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Coffee

Annual Report

2009

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Report Highlights: Vietnam's coffee production for CY 2008/2009 is projected to increase by 7.3 percent over the previous crop year. However, coffee production for CY 2009/2010 should be about 6.8 percent lower than CY 2008/2009 due to losses caused by weather damages in the main coffee growing areas. Coffee growers continue to expand their acreage despite government efforts encouraging them to focus instead on replacing old trees and improving coffee quality and farming efficiency. Vietnam plans to invest up to \$1.9 billion into the coffee sector to enhance the competitiveness of Vietnamese Coffee.

Includes PSD Changes: No
Includes Trade Matrix: No
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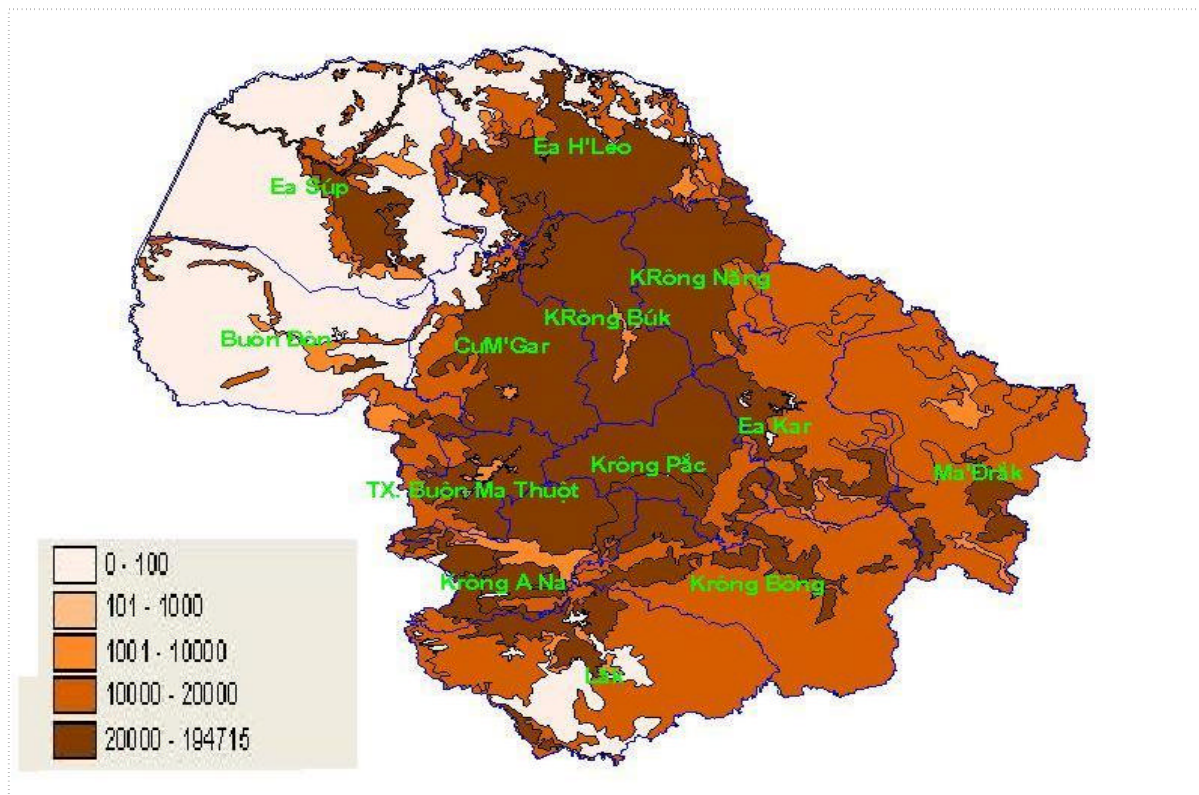
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SECTION I. SITUATION AND OUTLOOK

Vietnam's coffee production forecast for CY 2008/2009 is 19.67 million 60kg bags or 1.18 million metric tons. Coffee production for CY 2009/2010 is expected to be about 6.8 percent less than this as early and heavy rains during the blossoming period destroyed many coffee flowers in Dak Lak and Lam Dong, two of the main coffee growing areas. Farmers continue to expand their robusta coffee cultivation acreage, spurred on by high export prices, despite government efforts to have them replace old trees instead. Exports for CY 2008/2009 should be about 15.5 percent more than the previous market year, though less than earlier forecasts.

