

# RISK IDENTIFICATION IN VIETNAM'S COFFEE PRODUCTION AND EXPORT

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## 1. Facts of Vietnam's coffee production and export

Vietnam is the world's second biggest coffee exporter behind Brazil with its main staple as Robusta coffee, total farm area of 491,000 ha and an annual output of 785,500 tonnes of coffee beans (from 2001 to 2005). Most of products are used for export (accounting for 95%) and local consumption 5%. However, the export value remains low due to unprocessed products. Although the productivity is rather large, the domestic transaction floor has not yet been established. Therefore, Vietnam's coffee selling prices totally depend on the securities markets of London and New York. This causes disadvantages to local producers and traders and a downward trend in coffee growing areas and output, as indicated in the following tables:

### 2. Risk identification

The natural environment is one of determinants to coffee products. This environment contains high risks, but coffee producers may limit them at most. They are derived from the following conditions:

Growing and harvesting coffee has a seasonal feature, so it's very hard to balance the supply and demand. In addition, the yield of this product still depends on land, soil, pests and natural conditions including: climate, weather, destruction degree of pests, the soil fertility... As a result, the coffee production always faces high risks. Just because of this, the farmers must deal with the common events "higher yield, lower price and vice versa". Nevertheless, there are sometimes irregular fluctuations, so it's hard to forecast prices.

In Vietnam, the coffee crop lasts from October to September of the following year. It is harvested from early October to December annually. Major coffee growing areas of Vietnam have the tropical monsoon climate and two distinct seasons: rainy and sunny one. The rainy season starts from April and ends in November, and the following sunny season lasts from November to April of the next year. However, the rainy season is sometimes longer or shorter. Consequently, long-lasting rainy seasons cause bad effects on coffee output and quality due to inappropriate drying. Most of coffee planters are households with low productivity and less capital; thus, they cannot invest in post-harvest technologies and their product quality wholly

ganization and to mobilize outside factors to promote the development of the organization. This research may be a contributor to 100 year-old ceremony of Bạch Mai hospital – the only hospital fighting with SARS and bird flu in Vietnam, which helps Vietnam be recognized by the World Health Organization to be the first country, free of SARS.

As historians say "the history which remains is the history of the winner", what remains in the literature and in the memory of the following generations would be all of this appreciation.■

### Notes:

[1] Some figures are not described in money terms; they are described in expense terms.

[2] Estimation from Japan International Cooperation Agency (2002): page 129, 130

[3] Japan International Cooperation Agency (2002): page 89

[4] Estimation of the data from Japan International Cooperation Agency (2002)

[5] Japan International Cooperation Agency (2002): page 102

[6] Japan International Cooperation Agency (2002)

[7] Estimation of data from Japan International Cooperation Agency (2002)

[8] Japan International Cooperation Agency (2002): page 99

[9] Japan International Cooperation Agency (2002)

[10] Analysis of data from Japan International Cooperation Agency (2004)

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**Table 1: Coffee growing areas from 2001 to 2005**

| Year            | 2001  | 2002  | 2003  | 2004  | 2005  |
|-----------------|-------|-------|-------|-------|-------|
| Area (1,000 ha) | 565.3 | 522.2 | 510.2 | 496.8 | 491.4 |

**Table 2: Coffee output from 2001 to 2005**

| Year                  | 2001  | 2002  | 2003  | 2004  | 2005  |
|-----------------------|-------|-------|-------|-------|-------|
| Output (1,000 tonnes) | 840.6 | 699.5 | 793.7 | 836.0 | 767.7 |

relies on the weather condition. On the other hand, after harvest coffee trees will soon blossom if caught in rains and long rains will destroy their pollination and lead to crop failure in the following year. In addition, when the sunny season comes early, it may easily cause draught and hamper coffee blossoming.

Coffee trees often suffer common diseases caused by fungi, worms and bugs.

The social environment: Factors from the social environment also give rise to rather high risks:

Coffee prices cannot be exactly estimated and thus result in very high risks. The prices are fixed by market participants in accordance with factors in the natural and social environment. They are also based on the world prices and their changes in each day, each hour or even each second. The price fluctuation depends on psychological factors of participants on the transaction floor. The price listed on the transaction floor is a foundation for trading prices outside the stock exchange. They also depend on the manipulation of international speculators. The speculators often hold a lot of information about coffee products and they always launch any information which is beneficial to their profit hunting. The fluctuations in coffee prices may sometimes bring huge profits to traders as well as unbearable damages. In Vietnam, the coffee trading occurs all year round and prices are derived from the securities of London and New York. Most of coffee planters and traders are faced with the pressure of these markets, and they also encounter disadvantages due to lack of information.

In 2001, the Ministries of Commerce and of Agriculture did not make careful study on the world's coffee output and demand in that period and did not implement full assessment of the international speculators' price manipulation. Therefore, they suggested the Government to decide on coffee stockpiling. Finally, most of businesses incurred big losses. Regarding producers, this was the first time prices fell to the bottom.

Coffee cultivation in Vietnam remains spontaneous, unorganized and unplanned, so its changing areas depend on producers' will.

Coffee quality is still low because most of producers are small and dispersed. Their investment in post-harvest technologies is not significant, so it's hard to procure a large volume of coffee for export in a specific time.

Most of coffee growing areas and semi-processing units are far from shipping ports. This causes delays of delivery and higher costs due to reprocessing.

There is unfair competition in the market, leading to bankruptcy, contract breaching and thus bad effects on honest traders.

Vietnamese exporters often give way to foreign rivals due to their small capital and ineffective management. These foreign traders understand well Vietnam's coffee growing areas, output and selling practice of local producers and traders, so they always buy coffee at lower prices.

### 3. Risk analysis

For producers: they may suffer damages caused by pests and natural calamities. These are unchangeable objective factors. In 2004, there was a serious draught lasting long and spreading in large areas, which resulted in big crop failure. In early 2006, pests caused the death of coffee trees in many production areas.

The price dramatic fall in 2001 pushed coffee producers to a deadlock. While the cost price of coffee was VND10,200 per kg at that time, the lowest selling price was only VND3,800/kg. This puzzled farmers and made them cut off their coffee plants and replaced them with another kind. On the other hand, most of them ignored their crop and thus gave no care.

For traders: They will take risks when they are incompetent in trading. They do not know how to apply modern methods or use derivatives wrongly and thus incur losses. For example, Vietnamese traders suffered big losses in 2000 and 2001 due to their failure in futures trading.

Farmer's destruction of coffee plants in 2002-2003 and the crop failure due to draught in 2004 made bad impacts on futures contracts of Vietnamese traders. Moreover, long and heavy rains caused damages to the product quality and delivery.

In short, coffee production faces a lot of complicated and hardly-assessable risks. Just because of this, coffee producers and traders should know how to minimize their risks. These above-mentioned risks have taken place over the past years. However, they may change indefinitely, so coffee producers and traders should attach very great importance to regular risk identification.■