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Report Highlights: Vietnam's 2003/2004 coffee area declined a little (perhaps by 10,000 hectares), but production will probably increase by 5-10 percent to 710 thousand metric tons due to better crop management and increased use of inputs. Although Vietnam remains a tea-drinking society, consumption of instant coffee is rapidly increasing. Assuming no last minute weather shocks, Vietnam's 2003/2004 coffee exports will remain around last's year level, somewhere between 670-680 thousand tons. Export prices have recovered from the 2000/01 low of $436/mt to about $630/mt, but that remains a small part of the peak price of $2,633/mt in 1994/95.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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PRODUCTION

Vietnam's 2003/04 coffee area down but crop production up

Vietnam's 2003/04 coffee area (for the crop harvested in October 2003 and marketed in the period to September 2004) continues to decline, a tad, as some of the low-productive and over-aged coffee areas are being converted to more profitable crops. Post estimates the 2003/2004 coffee area will be about 510 thousand hectare (tha), down about 10,000 hectares from last year. The area reduction was mainly in the robusta growing areas in the Tay Nguyen (Central) Highland provinces. In Dak Lak province, the largest coffee producing area in the country, corn, cocoa, cotton and cashews replaced several thousand hectares of coffee. In some areas, arabica coffee is one of the alternative crops chosen to replace low-profit (or no-profit) robusta coffee.

Post estimates that 2003/04 coffee production will go up (slightly) due to better crop yields from better nursery care, higher input use, and better weather conditions. Therefore, Post revises Vietnam's 2003/04 coffee production to 710 thousand metric tons (equivalent to 11,833 thousand 60 kg bags) up from our previous estimate of 640 thousand metric tons (tmt).

As the robusta coffee area continues to slowly shrink, the arabica coffee area is slowly expanding. However, arabica area is only about 5-6% of the total coffee area. At present, the arabica area is estimated to be about 25,000 ha. The key arabica growing provinces are Son La (3,000 ha), Thanh Hoa (4,000), Quang Tri (3,000 ha) and Nghe An (2,000 ha). Son La province plans to significantly expand the arabica area to 6,000-10,000 ha by 2010. In Quang Tri province about 150 ha of arabica was planted in 2003. Dak Lak's provincial agricultural department plans to expand the arabica area to 10,000 ha over the next 3-5 years from the current area of 4,000 ha. Similarly, Lam Dong and Kon Tum provinces also plan to replace low-productive robusta with arabica.

Based on many sources (including improved export data), Post revises Vietnam's 2001/02 and 2002/03 production up due to higher that previously estimated harvested areas and yields. Accordingly, Vietnam's 2001/02 coffee production is revised to 770 tmt (or 12,833 thousand bags) with a harvested area of 485 tha. The new production estimate of the 2002/03 coffee is 670 tmt (11,166 thousand bags).

Table 1: Vietnam Coffee Production, Supply and Demand

	2000/01		2001/02		2002/03		2003/04	
	Old	Revised	Old	Revised	Old	Revised	Old	Revised
Sown Area	560	560	540	540	520	520	520	510
Area Harvested	415	450	470	485	500	510	500	500
Beginning Stocks	15	15	30	30	50	50	10	20
Production (green bean)	900	920	735	770	615	670	640	710
Total Imports	0	0	0	0	0	0	0	0
Jan-Dec Imports	0	0	0	0	0	0	0	0
Jan-Dec Imports from US	0	0	0	0	0	0	0	0
TOTAL SUPPLY	915	935	765	800	665	720	650	730

TOTAL EXPORT	880	880	670	720	590	670	610	680
Jan-Dec Exports	880	880	670	720	590	670	610	680
TOTAL Domestic Consumption	25	25	38	30	30	30	32	32
Ending Stocks	10	30	57	50	45	20	8	18
TOTAL DISTRIBUTION	915	935	810	800	665	720	650	730

Source: GSO, Vicofa, MARD and FAS/Vietnam Estimates

Data on Vietnam's coffee area, production, and even exports are controversial. It is difficult to generate accurate data sets, as the data collected from different (reliable) sources are not similar in magnitude or even trend. Throughout this report, Post uses a variety of data, sources and our own estimates to generate our best guesstimates of the production, supply and distribution of Vietnam's coffee.

