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## Vietnam

### Coffee

### Semi-annual Report

### 2008

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**Report Highlights:** Vietnam's total coffee production for 2007/2008 was about 13.7 percent less than the previous crop year. Consequently, export volumes were also down 10 percent from the previous market year. Exports were, however, valued at a record \$2 billion. Production output for 2008/2009 is expected to increase by 17 percent.

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**SECTION I. SITUATION AND OUTLOOK**

Vietnam produced 1.1 million metric tons or 18.33 million 60kg bags of coffee in market year (MY) 2007/2008. This represents a 13.7 percent decline in production from the previous crop year, though still 5 percent higher than our earlier forecast. Post maintains its earlier estimate for MY 2008/2009 coffee production at about 21.5 million 60 kg bags or 1.29 million metric tons, which is 17 percent more than the current market year. This improved outlook takes into account an anticipated small increase in the growing area as well as improved weather conditions and better yields.

Even with a 10 percent reduction in coffee export volume in MY 2007/2008, Vietnam remains the world's top Robusta exporter. This market year also marks the first time exports reached a value of over \$2 billion. This 20 percent increase in value over the previous market year was largely due to higher coffee prices. It should be noted, however, that coffee prices are expected to fall during the first months of MY 2008/2009 due to effects from the global financial crisis on commodity markets, including coffee, despite the fact that, as International Coffee Organization (ICO) reports, coffee supply and demand fundamentals remain unchanged. The effects of falling coffee prices are already being felt by Vietnam's coffee growers, some of which have already started holding more stock as prices continue the sharp decline since July. Post has therefore revised upwards its earlier estimate for ending stocks for market year 2007/2008.

Picture 1: Coffee Production Regions of Vietnam



Source: Vicofa

## 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)

Coffee, Green Vietnam	2007			2008			2009		
	2006/2007			2007/2008			2008/2009		
	Market Year Begin: Oct 2006			Market Year Begin: Oct 2007			Market Year Begin: Oct 2008		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Area Planted	515	515	515	517	517	517	520	520	520
Area Harvested	495	495	495	490	490	490	495	495	495
Bearing Trees	615	615	615	610	610	610	627	627	627
Non-Bearing Trees	36	36	36	44	44	44	37	37	37
Total Tree Population	651	651	651	654	654	654	664	664	664
Beginning Stocks	285	285	285	847	847	847	339	339	427
Arabica Production	480	480	500	400	400	400	500	500	500
Robusta Production	20770	20770	20770	17100	17100	17933	21000	21000	21000
Other Production	0	0	0	0	0	0	0	0	0
Total Production	21250	21250	21250	17500	17500	18333	21500	21500	21500
Bean Imports	79	79	79	70	70	65	70	70	70
Roast & Ground Imports	1	1	1	1	1	1	1	1	1
Soluble Imports	35	35	35	25	25	22	25	25	25
Total Imports	115	115	115	96	96	88	96	96	96
Total Supply	21650	21650	21650	18443	18443	19268	21935	21935	22023
Bean Exports	19917	19917	19917	17200	17200	17933	20500	20500	20500
Rst-Grnd Exp.	1	1	1	1	1	1	1	1	1
Soluble Exports	27	27	27	33	33	22	35	35	25
Total Exports	19945	19945	19945	17234	17234	17956	20536	20536	20526
Rst,Ground Dom. Consum	808	808	808	818	818	818	843	843	843
Soluble Dom. Cons.	50	50	50	52	52	67	60	60	70
Domestic Use	858	858	858	870	870	885	903	903	917
Ending Stocks	847	847	847	339	339	427	496	496	580
Total Distribution	21650	21650	21650	18443	18443	19268	21935	21935	22023
Exportable Production	20392	20392	20808	16630	16630	17448	20597	20597	20783

Source: FAS

**Table 2: Vietnam's export trade matrix**

Country	Vietnam			
Commodity	Coffee, Green			
Time Period	Oct.-Sept.	Units:	MT	
Exports for:	2007		<b>2008</b>	
U.S.	148065	U.S.	118582	
Others		Others		
Germany	178697	Germany	119971	
Spain	100643	Italy	90223	
Italy	90494	Spain	87709	
Japan	45303	Belgium	76023	
Indonesia	39223	Japan	52937	
United Kingdom	38925	South Korea	40480	
South Korea	37918	Algeria	33024	
Philippines	33463	France	31115	
Belgium	30804	United Kingdom	30038	
Netherlands	27288	Russia	20611	
Total for Others	622758		582131	
Others not Listed	424177		375287	
Grand Total	1195000		1076000	

Sources: Vicofa, MARD, General Statistics Department.

