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# Cooperation in coffee markets: the case of Vietnam and Colombia

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## 1. Introduction

Coffee is the second most traded commodity in the world after oil. It is produced roughly in 55 countries, but 57% of the world's output is concentrated among three players: Brazil, Vietnam and Colombia. In 2010, Brazil, market leader since 1840, produced 48.1 million 60-kilo bags, that is 36% of the 132.5 million total global production. Vietnam harvested 18.5 million bags, close to 14% of the total, and Colombia 9.2 million, a distant 7% (ICO, 2010).

Behind these figures, close to one million families in Colombia and Vietnam derive their incomes from the crop. As with many commodities, advancement of producers depends crucially on the evolution of domestic costs and international prices. It is not only a matter of their income. Market conditions affect aspects such as child survival through unexpected channels such as the change in the value of time (Miller and Urdinola, 2010).

In a competitive environment, a natural strategy for a revenue-maximizing country is to increase market share either by cutting costs, by relying on enhanced productivity or by devising and introducing other product-related advantages. This paper shows that there is another avenue for industry and farm-income growth in Colombia and Vietnam: cooperation, a forgotten element in the post-International Coffee Agreement world that began in the 1990's.

Our research shows that these countries have developed substantially different value chains for their coffee, but this is not always recognised by producers in either country. As interviews in this paper proved, they seem to think that they compete on exactly the same grounds. This paper explores the main features that set the two value chains apart, and show some areas in which cooperation, in the sense described by Sturgeon (2008), could lead to a Pareto superior outcome.

As shown by Fitter and Kaplinsky (2001), a general value chain for the coffee industry can be described as follows:

- Farmers pick, and dry or wet process the coffee cherries. They receive a *farm-gate price* for the cherries.

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- Cherries are processed into parchment coffee and then into green coffee. For parchment or green coffee a *farm or factory-gate price* is paid.
- Green coffee is passed to an intermediary for export, at the *FOB price*.
- The beans are sent to importing countries, where they arrive at *CIF prices*.
- The beans are then sold at *wholesale prices*.
- The beans are then roasted and/or ground and packed and sold at *factory gate prices*. Finally, coffee is sold at *retail prices* by retailers to the public for domestic consumption, or for out-of-home consumption by restaurants, caterers and coffee bars (Fitter and Kaplinsky, 2001).

This structure serves as the basis for the analysis carried out in this paper in two ways. First to select the sample for non-structured interviews, as shown in the next section, and second, as the backbone for the discussions of different aspects of the value chains in both countries, and to highlight their similarities and differences. The purpose of this exercise is to find ways to upgrade the Global Value Chain (GVC), that is, to find ways that allow participants to obtain better or more stable rewards (Riddell, 2006). This will be done by identifying and using in an appropriate manner GVC differences.

This paper is organized as follows. Section 2 provides a description of the observation protocol and some other methodological issues. Section 3 gives a first look at the coffee value chain in Colombia and Vietnam on aspects such as varieties grown, logistics, technology adoption and innovation, institutions and labor conditions. Then focuses on the international market side of the GVC. Section 4 evaluates the possibility to upgrade these value chains, through the sale of finished coffee-products on international or domestic markets. Section 5 evaluates if cooperation is a feasible alternative to upgrade these value chains, and lays down some areas of possible collaboration. Section 6 provides some concluding remarks.

## 2. Methodology

Since there is no previous comparative study of these countries, the research focused mainly on the collection of primary data in both countries. Value Chain Analysis (Dolan and Humphrey, 2000; Gereffi, 1999; Gereffi, Humphrey and Sturgeon, 2005; Gereffi and Kaplinski, 2001; Humphrey and Schmitz, 2001; Kaplinsky 2000; Kaplinsky and Morris, 2000; Ponte, 2002; Tallontire et al, 2009; Sturgeon, 2000) was chosen in the first place as the central methodology for selecting the potential sample, as well as for designing the observation protocol that constituted the main research instrument of this survey. This protocol served as a detailed guide for non-structured interviews, and as a checklist of key aspects to be observed. It is critical to mention that the instrument needed

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to be flexible in order to adapt to different types of research participants and different geographical locations.

The observation protocol was based to a lesser extent on literature on the coffee industry and data from secondary sources. This instrument went through a rigorous process of refinement and augmentation during the study, and the final version contained close to 70 categories. These included land conditions, producing regions, farm size, and infrastructure availability, in addition to a range of other categories scoping from vulnerability to shocks to factors like climate or policy changes. Other categories included consumption trends, market forecasts, brand innovation, technology development and adoption, size and location of roasters and exporters, certification types, depth of the specialty coffee trade, internationalization patterns and government legislation. A partial collection of these categories and of its findings can be found in Table 1.

Field trips were conducted in Colombia and Vietnam and included in-depth interviews with key players in both coffee industries. Research participants were general directors, managing directors, export executives, marketing executives and farmers from various coffee manufacturers, export companies and associations of coffee growers. The fieldwork in Colombia was conducted in the Antioquia coffee region and in Medellin between October 2008 and January 2009. The fieldwork in Vietnam took place during February 2009 in Hanoi, Ho Chi Minh City and Buonmethuot.