Picture 1: Coffee production areas in Dak Lak Province



Source: Ministry of Agriculture and Rural Development (MARD)

Map scale: in hectares

SECTION II. STATISTICAL TABLES

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

Coffee, Green Vietnam	2008			2009			2010		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Oct 2007			Market Year Begin: Oct 2008			Market Year Begin: Oct 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		New Post
	Official	Post	Data	Official	Post	Data	Official	Post	Data
Area Planted	517	523	523	520	520	525			525
Area Harvested	490	490	490	495	495	495			495
Bearing Trees	610	610	610	627	627	620			600
Non-Bearing Trees	44	62	62	37	37	69			89
Total Tree Population	654	672	672	664	664	689			689
Beginning Stocks	442	847	442	1,838	427	1,672			1,668
Arabica Production	400	400	400	500	500	470			450
Robusta Production	17,933	17,933	17,933	19,000	21,000	19,197			17,883
Other Production	0	0	0	0	0	0			0
Total Production	18,333	18,333	18,333	19,500	21,500	19,667			18,333
Bean Imports	65	65	65	70	70	70			75
Roast & Ground Imports	1	1	1	1	1	1			1
Soluble Imports	22	22	22	25	25	25			25
Total Imports	88	88	88	96	96	96			101
Total Supply	18,863	19,268	18,863	21,434	22,023	21,435			20,102
Bean Exports	16,000	17,933	16,283	18,500	20,500	18,808			18,500
Rst-Grnd Exp.	20	1	1	20	1	1			1
Soluble Exports	120	22	22	150	25	25			27
Total Exports	16,140	17,956	16,306	18,670	20,526	18,834			18,528
Rst,Ground Dom. Consumption	818	818	818	837	847	847			905
Soluble Dom. Cons.	67	67	67	70	70	86			95
Domestic Use	885	885	885	907	917	933			1,000
Ending Stocks	1,838	427	1,672	1,857	580	1,668			574
Total Distribution	18,863	19,268	18,863	21,434	22,023	21,435			20,102
Exportable Production	17,448	17,448	17,448	18,593	20,583	18,734			17,333

Source: FAS

Table 2: Coffee export trade matrix

Country	Vietnam		
Commodity	Coffee, Green		
Time Period	Oct.-Mar.	Units:	MT
Exports for:	2008		2009
U.S.	67464	U.S.	76651
Others		Others	
Germany	66154	Germany	95630
Spain	44079	Spain	40714
Italy	43235	Italy	58056
Belgium	28458	Belgium	30882
France	22074	France	18267
Japan	20254	Japan	24030
South Korea	17506	South Korea	18133
U.K.	15836	U.K.	16423
Algeria	12303	Ecuador	8095
Total for Others	269899		310230
Others not Listed	255637		278119
Grand Total	593000		665000

Sources: Vicofa, MARD, General Statistics Department, Customs Office.

Table 3: Coffee import trade matrix

Country	Vietnam		
Commodity	Coffee, Green		
Time Period	Oct.-Mar.	Units:	MT
Imports for:	2008		2009
U.S.		U.S.	
Others		Others	
Laos	1453	Laos	2953
China	120	Singapore	133
Switzerland	70.2	Belgium	56
Nicaragua	37.95	Taiwan	54
Taiwan	4.6	South Korea	34
Japan	0.8	Australia	22
Canada	0.3		
Singapore	0.3		
Total for Others	1687.15		3252
Others not Listed			
Grand Total	1687.15		3252

Sources: Vicofa, General Customs Office, MARD

SECTION III: MARKET STATUS**PRODUCTION**

Despite government efforts to maintain total coffee growing area at around 500,000 ha farmers continue to expand their coffee growing area, particularly for robusta coffee. Arabica coffee is grown on about 31 thousand ha and accounts for around 6 percent of total coffee acreage nationwide. Post revises the sown area to 525 thousand ha, one percent up from the previous estimate. Vietnam continues to encourage farmers to apply Good Agricultural Practices (GAP) for more sustainable production. Current fertilizer use is reportedly 23 percent higher than the recommended level. Coffee irrigation is also often supplied by borehole wells and farmers tend to waste considerable amounts of water through inefficient watering systems. In addition, only about 5 percent of total coffee acreage has shade trees which are recommended for water saving and cost reduction. Current cultivation practices are seen as unsustainable and lead to high production cost, soil degradation and lower coffee yields.

