

Coffee, one of Vietnam's staples, brings in an annual turnover of US\$400 million, second only to rice. Production of coffee has helped to develop mountainous areas, especially Vietnam's Central Highlands. The following are our estimates of coffee production and exportation in recent years.

1. ESTIMATES OF COFFEE PRODUCTION

1. Coffee output

In the 20-year period from 1976 to 1996, coffee growing area has made a fourteenfold increase, coffee output increased by 40 times (from 6,100 tonnes in 1975 to 240,000 tonnes in 1996). Thus after 20 years of development, the coffee business has contributed a lot to the socio-economic development of mountainous areas, and the Central Highlands to be precise. Coffee farming has helped to form new residential areas and towns and has helped many nomadic communities settle and get richer.

However, badly-prepared expansion of coffee growing area has led to the destruction of forest. In Daklak province only, from 1978 till now, around 114,000 hectares of forest (45,000 hectares of which are of primeval forest) were destroyed completely with the result that the environment was damaged and source of underground water dried up. In the 1994-1995 crop, there was a long drought in the Central Highlands leading to a shortage of water for coffee plantations, including many newly-planted coffee gardens. In addition, the expansion of coffee-growing area was carried out carelessly without any basic researches, and as a result, many coffee plantation could only produce coffee of low quality, and even couldn't yield fruits.

2. Coffee strains

Robusta and Arabica are two main strains of coffee produced in Vietnam, but the Robusta coffee represents around 90%

Coffee processing technique is considered as a factor determining coffee quality and price. At present, the coffee processing technique employed by coffee planters is very

Germany, Poland, Italy, Spain, Singapore and France.

- Proportion of high-quality coffee is on the increase.

MEASURES TO PROMOTE EXPORT OF COFFEE

by Prof. Dr. VÕ THANH THU

of the total output while prices of Arabica coffee on the world market is of 1.5 times higher than those of Robusta coffee. For example in January 1996, a tonne of Arabica coffee was sold at US\$3,600 at London market while a tonne of Robusta coffee brought in only US\$2,500. Climatic conditions in the Central Vietnam and mountainous provinces of the North are appropriate to the growth of coffee. To increase the Arabica coffee-growing area is a good measure to raise coffee export earnings.

3. Coffee growing and processing techniques

- Irrigation is an important factor affecting the coffee yield. Although many canals, lakes and reservoirs have been built, the irrigation system could only supply water to one fourth of total coffee-growing area. Many plantations have to depend on rain water. Many coffee planters have drilled for water with the result that the supply of underground water has been used up. In many districts in the Central Highlands and Eastern South Vietnam, a lot of wells have dried up and made local residents get into a difficult situation.

simple. Most equipment employed is made by local engineering industry so planters needn't make big investments. In addition, a low labor cost also helps to reduce the production cost.

However, the equipment and technology employed are obsolete, there is no skilled laborer and technical innovations aren't applied. These factors explain the low quality of Vietnam's coffee. Vietnam's coffee beans usually have mildew in rainy season because they are badly processed. That is why the price of Vietnam's coffee is usually US\$30-50 lower than the current prices accepted by the world market.

II. ESTIMATES OF EXPORT OF COFFEE

1. Achievements

- Coffee export earnings increased year after year. In the 1994-1995 crop, coffee exportation brought in US\$558.28 million, the biggest amount of foreign exchange earned by an agricultural product.

- Vietnam's coffee has been exported to 40 countries. Around 80% of exported coffee has been sold to markets with high standards such as the US,

2. Shortcomings

- Coffee trading and exporting businesses aren't under control. Coffee trading companies usually compete with one another to purchase coffee bean from planters or to obtain export quotas. They also tend to force planters to cut their selling prices.

- Lack of information about the world market has made the business performance of many coffee trading companies very poor.

- Private traders supply 90% of the amount of coffee for export but all 37 coffee export companies are under state ownership, that is, coffee export is still a government monopoly while the open economic policy adopted by the Party and Government is encouraging all social classes to produce and export goods.

