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Corn and Wheat Update

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Report Highlights: Vietnam corn production continues to increase to serve the fast growing feed industry. Vietnam produced a record of 2.8 million metric tons of corn in 2003 and will likely to produce the same (and even more) in 2004. Vietnam is also a seasonal corn importer with annual import volumes ranging from 200-350 thousand metric tons of corn (TMT). Due to avian Influenza (AI) outbreaks and higher domestic supplies, corn imports in 2004 are expected to be very low at level of 90,000 MT. This report also includes revised corn PS&D table.

Vietnam's wheat milling industry remains stagnant following a strong growth in recent years, due mainly to fierce price competition in the domestic wheat flour market; this year's high prices of wheat; lower demand for aquaculture feed flour and a slowdown in noodle exports. Vietnam's wheat imports in 2003 reached a record of 915,000 metric tons. However, wheat imports in 2004 will likely drop by 12% to 805,000 metric tons.

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CORN**Executive summary**

2003's corn production set a record of 2.8 MMT, up 21 percent from last year, due mainly to area expansion, yield improvement, and attractive prices. Corn imports in 2003 also set a record of 340 (TMT) in response to an increasing demand for feed corn and a fast growing feed industry.

2004's corn production is expected to be the same level of last year's (or slightly increase), owing to attractive prices. However, corn imports may drop over 73% compared with last year's levels in response to better domestic supply and a reduction in domestic demand for feed corn due to AI outbreaks.

Vietnam 2003 corn production

According Vietnam's Department of Statistical Office (GSO) and trade sources, Vietnam's 2003 corn production reached 2.8 million metric tons (MMT), a year-on-year increase of 21 percent, due mainly to expansion of corn growing areas and better crop yields (see table 1 for the details).

Corn has become a good earning crop for farmers since increasing demand for feed corn has helped boost corn prices up. As a result, 2003's corn growing area increased, totaling 900,000 hectares, up 11 percent from the 2002 level.

Due mainly to higher use of hybrid corn seeds (high-yield varieties), crop yield improved significantly to a record of 3.11 TM/HA, a year-on-year increase of 8.9 percent.

In Vietnam, the four largest corn-producing areas are North West, North Central Coast, Tay Nguyen Central Highland and South East regions. The five largest corn producing provinces are Son La (in the North West); Thanh Hoa and Nghe An (in the North Central Coast), Daklak (in the Central Highlands) and Dong Nai province (in the South East). These five provinces produce more than 1.0 MMT of corn, annually.

According to the Ministry of Agricultural and Rural Development (MARD), hybrid corn seeds (high-yield varieties) are growing 65-70 percent of the total corn growing areas.

Table 1: Vietnam corn production by regions

	Growing area (tha)			Crop yield (mt/ha)			Production (mt)		
	2002	2003	2004*	2002	2003	2004*	2002	2003	2004*
North Vietnam	475	520	530	2.67	2.9	2.85	1,267	1,508	1,513
South Vietnam	335	380	390	3.12	3.39	3.3	1,046	1,288	1,287
TOTAL VIETNAM	810	900	920	2.86	3.11	3.04	2,313	2,799	2,800

- (2004 *) is estimated data.

- Source: Vietnam Statistical Department and Trade Sources.

Post revises Vietnam's 2003 corn production to 2.8 MMT (from the previous estimate of 2.4 MMT).

According to MARD's reports, 2004's corn production may reach a record of 3.00 million metric tons, due to intensive use of hybrid corn seeds and increased planting area. Through talks with officials from local agricultural authorities, local corn processors, corn traders and key feed millers, post believes the 2004 corn growing area will increase, but the gains in area will be offset by lower crop yields due to drought in some key corn growing areas.

Post estimates that Vietnam's 2004 corn production will remain at the 2003 level (see table 1 and table 3 - corn PS&D table).

**Corn domestic price
(Exchange rate VND 15,767 equal to \$1 as of November 24)**

In the domestic market, prices of good quality local corn (14% moisture content) are currently quoted at VND 2,200-2,330/ kg, equivalent to US\$ 140-148 / MT.

Indicative price of imported corn

Last month, it was reported that corn from Thailand was offered at \$135-140/mt C&F Hai Phong port.

