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Report Highlights: Vietnam's 2002/2003 coffee production (615,000 metric tons) dropped by 16 percent compared to the previous year, due to a prolonged drought and lower crop inputs. Next year's coffee crop will be determined by the weather. Although the area will not change, assuming better weather and some additional attention from the farmers, production might increase by 4-5 percent.

Includes PSD changes: Yes

Includes Trade Matrix: No

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PRODUCTION

Vietnam's 2002/2003 (October 2002 to September 2003) coffee production is estimated at 615 thousand metric ton (tmt) (or 10,250 thousand 60 kg bags), down by 16% compared with the 2001/2002 crop. The production drop was caused by a drop in yield -- mostly due to a drought in the Central Highlands and reduced farmer outlays for crop inputs (irrigation, pruning and fertilizer).

Although the total sown area declined from 560 thousand hectares in 2000/2001 to 520 thousand hectares in 2002/2003, the 2002/2003 harvested area actually increased slightly (by 30,000 hectares) as young trees become productive. The long-term area trend remains down, as farmers slowly shift from coffee to other crops such as cotton, corn, black pepper, and beans.

About 90% of Vietnam's coffee area is concentrated in the Tay Nguyen (Central Highland) provinces -- Dak Lak, Lam Dong, Gia Lai and Kon Tum. During much of the 2002/2003 crop year, the Central Highlands suffered from a prolonged drought -- greatly impacting yields.

Most of the coffee grown in Vietnam is Robusta coffee. Vietnam's Arabica coffee area is about 25 thousand hectares, accounting for only 4% of the total crop area. Arabica coffee production is estimated at 15 tmt (or 250 thousand bags). The Government of Vietnam (GOV) and various NGO's continue to promote Arabica production as a replacement for Robusta production and/or a crop for 'new' areas. The Arabica area is concentrated in the north -- Son La, Yen Bai, and Nghe An, and several central coastal provinces such as Quang Tri, but is also being planted in the Central Highlands. However, many farmers remain unconvinced about the benefits of switching from robusta to arabica.

The 2002/03 crop is the second consecutive season in which Vietnam's coffee production declined due to impact of low coffee prices (and bad weather). However, Vietnam remains one of the largest producers of Robusta coffee in the World.

Post revises Vietnam's 2002/03 coffee production (October-September) to 615 thousand metric ton (tmt) (10,250 thousand bags), up by 2.5 % from our previous estimate (600 tmt). Previously Post expected the drought to have an even larger impact on yield than it has.

Assuming a more normal weather pattern in 2003/2004, Post expects yields to recover. Moreover, many of the smallholder coffee farmers find the current prices acceptable, and they will increase inputs (pruning and irrigation, probably not fertilizer) for the next crop. The few large (mostly state-owned) coffee farms that must hire outside labor are still operating just at or below their costs-of-production. These large farms will continue to grow coffee, but not expend any additional funds in improving the crop (such as hiring labor to prune the trees).

Post estimates Vietnam's 2003/04 coffee production at 645 tmt (or 10,750 thousand bags), up 5% from 2002/03 due to better weather, crop management, and improved yields. Post keeps the 2003/04 coffee area unchanged (see table 1). The new planted area of arabica trees is expected to be roughly equal to the robusta area converted to other crops.

The Ministry of Agricultural and Rural Development (MARD) continues to encourage farmers to

reduce the planted area devoted to coffee. The MARD 'target' is to have Vietnam's coffee area at 450-500 tha by 2010. Of that total area, MARD hopes that the Arabica coffee area will be 100 tha. MARD's long-term coffee production target is 550 to 600 tmt (or 9,166-10,000 thousand bags).

Concerning the replacement of robusta with arabica, there are some observers who argue that robusta is better suited to Vietnam because the Central Highlands are not affected by frost, and that robusta processing is easier than that for arabica. Moreover, there are few regions which are 1,000 meters above sea level, and that altitude is essential (some experts feel) for Vietnam to produce distinctive Arabica coffee that is internationally competitive.

