

Orientations of Vietnam Coffee Industry

**Speech by Mr. Doan Trieu Nhan
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It is common knowledge that coffee prices have been rapidly depressing all over the world since the beginning of 1999, which adversely affects producers' benefits. Being a great coffee producer with its annual production of over 10 million bags, Vietnam is also under the influences of this price "turmoil".

At this international conference, we should like to briefly introduce the development history of Vietnam coffee industry. We hope that with this brief introduction you can still have a clear overview of all challenges and pressing requirements facing Vietnam currently. And we hope to have the kind considerations, cooperation and assistances from coffee producing community as well as importers all over the world.

I. Developments of Vietnam coffee industry

Vietnam coffee in the last few years has been characterized by its rapid developing speed. Since the first coffee tree was introduced to Vietnam in 1857, next 2000 will be the 145th year of coffee history in Vietnam. However after a very long trial period of studying the potential of coffee growing in Vietnam, not until 1910 or 1911 did people expand coffee plantation in different places with business target. That still didn't create any better situation for coffee development and over half a century later, in 1975, the total area under coffee remained at around 20,000 ha with the production of between 5,000 and 7,000 tons of green coffee.

It is amazingly just 25 years ever since and the total coffee area is now 500,000 ha, mainly under Robusta coffee, with annual production of over 700,000 tons. Therefore, we can say after 25 years Vietnam coffee industry has its area soaring 25 times and 100 times in production, i.e. 4 times in productivity. Beside the main proportion of Robusta coffee, Vietnam is now focusing on an Arabica development program in different suitable areas.

Why could Vietnam obtain such achievements? We can take the followings as rather sufficient reasons:

1. Suitable climate and soil conditions for coffee growing

Since 1975 in Vietnam we has been conducting the coffee development program in Western Highland provinces such as DakLak, Gia Lai, Kontum, Lam Dong; in some Southeastern provinces as Dong Nai, Ba Ria –Vung tau, Binh Phuoc... and some Central Coastal areas. Coffee is mainly grown on basaltic red soil with high natural fertility and thick soil layers. These areas are also characterized by hot and moisture climate, that is very suitable for Robusta coffee. Western Highland is commonly with 2 separated seasons: wet and dry seasons. The dry season lasts for 4 to 5 months, and sometime even 6 months, starting in November while coffee is harvested until April, at the blooming period of the next crop. In dry season, there is an advantage of harvesting coffee during sunny period, thus few black beans and mould found, and farmers can take full advantage of the sun light for quick drying, and little fuel and equipment needed...

But there are also adverse effects, it is difficult for coffee tree to bloom, create cherries as well as maintain the fruits. That's a reason why the productivity was not very high.

With a view to make full use of the advantages and overcome the disadvantages, Vietnamese growers are now watering their coffee plantation in dry season. People have worked out a method to definite the period for watering, the frequency, and the amount of water used in order to adjust the Robusta coffee to blooming and creating cherries at the right time and maintaining the good development of the cherries.

By now, with good care and adequate application of fertilizers, we now achieve very high productivity of 3 or 4 tons/ha, even 5 tons/ha in some places.

It is noteworthy as well that the common climate of Western Highland is mountainous tropical with most of coffee plantations on the altitude of 500 to 700m. The differentials between temperatures of day and night are really high, which is very good for the accumulations of coffee, resulting in high quality and good aromatic flavor. That is why it is obvious that Western Highland Robusta coffee is found attractive and favorable. The coffee is normally called Buon Me Thuot coffee, with Buon Me Thuot is the name of the center city of Western Highland. This is similar to the famous Mocca coffee, with its name taken from Mocca Port on the Pink Sea.

Beside Robusta coffee grown in the South, Vietnam has a very great potential of growing Arabica in the North. It is thanks to Vietnam's good geographic and climate conditions for coffee cultivation. As the main land of Vietnam is located on the Northern hemisphere, spreading along the meridian for nearly 15 degrees latitude, from 23⁰22' to 8⁰30' North latitude. The borderline between the North and the South is Hai Van mountain pass of over 1.000 m high on the 16⁰14' North latitude. Hai Van mountain pass, starting from the end of the North Truong Son range in the South of Thua-Thien-Hue province, leading toward the sea, is a huge wall to prevent the Northeastern monsoon, and splits Vietnam into two different climate areas: ***The South***, belongs to the hot and moisture tropical climate, is suitable for Robusta cultivation; and ***the North***, with cold winter and showers, is suitable for Arabica cultivation. The North is now the main land under the plan of Arabica coffee development.