Coffee Crop for Market Year 2008/2009

Post revises Vietnam's 2008/2009 coffee production estimates down to 1.180 million metric tons (MMT) or 19.7 million 60kg bags. This 8.5 percent reduction in the estimated output is due to expected lower production as a result of losses from torrential rains during the blossoming and harvest seasons. Berry quality and size may also suffer as a result of this. Growers in Dak Lak province, a key coffee growing region, note much smaller berries this season and report that whereas typically they'd get about 1,060 beans to the kilo, this year it takes about 1,400 beans to get a kilogram. Coffee yields also suffered from early harvesting as farmers picked both ripe and green berries to try to reduce their losses due to heavy rainfall during the harvest as well as to save on labor costs. The yield estimate is revised down to 2.38 metric tons per ha, 8.8 percent less than the previous estimate. Robusta coffee accounts for much of the production; less than 3 percent of total coffee production is Arabica.

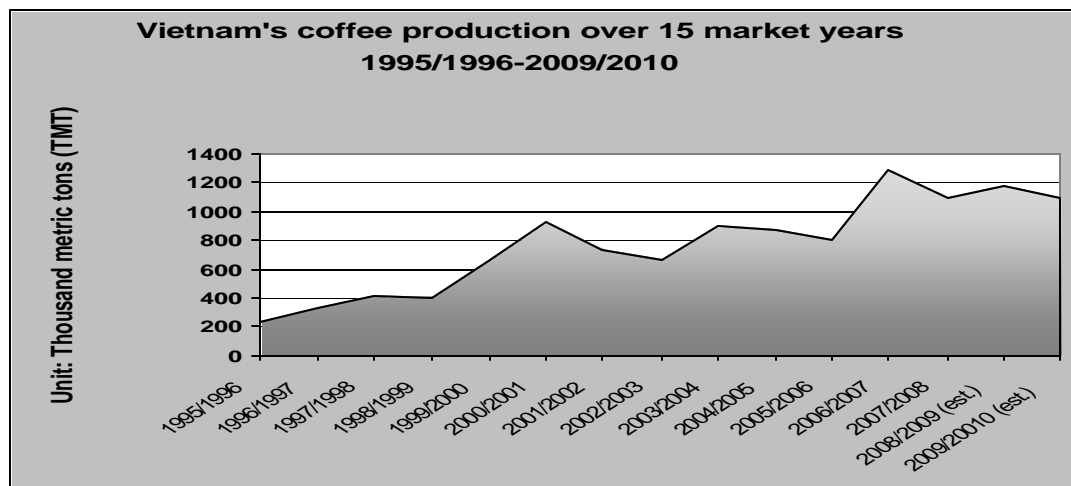
Table 4: Coffee Production by Marketing Year (Oct-Sept)

Marketing year begins	2007/2008		2008/2009		2009/2010
	10/2007		10/2008		10/2009
	Old	Revised	Old forecast	New forecast	Forecast
Sown Area (thousand ha)	517	523	520	525	525
Area Harvested (thousand ha)	490	490	495	495	495
Beginning Stock (thousand tons)	50.8	26.5	25.6	100.3	100
Production (green bean, thousand tons)	1,100	1,100	1,290	1,180	1,100
Average coffee yield (ton/ha)	2.24	2.24	2.61	2.38	2.22

Source: MARD, Trade, FAS estimate

Coffee Crop for Market year 2009/2010

Vietnam's 2009/2010 coffee production is expected to be 6.8 percent less than the previous crop year due to losses from weather damages in the main coffee growing areas (see table 4). Torrential rains destroyed coffee blossoms in the largest coffee growing areas (Dak Lak and Lam Dong) and there has been uneven flowering, causing some beans to ripen before others and even late blossoming on the same stalk. Labor costs for harvesting will therefore be much higher than the previous crop. Growers are also bemoaning poor soil quality and report that coffee trees are dying in some areas of Lam Dong province.

