

**Required Report:** Required - Public Distribution

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## **Report Name:** Coffee Annual

**Country:** Vietnam

**Post:** Hanoi

**Report Category:** Coffee

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### **Report Highlights:**

Post revised its Vietnam marketing year 2022/2023 (MY 2022/23) coffee production estimate down to 29.750 million bags, green bean equivalent (GBE), based on lower yields, high production costs, and a drop in cultivation area. Post revised MY 2021/22 exports up to 29.01 million bags (GBE) and ending stocks down to 3.58 million bags (GBE) due to favorable exchange rates and high export demand. Post also revised MY 2022/23 exports to 28.8 million bags (GBE) due to lower production and difficulties in purchasing new inventory. Post forecasts total coffee production in MY 2023/24 to increase to 31.3 million bags (GBE) due to favorable weather conditions and higher yields. Post forecasts MY2023/24 coffee exports at 27.5 million bags (GBE) based on a huge drop in stocks and stricter European Union import regulations.

## Executive Summary:

Post revised Vietnam MY 2022/23 coffee production at 29.75 million bags (GBE), nearly 6 percent lower than the previous marketing year. This decline is due to an off-cycle year, high production costs, and a drop in cultivation area. Rains are forecasted 10-20 percent higher than average, supporting irrigation as well as coffee tree growth. Farmers also gradually replanted coffee trees to enhance yields. As a result, Post forecasts MY2023/24 coffee production to increase by 5 percent to reach 31.3 million bags (GBE).

In the last half of MY 2021/22, Vietnam businesses expanded exports based on favorable exchange rates and high export demand, leading to drop in stocks. Post revised MY 2021/22 exports up to 29.01 million bags (GBE) and ending stocks down to 3.58 million bags (GBE). Post also revised MY2022/23 exports to 28.8 million bags (GBE), a decrease of nearly 1 percent over the previous marketing year due to lower production and difficulties in purchasing new inventory. With a huge drop in stock, Post forecasts MY 2023/24 exports to decrease to 27.5 million bags (GBE).

## Commodities:

Coffee, Green

## PRODUCTION

MY 2022/23 Robusta coffee production witnessed a decline compared to the previous crop due to an off-cycle year, high production costs, and a drop in cultivation area. Industry contacts note that production costs for MY 2022/23 were around USD 1,200 per metric ton (MT) on average, 15 percent higher than MY 2021/22. Higher labor costs and a 70 percent rise in fertilizer prices are the primary drivers behind this increase. As a result, farmers applied fewer chemical fertilizers and supplements and partially switched to organic fertilizers such as manure composts, leading to lower yields and production.

Furthermore, the cultivation area in the Central Highland regions witnessed a downtrend due to crop shifting or intercropping with other profitable fruit trees such as durian, avocado, and passion fruit, especially in the Dak Lak and Gia Lai provinces. Based on these factors, Post revised its estimate for MY 2022/23 total coffee production down by 6 percent to 29.75 million bags (GBE), including 28.74 million bags (GBE) of Robusta (Table 1).

