



Foreign Agricultural Service

**GAIN Report**

Global Agriculture Information Network

Required Report - public distribution

Date: 11/16/2001

GAIN Report #VM1022

**Vietnam**

**Coffee**

**Semi-Annual**

**2001**

Approved by:

**Henry Schmick**

**U.S. Embassy**

Prepared by:

Bui Thi Huong

---

**Report Highlights:** Vietnam's 2000/2001 coffee production and exports reached record highs -- as coffee prices reached record lows. Coffee prices, both domestic and export, dropped to the lowest level in 15 years. As a result of the low prices, the entire sector, especially the coffee farmers in the Central Highlands, is facing financial ruin. In marketing year 2001/2002, coffee production and exports will decline slightly. The Government of Vietnam is developing new strategies (including an export subsidy) to, hopefully, improve domestic coffee prices. Production, supply and distribution data are provided in this report.

---

Includes PSD changes: Yes  
Includes Trade Matrix: No  
Semi-Annual Report  
Hanoi [VM1], VM

## TABLE OF CONTENTS

PRODUCTION .....	<a href="#">Page 1 of 9</a>
2000/01 Coffee crop .....	<a href="#">Page 1 of 9</a>
2001/02 Coffee crop .....	<a href="#">Page 1 of 9</a>
Table 1: Vietnam Coffee Production, Supply and Demand .....	<a href="#">Page 1 of 9</a>
DOMESTIC CONSUMPTION .....	<a href="#">Page 2 of 9</a>
PRICE .....	<a href="#">Page 2 of 9</a>
Domestic price. ....	<a href="#">Page 2 of 9</a>
Table 2: Coffee price in major coffee producing province .....	<a href="#">Page 2 of 9</a>
Export price. ....	<a href="#">Page 3 of 9</a>
Table 3: Comparison of Vietnam Coffee Export Price (Unit: USD/Mt) ....	<a href="#">Page 3 of 9</a>
TRADE .....	<a href="#">Page 4 of 9</a>
Vietnam's coffee export soars in 2000/01. ....	<a href="#">Page 4 of 9</a>
Table 4: Vietnam 2000/01 Monthly Coffee Export .....	<a href="#">Page 4 of 9</a>
Table 5: Vietnam's Ten Largest Coffee Importers in 2000/01 crop .....	<a href="#">Page 4 of 9</a>
2001/02 Vietnam's coffee exports likely decline .....	<a href="#">Page 5 of 9</a>
Coffee producing countries seek a way to cooperate .....	<a href="#">Page 5 of 9</a>
Table 6: Vietnam Coffee PS&D Table .....	<a href="#">Page 6 of 9</a>
POLICY .....	<a href="#">Page 6 of 9</a>
Vietnam finds ACPC's price programs are extremely expensive .....	<a href="#">Page 6 of 9</a>
Arabica project extended to 2004. ....	<a href="#">Page 7 of 9</a>
Vietnam to reduce coffee area by 150-180,000 ha. ....	<a href="#">Page 7 of 9</a>
Vietnam launches a program to upgrade coffee sector. ....	<a href="#">Page 8 of 9</a>
Bank interest freeze for coffee growers in Tay Nguyen (Central) highlands. .....	<a href="#">Page 8 of 9</a>
Soft loans continue for Tay Nguyen's coffee farmers. ....	<a href="#">Page 8 of 9</a>
Bonus for coffee export. ....	<a href="#">Page 8 of 9</a>

## PRODUCTION

### **2000/01 Coffee crop**

After reviewing all available data, conducting field visits, and discussing our estimates with key coffee analysts, Post estimates the 2000/2001 crop area was 560 thousand hectares (Tha). Our estimate is higher than the official estimate, but well within the 550-600 Tha range suggested by key analysts.

