

THE STUDY ON PENETRATION CAPACITY OF COFFEE PRODUCTS INTO USA'S MARKET

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Abstract

Vietnam is coffee producer that has acquired world second position on coffee output and world first position on coffee Robusta output. Coffee production hold important role in Vietnam economy: coffee annual export reach near 1 million ton, it is leading agriculture product having first rank export value of more than one billion USD. At same time, USA is biggest consumer and also is biggest importer in the world. USA coffee import in 2000 was 1.37 million ton. USA coffee consumption has reached the saturated mood relatively: it imported 1.359 million ton in 2006, annual import of various kinds of coffee has reached value of more than USD 3 billion and it is expected that USA coffee import will increase at growth rate 10% annually in 10 coming years.

Key words: coffee, export, import, foreign trade, Vietnam

INTRODUCTION

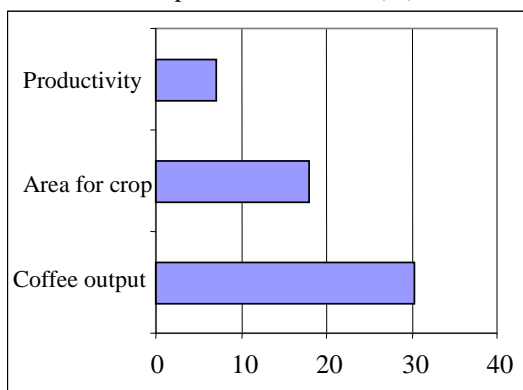
Total area of Vietnam coffee reached 400,000 hectares in year 2000, and about 500,000 hectares at present (year 2006), accounting for 4.14% of total area for all kinds of cultivation plants. Vietnam has acquired world's second place on coffee export, after Brazil, and world's first place on production of Robusta coffee with market share 25%.

Among Vietnam's provinces having areas for coffee cultivation, province Daklak has played important role, accounted for more than 50% total area for coffee production in Vietnam. Coffee production in Daklak has been conducted by householders, began largely from year 1990 and get further growth currently. Many householders of coffee production in the past were workers of coffee state farms, and they began coffee cultivation after the state farm dissolved and granted the ground for them with the fixed interest to pay via coffee product. In recent years, coffee production in

province Daklak has increased mainly Exhaustive farming based on expansion of area for cultivation, not cultivation that based on measures for productivity. In period 2000–2006, coffee output increased 30.4% annually, among which two third caused by increased area for cultivation.

Practice of coffee production in province Daklak has showed that householders of coffee production have received not much technical support. Majority householders have not received services for farming promotion, in particular, ratio of householders that do not receive services for farming promotion is 100% over rich householders, 95.2% over householders with middle income, and 94.7% over poor householders. Meanwhile, the banks have quite good operations on loan support to farm householders, including the poor householders. The poor householders of village Cujut at average in 2006 got the loan of USD 2 thousand with term 13 months.

Figure 1: Coffee productivity, area, and output in province Daklak in period 2000–2006 (%)

