

A FOCUS ON THE PAPUA NEW GUINEA RESOURCE SECTOR

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STRONG CASE FOR FEEDING THE NATION



- Food security
- Aviation
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- Focus on Lae

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Cover picture: Lydia Tasi is the irrigation controller at 9 Mile Farm, which is owned by Israeli consortium Innovative Agro Industry. Tasi graduated from the Lae University of Technology with an MA in Agricultural Science in April this year



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IAI's business development manager Gallit Tamir with a sample of capsicums packed and ready for the market

Strong case for feeding the nation

Ilan Weiss smiles a lot, speaks softly and cannot help but infecting others with his enthusiasm about 9 Mile Farm, and a host of other agricultural projects, that Innovative Agro Industry has developed in Papua New Guinea.

WEISS IS CHAIRMAN and director of the relatively new PNG company in the commercial agricultural sector which identified the opportunities that PNG presented.

While Innovative Agro Industry (IAI) may be a new kid on the block in PNG, its history goes back 30 years to 1986 and has developed more than 400 projects across Africa, Asia, Europe, Oceania and South America.

And it has specialised in products and projects using the expertise of the country renowned for making two

blades of grass grow where only one grew before – Israel.

While 9 Mile Farm may bear no resemblance to the fountainhead of its origin, the Israeli kibbutz, the technologies, use of space and recycling of water is modelled on those remarkably successful community-driven Israeli farms.

9 Mile Farm is, as its name suggests, just nine miles from Port Moresby, a ready and hungry market for the tonnes of fresh vegetables and fruit which it produces daily.

The business case for 9 Mile Farm is not difficult to see. When the

price of capsicum in downtown Port Moresby costs K60 per kilogram (nearly \$US19) and tomatoes retail at K40 (around \$US12), opportunity presents itself.

Set across just a few hectares, 9 Mile Farm broke ground in late 2012 and took a year to develop. The farm was established with the Jesus Christ Half Way House Church and Western Highlands Development Corporation and has strong links to the local community.

It is not the intention of IAI to compete with local farmers, but rather replace costly imports ►



Pauline Kipoi is in charge of seedling irrigation control at 9 Mile Farm. This is one of the few functions which is not fully automated

from overseas by producing quality vegetables which conform to the industry's best standards.

Weiss said that agriculture was the core business of IAI and the company came to PNG with a clear focus on the resource sector, and had since begun servicing both the LNG and hard rock mining industries.

"It was difficult to do market research in the country because the database is just not there, and

information that is out there is not completely reliable," said Weiss.

World agency reports are all very nice to read, says Weiss, but they are not business driven.

"So you have to use a lot of intuition. What we saw when we got here in 2012 was that, in Port Moresby for example, vegetable prices in the 'upper markets' such as the supermarkets were basically ridiculous."

Weiss said he soon came to realise that there were logistical barriers in PNG. "You can grow beautiful produce in the highlands but getting it down here in time for it to have a reasonable shelf life is very difficult. And that is how the idea of this farm came about."

He stresses that IAI realised that for a farm to work properly anywhere in PNG, you had to develop the value and supply chains from start to finish. While not adverse to sub-contracting, IAI felt that because it was difficult to source service providers in the agriculture sector, the company chose a path of performing every function – from seedling to export – in house.

"Our farming is highly intensive and assures quality and consistency of supply to our clients. Our clients have to be sure that if they order three tonnes of tomatoes to be delivered in December 2016 they will receive them."

A big advantage of 9 Mile Farm is its proximity to Port Moresby. "We don't have the logistics problem and can supply fresh produce every day to all our clients in Moresby as well as those outside of the city."

When Weiss realised the advantage PNG had by being signatory to the Melanesian Treaty, IAI began exporting immediately to Fiji. "We have a 30% buffer over the Australian



The 9 Mile Agro-Training Centre was officially opened by Prime Minister Peter O'Neill on March 18, 2014

and New Zealand imports to Fiji” because of this trade incentive.

The volumes to Fiji are determined by the availability of air cargo capacity.

But locally, business is booming, with demand growing six or seven times what it was when 9 Mile Farm began operations.

“We started off supplying 500kg to 600kg a week to a single supermarket and we are now doing three or four tonnes of our produce every week for that same supermarket.

“It is all about volume. If you sell a kilogram of capsicums at K60, you will sell a few kilos a week. But if you get the prices at a level which is more accessible, you can make it work. You have to make a profit on the unit price but it is what you can grow per square metre and the economies of scale that drive the business.”

Weiss said that getting into greenfield agriculture in PNG was not easy. When we started there was no government finance or subsidy, no concessional finance and no commercial finance. “The banks here were burned by agriculture in the 1980s and while those banking officers have long since left, the corporate memory most certainly does not like agriculture.”

But he adds that had changed for IAI, and the company had secured commercial funding. “When we started greenfield farmers found it difficult to raise finance wherever they were in the world – and in PNG it was almost impossible.”

“We are a big company and work in many places around the world so we have our financiers overseas who know us, and know that we come with a reasonable business case.”

He adds that at first IAI found it was most unusual for there to be no government assistance for farming projects as in most countries, such as the US, Australia and Israel, there was always some form of farming support, however in the past couple of years, once the leaders and officials realised the potential of the sector, there is a change both in policy and support for specific projects.

