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Vietnam

Coffee

Semi-annual report

2006

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Report Highlights:
The coffee production level for 2006/2007 is expected to increase significantly over last year as better weather and growing conditions promote higher yields and newer cultivation comes to maturity. Due to an attractive export market farmers are expanding Arabica production, but are cautiously refraining from increasing Robusta area. Even with new plantings, however, Arabica will only account for 3 percent of total production.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Table 1: Vietnam's coffee Production, Supply and Demand (PSD table)

Country Vietnam
Commodity Coffee, Green

(1000 HA)(MILLION TREES)(1000 60 KG BAGS)

	2005	Revised		2006	Estimate		2007	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		10/2004	10/2004		10/2005			10/2006	10/2006
Area Planted	500	500	500	495	500	495	495	0	500
Area Harvested	495	495	495	485	485	485	485	0	490
Bearing Trees	619	619	619	605	605	605	610	0	615
Non-Bearing Trees	6	6	6	12	12	12	6	0	35
Total Tree Population	625	625	625	617	617	617	616	0	650
Beginning Stocks	300	317	300	190	333	190	178	333	67
Arabica Production	383	383	383	333	333	300	350	0	417
Robusta Production	14117	14117	14117	12000	12833	13200	13500	0	16083
Other Production	0	0	0	0	0	0	0	0	0
Total Production	14500	14500	14500	12333	13166	13500	13850	0	16500
Bean Imports	0	0	0	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	24	0	0	25
Soluble Imports	0	0	0	0	0	0	0	0	0
Total Imports	0	0	0	0	0	24	0	0	25
Total Supply	14800	14817	14800	12523	13499	13714	14028	333	16592
Bean Exports	13950	13900	13950	11667	12500	12933	13000	0	15284
Roast-Ground Exports	0	0	0	0	0	0	0	0	0
Soluble Exports	42	0	42	42	0	42	45	0	50
Total Exports	13992	13900	13992	11709	12500	12975	13045	0	15334
Roast, Ground Domestic Consumption	583	584	583	600	666	634	618	0	808
Soluble Domestic Consumption	35	0	35	36	0	38	37	0	50
Domestic Use	618	584	618	636	666	672	655	0	858
Ending Stocks	190	333	190	178	333	67	328	0	400
Total Distribution	14800	14817	14800	12523	13499	13714	14028	0	16592
Exportable Production	13882	13916	13882	11697	12500	12828	13195	0	15642

Table 2: Vietnam's export trade matrix

Country	Vietnam		
Commodity	Coffee, Green		
Time Period	Oct.-Sep.	Units:	MT
Exports for:	**2005**		**2006**
U.S.	117519	U.S.	132156
Others		Others	
Germany	127853	Germany	123444
Italia	95667	Spain	88301
Spain	68263	Italia	56447
Korea	34512	Korea	37937
Philippines	28864	UK	28119
UK	27940	Poland	27315
France	26265	Japan	26266
Japan	25800	Belgium	22038
India	22908	France	21064
Belgium	21807	Ecuador	20376
Total for Others	479879		451307
Others not Listed	239720		192537
Grand Total	837118		776000

SECTION II: SITUATION AND OUTLOOK

PRODUCTION

Vietnam's 2005/06 Coffee Crop

Post revises Vietnam's 2005/2006 estimated coffee production to 810 thousand metric tons (tmt) (13.5 million bags), which represents almost a 10 percent increase over earlier estimates. This is nevertheless a noticeable decline from 2004/05 that is largely attributable to drought during the production period.

Vietnam's 2006/07 coffee Crop

The forecast for Vietnam's 2006/2007 coffee production is 990 tmt (16.5 million bags). Current indications are that better weather conditions and lower pest risk along with new production from maturing plants will positively impact outputs.

Although farmers based on past fluctuations in the market are reluctant to increase Robusta area, a good export market is spurring increases in Arabica planting. Total coffee area is expected to increase by one percent, but as most is higher-density Arabica, the total tree population is expected to increase by 5 percent in 2006/07. However, Robusta production continues to dominate. Arabica coffee production currently only accounts for 2.5 percent of Vietnam's total coffee production and even when new plantings come into full production, it will only account for about 3 percent.

