

Vietnamese Coffee Industry after 5 Years' Crisis and it's Future Orientation

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Four years ago, in May 2001, the 1st World Coffee Conference was held in London, in which many important issues of the world coffee industry were raised. The role of coffee industry in Latin America, Africa and Asia has been dealt with. Changes in supply and demand of coffee which strongly impacted upon market price were also interested. Many reports on coffee science and technologies, especially in the field of coffee and health were also mentioned in this conference.

Four years have passed, we were witnessing a lot of fluctuations in the world coffee market and the over supply crisis caused bad effects on livelihood of coffee growers and of other ones related to coffee production in the world.

Being a coffee producer country, annually supply to the market from 12 to 14 million bags (60 kg/bag) of Robusta green coffee, Vietnamese coffee industry has experienced many difficulties from the crisis. But through such difficulties, Vietnamese coffee industry gained much experience to create a suitable orientation for coffee development, conform to the benefit of the world coffee community and bring back great effect on coffee sector of Vietnam also.

I. Rapid development of coffee production in Vietnam is highly appreciated achievement but there are still shortcomings need to be overcome

Coffee production in Vietnam began from early 20th century. Up to now, over 100 years have passed but the coffee industry has only just actually developed both in widening of area and raising of output capacity for recent 25 years. Through a quarter of a century, Vietnamese coffee industry's production has risen 100 times and became the second largest producer country in the world.

Some features of coffee production in Vietnam

1. Due to the fact that there were not effective measures to control leaf rust so in the early 80s of the 20th century, Robusta coffee was chosen for the project of coffee area enlargement.
2. Referring to planting technique, the orientation of industrialize coffee planting was chosen, that is planting with high density, high volume watering and oversupply of fertilization, without shade trees in order to

obtain maximum yield, thorough exploitation of production capacity of Robusta coffee trees under humid and hot weather conditions in the southern Vietnam. Therefore, many coffee plantations in Daklak, Gia Lai, Kontum, Dong Nai have the yield of 3 - 4 tons per hectare, even some plantations got the yield up to 8 or 9 tons per hectare.

**Coffee Area, Production, Export figures
From 1980 to 2004**

Year	Total Area	Trading Area	Average yield/ha (tons)	Total production (tons)	Export (tons)	Total price (USD)	Unit price (USD/T)
1980	22.500	10.800	0,78	8.400			
1981	19.100	9.500	0,49	4.630	4.600		
1982	19.800	9.100	0,51	4.600	4.600		
1983	26.500	9.100	0,44	4.000	3.400		
1984	29.500	19.100	0,65	12.340	9.400		
1985	44.600	19.800	1,03	20.400	23.500		
1986	65.600	26.500	0,84	22.140	26.000		
1987	92.300	29.400	1,15	33.820	30.000		
1988	119.900	44.700	1,07	48.000	45.000		
1989	123.100	65.600	0,95	62.100	56.900		
1990	135.500	92.300	1,00	92.000	68.700	59.160.000	861,14
1991	135.000	111.900	1,06	119.000	76.800	65.437.000	852,04
1992	135.000	123.000	1,11	136.000	87.500	63.682.000	727,79
1993	140.000	135.500	1,04	140.500	124.300	113.000.000	909,09
1994	155.500	135.000	1,34	181.200	163.200	320.000.000	1.960,78
1995	205.000	135.000	1,81	245.000	222.900	533.524.000	2.393,56
1996	285.500	140.000	2,00	280.000	248.500	366.200.000	1.473,64
1997	385.000	155.500	2,57	400.000	375.600	479.116.000	1.275,60
1998	485.000	205.000	2,00	410.000	387.200	600.700.000	1.551,39
1999	529.000	285.000	1,75	500.000	646.400	563.400.000	871,60
2000	533.000	385.000	1,87	720.000	705.300	464.342.000	658,36
2001	535.000	485.000	1,86	900.000	844.452	338.094.000	400,37
2002	500.000	450.000	2	750.000	702.017	300.330.686	427,81
2003	450.000	420.000	1,71	720.000	693.863	446.547.298	643,57
2004				900.000	889.705	576.087.360	647,50

Source: VICOFA

Total 15 years from 1990 to 2004:

6,493,700 T

6,236,437 T

Production:

Export:

5,289,620,344 USD	Turn over:	
price: 848.18 USD/T	Average	unit

3. Processing technology: Mainly dry processing to use full advantage of solar energy in dry seasons in central highland of Vietnam. With high benefits from market price, during 1994 - 1998, farmers in many provinces grow coffee massively and the development of coffee production has gone beyond the government's control, beyond the bounds of coffee project areas. It caused imbalance with other plants, and more importantly, it caused unreasonableness in using of land and water resources.