### SECTION III: MARKET STATUS

#### PRODUCTION

##### Vietnam's 2007/2008 Coffee Crop

Post revises Vietnam's 2007/2008 coffee production estimate to 1.1 million metric tons or 18.3 million 60kg bags. This represents a decrease of 13.7 percent from the previous crop which is largely attributable to loss of coffee blossoming during heavy rainfall as well as unseasonable frost in several key planting areas (Graph 1). Coffee yields for the 2007/2008 crop year was down 14.8 percent from the previous crop year. (Table 3)

Coffee growers continued to expand their production area in the face of high export coffee prices despite of government efforts urging growers to focus on sustainable production techniques and better harvesting practices in order to improve coffee quality. Farmers reportedly spend an average of VND20 million to grow one hectare of coffee. Application of such sustainable cultivation techniques as reasonable use of fertilizer (i.e. correct amt.) and sufficient water, the expense is reduced to VND15-16 million per hectare, a 25 percent cost savings.

The Ministry of Agriculture and Rural Development (MARD) reports that coffee is currently planted in 20 provinces across Vietnam, but the primary plantation areas are in Dak Lak, Lam Dong, Gia Lai, and Daknong provinces in the Central Highlands (picture 1). All but about 2.2 percent of Vietnam's coffee production is Robusta coffee. Coffee growers note the difficulty in developing Arabica plantation areas, which need to be at an appropriate elevation. Farmers must also change their farming and harvesting/handling techniques to one requiring more intensive labor, which can be quite costly as is the investment needed for

processors' equipment and the higher processing standards required for Arabica beans. Moreover, all of these factors/requirements have to be in place at the same time in order to have a good marketable Arabica product.

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

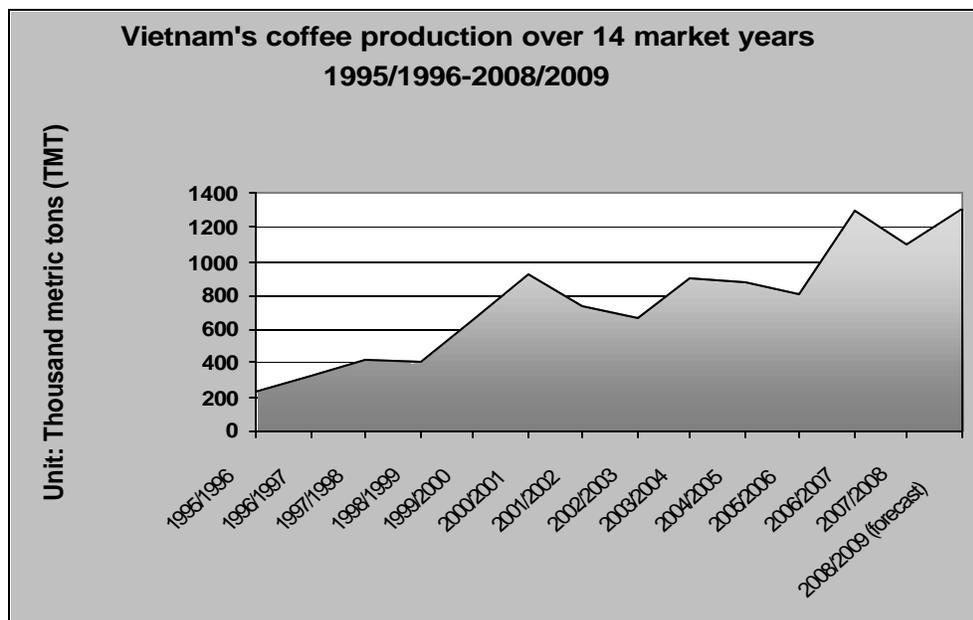
	2006/2007	2007/2008		2008/2009	
Marketing year begins	10/2006	10/2007		10/2008	
	Old	Old	Revised	Old Forecast	New Forecast
Sown Area (thousand ha)	515	517	517	520	520
Area Harvested (thousand ha)	495	490	490	495	495
Beginning Stock (thousand tons)	17.1	50.8	50.8	20.3	25.6
Production (green bean, thousand tons)	1275	1050	1,100	1,290	1,290
Average coffee yield (ton/ha)	2.58	2.14	2.24	2.61	2.61

