

Remembering Agriculture and its Needs, but Avoiding SABLs and Sweet Deals, which Turn Sour or jeopardise PNG's Food Security!

Papua New Guinea has one of the longest pedigrees for agricultural production anywhere in the world. It also has one of the largest rural populations by proportion of the total population, (reportedly, second after Burundi). This rural population is dependent mostly upon agricultural and some fisheries. Over time, invariably, the rural portion of the population will decline as the economy diversifies, with minerals, manufacturing and especially services. Over the past decade the rural proportion has no doubt declined, partly from opportunities, or expectations in towns, mining and LNG, and partly because infrastructure and essential services in rural areas have been so neglected, (details should have been provided from the 2011 Census).

It's often stated that PNG has unlimited 'unused' areas suitable and available for agricultural production. In reality, the most productive areas are already in use, in some areas (e.g. parts of the Highlands, Gazelle peninsula, Maprik and peri-urban) relatively intensively. Many areas are marginal or unsuitable, for example those seasonally or constantly waterlogged, too steep or high. Nevertheless, there remains strong potential for further agricultural production, including through intensification, notably greater crop yields, altered management systems, plant and disease control, and with improved access and marketing opportunities for crops and livestock. PNG also has considerable opportunities from achieving higher and more consistent standards, new crops and combinations, as well as downstream processing and value-adding of some agricultural products, both for export and domestic markets.

For a country where agriculture is so critical, PNG provides remarkably little support for the sector. The donors have also substantially ignored the sector over recent decades. Despite much rhetoric on government's part over agriculture being the backbone of the economy, it has gained little government attention, and when ostensibly given more focus, as with the so-called 'green revolution' of the early 2000s and the National Agricultural Development Plan (NADP) the former was of marginal significance and the latter largely ignored, with a slush fund established initially under DAL and it's Minister's control, then shifted to Planning and then to respective Districts/Open Members.

Agriculture's main constraints are not so much production, although important especially with diseases like cocoa pod borer, but relate particularly to post-harvest factors, notably ready access to markets, both from more remote locations and to enable produce with short shelf-life (e.g. most fruit and vegetables and some cash crops) to reach final markets without deteriorating, undue waste or value loss. Inadequate funding for maintenance over many years for transport infrastructure (slightly improved in recent budget allocations) has been a major constraint, along with severe law and order problems (notably theft) acting as a disincentive to investment and production in rural and peri-urban farms and gardens.

A PNG farmer, like anyone else, seeks an adequate return to his/her effort. Returns to land area are important for commercial producers, but returns to labour (and other inputs) are critical to smallholder farmers. Agriculture is notoriously risky, with fluctuating prices, damage to crops from pests, diseases or bad weather (drought, flood, frost etc) or impassable roads/bridge, as faced constantly by producers in Oro and elsewhere.

Most cash crop production in PNG now comes from smallholders, with the exception of oil palm (fastest growing crop over recent decades) produced largely on estates (some owned by customary landowners), tea, some rubber and a small portion of coffee, cocoa and copra (hitherto largely from estates). It's often said that Melanesian customary land tenure is a major constraint to agriculture. This is a misconception, as much smallholder production is efficient, as with the intensive food gardens on Chimbu's steep slopes and the dynamic way cash crop production was sustained by smallholders when estates closed; smallholders are very responsive to price and other incentives, as highlighted by the vanilla boom, but reluctant to waste effort if their produce will rot before reaching markets or fetch little from low prices.

Larger investors clearly require formal security of land tenure, which has been problematic in PNG. Recent land reforms were designed to empower villagers to record their land under ILGs, and register portions of it, if they choose, for more commercial development, possibly in partnership with outside agricultural investors. Unfortunately, the Lands Department, along with DAL, some MPs and Environment Department, rushed ahead of the new legislation, approving vast areas, often to outside parties, as Special Agricultural and Business Leases, some endorsed by the Forest Authority under Forest Conversion Agreements FCAs). As highlighted in the current Commission of Inquiry into these SABLs, launched by A/PM Abal, most of these 5+ million hectares allocated as SABLs were acquired without any compliance with due process. In most cases it's merely an exercise to circumvent the Forest Act's exacting requirements, notably for sustainable forest management, with nothing to do with agriculture.

