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# Vietnam

# Coffee

# Coffee Semi-Annual

# 1998


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**Report Highlights:**
**During marketing year 1997/98, Vietnam's coffee production soared to a record 400,000 MT, an increase of 15 percent over the previous crop as more planted area was harvested. Vietnam also exported a record 380TMT, earning $600 million in foreign exchange. For 1998/99, further expansion in harvested area will not likely compensate for yield reductions from prolonged drought in key Dak Lak province. Production for MY 1998/99 will settle to about 380,000 MT. Investment in expanding coffee area and in primary processing continues apace. Low interest French loans will help expand Arabica area by 40,000 hectares.**


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

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## Executive Summary

For the coffee crop for MY 1997/98, Vietnam's planted area was an estimated 296THa, of which about 250THa (accounting for 84 percent of total area) were harvested. This enabled Vietnam to achieve another record output of 400TMT, an increase of 15 percent over the previous crop. For 1998/99, Vietnam's coffee volume will likely decline as efforts to increase harvested area will be offset by yield reductions caused by prolonged drought in the Tay Nguyen (Central Southern Highlands) where the bulk of coffee is produced. Therefore, for 1998/99, FAS/Hanoi forecasts that Vietnam will harvest about 380TMT of coffee, a decline of five percent. Due to the drought, bean size will be smaller and in some areas the bean ratio (the ratio of fresh coffee for producing 1 kilogram of green beans) will increase to 4.5 - 5.0 kg from 4.0 kg last year.

According to data from state-owned VINACAFE, Vietnam exported about 380TMT of coffee from the 1997/98 crop with a value of $600 million. This makes coffee the second most important foreign exchange earner after rice. The expected decline in 1998/99 bean output will mean lower exports this year of about 360TMT (see Table 1).

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

| | *1995/96* | *1996/97* | *1997/98 OLD* | *1997/98 NEW* | *1998/99 FORECAST* |
|---|---|---|---|---|---|
| *Sown Area* | *186* | *254* | *260* | *296* | *310* |
| *Area Harvested* | *100* | *206* | *218* | *250* | *270* |
| *Beginning Stock* | *20* | *10* | *15* | *15* | *17* |
| *Production (green bean))* | *235* | *330* | *350* | *400* | *380* |
| *Total Imports* | *2* | *0* | *0* | *0* | *0* |
| *Jan-Dec imports* | *2* | *0* | *0* | *0* | *0* |
| *Jan-Dec Imports U.S.* | *0* | *0* | *0* | *0* | *0* |
| *TOTAL Supply* | *257* | *340* | *365* | *415* | *397* |
| *TOTAL Export* | *234* | *310* | *330* | *380* | *360* |
| *Jan-Dec Export* | *234* | *310* | *330* | *380* | *360* |
| *TOTAL Dom. Consumption* | *13* | *15* | *16* | *18* | *18* |
| *Ending Stock* | *10* | *15* | *19* | *17* | *19* |
| *TOTAL DISTRIBUTION* | *257* | *340* | *365* | *415* | *397* |

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

## Production

***The 1998/99 coffee crop affected by drought in key production areas.***

Vietnam's coffee is concentrated in the Tay Nguyen, the Central Southern Highlands including Daklak, GiaLai, LamDong and Kontum provinces, an area of about 91 percent or 270 Tha of total planted coffee. This area is distributed in the following manner: 168 THa in Daklak, 61 THa in LamDong, 35 THa in GiaLai & 6 THa in KonTum province.

Prolonged dry weather exacerbate the demand for water resulting from the rapid expansion of coffee growing areas and lead to critical shortage of water for irrigation. The situation was especially serious because most of the coffee grows under irrigated conditions. Moisture stress was apparent throughout the Central Southern Highlands as bushes wilted and yields declined. In fact, there was almost no rain in the area between Oct.15, 1997 and April of this year - the most severe drought in the past 20 years. Meteorological reports note that rainfall in 1997 for the region was 20-40 percent less than the average rainfall level of past years. According to the Irrigation Department of Daklak province, by the April 1998, almost all rivers and springs having basins less than 500 square kilometers had run dry. The water level in manmade lakes and reservoirs with a capacity of less than one million cubic meters had reached dead water levels and the underground water level was 5-10 meters lower than usual. In the region, coffee growers usually irrigate coffee bushes three or four times per year, but for the 1998/99 crop, they had to water at least five or six times. In many areas, there was simply no water for coffee.

