

Fairtrade development in Papua New Guinea



Linking Producers in Asia Pacific with Traders in Australia and New Zealand

FTAANZ is proud to say that this Report is the product of indigenous thinking, experts, scholars, government officials, representatives of non-governmental organizations, civil society and the private sector, and many people from different walks of life.

Abbreviations

Asia Pacific Economic Cooperation	APEC
Australia-PNG Trade and Commerce relations Agreement	PATCRA
Economic Partnership Agreement	EPA
European Union	EU
Fair Trade Association of Australia and New Zealand	FTAANZ
Fairtrade Labelling Australia and New Zealand	FLANZ
Fairtrade Labelling Organization	FLO
Forest Stewardship Council	FSC
Highlands Organic Agriculture Cooperative	HOAC
International Fair Trade Association	IFAT
Kabwun Organic Agriculture Cooperative	KOAC
Melanesian Spearhead Group	MSG
Non-Governmental Organization	NGO
Pacific Agreement on Closer Economic Relations	PACER
Pacific Island Countries Trade Agreement	PICTA
Papua New Guinea	PNG
South Pacific Regional Trade and Economic Agreement	SPARTECA
United Nations	UN
World Trade Organization	WTO
Worldwide Fund for Nature	WWF
Yha Hauka Kopi	YHK

“Any definition of a culture of peace
must address the problem of achieving justice for communities and individuals
who do not have the means to compete or cope
without structured assistance and compassionate help.”
Mahnaz Afkhami



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Fairtrade Feasibility Study in PNG

Introduction

Papua New Guinea's population is geographically and culturally diverse with over 700 disparate cultural groups, many in remote areas. Service delivery is expensive and logistically challenging and most communities have difficulty accessing quality health care, education and adequate transport.

The bulk of the 6.1 million people living in PNG rely on the large informal sector for their subsistence farming and around 40 per cent of the population lives in poverty - that is, on less than US\$1 a day. As a consequence, Papua New Guineans have low life expectancy and high infant and maternal mortality.

Furthermore, most Papua New Guineans live in rural areas, but poor rural conditions mean more people are moving to urban centres, where poverty, unemployment and civil unrest is growing.

PNG faces significant development challenges. To reduce poverty PNG needs to sustain recent economic gains while moving the economy to a higher growth path. FTAANZ is deeply committed to working with PNG farmers and local organizations to achieve this through the promotion of Fairtrade.

Fairtrade's strategic intent is to deliberately work with marginalised producers and workers in order to help them move from a position of vulnerability to security and economic self-sufficiency. It also aims at empowering them to become stakeholders in their own organizations and actively play a wider role in the global arena to achieve greater equity in international trade.

The present study aims at analyzing and identifying the potential for development and promotion of Fairtrade certification among farmer groups in PNG and regarding different products. The scoping has included partners and their experiences as well as analysis of the local infrastructure and political and economic situation.

FTAANZ considered it essential to launch this survey to fully assess and comprehend the potential for Fairtrade in the country. The aim of this analysis is to establish long-term working priorities and to identify areas of cooperation between FTAANZ, local NGOs and companies, and Australia and New Zealand traders.

In undertaking this feasibility study, FTAANZ attempts to consider how to add value through Fairtrade for the work of local producers. This information will serve as the basis to design business development projects to be carried out with different producer groups in PNG.

For the development of this assessment several interviews with current and potential Fairtrade producers, traders, consumers, and governmental authorities have been carried out as well as analysis of statistics, current practices and legislative documents and reports from relevant national and international organizations.

Context

A prime objective of Fairtrade is to develop access to markets in developed countries for producers who are marginalized by conventional trading structures. Fairtrade encourages direct trading relationships between producer organizations and importers. Fostering direct trade reduces smallholder producer dependence on middlemen, allowing for increased information flows and communication between producers and buyers about issues such as market prices, quality and realities of production.

Questions such as how can Fairtrade improve the conditions of the worse off sections of the population in PNG have motivated the present study, which not only draws on many issues and country-based studies and papers shared by local partners, but also benefits from the feedback on the approach and content obtained from regional workshops, stakeholder consultations and technical meetings. The process of gathering inputs and ideas from diverse, informed sources in the region has been very full and rich.

The country

This section aims to provide the framework pertinent to an understanding of the current context and role of agriculture in PNG. Given time and resource constraints, what follows is a condensed summary of a large body of literature.

- Politics and governance

PNG is a parliamentary representative democratic monarchy within the Commonwealth of Nations, whereby the Prime Minister is the head of government and of a pluriform multi-party system.

Unfortunately, the government of PNG is characterized by weak political parties and highly unstable parliamentary coalitions.

Corruption is prevalent throughout the government sector, "claiming a third of the national budget each year"¹. This practice has spread to the villages, especially where major forestry and mining sites are located.

In opposition to this, Fairtrade involves and promotes transparent management and commercial relations to deal fairly and respectfully with trading partners.

Transparency is introduced as a means of fighting corruption and develop Fairtrade organizations into instruments for the social and economical development of their members.



Capital:
Port Moresby

Independence
- Self-governing From Australia
- Independence December 1, 1973
September 16, 1975

Area
- Total 462,840 km² (54th)
178,703 sq mi

- Water (%) 2

Population

- July 2005 estimate 5,887,000 (104th)
- Density 13/km² (201st)
34/sq mi

GDP (PPP) 2005 estimate
- Total \$14.363 billion (126th)
- Per capita \$2,418 (131st)

Gini (1996) 50.9 (high)

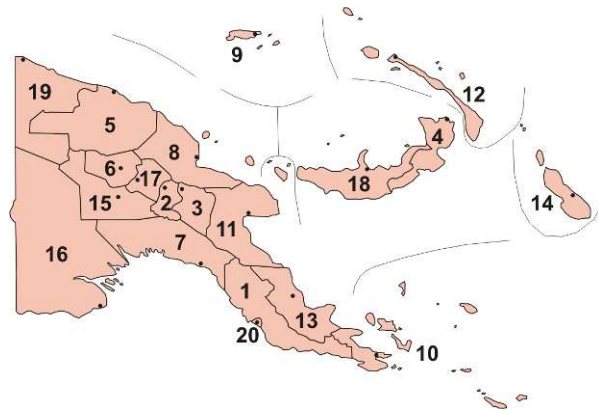
HDI (2007) 0.530 (medium)(145th)

¹ Transparency International-PNG Chairman Mike Manning at the Anti-Corruption Conference held in port Moresby, PNG, on 6 December 2007.

- Geography and transport

PNG has twenty province-level divisions: eighteen provinces, one autonomous province (Bougainville) and the National Capital District.

- | | |
|-----------------------------|-------------------------------|
| 1. Central | 14. Bougainville |
| 2. Chimbu (Simbu) | (North Solomons) |
| 3. Eastern Highlands | 15. Southern Highlands |
| 4. East New Britain | 16. Western Province (Fly) |
| 5. East Sepik | 17. Western Highlands |
| 6. Enga | 18. West New Britain |
| 7. Gulf | 19. West Sepik (Sandaun) |
| 8. Madang | 20. National Capital District |
| 9. Manus | |
| 10. Milne Bay | |
| 11. Morobe | |
| 12. New Ireland | |
| 13. Northern (Oro) Province | |



PNG is mostly mountainous and covered with rain forest, as well as very large wetland areas surrounding the Sepik and Fly rivers. There are a number of active volcanoes and eruptions are frequent. Earthquakes are relatively common, sometimes accompanied by mud slides and tsunamis. This entails rapid deterioration of the roads, which are very costly to construct and maintain. In many areas, planes are the only means of transport.

The roads and transport systems play a very important role in PNG's economy, but for most rural Papua New Guineans walking is the only means of transportation. The willingness to make a trip and its duration, to market or to school, for example, depends largely on the quality of the road. Improving the quality of roads would enhance the social and economic conditions of farmers.

A recent socio-economic impact study associated with a road maintenance and rehabilitation program² found a link between transport projects and poverty reduction. It found that roads and bridges bring economic growth to remote villages and, more than that, direct positive impacts to agricultural activities and farmers ability to get to markets, increasing their income and access to health and education.

Provincial authorities are currently investigating new opportunities to fund road works in an effort to increase the economic activities of villages and the lives of their villagers.

- Land tenure system

The PNG Legislature has enacted various laws recognizing a tenure called "customary land title", meaning that the traditional lands of the indigenous people have legal basis to inalienable tenure. This customary land notionally covers most of the usable land in the country (some 97 per cent of total land area)³.

The precise nature of the seisin varies from one culture to another. Many writers portray land as in the communal ownership of traditional clans; however, closer studies usually show that the smallest portions of land whose ownership cannot be further divided are held by the individual heads of extended families and their descendants, or their descendants alone if they have recently died.

Alienated land is either held privately under State Lease or is government land. Freehold Title (also known as fee simple) can only be held by PNG citizens, but there is virtually no freehold title; the few existing freeholds are automatically converted to State Lease when they are transferred between vendor and purchaser.

² http://www-wds.worldbank.org/external/default/main?pagePK=64193027&piPK=64187937&theSitePK=523679&menuPK=64187510&searchMenuPK=64187283&siteName=WDS&entityID=000020953_20070409085526

³ Lynne Armitage, Customary Land Tenure in Papua New Guinea: Status and Prospects, Queensland University of Technology.