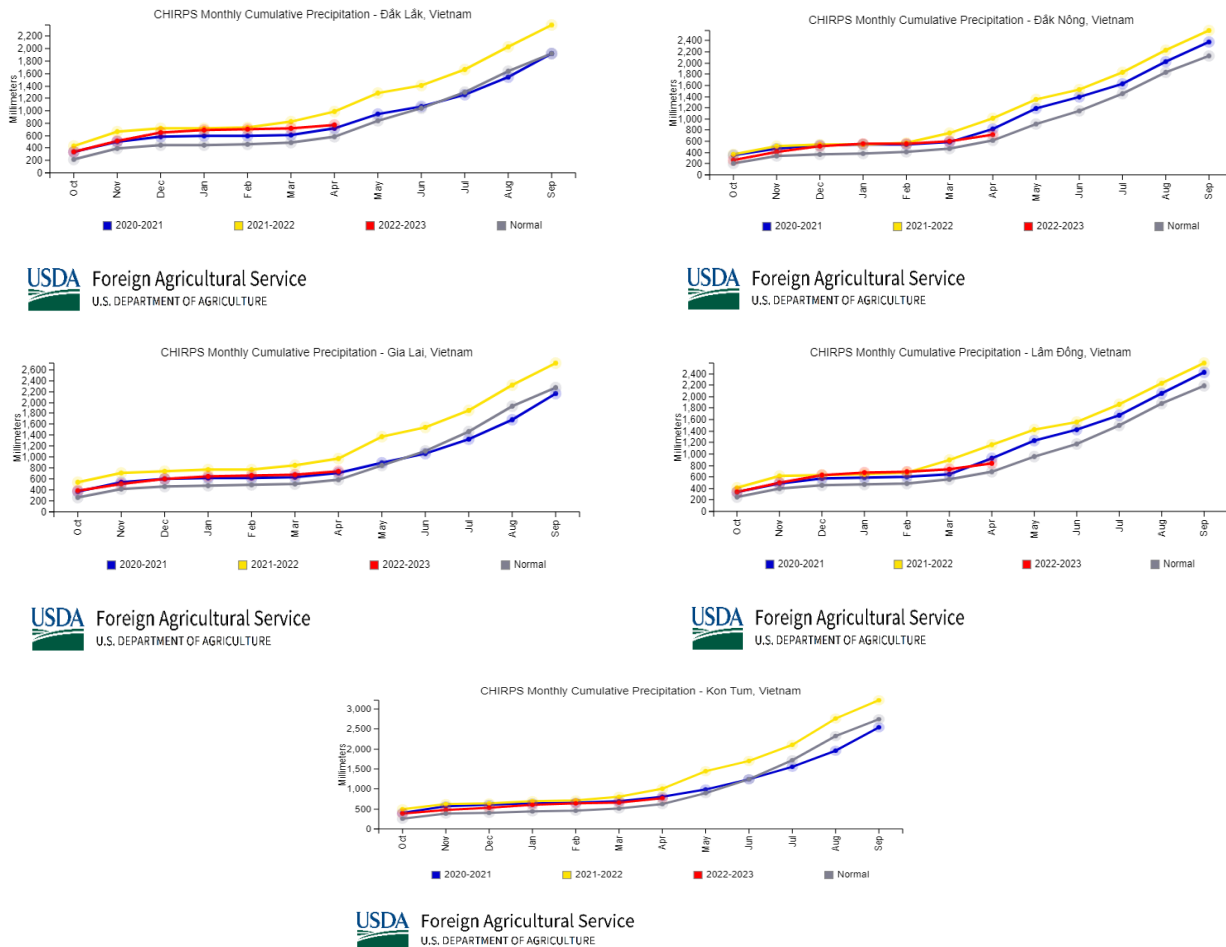
**Table 1: Robusta Green Bean Coffee Production MY 2020/21-2023/24**

	<b>MY2021/22 Estimate</b>	<b>MY2022/23 Estimate</b>	<b>MY2023/24 Forecast</b>
<b>Marketing year begins</b>	Oct. 2021	Oct. 2022	Oct. 2023
<b>Cultivation area (hectare)</b>	620,000	611,500	611,500
<b>Production (thousand bags)</b>	30,480	28,740	30,230
<b>Average yield (MT/HA)</b>	2.95	2.82	2.97

Source: Post estimates

According to industry contacts, weather conditions are still favorable to growth of the MY 2023/24 coffee crop in the Central Highlands region. The Vietnam Meteorological and Hydrological Administration forecasts a 50-60 percent chance of the La Niña phenomenon continuing until this spring and a 65-75 percent chance of becoming more neutral in the summer. The ENSO (El Niño–Southern Oscillation) phenomenon is expected to return in the last months of 2023 with a hot phase. Rainfall forecasts the coming months are encouraging with rains expected to be 10-20 percent higher than average in May-June, remaining at average levels in July-September, and slightly lower in October. Temperatures are also expected to be favorable for coffee harvests. Temperatures were slightly lower than average in the first months of 2023 and are forecasted to be average in May-September and higher than average in October. Moreover, USDA Global Agricultural and Disaster Assessment System's (GADAS) data showed that monthly accumulated rainfall from January to April 2023 was lower than last year, but higher than normal in the Dak Lak, Dak Nong, Gia Lai, Kon Tum, and Lam Dong Provinces (Figure 1). These weather forecasts may also support MY2023/24 coffee harvests.