More than 70% of Vietnam's coffee area is in the four Tay Nguyen (Central Highland) provinces of Dac Lac, Gia Lai, Kon Tum and Lam Dong. More than 50 percent of Vietnam's coffee area (about 264 Tha) is centered in Dac Lac, followed by Lam Dong (106 Tha); Gia Lai (48 Tha) and Dong Nai (34 Tha).

### ***2000/01 coffee production hard to estimate.***

The Ministry of Agriculture and Rural Development's (MARD) official 2000/01 coffee production estimate is 700,000 metric tons (or 11,666 thousand bags). In July 2001 the Vietnam Cocoa and Coffee Association (Vicofa) released their production estimate of 750 TMT (Thousand Metric Tons) (12,500 thousand bags). However, many coffee traders and analysts claim production is, at least, in the range of 880-920 TMT. Post revises our 2000/01 coffee production estimate to 900 TMT (15,000 thousand bags).

### **2001/02 Coffee crop**

Due to the steep price drop, coffee farmers have chopped down some unproductive trees and, in some cases, left the trees unpicked. Despite Government plans to destroy up to 100,000 hectares of coffee trees, most analysts feel that few farmers have actually chopped down their trees. Post estimates a reduction of Robusta coffee area at 10-15,000 ha and an increase of Arabica area of around 5 Tha. Therefore, Post estimates the 2001/02 crop area will be about 550 Tha (See Table 1).

Vietnam is a robusta coffee producing country -- 96 percent of the total coffee area is in robusta coffee varieties -- however, Vietnam is keen to grow more, higher-priced, arabica coffee. MARD and Vicofa plan to replace unproductive robusta coffee by arabia varieties in the Tay Nguyen. There is also a small effort to try arabica production in the northern provinces (See Policy Section).

**Table 1: Vietnam Coffee Production, Supply and Demand (Marketing Year; TMT)**

	1999/00		2000/01		2001/02	
	Old	Revised	Old	Revised	Old	Revised
Sown Area (thousand hectare)	370	460	512	560	500	550
Area Harvested (thousand hectare)	310	360	408	415	415	420
Beginning Stock	9	62	15	15	10	10
Production (green bean)	480	660	800	900	750	800
Total Import	0	0	0	0	0	0
Jan-Dec Import	0	0	0	0	0	0
Jan-Dec Import from U.S	0	0	0	0	0	0
TOTAL SUPPLY	489	722	815	915	760	810
TOTAL EXPORT	450	686	780	880	690	750
Jan-Dec Export	450	686	780	880	690	750
TOTAL Dom. Consumption	21	21	25	25	35	35

Ending Stock	18	15	10	10	35	25
TOTAL DISTRIBUTION	489	722	815	915	760	810

Source: MARD & FAS/Vietnam

### 2001/02 Coffee production.

Vicofa estimates that Vietnam's 2001/2002 coffee production will drop by 15-20% due to a drop in the crop area, and lower yields caused by lower use of inputs (from fertilizer to pruning). However, Post feels Vicofa's estimates are too low.

Post predicts Vietnam's 2001/02's coffee production could reach 800 TMT (13,333 thousand bags) including 10 TMT of Arabica coffee, a decrease of 12-13% compared with the previous crop (See table 1). Although that is a production drop compared to the previous year, it still represents a large crop for Vietnam to sell in the over-supplied global market.

## DOMESTIC CONSUMPTION

One of Vicofa's initiatives to improve the coffee price is to encourage domestic consumption. Vicofa has set a target to boost domestic consumption to 60 TMT (one million bags), or an average annual coffee consumption per capita of 1 kg in near future.

Currently, Vietnam's annual coffee domestic consumption is about 25 TMT (416 thousand bags) or 0.30 -0.35 kg per capita. In 2001/02, Post predicts Vietnam's domestic market will increase to 35 TMT (583 thousand bags) as a result of Vicofa's promotion program (the domestic tea industry is not amused.)

