

Should we be worried about Agriculture? Paul Barker: commentary on Papers by Drs Rod Duncan (Charles Sturt Uni) and Satish Chand (ANU)

On the Elections and agriculture: -

The elections always occur in the midst of the coffee season, and unlike in other parts of the world Elections here drag on interminably and are socially disruptive at least in the Highlands, partly because securing a winning candidate is seen as so important to the local clan or social group (often for the wrong reasons).

I think I'd only suggested to Rod disruption to the coffee crop, not to other crops.

So, apart from the jamboree, and the alternative supply of easy money for some....many vehicles and boats are committed to the elections, and it's simply harder to ship produce about, even if you wanted to! Some crops like copra can be stored and shipped later without much deterioration; others like coffee left on the tree, or oil palm, deteriorate fast if not dried or extracted. So there'll be a loss of crop, value and income. One might expect the impact to be greater for crops with low relative value, when the price is down or the alternative electoral benefits up, and those with major seasonality, like coffee.

Last year was atrocious for coffee, partly owing to the natural productive cycle of the plant, and some natural recovery would be expected for 2007. It will be interesting to see how actual harvest responds this year, when prices are reasonably good for coffee (and incidentally at a recent record level for rubber, whilst only average for coconut oil and cocoa and oil palm).

So, whether there is, or is not, any significant election effect on coffee production (or any other crop), other factors other factors, of course, are more significant for many crops, even in the short run. These include El Nino or other extreme conditions, and pests and diseases, notably cocoa pod borer, which could knock much of the cocoa crop out, particularly for smallholder producers, who, in cocoa, as in most of PNG crops, provide the majority of the output.

On El Nino, the 1997/98 drought in fact triggered big yields in coffee, as in some other fruits like mangos, providing valuable cash income to households suffering from shortages of staple food crops.

Should we worry about agriculture?

Yes, of course we should. As Rod has shown, of the main tree crops only oil palm has leapt ahead since the early 1980s. The other crops have been relatively stagnant, or declining in per capita terms, and the more minor crops like tea and rubber, have not performed any better.

Cocoa has shown a healthy recovery in recent years, with major attention being given to it by donors and farmers in Bougainville....but that's largely restoring the old pre-crisis production scenario.

Crops like coffee made their great leaps back in the 1970s, but have failed to sustain them since, whilst copra is still dependent upon aging trees planted well before WW2.

We should be worried, because PNG has not generated any major alternative income earning or employment opportunities for the vast majority of PNG households. Yes, there's been a pulsation of new mining and oil and gas projects, but they do not employ many, directly or even indirectly, and other latent industries like tourism haven't yet flourished. Some food production and marketing has had a modicum of success, at least in keeping up with the growing population's demand for many staples, fruit, vegetables, and not forgetting products like betel nut.

Potential yields from our tree crops can be several times what most farmers are actually achieving, and a few farmers are demonstrating that such yields can be achieved if they make the commitment. This is especially so in the relatively orderly world of oil palm, but a few smallholder coffee producers, for example, have achieved yields of 2 tonnes as against the average of between 300 to 600 kgs per ha..

What does oil palm have that the other industries don't?

Rod refers to the NZIER study highlighting inflationary effects during the 1990s undermining farmer incentives. The study actually went back further and argued that the strong kina policy from the late 1970s undermined the agriculture sector's prospects, with competitiveness restored somewhat by the currency depreciation and devaluation of the 1990s, but then foregone by inflation in the late 90s and early this decade. I certainly agree with Rod's response that there was relatively little the Central Bank could have done (on its own) during this period, when the Bank also lacked policy independence, whilst latterly they are expected to be relatively hands off in relation to exchange rates, allowing the currency to find its own guided level, whilst concentrating on inflation restraint, which they have largely achieved in recent years with some success.

The NZIER study didn't state that infrastructure, law and order, research and extension, or even credit and other factors are not important. What it did state, and is right, is that one needs to look at the problem and the prospects for agriculture in totality, not cherry peck. The study argued that there's no point in selectively addressing individual constraints, however important they may be, if there are other critical constraints being overlooked, and it also valuably shifted the focus to the farmers' own perspective, rather than the research institution's, or the agriculture department's; i.e. is production of this crop worth the farmer's time and effort, and if not why not?

The study also usefully tracks returns to producers in PNG as against those in other countries, and recognises that in most crops PNG has failed to achieve the necessary productivity increase to make up for the loss of real earnings as prices declined in real terms over the years.

