Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Voluntary Report - public distribution

Date: 4/9/1999

GAIN Report #VM9008

Vietnam

Grain and Feed

April Wheat Update

1999

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Report Highlights: This report provides an update on the expanding wheat milling industry in Vietnam. Tables present information on mill capacities and investor interest. Trade is discussed in view of policy changes that favor local wheat milling and dampen demand for commercial flour imports.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Hanoi [VM1], VM

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Executive Summary

Vietnam does not produce wheat. Vietnam is a small but growing market for wheat, as imports of wheat flour were recently saddled with higher duties (from 10% to 20%), while wheat tariffs were lowered from 3% to zero. This has renewed investor confidence in GVN support for developing the flour milling industry. Modern Vimaflour, in northern Cai Lan port, reportedly already reached capacity of about 140,000 MT in just 14 months of opening. Total VN installed milling capacity for 1999 is projected at abou 480,000 MT, wheat basis. Investors are pursuing 100% foreign-owned licenses, but as yet the GVN has restricted this sector to joint-ventures. Flour consumption growth is estimated at about 8%-10% per annum, and downstream processing into instant noodles for export is gaining rapidly. Wheat deliveries in 1998 are officially estimated at 255,000 MT; and, with higher flour duties and zero grain duties, more wheat will be milled locally. Therefore, wheat imports for calendar 1999 imports could exceed 300,000 MT. If regional experience in is predictive, Vietnam will doubtless develop into a considerable wheat market.

Consumption

Vietnam is primarily an instant noodle manufacturer

Current demand for wheat flour is about 500 TMT, about 60% of which is destined for noodles and related products. With the annual growth rates of 7%-10%, noodle producers will remain the key users of wheat flour in coming years. Vietnam’s noodle industry is expanding, and by next year could produce more than 2.1 billion packs annually both for export and the home market. At present, the domestic baking and quick serve retail sectors are still small. However, the demographics of this young, well-educated country with 80-million population, and a small but growing middle class, will lead to future increased demand for wheat-based products. Wheat flour consumption is estimated to be growing at about 8%-10% per annum. General improvement in the economy would likely bolster demand.

Policy

On January1, 1999, the GVN implemented new import duties on wheat flour and wheat. A clear indication of policy to assuage investor concerns and to stimulate new investment is the doubling of flour tariffs from 10% to 20% and elimination of wheat grain duties (from 3% to zero). Potential investors have seen the GVN apparently encourage foreign investors in other sectors buy out their VN partner. Consequently, there is considerable interest in pursuing 100% foreign-owned licenses, rather than partnering with state-owned companies. However, the Ministry of Planning & Investment has yet to authorize fully foreign-owned investment in this sector. Another important policy shift is the decision to allow local private flour millers to import wheat directly.

Production

Domestic wheat flour production industry rising.

In 1998, wheat flour imports are about 300,000 tons, or about US$60 million. GVN has set a policy of reducing reliance on imported wheat flour and boosting local four milling. Table 1., below, shows that foreign investors

have poured capital into flour mills. Before 1998, there was only one flour mill, Binh Dong, a large state-owned mill in the middle of HCMC's District 8. Binh Dong's milling capacity is approximately 150TMT -180 TMT per year. Table 1., below, provides a snapshot picture of the development of VN's wheat flour industry. Total designed milling capacity is currently about 1,610MT of wheat per day, equivalent to 483TMT of wheat per year. At present, actual milling capacity is estimated at about 410TMT/year, wheat basis, and will likely reach 483TMT/yr by the end of calendar1999.

Table 1. Vietnam: Current Flour Mills & Projects Nearing Completion

Name of mill	**Capacity on wheat basis (MT/day)**	**(MT/year)**	**Date Open**	**Location**
A. Current flour mills				
Binh Dong Flour Mill (State-owned)	600	180,000	1975	HCMC
Vimaflour (Joint-venture)	450	135,000	1998	Quang Ninh
Binh Duong Flour Mill (Private)	160	48,000	1998	Binh Duong
Thai Binh Duong Flour Mill (Private)	100	30,000	1999	Binh Duong
Saigon Flour Mill (Private)	300	90,000	1999	HCMC
Total	**1,610**	**483,000**		
B. Flour Mills Expanded & Projects Licensed				
Thai Binh Duong Flour Mill expanded	40	12,000	May 1999	Binh Duong
Saigon Flour Mill - HCMC expanded	180	54,000	Late 1999	HCMC
Saigon Flour Mill - Hanoi	160	48,000	Late 1999	Hanoi
Saigon Flour Mill - Danang	160	48,000	Late 1999	Danang
Dai Phong Company	200	60,000	Late 1999	Cantho
Foodinco	200	60,000	Late 1999	Danang
Joint Venture (Vinafood 2 + Gold Coin ?)	500	150,000	? (2001)	Baria Vung Tau
Joint Venture (Vifon + Australian partner?)	400	120,000	? (2001)	Baria Vung Tau
100% foreign investment (President Enterprises Corp.- Taiwan)	200	60,000	? (2001)	Binh Duong
Total	**2,040**	**612,000**		

Source: FAS/Hanoi; trade

Trade

Vietnam presents challenges and a good future prospects for U.S. wheat

Table 2, below, shows that Vietnam is a small but growing market for wheat, dominated by Australia. High duties on flour and expansion of local milling capacity will likely boost wheat imports and dampen demand for flour. Flour traders speculate that commercial wheat flour imports might cease in the near future. Some sources maintain that by 2002, annual wheat demand could reach about 800TMT-900TMT, which, although unlikely, indicates expected rapid growth. Vietnam offers considerable potential for U.S. wheat, especially as the market matures and consumers demand a wider variety of wheat-based products. Future prospects for U.S. wheat in this market are constrained by: 1) limited port infrastructure; 2) a weak financial system; 3) longer delivery time vis-a-vis other suppliers, e.g., Australia; and ,4) an established pattern of millers booking smaller vessels on an as-needed basis, and not developing a marketing plan. The resolution of these issues would greatly enhance our access to this emerging market. Tools such as GSM-102 may help.

Table 2. Estimated Wheat / flour imported into Vietnam

WHEAT / FLOUR IMPORTS	**1996**	**1997**	**1998**
1)WHEAT IMPORT (MT)	**79,000**	**216,000**	**255,000**
Import value (1,000USD)	18,000	42,500	42,080
Import value by countries (%)			
. Australia	100	90	NA
. Canada	0	0	NA
. United States	0	6	NA
. South Africa	0	4	NA
2) WHEAT FLOUR IMPORT (MT)	**332,000**	**252,000**	**292,000**
Import value (1,000 USD)	100,890	57,710	66,407
Import value by countries (%)			
. Australia	4	22	NA
. China	11	4	NA
. Denmark	10	12	NA
. France	10	13	NA
. Germany	3	7	NA
. Holland	3	4	NA
. Italy	0	3	NA
. Japan	13	18	NA
. Singapore	5	4	NA
. Others	41	13	NA

Source: GVN statisitcs; trade