In widening as such areas of Robusta coffee in a short period of time, coffee plantations have covered over five hundred thousand hectare of fertiled red bazalt soil in the central highland and in the South Est, influenced other plants' development projects, such as rubber, pepper, cocoa, cashew, etc,... and a big problem is that in every dry season, quite a big amount of pure water must be used for watering coffee, which consumes much of underground water in the coffee areas. In the last drought season, to save thousands of hectares of coffee, some provinces had to leave out thousands of hectares of water rice to reserve water for coffee.

Such are disadvantage points of the coffee industry. Besides, every year Vietnam supply to the market a big amount of about one million tons of Robusta green coffee which greatly impacted on the demand - supply balance and market price in the world coffee market. It caused difficulties to not only approximately one million of coffee growers in Vietnam but also to 25 million of coffee growers in the world.

From the crisis, coffee sector itself has drawn useful lessons for the benefit of Vietnamese coffee industry as well as of the world coffee community. It is necessary for us to readjust the coffee strategic orientation toward sustainable development. Hence the coffee price fell too low, farmers' income dropped and they did not have the capital to meet their living costs or reinvest in their plantations. And as the matter of fact that coffee had to be sold at low price, or sometimes lower than production cost, farmers were not excited to produce coffee any more. Coffee trees were neglected and even replaced by other trees. This is the ever desolate view of Vietnamese coffee industry after some years the coffee price boom record and begin to go down. It is also the reason why coffee in Vietnam, after some highest production years, began to fall. Spring -winter crop 2004/05 with heavy drought in central highland, the main coffee area of Vietnam,

coffee yield will be the lowest ever before. Crop of 2005/06 is forecasted to obtain about 10 to 10.5 million bags only.

Coffee export status in 15 years (1990 -2004)

Year	Production (T)	Export (T)	Turnover (USD)	Average Price (USD/T)
15 years 1990 2004	- 6.493.700	6.236.437	5.289.620.344	848,18
10 years before crisis 1990 1999	- 2.503.700	2.401.100	3.164.219.000	1317,8
Within 5 years' crisis 2000 2004	- 3.990.000	3.835.337	2.125.401.344	554,16

Source: Vicofa

With such difficulties, Vietnamese coffee industry has reflected on this experience and define its properly policy to be in line with the changes of the market economy, that it is necessary to set up a coffee industry toward sustainable development in Vietnam

II. Orientation of establishing a coffee sector toward sustainable development in Vietnam

Firstly, to find out a suitable structure for production of Robusta and Arabica . At this time, Arabica coffee development was started in Vietnam, first and foremost, Catimor variety - a Hybrid of Caturra and Timor which can be free to coffee leaf rust is being used. Therefore, it is necessary for the structure of Robusta and Arabica to be considered carefully.

1. Production structure for Robusta and Arabica

Vietnamese climatic conditions enable both Robusta and Arabica coffee trees in some respective areas. The figure of Vietnam, with the mainland stretches along the meridian of above 15⁰ north latitude, creates favourable conditions for growing Robusta coffee in the southern hot and humid climate and Arabica in the northern mountainous moderate climate and some where of about 800 - 900 metres height of sea level in the south. In fact, the steadiness of Robusta coffee trees in Vietnam has been proved for many years. Climatic conditions such as high temperature and

heavy rainfall in the Central Highlands enable Robusta coffee trees to grow fast and produce high yields if it is watered in the dry season which also the time for flowering and fruiting.

Robusta coffee development in Vietnam, the potential of the fertile red basalt soil has been exploited. Labour is abundant and weather conditions are hot with a humid tropical climate. As a matter of course, it is necessary to take into consideration the relationship between Robusta coffee areas and water capacity. There are many huge unexploited areas in the highlands in Vietnam, especially in the North and North west of Vietnam where the climate is more moderate and would be suitable for Arabica coffee .