Source: Trade, FAS estimate

**Vietnam's 2008/2009 Coffee Crop**

Vietnam's 2008/2009 coffee production is expected to increase about 17.3 percent over the 2007/2008 market year due to anticipated better growing conditions and improved coffee yields in the major coffee growing areas. While some growers continue to replant old trees, this should not adversely impact output levels as the replacement has been gradual, with growers paying particular attention to the care of existing coffee trees with an aim to augmenting output yields so as to offset losses from the newly planted areas.

**Graph 1: Vietnam's Coffee Production over 14 Market Years**



Source: FAS estimate

**CONSUMPTION**

Post's estimate for Vietnam's 2007/2008 domestic consumption is revised upwards to 885 thousand 60kg bags or 53.1 thousand metric tons (tmt) green bean equivalent. Continued domestic marketing campaigns by major processors and supportive government strategies aimed at increasing domestic consumption appear to be bearing fruit. Dak Lak Peoples' Committee is also organizing the "Second Buon Ma Thuot Coffee Festival" in Buon Ma Thuot City, Dak Lak province, the largest coffee growing region of Vietnam, in mid-December with an aim of promoting Vietnam's coffee products to both the domestic and international market. Local consumption currently accounts for around 5 percent of total production. Post expects that 2008/2009 domestic consumption should reach 55 thousand metric tons.

## STOCKS

Official data for coffee stocks are not available. Reportedly coffee growers are holding more stocks than usual. Farmers often retain part of their beans to sell or blend with newly harvested beans in October/early November before the harvest peaks in late November. However, domestic prices for Robusta coffee have fallen almost 14% since July and several coffee growers are reported to be holding more of their beans in anticipation of more attractive prices. Post therefore revises its estimates for 2007/2008 ending stock to around 427 thousand 60kg bags.

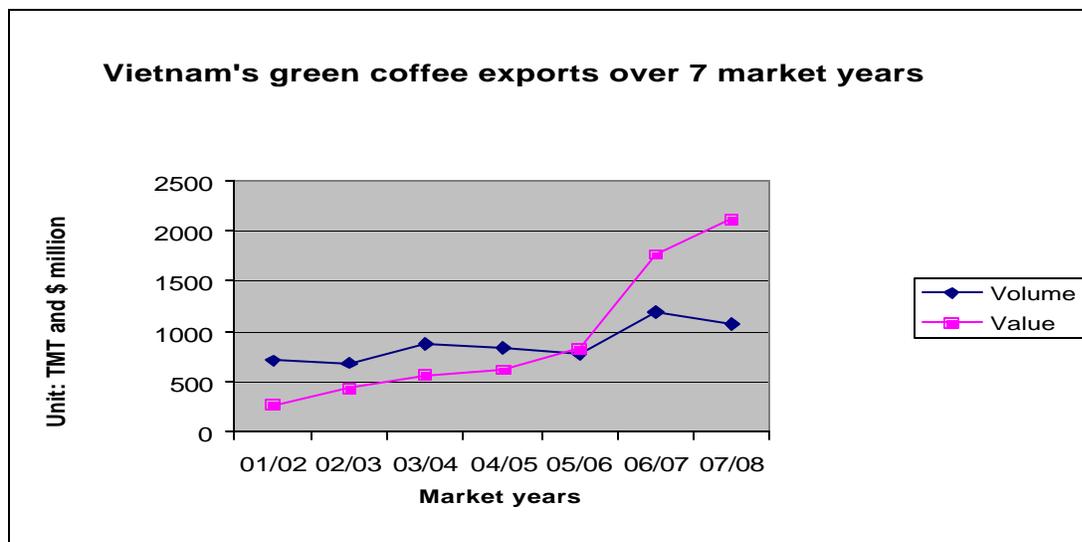
## TRADE

Vietnam exported around 17.93 million 60kg bags of green coffee for MY 2007/08, a 10 percent decline from the previous market year. Notwithstanding this, earnings were valued at a record \$2.116 billion, thanks to high international commodity prices. This represents an increase in value of 20 percent over the previous market year.

