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Approved By:
Mark Dries

Prepared By:
Quan Tran & Michael Ward

Report Highlights:

Vietnam's coffee production forecast for marketing year (MY) 2015/16 is revised upwards from 28.6 million bags to 29.3 million bags, due to adequate water supply both through good water management practices by farmers and rainfall during some critical stages during the coffee growing season.

Post also revises the MY2014/15 coffee production down from 28.17 million bags to 27.4 million bags, due to low production attributed to drought conditions in mainly Robusta planted areas. Some coffee analysts have considered the MY2014/15 as an off-year following record MY 2013/14 production.

Executive Summary:

Vietnam coffee production continues to grow despite structural challenges to the sector and low world prices. In the northern mountainous area, such as Son La and Dien Bien Provinces, planted area is increasing from 10,650 to 12,000 hectares and 3,385 to 4,500 hectares respectively. This is mostly newly-cleared planted areas, not replacing other crops. According to traders, the area for Arabica in this region will continue to increase in the near future. In other areas, coffee cultivated area was slightly down. The decline is more pronounced in Dak Nong and Gia Lai Provinces, mainly Robusta coffee areas, where farmers switched their older coffee area to black pepper production. New planting, however, continued to expand in some areas of Lam Dong and Dak Nong Provinces.

According to the Vietnam Coffee and Cocoa Association, both domestically produced soluble and roasted coffee products are strongly marketed locally. Domestic consumption is forecast to continue to grow, reflecting the expanding retail coffee shops and robust growth of other retail food service subsectors, serving coffee in Vietnam. The expanding coffee retail sector will contribute to stronger consumption for the foreseeable future.

For coffee exports, after a difficult year with strong competition and low world prices in MY2014/15, Vietnam coffee exports are expected to bounce back in MY2015/16.

Commodities:
Coffee, Green

Production:

<u>MY2014/15 crop:</u>
Vietnam's MY2014/15 total coffee production was revised down 800,000 bags, from 28.2 million bags to 27.4 million bags, about a 2.7 percent drop compared to Post's previous estimate in May 2015, mainly in Robusta production, due to reported lack of water in the main Robusta planted Provinces (Dak Lak, Dak Nong and some districts in Gia Lai). The revised MY2014/15 production is about 8.2 percent lower than MY2013/14 production. Some coffee analysts have considered the MY2014/15 as an off-year crop following the record MY 2013/14 production.

Arabica production is unchanged from Post's May 2015 estimate, and remains 10.6 percent or 125,000 bags lower than the previous MY estimate due to the so-called down year in coffee production

<u>MY2015/16 crop:</u>
Post revises its forecast for MY2015/16 production up from 28.6 million bags to 29.3 million bags, about a 7 percent increase from the current MY2014/15 estimate.

Despite lower than average rainfall during the coffee flowering stage in April 2015 in the Central Highlands (Gia Lai, Dak Lak, Dak Nong, and Lam Dong Provinces) farmers were able to compensate for the lower rainfall with targeted irrigation which was divided across many applications. This allowed farmers to save water and help coffee trees receive adequate water during the period of below average rainfall.

Rainfall increased from May to July, especially in June, during the cherry growth stage and provided plenty of water for cherry development during this rapid growth stage. There are some concerns about the bean size in Gia Lai and Northern Dak Lak, however, due to below average rainfall.

Coffee Production by Marketing Year (Oct.-Sept.) (green bean)

	MY2013/14	MY2014/15 estimate		MY2015/16 forecast	
		Old	New	Old	New
Marketing year begins	Oct. 2013	Oct. 2014	Oct. 2014	Oct. 2015	Oct. 2015
Production (thousand bags)	29,833	28,167	27,400	28,600	29,300
Average yield (tons/ha)	2.69	2.52	2.51	2.56	2.66

Source: Post estimates

According to MARD's statistics, there is about 86,000 ha of harvested area with trees that are over 20 years old. This accounts for about 13 percent of total coffee area. About 140,000-150,000 ha of from trees 15-20 years old (22 percent of total area). Young coffee trees can yield up to 4-5 MT/ha, compared to the Vietnam's average coffee yield of 2.5-2.6 MT/ha in recent years. Older trees can produce less than 2 MT/ha. Replanting older trees is a major priority of MARD and Provincial Authorities.

