

Navigating Origins

V I E T N A M

COFFEE HAS BEEN cultivated for generations in origin countries around the world. Not so in Vietnam, where coffee accounted for just 1 percent of world trade in 1990. Remarkably, by the year 2000, the country had eclipsed Colombia to become the world's second-largest coffee producer after Brazil. How did the country manage to escalate its coffee production so quickly?

HISTORY

For decades, the Vietnamese government controlled the country's agricultural land. But the country was isolated politically, and the government agreed to make policy changes to spur the country's economy and help Vietnam forge ties with other nations.

"Up to 1986, no private ownership of land was allowed in

Vietnam; you could grow some things in your garden, but you could not buy land and start a farm," says Quoc Luong, a former manager of a private coffee farm in Vietnam's Central Highlands, and now a Ph.D. candidate in agricultural and resource economics at the University of California, Berkeley.

When Vietnam's Congress relinquished government ownership of farmland in 1986, citizens gained the right to farm their own land and sell their crops on the open market. Just three years later, the International Coffee Agreement (ICA) suspended its quota requirement. Designed to help stabilize world coffee prices, the ICA treaty established flexible quotas and price guidelines for

coffee export. Vietnam was not a member of the ICA and did not have market incentives to increase its coffee production under the agreement. Now, with land at their disposal and a liberalized market for their crops, Vietnamese farmers decided to grow coffee. And grow it they did.

GROWTH

"The industry has been growing at a hectic pace, with Vietnam moving from a production of 200,000 metric tons of coffee in the last 15 years," says Manish Dhawan, vice president of the coffee division at the trading company Olam International. "The growth has been possible due to the highly entrepreneurial nature of Vietnamese farmers, who

saw the economic opportunity and moved fast into the coffee growers' community."

The sudden expansion of the coffee market in Vietnam was "like a spring that you press all the way down, and you release it," says Luong, who has studied the economics of coffee planting in Vietnam. "Everything happened at the right time. During the 1990s when there was the coffee boom in Vietnam, it was very lucrative. So a lot of

people jumped into the industry." But the good times did not last; in 2001, with a glut of coffee on the market, world coffee prices collapsed to their lowest level in more than 30 years. According to International Coffee Organization data, robusta traded at more than 80 U.S. cents per pound in 1998, but had fallen to less than 25 cents per pound in 2001. At the same time, arabica prices also dropped, in part because multinational companies were able to blend less expensive robusta with arabica for a higher profit margin, and farmers didn't see the financial reward for maintaining high quality. As a result, coffee producers around the world faced earnings lower than production costs. Vietnam, with its vigorous supply of robusta, shouldered much of the blame for the falling prices. The country began to stockpile coffee reserves in an effort to boost prices.

Today, Vietnam remains the world's top producer of robusta, which is most often used in blends and as instant coffee. Ninety-five percent of the coffee grown in Vietnam is robusta.

CULTIVATION

Most of Vietnam's robusta coffee is grown in the country's fertile

Central Highlands, in the provinces of Dak Lak, Lam Dong, Gia Lai and Kon Tum. The province of Dong Nai, situated between Ho Chi Minh City and the Central Highlands, is also an important robusta-growing area. According to VICOFA, the Vietnamese Coffee and Cocoa Association, these five provinces make up more than 95 percent of the coffee-growing area in Vietnam.

Arabica is grown near Dalat, located in Lam Dong province in the Central Highlands. At 1,600 meters (5,200 feet) in elevation, with volcanic soil and a cooler climate than the robusta-growing areas, Dalat has been Vietnam's bourbon-growing area since the French brought coffee to the region at the end of the 19th century. Arabica is also grown in the northern provinces of Son La and Quang Tri.

The majority of coffee farms are owned by private small holders who cultivate less than 5 hectares (about 12 acres) of land. Farmers sun-dry their robusta cherries on patios, get the coffee hulled locally and sell the green beans to local traders and exporters. Arabica cherries are sold to processing factories, where they are converted to washed and semi-washed beans. Harvest takes place in the dry season, from November to March.

Farmers remain focused on improving farm management practices. "Vietnam has one of the highest per-hectare yields in coffee, and this has been possible by the intensive cultivation that we see today," Dhawan says. Farmers irrigate and fertilize their coffee farms, and many Vietnamese farms produce 2–3 metric tons of robusta cherries per hectare (about 2,000 pounds per acre).

Because the country is such a large producer, "availability is not an issue," Dhawan says. "Unlike smaller origins, you can buy good quality coffee almost all through the year, which makes it easier for roasters to have Vietnamese robusta as a convenient

option in their blends. For most other origins, availability is seasonal."

Vietnamese robustas are neutral in flavor, while the arabicas are well balanced, with mild acidity and medium body. Both varieties are used for blending.

Most of the international trade houses have a strong presence in Vietnam, and provide warehousing and processing infrastructure, but "domestic companies still maintain the lion's share of the exports," Dhawan says. "Companies have also been upgrading to better processing facilities including cleaning, color sorting and polishing equipment to constantly raise the bar for preparation of coffee for export."

CHALLENGES

Though arabica has been cultivated near Dalat for more than 100 years, Vietnam produces very little coffee that would qualify as specialty grade, and the Vietnamese coffee industry faces the dual challenge of improving reliability and quality.

Coffee traders and roasters have experienced delays for export contracts out of Vietnam, which makes them less comfortable with long-range purchases, says Dhawan.

And Luong recalls the impediments to increasing coffee quality at the farmer level. "Even if you are a small coffee grower and you want to improve and make higher quality coffee, you cannot get a higher price," he says. "When you bring [cherries] to a buyer in your neighborhood, other people may have coffee that's fully ripe and others that are still green. The buyer just can't offer a higher price to you because they will mix it all together in the end."

The way Vietnam counts defects could be improved, says Dhawan. Vietnam exports coffee in two grades: Grade 2, or about 65 percent of exports, is allowed a maximum of 5 percent black and broken beans; Grade 1 is allowed a maximum of 2 percent blacks and broken. "There is a bit of variability in quality ... where in terms of total defects, there can be a big range, and the coffees can still be technically passing the [2 percent to 5 percent] export specs," Dhawan says. Vietnam "needs to constantly raise the bar and ensure that roasters get a good uniform cup profile," he adds.



VIETNAM FACTS

AREA About 128,000 square miles. The country is divided into 58 provinces

LOCATION Bordered by China to the north, Laos to the northwest, Cambodia to the southwest and the South China Sea to the east.

CAPITAL Hanoi

MONETARY UNIT Dong

POPULATION 86 million

TERRAIN The country's highlands—located to the north and center of the "s"-shaped country—offer rich basalt soil. Vietnam's mountainous, forest-covered south is characterized by poor soil.

FUTURE

After coffee prices tumbled a decade ago, Vietnam's coffee industry decided "to hold back any additional planting of robustas and slowly increase arabica production," says Dhawan. But as the demand for specialty coffee grows, Vietnam's schedule may adjust accordingly.

Coffee organizations are offering farmer training and subsidies on planting material, Dhawan says. And certification agencies, including the 4C Association, Rainforest Alliance and UTZ Certified, are also teaching farmer groups about agricultural best practices from other origins.

Compared with other origins around the world, Vietnam is still in its infancy as a coffee producer. Now that the country's farmers have shown their aptitude for growing robusta, all eyes will be on the country as it considers its future.

