Producing and exporting coffee have become a great business in Vietnam. From the 1998 - 1999 crop, however, falls in the export price of coffee brought this business to the brink of ruin in spite of the fact that coffee from Vietnam was sold to 53 countries. Realities show that developments of this business require a more efficient managing machinery for improving performance of state-run coffee companies. The following are our suggested measures to achieve this aim.

SOME MEASURES TO IMPROVE PERFORMANCE OF STATE - RUN COFFEE COMPANIES

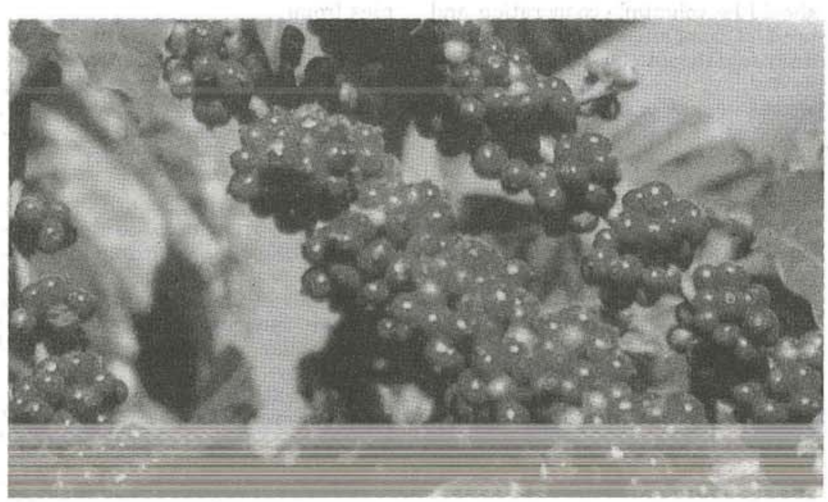
by BÙI THANH QUANG

1. Linking state-run coffee companies with local development plans

For the time being, coffee could be grown along with other plants (such as black pepper, longan or durian) with a view to making the most of the land. In addition, the area for arabica coffee could be increased at the expense of the area for robusta coffee.

At provincial level, associations of coffee businesses could be established. In provinces that produce coffee in large quantities, such as Dak Lak, a coffee corporation could be formed. It could be a joint stock or public limited company that offers shares to the public with a view to building modern processing factories. The corporation should cooperate with research institutes to introduce new techniques to all stages of production, from planting, harvesting, processing and packing for export.

The Government could establish a coffee exchange market in Buôn Mê Thuột or HCMC, open a commercial office at the London Commodity Exchange, launch a program to research post-harvest techniques financed by the Export Promotion Fund accord-



ing to Decision 195/1999/QĐ-TTg made by the PM on Sep. 27, 1999, and set standards for coffee for export.

A market research institute could be established to predict possible changes in prices of farm products, including coffee, especially long- and medium-term changes. This institute helps traders of farm products make long-term plans and government adopt new policies more suitable to the changing market.

Processing factories could be built near sources of supply and their building should be approved by relating ministry. Certain modern factories could be built by selling shares to workers in the coffee industry with the aim of producing coffee products of high quality for export.

Local government could take measures to help small coffee planters buy simple machines for husking and drying coffee bean. It's worth noting that 80% of coffee output is supplied by private planters, so the first processing stage done by them is of great importance to the quality of coffee.

State-run coffee export companies could develop a network of purchasing offices to ensure reasonable income for private planters and stabilize the market price of coffee. One of difficulties facing these offices is the lack of warehouse, so this measure requires big investments.

2. Applying technical advances

Modern farming techniques should be applied to protect and enhance the fertility of the soil and the ecosystem. To improve the product quality, planters should use new strains of coffee, organic manure and micronutrient fertilizer and apply intensive farming techniques.

3. Stabilizing market price and supply of credit

State banks should ensure necessary credit for state coffee companies and supply interest-free loans to planters who want to invest in husking and drying machines.

Two alternatives are available for the formation of a fund for farm products stabilization: the first is to require planters to contribute to this fund and the second is to turn part of super-profit from export of coffee into this fund. The super-profit is determined by difference between the export price and the ceiling of purchasing price.

4. Reforming the labor contract between planters and coffee companies

At present, state-run coffee companies that own coffee plantations or land usually allocate pieces of land to planters on condition that planters give a fixed amount of coffee (as a rent) to the company. If the coffee output is higher than the rent, the extra amount belongs to the planter who can sell it to the company. In addition, the planters also receive monthly wages and other benefits. One of difficulties when implementing this labor contract is the fact that the company can't know the export price at the time it buys coffee from planters and has to make payments in wages and other benefits. To deal with this problem, I think that the company could take the following measures:

- Setting a new rent because previous rents were based on low average yield of coffee: This act may reduce the planters' income, so the company can offer higher wages and better benefits, lower or exempt planters from the rent when natural disasters take place and has trade unions to take part in making decisions on benefits uses of company's funds.
- Making redistribution of income after coffee is sold or exported: After harvesting, planters should be allowed to decide on the sale of extra amount of coffee they retain after paying rent.
- In paying rent, planters could be allowed to make payments in cash and have full ownership of their coffee output. This is one of common dispute between the company and planters.
- Methods of converting fresh coffee to dried coffee should be worked out exactly in order to prevent commercial frauds. The company could reduce post-harvest expenses by encouraging planters to have coffee husked and dried before selling to the company. This policy allows planters to make the best use of their available labor and saves the company from expenses on warehouse and guard.
- Coffee planters could be exempt from income tax, because it's unfair to collect income tax on coffee planters while peasants growing other crops didn't pay it. Moreover, their average income in the past 10 years was only VND16 million per hectare. It isn't a high income in the coming years.
- Planters who enter labor contract with the state-run coffee company are allowed to enjoy social security scheme by paying 20% of monthly contributions and the company covers the rest. When profit is too small to cover this expenditure or maintain benefit, the company could apply for tax and bank interest exemption or reduction.
- Improving the laborers' living standards: The company could help workers of coffee companies develop animal husbandry business at their homes by providing them with youngling, feed and a starting capital. In addition, the company should invest in production of instant coffee and other high-quality products in order to increase its profit. Realities show that the instant coffee is still expensive when the price of coffee bean falls drastically (VND40,000 compared with 5,000 per kilo). Higher profit will ensure better living standard for workers.

5. Participating in local activities

The coffee companies could be developed into cultural centers according to Decision 35-TTg by the PM. They should help local government to provide local residents with better health care and education services because most coffee producing districts are in mountainous areas. They can give scholarship to the best students from the district and incentives to professionals who agree to work in the district with a view to preparing the next generation of workers for the company. It's planned that by 2010, each coffee company has a new pack of officials and some of them are postgraduates.

6. Helping solve social problems

The company should carry out properly the social security scheme as required by the state in order to ensure equal opportunities for all laborers from any sector. This scheme could help improve workers' saving rate that will be a basis for capital accumulation in the future.

7. Reforming the state management

- Organizing planter families into a system of satellites around the company and ensuring that the labor contract is carried out properly.
- Applying the same rent to planters of all state-run coffee companies and ensuring their participation in the company management.
- The relating ministries should inspect and supervise the application of these measures in state-run coffee companies.

Although state-run coffee companies control only 18% of the coffee growing area, they play a decisive role in the development of coffee business. To tap potentials of private planters, these companies should improve their performance in order to ensure equal distribution of income and enhance their competitiveness in the world market because it is a basis for further developments■