**Table 4: Vietnam's green coffee exports over 5 market years**

Month	2003/2004		2004/2005		2005/2006		2006/2007		2007/2008		% Change 06/07 - 07/08	
	Vol. (tmt)	Value (\$mil.)	Vol.	Value								
Oct.	46	30	65	40	57	46	52	64	42	70	-19	9.3
Nov.	55	35	55	34	55	46	64	87	65	111	1.6	28
Dec.	85	53	87	56	63	57	106	149	142	244	34	64
Jan.	69	44	82	54	64	66	244	350	172	309	-29.5	-11.7
Feb.	87	57	64	43	52	56	118	172	76	156	-35.6	-9.3
Mar.	83	54	82	60	80	89	201	252	96	217	-52	-14
April	83	54	82	63	73	82	130	189	142	301	10	60
May	79	52	71	59	81	93	64	139	82	171	28	23
June	119	79	71	59	75	86	76	126	81	170	6.5	35
July	56	37	65	54	53	61	57	98	72	156	26	59
Aug.	51	33	58	48	77	90	45	76	59	126	31	66
Sept.	56	35	55	45	46	56	38	66	47	85	24	29
<b>Total</b>	<b>869</b>	<b>563</b>	<b>837</b>	<b>615</b>	<b>776</b>	<b>828</b>	<b>1,195</b>	<b>1,768</b>	<b>1,076</b>	<b>2,116</b>	<b>-10</b>	<b>20</b>

Source: Vicofa, Trade

**Graph 2. Vietnam's coffee export volume and value over 7 market years**

Source: Vicofa, Vietnam Chamber of Commerce and Industry (VCCI), MARD

Vietnam currently exports coffee to about 75 countries around the world. Germany and the United States remain the two largest buyers of Vietnam's green coffee exports. Russia is becoming a bigger importer, with over 20,000 metric tons or about 334,000 60-kg bags in MY 2007-2008, up from its previous seven-year average of 5,500 tons per year, thus earning it 11<sup>th</sup> place among Vietnamese coffee export markets. Other coffee producing countries also buy Vietnam's Robusta coffee for blending and re-export because of its competitive price. Ecuador recently imported 18,000-20,000 metric tons of Vietnam's Robusta coffee and Thailand, India and Indonesia are regular importers. (Table 6)

Vietnam imported a small quantity of green coffee in CY 2007/2008, about 65 thousand 60kg bags or 3.9 tmt, which is 17 percent less than last market year. (see table 3) Much of this green coffee import is for further processing and/or re-export.

**Table 5: Top ten markets for Vietnamese green coffee exports in CY 07/08**

Rank	Countries	2007/2008		Share of Exports (%)	
		Volume (tmt)	Value (\$mil)	Volume (%)	Value (%)
	<b>Total green coffee export</b>	<b>1,076</b>	<b>2,116</b>	<b>100</b>	<b>100</b>
1	Germany	120	239	11.2	11.3
2	United States	119	227	11.1	10.7
3	Italy	90	178	8.4	8.4
4	Spain	88	174	8.2	8.2
5	Belgium	76	150	7	7
6	Japan	53	114	4.9	5.4
7	South Korea	40	80	3.7	3.7
8	Algeria	33	69	3.1	3.2
9	France	31	58	2.9	2.7
10	United Kingdom	30	60	2.8	2.8

Sources: Vicofa, Vietnam Chamber of Commerce and Industry (VCCI)

Vietnam's instant coffee, roasted/ground coffee and 3-in-1 coffee mixes are mainly sold domestically, though also in a few international markets: Canada, Germany, Australia, Korea China and the United States. VICOFA reports that Vietnam has also introduced instant coffee trademarked "VINACAFE" and "Trung Nguyen" in a new market: China. Reportedly, Chinese young people in big cities like to drink coffee and favor Vietnam-made coffee for a variety of reasons, including its competitive price.