2. Policies made by Vietnam Government have been radically innovated with the view to facilitate the developments of production and trading. Some important policies include multi-section economy orientation and shifting; allowing house-holds and small farm-owners to have their own coffee plantations; handling land usage right to farmers; and many new investment and loan policies along with national socio-economic programs such as accommodation and cultivation settlement, hungry elimination and poverty reduction, forestation...

Vietnam Government has also taken steps to encourage foreign investors to put their money to production and trading within Vietnam. There are now 3 big trading groups doing their businesses in Vietnam including ED & FMan, Newman Groupe, and O Lam and they are finding themselves under favorable conditions provided by Vietnam Government. These innovation policies are seen as the advantages for the rapid development of coffee industry over the last few years now.

3. *Great encouragement by the market*

During 1994 till 1998 world coffee prices were quite high, that attracted farmers to expand their plantations for coffee, that led to very quick increase in coffee area. There were years in which the total area under coffee soared by between 20.000 and 30.000 ha. And a dramatic boom in total output was the result. In 1995/96 crop, Vietnam produced under 400,000 tons of coffee but in the last crop 1999/2000 the number jumped to 700,000 tons, i.e. doubling within 5 years.

Therefore we can say it is the high price on the market that encouraged Vietnamese farmers to expand their coffee so much and so quickly out of control of Vietnam coffee industry, and even not suitable with coffee development program drawn by the State.

Recently in some place there is a criticism that Vietnam should be the first to be blamed for the current tremendous depression of world coffee prices. This criticism is not completely right since such quick development is not a policy or program of Vietnam Government.

II. Challenges to be overcome

The rapid expansion of production is a strong point of Vietnam coffee industry but leads to some imbalances that need to be urgently taken into account:

1. *Imbalance between production and processing*

Because the total area under coffee has been growing too quickly, the amount of ripe cherries to be picked and processed has also been annually soared at an amazing speed. Thus, the need of more drying yards, processing stations, advanced technologies and equipments cannot be significantly satisfied, that leads to lower quality and cannot meet the requirements of the market. However, much has been done to tackle with this bad situation.

2. *Imbalance in product structure*

To be based on the geography of Vietnam, it is great potential for us to grow a rather large amount of Arabica coffee in the North. Yet the output of Arabica is still making up a very small part in the total production, which results in the product structure imbalance.

As every one knows, most of Vietnam's last year production of 700,000 tons is taken up by Robusta. Meanwhile the price of Robusta has been sinking much faster than of Arabica. Vietnamese coffee industry is therefore facing a bigger lost and finds itself in need of making some changes to be adapted with this ever-changing international market.

3. *Imbalance between production development and market expansion*

Every year Vietnamese coffee is imported by over 40 countries and territories all over the world, including big markets as the USA, Germany and EU member countries... However, with such a big annual production of over 10 million bags, much more attention should be paid to the issue of market expanding, both domestically and in other potential markets.

III. Strategy of Vietnam coffee industry

Although the current market situation is rather difficult for coffee producers and Vietnam is now facing many difficulties, coffee development programs are still carried out. We find it necessary to work out an adjustment for both short-term and long-term periods. This adjustment should be on the basis of different market researches. The key contents of the adjustment should focus on:

- Quality Improvement
- Production cost reduction
- Variety and product shifting, production adjustment to the market demands
- Vietnam coffee consumption promotion both in domestic market and to great potential countries
- Reorganization of production and export structure in a better scientific, effective, modern and steady way

1. Quality Improvement for Vietnam coffee

- We firstly need to complete the set of Vietnam Coffee Standards in accordance with the International Standards, market demands and in order to protect the interests of Vietnam coffee industry. A set of coffee standards started to be set up in 1983, and in 1987 it is approved and issued by the State with Coffee Terminologies and Definitions, Export Coffee Technology Standards, and standards on packaging, labeling, storing, transporting... By now there have been some amendments and supplements but it is still necessary that we take completion steps before it can be issued officially and can be referred to in every coffee contracts.

