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**Report Highlights:**

**This report presents an update of the current export campaign, as well as the PS&D for the 1999/00 coffee year. Several tables highlighting developments in prices, quality data, and exports are provided.**

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Includes PSD changes: Yes  
Includes Trade Matrix: No  
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## Executive Summary

Prolonged drought affected the 1998/99 Vietnam (VN) coffee crop. Production was about 380TMT, a five percent reduction from the previous crop (400TMT) despite an increase in harvested area. In large part through the expansion of newly harvested coffee areas, VN hopes to achieve a bumper 1999/00 crop. For the 1999/00 crop, post forecasts that VN will harvest 280THa (of a total planted area of 320THa) with a total output of about 420TMT. Production could be higher with yield-improving moisture recharge in key areas of the Central Southern Highlands. However, at this time most observers agree that VN will harvest about 420TMT of green beans from the upcoming crop, of which about 400TMT will be exported. A continuing policy concern in the major robusta areas is the seemingly unchecked degradation of the environment, as farmers rush to convert natural forest into coffee area. VN has also set an ambitious goal of 100THa of Arabica by the year 2010.

In the first seven months of the 1998/99 marketing year, VN exported 255TMT of coffee to more than 50 countries. With current exportable supplies of about 100-120TMT, VN will likely ship about 360TMT of coffee for the 1998/99 marketing year. Exports in the coming marketing year are expected to reach a record 400TMT.

Currency devaluations from major exporting countries, e.g., Brazil and other Latin American countries, combined with the recovery of coffee production in Indonesia, have dampened international prices and increased competition. Similarly, rising transportation costs from VN to major markets, e.g., European Union, Canada and the United States, also present more challenges to VN's export coffee sector.

## Production

***Assuming adequate moisture and expansion of area harvested, VN will produce a record 420TMT in 1999/00.*** Harvest season in VN is from October to January. Official estimates of the 1998/99 coffee harvest are not yet available; however, industry sources estimate output the range of 360TMT-380TMT. For the 1999/00 coffee crop, VN expects to have a bumper production of 420TMT. This in part depends on good crop weather, i.e., adequate moisture. Assuming average yields at the same level of the 1998/99 crop, production will probably increase by 10% on expansion of newly harvested areas (see Table 1.)

**Table 1: Vietnam Coffee: Production, Supply and Demand**  
(Metric Ton basis)

	1995/96	1996/97	1997/98	1998/99	'99/2000 Forecast
<i>Sown Area</i>	186	254	296	310	320
<i>Area Harvested</i>	100	206	250	270	280
<i>Beginning Stock</i>	20	10	15	17	19
<i>Production (green bean))</i>	235	330	400	380	420
<i>Total Imports</i>	2	0	0	0	0
<i>Jan-Dec imports</i>	2	0	0	0	0
<i>Jan-Dec Imports U.S.</i>	0	0	0	0	0
<i>TOTAL Supply</i>	257	340	415	397	439
<i>TOTAL Export</i>	234	310	380	360	400
<i>Jan-Dec Export</i>	234	310	380	360	400
<i>TOTAL Dom. Consumption</i>	13	15	18	18	21
<i>Ending Stock</i>	10	15	17	19	18
<i>TOTAL DISTRIBUTION</i>	257	340	415	397	439

Source: Ministry of Agriculture & Rural Development, VINACAFE & FAS/Hanoi

**Expansion of Arabica area is a national priority.** From a small base, VN is gradually expanding area planted to Arabica. Interest in arabica coffee is keen due to it's higher price compared with robusta. The GVN recently launched an ambitious project to have 100THa of Arabica by the year of 2010. The Ministry of Agriculture & Rural Development (MARD) Deputy Minister, Prof. Ngo The Dan, informed the Asian Coffee Conference, held in Hanoi in February, that VN plans to have 400THa of coffee producing 600TMT of beans by the year of 2010. Currently, VN has about 17THa of Arabica with an output of about 3TMT. VN's interim goal is to increase planted area to 40THa by the year of 2002. Thus, each year VN will need to plant an additional 10THa of coffee.

