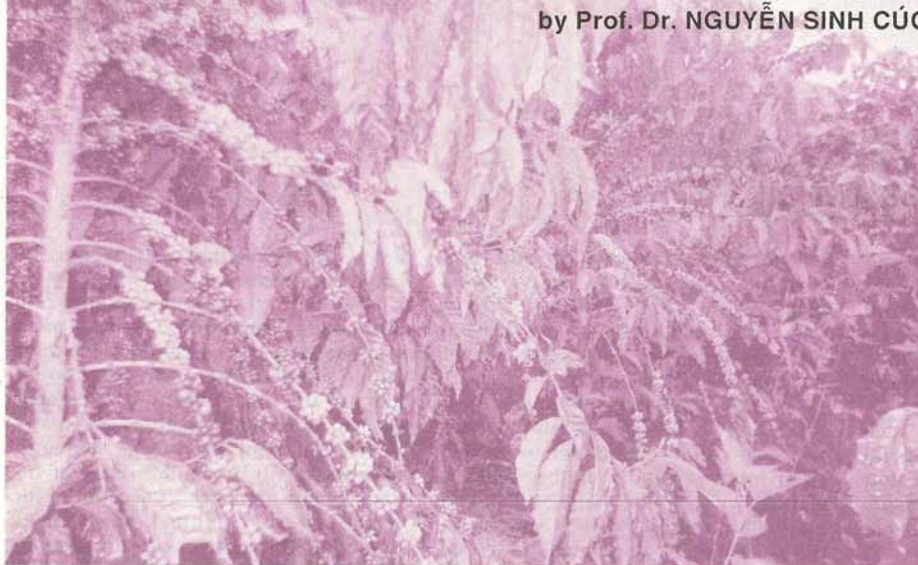


# COFFEE EXPORT SITUATION AND POTENTIAL DEVELOPMENTS IN 2003

by Prof. Dr. NGUYỄN SINH CÚC

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## 1. Situation of coffee export during the economic reform

Of farm products, coffee is the Vietnam's second biggest foreign-exchange-earner after rice. Before the economic reform, it was exported in small quantities (only 9,200 tonnes in 1985 for example), mainly to the USSR and the East European bloc. The economic reform launched in 1986 helped increase the export volume, from 16,800 tonnes in 1986 to 89,600 tonnes in 1990, 248,000 tonnes in 1995, 694,000 tonnes in 2000, 910,000 tonnes in 2001 and 711,000 tonnes in 2002. From 2000 to 2002, Vietnam was the world's second biggest exporter of robusta coffee after Indonesia, and the third biggest exporter of coffee in general. Along with increases in the ex-

port volume, the quality of Vietnam's coffee has been improved remarkably. Vietnamese coffee is sold to some 50 countries and territories and its biggest buyers are Singapore and Hong Kong and it has entered such demanding markets as Japan, North America and the EU.

These achievements have their external and internal causes.

- Vietnam has natural conditions favorable for coffee planting, especially in the Central Highlands and Eastern South while the world market demand for coffee was on the increase in the past few years.

- The economic reform opened new opportunities for coffee production and export. The coffee area and output have increased fast since 1976, especially after the economic reform. In 1976 there were only

19,000 hectares of coffee producing 6,100 tonnes of coffee bean. Those figures were 65,600 hectares and 18,800 tonnes in 1986; 430,000 hectares and 680,000 tonnes in 2000 and 565,000 hectares and 841,000 tonnes in 2001. Provinces leading the way are Dak Lak, Lâm Đồng, Gia Lai and Đồng Nai.

Some 95% of Vietnam's coffee output is exported. The export volume made a ten-fold increase in the years 1990-2001. In years when the price of coffee rises, the coffee export value was higher than that of rice. In the years 1995-98, rises in the coffee price led to a rush on land for coffee in Central Highlands. Thousands of hectares of forests in the Highlands and Eastern South were converted into coffee plantations every year and coffee planters made rich quickly because

the price stayed high for several years. People from many provinces, including HCMC, invested in coffee in Central Highlands with the result that the average yield rose from one tonne per hectare in the early 1990s to 1.5 tonnes in 1996-2000. That was why the coffee output rose to 910,000 tonnes in 2001, the highest level ever seen.

In the years 1999-2002, the price fell so remarkably that coffee was replaced with other crops. The coffee area fell to 535,000 hectares in 2002 and coffee output to 699,000 tonnes. In early 2003, the price started to rise but the output stayed the same. The coffee production has been affected greatly by changes on the world market where the supply has exceeded the demand.