This is a matter of vital importance because a problem of economic development is identifying who the membership of customary landowning groups is, and thus who the owners are. Disputes between private companies and landowner groups often devolve on the issue of whether the companies entered into contractual relations for the use of land with the true owners.

However, it is possible to use existing legislation to make land available for large scale agricultural development. The Land Act 1996 provides that the State may acquire customary land for the grant of special agricultural and business lease. An instrument of lease in the approved form, executed by or on behalf of the customary landowners is conclusive evidence that all customary rights in the land are suspended for the lease period to the State⁴. The Minister may grant agricultural or pastoral lease to a person or a land or business groups or incorporated body to whom the customary landowners have agreed that such a lease should be granted⁵. Such leases do not exceed 99 years.

Many researchers argue that PNG's problems in large part stem from the denial of private property rights to agricultural producers⁶. One of the most quoted statements in PNG relating to land states something different⁷:

Land is our life. Land is our physical life – food and sustenance. Land is our social life: it is marriage; it is status; it is security; it is politics; in fact it is our only world. When you [the Administration] take our land, you cut away the very heart of our existence. We have little or no experience of social survival detached from the land. For us to be completely landless is a nightmare which no dollar in the pocket or dollar in the bank will allay: we are a threatened people.

It is clear that communities in most parts of PNG retain strong cultural associations to land. However, the relationship also has a strongly pragmatic basis: land provides the economic and social basis for the society through subsistence agriculture.

- Economy and finance

PNG is one of the most rural countries in the world, with only 18 per cent of its people living in urban centres⁸. The majority of the population lives in traditional societies and practices subsistence-based agriculture.

PNG is richly endowed with natural resources - including minerals, timber, and fish, and produces a variety of commercial agricultural products. However, only 30 per cent of its land is suitable for agricultural development due to the mountain ranges, high rainfall, long dry seasons, and excessive cloud cover in several areas.

The economy generally can be separated into subsistence and market sectors, although the distinction is blurred by smallholder cash cropping of coffee, cocoa, and copra. About 75 per cent of the country's population relies primarily on the subsistence economy. The minerals, timber, and fish sectors are dominated by foreign investors.

Agriculture currently accounts for 30.4 per cent of GDP and supports more than 85 per cent of the population, although less than 2 per cent of the land is used for permanent crops⁹. In this regard, PNG's main agricultural commodities are outlined in the following table:¹⁰

⁴ Land Act 1996 Part III Div. 4 Sec. 2.

⁵ Land Act 1966 Part X Div 3, 4, 9.

⁶ Gosarevski, S., Hughes, H. and Windybank, S., 2004. 'Is Papua New Guinea viable?', *Pacific Economic Bulletin*, 19(1):134–48.

⁷ Dove, J., Togolo, M. & Miriung, T. 1974 Mining Bitterness. In *Problems of Choice: Land in Papua New Guinea's Future* (ed. P. Sack). Canberra: ANUP.

⁸ World Bank data on urbanisation. *World Development Indicators*. World Bank, 2005.

⁹ Central Intelligence Agency, *The World Factbook* - PNG, 2005.

<https://www.cia.gov/library/publications/the-world-factbook/geos/pp.html>

¹⁰ PNG Ministry of Agriculture and Livestock, *National Agriculture Development Plan 2007-2016*, 2007.

Province	Main products																	Area (km ²)	Population
	coconut	oil palm	aquaculture	indigenous food crops	cocoa	rubber	rice	vanilla	betel nut	robusta coffee	arabica coffee	Sheep	exotic food crops	other spices	cattle	crocodile farming	sago		
Central	X	X	X	X	X	X	X		X	X	X	X	X	X	X			29,500	161,447
Chimbu			X	X			X	X			X	X	X	X	X			6,100	187,809
E. Highlands			X	X			X	X			X	X	X	X	X			11,200	316,802
E. New Britain	X	X	X	X		X	X		X	X		X	X	X	X			15,500	235,712
E. Sepik	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		42,800	280,340
Enga			X	X			X					X	X	X	X			12,800	279,046
Gulf	X	X	X	X	X	X	X	X		X		X	X	X	X	X		34,500	72,794
Madang	X	X	X	X	X	X	X	X	X	X		X	X	X	X	X		29,000	288,317
Manus	X	X	X	X	X	X	X	X	X	X		X	X	X	X			2,100	38,697
Milne Bay	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X			14,000	185,000
Morobe	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		34,500	439,725
New Ireland	X	X	X	X	X	X	X	X	X	X		X	X	X	X	X		9,600	105,893
Oro (Northern)	X	X	X	X	X	X	X	X	X	X		X	X	X	X			22,800	112,985
Bougainville	X	X	X	X	X		X	X	X	X		X		X	X			9,300	178,262
S. Highlands			X	X				X		X	X	X	X	X	X			23,800	390,240
Western	X	X	X	X		X	X	X	X	X		X	X	X	X	X		99,300	126,411
W. Highlands		X	X	X			X				X	X	X	X	X			8,500	398,376
W. New Britain	X	X	X	X	X	X	X	X	X	X		X	X	X	X			21,000	170,485
Sandaun	X	X	X	X	X	X	X	X	X	X		X	X	X	X	X	X	36,300	160,349
Capital District																		240	271,813

X Existing and potential for expansion

X Potential for development

Additionally, about 40 per cent of the country is covered with exploitable trees, but a domestic woodworking industry has been slow to develop. A number of Southeast Asian companies are active in the timber industry, but the World Bank and other donors have withdrawn support from the sector over concern for unregulated deforestation and environmental damage.

PNG's main imports are sourced from Australia, Japan, the US, Singapore, New Zealand, the UK, China and Hong Kong. The main destination of PNG's exports are Australia, Japan, South Korea, China, Germany, the US, the UK and Singapore. Most of those exports take place through third countries¹¹.

PNG's principal export destinations

- 1 Australia 30.1%
- 2 Japan 8.1%
- 3 China 5.7%

PNG's principal import sources

- 1 Australia 52.3%
- 2 Singapore 12.6%
- 3 China 5.9%

After years of decline and government deficit, PNG was bolstered in recent years by a general rise in commodity prices and by government steps toward spending control. The economy continues to grow modestly and the government recorded a 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 investment, political interference in business, and a lack of political will to adopt needed sweeping reforms.

Access to international markets is regulated by specific product technical standards, importing country's official protocols, and international product standards and protocols. As a member of the various international trade agreements PNG's exports also fall under the standards established under those agreements. Currently PNG is a member of WTO, SPARTECA and MSG trade agreements. It is still negotiating the terms of the EPA with the EU and PICTA with other Pacific Island countries.

¹¹ Compiled by the Market Information Analysis Section, AUSAID-DFAT, using data from ABS, the IMF and various international sources, 2006.

PNG is also a member of the APEC commercial arrangement and together with the other PICs is still negotiating the PACER economic relationship with Australia and New Zealand.

On bilateral level, PNG has a bilateral agreement with Australia under Australia-PNG Trade and Commerce Relations Agreement (PATCRA) that establishes a non-reciprocal free-trade area providing duty-free access for all exports to Australia.

- International Support

Australia is by far the largest bilateral aid donor to PNG, offering about \$300 million a year in assistance. Budgetary support, which has been provided in decreasing amounts since independence, was phased out in 2000, with aid concentrated on project development.

Other major sources of aid to PNG are Japan, the European Union, the People's Republic of China, Taiwan, the UN, the Asian Development Bank, the International Monetary Fund, and the World Bank.

Volunteers from a number of countries and mission church workers also provide education, health, and development assistance throughout the country. Foreign assistance to PNG is approximately \$46 per capita.

The Prospects of Fairtrade in PNG

As stated earlier, Fairtrade supports private entrepreneurship against international aid as the main path to eradicate poverty. Fairtrade promotes a trading partnership, based on dialogue, transparency and respect that aims at greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of disadvantaged producers and workers - especially in the South.



In recent years, PNG producer representatives have repeatedly expressed their desire to get Fairtrade certification to promote their products for export.

FTAANZ carried out the present survey in recognition of the role that Fairtrade may play in sustaining the basic livelihood of Papua New Guineans and to address the question of how it can become a tool for poverty reduction and community development in the country.

The goal of this study is to develop a platform for FTAANZ and other producer support organizations and the private sector to venture into a strategic partnership with rural communities that need assistance to participate in the

economic development of the country, and thereby guarantee food security and improved quality of life for all their members.

- Individual and Community Benefits

According to the UN Food and Agriculture Organisation, world food prices rose 40 per cent last year and a further 50 per cent this year. However, farmers in the developing world have never been paid as little for the commodities they produce. With such prices, most farmers in PNG cannot maintain their families or their land, and are in debt because of lack of profitability¹².