Corn consumption

Feed industry overview

The commercial feed industry overall is recovering from AI outbreaks and looks good going forward. Average prices of farm-raised fish and pork meat have stood at high levels since end of last year, leading to increased production. In 2004, poultry production continues to be hit by AI outbreaks and poultry feed production is down. However, the decrease in poultry feed production is nearly offset by bumper production of fish feed and increasing production of pig feed. Post estimates 2004's commercial feed production is recovered to a level of 3.8 MMT.

Vietnam's corn production is mainly used for animal feed production including commercial feed and home-made feed. According to MARD, Vietnam's animal feed industry consumes about 70-75 percent of total corn output of Vietnam. Annually, Vietnam produces about 9.8-10.0 million metric tons of feed, of which about 3.5-4.0 MMT is commercial feed.

Post estimates that the feed industry consumed 2.44 MMT of corn in 2003 and will need about 2.32 MMT in 2004, a reduction of 5 percent compared with last year's due to AI (See PS&D table).

Corn trade

Vietnam is still a seasonal exporter and importer of corn. When the corn harvest season is at its peak, Vietnamese corn is oftentimes competitive, leading to some exports. When the harvest season is off, Vietnam usually becomes corn importer, sourcing mainly from China, as well as Burma, other neighboring countries, and the United States (very small).

Vietnam's 2003 corn imports reached a record of 340,000 MT (see PS&D table). China was the largest corn supplier to Vietnam, accounting for about 90 percent of total imports due to its competitive price and prompt shipments.

U.S. corn exports to Vietnam are limited. Absence of deep-water port facility and poor grain handling infrastructure are the biggest constraints for exports of U.S. corn to Vietnam.

In 2003, U.S. corn exports (corn seeds) to Vietnam were 160 metric tons with value of \$296 thousand, an increase of 77% and 48% in volume and value, respectively. Vietnam imported about 59 metric tons of U.S. corn seeds during the first seven months of 2004.

Table 2: U.S. corn exports to Vietnam (2000-2003)

	2000	2001	2002	2003	Jan-Jul.04
Quantity (mt)	145	68	90	160	59
Value (\$1,000)	60	159	199	296	109

Source: Bico Format, U.S. Trade data, USDA/FAS

Post estimates that corn imports in 2004 will be 90, 000 metric tons, a drop of 73.5 percent from last year's level due to higher domestic production coupled with the AI influence. Thailand has emerged as the main corn supplier to Vietnam this year. It is also reported that Vietnam exported 40, 000 MT of corn to Korea, Malaysia and other neighboring countries in 2004 (pls. see PS&D table).

**Table 3: Vietnam corn PS&D table
PSD Table****Country Vietnam**

Commodity	Corn		(1000 HA)		(1000 MT)	
	2002 USDA Official [Old]	Revised Post Estimate [New] 05/2002	2003 USDA Official [Old]	Estimate Post Estimate [New] 05/2003	2004 USDA Official [Old]	Forecast Post Estimate [New] 05/2004
Market Year Begin						
Area Harvested	810	810	830	900	840	920
Beginning Stocks	0	48	23	28	7	168
Production	2313	2313	2400	2800	2400	2800
TOTAL Mkt. Yr. Imports	311	320	204	340	300	90
Oct-Sep Imports	344	320	50	340	300	90
Oct-Sep Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	2624	2681	2627	3168	2707	3058
TOTAL Mkt. Yr. Exports	1	3	70	3	0	40
Oct-Sep Exports	3	0	70	3	0	40
Feed Dom. Consumption	2150	2200	2100	2440	2250	2320
TOTAL Dom. Consumption	2600	2650	2550	3000	2700	2900
Ending Stocks	23	28	7	168	7	118
TOTAL DISTRIBUTION	2624	2681	2627	3171	2707	3058

Corn policy**Vietnam's Animal Feed Association asked the Government to lower import tax on corn imports.**

As soon as Vietnam announced bird flu withdrawal in March 2004, Vietnam's Animal Feed Association had sent their request on reducing import tariffs charged on certain feed ingredients, including corn to the Government. Accordingly, the Association proposed an import quota of 500-600,000 metric ton of corn that will be exempted from imported tax. However, no decision has been made.

Currently, Vietnam's corn import tariff rate is 5%.

WHEAT**Wheat production**

Vietnam produces no wheat.

Wheat milling industry and wheat flour production

Wheat millers are operating well below capacity.