**Figure 1: Monthly Accumulative Precipitation in the Main Coffee Growing Provinces**



Source: USDA Global Agricultural and Disaster Assessment System

In addition, farmers are steadily replanting coffee trees with new cultivars that have better productivity and disease resistance capabilities. This has helped enhance the yield of the coffee crop. In other developments, provincial Departments of Agriculture and Rural Development report that there are around 185.8 thousand hectares (THA) of land, out of approximately 590THA, in the Gia Lai, Dak Lak, Lam Dong and Dak Nong Provinces that have been certified by internationally recognized sustainability certification systems, including 4C, UTZ, Fair Trade and Rainforest Alliance, and Organic. This is also part of the Vietnam Government's strategy to develop the coffee industry in a more sustainable and responsible manner, as well as enhance quality and yield.

Based on favorable climate forecasts for the harvesting stage in the Central Highlands, the on-cycle year, and the higher yield of new cultivars, Post forecasts Vietnam MY 2023/24 total coffee production at 31.3 million bags (GBE), 5 percent higher than MY 2022/23, including 30.23 million bags (GBE) of Robusta (Table 1). Post forecasts MY 2023/24 Arabica production at 1.07 million bags, a slight increase over the last year due to an expansion in the Northern region. Post notes that some industry contacts are even more optimistic in their forecasts and are predicting a potential increase in overall coffee production of 5-10 percent higher than the previous year.

## **CONSUMPTION**

Thanks to effective pandemic control and a rapid vaccination program for COVID-19, Vietnam fully reopened its entire economy after March 2022. As a result, the country's economy quickly recovered and surged in 2022, with Gross Domestic Product (GDP) growth reaching 8 percent, its highest level in over 10 years. The Vietnam General Statistics Office (GSO) estimated an increase in revenue from the accommodation and food and beverage service sectors that was nearly 52.5 percent higher compared to the previous year. The Vietnam travel sector also witnessed an exceptional increase of 271.5 percent in revenue during this time. These positive economic indicators, along the long-term macroeconomic changes, such as increases in disposable income combined with a young and growing population, will continue to support growth in domestic demand. Additionally, due to busy lifestyles among its younger and working populations, more Vietnam consumers are switching from fresh ground or standard instant coffee to instant coffee mixes for convenience. To meet these changes, companies are either building more instant coffee processing plants or expanding the capacity of existing facilities, such as Marubeni, a new joint venture between Netherlands-based Louis Dreyfus with the Polish private-label coffee companies Instanta, Intimex Group, and Olympic. Additionally, manufacturers are developing coffee shop chains and expanding product ranges, especially for specialty varieties to meet rapidly changing consumer demands and preferences in both the domestic and export markets. Based on the above economic data and trends, Post forecasts Vietnam coffee consumption for MY 2023/24 will increase to 3.4 million bags (GBE).

According to the Vietnam Coffee and Cocoa Association (VICOFA), despite being one of the top coffee producing countries in the world, Vietnam has a relatively low coffee consumption rate of 2 kilogram (kg) per capita per year compared to other major coffee producing and exporting countries, such as Brazil (5.8 kg), the United States (4.2 kg), and Finland (12 kg). Vietnam is expected to increase this number to 3 kg by 2023. Moreover, the average rate of domestic coffee consumption was only about 10 percent of total production in the past 10 years, much lower than that of other major exporting countries like Brazil and Indonesia where domestic consumption is 25-30 percent of total output. This gap