**PRICE** Exchange rate VND 15,050 equal \$1.00 15-Nov-2001

### Domestic price.

Domestic prices, under pressure from the new 2001/2002 harvest and the declining world price, have continued to drop. In the major producing provinces the price has fallen sharply since the middle of September 2001 from VND 4,500/kg to VND 3,900/kg and then to VND3,700/kg. Currently, the coffee price is fluctuating between VND 3,800-4,000/kg (See table 2).

**Table 2: Coffee price in major coffee producing province (August - October, 2001)**

City and provinces	Unit	August/01	September/01	October/01		
				1st week	2nd week	Last week
<b>Export price</b>	<b>USD/Mt</b>					
Ho Chi Minh city (FOB)		350-380	340-350	310-320	280-290	280-310
<b>Domestic price</b>	<b>VND/kg</b>					
Dac Lac		5300	4600	4500	3800	3700
Dong Nai		4800	4800	4600	4200	3700
Kon Tum		5200	5000	4500	4000	3800
Lam Dong		4800	4900	4500	3500	4100

Source: MARD

### Export price.

Vietnam's export price (FOB HCMC) was down to \$340-350/mt in September from \$350-380/mt quoted in August, and further dropped in October to \$280-290/mt. There was a slight recovery in the first week of November, to \$300-310/mt (See table 2). However, that price is still far below the costs of production.

The average 2000/01 export price was \$436/mt (See table 4), a decrease of 46% compared with the previous crop. As a point of reference, peak export prices were about \$1,300/mt. International coffee traders worry that world coffee prices might deteriorate further as newly harvested coffee from Vietnam will increase global stocks. Many coffee analysts warn that coffee prices may not improve for, at least, two more years.

**Table 3: Comparison of Vietnam Coffee Export Price (Unit: USD/Mt)**

	1999/00	2000/01	Change(%)
October	1032	530	(95)
November	1031	495	(108)
December	1006	438	(130)
January	903	439	(106)
February	823	453	(82)
March	779	454	(72)
April	759	430	(77)
May	734	414	(77)
June	720	414	(74)
July	686	397	(73)
August	652	379	(72)
September	621	364	(71)

Source: Vietnam's Customs Department and Vicofa

### Coffee farms abandoned -- coffee returns lower than cost of labor

Unlike previous years, many coffee farmers in the 2001/2002 harvest are unable to hire labors (mainly workers coming from northern provinces) to pick coffee. A report said that in Dac Lac province, some farmers have abandoned their red coffee beans because it is not cost-effective to hire laborers for picking. It's estimated that a worker can daily pick about 15-17 kg of coffee which is valued at VND 12,000-14,000 while the labor cost is VND 15,000-20,000.

In the past, coffee farmers in the Central Highlands would encourage migrant workers, mostly from northern provinces, to come and pick the coffee. However, this year, with negative returns to coffee production, both the farmers and the migrant workers are suffering.

## TRADE

### Vietnam's coffee export soars in 2000/01.

**Coffee bean exports**

International Coffee Organization (ICO) data show that Vietnam exported 14,310 thousand bags (858 TMT) of coffee in marketing year 2000/01, becoming the second largest coffee-exporting country in the world. According to Vicofa's statistics (slightly different from ICO's), Vietnam's 2000/2001 coffee exports were 875 TMT (14,583 thousand bags) earning \$381 million, an increase of 27% in volume but down by 34% in value compared with the 1999/00 crop (See table 4).

**Table 4: Vietnam 2000/01 Monthly Coffee Export**

Duration	Volume (MT)	Value (USD)	Aver. price (USD//MT)
Oct 2000	43,357	22,977,782	530
Nov	70,711	34,986,877	495
Dec	109,520	47,938,366	438
Jan 2001	74,347	32,603,020	439
Feb	95,800	43,377,185	453
Marc	89,783	40,799,541	454
Apr	91,479	39,344,283	430
May	84,811	35,147,712	414
Jun	63,274	26,211,373	414
Jul	55,899	22,196,898	397
Aug	46,958	17,790,517	379
Sept	48,807	17,767,393	364
<b>TOTAL</b>	<b>874,746</b>	<b>381,140,947</b>	<b>436</b>

Source: Vicofa

Vietnam's coffee beans were shipped to 61 countries; Belgium was the largest coffee importer, while the United States, which imported 137 TMT, ranked second. Germany, Spain, Italy, France, Poland, United Kingdom, Japan, and Korea are the remaining top ten markets for Vietnam's coffee (See table 5).

