PER FARMER	**338.96**	**214.44**	**239.35**

* Based upon audited financial records of company 2010-2011

Compliance costs borne by farmer network

Figure 3: Cost of certification to Farmer Network A, B and C, 2010-11 (PGK)

	A (FLO)	B (RFA)	C (UTZ)
Total hours of labour input per network	7089.5†	11,328¥	10,578β
No. of farmers	237	238	617
Total hours of labour input per farmer	29.91	47.6	17.14
Local daily wage (PGK)	15	16	12
TOTAL COST OF LABOUR	**13,180.31**	**22,656.00**	**15,867.00**
TOTAL COST OF LABOUR PER FARMER	**55.61**	**95.19**	**25.72**

Note: FX PGK to the USD, 2011 average: 2.123

* Based upon interviews with farm network leaders, supplemented by interviews with extension agents leading the training

Net Benefit of TPC program for farmers

Figure 4: Net benefit to farmers from Third Party Certification 2010-11 (PGK)

	A (FLO)	B (RFA)	C (UTZ)
TOTAL COST OF LABOUR PER FARMER	55.61	95.19	25.72
BENEFIT PER FARMER	95.11	75.84	192.98
NET RESULT PER FARMER	**39.50**	**-19.35**	**167.26**

Note: FX PGK to the USD, 2011 average: 2.123

- TPC certification under these two standards is beneficial for smallholder coffee producers in PNG, for UTZ and FLO
- UTZ provides farmers with by far the most benefits, as a result of that the standard places relatively fewer demands on smallholder time, despite offering a lower rate of premium
- The quantity of coffee supplied by a farmer is the most important factor in determining whether a farmer benefits from certification. Farmers that supply a higher quantity of certified coffee to exporters will benefit under private sector supported certification

Farmer selection for TPC by the private sector

- The coffee exporter selects based upon expected supply, which is determined from: # of trees, predicted yield and predicted rate of sideline selling
- 50-85 per cent of TPC coffee that could have been sold for a premium in the Highlands of PNG, is ‘sidelined’ or sold to alternate ‘predatory’ buyers at a much lower rate
- This is a result of PNG smallholders maintaining a very high discount rate on future earnings vis a vis cash in hand, because of high probability of failure of marketing linkages: road infrastructure regularly fails; buyer’s truck breaks down or is unable to carry full capacity of coffee freight; tribal conflicts or compensation demands lead to road blockades
- This severely affects ‘trust’ of private sector and reduces their ability to predict volume of coffee supply and rates of return, and therefore their willingness to invest in TPC training

Sideline selling of coffee: barrier to private sector investment in TPC

Figure 5: Proportion of production of certified coffee failing to reach certified markets

	A (FLO)	B (RFA)	C (UTZ)
No. of farmers	237	238	617
Average number of coffee trees per farmer	1351	1985	3310
Green bean (KG) supplied per farmer 2010-2011	146.33	82.44	419.51
Potential green bean (KG) supplied per farmer 2010-2011	351.26	516.10	860.60
Potential % coffee production NOT reaching certified markets	58.34%	84.03%	51.26%

Note: FX PGK to the USD, 2011 average: 2.123

Conclusions

- In most cases the benefits of TPC for farmers outweigh the costs; yet only a few thousand farmers supply this market.
- The rapid increase in demand for TPC coffee is leading the private sector to source certified coffee from producers in places like PNG, yet their capacity to do so is limited by the high cost of assisting small and remote farmers into TPC markets, and the high probability of sideline selling
- Donors and the public sector can directly subsidize private sector extension or through cross-subsidization, such as by improving rural infrastructure and rural institutions such as farmer organizations to reduce costs of compliance and improve marketing