The rapid increase in Vietnam's 1999/2000 and 2000/2001 coffee crops was caused by a boom in tree planting during the 1997-2000 period. Official data published in Vietnam's 2003 Statistical Yearbook show that Vietnam's coffee area increased sharply from 340 tha in 1997 to 563 tha in 2001. Therefore, Vietnam's coffee harvested areas also increased considerably starting from the 1999/2000 coffee crop.

CONSUMPTION

Vietnam's domestic consumption is at moderate level. According to the International Coffee Organization (ICO), Vietnam's domestic coffee consumption for 2002/03 is estimated at 30 tmt, equivalent to 500 thousand bags. Post estimates Vietnam's 2003/04 domestic consumption at 32 tmt (or 555 thousand bags), an increase of 6-7% compared with 2002/03's level. No international coffee-shop chains have opened in Vietnam, but several local chains have outlets springing up in all the major urban areas.

Consumption of instant coffee increasing

According to local coffee traders and processors, the annual growth rate of instant coffee in the domestic market is estimated at 13-14%. The instant coffee consumption growth is due to rising disposable incomes, improving living standards, and changing beverage habits -- particularly for the young urban people (the emerging Vietnamese yuppies).

According to a recent market survey, Vietnam's instant coffee consumption is estimated at 5,000-6,000 mt of which 50-60% was supplied by local processors. The remaining amount (roughly 2,600 mt) was imported from foreign countries including the United States and Singapore.

The Bien Hoa Coffee Factory (under management of the state-owned Vinacafe enterprise) and Nestle Vietnam are the two major instant coffee producers in Vietnam. The production capacity of Bien Hoa Coffee is about 1,000 mt of instant coffee per year while the Nestle plant in Vietnam produces about 2,000 mt.

Coffee processing industry is expanding

To meet the increasing demand from domestic markets, as well as for exports, several companies are building new instant coffee production factories. A private company based in Ho Chi Minh City will put into operation a new instant coffee producing line (capacity 1,000 mt/year) in 2004. A well-known local coffee company, Trung Nguyen, is constructing an instant coffee factory in Dak Lak province. The factory will go into operation in the last quarter of next year with an annual capacity of 1,500 mt.

PRICE

- Exchange rate: Vietnamese Dong (VND) 15,715 equal $1 as of November 26, 2003

Domestic coffee prices have increased but remain quite unstable

Domestic coffee prices declined in the first weeks of November compared with the prices quoted in October and September due to increasing supplies from the new coffee harvest. Prices of Robusta grade 2 (5% broken and black material) are quoted at VND 9,050-9,100 in key coffee producing provinces.

During the second half of the 2002/03 marketing year, local coffee prices increased (over the 30 year lows), but remain very unstable. Coffee prices in Dak Lak, the largest coffee-producing province, increased to VND 10,650-10,700/kg in September but dropped back to VND 9,600/kg in October. The price has continued to fall as the new coffee harvest starts. Table 2 illustrates Dak Lak's June-November coffee prices in four coffee business areas.

Table 2: Robusta coffee prices in Dak Lak province

Dates	Buon Me Thuot	Eakar	KrongNang	KrongBuk
June 20-30	8,900	8,900	8,900	8,900
July 1-15	9,200	9,200	9,200	9,200
July 15-30	9,250	9,250	9,200	9,250
August 1-15	9,800	9,800	9,700	9,800
September 1-15	10,800	10,700	10,650	10,800
September 16-30	10,700	10,700	10,600	10,700
October 1-15	9,600	9,600	9,500	9,600
November 1-10	9,100	9,000	9,000	9,050

Source: Dak Lak Agricultural Extension Center

Similarly, local coffee prices in other key coffee producing provinces including Dong Nai, Lam Dong and Gia Lai were also fluctuating right at harvest-time (which farmers dislike).