The Northern Mountainous provinces and the South Central provinces are the key areas for further extension of new coffee areas. Some areas in SonLa, HaGiang, LaiChau, YenBai already are being harvested. From the 1998/99 coffee crop, there were about 8THa of Arabica coffee in the Northern Mountainous provinces including: SonLa, YenBai, HaGiang, LangSon, TuyenQuang, PhuTho, and LaoCai. Total production of this remote region is only about 1000MT. LaiChau plans to extend the Arabica area from 240Ha in 1997 to 2,500Ha by the year of 2010. Son La province hopes to increase area from 4THa to 12THa, and TuyenQuang plans to boost plantings from 1THa to 5THa. Although limited, the move toward arabica plantings is underway. General lack of experience in growing coffee means that crop yields are low.

Coffee area has also expanded in QuangNgai, in the South Central provinces. In 1999, the state-owned companies will plant about 205Ha of coffee in remote areas of TraBong district, QuangNgai province.

**Rapid, unorganized extension of coffee areas creating environmental concerns in the Tay Nguyen Highlands.**

***Unplanned extension of coffee growing areas in LamDong continues apace.*** LamDong province in TayNguyen Highlands is the second largest coffee growing area in the country (after DacLac). Currently, total coffee area in the province is 74THa, concentrated in Dilinh and LamHa districts. Coffee area increased rapidly since the 1995/96 harvest, when there were about 20THa in the province. This rapid expansion is mainly done by private households. Destruction of the forest and expansion of planted area depleted already drought-affected irrigation supplies. Farmers lost a reported 1,095Ha of the crop. Compounding farmer misery is the low level of postharvest technology that results in LamDong coffee often being sold at a discount to other location coffees.

***DacLac province, home of more than 60% of VN coffee, faces depletion of water resources.*** According to provincial reports, only 40% of the total growing areas are irrigated. January and February are critical because there is usually no rainfall. From a production standpoint this period is critical because coffee bushes are blooming and forming beans, and the yield potential depends on moisture. Widespread deforestation coupled with the high moisture requirement of coffee have lowered the water table. The provincial Statistics Department reported that in 1988, there were about 48THa (accounting for 33% of provincial total area) effected by drought, of which 12THa was a total loss. The loss caused by drought on the 1998/99 coffee crop is estimated at 35TMT-45TMT in DacLac. The effect of drought on yields may linger for several seasons.

Assurance of adequate irrigation supplies is a concern for the future. A report from 2/9 Coffee Company indicates that the amount of water needed for 1Ha of harvested coffee ranges from 2,400m<sup>3</sup> to 2,600m<sup>3</sup>/Ha/crop. However, if there is shade from the forest canopy, the water requirement should be reduced by 10%-20%. The total water needed to irrigate current total harvested coffee area is in the range of about 300 million cubic meters-380 million cubic meters, while the total capacity of reservoirs in the province is only 184 million cubic meters. This implies that reservoirs can irrigate only 20%-30% of the total coffee growing areas. Remaining coffee areas have to rely on water sources from natural streams and rivers. And this in part depends on conservation of natural resources.

***GVN takes action to curb forest destruction and substitution of coffee for rubber.*** According to DacLac's Rubber Co., in the first quarter of 1999, in CuMgar and KrongNang districts, many households planted coffee by using the loans designated for either growing rubber or reforestation. Some rubber areas were felled in favor of coffee. On March 25, 1999, the DacLac's People Committee issued a decree banning this practice. This is in part based on a field survey from January 1 to February 7, 1999, during which provincial forest guards discovered that about 1,000Ha of DacNong and DacR'Lap forests had been destroyed to grow coffee and pepper. Provincial authorities forced these forest encroachers to destroy 200Ha of newly planted coffee. These events are also monitored at the national level. For example, Prime Minister Mr. PhanVanKhai personally ordered the removal of coffee trees from the recently cleared areas; up to now there are about 400Ha of newly planted coffee have been uprooted and reforested.

***Coffee growers call for better varieties.*** According to Vietnam Coffee-Cocoa Association, VN is in urgent need of new coffee cultivars. This is because about 10% of Robusta coffee bushes have low yields and other disadvantageous characteristics such as dense canopy but few berries, non-concentrated flowering, fruiting and ripening, leaves that are prone to drop during dry periods, as well as being less resistant to leaf rust diseases.