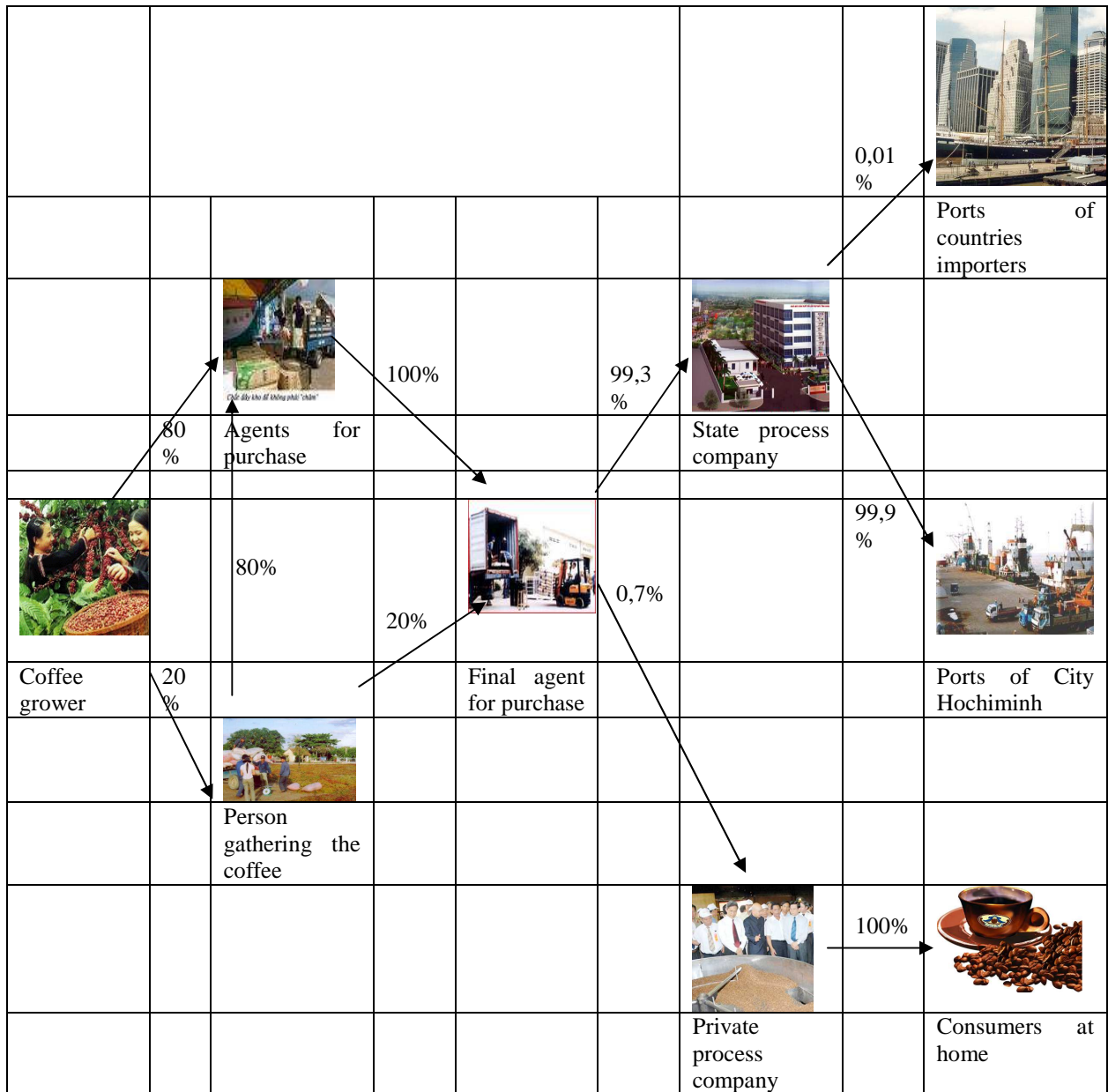


Source: Vietnam Ministry of Agriculture and Rural Development

Sale canal of coffee in province Daklak

To ensure the sale operations in province Daklak, the system of agents play important role. Companies for coffee process and export conduct transport mainly via using automobiles in the areas of purchase. In case to transport to port Saigon, many companies have hired the transport companies and the transport rents depend mainly on timing of coffee crop. Transport expenses up to port Saigon currently are about USD 20 to USD 30 per ton, that mean at average USD 25 per ton a year. The coffee transported to port Saigon (Hochiminh City) are packed in bags and placed in containers of storage houses for export. Today's difficulties in transport works are high fees for passing bridges and roads, police and checks points for overload and oversized transport in conditions of rural narrow roads, bridges and roads have no capacity to shoulder the load 22 tons.