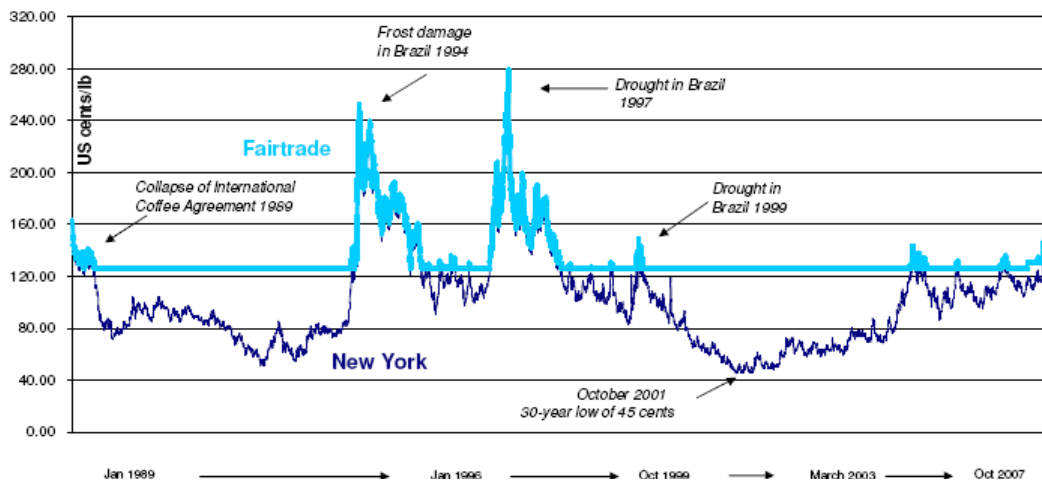
¹² PNG Ministry of Agriculture and Livestock, Development Plan 2007 - 1026, Policies and Strategies Vol. I.

Since 1998, PNG coffee growers have received a lesser price compared to that received by growers in other coffee producing countries. Together with high road transport and shipping cost, profitability is low and a disincentive to reinvest in yield enhancing inputs and other technology.

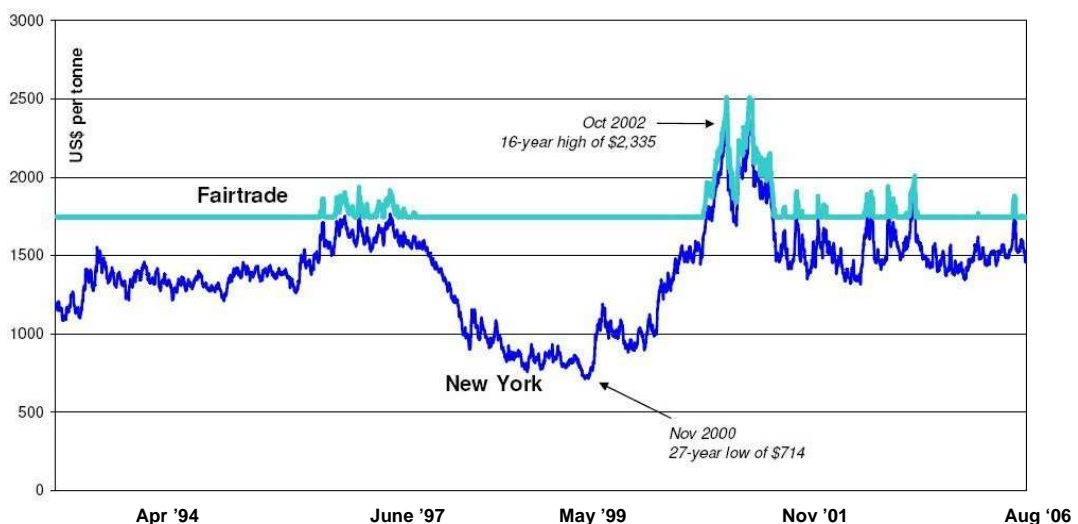
The Fairtrade system would be beneficial for them as it provides producers two major monetary benefits: the Fairtrade minimum price and the Fairtrade premium.

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

The Arabica Coffee Market 1989-2007: Comparison of Fairtrade and New York Exchange Prices¹³



The Cocoa Market 1994-2006: Comparison of Fairtrade and New York Exchange Prices



¹³ Source: Fairtrade Foundation UK.

Because Fairtrade has a development focus, producers also receive a Fairtrade premium, which is a separate payment designated for social and economic development in the producing communities.

The producers themselves decide how these funds are to be spent. As part of the Fairtrade criteria, certified producers are accountable to FLO-CERT for the use of this money, which is generally used for improvements in health, education or other social facilities, although it may also be used for development projects to enable growers to improve productivity or reduce their reliance on single commodities.



Due to the infrastructure and capacity limitations of rural areas in PNG, the Fairtrade premium may be the one tool to contribute to the long term sustainability of the resource base and of the community. Several independent Fairtrade impact studies have demonstrated that Fairtrade certification yields economic benefits as well as social and environmental advantages¹⁵.

Farmers in PNG would benefit from being organized into clusters - or other functional groups that suit their local culture and practices - to improve business and reduce costs, ease communication and mobilization, and to provide channels for technical assistance and advisory services and training.

Additionally, farmers may use their increased economic and social leverage to pursue political objectives and improve representation of their community problems at governmental level. Many rural areas have never been visited by governmental officers in PNG, which has resulted in lack of adequate farmer representation, break-down in public services, problems of law and order, and a general sense of abandonment.

¹⁴ The FLO Standards are public and can be consulted at: www.fairtrade.net

¹⁵ See:

- Jaffee, Daniel (2007). *Brewing Justice: Fair Trade Coffee, Sustainability and Survival*. University of California Press. ISBN 978-0-520-24959-2
- Ronchi, L. (2002). *The Impact of Fair Trade on Producers and their Organizations: A Case Study with CooCafe in Costa Rica*. University of Sussex.
- Murray D., Reynolds L. & Taylor P. (2003). *One Cup at a time: Poverty Alleviation and Fair Trade coffee in Latin America*. Colorado State University.
- Taylor, Pete Leigh (2002). *Poverty Alleviation Through Participation in Fair Trade Coffee Networks*, Colorado State University.
- Eberhart, N. (2005). *Synthèse de l'étude d'impact du commerce équitable sur les organisations et familles paysannes et leurs territoires dans la filière café des Yungas de Bolivie*. Agronomes et Vétérinaires sans frontières.
- Bacon, C. 2005. *Confronting the Coffee Crisis: Can Fair Trade, Organic, and Specialty Coffees Reduce Small-Scale Farmer Vulnerability in Northern Nicaragua?* World Development Vol. 33, No. 3.
- L. Becchetti, M. Costantino (2006). *Fair Trade on marginalised producers: an impact analysis on Kenyan farmers, working paper CEIS 220 and working paper ECINEQ2006*.
- Imhof, Sandra and Andrew Lee (2007). *Assessing the Potential of Fair Trade for Poverty Reduction and Conflict Prevention: A Case Study of Bolivian Coffee Producers*.

With the organization of the Highlands Organic Agriculture Cooperative (HOAC - FLO ID 2897), farmers in very remote areas of Eastern Highlands province are striving to revert this situation as they nominated their Chairperson, Daniel Kinne, to run for the Okapa seat at the 2007 national parliamentary elections.

Even though Mr. Kinne did not win the elections, the fact that he became a candidate was considered a success by the local community: it was the result of the cooperative's organization and commitment to bring their problems to the attention of the government.



The Fairtrade requirement to have farmers organized under transparent and democratic structures will put the Papua New Guinean farmers in a better position to lobby with authorities and demand that it improves the poor state and high costs of transport and local communication, which are the major impediments to agricultural development.

In the meantime and with adequate assistance, Fairtrade certification in PNG may also help farming communities target diverse issues that have been otherwise neglected by the government, such as health and hygiene, sanitation, family planning, child education, farm awareness campaigns, and adult literacy.

Additionally, Fairtrade is closely related to internationally recognized standards and conventions, particularly those of the International Labour Organization (ILO). In this regard, Fairtrade requires that producer organizations are free from discrimination made on the basis of race, colour, sex, sexual orientation, marital status, age, religion, political opinion, union membership, national extraction or social origin in recruitment, promotion, access to training, remuneration, allocation of work, termination, retirement or other activities. The promotion of Fairtrade standards among rural communities in PNG could improve the recognition of women's contributions to agriculture and natural resource management and increase awareness regarding the devastation of HIV/AIDS in the region.



- Fairtrade Certifiable Crops

The tree crop sector, among which coffee, cocoa, coconut, tea and spices, all Fairtrade certifiable commodities, is one of the most important foreign currency earners for PNG¹⁶.

Since PNG produces and exports less than 2 per cent of the world export volumes of any of these crops, production for Fairtrade export may be increased without causing any significant impact on world prices.

Coffee

Arabica coffee is PNG's most important crop, both in terms of foreign exchange and its contribution to income and employment. Pioneered by estates, coffee is now primarily a smallholder crop with great potential for increasing yields and raising farm incomes.

Although coffee grows in 14 provinces in the country, production is centered in Western Highlands, Eastern Highlands, Morobe and Simbu. These provinces account for 90 per cent of the national coffee production. Other important producers include East Sepik, Enga and Southern Highlands¹⁷.