**Table 5: Vietnam's Ten Largest Coffee Importers in 2000/01 crop**

No	Countries	Quantity (TMT)	Value (1000,USD)	Average price (\$/Mt)
1	Belgium	139	57,948	418
2	United States	138	59,372	432
3	Germany	134	60,055	447
4	Spain	74	31,667	429
5	Italy	63	27,797	444
6	France	46	20,147	438
7	Poland	38	17,172	450
8	United Kingdom	30	13,055	433
9	Japan	27	13,275	493

10	Korea (Republic)	26	11,310	430
----	------------------	----	--------	-----

Source: Vicofa

### **Soluble coffee exports**

In the 2000/01 marketing year, Vietnam exported about 235 mt of soluble coffee (equal to 611 mt of coffee bean) with a value \$813,000. The soluble coffee was shipped to Canada, Czech Republic, Japan, Korea, Malaysia, Myanmar, Poland, Singapore, Taiwan and the United States. Taiwan was the biggest importer of Vietnam's soluble coffee with the total import amount of 123 mt.

### **Roast coffee exports.**

Roasted coffee, about 22 mt, was exported to Australia, France, Italy, Japan, Malaysia and the United States. Italy was the leading buyer with imports of about 10 mt.

Including coffee product exports, Post revises 2000/01 coffee exports to 880 TMT (14,667 thousand bags) (See tables 1 and 6).

### **Vietnam exported 55 TMT of coffee in the first month of 2001/02 crop.**

Ministry of Trade data showed that Vietnam exported 55 TMT of new crop coffee with an export value near \$20 million.

### **2001/02 Vietnam's coffee exports likely decline.**

Due to lower production, and supplies, Vicofa predicts 2001/2002 coffee exports could drop by 100-150 TMT. Therefore, Post revises the export estimate to 750 TMT (12,500 thousand 60 kg bag).

### **Coffee producing countries seek a way to cooperate.**

In November, a delegation from the Association of Indonesian Coffee Exporters (AICE) paid a visit to Vicofa in Ho Chi Minh city, and to the coffee area in Dac Lac province. The delegation expressed their willingness to cooperate with Vietnam, and other Asian coffee producing countries, in finding a way to strengthen their position as producers in the global coffee market. Reportedly Vicofa and AICE, while interested in measures to cut production, could not reach any agreements. Further discussions are planned, but no definite dates have been announced. In addition to AICE, a delegation of Colombian coffee producers is planing to visit Vietnam to discuss similar topics.

**Vietnam hopes to earn one billion dollars from coffee exports by 2010.** Although the coffee sector is currently in financial crisis, the Government of Vietnam is optimistic about its improvement and has set an ambitious target to earn \$1 billion from coffee exports by 2010. Reportedly a lot of that revenue is to be generated from exports of Arabica coffee -- from trees that have yet to be planted.

### **New potential markets for Vietnam's coffee.**

According to Vietnam Coffee Cooperation (Vinacafe), Vietnam expects to export 70-80 thousand metric tons (TMT) of coffee to Spain in a barter arrangement for coffee processing equipment. Similarly, about 150 TMT of coffee will be exported and bartered in the Netherlands.