Table 3: Domestic coffee prices in other key coffee producing provinces

	Unit	July	August	September	October	November
Dong Nai province	VND/kg	8,800	8,700-8,800	9,000-9,200	9,800	9,500
Lam Dong Province	VND/kg	10,000	9,000-10,000	10,200	9,400	9,300
Gialai province	VND/kg	9,300	9,200-9,300	9,900	9,400	9,200

Source: MARD

Vietnam's coffee export prices recovered (a little) in 2002/03

After declining to the lowest level in 30 years, Vietnam's coffee export prices started to recover in the last months of 2002 due to higher international demand. Although season average prices did increase to roughly $620/mt in the 2002/03 market year, they remain far from the peak prices ($2,633) of 1994/95 (see table 4).

Table 4: Vietnam's average coffee export prices (1994/95-2002/03 crops)

Coffee crops	Average export prices ($/mt)
1994/95	2,633
1995/96	1,815
1996/97	1,198
1997/98	1,521
1998/99	1,373
1999/00	823
2000/01	436
2001/02	375
2002/03	620

Source: Customs Department and Vicofa.

The 2002/03 coffee crop monthly average export prices increased by 50-114% compared with the 2001/02's crop level (see table 5)

Table 5: Comparation of Vietnam's Average coffee export prices in 2001/02 and 2002/03 crops

	2001/02 crop (usd/mt)	2002/03 crop (usd/mt)	Change (%)
October	332	498	50
November	316	548	73
December	319	596	87
January	329	657	100
February	321	688	114
March	355	640	80
April	397	625	57
May	437	653	49
June	389	620	59
July	457	623	36
August	451	636	41
September	490	680	39

Source: Customs Department and Vicofa

Similar to domestic coffee prices, Vietnam's coffee export prices were also fluctuating during the last five months of 2002/03 season. The export prices increased from $610-635/mt quoted in July and August to $630-670 in the September-October period. However, it dropped to $610-620/mt in November (see table 6)

Table 6: Vietnam average coffee export prices (July-November, 2003)

	Unit	July	August	September	October	November
Export price	$/mt	630-635	610-635	630-700	640-670	610-620

Source: MARD

Although coffee prices increased (some), coffee farmers are still not happy because the coffee prices are barely above, at, or barely below (depending on who you ask) the production costs. According to Vicofa, the average coffee production cost is about VND 10,000/kg while the domestic coffee prices are only VND 9,000-9,500/kg. Coffee farmers are not optimistic about near-term price increases as new-crop supplies are now entering an already over-supplied market.

TRADE

Vietnam's 2002/03 coffee export down in volume but up in the value

According to various trade sources, Vietnam's 2002/03 coffee exports are (best) estimated at 670 tmt (11,167 thousand bags), a decrease of 7% compared with the previous year. The export value was about $428 million, an increase of 59% compared with the export value earned in 2001/02 due to better export prices.

Germany, the United States, Belgium, Spain and Poland were Vietnam's top five importers for the 2002/03 crop. About 106 tmt of coffee was shipped to Germany, while U.S. imported 84 tmt and was ranked as the second largest buyer of Vietnamese robusta coffee. Belgium and Spain, each imported about 60 tmt, and Poland imported 57 tmt.

Almost all of the exports were in the form of green coffee beans, as exports of processed coffee products (roasted and instant coffee) remained insignificant. According to Vicofa, Vietnam exported about 600 mt of processed coffee products in the 2002/03 coffee marketing year. Vietnam's instant coffee markets include Taiwan, the United States, Malaysia, China and Canada. Local coffee processors are optimistic about foreign markets, including the United States, for Vietnam's instant coffee exports.