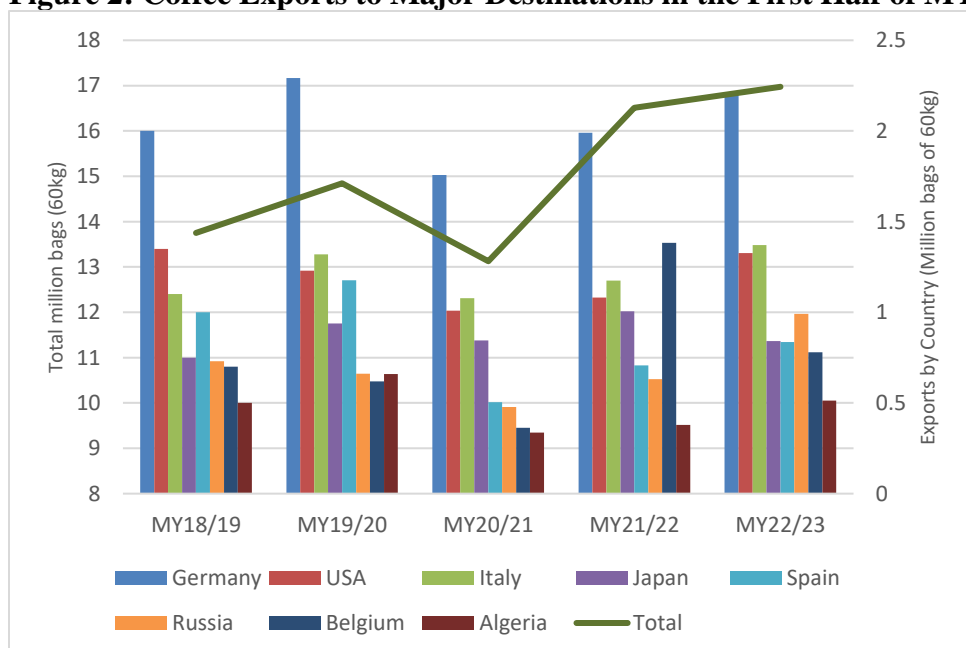
presents an additional opportunity for Vietnam coffee producers to grow domestic consumption by 5-10 percent in the coming years.

## TRADE

### Exports

In the last half of MY 2021/22, Vietnam businesses were able to expand exports based on favorable exchange rates and high export demand. Post revised MY 2021/22 exports up to 29.01 million bags (GBE) and MY 2021/22 ending stocks down to 3.58 million bags (GBE). In the first half of MY 2022/23, Vietnam's coffee exports reached 16.97 million bags (GBE), a nearly 3 percent increase according to Vietnam General Statistics Office (GSO) data. Exports to the European Union (EU) market accounted for about 40 percent of total export volume. However, there was a decline of nearly 2 percent, as a plummet in exports to Belgium of 44 percent overwhelmed growth in other key EU markets, such as German, Italy and Spain which saw increases of 10,16, and 18 percent respectively. However, Vietnam exports to other markets did see growth, including Russia (57 percent), Algeria (36 percent), and the United States (23 percent) (Figure 2).