Graph 1: Coffee Production over 15 Market Years

Source: FAS estimates

CONSUMPTION

Domestic coffee consumption for 2008/2009 is estimated at 933 thousand 60kg bags or 56 thousand metric tons (tmt) green bean equivalent and accounts for only about 5 percent of total production. Reportedly more consumers tend to drink coffee at home rather than in coffee shops, and household coffee consumption is increasing. Urban consumption level remains stable, though twice as high as in rural areas. The fastest area of growth is among young people in large urban areas like Hanoi and Ho Chi Minh City, where they tend to favor soluble coffee for its convenience. Households still favor drip-brew coffee. Vietnam's current coffee consumption is about 0.6-0.7 kg per capita per year, considerably lower than Brazil's 5-6 kg/capita or Europe's 10kg/capita. Post forecasts Vietnam's 2009/2010 domestic consumption at 1,000 60kg bags or 60 tmt green bean equivalent, a 7.2 percent increase over the previous crop year.

STOCKS

Post revises the carry-in stocks for 2008/2009 market year (MY) up to 1,672 thousand 60kg bags. This marked increase over the previous estimate is due to reports of farmers holding on to more stocks than previously noted. Exports should continue to increase as coffee export prices are expected to increase in the second half of this market year given tight supply from producing countries and continued high demand in the global market. However, several coffee growers are reported to be holding more of their beans with expectation of higher prices. In view of this, post revises the estimate for 2008/2009 ending stocks to 1,668 thousand 60kg bags or about 100 tmt. Growers, processors and traders are holding stocks. No official data for coffee stocks are available.

TRADE

Vietnam's coffee exports for MY 2008/2009 are estimated at 18.834 million 60kg bags of green coffee, down 8.2 percent from earlier estimates due to anticipated lower production output. Thus far, for the first half of this market year, 665 tmt or 11.083 million 60kg bags of coffee green beans have been exported. This is a 17.5 percent increase in volume over the same period last market year, though the value is 0.9 percent lower due to a dip in the price of coffee on the global market.

Vietnam exports coffee to almost 80 countries worldwide. The top two markets are Germany and the United States, which together account for over 21% of Vietnam's green coffee exports. Vietnam also exports a small amount of soluble coffee, both ground roasts and 3-in-1 coffee mixes, for which China is the primary destination, with 80 percent of the volume.

Table 5: Green coffee exports, MY 2005/2006 – MY 2008/2009

Month	2006/2007		2007/2008		2008/2009		% Change 07/08 -08/09	
	Volume (tmt)	Value (\$million)	Volume (tmt)	Value (\$million)	Volume (tmt)	Value (\$million)	Volume	Value
Oct.	52	64	41	73	45	88	9.8%	20.5%
Nov.	64	87	70	121	71	121	1.4%	0%
Dec.	106	149	110	192	130	221	18.2%	15.1%
Jan.	244	350	171	309	136	210	-20%	-32%
Feb.	118	172	77	156	153	234	98.7%	50%
Mar.	201	252	97	218	130	190	34%	-12.8%
Sub-total	785	1,074	566	1,074	665	1,064	17.5%	-0.9%
April	130	189	78	171				
May	64	139	73	162				
June	76	126	96	213				
July	57	98	65	147				
Aug.	45	76	49	110				
Sept.	38	66	50	110				
Grand Total	1,195	1,768	977	1,987				

Source: Vicofa, General Statistic Office

Table 6: Top ten markets for Vietnamese green coffee exports in 2008

Rank	Export Destinations	Volume (MT)	Value (\$000)
1	Germany	136,023	273,835
2	USA	106,393	210,770
3	Belgium	88,456	168,057
4	Italy	86,438	171,164
5	Spain	73,709	148,369
6	Japan	59,190	127,432
7	South Korea	42,191	82,915
8	U.K.	35,157	69,331
9	Switzerland	29,370	54,366
10	France	24,362	47,462

Source: Vicofa

Vietnam also imported small quantities of green coffee as well as roasted and soluble coffees. Total green coffee imports for the first half of CY 2008/2009 was 3.25 tmt or about 54 thousand 60kg bags, a 93 percent increase over the same period the previous market year (see table 3). Much of this imported green coffee is for further processing and/or re-exports.