Post estimates Vietnam's 2003/04 coffee exports up slightly to 680 tmt (or 11,333 thousand bag).

Table 7: Vietnam's coffee PS&D table

PSD Table

Country	**Vietnam**					
Commodity	**Coffee, Green**			(1000 HA)(MILLION TREES)(1000 60 KG BAGS)		
	2002 USDA Official [Old]	Revised Post Estimate [New]	2003 USDA Official [Old]	Estimate Post Estimate [New]	2004 USDA Official [Old]	Forecast Post Estimate [New]
Market Year Begin		10/2001		10/2002		10/2003
Area Planted	540	540	520	520	520	510
Area Harvested	470	485	500	510	500	500
Bearing Trees	587	606	625	637	625	625

Non-Bearing Trees	88	69	25	13	25	13
TOTAL Tree Population	675	675	650	650	650	638
Beginning Stocks	509	509	259	842	176	333
Arabica Production	166	166	250	250	310	310
Robusta Production	12084	12667	10000	10917	10440	11523
Other Production	0	0	0	0	0	0
TOTAL Production	12250	12833	10250	11167	10750	11833
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	12759	13342	10509	12009	10926	12166
Bean Exports	12000	12000	9833	11176	10166	11333
Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
TOTAL Exports	12000	12000	9833	11176	10166	11333
Rst,Ground Dom. Consum	500	500	500	500	533	533
Soluble Dom. Consum.	0	0	0	0	0	0
TOTAL Dom. Consumption	500	500	500	500	533	533
Ending Stocks	259	842	176	333	227	300
TOTAL DISTRIBUTION	12759	13342	10509	12009	10926	12166

POLICY

Vietnam and Indonesia are working on an agreement to reduce robusta production
In June 2003, Vietnam and Indonesia, the world's two biggest robusta coffee producers, discussed an agreement to reduce robusta production in both countries. According to trade contacts, the key proposal focused on cutting 20% of Vietnam's and 15% of Indonesia's robusta areas by 2005. However, the agreement is still under negotiation.

Government of Vietnam to construct $2 million coffee market in Dak Lak
According to Vicofa (Vietnam Coffee Association), the Government of Vietnam (GOV) will invest VND 32 billion ($2 million) building a coffee market and information center in Dak Lak province (see VM3008). The market is expected to be operational in 2005. The association has also proposed another coffee trade center be developed in Ho Chi Minh City. One of the reasons for these new centers is to address concerns that intermediaries (aka middlemen) are profiting too much. Post disagrees; farm-gate prices for coffee are a very high percentage of the FOB price. However, the GOV must show that it is addressing the on-going coffee price crisis.

FAO assisting Vietnam to improve the coffee quality
One of key objectives of Vietnam's "coffee development strategy" is improve the quality of its robusta and arabica crops. In coordination with the International Coffee Organization (ICO)'s coffee quality improvement program, Vietnam coffee exporters are encouraged to apply new coffee quality standards (see report VM3012). However, many coffee exporters (and importers) are not very enthusiastic about using the new standards. Low quality coffee for a low price (for which there is a good market) remains the image of Vietnam's coffee sector.

The United Nations Food and Agricultural Organization (FAO) have undertaken (since May 2003) a new project (TCP/VIE/2903 worth $372,000) focusing on coffee quality and prevention of mold formation and ochratoxin A (OTA) contamination of coffee in Vietnam. The project objectives are to educate coffee growers and processors in management interventions to improve coffee quality and its competitiveness, to reduce losses, and to safeguard markets and consumers' health by reduction or elimination of orchratoxin A contamination caused by mold.

Mold infection is a major concern (not only for coffee but for many other tropical crops). According to Vietnam's Post Harvest Technology Institute, about 18-20% of Vietnam's coffee was not qualified for export due to mold infection during the 2000-2002 period. The FAO project aims to help reduce that concern by addressing the storage, handling, and processing of Vietnam's coffee.