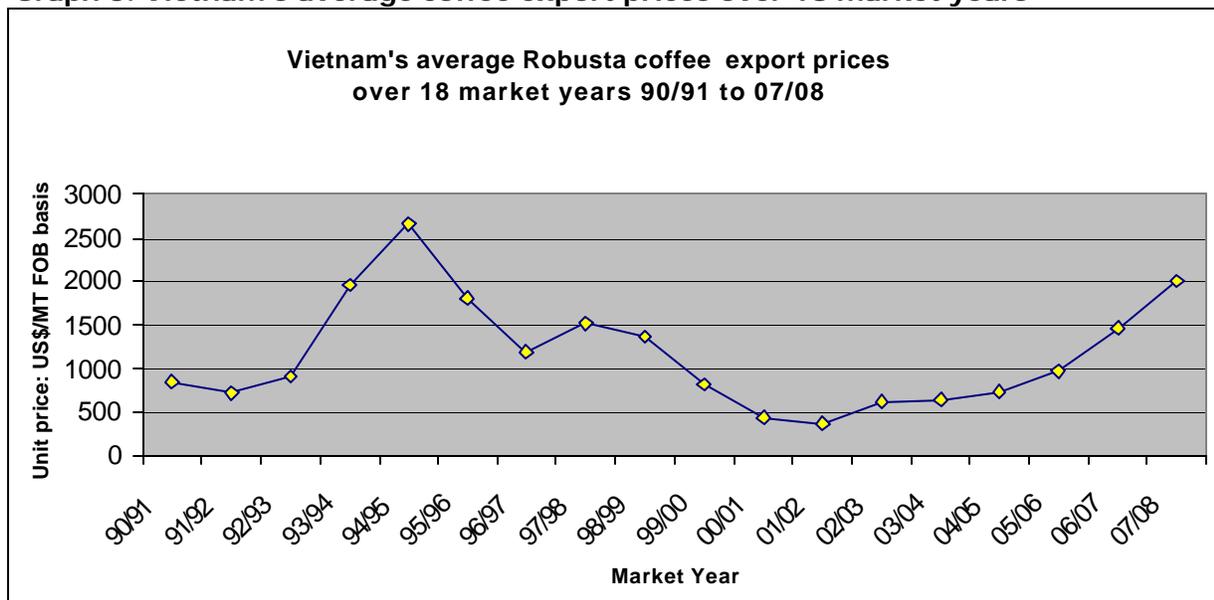
**PRICES**

**Export**

Vietnam's Robusta coffee had an average export price of \$1,967/mt (FOB basis) during MY 2007/2008, which is a substantial increase of 34 percent over the previous market year (\$1,463.2/mt). This is also the highest price in 13 years (since MY 95/96) although these prices still remain below historical highs of 1994-1995 (graph 3). Since the start of the new market year, however, export coffee prices have been declining; going from \$1,830/mt to \$1,480/mt (FOB, HCMC) due to effects from the global financial crisis on commodity markets, including coffee. Prices continue to decline despite the fact that coffee supply and demand fundamentals, as noted by the International Coffee Organization, (ICO) have been unchanged. Local traders are hopeful that export prices will increase later in MY 2008/2009 once the financial crisis shows signs of improvement and provided there is continued strong global coffee demand.

The Vietnam coffee industry has been urging farmers to delay selling their stock until next June-July when prices should be better and also to avert huge decline in prices. However, credit restrictions and high bank interest rates are serious constraints for farmers, who may suffer huge losses in trying to sell to meet their credit obligations. Some local banks have been considering measures alleviate the situation and possibly help out the coffee industry. (see Policy and Marketing)

**Graph 3: Vietnam's average coffee export prices over 18 market years**



Source: MARD, Vicofa, Trade

## Domestic

In keeping with higher export prices during MY 2007/2008, Vietnam's domestic coffee prices climbed up to 35.8 percent higher than the previous crop year, before starting to decline in July. Prices in Dak Lak province, Vietnam's largest coffee-producing region, have dropped from VND30,500 (\$1.81) to VND 24,200 (\$1.44) for common Robusta coffee bean since October, a decrease of almost 21 percent in just one month.