**Figure 2: Coffee Exports to Major Destinations in the First Half of MY18/19-MY22/23**

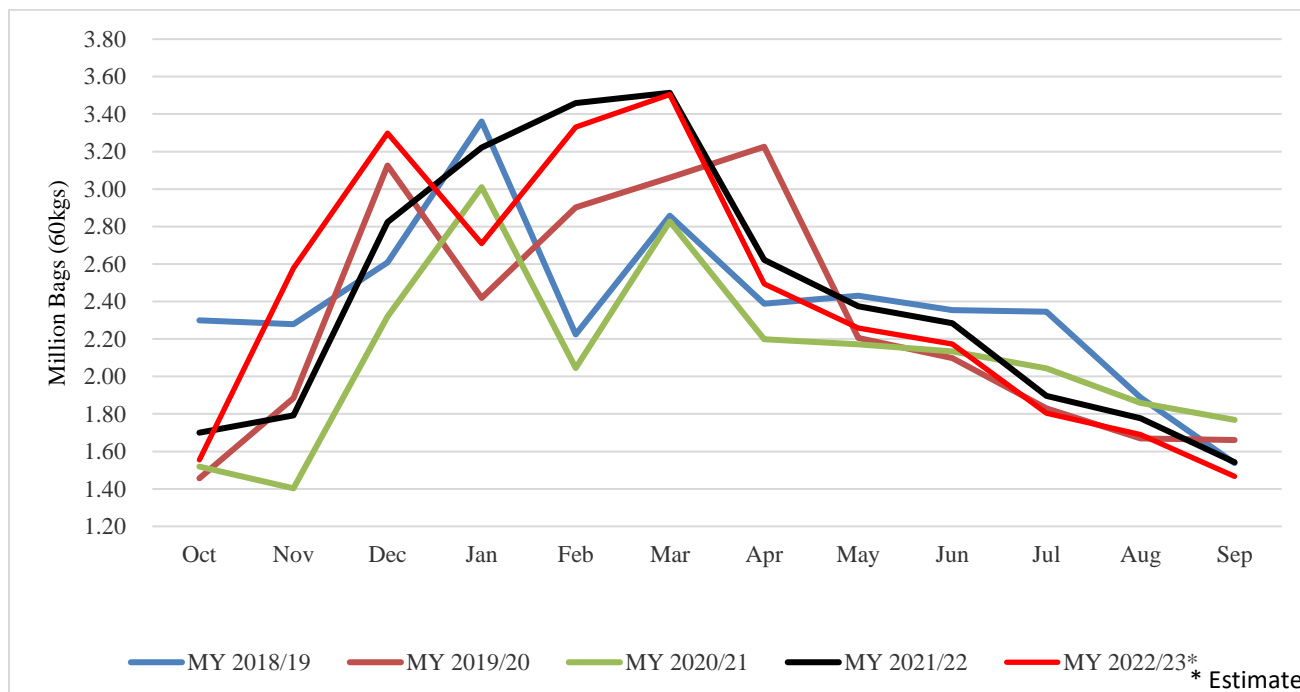


Source: Vietnam Customs, Vietnam General Statistics Office.

The overall export volume for the MY 2022-23 crop is expected to slightly shrink due to lower production than the previous year and difficulties in purchasing. Due to the surge in exports of the first half of MY 2022/23, exporters are now facing difficulties in purchasing new inventory due to high domestic prices. Farmers are also retaining stocks as they wait for prices to rise, adding further challenges to businesses wishing to purchase. Additionally, most coffee exporters have had fewer financial resources for purchases this year because of relatively high interest rates and exchange rate fluctuations. Ongoing high domestic prices are causing hesitancy among exporters in signing future contracts for fear of being unable to balance domestic and export prices. Based on these factors, Post

revised MY2022/23 exports estimate to 28.8 million bags (GBE), a nearly 1 percent decrease compared to the previous marketing year (Figure 3).

**Figure 3: Monthly Volume of Coffee Exports MY2018/19-MY2022/23**



Source: Vietnam Customs, Vietnam General Statistics Office, and Post’s estimate.