## Prices

***VN faces a more competitive market in 1999/00.*** Export prices tend to fluctuate seasonally. Traders note that

the best quality beans are often sold in the first quarter of the year, which in part explains why average prices in January and February are often higher than prices during the remaining months of the year. For the coming months, recovery of coffee production in Indonesia and devalued currency in Brazil and other Latin American countries have sharpened competition for VN's coffee.

**Prices plummet from middle of April 1999.** The average price of VN's coffee in April decreased from \$1455/MT to \$1357/MT in March (see Table 2). The price plunged to as low as \$1,150/MT in early of May, leading to losses on some export sales contracts. However, prices firmed slightly in mid-May, reaching \$1,250-1,320/MT on reports Brazil's coffee supplies may be lower due to a cold snap. Coffee traders are generally optimistic about the recovery of export prices, but are anxious for the near term. Of course, domestic prices have reacted similarly. In January and February of this year, the local price for coffee was about VND20,000/kg in the Tay Nguyen Highlands. Domestic prices followed export prices downward in April and in early of May, falling to VND15,000/kg to VND15,200/kg. Farmers have withdrawn beans from the market, awaiting higher prices.

**Vietnam Coffee & Cocoa Association submits proposal for interest free loans.** The Association is asking the GVN to extend the repayment period on outstanding loans and to offer interest-free loans to coffee growers and exporters to enable them to keep stock until export prices firm. No action has been taken on this proposal. Table 2, below, shows the steep decline in prices from 1997/98 to 1998/99, which prompted the action.

**Table 2. Vietnam Coffee: Monthly Average Export Prices  
(October-May)**

Unit: \$/MT

Month	1997/98 crop	1998/99 crop
October	1,520	1,428
November	1,520	1,457
December	1,520	1,486
January	1,550	1,567
February	1,602	1,530
March	1,581	1,455
April	1,672	1,357
May	1,833	1,250

Source: Customs Department of VN

### Coffee Quality

**VN is focusing on improvement of bean quality.** Table 3, below, provides criteria for classification of coffee for export (see table 3).

**Table 3. Coffee Quality Standards**

<u>Standards for each grade</u>
---------------------------------

	Grade1	Grade2	Grade3
Humidity	12%	12%	13-15%
Foreign material	0.5%	0.5%	1%
Broken bean	2-3%	2-3%	4-5%
Bean size	7mm	6-7mm	5mm

Source: Trade

In the International market, the price of Grade 1 coffee is often higher than Grade 2 by about \$50-60/MT and higher than coffee Grade 3 coffee by \$100/MT-\$120/MT. Realizing the problem, VN has implemented several measures to improve the quality of coffee. As a result, the share of Grade 1 coffee increased from two percent in the 1994/95 crop to 16% for the 97/98 coffee crop. The bulk of VN production has moved upward, from Grade 2B to Grade 2A three years (see Table 4).

**Table 4. Vietnam Coffee: Quality is Improving**

	94/95crop	95/96crop	96/97 crop	97/98crop
Grade 1	2%	6%	7%	16%
Grade2A	15%	45%	60%	72%
Grade2B	80%	44%	27%	5%
Domestic consumption	3%	5%	6%	7%

Source: VN Cafecontrol

Vietnam coffee is exported normally in accordance with the specific quality standards as mutually agreed between the buyer and the seller. The standard criteria for quality assessment are moisture, percentage of black and broken beans, percentage of foreign matter

**GVN establishes Technical Committee for Vietnam Coffee Standardization.** Recently, the Directorate for Standardization Measurements and Quality under the Ministry of Science Technology and Environment established the Technical Committee for Vietnam Coffee Standardization. The committee is responsible for reviewing and amending the existing standards for coffee, as well as contributing data to ASEAN and International standards for coffee and products.

Coffee inspection is key to improving quality. In the past, the inspection was just a visual examination to check the moisture, foreign matter, black and broken beans and bean size. Currently, two methods are employed: 1) visual and 2) laboratory analysis are applied in the inspection. According to the GVN's Cafecontrol, inspection for export is approaching international standards. Vietnam has six agencies inspecting coffee for export.