Some 75% of the world coffee output is of the arabica strain and the rest is of robusta one. In 1990 for example, the world exported coffee was 4,788 million tonnes that was worth US\$6.73 billion; and 95.2% of this volume was raw coffee bean; 0.1% was roasted coffee and 4.7% was instant coffee.

The price of coffee on the world market isn't stable. The price of robusta coffee for example, fell to US\$600 per ton in 1992 and rose to US\$4,000 in 1994. In Vietnam the price of coffee in December 2000 fell to VND5,000 per kilo, the lowest level ever seen.

The export value depends the price on the world market. From 1999 to 2002, although the price fell the export value stayed high (US\$593.8 million in 1998 and 585.3 million in 1999) due to increases in the export volume. In 2000 the price fell remarkably but the export volume rose by 72% with the result that the export value topped the US\$500-million mark. From 2001 on, the increase in the export volume couldn't offset a 50%



**Table 1: Vietnam's export of coffee**

Crop	Export volume (1,000 tonnes)	Growth rate (%)
1992-93	130.5	65.0
1993-94	158.5	21.5
1994-95	212.0	33.7
1995-96	233.0	9.8
1996-97	346.0	48.5
1997-98	382.0	10.4
1999-2000	660.0	72.7
2000-01	910.0	37.8
2001-02	710.0	-22.0
2002-03 (estimated)	700-715	0

fall in the price. In 2002, the price increased slightly but it was still lower than the 2000 price.

With such an export volume Vietnam has great effects on the price of robusta coffee on the world market. In other words, the price of the robusta coffee varies according to the coffee output from Vietnam and Indonesia. In the process of integrating into the world market, the coffee business in Vietnam reveals many shortcomings that require suitable solutions.

## 2. Problems with the coffee business

- The biggest problem is the lack of a master development plan for the business. In the Central Highlands, the increase in the coffee area is unruly with the result that the supply exceeds the demand. Large areas of forest are destroyed and turned into coffee plantations, which damages the soil and forest resources and prevents intensive farming of coffee.

- Too much attention is paid to production of robusta coffee while the arabica one is more saleable on the world market. In recent years, some companies have made plan to increase the area of arabica coffee but their effort didn't produced intended



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results because of the lack of consistent measures.

- Most coffee planters and processing companies pay attention to quantity instead of quality, and as a result their processing and storing techniques saw no innovations and improvements and their product is mixed with complex matter.

- There is no cooperation between producers and processing factories and exporters. The best part of coffee planting and processing is done by private persons and small-size concerns with the result that large quantities of coffee couldn't be sold. The government had to borrow money from bank to buy

the surplus for export in the future in many years. The shortage of market information hasn't been solved properly for years.

- The task of purchasing and processing coffee from plantations hasn't been carried out properly. The Vietnam Association of Coffee only controls part of output from plantations belonging to the Vietnamese Coffee Corporation while private traders purchase all coffee privately produced. There is an urgent need for a coffee export corporation of the same kind as the Brazilian CECAFE.

Due to these shortcomings, Vietnam's coffee is of poor quality, low competitiveness and not diverse enough. This means that the coffee business is facing great challenges in the coming international integration process.

## 3. Potential developments in 2003

There is hardly improvement in the coffee production and export businesses in Vietnam in the coming years because the world coffee price seems to kept changing. According to the IOC, the world coffee output in 2002-03 crop will reach 117.48 million packets (a packet is 60kg) increasing

by 6.3% in comparison with the last crop. The part of robusta coffee will reduce from 34.6% to 32.9% while that of the arabica coffee will rise from 65.4% to 67.1%. The Vietnam's output will be 10.3 million packets, two million lower, and ranks third after Brazil and Colombia. The world export volume in 2002 was 88.6 million packets reducing by 10% compared with 2001.

According to the CECAFE, the world export volume in 2003 is between 85 and 86 million packets compared with 88.6 million packets exported in 2002 because the Brazilian output reduces by 40.2%. This means that the Brazil's export of coffee will reduce remarkably in the second half of the year (the estimated reduction is 9% compared with 2002.)

In Vietnam, the output and export volume keep reducing: the export volume in the first four months of 2003 reduced by 28.3% while the value reached US\$161 million, increasing by 41.6% in comparison with the corresponding period last year. The fall in the coffee output is due to the prolonged drought in the Central Highlands (some 40,000 hectares have no watering). In 2003, it's estimated that the demand would be higher than the supply because falls in output and exports from Brazil and Vietnam. This means that the coffee area will increase again and forest destruction will be more uncontrollable in the Central Highlands. In 2004-05, the history will repeat itself because of the recovery of coffee production in Vietnam and Brazil. Coffee planters will suffer falls in price and their income when the harvest is good.

New policies and measures to beef up the coffee production and export businesses are never so urgent.■