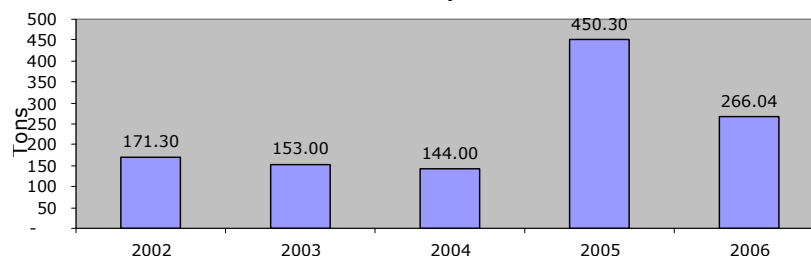
Pure economics dictate traditional and natural farming procedures; chemicals, synthetic fertilisers and pesticides are both unknown and unobtainable because of cost and logistics, resulting in a coffee with naturally low levels of caffeine and acidity, and no trace of chemicals and pollutants.

Coffee production in PNG has increased at an average rate of 3 per cent per year since 1975. From 65,000 bags in 1975, production has increased to 1.1 million bags (66,000 tons) per year in the last 10 years. Smallholder production has increased to 85 per cent while estate production dropped to under 20 per cent. Of a total of 461 plantations registered with the Coffee Industry Corporation, all but half a dozen of the largest are owned by local, village-based business groups or individuals¹⁸.

Coffee farmers in PNG are among the poorest in the world, as the price they are paid for their coffee - when they succeed at getting it to the market place - is often below the cost of production.

In response to this, a few coffee grower cooperatives applied for Fairtrade certification in order to operate within the Fairtrade system and obtain better returns for their coffee.

Fairtrade Certified Coffee Exports PNG 2002 - 2006¹⁹



The PNG Fairtrade export figures dropped in 2006 as Kway Organic (FLO ID 916) was decertified in 2005 after not complying with FLO-CERT's corrective actions regarding

Quantity and Value of Exports		Cocoa	Coffee	Tea
Quantity '000 mt	1996	41.0	62.3	9.3
	1997	38.6	59.2	6.5
	1998	26.1	83.5	6.6
	1999	29.0	79.2	8.2
	2000	38.0	66.6	8.5
	2001	36.5	51.6	8.8
	2002	34.9	63.1	5.2
	2003	40.3	68.8	6.6
	2004	41.5	63.0	8.1
	2005	44.2	72.1	6.9
	Total	370.1	669.4	74.7
%	7.3	13.2	1.5	
Value (K million)	1996	66.2	190.3	12.7
	1997	73.3	325.9	10.4
	1998	81.7	476.4	18.9
	1999	84.6	417.1	19.0
	2000	84.6	294.8	20.4
	2001	110.3	188.8	22.0
	2002	226.3	276.6	18.1
	2003	257.7	298.5	19.3
	2004	218.0	283.8	22.9
	2005	198.7	471.0	20.2
	Total	1,401.4	3,223.2	183.9
%	15.5	35.6	2.0	

¹⁶ Source: Bank of PNG.

¹⁷ Source: The PNG Coffee Industry Corporation (CIC).

¹⁸ Source: The PNG Coffee Industry Corporation (CIC).

¹⁹ Source: FLO-CERT.

transparency and traceability of its Fairtrade coffee. Kway Organic has undergone some structural changes and has recently applied for renewal of Fairtrade certification.

At the moment four coffee producer groups are Fairtrade certified in PNG²⁰:

FLO ID	Producer Group	Location
842	Agoga Plantation Pty Ltd.	Eastern Highlands
2897	Highland Organic Agriculture Cooperative (HOAC)	Eastern Highlands
5532	Kabwum Organic Agriculture Cooperative (KOAC)	Eastern Highlands
2761	Yha Hauka Kopi Pty Ltd (YHK)	Lae

▪ **AGOGA**

AGOGA was organized in 1981 and in 1997 it became the first organization to be Fairtrade certified in PNG.

Cooperative members share a single common 100-hectare plot in addition to their smaller family plots. The coffee is processed at AGOGA's factory in Tanaranofi village, Kainantu – Eastern Highlands.

Over the years the Fairtrade premium has enabled AGOGA to establish various social and productive programs, such as providing college scholarships to young adults in the community and funding the construction of a new elementary school; purchasing a wet mill, a water tank, and depulping machines to improve the quality of their coffee; creating a mobile clinic to serve its rural environs, installing basic electricity and water services at some of the members' homes, improving the road access to their area to make AGOGA accessible via public transit; and financing the construction of a new meeting center for the AGOGA Women's Group.

The system currently benefits more than 2,300 family members and has increased neighbouring farmers' interest to join the organization.

However, AGOGA is currently under FLO-CERT corrective action. In order to comply with FLO-CERT's recommendations and be a successful Fairtrade business, AGOGA needs assistance to improve its governance structure, bookkeeping skills and business plan.

AGOGA's main export destination is the US and Europe, and has currently no sales into Australia and New Zealand.

▪ **HOAC and KOAC**

HOAC obtained its Fairtrade certification in 2004. There are presently 2604 village farmers registered and living amongst the 32 village communities spread over 500 km² in the Purosa valley region. These growers support about 12,000 family members and, as interest grows, it is expected that a further 2,000 growers will sign up with HOAC over the next two years.



ABOUT THE CO-OP
N° of Members: 800
Est. Prod/Year: 15 Containers
ABOUT THE COFFEE
Varieties: Bourbon, Arusha, Mundo Novo
Elevation: 1,650 m
Harvest Season: Apr - Sep
Export Season: Apr - Sep

²⁰ FLO-Cert records June 2008.

The HOAC/Fairtrade members are all village growers who tend their small plots of coffee and individually process it following organic and sustainable agricultural practices. Central processing facilities for cherry coffee have not evolved because of the long distance that needs to be travelled.

The cooperative has recently invested some of its Fairtrade premium to acquire a piece of land in Okapa that may be destined to central collection and processing of cherry coffee; however the use of this facility depends on business development training and road improvements.

There is usually adequate transport available from Okapa junction to Goroka, but the smaller feeder roads can only be serviced by tractor and trailer or by people carrying small quantities of parchment coffee on their back for one or two days. These constraints presently limit the full potential of the area.



Fairtrade registration has brought the growers together in a common cause of development through self-help. As such, they are making their best efforts to introduce community responsibility for minor road maintenance in different clan areas.

Additionally, until their Fairtrade certification coffee was the only cash crop for these farmers, but the Fairtrade premium has been utilized to obtain other Fairtrade and organic certifiable crops such as spices and honey for export, having recently applied to FLO-CERT to get their honey Fairtrade certified.

HOAC's market expansion resulted in a neighbouring cooperative, KOAC, to successfully apply for Fairtrade certification (2008). The main goals of this new Fairtrade cooperative are:

- Access to market,
- Improvement of roads through the introduction of community responsibility for minor road maintenance,
- Introduction of programs to help community schools,
- Support the local health centres and aid posts through provision of beds and mattresses, and essential medication, and
- Support of community groups, particularly youth and women's groups.

Both HOAC and KOAC have a strong partnership with Coffee Connections²¹ - based in Goroka -, to whom they sell their organic and Fairtrade certified coffee for export to wholesale distributors in Germany, the US, the UK, Australia, the Netherlands, and New Zealand.



Due to the increasing demand of Fairtrade and organic certified coffee from this region, Coffee Connections sponsored the application for Fairtrade certification of KOAC and of another group in Siane, whose coffee may find an immediate buyer in this exporter. All three organizations need to develop business skills to increase and improve their productivity.

²¹ FLO ID N° 3120.

HOAC Fairtrade Exports to Australia and New Zealand 2007 (Kg)

FLO ID	Importer	Country	Q1 2007	Q2 2007	Q3 2007	Q4 2007
2313	HA Bennett	Australia	11,760	12,540	33,660	17,340
2651	John Burton	New Zealand	1560	1500	1920	3,300

▪ Yha Hauka Kopi Pty Ltd²²

YHK is an association of coffee producers based in the Menyamya administrative region of Morobe province, in eastern PNG. Centred in Aseki, where the company has its main coffee processing factory, YHK also has a major coffee-buying warehouse 36km further up the road in the town of Menyamya, and a second factory based at 14-Mile, inland from the major port of Lae.



YHK buys and processes thousands of tonnes of coffee annually, including some coffee purchased from other parts of Morobe, from the Gulf Province and also from the Eastern Highlands. Of this coffee, 1300 tonnes come from the 1200 growers who have been certified organic by NASAA.

YHK also has an expanding shareholder membership (currently over 600). It is these shareholders, all based in the near vicinity of Aseki, who are entitled to sell their coffee as organic Fairtrade. They currently produce 450 tonnes of parchment annually.

YHK was Fairtrade certified in 2004, but sales have remained low. Since then, it has used the Fairtrade premium to strengthen its various social and productive programs. The cooperative offers partial and full-scholarships to cover school fees, delivers training on farming practices, assists with hospital transportation and medical evacuation in case of emergencies, and at times airlifted the coffee from growers in remote regions, but rising costs in recent years have made this option uneconomic. Now, all coffee must be moved overland by truck on roads that are poorly maintained and deteriorate continually, or carried on foot for up to two days to the nearest collection point.



YHK has historically sold its coffee on to Niugini Coffee, Tea and Spice Co. (NCTS) – a private company based in Lae - to whom YHK is indebted to 3 million Kina, who exports their coffee to overseas buyers.