Table 3: Vietnam Coffee Production in Metric Tons (Marketing Year, Oct-Sep)

Unit: thousand tons

	2004/05		2005/06		2006/2007	
Marketing year begins	10/2004		10/2005		10/2006	
	Old	Revised	Old	Revised	Old	Revised
Sown Area (thousand ha)	500	500	500	495	500	500
Area Harvested (thousand ha)	495	495	485	485	485	490
Beginning Stock	18	18	11	11	11	5
Production (green bean)	870	870	740	810	830	990
Average coffee yield (ton/ha)	1.76	1.76	1.53	1.67	1.71	2.02

Source: Vicofa, Trade, FAS estimate

CONSUMPTION

Post estimates that Vietnam's CY 2006/2007 domestic consumption will increase to 51 tmt (or 858,000 bags). Although this is a marked increase over last year, domestic consumption will still only account for 5 percent of total production.

Vietnam's coffee industry has a target of 10 to 15 percent local consumption by 2010, and reportedly major processors such as Vinacafe and Nescafe are currently increasing their processing facilities.

STOCKS

According to coffee dealers and traders, ending stocks for 2005/06 were very low because of higher than expected exports. As a result, post has revised down the carry-in stocks for 2006/07. Foreign buyers are currently holding most stocks. Coffee prices are forecast to be stable in CY 2006/07. So although exports should increase, increased production should allow a rebuilding of stocks from last years drought-induced low levels.

TRADE

Vietnam's coffee exports in MY 2005/06 dropped in volume, but increased significantly in value. According to the Vietnamese Coffee and Cocoa Association (VICOFA), Vietnam's 2005/06 green coffee exports were recorded at 776 tmt (12.9 million bags), a drop of 7.3 percent compared to a year before. However, coffee export value increased by 35 percent (see table 4).

In the CY 2005/2006, the United States was the top importer of Vietnamese coffee. Germany, Spain, Italy and the Republic of Korea filled out the list of the top five buyer countries.

Table 4: Vietnam's green coffee exports in 5 marketing years

Month	2001/2002		2002/2003		2003/2004		2004/2005		2005/2006		% Change of MY 05/06 via 04/05	
	Vol. (tmt)	Value (US$ mil.)	Vol. (tmt)	Value (US$ mil.)	Vol. (tmt)	Value (US$ mil.)	Vol. (tmt)	Value (US$ mil.	Vol. (tmt)	Value (US$ mil.)	Vol.	Value
Oct.	44	15	64	32	46	30	65	40	57	46	-12	15
Nov.	62	20	54	30	55	35	55	34	55	46	0	35
Dec.	88	28	64	38	85	53	87	56	63	57	-27	2
Jan.	94	31	67	44	69	44	82	54	64	66	-22	22
Feb.	72	23	54	37	87	57	64	43	52	56	-19	30
Mar.	72	26	62	40	83	54	82	60	80	89	-2.4	48
Sub-total	**432**	**143**	**365**	**221**	**425**	**273**	**435**	**287**	**371**	**360**	**-15**	**25**
April	43	17	54	34	83	54	82	63	73	82	-11	30
May	46	19	56	37	79	52	71	59	81	93	14	58
June	37	16	58	36	119	79	71	59	75	86	5.6	46
July	45	20	56	35	56	37	65	54	53	61	-18	13
Aug.	52	22	54	34	51	33	58	48	77	90	33	9
Sept.	59	27	48	32	56	35	55	45	46	56	-16	24
Grand Total	**714**	**264**	**691**	**429**	**869**	**563**	**837**	**615**	**776**	**828**	**-7.3**	**35**

Source: Vicofa and Ministry of Trade

PRICES

Export

In the first months of the CY 2005/06 (Oct., Nov. and Dec.), average coffee export prices were quoted between US$ 800-US$ 900. However, coffee prices increased sharply due to tight supply in the global market beginning in early 2006. The average export prices in September 2006, which is the latest complete date available, were 45 percent higher compared with the same month last year. Traders report in early November that export prices (FOB Ho Chi Minh City) are even higher at US$ 1,440- US$ 1,450/MT for Robusta coffee, grade 1, and US$ 1,995-2,030/MT for Arabica coffee. These current prices are the highest in the last 5 years. However, they are still far lower than historical highs ten years ago.