9 Mile Farm is currently producing 12 to 15 tonnes of vegetables a week, depending on the product and IAI is fortunate that it has not felt the downturn most other businesses in PNG have faced over the past 18 months or so.

IAI gets paid promptly by customers “because the retailers know that if they don’t pay us, they don’t get next week’s supply of ▶



Ilan Weiss is the chairman and director of Innovative Agro Industry



Some of the fertiliser 9 Mile Farm uses comes from Israel



At work in the process and packing shed is Yaflo Aukeke

produce. And they pay us in kina, not foreign currency”.

Foreign exchange is not an issue for IAI as the company does not import perishables and for imports such as fertilizers, Weiss said the company could take a long-term view and plan imports carefully to ensure they had adequate forex when the need arose.

‘There are daily challenges and you have to be constantly innovative. But it really is rewarding’

– ILAN WEISS

9 Mile Farm employs about 100 people, of which 95% are from the 9 Mile settlement. The Halfway House Church has equity in the business venture, and an agreement with IAI to consider employing disadvantaged young people whom the church has helped rehabilitate.

“All the things we were warned about the labour force in PNG have not transpired, such as poor attendance levels. Our attendance levels are above 90%, better than our projects in Russia, South America and Eastern Europe.”

Weiss said that 9 Mile Farm started out with a 50-50 split of men and women working there, but has changed to its current level of 80% women and 20% men.

9 Mile Farm is just one of several initiatives of the company. In parallel, IAI started egg and chicken meat farms at two other locations in the Highlands.

The first of these was at Koroba, “which is probably as remote as you can get in PNG, but there’s a lot of resource activity there so we figured it out that if we could do eggs and chicken meat at a competitive price, we could have an advantage.

“Everything we do in PNG we do from grass to glass, I never take anything for granted in the value or supply chain. You have to build a supply chain that accommodates what you are doing. We started with eggs, as that was easier than doing chicken meat. But now we are doing both.

“We always start small and we scale up according to market demand.” Weiss believes that all too often, start-up businesses in PNG “tend to supersize it” developing projects which go way beyond what the market demands.

Koroba egg production began at 4500 eggs a day after it had taken about a year to set up the farm which is a JV with Hela Province, which provided IAI with state land.

Weiss laughs: “It is very hard to find good state land in the highlands, and what we were allocated was a farmer’s nightmare. So we had to do a lot of drainage and other work,

today you would not be able to see the greenfield struggles we went through, but rather a modern state of the art farm that does eggs but also now doing greenhouse and open field vegetables.

“Then the resource sector came in with an order of 35,000 eggs a week. So we stopped selling to the local population which resulted in grievances, so we had to quadruple capacity immediately. So we are now doing 15,000 eggs a day.”

Weiss said that in keeping with the grass-to-glass philosophy of doing everything in-house, IAI grows its own maize as chicken feed, which is blended with a formula which reduces the cost of feed.

“The objective is to reduce the feed prices by more than 50%, we are getting close to our target and reduced the cost of feed by more than 50%. We will achieve in the near future our target of a universal cost for feed that allows for a viable and profitable poultry farming.

Weiss does not shy away from the problems that go with doing work in a developing world country. “There are daily challenges and you have to be constantly innovative. But it really is rewarding.”

He cites the ambient conditions of the highlands, “the climate and everything else is perfect in the Highlands and we are getting a layer rate, above 90%, that we are not

getting anywhere else around the world.

Weiss again stresses the unbroken IAI supply chain: "We use our own trucks, own people, own refrigeration units, if you trust anybody in the chain to deliver, the chances are you might have problems."

Another project IAI built was at Tari Piwa, also in Hela Province. It has less logistics challenges compared to Koroba as the project is just five minutes travel from Tari, the Hela capital.

This farm, which produces chicken meat, became operational at the end of July this year. It began as a business just setting out to supply to the general local population and it has been so successful that everything produced is sold. Weiss said that so far there had been no need to seek out bigger business clients.

"We started with the general population to see what the demand was, then go to business clients, right now the population is consuming all of our capacity, so only in the last few days literally we started the marketing to big clients. The Highlanders are very resilient and very resourceful so they are buying 'next week' batches, so they are dealing in futures, not

much marketing on our part, they come to farm gate and pick up whatever they need."

The catchment area for the Koroba and Tari Piwa farm goes as far as Mendi for egg sales. The farm is not at full throttle yet on chicken meat, but the intention is to do 500 chickens a day, either whole or as cut, frozen or chilled depending on the customer requirements.

Next cab off the rank will be the Ilimo Dairy Farm near Port Moresby, which is being established at a capital cost of \$41 million (or about K90 million), a joint venture of IAI, Central Province and the national government, with external finance provided by Bank Leumi of Israel, the first of the 500 pregnant cows are expected to arrive from New Zealand in April or May next year.

Weiss said the farm would do stockfeed as well as produce milk, cheese, ice cream, yoghurt and other dairy products. First ground was broken in late October.

Once again, this business has been driven by supply and demand, where a litre of milk in Port Moresby today can cost about K12 or K13, several times the price one might expect to pay in Australia.



Chili, tomatoes, capsicums and other vegetables flourish in the hydroponic sheds



The covered sheds in which the fresh produce is grown at 9 Mile Farm