

A New Model for Coffee Production and Trade in Vietnam

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Globalization makes competition increasingly fierce on both local and international markets. Companies that want to stabilize and expand their business have to take all possible measures to secure firm footholds in the market and customers' mind as well. To achieve this aim, they should improve the product quality by making it suitable for customers' needs. Customers are even more demanding when consuming such products as coffee.

Vietnam is the world's second largest producer of coffee, second only to Brazil, and the biggest supplier of robusta coffee. The average output from Vietnam is some one million tonnes a year. Its earnings from exported coffee have increased steadily in recent years: US\$1 billion in 2006; 1.9 billion in 2007 and this figure, as roughly estimated, will top the 2-billion mark in 2008. This product plays an important role in the export value and requires proper attention.

In early 2008, the coffee price on the world market showed an upward tendency because the supply might reduce in the 2007-08 crop when the coffee output from Vietnam was estimated at some 70% of its output in the previous year. In addition, the American economic recession made speculators move from the finance market to the commodity exchange and pay more attention to such goods as coffee.

In late February, 2008, speculators increased their purchase making the price of robusta coffee price on the LIFFE rise to US\$2,610 per tonne at times. This price is almost equal to the peak of US\$2,660 per tonne es-

tablished in May 1997. On the domestic market in late February, the coffee price amounted to some VND38 million per tonne at times.

How long will the price stay so high? Answer to this question depends on various factors, such as harvest time, policies adopted by coffee-exporting countries, mentality of consumers, strategies adopted by agents in the market (especially speculators), and etc. Under whatever effects be whatever factors, improvements in the coffee quality and trading strategies by Vietnamese coffee traders will always produce good effects on the coffee production in Vietnam.

1. Coffee production and trade in Vietnam

The coffee production in Vietnam is of a very small scale and based on family businesses. Coffee is supplied by various plantations with the result that the product is not of the same quality. As a result, it's very difficult to make more investments in application of technical advances, especially post-harvest techniques, with a view to improving the product quality. This situation also makes it difficult for coffee traders to control the quality of their goods, make decision on their selling prices and apply modern trading techniques.

Although the Vietnamese coffee quality has been improved in recent years it is still much lower than the international standard. This difference may come from shortcomings in production management, such as:

- Small production and unruly development of coffee cultivation,
- Obsolete farming techniques,

- Coffee planters fail to modernize their techniques,
- and etc.

This situation prevents coffee planters from investing more money and energy in their business with a view to improving the product quality that reflects in the following aspects: high percentage of broken, decaying and moldy bean; high percentage of unwanted substances; widespread fermentation; and small size of coffee beans.

As for trading techniques of coffee trading companies, there are also many shortcomings:

- Failure to make the best use of derivative instruments of the coffee trading: Some traders have tried to make use of them but their efforts are only in a trial stage.

- Failure to handle sources of information: Most traders have to depend on buyers and brokers for information process.

- Heavy dependence of guess and chances: Most traders tend to wait longer when the price goes high and hope for some recovery when it goes down. When the price falls uncontrollably, they usually sell off their stock to cut losses thereby making the price fall further.

2. Measures to develop vertical integration in the coffee business

In spite of various shortcomings, the coffee business in Vietnam still enjoys some advantages, such as:

- Huge output allows Vietnam to have great effects on the world market.

- Robusta coffee has become as attractive as the Arabica coffee in the eyes of consumers.

To make the best use of these advantages and develop famous brand names, coffee producers and traders should improve the product quality and trading techniques. The following are suggested measures to achieve these aims.

a. At macroeconomic level

- Standards for commercial coffee must be developed and established in order to encourage coffee producers to improve their product quality.

- Coffee trading centers should be established in order to provide producers with technical assistance and trading techniques needed for management and development of their companies. These centers can develop into commodity exchanges where competent managers and businesspersons work together to ensure high profit for their business in both domestic and foreign markets.

- Various incentives can be used for encouraging planters to make long-term plans for coffee production.

- Tax incentives and financial support can be offered to coffee planters and companies that want to innovate their production lines and apply technical advances.

- A coffee information network of national level should be developed by cooperation between authorities and businesses. Full attention must be paid to information from countries that export or import coffee in large quantities. Vietnamese embassies in these countries should play important and active roles in this effort.

- Coffee companies should build national brand names for their products. More investment should be put in this effort in order to ensure firm footholds for Vietnamese coffee in foreign markets.

- The role of the Vietnam Coffee and Cocoa Association must be beefed up.

b. At microeconomic level

- Coffee producers must make plans to enhance their product quality by their own instead of relying on help from authorities. They should apply new techniques when caring their plantation and get ready to carry out experiments with new strains of coffee that can produce better yield or products.

- Coffee planters can form cooperatives in order to secure better sources of finance needed for new investments and produce coffee bean of the same quality, which helps establish brand names for their products. In addition, such cooperatives can provide them with chances to exchange experience in production and avoid unnecessary competition for market shares.

- At present, most producers, or planters, have no facilities for processing their crops while coffee companies specialize in processing coffee bean to make finished goods. They should develop some form of cooperation in order to enhance the product quality and prevent damage for coffee bean after harvest. Close cooperation can help them sell their products at better prices by shar-

ing necessary information about coffee consumption in the world market.

- When coffee trading centers come into being, producers and traders should take part in these centers in order to find effective ways of selling their products.

- Coffee traders should make studies of trading techniques and practices employed by foreign traders in order to integrate more actively into the world market and ensure better market shares for the Vietnamese coffee.

3. Conclusion

To build brand names for Vietnamese coffee on the world market, it's necessary to rearrange the coffee production network in order to make goods appropriate to consumers' demands. This effort requires a strict and effective control of the product quality in all stages of production, from growing coffee trees to delivering finished goods to end users. This means that the production of coffee must be carried out on a larger scale and closely linked with factories that process coffee and make finished products. I think that a model of vertical integration can help coffee producers and traders improve effectively their product quality. ■



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