## Processing

**Coffee Joint-Venture set up in ThuaThien Hue.** McCullagh International of the United States and a company in the Central province of ThuaThien Hue have joined in a venture to grow 1,000Ha of coffee in the



mountainous district of Aluoi. The 40-year J-V license has an investment capital of \$19.2 million. This is an example of the type of investment the Vietnam Coffee and Cocoa Association (VICOFE) encourages. VICOFE is calling for more appropriate investment policies, especially in coffee processing and warehouse facilities.

## Trade

**Exports should reach 360TMT during the 1998/99 campaign.** For the first six months of 1998/99 export campaign VN shipped about 211TMT, with total earnings of \$316 million. According to data from Department of Customs, April shipments totaled 44TMT, with a value of \$60 million (see Table 5, below). According to traders, VN has about 100-120TMT of coffee currently available for export. Therefore, depending on prices, VN should be able to ship about 360TMT during the 1998/99 campaign. Based on expanded area harvested and larger exportable supplies, campaign 1999/00 is expected to reach a record 400TMT.

December and January 1999 deliveries were highest with the volume of 48TMT and 49TMT, respectively, due to tight supplies in competitor countries. February and March prices and volumes were down considerably due to the increasing coffee supply from Indonesia and Brazil (Table 5).

**Table 5. Vietnam Coffee: Monthly Exports  
( Oct.1998 to Apr.1999)**

Month	Volume(TMT)	Value (\$thousand)	Aver. price (\$/MT)
Oct. 98	17	24,813	1,428
Nov.98	42	61,004	1,457
Dec.98	48	71,615	1,486
Jan.99	49	76,864	1,567
Feb.99	27	42,073	1,530
Mar.99	27	39,448	1,455
Apr.99	44	59,611	1,357
Oct.98/Apr.99 total	255	375,429	1,472

Source: Customs Department of Vietnam

A portion of VN's coffee is sold FOB, meaning that buyers cannot originate contracts from farmers. Additionally, buyers must book freight. Beginning April 1999, increasing freight fixtures from VN to Europe, Canada and the United States have eroded some of VN's competitiveness. From May1999, container fees to U.S. ports increased by \$675- \$750 per 20 foot container, and by \$1000 per 40 foot container. Increases for Canada and EU destinations rose by \$300/20 footer and \$500/40 footer.

US is a leading value importer of VN coffee, with the market share of 20%. About 50% of VN's coffee is exported to European countries (Table 6). Switzerland was top value market in 1998 with over \$120 million.

**Table 6. Vietnam Coffee: Value of Exports by Market**

Unit: \$thousand



	Countries	1997	1998	Jan/Feb.99
1	Australia	559	1,775	836
2	Belgium	13,246	8,261	1,553
3	Canada	49	851	321
4	China	3,552	2,028	575
5	Denmark	119	62	0
6	Finland	226	1,118	0
7	France	17,557	18,207	1,029
8	Germany	35,735	56,619	12,530
9	Holland	21,628	47,571	11,118
10	Hong Kong	491	300	0
11	India	0	32	0
12	Indonesia	2,592	175	82
13	Iran	0	510	200
14	Italy	5,293	12,070	3,091
15	Japan	25,011	37,921	7,728
16	South Korea	2,677	2,810	1,324
17	Laos	0	2,395	0
18	Malaysia	575	1,587	523
19	New Zealand	0	989	0
20	Poland	3,786	5,157	733
21	Portugal	122	328	140
22	Russia	23	472	0
23	Singapore	89,343	73,898	16,870
24	Slovakia	0	124	0
25	South Africa	0	156	83
26	Spain	4,599	10,254	2,086
27	Sweden	1,566	4,137	341
28	Switzerland	80,564	120,465	34,216
29	Taiwan	668	2,860	117
30	Thailand	54,030	40,159	4,974
31	Turkey	0	194	0
32	The Phillippines	401	583	0
33	The U.K.	41,258	44,399	7,585
34	The U.S.	73,233	86,311	8,046
35	The United Arab	0	0	29
34	The Ukraine	0	406	0
	TOTAL	478,903	585,184	116,130

Source: Customs Department of Vietnam

## Policy

**VN implements the CEPT for AFTA members.** Currently, import duties on coffee beans and coffee products are 20% and 50%, respectively. As a member of ASEAN, VN enforces the Common Effective Preferential Tariff (CEPT) of the AFTA. Coffee is on the inclusive list and was implemented in 1998. With a deduction of 5% per year, the import tariff for coffee beans will be 5% by the year of 2001. Duties on coffee products will be 5% by the year of 2006.