As of October 2015, coffee cultivated area was slightly down in Lam Dong, but increased in Dak Nong and Gia Lai, all main Robusta coffee areas. Some Lam Dong farmers are switching older coffee area into black pepper production in the face of low coffee prices and low yield. New coffee areas, however, are still expanding in some areas of Lam Dong and Dak Nong Provinces.

There are 3 main regions for Arabica production in Vietnam: Lam Dong, the biggest area with about 16,000 hectares, Quang Tri (North Central Vietnam) at about 5,000 hectares, and Dien Bien and Son La in the Northern Mountainous Area with about 14,000 hectares. In the northern mountainous areas, planted area is increasing from 14,035 ha to 16,400 ha. This increase is mostly newly planted areas. According to traders, the area for Arabica in this region will continue to increase in the near future. However, due to limited arable land in the mountainous area, Arabica planted area in this region will only be able reach up to 30,000 ha in the future, or about double the size of the current Arabica planted area of these two provinces.

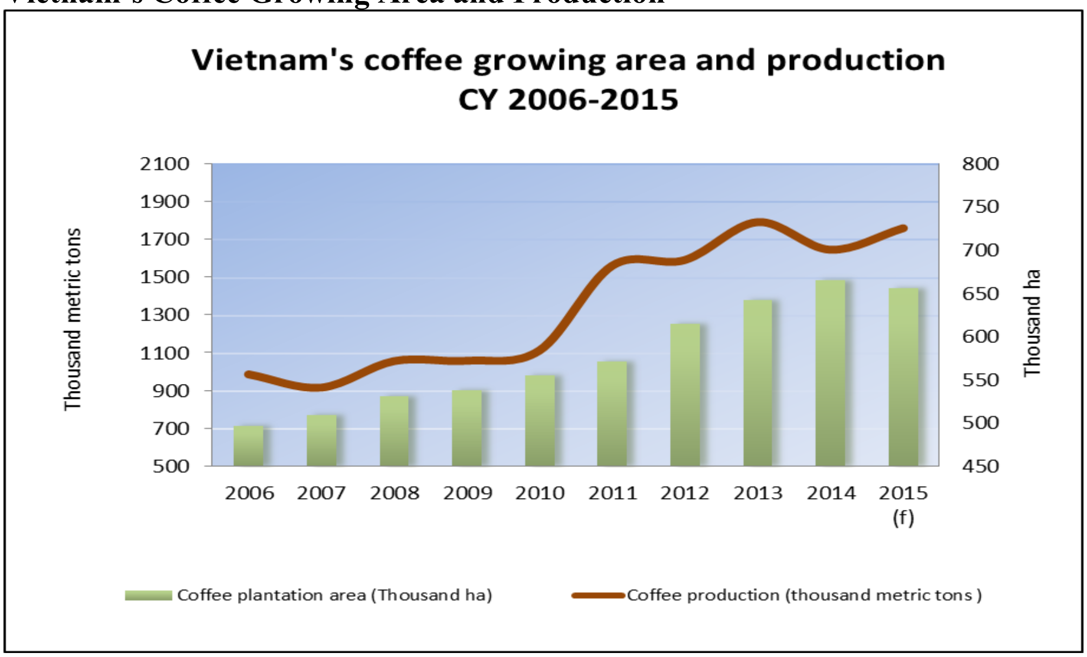
Taking into account the most updated information from the Ministry of Agriculture and Rural Development, Provincial Departments of Agriculture and Rural Development, and the local coffee industry, Post revises its estimate for total coffee area from 670,351 ha to 655,817 ha, about 15,000 hectares less than Post's last estimate in May 2015. This decrease is mainly due to the switch from coffee to black pepper production in some parts of the Central Highlands. Post forecasts the MY2015/16 area rebounding slightly to about 660,000 ha, due to the fact that coffee is still the most stable cash crop for Vietnamese growers.

Vietnam's Approximate Coffee Areas by Province

Province	Approximate Coffee Area in 2013	Approximate Coffee Area in 2014	Approximate Coffee Area in 2015 (old)	Approximate Coffee Area in 2015 (new)
Dak Lak	207,152	209,760	209,760	210,000
Lam Dong	151,565	151,565	155,365	153,432
Dak Nong	128,703	131,895	134,240	122,278
Gia Lai	77,627	83,168	81,374	78,030
Dong Nai	20,000	20,800	20,800	20,800
Binh Phuoc	14,938	15,646	15,646	15,646
Kontum	12,158	12,390	13,381	13,381
Son La	7,071	10,650	10,650	12,000
Ba Ria - Vung Tau	9,000	15,000	15,000	15,000
Quang Tri	5,050	5,050	5,050	5,050
Dien Bien	3,385	3,385	3,385	4,500
Others	5,700	5,700	5,700	5,700
Total	**642,349**	**665,009**	**670,351**	**655,817**