**Table 6: Vietnam Coffee PS&D Table**

PSD Table						
Country	Vietnam					

Commodity	Coffee, Green				(1000 HA)(MILLION TREES)(1000 60 KG BAGS)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		10/1999		10/2000		10/2001
Area Planted	397	460	512	560	500	550
Area Harvested	320	360	408	415	415	420
Bearing Trees	400	450	510	519	519	525
Non-Bearing Trees	96	125	130	181	106	163
TOTAL Tree Population	496	575	640	700	625	688
Beginning Stocks	1,033	1,033	260	260	176	167
Arabica Production	90	90	83	117	92	167
Robusta Production	10,920	10,920	13,250	14,883	12,408	13,167
Other Production	0	0	0	0	0	0
TOTAL Production	11,010	11,010	13,333	15,000	12,500	13,334
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	12,043	12,043	13,593	15,260	12,676	13,501
Bean Exports	11,433	11,433	13,000	14,667	11,500	12,500
Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
TOTAL Exports	11,433	11,433	13,000	14,667	11,500	12,500
Rst,Ground Dom. Consum	350	350	417	417	580	583
Soluble Dom. Consum.	0	0	0	0	0	0
TOTAL Dom. Consumption	350	350	417	417	580	583
Ending Stocks	260	260	176	167	596	418
TOTAL DISTRIBUTION	12,043	12,043	13,593	15,251	12,676	13,501

## POLICY

### **Vietnam finds ACPC's price programs are extremely expensive.**

Vietnam tried the stock retention plan promoted by the Association of Coffee Producing Countries (ACPC), but without any success. ACPC's second plan, to destroy 5 percent of low-quality coffee stocks, is not being welcomed (or implemented) in Vietnam.

Vietnam is not a member of ACPC, but still participated in their retention plan to withdraw 15-20 percent of stocks from the market, in an effort to prop-up world market prices. Vietnam pulled roughly 150 TMT of coffee from the 2000/01 crop, and asked exporting companies (located in the Central



Highlands) to store those stocks for six months. It is reported that those companies suffered big losses as they purchased coffee at high prices (VND 6,000- 6,500/kg) and sold it six months later at low prices (VND 5,000-5,500/kg). The Ministry of Trade (MoT) proposed a rescue package worth VND 225 billion (\$14.9 million) to compensate those companies. However, the companies have not yet received any compensation, and they are urging the Government to quickly implement the program so they can overcome their severe financial difficulties and maintain their businesses.

Unfortunately, and despite the financial pain suffered by the coffee companies in the Central Highlands, ACPC's retention plan was ineffective. It failed to keep global or domestic coffee prices from dropping further. After experiencing the impact of ACPC's first plan, Vietnam has decided not to participate in ACPC's new plan to boost world prices by destroying low quality coffee. According to Vicofa's estimates, had Vietnam participated in that plan, to destroy 5 percent of low-quality coffee stocks, Vietnam would have lost \$13.5-\$20.0 million (in addition to the \$14 million they had lost under the retention plan).

#### **Arabica project extended to 2004.**

In 1998, Vietnam started a project to plant 40,000 ha of Arabica coffee by 2002 in selected northern provinces. The \$42 million project is funded by a loan from the French Development Agency (AFD). Due to high interest rates and insufficient loan size, the progress of the project is much slower than expected. By the 2001, only 8,000 ha was planted (about 20% of the plan).

To bolster the project, the Government of Vietnam (GVN) and AFD have agreed to extend the project to 2004, and have also reduced the targeted area to 26,000 ha. In addition, the size of the loan to individual farmers has been increased, while the interest rate was cut and the loan tenure was extended.

At first, the maximum loan per hectare was VND 10 million (or \$670)/ha. However, farmers said the actual cost of preparing a hectare of arabica coffee was VND 25 million. So, GVN and AFD have raised the maximum to VND 25 million (roughly \$1,660) per hectare. At the same time the interest rate was reduced from 9.7% to 5.4% per year, and the loan tenure extended from 10 to 15 years.