Table 1: Vietnam Coffee Production, Supply and Demand.

	2000/01		2001/02		2002/03		2003/04
	Old	Revised	Old	Revised	Old	Revised	Estimate
Sown Area	560	560	540	540	520	520	520
Area Harvested	415	450	470	470	500	500	500
Beginning Stock	15	15	30	30	15	15	10
Production (green bean)	900	920	735	735	600	615	645
Total Import	0	0	0	0	0	0	0
Jan-Dec Import	0	0	0	0	0	0	0
Jan-Dec Import from U.S	0	0	0	0	0	0	0
TOTAL SUPPLY	915	935	765	765	615	630	655
TOTAL EXPORT	880	880	670	720	560	590	610
Oct-Sep Export	880	880	670	720	560	590	610
TOTAL Dom. Consumption	25	25	38	30	32	30	32
Ending Stock	10	30	57	15	23	10	13
TOTAL DISTRIBUTION	915	935	765	765	615	630	655

Source: Trade Sources and FAS/Vietnam

Sustainable Arabica coffee production project in Quang Tri.

In the central coast province of Quang Tri, farmers have been given a helping hand from German Technical Cooperation Organization (GTZ) and private partners (Kraft Foods - Germany and Sara Lee - Holland) to grow more Arabica. The four-year project (2001-2004) is focusing on the creation of higher quality and more sustainable coffee production implemented by a local partner - Tan Lam Pepper Company. According to Vietnam's Cocoa and Coffee Association (Vicofa), this project has been successfully identifying the best practices in growing and processing Arabica coffee in harmony with environment protection. The project aims to improve the sustainable cultivation and processing of the coffee to yield better quality beans and prices. Given the initial success of this project, Vicofa would like to use this as a model throughout the nation -- but funding remains an issue.

In Huong Hoa district of Quang Tri province, Arabica coffee has been planted in 2,300 hectares with an output of about 3,000 mt of coffee beans. The area planted to Arabica coffee is expected to rise up to 5,000 ha in the area in the next few years. Farmers are expanding their arabica area knowing that the GTZ/private sector project is creating a market for better quality coffee. However, the GTZ/private sector project is not directly encouraging any additional planting of arabica trees.

PRICES Exchange rate VND 15,465 equal to \$1 as of June 2, 2003

During April and May 2003, domestic prices of Robusta coffee in key coffee producing provinces including Dong Nai, Lam Dong, Dak Lak and Gia Lai were quite stable at VND 9,500-10,200/kg. Although these levels were 17%-18% lower than prices in December 2002, they are still higher by 30% than prices quoted for the same period of last year. At this price level, farmers could earn a marginal profit as the coffee production cost is just about VND 8,500-9,000/kg. Some traders speculate that domestic prices are not expected to soften as the coffee supply is tight and there are five months left until the new harvest in October 2003.

This week's export prices for robusta coffee beans grade one and grade two were \$680-685/mt and \$660-665/mt (FOB HCMC) respectively, down slightly about \$10-15/mt from prices quoted last week.

Vietnam's coffee exporters are having a very difficult time trying to purchase coffee for export as domestic prices are stable and on the upward trend while coffee export prices are slightly down.

TRADE

Vietnam's coffee exports in Oct/02-Apr./03.

According to Vicofa, Vietnam exported 420 tmt (seven million bags) of green coffee with earnings of \$256.3 million in the first seven months of the MY-2002/03 crop (see table 2).