From a low wheat milling capacity of only 1,610 metric tons (MT) of wheat per day from 5 flour mills in 1996, Vietnam has quickly developed its wheat milling industry to be home to 23 flour mills, with a total capacity of 5,800 MT of wheat per day in 2003, an increase of 360% in 7 years. During 2004, two new mills began operation, with at least two existing mills closing down due to the current over-supply situation.

It is reported that in comparison to 2003, wheat and wheat flour prices in the first nine months of 2004 increased by 15%-18% and 11%-14%, respectively. Flour prices have not benefited from the high prices of imported wheat as much as anticipated because of the over-supply situation. According trade sources, current operating capacity of wheat milling industry is low: averaging only 48-50 percent.

Wheat flour production will likely decrease in 2004

Vietnam's 2003 wheat flour production is revised upward to a record high of 665,000 MT of flour (from milling 915 TMT of wheat), due to a better-than-expected demand for feed, specially for aquaculture feed flour (mainly) and evolving human consumption demand for wheat-based products.

In 2004, in line with the current U.S. dumping case against Vietnamese shrimp imports, flour demand for aquaculture feed is down. Moreover, trade sources report that instant noodle exports may also decline by 15 percent.

As a result of these factors and in concert with fiercer competition in flour milling industry, 2004's flour production is estimated to be downward to 592 TMT, extracted from 805 TMT of imported wheat, a year-on-year decrease of 11% due mainly to lower profits in flour milling; lower demand for aquaculture feed flour, and lower exports of instant noodles. This is well below the average of 7-10% target growth expected by the flour milling industry.

Vietnam's wheat milling extraction rate varies from 72% to 74% (lower than many countries) because of the high percentage of low quality imports and poor milling equipment in Vietnam. There is, however, a good market for wheat milling by-products, such as the wheat bran and pollen.

Wheat consumption

The Vietnamese domestic market requires 650 TMT - 700 TMT of wheat flour annually.

Wheat flour is used mainly for making instant noodles and wet noodles; baguette style breads; other bakery and confectionary products; and feed (aquaculture feed, mainly). According to trade sources, the ratio of wheat flour used in food and feed are broken down as follows (see figure 1):

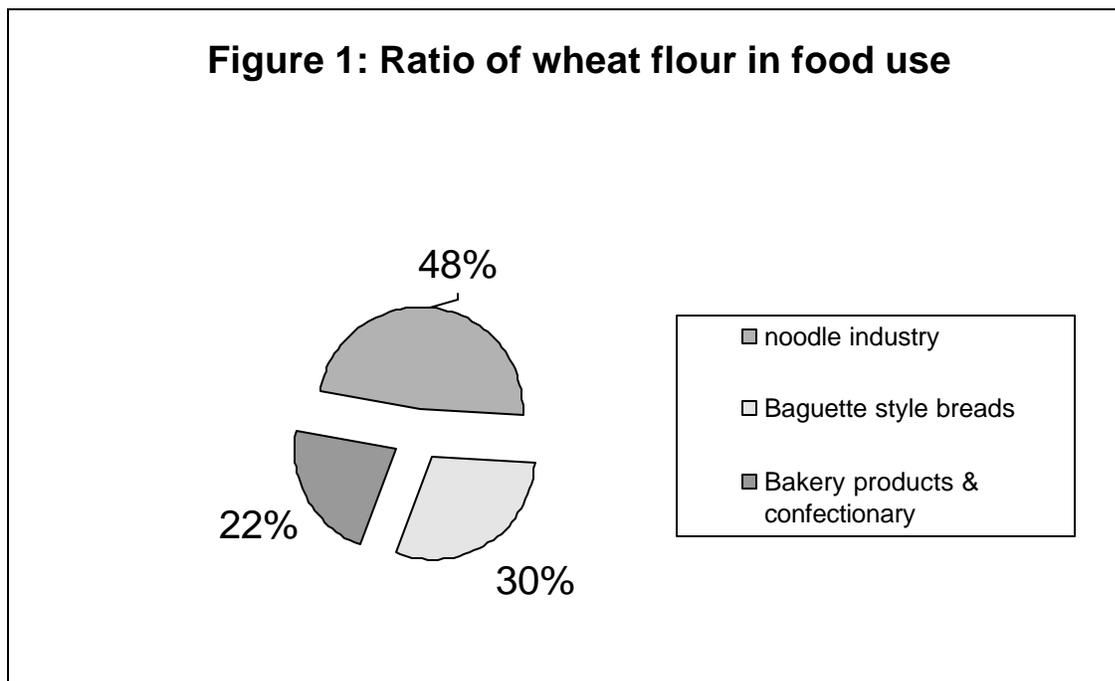
* Breakdown of wheat flour in food use:

- 48 % for noodle industry (mainly instant noodle).
- 30 % for baguette style bread, including Vietnamese-style short baguette bread.
- 22% for general bakery products (cakes, steamed bread, etc.); confectionary and high-quality bakery products.