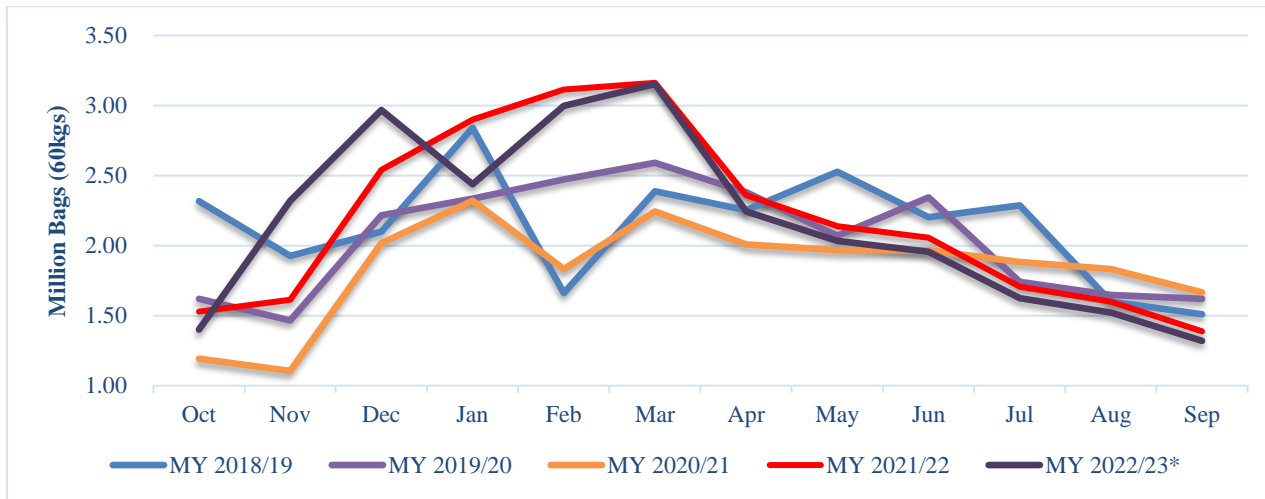
For MY 2023/24 exports, trade contacts note that global demand may increase by 1 to 2 percent based on higher demand in the United States and Asia. Additionally, Vietnam Robusta is expected to be more competitive with global Arabica production which is facing higher costs. As a result, many consumers are forecasted to switch from Arabica to Robusta due to more attractive prices amid recession concerns. Export supplies of other major exporting producers, such as Brazil and Indonesia, are also showing weaker numbers, giving Vietnam an opportunity to expand its export share. According to the Brazil Institute of Geography and Statistics, Brazil Robusta coffee production for 2023 may decline by nearly 9 percent over 2022, while Indonesia output is forecast to fall to its lowest levels in nearly a decade, according to Volcafe, a coffee trader.

However, there is a potential challenge for Vietnam exporters with the EU Commission’s Regulation 2023/466 which was published on March 3, 2023, and will go into effect by September 2023. This regulation, which stipulates stricter regulations on pesticide residues for nuts, including coffee at 0.1 mg/kg, may cause problems for Vietnam coffee farmers and exporters at the beginning stages of production. Besides that, it is estimated to witness the huge drop of 50 percent in ending stock of MY 2023/22 compared to MY 2022/21. As a result of the above, Post forecasts MY2023/24 total coffee exports at 27.50 million bags, a 4 percent decrease compared to the previous marketing year.

## Green Bean Exports

Vietnam’s green bean exports, particularly Robusta, grew to 15.28 million bags in the first half of MY2022/23, a nearly 3 percent increase compared to the same period of previous marketing year. (Figure 4).

**Figure 4: Monthly Volume of Green Bean Coffee Exports MY2018/19-MY2022/23**



Source: Vietnam Customs, Trade contacts

As mentioned in the “Export section”, total exports for MY 2022/23 are estimated to slightly shrink. Therefore, Post revised its forecast for Vietnam MY 2022/23 green bean exports at 25.9 million bags. Post forecasts a decrease of 5 percent in green bean exports for MY 2023/24 to 24.50 million bags, driven by a huge drop in stock and stricter import regulation of EU market.

## Soluble and Roasted Exports

Post revised its estimate for MY2022/23 soluble and roasted coffee exports down to 2.9 million bags and forecasts MY2023/24 soluble and roasted coffee exports to increase 3 percent to 3 million bags.