Sources: Provincial DARDs, MARD, Local exporters, Local traders

Vietnam's Coffee Growing Area and Production



Sources: General Statistics Office (GSO), MARD, Local exporters, Post Estimates

Consumption:

In recent years, there have been repeated scandals in Vietnam about coffee that was made from corn, soy beans, and chemicals offered at street stalls / kiosks and independent specialist coffee shops. In order to regain consumers' trust, independent specialized coffee shops have displayed different types of real coffee beans near checkout counters. The coffee beans are ground and brewed in front of consumers. As a result, consumers have become more confident in the quality of coffee offered at these outlets. So called dirty coffee, as coffee that includes other ingredients is called, is still marketed for low income people or people in remote areas. Coffee culture in Vietnam has created a wide range of products and price points for consumers. Consumers can easily find coffee shops selling black coffee for only VND10,000 per glass as well as outlets offering black coffee at VND70,000 per glass. Generally, cafes in Vietnam cover all segments and are highly diversified in terms of formats, services, and products. As a result, they are a favored gathering place for all strata of consumers.

According to Euromonitor, chained coffee shops were the fastest growing, with value sales increasing by 32%. This high growth is attributed to the expansion of existing players and the entry of new players. In 2015, Starbucks raised its total number of stores in the country to 16. McCafé has opened five stores since its entry at the beginning of 2014. Other chains such as Coffee Bean and Tea Leaf, Gloria Jeans, Coffee Concepts, and Highlands also continue to grow. The boom of chained specialist coffee shops indicates an increasing preference for Western-style coffee in the country and that consumers are wealthier and demanding higher quality products and the more professional services that are offered at these places. Moreover, there are a large number of local small coffee chains, with the concepts of both traditional coffee drinks but more healthy profiles, and/or western coffee drinks (ice blended, latte, coffee, and fruit blended) with more competitive prices compared to the international players. Local giant Trung Nguyen Coffee and smaller chains namely Passio Coffee, Phuc Long, Thuc, Effoc Coffee, Napoli, and Milano have helped boost domestic consumption.

Sit-down consumption on premise is the majority of sales value in cafes. However, take-away has gained a slight share, in line with the increasingly busy lifestyles of consumers in big cities. Take-away is also more prevalent in specialized coffee shops. Take-away and delivery will become more important, as more operators will make use of this service to expand their consumer base.

Post revises the estimate for domestic consumption for roasted and ground coffee from 1.83 million bags to 1.92 million bags due to the continued expansion of coffee shops and cafes.

Cafes/Specialty Coffee Shops by Category *(Units: Outlets 2009-2014)*

	2009	2010	2011	2012	2013	2014
Cafes	10,422	11,003	11,539	12,003	12,462	12,711
- Chain Cafes	97	108	104	108	117	111
- Independent Cafes	10,325	10,895	11,435	11,895	12,345	12,600
Specialized Coffee Shops	8,744	9,305	9,716	10,102	10,444	10,740
- Chain Specialized Coffee Shops	125	136	147	178	190	230
- Independent Specialized Coffee Shops	8,619	9,169	9,569	9,924	10,254	10,510

Source: Euromonitor

For soluble/instant coffee, according to the Vietnam Coffee and Cocoa Association, Vietnam's total targeted capacity for soluble coffee production is about 2.67 million bags. However, the actual production is probably only about 50 percent of targeted capacity. Given the strong demand for soluble coffee products domestically, Post revises the estimate for soluble coffee consumption upwards from 250,000 bags to 300,000 bags in MY2014/15 and from 260,000 to 350,000 bags in MY2015/16.

Domestic consumption is forecast to continue to grow, reflecting the expanding retail coffee shops and robust growth of other retail food service subsectors serving coffee in Vietnam. The expanding coffee retail sector will contribute to stronger consumption for the foreseeable future.

Trade:

Green Bean Exports:

According to trade data, Vietnam exported about 20.34 million bags of green coffee beans in the MY 2014/15, a drop of about 25.5 percent compared to MY 2013/14. This drop in exports was particularly notable in February and March 2015 as lower global coffee prices created a disincentive for Vietnamese farmers to sell their supply into the export marketing channel. Industry reports that farmers and up-market middleman continue to hold back on selling to down-market exporters until prices improve.