Sale canal of coffee in province Daklak 2006



Competitiveness of Vietnam coffee and Daklak coffee

High competitiveness of vietnam robusta coffee in the past is relied mainly on four factors. The first is low wage for employees. The second is high productivity relied on using many fertilizers and water. Despite Vietnam has entered international market only recently, it has managed and reached high productivity via irrigation cultivation using various kinds of inputs, fertilizers and water. Vietnam has reached average productivity 1.3 ton per hectare, several regions have reached 4 to 5 ton/ha meanwhile Africa's counties and Indonesia have reached only 0.30 to 0.35 ton/ha. Brasil

and India have reached about 0.8 ton/hectares. Low costs on labour and high productivity lead to low cost for product unit in Vietnam.

All the major regions of Vietnam coffee production are located near export ports because Vietnam has long shape with narrow width. State policies for coffee industry may consider as open creating the equality environment for all units in coffee production, process, and consumption.

Competitiveness may be defined via two major indexes: unit cost and direct relative competitiveness (DRC). Typically, if one country has low unit cost and index DRC, it also has capacity to apply low export prices, create competition advantage in the global markets.

Tab. 1: Index DRC of Daklak'coffee 2000–2006

Ecological regions	Index DRC
Most favourable region	0.300
Moderate favourable region	0.325
Less favourable region	0.628

Source :www.agroviet.go.vn

Index DRC variation in range 0 to 1. If the index for the region or the product has the less value, in particular, its value is near “zero”, it points to stronger potential to increase the value for products of the region, other words, greater comparison advantage for products of the region.

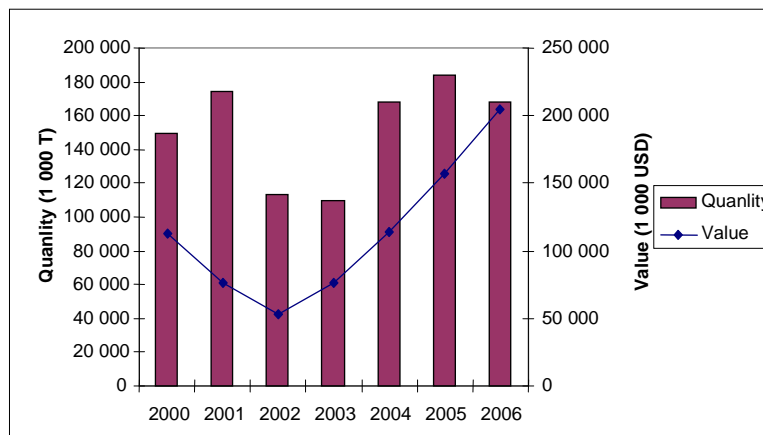
Relied on the calculation results of the study team ICARD, OXFAM of England and Hongkong for period 1994-1999, may see that comparison advantages of coffee production in three ecological regions are very different (most favourable region, moderate favourable region, and less favourable region) and values of index for domestical resources (index DRC) are also desperately different on regions. Most favourable region has index 0.300, moderate favourable region has index 0,325, and less favourable region has index 0,628. So,

Vietnam has comparison advantage over production of coffee robusta. However, less favourable region has far less advantages than two other regions, so only small variation of prices are enough to make impacts immediately on coffee sale operations in the less favourable region.

Coffee export into USA’s market

Vietnam began coffee export, largely coffee Robusta, into USA market since 1994 and reach export value VND 32 million in the initial year. In year 2000, export value had increased sharply to USD 112.749 million. Years 2001, 2002 and 2003 had suffered the reduction, and year 2006 got restoration and reached USD 204,108 million, hold the sixth place among countries of coffee export into USA. The sharp increase caused by the fact that Vietnam had began from “zero” level after the two countries reached the agreement on relation normalisation, and currently Vietnam has reached high rank among countries exporting coffee into USA. In addition, Vietnam has exported largely the coffee Robusta with lower prices than other countries gain. Typically, Vietnam coffee prices are at level of 1/2 prices level for countries of Latin America.