Ironically, reputable commercial agricultural investors are scared off by SABL's, as, unlike loggers planning to rip and run (i.e. not genuine forestry operators), genuine agriculturalists (and foresters) operate on a longer time horizon, needing secure tenure for the long term return on their investment, notably in tree crops, e.g. with over 20 years cycles for oil palm and other terms for other crops and plantation/sustainable forestry. Investors, such as NBPOL, undertake several years of preparation with government and landowners, prior to developing new estates, with the landowners themselves taking lead in the process, both fully consenting and setting the term/duration of leases. Such long term investors, with hundreds of millions of kina at stake in projects, cannot afford to risk alienating the customary landowners and jeopardising their investment (or the landowners), as short term speculators can. It should also be noted that genuine plantation investors are normally developing only a few hundred hectares for most crops, rising to a few thousand hectares with oil palm, not these vast areas allocated under SABLs.

The proposed Naima Agro Industry Ltd (NAIL) project, purportedly to grow rice around Bereina, is an unusual SABL, but the security and benefits appear to directed to the

company, whilst the risks and few, if any benefits, go to landowners, the State and PNG's rice consumers! The (draft) agreement seeks the State to allow the company (unusually and perhaps illegally) to directly secure at least 100,000 hectares of customary land, invariably with the entitlement to clear-fell, and allow NAIL to grow rice or other crops or seemingly undertake any other activity it chooses. The company, which is, apparently, a shelf company owned by a small (one person?) real estate company, would then be granted a State monopoly on rice production, but also for duty-free imports, which would be protected with up to 80% tariffs (against imported competition) but also against any other commercial or even smallholder rice producers, with the State to pay NAIL (an odd acronym!) compensation if there's any breach to its exclusivity. Interestingly, overseas employees would be income tax free, so there'd be added incentive to use cheap overseas labour, presumably from Indonesia or elsewhere.

This scheme (scam?) looks very reminiscent, but much more dangerous for PNG, than the misguided monopoly arrangements granted in the 1990s (such as for tinned fish and cement) which pushed up food and building costs, and the proposed cocoa monopoly of Papindo's (which was finally rejected) which would have undermined prices to PNG cocoa producers, just when world prices were finally recovering. Apart from the problems for landowners associated with SABLs, this scheme would also potentially severely undermine food security in PNG, with prices for a staple food potentially pushed up severely, under the protective arrangements specified.

PNG is capable of producing rice in different lowland and upland conditions, as well as traditional and recent staple foods (kaukau, taro, bananas, potatoes etc). Many farmer are already producing it, largely for household purposes. Rice has long been grown in PNG, and encouraged strongly by authorities at times, but most farmers gave up when alternative cash crops were available providing them better returns. The question is whether (and where) it can be grown competitively with low cost producers, notably Thailand (but also Australia's temperate climate rice - when it has sufficient rain). The Brazilians have developed new varieties and in S E Asia, e.g. Cambodia, they now have some mechanised rice production on areas of 2-300 hectares. PNG needs to access the skills, technology and planting material and trial pilot areas commercially, with some potential State support (research, plant breeding, innovation grants etc), but especially risking investor's capital (which is what a real commercial trial entails). If successful, it would pave the way for joint ventures or community cooperatives, as well as smallholder production, over larger areas; i.e. multiple farms, owned and possibly leased by landowners potentially with different joint-venture partners. There's seems little or no justification for hundreds of thousands of hectares being committed up front under highly questionably agreements. This seems an implausible way to develop rice production and more like a Russian-style exclusive deal with a favoured oligarch!