According to traders, when Vietnamese Robusta was not in the market, most U.S. roasters bought Brazilian Conilon at more competitive prices. Brazilian Conilon, with a record harvest in MY2014/15, together with the deep drop of the value of the Brazilian Real made the price of this variety extremely competitive. For these reasons, Post revises downward its estimate for MY 2014/15 total green coffee exports from 25 million bags to 20.34 million bags.

Top Ten Vietnam Green Bean Coffee Export Markets in MY2014/2015

	Export Markets	Volume (1,000 bags)
1	Germany	2,093
2	USA	1,820
3	Spain	1,736
4	Italy	1,455
5	Japan	975
6	Belgium	854
7	Algeria	773
8	Russia	741
9	Philippines	544
10	India	493
	Subtotal	11,484
	Others *	2,924
	Other not listed	5,925
	Total	**20,333**

**buyers with more than 167 thousand bags (10,000 tons)*
Source: Traders

Soluble and Roasted Exports:

With the increased production of both soluble and roasted coffee in Vietnam, people expected that exports of these two products were also increasing. According to Euromonitor, Vietnam exported about 1.28 million bags GBE (Green Bean Equivalent) of soluble coffee in MY 2014/15, about 380,000 bags or 42 percent more than in MY 2013/14. This is in-line with Post's last estimate in May 2015. Post forecasts the Vietnam export of soluble coffee in MY 2015/16 will be 1.5 million bags, about a 17 percent increase compared to the current marketing year, due to the fast growth of the Vietnam local soluble coffee industry.

According to Euromonitor, there was a big jump in Vietnam's roasted coffees in MY 2014/15 compared to MY2013/14. These exports increased from 120,000 bags to 457,000 bags, or an increase of more than 280 percent compared to MY2013/14. This is due to the fact that, as mentioned in the consumption, there are a large numbers of local specialist roasters/coffee shops, trying to introduce real Vietnam Robusta coffee. Many of them are also trying to export their products to grow sales. Post forecasts that MY2015/16 exports of roasted coffee will reach 550,000 bags, an increase of about 20 percent from the current Marketing Year.

Key Soluble Coffee Export Markets in MY2014/2015

Export Markets	**Thousands** bags
United States (Consumption/Domestic)	130
Japan	130
China	130
Russia	130
Indonesia	130
Singapore	85.8
Thailand	85.8
Philippines	85.8
Poland	41.6
Taiwan	41.6
Spain	41.6
Cote d'Ivoire	41.6
Malaysia	41.6
United Kingdom	41.6
India	41.6
Romania	41.6
Italy	41.6
Total	1,281.8

Sources: GTA

Key Roasted/Ground Coffee Export Markets in MY2014/2015

Export Markets	Thousand bags

United States	297.5
Spain	79.73
Switzerland	39.27
South Africa	20.23
United Kingdom	20.23
Total	456.96

Sources: GTA

Post revises the estimates for Vietnam's MY 2014/15 total coffee exports, including green beans, roasted and ground, and instant coffee, down from 26.43 million bags to 21.53 million bags due mainly to lower green bean coffee exports. For MY 2015/16, Post estimates total coffee exports at 28.07 million bags, an increase of approximately 31 percent over the current MY due to Vietnamese green bean robusta reemerging as a major supply source and the increased export of soluble and roasted coffee.

U.S. Coffee Product Imports from Vietnam (All Types)

	MY 2012/2013		**MY 2013/2014**		**MY 2014/2015**	
Product	Value ('000 $)	Qty. (MT)	Value ('000 $)	Qty. (MT)	Value ('000 $)	Qty. (MT)
Coffee, Not Roasted (HS code 090111)	457,973	215,728	424,076	205,790	344,672	162,505
Coffee Not roasted Def. (HS code 090112)	39,141	12,983	48,228	15,675	43,769	15,088
Coffee, Roasted (HS code-090121)	4,841	1,349	5,715	1,341	4,796	1,035
Coffee, Roasted, Def. (HS code 090122)	1,578	478	139	26	0	0
Coffee Extracts, Instant coffee (HS code 210111)	6,389	927	7,907	1,220	6,135	1,173
Coffee Extracts & Preparations (HS code 210112)	5,025	1,561	6,224	2,019	6,664	2,023
Total	**514,952**	**233,027**	**492,302**	**226,074**	**406,119**	**181,841**

Sources: GTA, Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics

Imports:

Vietnam continues to import small quantities of green coffee beans, as well as roasted and instant coffee, from countries such as Laos, Indonesia, Brazil, Cote d'Ivoire and the United States. Vietnam's import of roasted/ground coffee from the United States has increased in the past couple of years due to the expanding coffee retail sector. U.S. brands such as Starbucks, McCafé, and Dunkin Donuts, have become established operations in Vietnam in recent years.