According to early surveys by officials in Daklak province, drought has destroyed almost 12 THa of coffee from a total planted area of 168 Tha. Yields in the remaining areas are reduced by at least 30-40 percent. According to Daklak People's Committee statistics, the drought has led to huge losses for the agricultural sector generally, and especially for coffee growers, who have lost an estimated VND 2.5-3trillion. Additionally, the province also has injected more than VND186 million on fuel for irrigation pumps. Reservoirs in DakLak were able to irrigate only 40 percent of planted area. It is estimated that at least 35 THa of coffee face critical moisture stress that will impact future production.

Of LamDong province's 61 THa of coffee, it is estimated that 40 Tha is suffering water shortage that will lower yields by 10-15 percent on the incoming crop. However, in GiaLai province, where coffee is mainly managed by state farms, yields are expected to be slightly lower compared with the previous crop. This is because farms in these areas are well equipped with irrigation facilities so that the effect of drought was minimized.

The picture of withering drought was moderated somewhat in late May of this year when rains hit the Tay Nguyen Highlands and the Central provinces. According to industry experts, average yields for the 1998/99 coffee crop in the in Central provinces could be reduced by 5-10 percent, while yields in the Tay Nguyen Highlands are likely to be down by 15-20 percent. Overall, the anticipated total decline in coffee potential caused by drought is about 60-70 TMT.

Environmentalists have voiced concern over Vietnam's rapidly expanding coffee industry. Deforestation and rapidly expansion of coffee growing areas are linked. Reportedly, they are the main contributing factors to the decline in the water table. Vietnam seeks a balance between expanding a profitable foreign exchange earner and maintaining the water resources required for that expansion -- especially in a drought situation like this year. This will be a challenge not only for dominant DakLak but for other areas as well.

***Coffee price*:**

-*Domestic prices*:

Domestic prices fluctuate along with export prices. Despite entering the coffee business comparatively recently, Vietnam is a savvy supplier to export markets. Local prices are often determined from 7:00 p.m. to 12:00 midnight when the international price was quoted in London. At that time, coffee exporters and coffee sellers usually negotiate on the buying prices. The price for Grade 1 robusta coffee climbed to VND19,00-22,000/kg in April-May when supplies were tight and the export price rose to $1,850-1,900/MT.

-*Export price*:

Export prices for VIETNAM coffee dropped considerably from 1995 to 1997. The average FOB price for export coffee was $2,670 per ton in 1995, down to $1,820 per ton in 1996, and it fell to only $1,520/MT in 1997. In 1998, however, the estimated export price for VIETNAM coffee is about $1,600/MT due to increasingly tight international supply situation. However, VIETNAM coffee still sells at a discount to other origin coffee. This is because of quality. VINACAFE is aware that bean quality is the most important factor affecting export price. For example, prices of VIETNAM coffee in the last quarter of 1996 were lower than the international price quoted in London by $200-400/MT and less than the price of the same quality coffee from Indonesia by $150/MT. Poor cultivation & postharvest technology - particularly on-farm drying- are the main reasons for the quality discount for VIETNAM coffee.

## Trade & Marketing

Export data from Vietnam are contradictory. According to the Customs Department, Vietnam exported 351 TMT of coffee with the value of $544 million from October 1997 to the end of September 1998. The average price for VIETNAM coffee was about $1,600/MT (see Table 2).