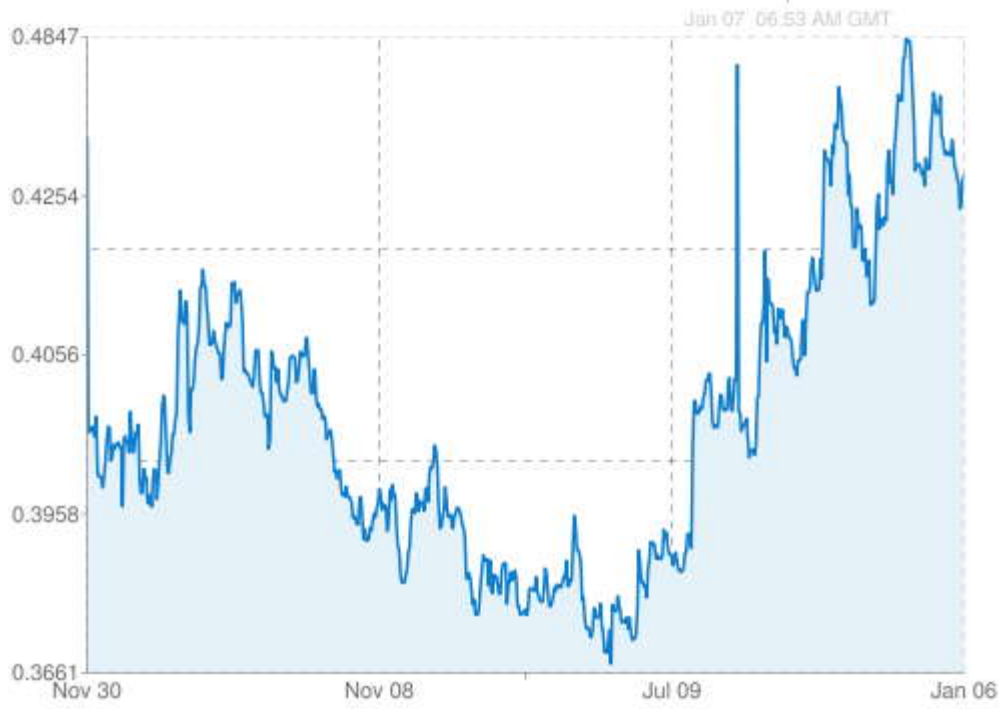
Most global agricultural prices remained low for many years, but jumped, along with other commodity prices in the mid-2000s. They've since slipped, regained ground and slipped back, upon prospects of renewed global recession, but remained well above the levels of the 1990s and early 2000s. Some commodities (like palm oil) now shadow mineral oil prices, rather than traditional vegetable oils. However, a major issue for PNG,

with the forthcoming LNG production (from 2014) is the appreciating kina, further depressing kina prices for agricultural exports, cheapening imports, and jeopardising agricultural production and other (non-mineral) production and services. This requires a steady hand by government and the Central Bank, including, in due course, using the Sovereign Wealth Funds to restrain Dutch Disease impacts (including appreciating kina), and ensuring that proceeds from LNG and mining are not wasted, but carefully targeted to empower PNG households and farmers, through good transport and communications infrastructure (and possibly freight subsidies for remote locations), investment in applied agricultural research and access to information, knowledge and markets. PNG's long under-funded and in some cases mismanaged agricultural institutions need to be restored, in some cases consolidated and made accountable to PNG's farmers (including a reformed DAL).

Ways to reduce the risks and increase the returns retained in-country from agricultural production, include crop diversification, improving and ensuring quality and meeting demand from niche markets (as with PNG's 'sustainable' RSPO-verified palm oil and organic and fair trade produce), but also further downstream processing and value adding, which allows closer linkage with the higher and steadier retail prices; (there's room to improve these mechanisms, but it's a start). The piloting of chocolate manufacturing by PNG's own Paradise Biscuit company is a welcome step, and hopefully we'll see their's and other locally processed product in the shops in 2012?