- The technique of coffee harvesting, drying, processing and storing etc should also be improved. Vietnam Government is now considering to approved a project on processing of the whole Vietnam coffee industry and it is planned to be carried out within the next 2 years.

- It is necessary to do researches to transfer advanced technologies to farmers with GAP and GMP methods; as well as research on preventing mould formation, especially Ochratoxyn A.

- Programs on organic coffee, gourmet coffee and specialty coffee should be taken into account as well.

2. Production cost reduction

This is the key factor to boost the competitiveness of Vietnam coffee. Thus we should work out the investment at the most suitable level which bringing about the most economic effectiveness.

One of the ways to reduce production cost is replacing the current varieties with ones of better growing strength, higher resistant to pests and diseases, and higher yield.

Another method is recalculating for a most appropriate amount of fertilizer and water to be used.

And it is necessary to work out the most suitable productivity for the highest economic effectiveness (rather than highest productivity).

3. Variety and product shifting, production adjustment to the market demands

This will make a big change to coffee industry. In the last few years, Vietnam coffee growers expand their coffee plantations in a spontaneous way without complying with Government's guidelines and plans. Robusta coffee is grown everywhere possible, from hillsides to hilltops. And Robusta is chosen since they find Arabica coffee growing need more seedlings but not as resistant to diseases, so require more investment, more cares

and more complicated processing method. That's the reason for the undiversification of Vietnam coffee product.

In order to cope with market changes both in the long-term and short-term, Vietnam coffee industry has carried out studies for the adjustments on area, production, and Robusta-Arabica proportion structure to the whole industry. All the new plantations outside the planned area with unsuitable soil and hydrographic conditions and with weak growing, low productivity will be erased. Robusta plantations in places better suitable for Arabica will be replaced by Arabica. It is still encouraged to develop Arabica coffee in suitable places as middle lands and mountainous areas in the North.

Therefore, in the next few years Vietnam will have around 300,000 to 400,000 ha under Robusta coffee and around 100,000 ha under Arabica. The total production will then be around 600,000 tons, i.e. 10 million bags, in which 7,5 million bags of Robusta and 2,5 million of Arabica. The remaining cultivation land in coffee areas will be used for pepper, fruit trees etc. depend on conditions of each area.

During such adjustment we need also take much care of high value products as organic coffee, specialty coffee and gourmet coffee etc. As regard to our traditional export coffee, Vietnam has long been exporting solely green coffee. So we should make some adjustments to produce more of other value added products as soluble coffee and roasted coffee etc.

4. Coffee consumption promotion in the domestic market as well as to great potential countries

Vietnam has a population of approximately 70 million people and the per head consumption capacity is merely of 0.2 to 0.3 kg/head/year. With a promotion program conformable to the normal income of the people, Vietnam is managing to achieve the average capacity of 1 kg/head/year. In the next few years, with the total population increases to 100 million people, the total domestic consumption is estimated at 100.000 tons. The remaining 500.000 tons of Vietnam annual production will be for exports. With this strategy, Vietnam is striving to contribute to harmonize the coffee supply-demand balance.

5. Reorganization of production and export structure in a better scientific, modern, effective and steady way

Being a not-very-long comer to the world coffee industry, with actually over 15 years after entering into the production of coffee, Vietnam should still have so many things to do and to learn. One of them is to find out how to establish a good management structure as well as what are the main functions of a Coffee Board and Association etc. And the first to be done in the coming time should be to work out a most effective and advanced industry structure since this will create favorable conditions for the industry to develop. We have also thought of establishing a coffee future exchange in Ho Chi Minh City, Vietnam but this need more studies.

Another thing to be taken into account is the establishment of Coffee Fund.

Ladies and Gentlemen,

These are some brief information on remaining difficulties facing Vietnam coffee industry recently. That's difficulties of a rapidly developing but inexperienced coffee industry with only less than 20 years in coffee industry. We therefore wish to have the considerations and helps from international organizations and friend countries./.