Figure 2: Amount and value of coffee export into USA’s market for period 2000–2006

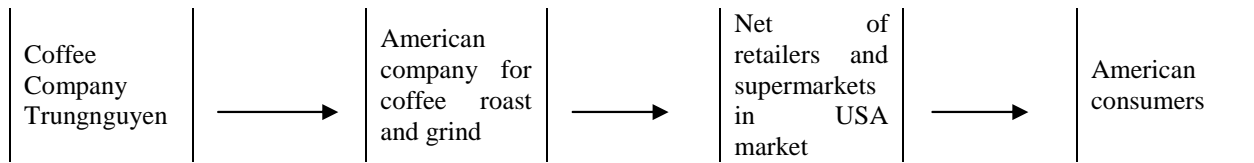


Source: Vietnam State Department for Statistic, 2007

Amid export operations into USA’s market, Vietnam companies largely have exported the products in raw forms and via mediate agencies. Majority Vietnam companies sell their products to USA’s companies or other foreign companies, and then the companies re-process the products and export into USA's market. At present, Vietnam companies face following difficulties when to export into USA's market and other large markets:

- First, majority Vietnam companies have no enough attention to build and advertise the trade marks.
- Second, foreign companies have gained the market power and capacity to press on purchase prices in domestical market.
- Third, because there is not identity of processed coffee, so foreign companies have purchased only Vietnam coffee in raw form with cheap prices.

EXPORT CANAL OF VIETNAM COFFEE



May say that up to current moment, there is very few, or almost no Vietnam company that export directly into USA's market . Main form of export is using mediate agencies and raw products without process. Company Trungnguyen is exception case among the domestical companies that got investigation within the region. The company is the first one that has built the trade mark, opened the website and exported the roast and grind coffee into many prestige global markets. Amid process of USA's market penetration, the company has used the deals with foreigner counterparts.

On aspect of export markets, Company Trungnguyen has reached the major markets such as USA, EU, Malaysia, Japan, Indonesia, Singapore. USA is greatest market (accounting for 25%). Total export for 2006 reached 130,000 to 150,000 ton, revenue about USD 420,000.

Company Trungnguyen export on prices FOB, transport by sea, ships defined by clients. Export to be on FOB, so import taxes to USA's market to be shouldered by company-purchaser. Major export products by Company Trungnguyen into USA's market include the kinds of flour coffee processed from coffee Arabica and Robusta packed in paper boxes or cans. Company Trungnguyen has faced following major difficulties amid immediate export into USA's market:

Differencies in culture of coffee consumption: Company Trungnguyen want to present its trade mark, the style on coffee consumption and its culture, but its features are different from the trade mark, the style on coffee consumption of the great foreign companies holding dominating position in USA's market such as Company Starbucks that americans have accustomed to. Vietnam com-munity in USA as major client for Company Trungnguyen and it in the initial stage is limited by size. Development for new products: Americans have not still accustomed to Company Trungnguyen's products, so Trungnguyen must study and develop the new products in accordance with consumption preference in USA.

Finance: To ensure the future development, in conditions of limited fiances own resources, Company Trungnguyen must rely on the resources from counterparts (agencies, providers, and other units) in USA and in accordance with this fact, it must come up with the trouble incidents stemming from USA's regulations and accountance operations.

Personal: Company Trungnguyen still lack the experience cadres having capacity to operate successful business abroad, experts with excellent foreign language

knowledges and experts with good legal knowledges about the foreign countries.