* Breakdown of wheat flour in total food and feed use (see figure 1):

- 46 % for noodle industry (mainly instant noodle).

- 30 % for baguette style bread, including Vietnamese-style short baguette bread.
- 21% for general bakery products (cakes, steamed bread, etc.); confectionary and high-quality bakery products.
- 3 % for aqua-feed (last year, wheat used in feed was over 10%).



More than 65-70 percent of wheat flour produced in Vietnam is consumed in the south of the country, with the north taking 20-25 percent, and the central region taking about 10 percent.

In general, the staple food in Vietnam is still rice, but the proportion of wheat-based products is gradually increasing. However, the Vietnamese wheat flour market is still a low-price (low-quality) flour market.

Wheat flour consumption in 2003 is revised upward, stemming from higher demand from the shrimp feed industry and a stronger demand for food use, mainly instant noodles (supported by strong exports of instant noodle) and industrial bakeries.

For 2004, although the Vietnam economy is still growing at a healthy rate of 8%, a higher than expected rate of inflation (which usually drives consumers back to rice-- a food staple) and a slight decline in noodle production will cause Vietnam's food use of wheat flour to be relatively stagnant.

Production of instant noodles, which accounts for 46% of total wheat flour use, is expected to drop by 3% compared with levels of last year, due to a slowdown in instant noodle exports. Trade sources report that instant noodle exports (accounting for 20% of total noodle production) will likely decline by 10%-15%, due mainly to the establishment of new noodle factories in major importing countries (former Soviet Union countries and East Europe etc) and strong competition from noodle exporting countries. Meanwhile, domestic consumption of noodles continues to grow, albeit slightly, but not enough to offset the loss in exports. Domestic production of instant noodles has also been hurt by imports neighboring countries (Thailand, Indonesia), as a result of the Asian Free Trade Agreement (AFTA), which offers lower import tariffs on noodles.

Demand for bread products and other bakery products continues to evolve in urban areas in line with changing eating habits and the expansion bakery outlets (mainly in modern shopping centers). However, currently demand from bakeries remains flat.

Aquaculture feed use of wheat flour has decreased dramatically as shrimp farming has faced challenges posed by the current dumping case brought on by the United States against Vietnamese shrimp.

In general, 2004's wheat flour consumption is stagnant and continues to fall, due lower demand for feed and lower production of instant noodles (following a slowdown in noodle exports).

Wheat Imports

Vietnam's 2003 wheat imports were revised upward to 915 TMT, a year-on-year increase of nearly 10%. China was the largest wheat supplier to Vietnam, with a market share of 33% (305 TMT), followed by Australia with 240 TMT. Wheat imports from India accounted for 24% of total imports (225 TMT). U.S. wheat accounted for 4% of the market share (see table 1). Other wheat suppliers to Vietnam included Canada, Pakistan and Russia. In the first ten months of 2004, wheat imports totaled about 680 TMT. Australia was the leading wheat supplier to Vietnam with a volume of 376 TMT (55%). China ranked second with 125 TMT (18%) and India was third with 112 TMT (16%). U.S. wheat exports to Vietnam were 19.75 TMT, accounting for only 3% of the market share (see table 4).

Post estimates 2004's wheat imports at 805 TMT, a reduction of 12% compared with last year's level.