**<u>Table 2</u>: Vietnam: Monthly Coffee Exports in 1997/98**
**Volume & Value**

| Duration | Volume (TMT) | Value ($thousand) | Ave. price($/MT) |
|---|---|---|---|
| Oct 97 | 26.5 | 40.3 | 1,520 |
| Nov 97 | 30 | 45.6 | 1,520 |
| Dec 97 | 30 | 45.6 | 1,520 |
| Jan 98 | 33.7 | 52.2 | 1,550 |
| Feb 98 | 41 | 65.6 | 1,602 |
| Mar 98 | 37.8 | 59.7 | 1,581 |
| Apr 98 | 39 | 65.3 | 1,672 |
| May 98 | 22.9 | 42.1 | 1,833 |
| Jun 98 | 22.4 | 37.3 | 1,670 |
| Jul 98 | 19.1 | 28.2 | 1,475 |
| Aug 98 | 27.1 | 40.2 | 1,484 |
| Sep 98 | 22 | 32.1 | 1,462 |
| **TOTAL** | **351.5** | **554.2** | **1,576** |

*Source: Customs Departments.*

However, VINACAFE stated that the total volume of exports was for the same period was 380 TMT with a value of about $600million. The discrepancy between official sources may be explained by shipping lags and the fact that exports to neighboring countries such as China and Cambodia are often not recorded.

As would be expected, Vietnam hosts many coffee traders such as: 1) Neuman Group (Germany); 2) Volcafe, and Sucafina (Switzerland); 3) Cargill (US); 4) JF Trading Inc. (Thailand); 5) Olan (Singapore); 6) Itochu (Japan). These companies ship Vietnamese coffee to more than 40 countries around the world. In terms of export value, the Customs Department data show that, in 1997, Singaporean companies were the biggest coffee buyers of VIETNAM coffee with the total of $89million. United States ranked third after Switzerland. During the first nine months of 1998, the Swiss buyers were first and the United States was ranked second (see Table 3).

**Table 3: Vietnam: Top Ten Vietnam Coffee Buyers**
**(1000 $)**

| Countries | 1997 | Jan.-Sept. 1998 |
|---|---|---|
| Singapore | 89,343 | 35,604 |
| Switzerland | 80,564 | 48,240 |
| The U.S. | 73,233 | 45,901 |
| Thailand | 54,030 | 25,123 |
| The U.K. | 41,258 | 20,029 |
| Germany | 35,735 | 24,394 |
| Japan | 25,011 | 23,716 |
| Holland | 21,628 | 24,045 |
| France | 17,577 | 6,983 |
| Belgium | 13,246 | 2,543 |

*Source: Customs Department*

In term of destination countries, the United State started to import VIETNAM coffee in 1994 and has became one of the biggest markets for VIETNAM coffee. According to MARD, from 1997/98 coffee crop, about 82 TMT of VIETNAM coffee (about 21 percent of exports) were shipped to the United States. Germany ranks second place with a total volume of 68 TMT, or about 18 percent of total export volume. Italy, U.K., Spain, France, Poland, Japan, Korea and Belgium round out the top ten list of VIETNAM's coffee consumers with shares ranging from 3.2-8.8 percent.

According to the Vietnam Coffee & Cacao Association (Vicofa), Japan is financing a coffee quality testing program and is a promising coffee importer of considerable potential. South Korea is also a new market for VIETNAM coffee, and is expected to take about 4 percent of total exported coffee this marketing year.

## Policy

During 1998 the GVN implemented policies regarding import-export activities that have liberalized the coffee industry. For example, companies with trading licenses are now permitted to sign export contracts without asking a permission from the Ministry of Trade, as was the requirement previously. Paper work at customs is also reportedly being simplified to facilitate exports, although the pace of reform is slow. The export tax on coffee has also been removed. The extra export fee (calculated based on the FOB price), is also removed.

Vietnam is also focusing on increasing competitiveness in export markets, improving coffee yields, and attracting investment in upgrading post harvest technology facilities. For the 1997/98 coffee crop, VINACAFE has invested more than VND30 Billion for coffee cultivation and upgrading coffee processing facilities.

Vietnam is currently assessing the situation among coffee buyers. VINACAFE has asked the government to take more control over the coffee export system by limiting the number of coffee exporters. This is reportedly due to the rapid rise in the number of coffee exporters, and allegations of "unhealthy competition" among them. According VINACAFE, in Daklak province (where 55 percent of the total coffee grows), there have been some marketing irregularities among the 57 coffee traders, e.g., blending lower quality beans that in turn damage Vietnam's quality image in world markets.

