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Coffee Semi-annual Report

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Report Highlights: Vietnam's total coffee production for 2006/2007 increased an estimated 55 percent over the previous crop year as a result of more favorable weather and growing conditions and much better yields. Exports for 2006/2007 reached record levels in both volume and value. Farmers continue to invest in inputs to increase yields and capitalize on current high export prices. Various government and industry efforts are underway to improve Vietnam's coffee quality and increase its market share.

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SECTION I. SITUATION AND OUTLOOK

Vietnam's coffee production for 2006/2007 reached a record 1.275 million metric tons or 21.25 million 60-kg-bags as a result of more favorable growing conditions and better yields than the previous crop year. Total coffee production increased 55.5 percent over the 2005/2006 crop year. Production forecast for CY 2007/2008 is set at about 18.062 million 60 kg bag, suggesting a decline in production of 15 percent as a result of expected drier weather conditions and lower coffee yields.

The government continues its plan of encouraging farmers in marginal growing areas to switch from coffee growing to crops better suited to the soil. Coffee farmers, however, continue to expand their cultivation of Robusta, and where possible, Arabica in the face of continued high coffee prices. As a consequence, the demand for breeder coffee trees has increased considerably from previous years. Arabica coffee currently accounts for about 2.3% of Vietnam's total coffee production.

Coffee exports for 2006/2007 also increased sharply over the previous market year. Total exports reached an estimated 19.95 million 60 kg bags, which is 54 percent more than the previous market year. Export values also increased a record 114 percent to \$1.772 billion. The 2007/2008 exports are forecasted to decline around 12 percent due to anticipated lower production output levels.

SECTION II. STATISTICAL TABLES

Table 1: Vietnam's coffee production, supply and demand (PSD table)

Country *Vietnam*Commodity **Coffee, Green**

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

| | 2006 | Revised | | 2007 | Estimate | | 2008 | 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 | | 10/2005 | 10/2005 | | 10/2006 | 10/2006 | | 10/2007 | 10/2007 |
| Area Planted | 495 | 495 | 495 | 515 | 515 | 515 | 517 | 517 | 517 |
| Area Harvested | 485 | 485 | 485 | 495 | 495 | 495 | 495 | 495 | 495 |
| Bearing Trees | 605 | 605 | 605 | 615 | 615 | 615 | 619 | 619 | 619 |
| Non-Bearing Trees | 12 | 12 | 12 | 36 | 36 | 36 | 35 | 35 | 35 |
| Total Tree Population | 617 | 617 | 617 | 651 | 651 | 651 | 654 | 654 | 654 |
| Beginning Stocks | 190 | 190 | 190 | 67 | 67 | 285 | 250 | 250 | 847 |
| Arabica Production | 300 | 300 | 335 | 417 | 417 | 480 | 396 | 396 | 432 |
| Robusta Production | 13200 | 13200 | 13331 | 18183 | 18183 | 20770 | 17274 | 17274 | 17630 |
| Other Production | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Production | 13500 | 13500 | 13666 | 18600 | 18600 | 21250 | 17670 | 17670 | 18062 |
| Bean Imports | 15 | 15 | 50 | 55 | 55 | 79 | 17 | 17 | 100 |
| Roast & Ground Imports | 1 | 1 | 1 | 1 | 1 | 1 | 26 | 26 | 1 |
| Soluble Imports | 23 | 23 | 23 | 24 | 24 | 35 | 0 | 0 | 40 |
| Total Imports | 39 | 39 | 74 | 80 | 80 | 115 | 43 | 43 | 141 |
| Total Supply | 13729 | 13729 | 13930 | 18747 | 18747 | 21650 | 17963 | 17963 | 19050 |
| Bean Exports | 12933 | 12933 | 12933 | 17596 | 17596 | 19917 | 16718 | 16718 | 17527 |
| Rst - Grnd Exp. | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 1 |
| Soluble Exports | 42 | 42 | 25 | 42 | 42 | 27 | 42 | 42 | 33 |
| Total Exports | 12975 | 12975 | 12958 | 17639 | 17639 | 19945 | 16761 | 16761 | 17561 |
| Rst,Ground Dom. Consumption | 649 | 649 | 649 | 808 | 808 | 808 | 818 | 818 | 818 |
| Soluble Dom. Cons. | 38 | 38 | 38 | 50 | 50 | 50 | 51 | 51 | 52 |
| Domestic Use | 687 | 687 | 687 | 858 | 858 | 858 | 869 | 869 | 870 |
| Ending Stocks | 67 | 67 | 285 | 250 | 250 | 847 | 333 | 333 | 619 |
| Total Distribution | 13729 | 13729 | 13930 | 18747 | 18747 | 21650 | 17963 | 17963 | 19050 |
| Exportable Production | 12813 | 12813 | 12979 | 17742 | 17742 | 20392 | 16801 | 16801 | 17192 |