In an effort to become self-sufficient, YHK successfully applied for an export license (granted in 2003). Efforts since then to raise the capital necessary to allow YHK to export successfully have so far been fruitless. Without prepayments from committed buyers, YHK continues to sell its coffee through NCTS, which keeps all profits they make on the transactions as write-offs against their outstanding debt.

²² Source: Justin Purser, PNG Field Trip Report, Trade Aid, 2005, NZ.

Faced with enormous logistical challenges YHK sees Fairtrade as their main hope, although interest to date from Fairtrade buyers has been minimal. Within the Australia and New Zealand region, Trade Aid has been their only buyer (Kg):

FLO ID	Importer	Country	Q1 2007	Q2 2007	Q3 2007	Q4 2007
1274	Trade Aid	New Zealand	0	2,580	6,480	9,000

▪ **Scope for new producers**

Better prices and the premium have made the Fairtrade coffee market particularly attractive for other farmers seeking to escape the low-price, low quality trap.

Currently, only 4 per cent of PNG coffee exports are Fairtrade certified, which indicates that there is immense potential for development, particularly considering that PNG coffee has been recognized at different specialty coffee events²³.

A number of coffee groups have recently applied for Fairtrade certification in PNG²⁴:

FLO ID	Producer Group	Location
19972	Sihereni Coffee Project	Eastern Highlands
19926	Co-operative-Keto Tapasi Progress Association	
19574	KWAY Organic Coffee Farmers Cooperative*	Eastern Highlands
19517	Markham Organica Cocoa Exporters	Morobe
18052	Papua New Guinea OrganiCulture Association Inc	Eastern Highlands
6555	Kundeo Coffee Producers Cooperative	Eastern Highlands
5857	TAGAKA Coffee Farmers Cooperative	Eastern Highlands
4308	Pindogori Cooperative Society	Eastern Highlands
4206	Awute Coffee Producers	Eastern Highlands
3639	Tribal Aromas	Simbu
3591	Simbu Specialty Coffee Association	Simbu
849	Crater Smallholder Group Inc.*	Eastern Highlands

* Applying for renewal of Fairtrade certification.

Since the Fairtrade market represents a very small segment of the overall coffee market, there are no current risks of over supply of Fairtrade coffee (or any of other commodities at present). However, this process must be accompanied by the appropriate producer support and raising awareness among consumers to guarantee demand for these products.

Aside from the basic constraints, such as a poor road and communications' network, the main challenge farmers face on their path to Fairtrade certification is the lack of access to accurate information and support to understand and thus abide by all Fairtrade standards. Additionally, even though the national coffee production is based on small farms, the diversity of tribal groups throughout PNG makes it sometimes difficult to comply with basic Fairtrade requirements, such as getting organized into cooperatives.

A key component to guarantee Fairtrade success in PNG - and this refers to all kind of products - must be the delivery of an information package on the Fairtrade system, and a capacity building program for potential Fairtrade certifiable groups - both from a development perspective and in order to make the business work.

This relies on the premise that the Fairtrade market and the demand for PNG Arabica coffee will continue to grow. The role of FTAANZ in this regard is to continue fostering the growth of the broad based fair trade movement in Australia and New Zealand through facilitation, coordination, awareness raising and support.

²³ The Specialty Coffee Association of America (SCAA) - the world's largest coffee trade association - ranked PNG's Agoga Plantation Limited submission as the 7th best Arabica coffee in the world (over 100 coffees that were judged by 30 judges in 2006).

²⁴ FLO-Cert records June 2008.

Cocoa

After coffee, cocoa is PNG's second most important agricultural export crop. Existing plantings are highly concentrated geographically in the islands region, but many other areas in the country are also suitable for cocoa production.

Cocoa Production by Plantations (P) and Smallholders (S) 2002 - 2004²⁵

Province	2002			2003			2004		
	P	S	Total	P	S	Total	P	S	Total
East New Britain	3,038	20,844	23,882	2,154	14,766	16,920	2,276	15,373	17,649
North Solomons	37	9,958	9,995	141	11,384	11,525	110	7,129	7,236
New Ireland	350	1,162	1,512	221	970	1,191	195	1,059	1,254
West New Britain	31	738	769	39	744	783	14	746	760
Manaus	665	21	21		10	10		7	7
Madang	448	1,380	2,045	1,536	2,907	4,443	1,409	3,799	3,799
Morobe		392	840	657	500	1,157	389	403	792
East Sepik	49	4,125	4,125		3,291	3,291		1,409	1,409
W. Sepik	7	104	153	152	447	599	108	437	545
Oro		354	361	43	1,019	1,019	4	336	340
Milne Bay		3	3		5	5		10	10
Central									
Total	4,625	39,089	43,706	4,943	36,043	40,943	4,505	30,708	33,801

Growth of production and export of the crop have been steady averaging at 40,000 tonnes per annum. There are 15-20 registered exporters, and an estimated 18,000 direct and indirect employment in service sector. Five thousand people are employed in plantations while approximately 80 per cent of cocoa production is done by smallholders²⁶.

Fairtrade cocoa would offer farmers the opportunity to improve their living. The Fairtrade premium for cocoa is US\$150/metric tonne - added to the purchase price - and if the cocoa is organic certified, the Fairtrade premium is an additional \$200/metric tonne.

There are currently no cocoa producer groups Fairtrade certified in PNG, however there is a lot of interest in Fairtrade cocoa development throughout the cocoa growing areas.

A few cocoa producer groups have already applied for Fairtrade certification²⁷:

FLO ID Producer Group	Location
19737 Morobe Organic Cocoa	Morobe
19663 Lou Island Produce Association Inc.	
19131 Rabaul Fair Trade Cocoa	East New Britain
FLO ID Producer Group	Location
5664 Village Nominees Limited	
4436 Huiwani Cooperative Society Limited	Eastern Sepik

²⁵ Cocoa Board of PNG.

²⁶ Namaliu, R. W. 2000. The PNG coconut industry in the new millennium. PNG J. Agric. Forestry and Fisheries 43(1): 89-94.

²⁷ Source: FLO-CERT June 2008.

With the appropriate support, the potential for Fairtrade cocoa producers is promising, particularly through the organization of farmers to further increase smallholder productivity and a major expansion in upstream processing - there is currently no technology among cocoa smallholders to process the cocoa into butter and powder.



PNG cocoa quality standard is high by world standard, and is well respected by overseas buyers. The International Cocoa Organization (ICO) has recognized PNG as one of the top cocoa producing countries in the Asia-Pacific region - with a 75 per cent fine and flavour cocoa.

Most of the Fairtrade certified chocolate brands available in Australia and New Zealand (Alter Eco, Chocolatier Australia, Cocolo, Green & Blacks, Scarborough Fair, Trade Aid and Oxfam) as well as worldwide source their cocoa from Latin America and Africa. Nevertheless, they have expressed interest in sourcing cocoa from the Pacific islands if there were any Fairtrade cocoa available and if it had already been transformed into butter or powder.

Coconut

PNG is the tenth coconut producer in the world²⁸.

The coconut industry is the oldest agricultural industry in the country with a total area under coconut cultivation estimated at 260,000 hectares - 40 per cent of which is under large plantations, and the rest with smallholder plantings and village plots.

The industry provides employment for 309,417 households²⁹, representing 57 per cent of total

households in the coconut growing regions and 31 per cent of total households in PNG. At 7 persons per household, the total number of people involved in the coconut industry is over 2 million. The rural households now account for over 80 per cent of PNG total copra production.

Coconut is the fourth most important agricultural export commodity of PNG. Export earnings from coconut products have fluctuated over the last two decades, from K38 million (1981 to 1990), to K77 million (1991 to 2000), to K53.5 million (2001 and 2003). Highest earnings were achieved in 1999 at K162 million, which was equivalent to 14 per cent of the total export earnings from agricultural products³⁰.

Coconut Industry in PNG³¹

1. Area Under Coconut (Ha)	260,000
2. Total Coconut Production	
2.1. - In Million Nuts Equivalent	813
2.2. - In Copra Equivalent (MT)	162,600
3. Estimated Domestic Consumption	
3.1 -In Million Nuts Equivalent	310
3.2. -In Copra Equivalent (MT)	62,000
4. Export Volume (MT)	
4.1 -Coconut	0
4.2 -Copra	12,578
4.3. -Coconut Oil	39,272
4.4. -Copra Meal	16,870
5. Total Exp.Value 2007 (K'000)	68,720
6. Percentage Contribution to National Export Earnings (%)	0,10

Copra production levels are influenced by the world copra price fluctuations and competition from other vegetable oils on the world market.

Even though coconut production falls under the fresh fruit Fairtrade standards, no minimum price or Fairtrade premium has been established for coconut production in PNG. To date, coconut producers have not showed interest in - or have not had access to information regarding - Fairtrade certification.

The driving force to raise awareness and develop the necessary standards - as already done for coconuts from Brazil and the Windward Islands - may come from the joint efforts of producer support organizations such as FTAANZ and ethical traders, such as Kokonut Pacific.

²⁸ Source: Food And Agricultural Organization(FAO): Economic And Social Department - The Statistical Devison.

²⁹ PNG 2000 National Population Census.