To reach the project's target of 26,000 ha of Arabica coffee trees by 2004, Vietnam has set goals to plant 5,800 ha, 6,100 ha and 6,454 ha in 2002, 2003 and 2004 respectively. Time will tell if even those reduced project goals will be achieved.

#### **Vietnam to reduce coffee area by 150-180,000 ha.**

During a meeting in July, Vicofa's members announced a plan to clear 150-180 Tha of unproductive robusta coffee area over the next two or three years. This plan is being promoted as Vietnam's contribution to help reduce the global coffee supply. Major coffee producing provinces such as Dac Lac, Lam Dong are asked to clear 70 Tha and 40 Tha, respectively. The remaining 70 Tha will be allocated to other coffee producing regions. Outside observers say that without GVN financial assistance, many farmers will not be willing to clear their coffee areas. Farmers that can easily switch to more profitable crops probably will, but many farmers feel stuck with their coffee trees.

Vietnam's coffee goal, over the next five years, is to reduce coffee area to 400 Tha with production at 600 TMT (10 million bags), reducing Vietnam's current 12-13 percent share of the global coffee supply to a roughly 9% share.

**Vietnam launches a program to upgrade coffee sector.**

According to the Agricultural and Foodstuff Processing Department of MARD, Vietnam's low export price is not only caused by low international prices but also by the low quality of Vietnam's coffee. The poor quality is due to Vietnam's poor post-harvest technology (bean drying, cleaning, classifying, storage, and packaging), and a lack of information about coffee handling. Many small farmers simply do not know how to care, prepare and sell their coffee beans for the best prices.

To improve Vietnam's coffee competitiveness, MARD has developed a program on upgrading post-harvest technology, improving coffee quality, and reducing coffee production costs. The program aims to develop smaller, less centralized, processing factories and warehouses suitable for the many different coffee producing regions. Other program objectives include infrastructure development (irrigation systems), and improving coffee varieties. MARD estimates this program needs about VND 610 billion (\$ 40 million), and is seeking central government approval (and funds).

Currently, grade one coffee only accounts for 17% of total coffee production. MARD would like to raise that share to 35%, and to reduce production costs. Currently cost of production estimates for robusta are about VND 9,000-10,000/ kg -- which MARD hopes to lower to VND 8,000/kg by 2005, while arabica costs would drop from VND 12,000-13,000/kg to VND 10,000/kg.

**Bank interest freeze for coffee growers in Tay Nguyen (Central) highlands.**

To assist the struggling poor and ethnic coffee farmers in Tay Nguyen highlands (Dac Lac, Gia Lai, Kon Tum and Lam Dong provinces), the Prime Minister issued a decree (103/2001/QD-TTg dated July 10, 2001) directing commercial banks to freeze interest accumulation on coffee loans borrowed before December 2000. The interest rate freeze continues until December 2001 (and observers suspect beyond).

**Soft loans continue for Tay Nguyen's coffee farmers.**

To assist marginally profitable coffee farmers in the Central Highland, the Governor of the State Bank (Vietnam's Central Bank) issued instructions to all Vietnamese banks to ensure that coffee farmers in the four Tay Nguyen provinces are still able to get loans for coffee cultivation. However, coffee loan applications will be strictly reviewed and monitored. The loans will not be offered to farmers having low-yield coffee farms, inefficient operations, but only to potentially profitable farmers. Farmers who are taking part in the program to switch to arabica coffee or to improve their operation's effectiveness will be given a preference.

**Bonus for coffee export.**

To promote exports of agricultural products, the Ministry of Finance issued Decree 65/2001/QD-BTC on June 29, 2001 for export bonus payments for rice, coffee, pork, and canned vegetable products. Under that decree, VND 220 (1.46 U.S. cents) will be awarded for each one dollar of coffee exported. The effective date of this export subsidy program was backdated to January 2001.

Exporting companies, especially coffee traders, have applauded the policy. The award payment is especially valuable for coffee traders as it offsets some their losses caused by declining global prices.