Source: FAS

Table 2: Vietnam's export trade matrix

| Country | Vietnam | | | |
|-------------------|---------------|----------------|-------------|--|
| Commodity | Coffee, Green | | | |
| Time Period | Oct.- Sept. | Units: | MT | |
| Exports for: | 2006 | | 2007 | |
| U.S. | 132156 | U.S. | 148065 | |
| Others | | Others | | |
| Germany | 123444 | Germany | 178697 | |
| Spain | 88301 | Spain | 100643 | |
| Italy | 56447 | Italy | 90494 | |
| Korea | 37937 | Japan | 45303 | |
| United Kingdom | 28119 | Indonesia | 39223 | |
| Poland | 27315 | United Kingdom | 38925 | |
| Japan | 26266 | Korea | 37918 | |
| Belgium | 22038 | Philippines | 33463 | |
| France | 21064 | Belgium | 30804 | |
| Ecuador | 20376 | Netherlands | 27288 | |
| Total for Others | 451307 | | 622758 | |
| Others not Listed | 192537 | | 424177 | |
| Grand Total | 776000 | | 1195000 | |

Source: Vicofa, MARD, General Statistics Department

Table 3: Vietnam's import trade matrix

| Country | Vietnam | | | |
|-------------------|---------------|----------------|-------------|--|
| Commodity | Coffee, Green | | | |
| Time Period | Oct.-Sep. | Units: | MT | |
| Imports for: | 2006 | | 2007 | |
| U.S. | | U.S. | | |
| Others | | Others | | |
| Laos | 2690 | Laos | 3100 | |
| China | 120 | United Kingdom | 1052 | |
| South Korea | 63 | China | 220 | |
| Nicaragua | 38 | Syria | 154 | |
| Portugal | 37 | South Korea | 63 | |
| Ethiopia | 18 | Nicaragua | 38 | |
| Malaysia | 3 | Portugal | 37 | |
| | | Nigeria | 19 | |
| | | Ethiopia | 18 | |
| | | Malaysia | 3 | |
| Total for Others | 2969 | | 4704 | |
| Others not Listed | | | 6 | |
| Grand Total | 2969 | | 4710 | |

Source: Trade, General Customs Office

SECTION III. MARKET STATUS

PRODUCTION

Vietnam's 2006/07 Coffee Crop

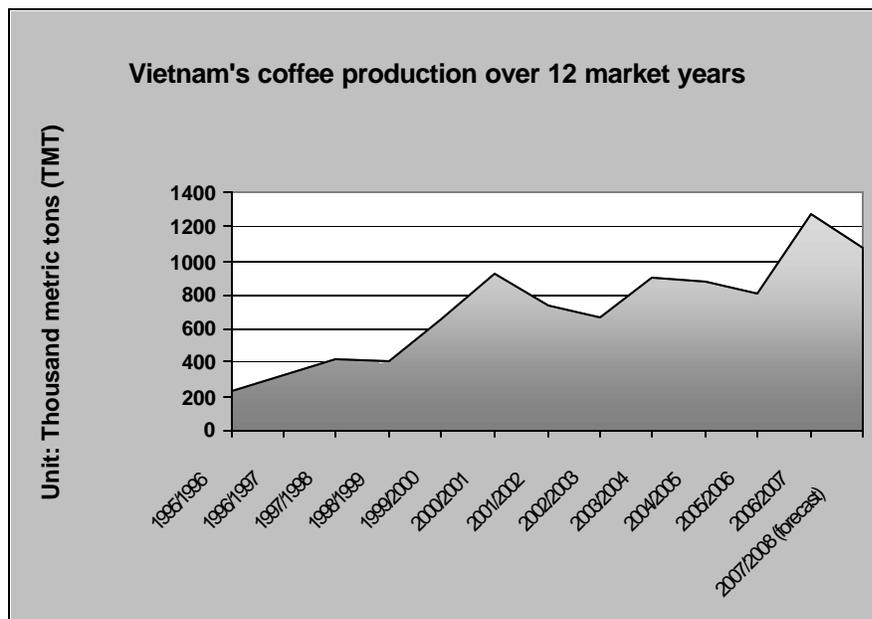
Post revises Vietnam's 2006/2007 coffee production estimate to 1.275 million metric tons (MMT) or 21.25 million 60-kg bags of green beans. This represents an increase of 7.6 million bags (55.5 percent) over the previous crop year, and can be largely attributed to much better rainfall and farmers' continued investments into inputs such as fertilizers and irrigation systems in order to enhance yields. (See graph 1)