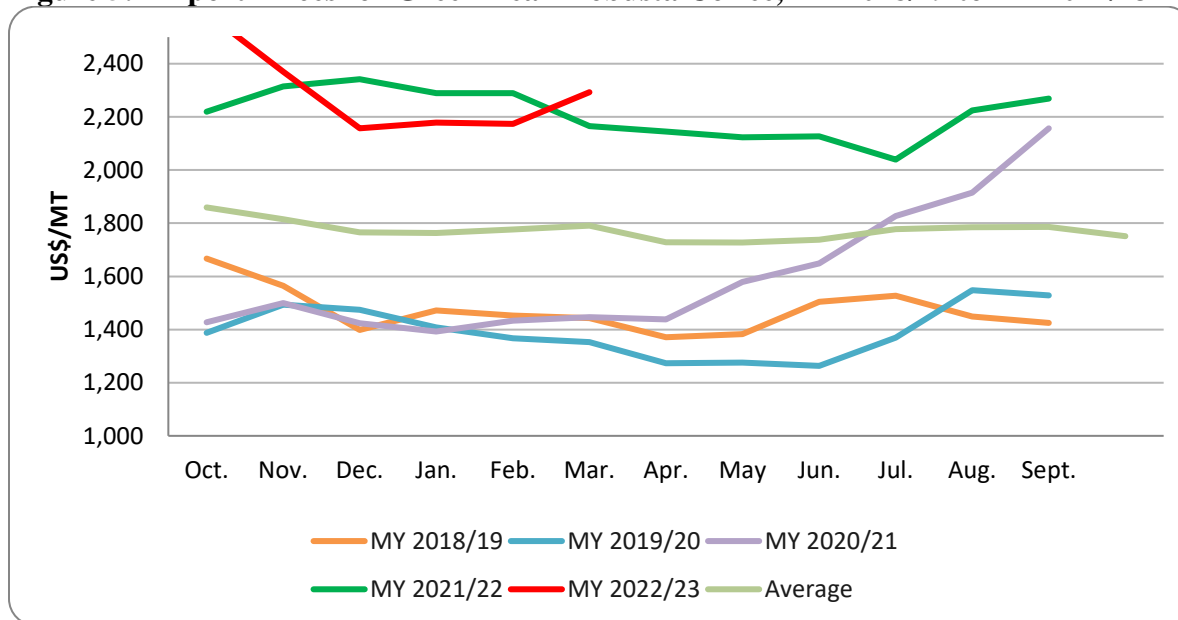
## Imports

As mentioned in the “Consumption” section, there is the growing demand for specialty coffee, along with an expansion of coffee chains, supporting imports of high-quality Arabica beans and soluble and roasted coffee. Trade Data Monitor's statistics indicate that most green bean coffee imports to Vietnam come from key markets such as Indonesia, Brazil, Peru, and Germany, while processed coffee products are imported from Brazil, Thailand, Indonesia, Australia, and Belgium. In the first half of MY 2022/23, coffee imports to Vietnam saw a slight rise of 2 percent over the same period of last year. Therefore, Post maintains its estimate of coffee imports at 580 thousand bags for MY 2022/23 and forecasts MY 2023/24 coffee imports at 550 thousand bags.

## PRICES

Average export prices in the first half of MY2022/23 reached USD 2,294/MT, a slight rise of 1 percent compared to the same period last year (Figure 5).