³⁰ PNG Post-Courier, August 14, 2006, p. 1

³¹ Source: The Asian Pacific Coconut Community, June 2008.

Tea

Tea is a product of the colonial times; it was introduced as an experimental crop in Garaina, Morobe in the 1950s.

Smallholder tea production has been minimal. The crop has not been embraced as part of PNG's culture by local farmers and cannot compete with coffee, because of higher labour, input requirements and poorer prices.

Six foreign-owned factory-estates operate in Western Highlands, covering 3,000 hectares.



Exports remain at about 8,000 tonnes per year in the past 20 years, and there are no plans for expansion because of land tenure systems.

At the moment, there is no workers' demand for Fairtrade certification of the PNG tea estates.

Spices

One of the most recent product launches in the Fairtrade system are spices and herbs. Since the approval of the standards in 2005, Fairtrade spices have been introduced in many markets such as France, the UK and the US.

The category of spices and herbs covers a number of different products, such as vanilla, pepper, ginger, turmeric, and lemongrass, lemon verbena, peppermint, celery and oregano.

PNG highlands with sub-tropical climate and fertile lands are suitable for all spices. The main cultivated spices in PNG are vanilla, chilli, black pepper, cardamom, ginger, turmeric, nutmeg and mace. The major part of spice production is based on smallholder and family units.

The PNG Spice Industry Board carried out a survey in 2005 that showed that 19.5 per cent of the total households cultivate various spice crops, with an estimated total production of one million tonnes valued at K90 million per year. Eastern Highlands, Western Highlands and Simbu have the most number of households involved in spice production.

Number of Households Involved in Spice Production³²

Province	Total Households ('000)	Households involved in spice production	
		Number ('000)	%
Western	14.4	2.2	15.3
Gulf	10.4	1.1	10.5
Central	22.2	2.4	10.8
Milne Bay	27.1	4.6	17.0
Oro	13.7	2.5	18.2
Southern Highlands	51.4	5.2	10.1
Enga	39.2	4.8	12.2
Western Highlands	61.8	14.0	22.6
Chimbu	40.4	9.0	22.4
Eastern Highlands	62.7	23.6	37.6
Morobe	51.7	9.5	18.3
Madang	31.8	5.6	17.6
East Sepik	45.8	7.7	16.8
West Sepik	23.9	3.9	16.3
Manus	5.0	0.7	14.0
New Ireland	16.1	2.9	18.0
East New Britain	30.9	4.8	15.5
West New Britain	18.7	3.1	16.6
Total	567.2	110.5	19.5

³² Source: PNG National Census 2000.

Cardamom production expanded very rapidly in the seventies in response to high world prices until the mid-eighties, when prices slumped. Large areas of cardamom are now planted in Simbu and Madang provinces, particularly as a result of offshore investment.

Approximately 205 hectares are nowadays under production by over 600 farmers. Production and revenue of cardamom declined from 29,710 tonnes and K416, 466 in 2003 by 34 per cent and 87 per cent, respectively in 2004 due to the decline of smallholder interest.

Cardamom Production and Revenue, 2003-2004³³

Province	Production ('000 tonnes)		Revenue (in K 000)	
	2003	2004	2003	2004
East New Britain	29.73	6.81	416.47	22.46
Simbu		12.77		32.60
Total	29.73	19.58	416.47	55.06

Other spice commodities, such as chilli, nutmeg and turmeric were also produced in small quantities in 2005. Lack of statistics in the last 5-10 year period makes it difficult to analyze the production trends of these commodities.

Other Spice Production and Revenue, 2005³⁴

Commodity	Quantity (Kg)	Revenue (K'000)
Chili	350	3.49
Nutmeg	100	2.15
Turmeric	200	1.10
Total	650	6.75

Vanilla production and revenue significantly increased in 2003, brought about by weather disturbances in other parts of the world. A strong cyclone in 2001 destroyed most of the harvest in Madagascar, a major vanilla producing country, many plantations in Indonesia were destroyed by severe El Niño drought in 1997-1998.

The decline in the world supply caused a price hike from US\$ 50/kg to US\$ 200 /kg in 2001. Nevertheless, the vanilla boom resulted in unscrupulous dealings by certain buyers and exporters, who sold their produce across the PNG-Indonesia border without proper inspection, resulting in poorer quality produce and consequently a lower price for farmers, limiting the growth of the commodity.

Vanilla Production and Revenue, 2001-2004³⁵

Province	Production (00 tonnes)				Revenue (K'000)			
	2001	2002	2003	2004	2001	2002	2003	2004
E/Sepik	33.7	35.1	41	35	8,313	10,495	21,826	10,494
N.C.D.	0.07	1.1	5	1	9	216	2,930	216
Morobe	12.63	14.20	70	14	3,155	3,168	49,770	3,168
Manaus			6	21			2,299	
Sandam		20.7	7			8,050	273	8,049
New Ireland			0.03				8	
Madang			12				8528	
E/New Britan			0.2				48	
Total	46.4	71.1	141.2	71	11,477	21,929	86,682	21,927

³³ Source: S.I.B. Compiled by Rural Statistics- DAL(2003-2004).

³⁴ Source: S.I.B. Compiled: Rural Statistics -DAL (2005).

³⁵ Source: S.I.B. Compiled by Rural Statistics-DAL (2001-2004)

Lack of processing facilities forces the farmers to individually cure/sun dry the beans before selling to the private buyers, but farmers are poorly informed on production, processing techniques and pricing, which leads to very low prices for their produce.

A Fairtrade supported cooperative system would enable individual farmers to pool their limited resources to build their central facilities (processing, transport) and minimize the production cost.

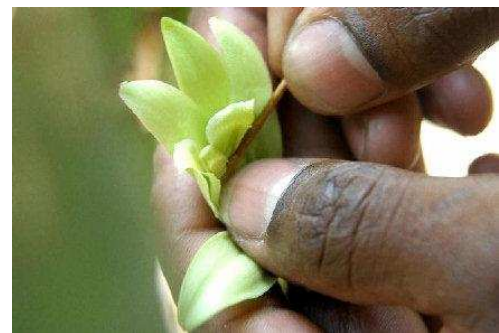
Financial returns from spice are higher than those from other cash crops. The current price of cured vanilla bean is K40,000/tonne compared to K500-700 for a tonne of copra. Such higher returns have created temporary employment opportunities for men and women, especially for the unemployed youths in the villages.

However, even though demand for vanilla has increased over six times over the last fifty years - 1,500 to 2,000 tons of vanilla are used around the world every year in products such as soaps, tobacco, perfumes, and other foods -, vanilla prices have dropped worldwide by 90 per cent since 2005, having growers in PNG abandoning or neglecting their plants. This is due to an over supply of vanilla (Madagascar, the world vanilla leader, produces around 1,500 tonnes a year at a much cheaper price than any of its competitors).

Any promotion of Fairtrade certification in this direction should thus be complementary to the production of other crops more traditional for PNG. Additionally, best efforts should be made to involve exporters and experts to develop a high quality vanilla export industry and to capture potential gourmet buyers in developed countries. Fairtrade certification and good quality may be the one hope for PNG vanilla.

At the moment, Baiya Organic Coffee Grower Association (FLO ID 18971) is the only organized producer group applying for Fairtrade certification in PNG for their vanilla production - a complementary crop to their coffee production, for which they have also applied for Fairtrade certification.

Potential markets for Fairtrade (and organic certified) premium quality vanilla could be found in Europe - mainly Germany and the UK-, the US and Australia.



Other products

The range of Fairtrade products is steadily extending as it allows new producers and workers to join the Fairtrade system and also creates opportunities to diversify production and reduce farmers' dependency on just one crop.

This is the case of HOAC, which after four years of producing Fairtrade organic certified coffee, has recently applied for Fairtrade certification for its new production of honey. Beekeeping fits in well with the local community's activities and may provide different entry points for projects to strengthen the local livelihoods, such as potentially making and marketing beeswax cosmetics.

Except for one Fairtrade certified producer group in Thailand, all honey producers within the Fairtrade system are from Latin America. Supporting HOAC's honey certification would stimulate variety in terms of origins for Fairtrade products.

It should be pointed out that Australia and New Zealand produce 6 per cent of the global honey production, which is sufficient to supply the local market. This would hinder the promotion of imported honey, even under Fairtrade standards.

Numa Coffee Cooperative Society (FLO ID 4391 - based in Oro Province) is also applying for Fairtrade certification for their dried fruit production as well as for their coffee. As stated above when referring to HOAC's coffee and honey production, efforts of farmer groups to grow diverse crops should be supported as they have a positive effect on sustainable farm management and decreases their economic dependence on a single enterprise.

The main countries of destination of Fairtrade dried fruit are France, Germany, the Netherlands and the UK.

Having a sub-tropical climate for much of its northern region, the Australian Government naturally protects the interests of its farmers who grow a lot of tropical crops which PNG also produces such as papaya, mangos, avocado, taro, cassava, betel nut, betel pepper, sugar cane, bananas, rice, etc. It is therefore doubtful in the foreseeable future if Australia can permit imports of PNG products such as fresh or dried fruits, even if PNG can demonstrate a comparative or a Fairtrade advantage for producing these products.

Depending on local farmers' interest, FTAANZ will promote the development of country specific Fairtrade standards for other relevant products such as coconuts and rice.