Structure and outlook of USA's coffee market

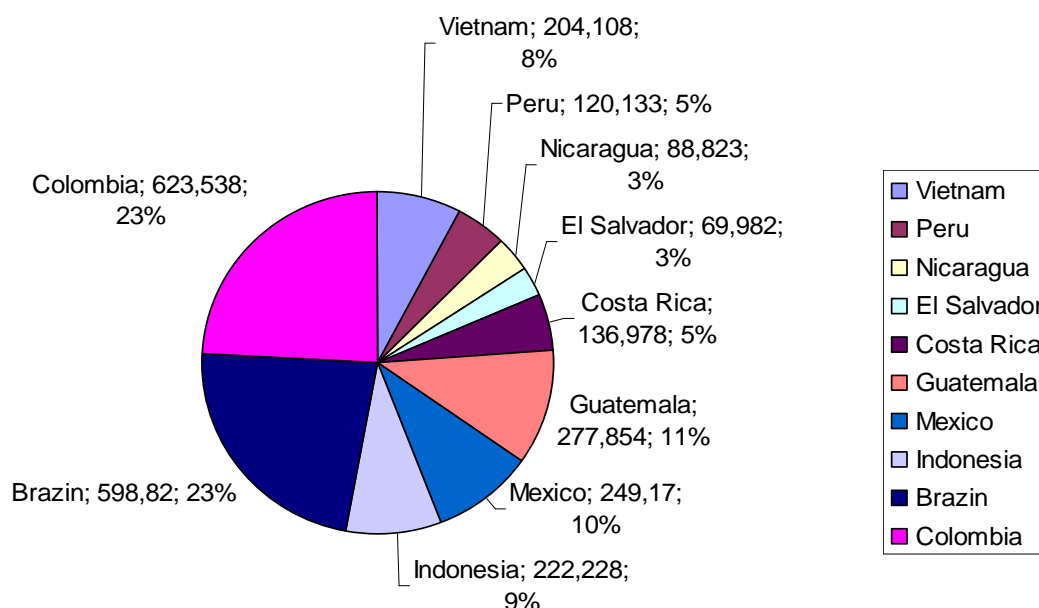
USA's coffee market: huge demand and high competition.

USA consumes and imports the biggest amount of coffee in the world. Since the years 1990s, USA's coffee consumption reached the saturated level relatively. USA imports 1.3 million ton coffee annually. USA imported 1.17 million ton coffee in 1990, 1.38 million ton in 2006, and as the biggest coffee importer worldwide, it imports the coffee amount valued at about USD 3 billion annually. It is expected that coffee demand for coming 10 years continue to surge at growth rate about 10% annually. High demand on coffee, but domestical production is still tiny size, it does not meet the demand as required, so USA must import most parts from countries as producers. USA has imported mainly from Brasil, Colombia and Vietnam. Amid top ten biggest exporters into USA, there are eight countries of Latin America. This is challenge for Vietnam companies. Countries of Latin America have the advantages on geography, and have penetrated USA market for long time, so they have good knowledges about the accustomed, preference and set up the canals for effective market penetration. In addition, long time of market penetration make the Latin America's products gain the important influences and create the consumption preference in USA's market. At present, Americans have more preference on coffee Arabica that originated from Latin America than coffee Robusta that originated from South East Asia.

Sharp increase of demands for special coffee products

According to statistical data, the coffee products have accounted for more than 91% of total amount of hot drinks in USA, makes considerable contribution, in particular, about 22.3% for growth of hot drink retail market in period 2000–2006. Annually average coffee consumption per person is about 4.5kg/person/year, that mean every person at average drink 2 to 3 cups per day. Specially, consumption of the top coffee in 2006 in creased 9% against 3% for year 2000 (6 years ago). May say surely that USA has the highest level of coffee

Figure 3: Top ten coffee exporters into USA in 2006 (million USD)



Source : www.fas.usda.gov/ustrade

consumption, it equals the half of consumption in the whole Europe.

USA’s regulations and policies for coffee import

Coffee products amid penetration into USA's market must comply with the standards on engineering, sanitary, safety etc. The import into USA must ensure :
Correspond to regulations on quality by FDA

Correspond to regulations by FDA on the procedures and notices on arrival of the products.

In case of complain related with the products above, to treat it according to the Law on Food, Medicines and Make up Products (FDCA).

To have the express trade code and trade mark to avoid mistaken.