Table 5 Vietnam's average coffee export prices

Country	Vietnam		
Commodity	Coffee, Green		
Prices in	USD	per uom	MT
Year	**2005**	**2006**	% Change
Jan	659	1027	56%
Feb	673	1061	58%
Mar	733	1118	53%
Apr	759	1117.8	47%
May	829	1142.8	38%
Jun	835	1151.5	38%
Jul	829	1161.2	40%
Aug	840	1171.3	39%
Sep	831	1205.7	45%
Oct	813		-100%
Nov	832		-100%
Dec	909		-100%

Source: Vicofa, MARD

Domestic

Current domestic prices have increased 60-70 percent compared with the same period last year. However, in recent months the rise has moderated. Current prices are VND 22,500 ($1.41)/kg for general Robusta coffee beans. Table 5 illustrates Robusta coffee prices in Dak Lak, the largest coffee-producing province in Vietnam.

According to local traders, domestic coffee prices should maintain their current high level in the first half of the 2006/2007-crop year because of expected high export prices and low carry-in stocks. The coffee growers are pleased with current prices. Local traders forecast that farmers will sell 60 percent of total production in the first half of 2006/07 if domestic coffee prices hold at current levels. If they defy expectations and fall below VND 20,000/kg, they expect farmers to only sell 40 percent-50 percent.

Table 6: Robusta coffee bean domestic prices in Dak Lak province in 2005/2006 crop.

Unit: VND/kg

Month	Coffee grades		
	General Robusta bean VND/kg	Robusta coffee grade R1 VND/kg	Robusta coffee grade R2 (5%) VND/kg
Oct. 05	12,500-13,500	13,500-14,600	12,900-14,200
Nov. 05	13,500-14,500	15,500-16,200	15,000-15,500
Dec. 05	15,300-16,300	16,600-16,800	16,000-16,100
Jan. 06	17,600-18,500	19,300-19,800	18,900-19,500
Feb. 06	17,700-18,200	19,000-19,400	18,700-19,100
Mar. 06	16,200-17,500	17,500-18,500	16,500-17,800
Apr. 06	16,000-17,100	17,300-17,600	17,000-17,200
May 06	17,000-17,400	17,800-18,100	17,400-17,600
Jun. 06	16,300-17,200	17,500-17,900	17,200-17,500
July 06	18,500-19,000	19,500-19,800	19,200-19,400
Aug. 06	19,000-20,500	20,500-22,500	20,000-21,200
Sep. 06	20,500-21,000	23,000-23,500	22,000-22,500

Source: Vicofa, MOT, MARD, FAS (US$1=VND 16,020 as of Oct. 20, 2006)

POLICY

Despite recent improvements in Robusta prices, Vietnam's government is still following a coffee strategy that encourages increasing Arabica coffee production area in those regions with suitable climate and soil conditions and shifting low-yielding Robusta areas to crops such as rubber, pepper, cashew nut, fruit trees, cotton and corn.

The government's goal is to reduce both coffee area and production and improve quality as this is regarded as a critically important element of competitiveness in the world market. The Ministry of Agriculture and Rural Development (MARD) has focused on the Central Highlands provinces, supporting programs for the introduction of new harvesting technology and for stricter examination of coffee bound for the export market.

OTHER INDUSTRY ACTIVITIES

- An Utz Kapeh representative office opened recently in Vietnam in line with an increasing interest among Vietnamese companies in having their products carry the Utz Kapeh sustainable coffee production certification. Up to now, there are thirteen Vietnamese companies certified by Utz Kapeh for a total of about 30,000 MT of coffee products. Nine companies are in Dak Lak province and one each in Gia Lai, Lam Dong, Son La and Quang Tri provinces. These volumes are still relatively small.
- Recently, a bio-fertilizer processing plant was established in Duc Trong District, Lam Dong Province, the second largest coffee plantation area in Vietnam. This plant produces fertilizers whose ingredients include up to 50 percent coffee by-products. This will help to reduce environmental pollution caused by coffee processing companies in the province.

- Recently, the Vietnamese Coffee and Cocoa Association acknowledged the Tan Lam Coffee Company in Quang Tri province as "a successful model" for sustainable coffee production. This was as part of a project sponsored by German NGO GTZ, Kraft Foods, and Sara Lee/Douwe Egberts. The project's aim is to raise product quality, improve food safety, and strengthen environmental protection. Tan Lam is constructing a wastewater treatment and energy production facility at its processing plant. This is the first such facility in Vietnam.