Additionally, efforts should be made to secure sufficient funds to deploy a Fairtrade Liaison Officer in PNG. Liaison Officers offer information, advice and training to producers, helping them comply with Fairtrade standards and seize new market opportunities. Liaison Officers also relay product and regional information of interest to the markets to FLO, in an effort to better anticipate demand and producer needs.

- Strengths and Challenges

PNG has several strengths and potentials to make Fairtrade certification a tool to add value to their products and a source of economic growth.

Great tasting coffee comes from Milne Bay, Oro, and the Highlands. PNG cocoa is regarded as having fine flavour and is well regarded in major traditional cocoa markets. Vanilla has special quality and has a history with potential to be developed and marketed.

Smallholders in PNG are efficient producers despite their insufficient resources. They are familiar with a wide range of crops adapted to local conditions, are responsive to financial incentives, and can access community support in their farming.

The smallholder production trend is increasing. In traditional cash crop growing provinces like Eastern Highlands and Western Highlands, a growing younger population is under pressure to maintain a livelihood in the village and have gone into new planting of coffee.

However, current coffee productivity is low at 0.4-0.5 tonnes/hectare³⁶ and buyers fear interruptions in the delivery of the contracted commodities. The coffee, cacao and coconut have seen negative investment, largely due to declining productivity. Major stakeholders have exited the industry, leaving it in the weak state it is now.

The comparative advantage has been identified at the export level and not at the producer level. Fairtrade producer groups with their own license for export should be supported to retain the surpluses for reinvestment in the industry for sustainability.

There is a big potential in increasing production among smallholders by 40 per cent to 60 per cent by basic improvement in drainage, weed control, shade and pruning. Fairtrade programs and projects must support producer groups to market directly in order to reduce marketing and processing cost.

The incentive of profitability is needed to encourage growers. Smallholders are beginning to see the benefit of direct marketing (PNG Coffee Federation) and improved price from quality produce. In this regard, Fairtrade works with farmers to market their own products through origin stories that connect the consumers with the producers. By organizing farmers into cooperatives that sell directly to importers, Fairtrade shortens the distance between producers and consumers and returns higher profits to farmers.

There is great opportunity for agriculture development of tree crop in resource rich provinces for sustainability of the provinces' future after extraction of resources. Enga invested in a new coffee processing factory, which creates opportunities for remote communities even in bordering Western Highlands province to find a nearer market. Similar ventures need to be planned and implemented for New Ireland, Central, and Southern Highland Province.

Any Fairtrade development will require coordination with the relevant government agency to access processing facilities and marketing infrastructure.

³⁶ Coffee Industry Corporation, PNG National Coffee Development Strategy: The Way Forward 2006 – 2007.

- The Organic Sector

Most crops grown in PNG use only the rich fertile soil without any fertilizer. No insecticide sprays are used; hence there are no problems of pesticide residues. PNG can also capitalize on the world demand for organic Fairtrade products.

The first efforts to produce organically were made in the early 1990s by coffee exporters, who became aware of the potential of organic products in international markets. The potential for organic certification of PNG commodities needs to be studied and emphasized in marketing programs to maximize the value of PNG products.

Growth in the organic sector has been very slow since the first organic inspection of coffee growers, mills and exporters carried out by the organic certifier NASAA in 1991. The development of the organic sector has been limited through various constraining factors, including (i) absence of technical information, extension services and expertise on organic methods (e.g. possible rotation, organic fertilization, plant protection, etc.), (ii) lack of information on international standards and requirements for organic certification and exports, and (iii) lack of information on organic markets.

There are no national standards concerning organic agriculture in PNG, and no organic legislation is under preparation. Organic agriculture is mainly practised for the export market, for which international standards (like IFOAM and the EC Regulation) are applied.

- The Timber Sector

According to WWF, the island of New Guinea (which includes both PNG and Irian Jaya / West Papua of Indonesia) holds the second most diverse forest with over 20,000 plant species and the third largest tropical rainforest after Amazonia and the Congo forests.

With 80–85% of its population living in forested rural areas and most of its timber production exported, the scope for timber production to make a contribution to poverty reduction is high.

PNG has a long history of attempts to make sustainable community forestry work. An alliance of institutions - WWF, FSC, and FLO - interested in enhancing local returns from responsible forestry is currently scoping the possibility for a joint FSC/Fairtrade certification system with the aim not only of reducing poverty, but also to provide new choices for ethical consumers and new business opportunities for responsible retailers.

Most of PNG timber production is exported and the major markets for PNG processed timber and semi-finished products are Australia and New Zealand, where the demand for products harvested according to environmental and social standards is continuously growing³⁷.

Timber exports from PNG have risen steadily since the 1950s, but the distribution of benefits from these large-scale forest projects is not clear. There are 29 forest concessions currently in production in PNG, covering a total area of 3.5 million hectares and privately owned companies control all commercial timber production

PNG Forest Cover

Total forest area: 29,437,000 ha

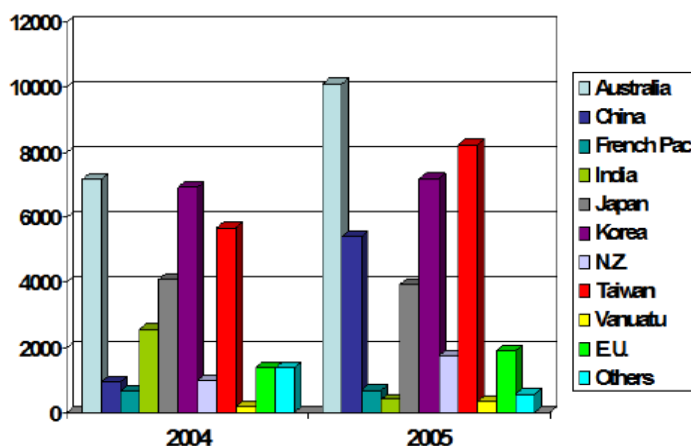
% of land area: 65%

Primary forest cover: 25,211,000 ha

% of land area: 55.7%

% total forest area: 85.6%

Export of Processes Forest Products by Destination and Value (US\$'000)³⁸



from natural forest areas.

Small-scale producers in PNG are not competitive in comparison with large-scale logging companies. Logging companies are able to obtain large timber concessions that allow them to take advantage of economies of scale and use poorly paid labour and unsustainable logging practices to generate cheap prices.

Many communities and community-based organisations are making their best efforts to develop alternative models of small-scale, community-based logging to mitigate the threat of large-scale industrial logging.

Fairtrade certification would guarantee protection for timber workers' as well as a minimum price to cover the cost of production for the community timber and a social premium for community development, while FSC certification would guarantee the protection of the rich forest biodiversity. Access to FSC/Fairtrade niche market and premium prices seem to be necessary for the viability and long-term sustainability of timber community-based producers.

Today there is only one organisation in PNG managing an FSC group certificate and being also registered as a Fair Trade Organization by the International Fair Trade Association (IFAT). FORCERT operates a step-wise approach to community forest certification. This encourages producer members to join the network by giving them instant market recognition and premiums as 'Community Based Fair Trade Producers (CBFT)' tied in to eventual FSC certification - attracting a further premium in price. The model has been critical to aggregating the supply of high quality timber for export markets - primarily The Woodage in Australia and Rosenfeld Kidson in New Zealand.

FORCERT is successfully targeting a niche market that is able not only to pay premium prices but to understand the producer side of the market (i.e. limited volumes of a wide range of species, uncertain delivery times, quality control problems).

Efforts to help communities organise into workable businesses and then move towards FSC/Fairtrade certification should be widely endorsed. The experience of other Fairtrade endeavours in the country would be highly relevant in this respect.

It is a priority for FTAANZ to support the development of Fairtrade standards for timber, specifically for PNG and other relevant Pacific countries, in close association with local producers, companies, experts, NGOs and the government. As soon as such standards are set up, FTAANZ will make its best efforts to use any lessons learned in the country to spread the benefits of Fairtrade certification among communities working with timber. Depending on the availability of funds, FTAANZ will seek interested companies and communities to design, pilot and then scale an FSC/Fairtrade certification project in PNG.

The Australian and New Zealand Markets

Consumers in developed markets are becoming more aware and concerned about where the products they consume come from and how they are produced.

In this framework, sales, number of licensees and retail interest in Fairtrade certified products is steadily growing worldwide, Australia and New Zealand included, which also means more market opportunities for new Fairtrade products.