Farmers continue to expand Robusta cultivation, and to a much lesser extent, Arabica, in response to continued high export coffee prices. Arabica coffee production continues to expand, though slower than anticipated. Currently Arabica coffee accounts for about 2.3% of Vietnam's total coffee production. Coffee yields for 2006/2007 crop year surpassed expectation by 15% and also improved considerably over the previous crop year, increasing more than 52 percent. (See table 4)

Vietnam's 2007/08 Coffee Crop

The projection for Vietnam's 2007/2008 coffee production is a decline of about 15 percent over the previous crop due to a possible summer drought or dry conditions in the major coffee growing areas. Additionally, some growers have been replacing old trees and this may also impact production output levels. Thus, coffee yields for the 2007/2008 crop is projected to decline by about 15 percent.

Graph 1: Vietnam's Coffee Production Over 12 Market Years



Source: FAS estimate

Table 4: Vietnam Coffee Production in Metric Tons, by Marketing Year (Oct-Sept)

| | 2005/06 | | 2006/2007 | | 2007/2008 | |
|--|---------|---------|-----------|---------|-----------|---------|
| Marketing year begins | 10/2005 | | 10/2006 | | 10/2007 | |
| | Old | Revised | Old | Revised | Old | Revised |
| Sown Area (thousand ha) | 495 | 495 | 515 | 515 | 517 | 517 |
| Area Harvested (thousand ha) | 485 | 485 | 495 | 495 | 495 | 495 |
| Beginning Stock (thousand tons) | 11 | 11.4 | 4 | 17.1 | 15 | 50.8 |
| Production (green bean, thousand tons) | 810 | 820 | 1116 | 1275 | 1060 | 1084 |
| Average coffee yield (ton/ha) | 1.67 | 1.69 | 2.25 | 2.58 | 2.14 | 2.19 |

Source: Vicofa, Trade, FAS estimate

CONSUMPTION

Post leaves unchanged its previous estimate of 858 thousand 60-kg bags or 51.5 thousand metric tons (tmt) green equivalent for Vietnam's 2006/2007 domestic consumption. This is projected to increase to about 52.2 tmt next crop year in response to domestic marketing campaigns by major processors and supportive government strategies. An ongoing program of "coffee culture weeks 2007" will be initiated in Hanoi and Ho Chi Minh City at the end of November. Some 30 coffee brands, cafes and trading companies will be featured during these programs to help promote local coffee consumption. Local consumption now only accounts for about 4.03 percent of total production. Coffee consumption, both ground and soluble products, has been slowly gaining ground in the domestic market in recent years, particularly in the coffee growing areas and the larger urban areas.

Vietnam's per capita coffee consumption is estimated at about 0.5-0.6 kg/year, which is much less than other coffee producing countries and considerable less than the EU's per capita consumption is 5-10 kg/year.