***Arabica Coffee is given priority for expansion during the period 1998-2000.***

Soil and climate conditions in northern mountains and North Central provinces are suitable for growing Arabica coffee. Recognizing the higher export value of arabica coffee, the GVN has launched a program for expanding arabica coffee areas in the period 1997-2010. According to the plan, VIETNAM will have 100 Tha of arabica, of which 70 THa in the North and the remaining 30 THa in the Central Highlands. The target is a total volume of 150-200 TMT of arabica coffee by the year 2010. However, in order to achieve the target, VIETNAM needs huge investment, and is proving difficult. The France Development Fund has finally implemented an agreement to lend $40 million for about 40 Tha of arabica coffee in northern VIETNAM. This fund will be used to make loans of about VND15 million (about $1,000) per 1 Ha to growers for a duration of 10 years at an interest rate of 0.81 percent per year.

The growing area of arabica coffee has expanded rapidly in recent years. VIETNAM has more than 23 THa of arabica coffee bringing about 3.5-4.0 TMT of arabica beans. Arabica plantings in some areas lack investment and marketing expertise. Processing of arabica coffee is also a constraint because of a lack of wet processing technology.

***The future looks bright, but challenges are ahead***

VIETNAM's coffee sector has many challenges ahead. The low level of post harvest technology is a major challenge affecting the quality of VIETNAM coffee. This is especially so given that more than 83 percent of VIETNAM's coffee is managed by private households with limited access to new technology.

| | | | | | | |
|---|---|---|---|---|---|---|
| PSD Table | | | | | | |
| Country: | Vietnam | | | | | |
| Commodity: | Coffee, Green | | | | | |
| | | 1996 | | 1997 | | 1998 |

| | Old | New | Old | New | Old | New |
|---|---|---|---|---|---|---|
| Market Year Begin | | 10/1995 | | 10/1996 | | 10/1997 |
| Area Planted | 186 | 186 | 254 | 254 | 260 | 296 |
| Area Harvested | 100 | 100 | 206 | 206 | 218 | 250 |
| Bearing Trees | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-Bearing Trees | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Tree Population | 0 | 0 | 0 | 0 | 0 | 0 |
| Beginning Stocks | 333 | 333 | 186 | 167 | 250 | 250 |
| Arabica Production | 20 | 17 | 33 | 50 | 50 | 67 |
| Robusta Production | 3917 | 3900 | 5000 | 5450 | 5783 | 6600 |
| Other Production | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Production | 3937 | 3917 | 5033 | 5500 | 5833 | 6667 |
| Bean Imports | 33 | 33 | 0 | 0 | 0 | 0 |
| Roast & Ground Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| Soluble Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Imports | 33 | 33 | 0 | 0 | 0 | 0 |
| TOTAL SUPPLY | 4303 | 4283 | 5219 | 5667 | 6083 | 6917 |
| Bean Exports | 3900 | 3900 | 4900 | 5167 | 5500 | 6333 |
| Roast & Ground Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Soluble Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Exports | 3900 | 3900 | 4900 | 5167 | 5500 | 6333 |
| Rst,Ground Dom. Consum | 217 | 217 | 250 | 250 | 267 | 300 |
| Soluble Dom. Consum. | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Dom. Consumption | 217 | 217 | 250 | 250 | 267 | 300 |
| Ending Stocks | 186 | 167 | 69 | 250 | 317 | 283 |
| TOTAL DISTRIBUTION | 4303 | 4284 | 5219 | 5667 | 6084 | 6916 |