- Many state-run coffee export companies operate inefficiently. In 1997, ten in 37 state coffee export companies haven't exported any tonne of coffee so far, some others have helped private traders export coffee or exported coffee without making profit because they wanted to be considered as important coffee export companies (as we know, in Vietnam,

companies that exported goods in large quantities would be selected as main exporters of the goods in question next years).

- Most coffee export companies lack working capital so their performance was very poor.

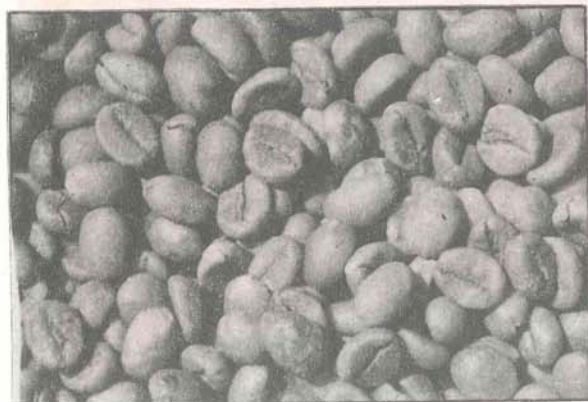
- It's worth noting that many branches of foreign companies are cooperating with private traders to purchase coffee and had state export companies act as export agents. This practice has caused a lot of trouble for the coffee market and reduced the price of Vietnam's coffee.

- The coffee business regulators failed to work out a long-term development project.

III. SUGGESTIONS ABOUT MEASURES TO PROMOTE EXPORT OF COFFEE

1. Objectives

- A master plan to develop the coffee business: the Government should zone areas for coffee growing. For each area, there must be plans to develop and modernize all production stages, from growing, harvesting, processing, packaging to exporting. The destruction of forests must be stopped. A plan to make new investments and attract foreign investment in this business must be made as soon as possible.



- Foreign market researches: Vietnam has to seek admission to the ACPC thereby gathering information about coffee supply and demand forces of the world market and importing new technology needed for the development of Vietnam's coffee production.

- Equal opportunities for all classes: The Government should create conditions favorable for the participation of all classes in the coffee business.

2. Suggestions

- To reorganize the mechanism for controlling

the coffee export business: The coffee business doesn't need to be a government monopoly, all social classes are encouraged to take part in it. This deregulation will have two stages:

(1) In the 1997-1998 crop, an amount of private companies will be supplied with export quota on coffee. They must have export licences granted by the Ministry of Trade and have exported, through state export companies, at least 4,000 tonnes of coffee in the last two crops, and they must be members of the Vietnam Coffee Association.

(2) From the 1998-1999 crop on, the government monopoly on coffee export will be removed, all companies are allowed to export coffee directly.

b. To supply working capital to the coffee export business:

The following measures could be taken to provide the coffee business with long-term capital:

- To equitize certain state-owned coffee plantations and coffee processing plants which are making profits.

- Certain parts from the government fund for public investment, from anti-poverty fund and fund for highland settlement

could be transferred to companies that run coffee plantations.

- To use agriculture aid from foreign governments to supply soft loans to coffee companies.

- To develop rural banks and credit unions in coffee-growing districts.

- The Government should ensure 30% of working capital for coffee export companies as required by the Decision 59/CP (issued on June 5, 1997) on the strategy for export promotion.

- Local residents can work as tenant planters in state-run coffee farms.

c. To stabilize the coffee market:

Most countries buying coffee from Vietnam impose no duties on imported coffee, and in the world market, the demand for coffee is great and on the increase, therefore Vietnam can easily develop its coffee export business, however, a concerted effort must be made to standardize coffee bean for export.

In short, to promote the coffee export is a strategic task that helps not only to ensure even development over zones and industries, but also to integrate the Vietnamese economy into the world market.