After some years investigated in Vietnam, several prospective and well-developed Arabica coffee areas have been formed. Such are north west areas, mainly in Dien Bien and Son La. The belt of land in the Central as in Phu Quy of Nghe An province, Khe Sanh of Quang Tri province and A Luoi of Thua Thien Hue province. In the South, Gia Lai, M'Drak, Dak Nong, Lam Dong and especially famous Da Lat city should be mentioned. The Bourbon coffee has good quality and is praised by drinkers. The aromatic flavour of Bourbon can also be compared with mild coffee in the Central America.

From this research, ineffective Robusta coffee should be reduced and Arabica coffee should be expanded in the areas which highly suitable for the ecological conditions in Vietnam. Such policy is very correct and necessary

That the key policy of Vietnamese coffee industry is to reduce itself both coffee areas and coffee production. Annually, Vietnamese coffee industry only supply a reasonable amount with high quality of green coffee to the market to meet consumers' demand. This is the orientation of Vietnamese coffee industry to integrate the world coffee market.

2. Some key techniques need to be paid attention

To overcome previous shortcomings, Vietnamese coffee industry focuses on establishment of agriculture toward eco-friendly and bio-diversify production.

Coffee producers will not invest for the purpose of highest yield by using much chemical fertilizers and much water for irrigation in the dry seasons, cutting down shade trees, etc,...At the same time, considerations should be given to environment protection and food hygiene in processing.

- Coffee plantations should be designed in a way that to avoid soil erosion
- Shade trees for coffee need to be associated together with diversified product

- Instead of chemical fertilizers by using organic fertilizer and combine livestock breeding and plant-growing (where there are suitable conditions for breeding milk cows to provide manure for coffee plantations).
 - Appropriate methods should be used for coffee pruning.
 - Increasing of mulching and planting cover crops to conserve soil and water in the dry season, moderate and effective irrigation.
 - Harvest at the right time when coffee cherries are ripe; do not pick green, overripe, dry or falling cherries.
 - Limit environmental damage from coffee waste water treatment.
- Propaganda campaigns are facilitated to disseminate experience to farmers, the coffee industry has set forth a brief formula “3 terms of decrease, 3 terms of increase and one forbidden term”; of which:

3 terms of decrease are:

- Decrease chemical fertilizers;
- Decrease pesticide;
- Decrease water use for coffee irrigation.

3 terms of increase are:

- Increase shade trees;
- Increase organic fertilizer and
- Increase pruning.

One forbidden term is:

- Picking green, overripe or dry falling cherries is forbidden.

Besides, attention should be paid to register licenses and certificates required by consumers as by Utz Kapeh, organic coffee, the Rainforest Alliance, and also to eco-friendly production; to take part in coffee fair trade.

3. Improving Vietnamese coffee quality and producing value added coffee

This is one of the shortcomings that experts of the World Bank have pointed out in a report on Vietnamese coffee industry. Coffee processing, producing value added coffee should be more concerned and more invested. The World Bank also considered that Vietnam should produce mixed types of coffee together with Arabica. So the production cost of coffee would be lower and met the requirement of consumers. If the only raw coffee and less value added coffee product is produced and supplied to the market, the competitiveness of Vietnamese coffee will be impossible in the market economy.

4. Producing high quality coffee is an urgent need of Vietnamese coffee

With main product is Robusta coffee, Vietnam should focus on producing high quality robusta coffee as the project is funded by ICO in some countries of Africa such as of Cote Divoa, Ghana, etc...

Firstly, coffee processing must be improved, coffee quality should be better and stable which having prestige to attract consumers.

5. Promoting domestic coffee consumption

Domestic consumption of coffee should be promoted and concerned. To learn the lessons from Brazil, Colombia, Indonesia and India it is necessary to have a programme for promoting coffee consumption in Vietnam, priority encourage home consumers consuming more than one million bags of coffee every year. Conferences, exhibitions are Organized. Books, documents and newspapers are published to introduce subjects related to coffee and health, encourage people to drink more coffee, etc,... These works are. required much of time and efforts.