According to data from GTA, total coffee imports in the MY 2014/15 are estimated at 590,000 bags GBE. Of that total, about 140,000 bags GBE imported were roasted and instant coffee. Post revises the MY 2015/16 total coffee imports down to 370,000 bags, mainly due to the large volume of green bean carry-over stocks from MY2014/15.

PRICES

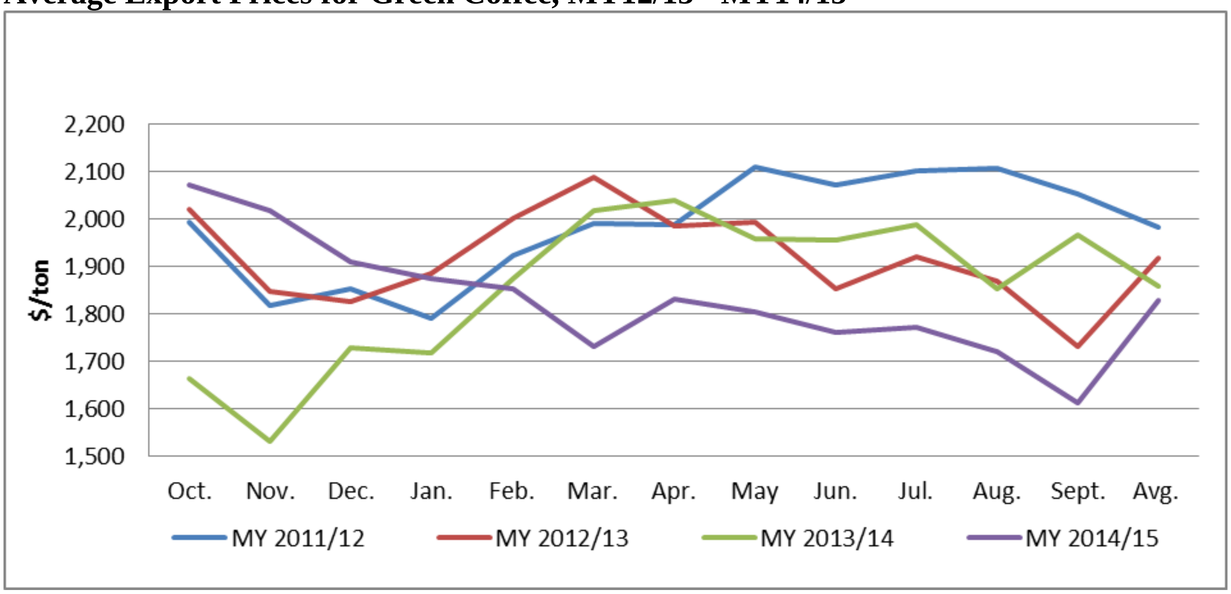
Export Prices:

Monthly Average Export Prices for Green Coffee in five MY (2012/13-2014/15)

Price FOB HCMC for common ungraded coffee beans (US$/MT)	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Avg.
MY 2011/12	1,993	1,818	1,853	1,790	1,923	1,992	1,988	2,111	2,073	2,103	2,106	2,053	**1,984**
MY 2012/13	2,022	1,849	1,827	1,887	2,003	2,088	1,985	1,994	1,853	1,921	1,870	1,731	**1,919**
MY 2013/14	1,663	1,533	1,728	1,718	1,874	2,017	2,040	1,960	1,956	1,988	1,852	1,967	**1,858**
MY 2014/15	2,072	2,019	1,910	1,874	1,852	1,732	1,833	1,804	1,761	1,773	1,721	1,612	**1,830**

Source: Dak Lak Trade, Investment & Tourism Promotion Center (Daktip); Vicofa; BCEC and Exporters

Average Export Prices for Green Coffee, MY12/13 - MY14/15



Sources: Daktip, Vicofa, BCEC, and Local Exporters

The average export price of common ungraded green bean Robusta in MY 2014/15 (FOB HCMC) was the lowest of the last four MYs. In MY 2014/15, the price started out above $2,000 / ton but has fallen 10 of the 12 months in the MY. This caused slow and limited farmer sales into the export channel and led to high stocks at the end of MY 2014/15.

