

# Fair Trade Coffee Chains in PNG: Do Smallholders receive Better Returns and do Communities benefit?

Wayne Powae, Sandra Martin and Liesbeth Dries

#### Introduction

- Coffee an important smallholder crop in PNG
- Most coffee exported through conventional commodity chains
- It is thought that alternative chains could improve smallholder returns eg
  - Fair Trade
  - Organic
  - Specialty

#### Introduction

- Fair Trade aims to:
  - Get a premium in the marketplace
  - Transmit this premium back to smallholder producers and their communities
    - Fewer intermediaries
  - Premium arises from credence attribute (Fair Trade)
    - Signalled to consumers through FLO certification

#### Introduction

- Some literature suggests that coffee smallholders receive very low margins
- Other literature disputes this for PNG
- Study Objective:
  - Do smallholders in the PNG Highlands producing coffee and selling it through a Fair Trade chain receive higher returns than those who sell their coffee through a conventional chain?

### Methodology

- Comparison of two case study chains
  - Same district in PNG Highlands
  - One selling certified organic coffee through a Fair Trade chain
  - One selling coffee through a more conventional chain
- PNG parts of the chain studied in depth
- 31 interviewees across two chains, including smallholders, Fair Trade Cooperative Board members, processor, exporters

#### **Results: Processes**

- Smallholders grow coffee
- When ripe, harvest cherries from the coffee trees
- Cherries process into parchment
  - Pulping and fermentation of cherries into dry beans
- Parchment processed into green beans
  - Further drying, hulling to remove husks, polishing
- Bagging and grading

- Input suppliers, smallholder coffee producers, exporter, supported by Fair Trade Cooperative
- Cooperative has 3,600 members
  - Does not trade; purpose is to collect and distribute Fair Trade premium for community development
  - Use of premium audited annually; cooperative facilitates all FLO auditing processes

- Smallholders
  - Grow and harvest organically certified cherries
  - Process cherries into parchment
  - Transport to village depot or main provincial centre for sale to exporter

- Exporter
  - Has Fair Trade and organic certification
  - Aggregates supply from smallholders
  - Processes into green bean
  - Exports
  - Pays Fair Trade Certification fee

- Input suppliers, smallholder coffee producers, processor, exporter
- Smallholders
  - Grow and harvest cherries
  - Process cherries into parchment
  - Sell to processor's buying agent in local village or on roadside in provincial capital

- Processor
  - Hires a processing mill and processes parchment into green bean
  - Operates on a 'wantok' system with its agents and smallholders
    - Enhances social cohesion, chain loyalty, and gives them some competitive buying advantage
  - Sells green bean coffee to exporter based in provincial capital

- Exporter
  - Cleans, sorts, grading, bagging, labelling, cupping
  - Sells to overseas importers
  - Part of an international corporation with interests in several coffee producing countries and links with importers in coffee consuming countries
  - Links coffee producers and roasters

### Table 1: Average 2008 Returns in two PNG Case Study Coffee Chains

Chain Member	Chain 1 (K/kg)	Chain 2 (K/kg)
Exporter	9.71	9.70
Processor		6.70
Smallholder		
from Exporter	4.70	
from Processor		4.50
Community (Fair Trade Cooperative)		

0.32

0.95

Fair Trade Premium

**Organic Premium** 

## Table 2: 2008 Margins in two Case Study PNG Coffee Chains

Chain Member Chain 1 (K/kg)

Chain 2 (K/kg)

Exporter 3.74 (38%)

3.00 (31%)

**Processor** 

2.20 (23%)

Smallholder

4.70 (48%)

4.50 (46%)

Community (Fair

1.27 (13%)

Trade Co-operative)

#### **Discussion and Conclusion**

- In-country returns similar in both chains
  - Possible to get the same return as Fair Trade organic chains with well-organised conventional chains
  - Conventional chains can exploit higher-value market niches
- Producers in both chains got much higher share of margin than suggested by previous literature

#### **Discussion and Conclusion**

- In-country returns similar but distribution of margin along chains different
  - Fair Trade chain cut a link out of the chain
    - Exporter cut out processor and integrated this function into its own operations
  - Exporter gained greater margin than exporter in conventional chain
  - Majority of savings from cutting out processor went to the community through Fair Trade and organic premium

#### **Discussion and Conclusion**

- Smallholder producers in Fair Trade and organic coffee chain got a similar return to smallholders in the more conventional chain
- Creates low incentive for producers to remain committed to Fair Trade and organic chain, particularly since more effort required of them
- Free rider problem since whole community benefits from returns from Fair Trade and organic chain but some smallholders sell through the conventional chain at less effort, but still derive community benefit



## Centre for International Development

A Lincoln University Research Centre.

New Zealand's specialist land-based university.