Table 2: Vietnam Coffee Export (Oct. 02- Apr. 03)

	Quantity (mt)	Value (USD)	Avr. price(\$/mt)
Oct/02	64,061	31,899,975	498
Nov/02	54,233	29,745,454	548
Dec/02	63,463	37,793,392	596
Jan/03	66,879	43,957,235	657
Feb/03	54,403	37,428,281	688
Marc/03	61,965	39,633,626	640
April/03	54,164	33,863,485	625
Total Oct/02-Apr./03	419,168	254,321,448	607

Source: Vicofa

Belgium, Germany, United States, Spain and Italy were the five top importers of Vietnam's coffee during Oct/02-Feb/03 period. According to Vicofa's statistics, 47 tmt was exported to Belgium, 42 tmt to Germany, 30 tmt to the United States while Spain and Italy imported 21 tmt and 20 tmt respectively.

According to traders, coffee availability for export in the remaining period (May - September, 2003)

is estimated at 180-200 tmt (or 3,000-3,333 thousand bags).

Post revises Vietnam's MY-2002/03 coffee exports at 590 tmt (or 9,833 thousand bags), up 5.4% from previous estimate and 18 % lower than 2001/02 exported volume.

Post estimates Vietnam's MY- 2003/04 coffee exports at 610 tmt (or 10,166 thousand bags), a 3.4 % increase compared with the 2002/03's crop level (see PS&D table 3).

Exports and imports of finished coffee products.

It is not easy to estimate the amount of finished coffee products imported by Vietnam. According to some major coffee distributors and importers, imports of instant coffee are quite small -- just about 70-80 tmt a year. Singapore, Indonesia and the United States are major instant coffee product exporters to Vietnam.

Vietnam also exports a small quantity of finished coffee products including instant coffee and roasted coffee. For instant coffee, the export volume is roughly about 550-600 mt a year.

After the U.S. and Vietnam Bilateral Trade Agreement (BTA) came into effect in December, 2001, exports of roasted coffee from Vietnam to the U.S. has gone up. The target customers for Vietnam's roasted coffee are overseas Vietnamese living in the United States. Vietnam's roasted coffee exports to the U.S. is estimated at 120 mt in MY- 2002/03 coffee crop.

Number of local coffee business dealers downsized, export shipments defaulted.

Due to fluctuating and prolonged low prices, many domestic middlemen have encountered financial problems. From a recent trip to the Central Highlands, Post learned about (at least) 10 coffee dealers who were bankrupt, and a great number of small coffee dealers were closing their business. Consequently, some export coffee shipments were defaulted. Vicofa has suggested that coffee traders should sign short-term contracts with small volumes to avoid unexpected price fluctuations in both domestic and foreign markets.

Table 3: Vietnam's Coffee PS&D table

PSD Table						
Country	Vietnam					
Commodity	Coffee, Green				(1000 HA)(MILLION TREES)(1000 60 KG BAGS)	
	Revised	2002	Preliminary	2003	Forecast	2004
	Old	New	Old	New	Old	New
Market Year Begin		10/2001		10/2002		10/2003
Area Planted	540	540	520	520	520	520

Area Harvested	470	470	500	500	500	500
Bearing Trees	525	587	625	625	625	625
Non-Bearing Trees	163	88	25	25	25	20
TOTAL Tree Population	688	675	650	650	650	645
Beginning Stocks	509	509	259	259	176	176
Arabica Production	166	166	200	250	310	310
Robusta Production	12,084	12,084	9,800	10,000	10,440	10,440
Other Production	0	0	0	0	0	0
TOTAL Production	12,250	12,250	10,000	10,250	10,750	10,750
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	12,759	12,759	10,259	10,509	10,926	10,926
Bean Exports	11,167	12,000	9,333	9,833	10,166	10,166
Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
TOTAL Exports	11,167	12,000	9,333	9,833	10,166	10,166
Rst,Ground Dom. Consum	633	500	533	500	533	533
Soluble Dom. Consum.	0	0	0	0	0	0
TOTAL Dom. Consumption	633	500	533	500	533	533
Ending Stocks	959	259	393	176	227	227
TOTAL DISTRIBUTION	12,759	12,759	10,259	10,509	10,926	10,926

POLICY

FAO-funded project to help improve Vietnam coffee quality.