On the March 23, 1999, GVN issued the Decree No.14/1999 referencing the Common Effective Preferential Tariffs (CEPT) assessed on imported items originating from ASEAN countries. The CEPT rates for coffee and products are lower than the GVN's Preferential Tariff by 5% and 15%, respectively (Table 7).

**Table 7: Vietnam Coffee: Preferential import tariffs & CEPT tariffs**

Code	Description	Pref. Tariff (%)	CEPT's tariff (%)
0901	Coffee whether or not roasted or decaffeinated; coffee husks and skins; coffee substitutes containing coffee in any proportion		
	- Coffee, not roasted		
0901.11.00	--Not caffeinated	20%	15%
0901.12.00	--Decaffeinated	20%	15%
	- Coffee, roasted		
0901.21.00	--Not caffeinated	50%	35%
0901.22.00	--Decaffeinated	50%	35%
0901.90.00	- Other		
0901.90.10	-- Coffee husks and skins	20%	15%
0901.90.90	-- Others	50%	35%

CEPT will not have much impact on exports of VN's coffee green beans, as VN's primary export markets are outside the region. Moreover, VN exports coffee to several ASEAN countries such as Singapore, Thailand, the Philippines, and even Indonesia. However, CEPT will likely make VN's coffee processing industry more competitive in coming years.

**VN coffee producers consult Brazilian coffee sector.** A delegation of VN coffee producers visited Brazilian farms and sector representatives in search of information on the production and policy.

**National Coffee Council to be established: the GVN's guiding hand.** The Vietnam Coffee and Cocoa Association is proceeding with a plan to set up the National Coffee Council to manage coffee production and trade. The council is charged with coordinating the master plan for coffee production and export. The goal is to improve VN export prices vis-a-vis the London contract price. Currently, there is considerable governmental overlap between ministries. For example, the MoT manages trading activities, while coffee production is under control of MARD. This leads to lapses in communication that affect both coffee producers and exporters. An expanded role for the private sector would arguably achieve the same results at greater efficiency.

PSD Table						
Country:	Vietnam					
Commodity:	Coffee, Green					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		10/1997		10/1998	Forecast	
Area Planted	254	296	296	310	320	320
Area Harvested	206	250	250	270	280	280
Bearing Trees	227	313	313	338	350	350
Non-Bearing Trees	53	58	58	50	50	50
TOTAL Tree Population	279	371	371	388	400	400
Beginning Stocks	186	250	283	283	283	283
Arabica Production	33	67	67	67	70	70
Robusta Production	5000	6600	6600	6266	6930	6930
Other Production	0	0	0	0	0	0
TOTAL Production	5033	6667	6667	6333	7000	7000
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	5219	6917	6950	6616	7283	7283
Bean Exports	4900	6333	6333	6000	6667	6667
Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
TOTAL Exports	4900	6333	6333	6000	6667	6667
Rst,Ground Dom. Consum	250	300	300	300	350	350
Soluble Dom. Consum.	0	0	0	0	0	0
TOTAL Dom. Consumption	250	300	300	300	350	350
Ending Stocks	69	283	283	283	300	300
TOTAL DISTRIBUTION	5219	6916	6916	6583	7317	7317

Prices Table			
Country:	Vietnam		
Commodity:	Coffee beans		
Year:	1999		

Prices in (currency)	USD	per (uom)	MT
Year	1998	1999	% Change
Jan	1550	1568	1.2%
Feb	1602	1530	-4.5%
Mar	1581	1455	-8.0%
Apr	1672	1357	-18.8%
May	1833	1250	-31.8%
Jun	1670	N/A	N/A
Jul	1475	N/A	N/A
Aug	1484	N/A	N/A
Sep	1462	N/A	N/A
Oct	1428	N/A	N/A
Nov	1457	N/A	N/A
Dec	1486	N/A	N/A