PRICES

Export

The average export price for Vietnam's Robusta coffee over the first seven months of MY 2008/2009 (October-April) was \$1,519.71/MT, FOB basis. This represents a 29.32 percent decline in price from the same period of the previous market year which has been attributed to the effects of the global financial crisis on commodity prices. Export prices for Robusta coffee are currently being quoted at \$1,440-\$1,450/MT, FOB Ho Chi Minh City; this is 3% down from the start of the market year in October 2008. Local coffee traders are hopeful

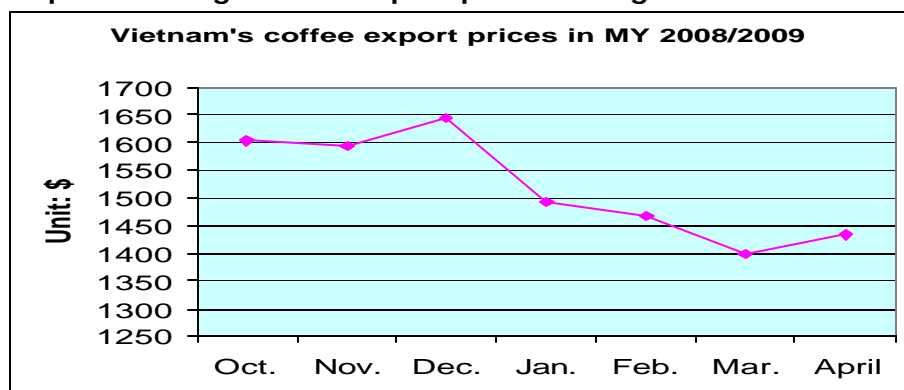
that export prices will rise in this second half of the 2008/2009 market year given continued strong global demand and an improving financial climate.

Table 7: Average export prices for Vietnamese green coffee, 2008-2009

Month	2008	2009	% Change
Jan.	\$1,884	\$1,494	-21%
Feb.	\$2,280	\$1,468	-36%
Mar.	\$2,382	\$1,398	-41%
Apr.	\$2,120	\$1,434	-32%
May	\$2,095		
Jun.	\$2,101		
Jul.	\$2,177		
Aug.	\$2,141		
Sept.	\$1,804		
Oct.	\$1,604		
Nov.	\$1,594		
Dec.	\$1,646		

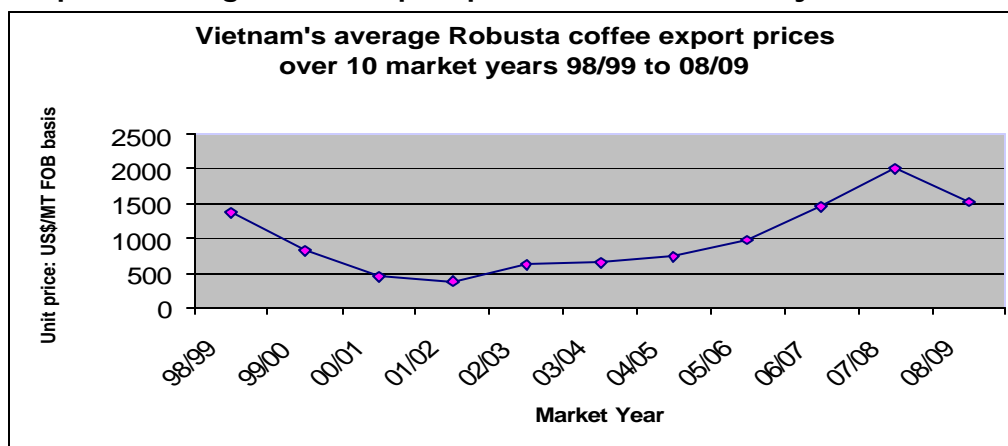
Source: Vicofa, MARD, Dak Lak Trade, Investment & Tourism Promotion Center (Daktip)

Graph 2: Average coffee export prices during MY 2008/2009



Dak Lak Trade, Investment & Tourism Promotion Center (Daktip)

Graph 3: Average coffee export prices over 10 market years



Source: MARD, Vicofa, Traders, Dak Lak Trade, Investment & Tourism Promotion Center (Daktip)

Domestic

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In line with lower export prices during the first six month of MY 2008/2009, Vietnam's average domestic coffee prices was VND24,770/kg, a decline of 18.8 percent over the same period of the previous market year. The price in Dak Lak province, the largest coffee producing area, is currently VND 24,500/kg (\$1.38) for common Robusta coffee beans. Coffee growers remain hopeful that they'll be able to sell their beans at higher prices in the later half of this market year as credit is all but impossible to get from local banks to carry out further investments on their farms.