In November 2002, the United Nations Food and Agricultural Organization (FAO) office in Vietnam signed an agreement with MARD on a project worth \$372,000 to improve coffee quality. The project aims to improve coffee quality, increase Vietnam's competitiveness and to build a coffee quality standard system meeting the ICO's standards. The project span is two years

Vietnam's policies for sustainable coffee production.

In March 2003, VICOFA and the German technical cooperation organization (GTZ) hosted an International conference titled 'The Vietnamese Coffee Sector - Opportunities and Challenges' focusing on sustainable development of Vietnam's coffee sector. This conference received a lot of useful information about the World situation, what challenges Vietnam has been facing, what Vietnam

should do to further integrate into the world coffee market, and how to commit Vietnam to participate in a Sustainable Coffee Program. The big question is what policies need to be put in place to achieve a sustainable production level in Vietnam? There were no clear answers. Among topics discussed were (a) how to identify a good production system to secure adequate income for farmers, (b) how to improve Vietnam's coffee quality, (c) how to create a good image of Vietnam's coffee in the global market, and (d) how to set-up market information systems to reduce risks in this very risky market.

Vietnam - Indonesia Cooperation in coffee production and trade far from reality.

In a recent report (VM 2021), Post reported about the discussion between the two largest Robusta coffee exporters - Vietnam and Indonesia in coffee production and trade cooperation.

Up to now, the two countries have not signed any agreement to implement their agreement. The Indonesian Representatives for their coffee industry had promised to continue negotiations over finalizing a cooperation agreement but no action has been taken so far.

State Bank of Vietnam continue its commitment in financial support to coffee farmers.

Central Bank (State Bank of Vietnam) Governor Le Duc Thuy has instructed commercial banks in the country to exempt and return loan interest to poor and ethnic-minority coffee growers nationwide to assist them to lessen financial difficulties caused by the prolonged coffee price drop. Under a recent notice from the State Bank of Vietnam, coffee farmers in the remote areas who have poor quality soils, no irrigation systems, high production costs and old coffee fields, are able to continue getting loans from banks, and the banks are to extend overdue debts without charging interest for coffee growers on a period of three years.

The State Bank of Vietnam (SBV) also asked domestic commercial banks to offer more loans with interest rate 30% lower than normal rates to coffee farmers. This policy enables farmers to plant other crops aside from coffee and reduce their debts. To plug the deficit caused by the cut in borrowing rates, SBV has announced that participating commercial banks will receive a subsidy of 0.2 per cent per month. The deficit will be managed in accordance with the Ministry of Finance's regulations.

Despite the SBV's assistance, few farmers find the commercial banks are interested in extending their existing loans or granting them new loans to diversify their crop-holdings.

Vicofa to establish a coffee export assistance fund.

A special fund has been recently proposed by Vicofa to assist loss-making coffee growers and exporters. Each coffee exporting firm is required to contribute up to one per cent of its gross export value to the fund. However, Vicofa is facing difficulty to put the fund into operation since most of coffee exporters are not willing to make their contributions unless export prices rise.

Dak Lak province- to build a Coffee Trading Center.

Dak Lak's Department of Trade and Tourism has a plan to build a coffee trading center for assisting farmers, processors and exporters in various technical issues including coffee growing, processing, export coffee quality control as well as updating market information. The center with proposed investment capital of VND 20 billion (or about \$1.28 million). The center comprises of five sections as below:

- S** **An information section** to publicize local and international market information and Government policies. It will also update coffee farmers and traders with legal issues and coffee trades.
- **A customs and quality inspection section** to secure quality standards.
 - **An agricultural promotion section** to provide technical assistance to farmers and processors.
 - **A service section** to provide assistance in credit and trade.
 - **A processing plant** with storage warehouse capacity of 4-5 tmt.

If the provincial government approves the plan, the project is expected to start this year and it's operation will be available for 2004/05 coffee crop.