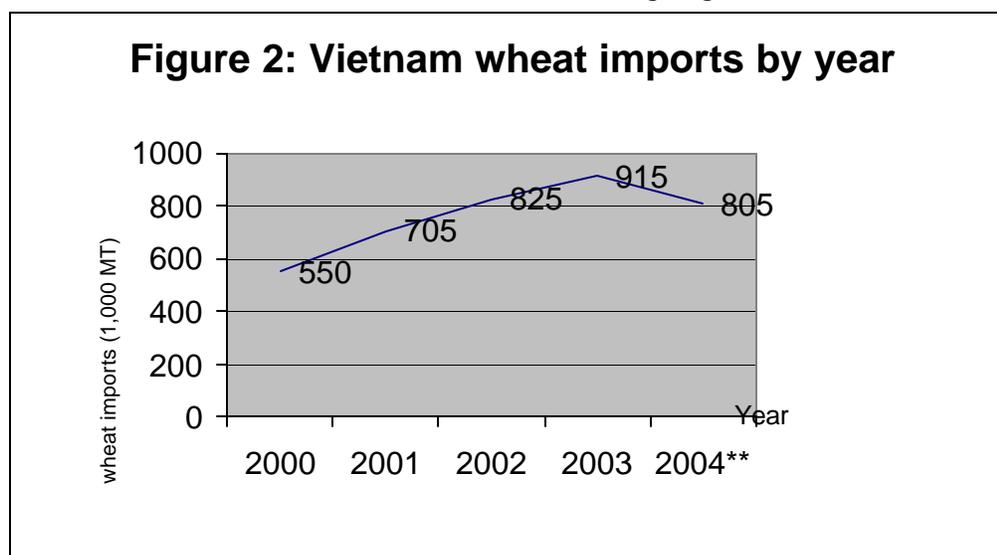
Table 4: Vietnam's wheat and wheat flour imports from 2000-2004 (Unit: 1,000 mt)

	2000	2001	2002	2003	Jan-Oct 2004	2004 **
Total WHEAT imports	550	705	825	915	680	805
From Australia	434	442	270	240	376	410
From Canada	0	37	24	22	8	40
From United States	36	37	35	26	19.7	19.7
From Argentina	80	0				
From India		189	350	225	112	112
From Pakistan			53			
From China			58	305	125	125
Unknown	0	0	35	97	39.3	98.3
Total FLOUR imports	82	62	50	52	37	40
Total Wheat and Flour imports (Converted into wheat basis)	659	788	892	984		861

Source: Trade sources

(**) : forecast

Figure 2 shows the trend of wheat imports from 2000 to 2004; it was on the upward trend 2000-2003; reached a record in 2003 and starts going down in 2004



Although this growing market is a potential market for U.S. wheat, Vietnam continues to be driven by low-price and low-quality concerns. With too many mills, and strong price competition, the demand is strictly focused on price -- not quality. Most flour consumers (small bakeries) have little regard for quality and are driven to use the lowest price flour available.

Many millers believe that U.S. wheat is a premium wheat (with a premium price) that can only be used for their high-end flour products. Moreover, low-cost suppliers like China and India can deliver wheat more quickly and in smaller lots which is an advantage, given Vietnam's poor infrastructure, including small discharging ports, limited discharging rates and storage facilities.

Vietnam Wheat Flour Imports

Wheat flour imports represent less than 10% of the total flour market. In 2003, wheat flour imports totaled 52 TMT, the same level as last year. Traders estimate that 2004's wheat flour imports will drop by 20 percent to 42 TMT. Vietnam's wheat flour imports are mainly high-end flour and general-purpose flour from Japan.

Indicative Wheat milling industry is expanding wheat and flour prices

Current indicative prices (last week quotes; CNF Ho Chi Minh City port):

\$190-195 /MT	ASW
\$200-205 /MT	APW
\$168-172/MT	Canadian wheat
\$207-212/MT	US HRW

Traders have stopped offering Indian and Chinese wheat due to its increasing prices.

Current prices for various kinds of flour in Ho Chi Minh City are:

- High protein flour (12%-13.5%) -- For making high quality sandwich bread, and buns are ranging from \$275-280 /MT.
- Medium protein flour (general purpose flour, 10%-10.5%) -- For general purpose, wet noodles, instant noodles and, baguettes is \$235-\$242/MT.
- Low protein flour (9%-9.5%) -- For making cakes, biscuits, cookies and confectionaries is \$225-230 /MT.

Wheat Stock

It is very difficult to estimate Vietnam's wheat and wheat flour carry--over stocks. According to some key millers, stocks are normally very small.

Wheat Policy

Effective from September 1, 2003, Vietnam implemented a new preferential tariff system. Accordingly, the preferential import tariff on wheat (code: 1001) remains unchanged at 5%. The preferential import tax rate on wheat flour (code: 1101) increased to 20% from previous rate of 15%. In addition, Vietnam charges 5% for the Value Added Tax (VAT) on imports of both wheat and wheat flour.