To comply with following legal documents regu-lating the import operations on coffee products

The number of the file	Measures to apply	State authorities
19 CFR 12	Regulations on chemicals for insect prevention	FDA, CFSAN, APHIS, PPQ, EPA, USCS
19 CFR 12.1 et seq.;	Standards on engineering, trade mark, labels.	FDA, CFSAN, APHIS, PPQ, EPA, USCS
19 CFR.10 et seq	Procedures on customs declaration	FDA,CFSAN, APHIS, PPQ, EPA, USCS
21 CFR 12.10 et.sep	Standards on engineering, trade mark, labels	FDA,CFSAN, APHIS, PPQ, EPA, USCS
21 USC 301 et seq	Prevention on import of false goods	PDA, CFSAN, APHIS, PPQ, EPA, USCS
42 USC 151 et seq	Sanitary and safety	PDA, CFSAN, APHIS, PPQ, EPA, USCS
7 CFR Part 351	Sanitary and safety	PDA, CFSAN, APHIS, PPQ, EPA, USCS

CONCLUSION

In coffee global markets in general and in coffee USA's market in particular there were big changes in recent years. Consumption of common coffee has reached near saturated state, meanwhile demand for special coffee increased sharply. This is important suggestion for coffee industry development in our country. The movements in global market and USA's market in recent years and future tendency has showed several important points:

First, amid years 1990s, global market prices for coffee reached high level and this together with production boom lead to sharp increase of coffee in Vietnam, especially in province Daklak, that ensured the huge income source for the companies and householders. However, since year 2000, the supply increased sharply and at same time the demand reached the near saturated state that lead to reduction of coffee prices and sparked big losses for the companies, especially for householders of coffee farming. The moment for changing the production procedure has come out, so to transform the production procedure on width onto the production procedure on depth, to direct production strongly to effective targets and secure the environment balance, standards on quality, upgrade the process level. Second, during 10 past years, Vietnam companies have defined the pricing on coffee products based on the pricing information purchased from the Information Agency Reuters, minus the expenses, conversion into vietnamese money according to exchange rate, and finally to fix the prices in the local region. World practice showed that for about hundred years up to now, coffee companies in the world have done only transactions via the prestige great markets on terms such as LIFFE (London), NYMEX (New York). Lots of Vietnam companies at present have not accustomed with the transaction procedure in the markets. Participation in the global transaction exchange boards will help the Vietnam companies approach swiftly the international markets. Practice showed that through the forecast on the markets and using term agreements as the effective tool, may limit partly the risks for the companies.

Third, USA's market for coffee has showed the price gap and in correspondence with this, profit gap between the processed coffee and the raw coffee. Tendency of USA's market and other developed countries showed that demand on high quality coffee has increased strongly. This is the opportunity to get huge benefits in long term that Vietnam companies need to catch up. To realise the chance, Vietnam need to have the companies with high level of process, that manage to penetrate into USA's market. The work requires the procedure from process to establishing marketing canal, building of trade mark, based on this to set up the image in the eyes of consumers and acquire the firm position in the colossal market.

Fourth, USA's market for coffee is featured by high competition level on the raw coffee and also on the

processed coffee. On aspect of the raw coffee, Vietnam must face the competition from Latin America's countries and Indonesia, and on aspect of the processed coffee, lots of USA's groups have dominated the market.

On aspect of policies, to raise the penetration capacity into USA's coffee market, it is necessary to deploy following measures:

Policy on study and application of science and technological achievements. To intensify investment for the Institute for Coffee Study, encourage study and application of science and technological achievements for productivity growth, costs cuts, coffee quality enhancement. This is long term direction, because acquisition of the firm position on USA's market requires to have clean and high class coffee.

System of market information to be reorganised so that it serves directly the companies of business and production.

System of policies to be studied and made public to improve the coffee value based on quality upgrade via process. This is long term direction to go along because USA's market requires high quality coffee, coffee with safety standards get the growing preference and more higher prices than common coffee.

On larger extent, Vietnam need to declare the policies to enhance the competitiveness and risk reduction for coffee industry, for example, to build the market for delivery later, fund for price stability, raise capacity of export companies, develop business of the processed coffee.

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