STOCKS

Official data for coffee stocks are not available in Vietnam. Indications are that growers, processors and traders hold stocks. Although the harvest in the Central Highlands, a major coffee growing region, was delayed for a month due to heavy rainfall, export volumes were unchanged during October, the start of the new 2007/2008 crop year. This suggests that stores were greater than previously estimated, and according to coffee traders about 70-80 percent of the coffee exported in October and early November 2007 came from the previous crop year, as is often the case. Post therefore revises upwards the ending stocks for 2006/2007 to 847 thousand bags or 51 thousand metric tons. Post also revises upward the ending stock for 2005/2006 and the beginning stocks for 2006/2007, which were also higher than previously projected.

TRADE

Vietnam's total coffee exports for MY 2006/07 reached record volume and value at 19.95 million 60 kg bags, valued at \$1.772 billion. This represents an increase in volume of 54 percent over the previous market year. Green coffee, which accounts for the bulk of exports, was 19.917 million bags, representing an increase of 6.98 million bags or 54 percent over MY 2005/2006.

Green coffee export values also showed a record increase at \$1.768 billion, which is 114 percent greater than the last crop year. (See graph 2 and table 5). Exports are expected to decline around 12 percent in 2007/2008 due to anticipated lower output levels.

Graph 2. Vietnam green coffee exports over 5 marketing years

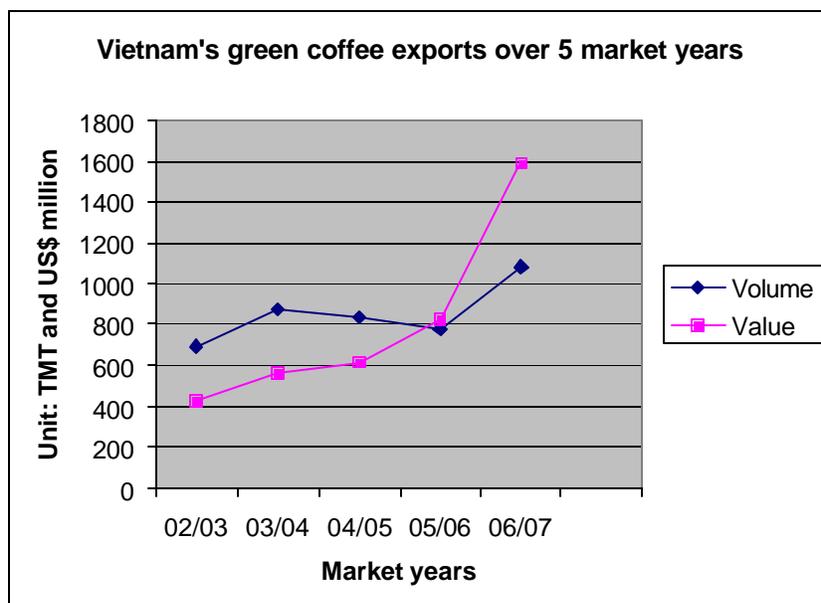


Table 5: Vietnam's green coffee exports over 5 marketing years

| Month | 2002/2003 | | 2003/2004 | | 2004/2005 | | 2005/2006 | | 2006/2007 | | % Change MY 05/06 & 06/07 | |
|--------------------|------------|----------------|------------|----------------|------------|----------------|------------|----------------|--------------|----------------|---------------------------|------------|
| | Vol. (tmt) | Value (\$mil.) | Vol. (tmt) | Value (\$mil.) | Vol. | Value |
| Oct. | 64 | 32 | 46 | 30 | 65 | 40 | 57 | 46 | 52 | 64 | -8.8 | 39 |
| Nov. | 54 | 30 | 55 | 35 | 55 | 34 | 55 | 46 | 64 | 87 | 16.4 | 89 |
| Dec. | 64 | 38 | 85 | 53 | 87 | 56 | 63 | 57 | 106 | 149 | 68.3 | 161 |
| Jan. | 67 | 44 | 69 | 44 | 82 | 54 | 64 | 66 | 244 | 350 | 281 | 430 |
| Feb. | 54 | 37 | 87 | 57 | 64 | 43 | 52 | 56 | 118 | 172 | 127 | 207 |
| Mar. | 62 | 40 | 83 | 54 | 82 | 60 | 80 | 89 | 201 | 252 | 151 | 183 |
| April | 54 | 34 | 83 | 54 | 82 | 63 | 73 | 82 | 130 | 189 | 78 | 131 |
| May | 56 | 37 | 79 | 52 | 71 | 59 | 81 | 93 | 64 | 139 | -2.1 | 49.5 |
| June | 58 | 36 | 119 | 79 | 71 | 59 | 75 | 86 | 76 | 126 | 1.3 | 46.5 |
| July | 56 | 35 | 56 | 37 | 65 | 54 | 53 | 61 | 57 | 98 | 7.5 | 60.7 |
| Aug. | 54 | 34 | 51 | 33 | 58 | 48 | 77 | 90 | 45 | 76 | -41.6 | -16 |
| Sept. | 48 | 32 | 56 | 35 | 55 | 45 | 46 | 56 | 38 | 66 | -17.4 | 17.9 |
| Grand Total | 691 | 429 | 869 | 563 | 837 | 615 | 776 | 828 | 1,195 | 1,768 | 54 | 114 |