Here comes the dilemma, should one or could one realistically shift the currency to suit the farmers' needs? (remembering that they're also consumers as well) or do you concentrate on trying to keep the currency steady, whilst investing in productivity increases, through research, including control of diseases, cutting waste and costs of

transport and marketing, loss from theft and other impediments to producers, and pursuing niche markets and quality improvement. Some countries like Indonesia by chance or intent, experienced steadily declining currency value over many years, of some value to their agriculture sector's competitiveness, yet, it is PNG which NBPOL's parent company (Kulim) sees as their preferred location for oil palm development, not Indonesia or Malaysia. So PNG has achieved some international competitiveness in at least one crop, even if it's been hard for PNG (or most other producers) to compete with Vietnam's recent competitiveness in coffee or a range of other crops.

Realistically, there are probably few policy options. Up to date research on farm management costs and returns is necessary and detailed analysis of what the production, marketing and also social factors constraining farmers or motivating some farmers is necessary, so that any interventions are appropriate and not wasteful. There are certainly times to call it quits, in terms of public funds, and not throwing further good money at certain research or crops.

- Oil palm scenario in early 90s.....POPA members said they needed to pressure outgrowers to increase their lagging output. In negotiation a new pricing formula we emphasised carrots as well as sticks – i.e. the need for farmer incentives, starting with an adequate price...which has largely worked... Cecilie Benjamin's study, found farmers' output in oil palm was determined more by local observation and competition than who had best growing conditions, or where anyone was from etc.... neighbours doing well, and sending kids to school and college and getting good jobs, so copycat approach. Also took loans, money not available for distribution to wantoks...and progressed.

Another important point that the NZIER study emphasised, was the need for Govt not to be going for incentives, subsidies....although maybe there's a case for welfare reasons etc,....but largely need to establish level playing field and work on getting the impediments down for all farmers and other businesses – like poor infrastructure, criminality, high costs of communications, lack of information etc.

Rod correctly points out that even if the central bank was able or wanted to manipulate the currency to a suitable level - a suitable level for who? What's suitable for consumers and urban fixed income earners is not the same as for farmers, manufacturers or retailers, and amongst the major industries it's not the same level as needed by the mining sector, and PNG has literally been a dual economy, driven by more powerful forces than agricultural trade.

What is clear is that agriculture, despite constant homilies, has had a raw deal for years; inconsistent policies, lack of concerted funding for research, training and development by government and most donors, constant manipulation of boards and management, battles for institutional control, and reluctance to lose control to genuine farmer-controlled or elected bodies, and lack of attention to what must be the key sector needs, like roads and other infrastructure, law and order, communications and information.

Oil palm's succeeded as it's been more organised, managed to combine private capital with land tenure arrangements, embracing resource owners in estate development, whilst providing smallholders the opportunity to excel if they wish, with good infrastructure, support and other community services.

The agro-nucleus estate model isn't unique to oil palm. It can and is being achieved in other crops, like spices and essential oils (in Rabaul), providing production and marketing support to outgrowers. It was to have been applied by LDC in cashew nuts, until LDC became another abused political football and cash cow! The ADB co-funded a long planned programme of assistance to such ventures, but it was aborted, again owing to tampering by some Moresby bureaucrats.

It requires gaining the trust and credibility with farmers, and trying to secure some of the economies of scale achieved by larger ventures. There used to be a lively passion fruit industry in the highlands back in the 60s and early 70s, for example, but Cottees-General foods figured they could outsmart the farmers and give them a worse deal, after a period of not buying from them at all....but instead found they'd lost the farmers' trust, and in true PNG-style villagers had lost interest and moved on to other activities..... In PNG there hasn't been that peasant farmer dependency on full time farming of one crop or dependency on middlemen that exists in some countries!

Farmers are understandably searching out ways, such as cooperatives and group marketing in coffee and other industries, to enhance incomes and opportunities, and one just hopes that past manipulation and bad management of these bodies is not repeated.

Farmers don't necessarily want to put all their eggs in one basket (so to speak) and in PNG have traditionally stuck to a diverse farming system. But oil palm has shown that producers here can be more disciplined in terms of regular crop harvesting and management if they want to be, and that this might be possible for some willing cocoa growers affected by pod borer. Many farmers have already had to shift to more intensive agriculture, as in higher population density and peri-urban areas. To shift to more commercial production of cash crops or other agric activities benefits from practical support and capital, but will be necessary if wider markets are to be accessed. Markets, especially overseas, need regularity of supply and reasonable quantities and standard quality, which only organised marketing systems can provide. Only a few of the main crops have such production and marketing structures at the moment.

Govt and donors need to avoid second guessing farmers, and respond better to the farmers' own needs, constraints and priorities. This first requires knowledge of farmers' these needs and perceptions, including social considerations. Farm economics seems to have virtually disappeared from the focus and capacity of DAL, the research bodies and commodity organisations. Isn't it ironic that Rod here had to use material of Bodman et al's from 20 years ago on production responses, as regrettably there has been very little such work done since.