**Table 6: Average Robusta bean domestic prices in Dak Lak province for MY2006/07–2007/08**

Month	Common Coffee bean		
	MY 2006/2007 (VND)	MY 2007/2008 (VND)	Changes MY 06/07 & MY 07/08 (%)
October	22,100	25,900	17.2
November	21,700	26,800	23.5
December	21,100	26,900	27.5
January	21,500	29,800	38.6
February	21,600	35,300	63.4
March	21,800	36,300	66.5
April	21,400	32,500	51.9
May	24,300	32,800	34.9
June	27,100	35,000	29.2
July	27,300	36,100	32.2
August	26,200	35,600	35.9
September	26,800	31,200	16.4

Source: Vicofa, MOIT, Dak Lak Trade, Investment & Tourism Promotion Center (Daktip); (Exchange rate: VND 16,830 = \$1, as of Oct. 27, 2008)

## POLICY

### Vietnam government signed International Coffee Agreement 2007

Vicofa, Vietnam's coffee association, reports that Vietnam signed the International Coffee Agreement 2007 (ICA) in August 2008 and is one of 77 International Coffee Organization (ICO) members that have now done so. ICO also reports that five exporting and two importing countries, including the European Union and the United States, have ratified or approved the ICA as of October 15, 2008. The ICA 2007, the seventh Agreement since 1962, was agreed to by 77 members of ICO on 28<sup>th</sup> September 2008, and will last for ten years. Its main objective is to strengthen the global coffee sector and promote sustainable expansion in a market-based environment for the betterment of all participants in the sector.

### Agribank to add \$182 million to coffee loans

In order to support Vietnam's coffee industry, the state-run Agribank, Vietnam's largest bank for the agriculture sector, announced that it would add 3 trillion Vietnam Dong (\$182 million) to the available credit line for coffee processors and exporters in the 2008/2009 coffee crop

year. About 45% of this sum would be lent by Agribank branches in four provinces of the Central Highlands' coffee belt during the 2008/2009 crop year.

### **Vicofa proposes solutions for sustainable coffee industry**

At a time when the global coffee market has seen rapid fluctuations, Vicofa is urging the coffee industry to find measures to lower production costs through changes in fertilizer usage, irrigation, application of Good Agricultural Practices (GAP), Integrated Pest Management (IPM) and Good Manufacturing Practices (GMP). In addition to this, Vicofa has called on the Prime Minister to develop policies for reasonable interest rates and capital for the coffee industry for the 2008-2009 period as there are many small or medium-sized enterprises in the coffee sector that need to take out bank loans to procure coffee from local farmers. If banks continue to be restrictive with lending, these coffee industry firms will falter. Vicofa also counsels the coffee industry to focus on expanding high-value added coffee products and boosting the hygiene and safety of its products.

## **MARKETING**

### **The 2nd Buon Ma Thuot Coffee Festival set for mid-December 2008**

The Dak Lak Peoples Committee will kick off the second Buon Ma Thuot Coffee Festival in Buon Ma Thuot city, Dak Lak province, from December 10-14, 2008. This festival being held in the largest coffee growing region of Vietnam aims to showcase and promote Vietnam's coffee products to both the domestic and international markets. An estimated 150 domestic and foreign enterprises will participate in this festival which is expected to have over 400 booths. According to Organization Board, this festival will stress coffee culture, attach coffee to Tay Nguyen Culture. The Buon Ma Thuot coffee festival will be an opportunity for producers, businessmen, processors and consumers to meet, exchange experiences and also learn the many methods of making and enjoying coffee.

### **Coffee farmer to join e-trading floor at Buon Ma Thuot Coffee Exchange Center (BCEC)**

The Buon Ma Thuot Coffee Exchange Center (BCEC) will be opened during the time of the Second Buon Ma Thuot Coffee Festival. According to the Dak Lak Trade and Industry Department, this is the first exchange floor of agricultural products in Vietnam, invested and built on a national scale. It is the specific exchange floor of coffee in Viet Nam. The floor's operation will be aimed at establishing a transparent and dedicated market for domestic and foreign organizations and individuals involved in coffee trading, bringing it in line with current world trends. There will be a total storage capacity of 30,000 tons of coffee at the trading floor, which will be available for farmers to consign their products ahead of any transactions.

### **Military Bank in deal with coffee firm**

Recently, the Military Bank (MB) signed a comprehensive agreement with Tay Nguyen Coffee Import-Export JSC Company, (VINACFBMT) Vietnam's leading coffee export company, on the supply of banking services between the two sides. Under the agreement, MB will give priority in credit and deposit services, foreign exchange and other financial services to VINACFBMT. MB will provide credit of up to \$25 million to VINACFBMT to develop the processing and export of coffee products.