| Table 4 : VN COFFEE EXPORT TO MAJOR MARKETS | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| | Importing | 1995 | | 1996 | | | 1997 | 9 months of '98 |
| No | Countries | MT | 000USD | MT | 000USD | MT | 000USD | 000USD |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 1 | Australia | 1,272 | 3,019 | 2,766 | 4,626 | 354 | 559 | 1,332 |
| 2 | Austria | 907 | 2,197 | 0 | 0 | 0 | 0 | N/A |
| 3 | Belgium | 7,401 | 17,529 | 8,078 | 11,210 | 11,759 | 13,246 | 3,577 |
| 4 | Bulgaria | 0 | 0 | 140 | 238 | | 0 | N/A |
| 5 | Canada | 2,782 | 6,655 | 3,877 | 6,157 | 36 | 49 | 489 |
| 6 | China | 2,201 | 5,953 | 18,071 | 33,152 | 2,766 | 3,552 | 1,443 |
| 7 | Czech | 435 | 1,247 | 425 | 785 | 0 | 0 | N/A |
| 8 | Denmark | 0 | 0 | 0 | 0 | 92 | 119 | 28 |
| 9 | Finland | 118 | 346 | 36 | 60 | 180 | 226 | 493 |
| 10 | France | 16,993 | 38,476 | 10,302 | 19,886 | 14,341 | 17,577 | 11,422 |
| 11 | Germany | 15,001 | 36,234 | 22,014 | 29,842 | 28,725 | 35,735 | 36,662 |
| 12 | Holland | 4,072 | 9,631 | 6,439 | 8,441 | 16,105 | 21,628 | 35,256 |
| 13 | Hongkong | 444 | 1,002 | 1,921 | 3,693 | 480 | 491 | 184 |
| 14 | Indonesia | 54 | 143 | 0 | 0 | 1,778 | 2,592 | 79 |
| 15 | Iran | 108 | 181 | 0 | 0 | 0 | 0 | 388 |
| 16 | Italy | 2,720 | 6,465 | 4,332 | 6,585 | 4,492 | 5,293 | 7,425 |
| 17 | Japan | 15,458 | 41,041 | 14,020 | 23,320 | 22,027 | 25,011 | 33,509 |
| 18 | S.korea | 3,382 | 8,275 | 1,563 | 2,341 | 2,008 | 2,677 | 2,099 |
| 19 | Malaysia | 2,182 | 5,549 | 2,014 | 3,385 | 510 | 575 | 624 |
| 20 | Newzealand | 334 | 684 | 162 | 247 | 0 | 0 | 283 |
| 21 | Poland | 3,345 | 7,797 | 3,868 | 5,610 | 2,831 | 3,786 | 331 |
| 22 | Portugal | 154 | 289 | 0 | 0 | 123 | 122 | 2,894 |
| 23 | Russia | 1,049 | 2,517 | 1,661 | 2,848 | 0 | 23 | 0 |
| 24 | Singapore | 69,940 | 167,838 | 53,935 | 78,457 | 72,156 | 89,343 | 54,672 |
| 25 | South Africa | 0 | 0 | 0 | 0 | 0 | 0 | 157 |
| 26 | Spain | 1,579 | 3,617 | 3,631 | 5,400 | 3,962 | 4,599 | 7,323 |
| 27 | Sweden | 252 | 526 | 4,010 | 6,170 | 1,402 | 1,566 | 1,810 |
| 28 | Switzerland | 21,942 | 54,266 | 21,242 | 31,220 | 66,338 | 80,564 | 75,975 |
| 29 | Taiwan | 20 | 43 | 0 | 0 | 483 | 668 | 163 |
| 30 | Thailand | 13,447 | 32,679 | 14,963 | 20,724 | 41,956 | 54,303 | 34,821 |
| 31 | The Phillipin | 0 | 0 | 0 | 0 | 288 | 401 | 582 |
| 32 | The U.K | 12,602 | 28,610 | 16,988 | 16,968 | 32,342 | 41,258 | 27,293 |
| 33 | U.S | 38,578 | 90,119 | 27,278 | 37,900 | 55,699 | 72,233 | 71,733 |
| 34 | Ukraine | 0 | 0 | 0 | 0 | 0 | 0 | 238 |
| 35 | Hungary | 1,915 | 7,073 | 1,559 | 1,918 | | | |
| 36 | Angeri | 2,121 | 6,501 | 2,969 | 45,495 | | | |
| 37 | Greek | 0 | 0 | 36 | 62 | | | |
| 38 | Egypt | 298 | 775 | 0 | 0 | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 39 | Ireland | 154 | 285 | 428 | 726 | | | |
| 40 | Isreal | 846 | 1,724 | 432 | 603 | | | |
| 41 | Maroc | 400 | 946 | 324 | 453 | | | |
| 42 | Sudan | 226 | 567 | 72 | 124 | | | |
| | | | | | | | | |
| | TOTAL | 248,087 | 598,147 | 283,692 | 420,206 | 389,311 | 490,826 | 422,679 |
| Source: Statistical Department & Customs Department | | | | | | | | |