Source: Vicofa, Vietnam Chamber of Commerce and Industry (VCCI), General Statistics Department

Vietnam currently exports coffee to about 74 countries around the world. Table 6 offers a view of the top ten markets for Vietnamese green coffee exports in MY 2006/2007. Germany has the largest market share, followed closely by the United States.

Table 6: Top ten markets for Vietnamese green coffee in MY 2006/2007

| Rank | Import Countries | Volume (MT) |
|------|------------------|-------------|
| 1 | Germany | 178,697 |
| 2 | United States | 148,065 |
| 3 | Spain | 100,643 |
| 4 | Italy | 90,494 |
| 5 | Japan | 45,303 |
| 6 | Indonesia | 39,223 |
| 7 | United Kingdom | 38,925 |
| 8 | South Korea | 37,918 |
| 9 | Philippines | 33,463 |
| 10 | Belgium | 30,804 |

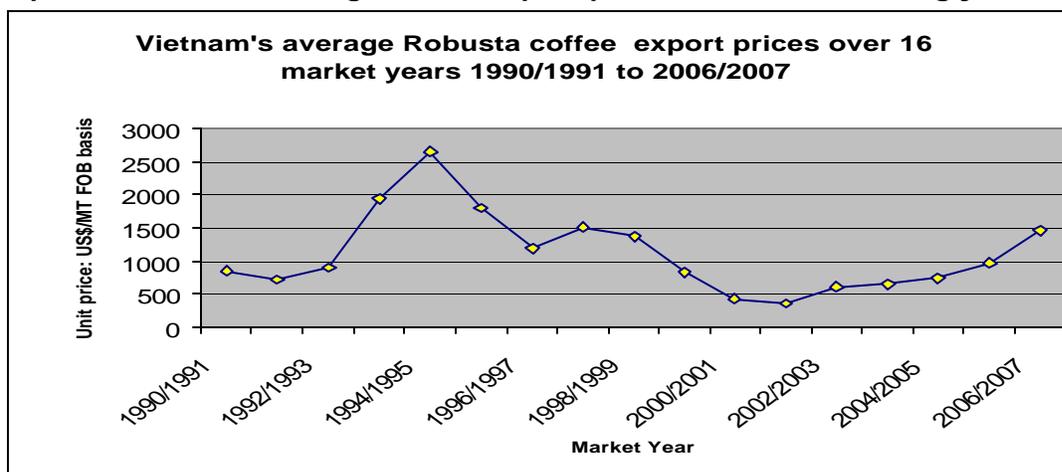
Source: Vicofa

Vietnam also imports a small amount of coffee, both green and soluble. Total coffee imports for 2006/2007 was just under 5 tmt, the bulk of which was green coffee. While this amount is low, it represents an increase of almost 59 percent or 1.7 tmt over last market year (see table 3). It is speculated that much of the green coffee imports may be destined for re-export under a developing strategy of importing coffee for reserves to supply contracts during periods of shortage or late harvest.

PRICES

Export

Vietnam's Robusta coffee had an average export price of \$1,463.20/MT (FOB basis) during MY 2006/2007, which is almost 50 percent higher than last market year. This is also the highest price in nine years, since MY 1998/1999, although prices still remain well below historical highs. (see graph 2) Currently, Vietnam's Robusta grade 1 coffee has an export quote price of \$1,770-\$1,790/MT (FOB Ho Chi Minh City) while Vietnam's Arabica coffee is quoted at \$2,280/MT. Local traders forecast that export prices should remain high since global demand remains strong.