6. Concerning the social issues in coffee development programme

According to the data from General Department of Statistic in 2003, there were 561.000 households planted coffee, of which 46% were in poverty. 30% were ethnic minorities and in which 75% were in poverty. In the past few years coffee industry has brought back comfortable lives to many families. But now, the crisis left them unfortunate life and severe consequences. Therefore, ethnic minority people in some regions have to earn their livings from other crops as upland rice, corn, beans, etc,...

Coffee is considered not a kind of poverty-alliviation tree, nor the tree for the poor but only better-off households could invest in large coffee areas. The problem is that the coffee industry should take into consideration of creating jobs, increasing poor farmers' income in coffee areas,. This also help to eliminate hunger and reduce poverty.

The Government should invest in building coffee warehouses where the farmers can send their coffee in, make advance payment with a reasonable price to the farmers at the beginning of a crop year and sell it at good price. Thus, when coffee price is low, farmers do not have to sell all of their coffee. That is a program of building clue markets for coffee transaction in concentrated coffee areas.

7. Co-operative organization

It is the right time to think of setting up co-operative organizations for coffee speciality including people together to produce coffee product in order to help the farmers to do their services of input and output, etc,... to set up and co-ordinate

producing process, not to earn benefit from such services but benefit from collective activities.

Co-operative of speciality would also develop spontaneous network for agricultural extension, create favourable conditions to transfer advanced technology to production. This is a new type of co-operative which helps farmers approach and access the market as well as specialize and professionalize in production.

As a matter of course, to set up such co-operative, the Government should have sponsor fund and programs combining application of new technology with building co-operatives of speciality.

Therefore, the coffee industry could overcome individual farmers' shortcomings, farmers are linked together to participate in the market, enhance competitiveness of Vietnamese coffee producers.

III. Recent years' activities of Vietnamese coffee industry and the orientation of sustainable development.

Being a coffee producing sector which was born rather late in compare with many other coffee producing countries, in addition bearing serious effect from the crisis, Vietnamese coffee industry has tried its best to participate in many general activities of the International Coffee Community.

1. National Standards for coffee were fully set up to form a basis for market transaction. Up to now, there are approximately 30 criteria of National Standards for coffee has been promulgated. Related to technical specification TCVN 4193, within only 20 years (1986-2005), it has been examined, reformed, amended three times. They are TCVN 4193:86; TCVN 4193:2001 and now there is TCVN 4193:2005 and the Vietnam Coffee - Cocoa Association has actively participated in Coffee Quality Community (CQC) of ICO and made good contribution to the Resolution 407 of ICO.

2. With FAO's supports, the project "Improvement of coffee quality and prevention of mould formation and Ochratoxin A (OTA) contamination of coffee in Vietnam has been implemented, TOT and TOF courses (Training of Trainers; Training of Farmers) were organized, experts and specialists were sent to study tour and training abroad, laboratory equipment was renewed and upgrade, etc,...

All of the above-mentioned activities are aimed at environmental protection and food hygiene for consumers.

3. Together with E.D.E and some other foreign groups, such as Germany, the Netherlands, Switzerland, etc,... PPP project (Public – Private – Partners Project) has been carried out to help Vietnam to set up a coffee industry toward sustainable development. Three models of coffee in Quang Tri, Son La and Daklak have also been established.

4. In response to the study of registering licenses and certificates as the Utz Kapeh. Especially, Vietnam has co-operated with the International Consumers Organisation in investigating the above-mentioned contents, made a contribution to set up a coffee industry toward sustainable development. Additionally, we are also taking part in the environmental program of the United Nation. (UNEP)

Besides, Vietnamese coffee industry also take its regards to 4C project with a purpose of sustainable development in combination with coffee producers' benefit. Such activities show that although Vietnamese coffee industry has many difficulties, they have tried their best to integrate into the world coffee community, to make good contribution to build up Vietnamese coffee industry.toward sustainable development

This is a hard work and Vietnamese coffee industry hope to receive supports from international coffee organisations and world coffee community.

We fully agree with the content of the report which sent to the Council of the United Nations by Mr. Nestor Osorio, the Executive Director of ICO. We consider it the foundation for the Vietnamese coffee industry to go forward to reach the Millenium Development Goals.