Table 8: Average prices for robusta beans in Dak Lak province

Month	Common Coffee bean			
	MY 2006/07 (VND)	MY 2007/08 (VND)	MY 2008/09 (VND)	Changes MY 07/08 & MY 08/09 (%)
October	22,100	25,900	23,400	-9.7
November	21,700	26,800	25,700	-4.1
December	21,100	26,900	24,800	-7.8
January	21,500	29,800	25,300	-15.1
February	21,600	35,300	25,200	-28.6
March	21,800	36,300	24,200	-33.3
April	21,400	32,500	24,800	-23.7
May	24,300	32,800		
June	27,100	35,000		
July	27,300	36,100		
August	26,200	35,600		
September	26,800	31,200		

Source: Vicofa, MOIT, Dak Lak Trade, Investment & Tourism Promotion Center (Daktip);
(Exchange rate: VND 17,780 = \$1, as of April 9, 2009)

POLICY

Vietnam earmarks \$1.9 billion to improve Vietnamese coffee's competitiveness

The Ministry of Agriculture and Rural Development (MARD) has developed a program to increase the sustainability of the coffee sector with an aim to increase the competitiveness of Vietnamese coffee. The main objectives of the program are to improve coffee quality and farming efficiency. Various committees and groups formed under the program will focus on improving and promoting research and development, extension, business development and marketing strategies that will benefit members of the industry. Activities such as revising and updating training materials on Good Agricultural Practices (GAP), Good Processing Practices (GPP), entrepreneurial skills, participatory agricultural extension methods and updating regulations and standards will be carried out under the program. MARD will devote VND 32,800 billion or approximately \$1.9 billion to carry out these goals. A significant portion of the budget will also support transport projects in coffee growing areas in the Central Highlands and the central and northwest regions. Support will also be provided to build or improve reservoirs and canal systems to ensure that 75% of the coffee growing area is irrigated by 2015 and 100% irrigated by 2020. These improvements are expected to enhance Vietnamese coffee and bring production and processing methods inline with international standards, thereby making it more marketable at premium prices. Program implementation should begin in July 2009.

MARKETING

Coffee Industry Goes Online with Techcombank

Vietnamese coffee producers and exporters can now participate more directly in the futures market of the London International Financial Futures Exchange (LIFFE) through Hanoi-based Techcombank. Although Techcombank was the first Vietnamese bank licensed to provide futures contracts with foreign exchanges, it has always had to rely on Refco Group of Singapore, a LIFFE member, to place its trades. Now, Techcombank may place trades directly with LIFFE, thereby expediting transactions and for its customers. Vietnam currently has no regulations covering such transactions, so the Ministry of Trade and Industry is also now considering how to regulate online transactions and transactions on international exchanges.

More coffee growers, trade and industry and civil societies joined 4C Association

The Common Code for the Coffee Community Association, (4C Association) founded in Bonn, Germany in December 2006, aims to create a harmoniously beneficial situation between coffee producers, workers, rural communities, the environment, traders and consumers. With an ever-increasing membership, the total globally is now 110 and includes producers, traders, associations, individuals and civic organizations across 22 countries. Thus far, 4C Association has conducted 6 training courses for coffee communities in Dak Lak, Lam Dong, Son La and Quang Tri in coordination with Vietnam's Ministry of Agriculture and Rural Development (MARD), and in 2008 eight units from Vietnam joined the 4C system.

Utz Certified coffee sales up almost 50 percent

In 2008, global sales of UTZ CERTIFIED coffee totaled 77,500 mt, 48% more than 2007; this trend is expected to continue. Both Vietnam and Honduras doubled their sales total up from the previous year and many producers are now working on getting certified. The overall goal for 2009 is 95,000 mt. Vietnam had 15 more producers and processors certified in 2008, and total sales volume for UTZ-certified coffee was around 37 thousand metric tons.

Coffee producer signs major equipment deal

Early this year, Thai Hoa Corporation, a leading Vietnamese coffee producer and exporter signed a \$14.9 million contract with a Danish concern to update its instant coffee production line in Lam Dong province. Installation and transference of spray dryers, freeze dryers, heating and cooling and extraction systems should take about a year to complete. These improved systems are expected to greatly enhance the quality of Thai Hoa's instant coffee products and contribute to an increased global market share.