Graph 3: Vietnam's average coffee export prices over 16 marketing years

Source: Vicofa, Trade

Table 7: Vietnam's green coffee average export prices in 2006 and 2007

| Month | 2006 | 2007 | % Change |
|-------|---------|------|----------|
| Jan | 1027.00 | 1441 | 40% |
| Feb | 1061.00 | 1461 | 38% |
| Mar | 1118.00 | 1437 | 29% |
| Apr | 1117.80 | 1446 | 29% |
| May | 1142.80 | 1484 | 30% |
| Jun | 1151.50 | 1560 | 35% |
| Jul | 1161.20 | 1585 | 36% |
| Aug | 1171.30 | 1569 | 34% |
| Sep | 1205.70 | 1582 | 31% |
| Oct | 1231.00 | | |
| Nov | 1357.00 | | |
| Dec | 1405.00 | | |

Source: Vicofa, Trade

Domestic

In keeping with higher export prices during MY 2006/2007, Vietnam's domestic coffee prices have been running at about 29 percent higher than a year ago. Prices in Dak Lak, Vietnam's largest coffee-producing province, are currently VND 27,300-27,500 (\$1.70-\$1.71)/kg for common Robusta coffee beans. Local traders forecast that domestic coffee prices should remain at current high levels through the first months of the 2007/2008 crop year as the new crop harvest started a month later than usual due to prolonged rains in the coffee growing areas. Table 8 offers a view of typical Robusta coffee prices in Dak Lak province for the MY 2006/2007.

Table 8: Robusta beans domestic prices in Dak Lak province for MY 2006/2007

| Month | Coffee grades | | |
|----------|-------------------------------|-----------------------------------|--|
| | Common Robusta bean VND/kg | Robusta coffee grade R1 VND/kg | Robusta coffee grade R2 (5%) VND/kg |
| Oct. 06 | 21,600-22,600 | 22,700-23,700 | 21,900-23,400 |
| Nov. 06 | 20,500-22,800 | 21,900-23,900 | 21,100-23,100 |
| Dec. 06 | 20,500-21,700 | 21,900-23,800 | 21,000-22,900 |
| Jan. 07 | 21,000-22,000 | 22,200-23,000 | 21,600-22,700 |
| Feb. 07 | 21,000-22,200 | 22,200-23,000 | 21,600-22,700 |
| Mar. 07 | 21,200-22,400 | 22,300-23,600 | 21,800-22,800 |
| Apr. 07 | 21,200-21,500 | 22,300-22,900 | 21,800-22,000 |
| May 07 | 23,500-25,000 | 25,600-26,700 | 24,500-25,500 |
| Jun. 07 | 26,800-27,300 | 27,500-29,200 | 27,300-28,300 |
| Jul. 07 | 27,000-27,500 | 28,500-29,800 | 27,500-28,500 |
| Aug. 07 | 25,200-27,200 | 27,500-28,000 | 26,000-27,500 |
| Sept. 07 | 26,200-27,300 | 27,800-28,000 | 27,000-27,500 |

Source: Vicofa, MOT, Dak Lak Trade Promotion Center, (\$1 = VND 16,069 eff. 11/7/07)

POLICY

Vietnam Government has a goal to improve coffee quality

- The government has a long-term policy goal for Vietnam's coffee sector to improve the coffee quality so that Vietnam's coffee can better compete on the world market. To this end, the government has instituted the new standard, TCVN 4193:2005, in accordance with the International Coffee Organization's (ICO) standards. This new standard was slated for rollout on October 1, 2007, the start of the 2007-2008 crop year. However, it has not yet taken effect as many in the industry have been against it. Following is the roadmap to institute this new standard, as suggested by the Ministry of Agriculture and Rural Development:
 - By 2007-2008 CY: Encourage enterprises to apply TCVN 4193: 2005; 20 percent of enterprises and 5 percent of exports will apply the new standards.
 - By 2008-2009 CY: New standards TCVN 4193: 2005 will be compulsory for exports. Export consignments that do not meet TCVN 4193-2005 will be allowed to get customs clearance; however, enterprises will have to make commitments to follow the new standards for subsequent consignments.
 - By 2009-2010 CY: exporters of coffee consignments that do not meet the new standard will need to settle the problem before shipping.
- To improve export coffee quality, at the beginning of the new crop year, the People's committees of Dak Lak and Lam Dong provinces (the largest coffee growing areas in Vietnam) disseminated instructions to all coffee growers and coffee trading companies to harvest the 2007/2008 coffee crop at a rate of 95 percent of ripe coffee beans only. All government authorities and social organizations are committed to reinforcing these instructions.