Domestic Prices:

The average domestic coffee price for Robusta common ungraded coffee beans in the MY 2014/15 was VND 38,315 /kg in Dak Lak, VND 37,933 /kg in Lam Dong, VND 38,507 /kg in Gia Lai, and VND 38,471 /kg in Dak Nong. In recent years, Vietnamese farmers have internalized the expectation to receive at least VND 40,000 /kg before selling their coffee to middle men. In the 2014/15 MY, prices were only at this level for the first 4 months of the year. As local prices went down later in the marketing year farmers, sold less and less of their crop leading to higher stocks and lower exports.

MY 2014/15 Prices for Robusta Beans in Major Coffee Growing Provinces

Common coffee beans (VND/kg)	Oct. 2014	Nov. 2014	Dec. 2014	Jan. 2015	Feb. 2015	Mar. 2015	Apr. 2015	May 2015	June 2015	July 2015	Aug. 2015	Sept. 2015	**Average price**
Dak Lak	40,750	40,616	39,718	40,403	39,850	38,050	39,200	36,900	36,400	36,400	36,500	35,000	**38,315**
Lam Dong	39,785	39,911	39,250	39,600	39,406	37,355	38,400	37,200	36,800	37,000	36,000	34,500	**37,933**
Gia Lai	40,931	40,674	39,809	40,200	39,775	38,295	39,200	37,400	36,800	37,800	36,500	34,700	**38,507**
Dak Nong	40,792	40,774	39,927	40,271	39,781	38,010	39,300	37,300	36,600	37,200	36,500	35,200	**38,471**

Source: Vicofa, Buon Ma Thuot Coffee Exchange Center (BCEC), Daktip and Local exporters.
Exchange rate: US$1 = VND 21,620 as of April 8, 2015 (Source: Vietcombank)

Stocks

In the absence of an official number for Vietnamese coffee stocks, Post estimates the MY 2014/15 ending stocks at about 5.83 million bags, or about 173 percent higher than the MY 2013/14 ending stocks, due to the drop in total coffee exports in MY2014/15. Post's forecast for MY 2015/16 ending stocks is about 4.18 million bags, still high due to the large volume of carry-over stocks from MY 2014/15, rebounding production, and modestly growing exports. Post forecasts the MY 2015/16 ending stocks at about 1.65 million bags lower than the current MY 2014/15 ending stocks.

Industry Activities

In August 2015, Starbucks announced on its official website that the company will begin selling Arabica originating from Cau Dat, Dalat in more than 21,500 stores in 56 countries worldwide. This is the first time a type of Arabica coffee grown in Vietnam was selected to be sold at Starbucks shops.

Statistical Tables:
Production, Supply and Demand Data Statistics:

Vietnam's Coffee Production, Supply and Demand (PSD)

Coffee, Green	2013/2014		2014/2015		2015/2016	
Market Year Begins	Oct 2013		Oct 2014		Oct 2015	
Vietnam	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	0	0	0	0	0	0
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	1.946	1.946	2.130	2.130	2.407	5.831
Arabica Production	1.175	1.175	1.050	1.050	1.100	1.100
Robusta Production	28.658	28.658	27.117	26.350	27.500	28.200
Other Production	0	0	0	0	0	0
Total Production	29.833	29.833	28.167	27.400	28.600	29.300
Bean Imports	476	476	450	450	200	200
Roast & Ground Imports	12	12	10	10	10	10
Soluble Imports	160	160	160	130	160	160
Total Imports	648	648	620	590	370	370
Total Supply	32.427	32.427	30.917	30.120	31.377	35.501
Bean Exports	27.269	27.269	25.000	20.333	25.500	26.667
Rst-Grnd Exp.	120	120	130	457	140	550
Soluble Exports	900	900	1.300	1.282	1.400	1.500
Total Exports	28.289	28.289	26.430	22.072	27.040	28.717
Rst,Ground Dom. Consum	1.788	1.788	1.830	1.917	1.900	2.250
Soluble Dom. Cons.	220	220	250	300	260	350
Domestic Use	2.008	2.008	2.080	2.217	2.160	2.600
Ending Stocks	2.130	2.130	2.407	5.831	2.177	4.184
Total Distribution	32.427	32.427	30.917	30.120	31.377	35.501
1000 HA, MILLION TREES, 1000 60 KG BAGS						