**Figure 5: Export Prices for Green Bean Robusta Coffee, MY2018/19 to MY2022/23**

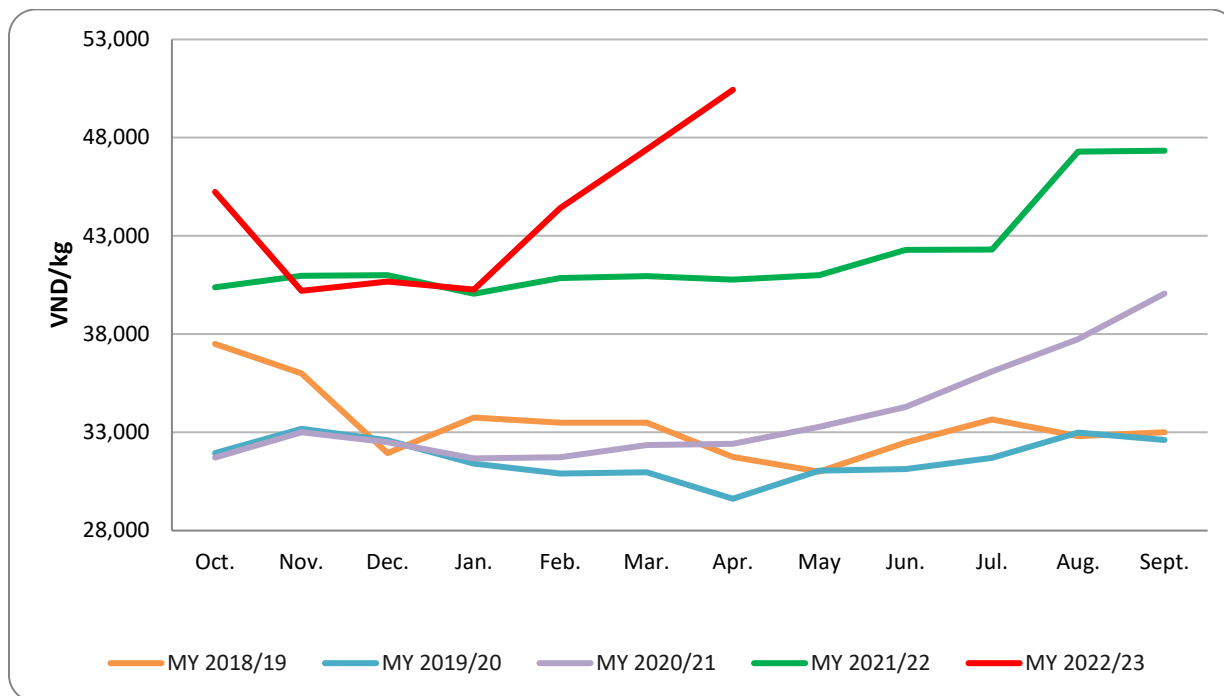


Source: Customs, Trade contacts

Domestic coffee prices in the first months of MY 2022/23 grew by approximately 6 percent compared to the same period last year. This also marks the third consecutive year of price rises. In April, prices reached VND 50,400/kg, their highest level since late August 2022 (Figure 6).



**Figure 6: Local Prices of Green Bean Robusta Coffee, MY2018/19 to MY2022/23**



Source: Trade contacts

### STOCKS

Post revised ending stock for MY 2022/21 down to 3.58 million bags. As noted in “Export” section, Vietnam businesses expanded exports in the last half of MY 2021/22 based on a favorable exchange rates and high export demand. This outflow diminished actual stocks, leading the huge drop of 50 percent in ending stock of MY 2023/22. Post revised its estimate of ending stocks for MY 2022/23 down to 1.81 million bags. Post forecasts a slight recovery in MY 2023/24 stocks to 2.76 million bags.

**Table 2****Vietnam's Production, Supply and Demand (PSD)**

<b>Coffee, Green</b>	<b>2021/2022</b>		<b>2022/2023</b>		<b>2023/2024</b>	
<b>Market Begin Year</b>	<b>Oct 2021</b>		<b>Oct 2022</b>		<b>Oct 2023</b>	
	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>
Beginning Stocks	3280	3660	3440	3580	0	1810
Arabica Production	1100	1100	1100	1010	0	1070
Robusta Production	30500	30480	29800	28740	0	30230
Other Production	0	0	0	0	0	0
Total Production	31600	31580	30900	29750	0	31300
Bean Imports	300	250	275	280	0	250
Roast & Ground Imports	200	200	200	200	0	200
Soluble Imports	100	100	100	100	0	100
Total Imports	600	550	575	580	0	550
Total Supply	35480	35790	34915	33910	0	33660
Bean Exports	26000	26110	25000	25900	0	24500
Rst-Grnd Exp.	550	550	600	550	0	500
Soluble Exports	2350	2350	2500	2350	0	2500
Total Exports	28900	29010	28100	28800	0	27500
Rst,Ground Dom. Consum	2620	2650	2710	2700	0	2700
Soluble Dom. Cons.	520	550	590	600	0	700
Domestic Consumption	3140	3200	3300	3300	0	3400
Ending Stocks	3440	3580	3515	1810	0	2760
Total Distribution	35480	35790	34915	33910	0	33660
Exportable Production	28460	28380	27600	26450	0	27900

(1000 60 KG Bag)

**Attachments:**

No Attachments