Coffee growers target the US Chicago Mercantile Exchange (CME)

The Ministry of Agriculture and Rural Development, Ministry of Foreign Affairs, Ministry of Industry and Trade and Vicofa are working together to list Vietnam's coffee on the Chicago Mercantile Exchange (CME). It is felt that a listing on the CME will allow Vietnam's coffee enterprises to be strategically positioned to understand their customers' needs as well as get the latest information about prices and quality. This move is seen as a first step in ensuring a strong presence for Vietnamese agricultural products in the global market.

As a part of this effort, the CME will offer training in online trading to Vietnamese traders, temporarily sent to Chicago. CME experts will then follow up with training of traders at Buon Me Thuot Coffee Exchange Centre in Dak Lak province, the largest coffee growing area in Vietnam. The Coffee Exchange Centre in Dak Lak was established in November 2004 and currently sells coffee only through traditional auction methods to the domestic market. It is expected to carry out its first online trading transactions through the CME by March 2008. Successful implementation of this endeavor will offer a model for future trading of other products such as tea, timber and animal feed.

Value added tax (VAT) for coffee commodity

The Vietnam government recently reduced the VAT on coffee commodity with an aim to promoting exports as well as domestic consumption. The General Department of Taxation disseminated Guidance Correspondence No. 4299/TCT-CS, dated October 18, 2007, on VAT for coffee commodity with provisions that the following goods shall not be subject to VAT:

- products of cultivation that have only been sun-dried, dried, cleaned, preserved fresh by using chemicals, unshelled, classified and packed).
- products, which have not yet been processed into other products or which have only been semi-processed by organizations or individuals producing, catching and selling products **at the import stage**.

A five percent (5%) VAT will be levied on all products of cultivation that have not yet been processed or which have only been semi-processed for cleaning, shelling, drying, **at the commercial trading stage** (except for products as mentioned above).

MARKETING

- A "Coffee Culture Week" will be staged from November 19 – December 2, 2007 in Hanoi, and December 13 -16, 2007 in Ho Chi Minh City to help promote the trademark of Buon Ma Thuot Coffee, which is named after a city in Dak Lak Province, the major coffee growing region of Vietnam. This event will also help promote the next Buon Ma Thuot Coffee Festival in Dak Lak province in 2008.
- Vietnam currently has only 8 companies (in Dak Lak, Quang Tri, Son La and Lam Dong provinces) with the Utz Kapeh sustainable coffee production certification. Volumes are still relatively small. In 2006, only 22,000 metric tons of Vietnamese coffee had Utz Kapeh certification. Coffee thus certified earns a \$40 premium per metric ton on the export price. The current target is to increase the volume of Utz Kapeh certified coffee to 100,000 metric tons by 2010.
- Trung Nguyen Coffee Company has signed contracts with farming households to buy their coffee beans at a competitive price if their products are certified by EuroGap. The EuroGap program has some 14 criteria that farmers must meet in order to receive the certification that their coffee was produced and processed in an environmentally friendly manner and is safe for consumption. Reportedly many farmers find these criteria somewhat stringent. However, certification will boost their market price by VND1,500 more per kg.
- Singapore-based Olam International, the world's largest supplier of Robusta green coffee, will invest \$45 million in a soluble coffee manufacturing facility in Vietnam. The facility will produce and supply bulk spray-dried coffee powder, freeze-dried coffee granules and coffee extracts to the unbranded and private coffee label segment. The company will build the facility in two phases, and expects to have a production capacity of 3,700 tons annually by the first quarter of 2009, and an expanded capacity to 6,500 tons by 2011.