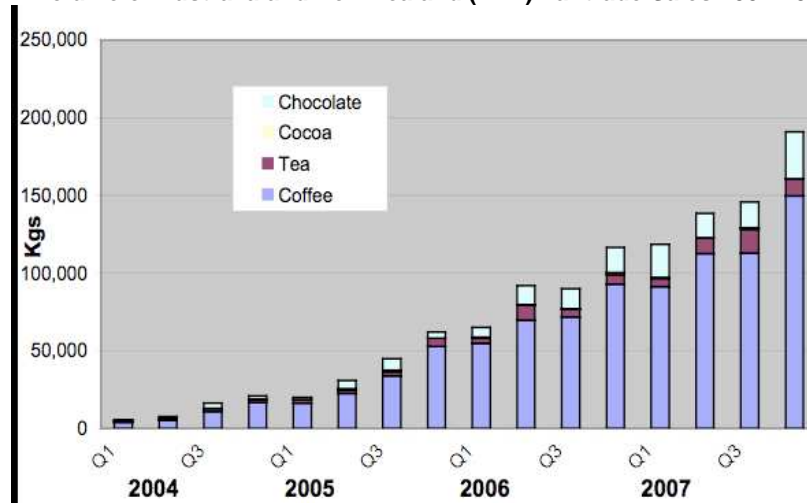
Since Fairtrade Labelling Australia and New Zealand (FLANZ) was established in 2005, the market for Fairtrade labelled products has grown substantially. In 2006, this was the fastest growing market for Fairtrade certified products in the world. Growth in this market is expected to continue initially above and then in line with the global trend.

There is interest from manufacturers and larger players within the market for existing and potential new Fairtrade certified products in Australia and New Zealand, which indicates a strong potential to further develop the market and introduce new Fairtrade certified products.

Fairtrade in International Markets			
Country	2006 US\$	2007 US\$	Increase
Canada	83.8m	163.2m	+48%
France	257.4m	430.5m	+27%
Japan	6.3m	12.7m	+51%
Sweden	24.8m	87.1m	+166%
UK	635.5m	1,443.8m	+72%
USA	774.3m	1,498.1m	+45%
A&NZ	8.6m	18.0m	+59%
World	2527.2m	4,881.0m	+47%

The integrity and strength of the Fairtrade certification and labelling system is being increasingly recognised by domestic retailers and this also provides opportunities to introduce new Fairtrade labelled products into Australia and New Zealand.

Volume of Australia and New Zealand (ANZ) Fairtrade Sales 2004-2007



Currently there is a limited range of Fairtrade products available - a larger range would mean better possibilities to engage with supermarkets and mainstream retailers. FTAANZ considers this an opportunity to promote Fairtrade products from PNG and eventually from other Pacific countries.

This is because consumers in Australia and New Zealand are supportive of Fairtrade in general, but they are particularly interested in supporting regional producers and developing countries in their region. With increasing awareness of food miles, transport costs, Pacific trade negotiations and the problems facing Pacific countries there is an opportunity to develop the market for Pacific Fairtrade products, support an increase in Fairtrade producer activity in the region, and link these producers to Australia and New Zealand - and international - Fairtrade markets.

In order to ensure this, FTAANZ and FLANZ need to work jointly to achieve a greater recognition of the Fairtrade label among consumers and businesses. In this regard, FLANZ will:

- promote, position and protect the Fairtrade Label as the third party guarantee of fair trade;
- engage with supply chain actors to increase the availability of Fairtrade Labelled products;
- engage with supply chain actors to increase the range of Fairtrade Labelled products; and
- provide effective Licensing, Labelling and Certification services.



FTAANZ Priority Fairtrade Projects

The main challenges to overcome with new Fairtrade certified organizations may be inconsistencies on quality and volume - a key condition for traders to engage in long term partnerships with producers-, and issues in human resources (lack of business development skills and weak farmers' organizations).

FTAANZ considers it essential to overcome this obstacle and bolster the necessary capacities to build new and boost current Fairtrade relationships in PNG. The development of Fairtrade awareness raising workshops in key coffee and cocoa producing regions should provide the necessary information to identify areas of improvement among producer groups.

As a follow-up activity, FTAANZ will carry out a business development training involving certified producers and current and potential traders to build the necessary capacities and linkages with Fairtrade premium markets.

The priority crops for short term development - based on their growth/expansion potential, favourable growing conditions, farmers' knowledge/expertise, market demand, and current production level - should be coffee and cocoa, to be later on extended to vanilla and other spices. Priority provinces - based on current production and export, and favourable conditions such as soil, climate, water availability, road network, market and processing facilities - should be the Highlands and Madang.

To implement these activities, FTAANZ will seek collaboration from FLO, leading international trading companies and other non-governmental organizations working on the ground.

- Project 1: Fairtrade Informative Workshop(s)

Goal: To improve knowledge on Fairtrade standards.

Objective: To mobilize smallholders to comply with Fairtrade standards.

Non-certified producers have understood Fairtrade requirements and standards, assessed its suitability, and formed themselves into marketing groups in order to apply for Fairtrade certification and be more competitive.

Fairtrade certified producers have identified and made plans for areas of improvement regarding their compliance with Fairtrade standards.

Strategies:

- Identification of the farmer groups, traders and producer support organizations to participate in the project.
- Production of a Fairtrade information kit for producers in PNG.
- Delivery of (an) informative workshop(s) on Fairtrade requirements, standards and benefits in key regions.
- Facilitation of cooperatives development.
- Support throughout the Fairtrade application process and promote market access.



- Project 2: Fairtrade Business Development

Goal: To improve business skills among Fairtrade groups.

Objective: To empower smallholder organizations through capacity building and stronger linkages.

Producers have been provided with basic business skills and market information, and trained to promote and maintain quality standards and export requirements.

Strategies:

- Identification of the farmer groups, traders and producer support organizations to participate in the project.
- Identification of key issues for business development among producer groups, from transparency and democracy to finance skills and marketing.
- Development of a relevant training program.
- Development of (a) pilot training activity(ies).
- Facilitation of direct contact between growers and Australia and New Zealand and overseas buyers.

Promotion of proposals to engage local and overseas investors to improve local infrastructure.

- Expected Outcomes

A modest increase by 10-20 per cent from the current level of Fairtrade sales from PNG in Australia and New Zealand is possible in the next couple of years through appropriate producer training programs and marketing. Additionally, better communication between growers and buyers should also result in a sustained increase of production.

For groups that already have infrastructure facilities such as YHK and HOAC – the latter never having put it to use – could be trained on post harvest handling. Storage facilities in the farming community and regions will encourage and boost confidence and interest of farmers for production, create market demand, control and preserve international quality produce. Demonstration of proper techniques on post-harvest handling will minimize deterioration of quality through prolonged preparation. Provision of training on various aspects of crop product preparation will make farmers aware that they will lose their market if they do not produce and deliver high quality produce.

It is important that the planned capacity building projects are implemented in coordination with other governmental and non-governmental organization efforts on the ground, and with other investors that may promote infrastructure rehabilitation.

Eventually, additional funding will be sought for a twofold follow-up project. On the one hand, the project envisages the creation of a Fairtrade information kit for interested producer groups. On the other hand, the tested and finalised training module will be adapted and replicated as training in other regions and specialized on different products.

Conclusion

We can make an enormous contribution to benefiting farmers and workers in PNG as well as their families and their local communities by ensuring that trade is on fair terms and promotes a better life for all.

There is considerable potential for the expansion and development of coffee and other Fairtrade certifiable crops for export, including spices and cocoa. PNG has extremely fertile soil and a climate which is ideal for agricultural ventures, particularly in the Highlands, coastal and island regions.

However, Fairtrade cannot be expanded without removing the present constraints related to technical efficiency and commercial viability. The Government is keen to see innovation in agricultural projects and it is committed to improving the country's infrastructure with major

reforms in fiscal and trade policies³⁹. These efforts should be promoted and supported by all Fairtrade stakeholders.

Traders and other investors will find rural communities ready and willing to grow crops for supply to markets or processing factories, particularly in the case of cocoa where producers lack processing infrastructure. Assistance in technology and management procedures for commercial enterprises is essential.

The implementation of successful Fairtrade relationships would thus be boosted through training and linkages, activities for which FTAANZ considers to be in a unique position to guide after having spent the past few years working to develop a relevant local and international network.

There is an urgent need for a transparent and effective producers' training framework and corresponding Fairtrade requirements and market possibilities, in order to (1) raise visibility/awareness of deficiencies and areas of improvement, and (2) to create and/or bolster producers' capacities.

Fairtrade certification may address the need for development of small commercial small holder agriculture, which is crucial to any expansion of employment.

The overall success of future Fairtrade development in PNG depends on its integration and partnership with governmental agencies responsible for agriculture and roads and transport, producer support organizations, and exporters. Such links are not automatic, but FTAANZ will make its best efforts to engage such support as the means to stimulate economic growth and social development in the most marginal areas of the country.

To achieve this goal, FTAANZ will:

- Work in partnership with other stakeholders on strategic priorities,
- Use all opportunities to strengthen and support Fairtrade organizations and their trading relationships,
- Build active, meaningful communication and information exchange between FLO and local partners,
- Foster good practice in producer groups' operations and capacity strengthening.

It is vital that the current increasing demand for Fairtrade products is strengthened through producers' training, as well as through national and international producers' support and cooperation. Training can deliver the information necessary to create an even level of skills for producers and guarantee product quality. Training can also ensure that the right people receive the knowledge and tools necessary to achieve change.

³⁷ 60 FSC chain of custody certificates have already been issued in New Zealand, while this number raises up to 98 in Australia. Source: FSC, Global FSC Certificates: Type and Distribution, 2008 – in www.fsc.org

³⁸ PNG Forest Industry Association, 42nd ITCC Meeting , Port Moresby, May 2007.

³⁹ NDAL. 2004. A Conceptual Framework for Reforms in the Agriculture Sector in Papua New Guinea – *The Way Forward*.

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