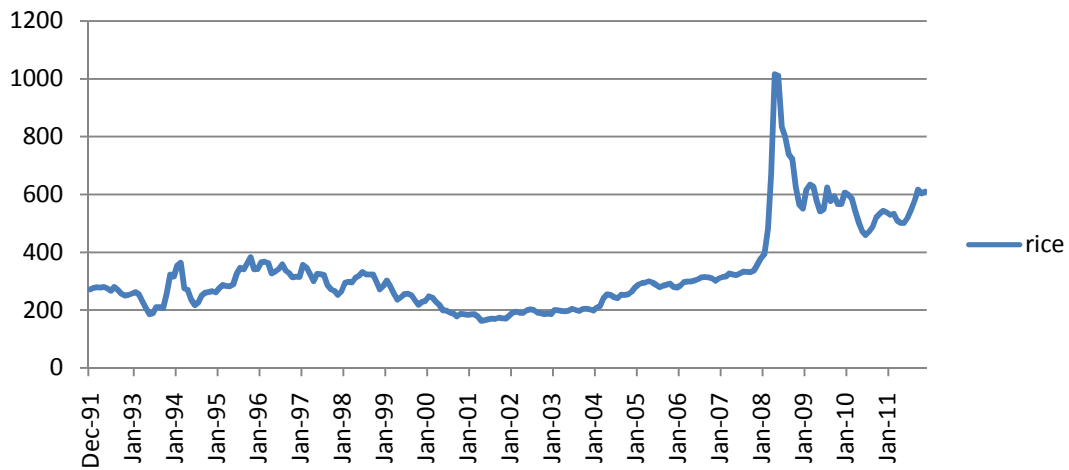


PGK/AUD 730 Day History

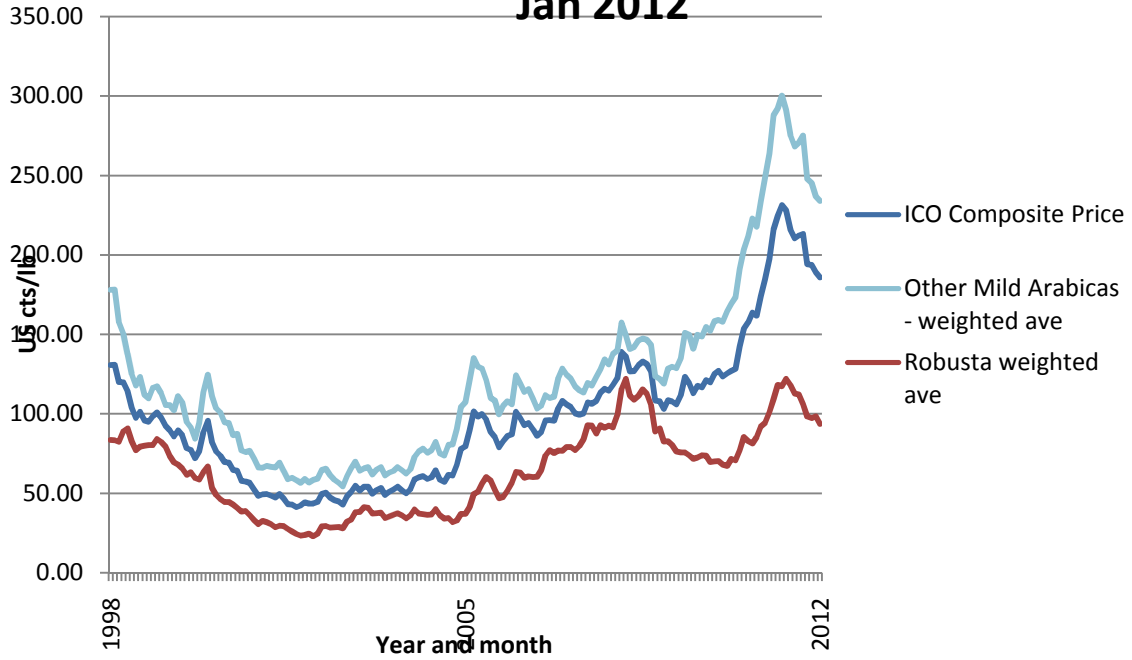


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**Rice (Milled White) USD per tonne
Dec 1991-Nov 2011 (Thailand -quote)**



International Coffee Prices (US Cts/lb) 1998- Jan 2012



International Cocoa Price - daily price (ICCO) Jan 2002-Jan 5th 2012