Research participants were carefully chosen with the aim of having representation from each link of the value chain. Given the sensitivity of some issue on competition between the two countries, interviewees were offered that their names, affiliation and positions would remain anonymous in this paper.

The objective of the fieldwork was to find out (i) the main features of the coffee industry in each country; (ii) the differences between the coffee industries and (iii) the participation of each player and each country in the global coffee value chain.

A process of data analysis took place after the fieldwork. The observation protocol and its categories served to guide the qualitative analysis phase of this research. From the data analysis, case studies were drafted for each country to illustrate the participation of specific players in the value chain.

Although this research was limited in scope (it did not sample all the coffee regions in both countries, and it did not interview all their main players of the industry), it certainly provides a previously unavailable comparative overview of these industries. It is expected that the same methodology and the same research instrument could be used to compare other coffee producing countries.

This research heavily relies on secondary data. Secondary data for this research included company and industry reports, books, academic papers,

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articles, databases, and websites. The information gathered in the interviews is the main source of material for this paper, but sometimes when exact data was missing from interviews, secondary data was used to illustrate the findings.

### **3. Comparative Analysis of participation in coffee's Global Value Chain**

Global Value Chain Analysis (GVC) has proved a better tool than conventional international trade economic analysis in instances in which it is interesting to find how firms or countries build, coordinate and control the links and flows of produce from raw materials to consumers (Gibbon and Ponte, 2005; Riddell, 2006; Murphy, 2006).

It is also a useful method to identify opportunities for upgrading as shown in Gibbon, Bair and Ponte (2008), where categories such as entry barriers, shifting power dynamics, mechanism of governance of value chains are studied.

In the following sections, this paper follows Coffee GVC in Colombia and Vietnam to find such opportunities for upgrading through cooperation.

#### **3.1 The Coffee Industry Environment**

Colombia and Vietnam are far from similar. Colombia has a population of 45 million inhabitants and registered a GDP of \$280 billion in 2010. Vietnam almost doubles Colombia in population size with 86 million inhabitants, but has a smaller economy with a GDP of \$118 billion.

Their industries have some similarities like the number of families involved in production : close to 511,000 families in Colombia (NFC, 2007) and close to 600,000 in Vietnam (VICOFA, 2009). They also share the fact that coffee is not an indigenous specie, and it was introduced in colonial times (1730 in Colombia and 1857 in Vietnam).

But differences outweigh likenesses. Specific natural conditions make Vietnam best suited for harvesting the Robusta coffee variety and Colombia better for the Arabica coffee variety. There are also different harvesting seasons. Vietnam has a flowering period from March to May and harvest from November to February. Colombia has two flowering periods, one from January to March and the other from July to September. The main harvest takes places from September to December and there is a secondary harvest between April and June.

Harvested areas are also dissimilar. Colombia grows coffee on 877,700 hectares divided up into 661,600 farms, while Vietnam plants 300,000 hectares (42% less than Colombia) in 300,000 farms (50% of the Colombian figure). Therefore, productivity in Vietnam is much higher. The Asian economy

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produces 61.6 bags per hectare/year, compared to 16.5 bags per hectare/year in Colombia (ICO, 2010).

This gap is explained by the fact that both industries have chosen to maintain manual harvesting methods, and they are both characterized by small (less than 5-hectare) farms, but the Colombian method requires the careful selection of cherries from the tree; consequently, yield cannot be substantially increased without compromising quality. Besides, nearly all Colombian coffee is mountain-grown, a type of farming that is hard to mechanize and not readily suited to obtain significant economies of scale (Reinhardt, 1988).

Logistics are also different in both industries. In Colombia, coffee production is scattered through the Andean region that crosses the country from north to south. Coffee is grown in 20 out of 32 provinces. Beans are transported through narrow, unpaved roads from farms to buying centers, then moved to threshers in larger cities and then transported to ports. Colombian freight rates are very high by international standards. NFC has shown that it is far more expensive to take a container from coffee-growing in Armenia to Cartagena (900 kms) than from China to one of Colombia's ports.

In S-shaped Vietnam, production is concentrated in central highland provinces such as Lam Dong and Daklak. Upon harvesting, coffee is shipped to the Province of Binh Duong for processing and then exported through the port of Ho Chi Minh. This comprises a short, less expensive movement.

Both countries face challenges associated with improving labour conditions, but Colombia looks better off than Vietnam in this aspect. Permanent contracts for coffee pickers are basically non-existent in both countries, but child labour is far more prominent in Vietnam than in Colombia, where the Government and the main actors of the industry have made substantial efforts to eradicate it. Commitment to workers' health and safety seems to be higher in Colombia than in Vietnam. The practice of adopting international certifications and continuous monitoring systems in Colombia has positively influenced the use of better health and safety practices, while in Vietnam—as observed in the fieldwork—some workers do not wear shoes or other protective equipment.

Interviews also highlighted a large gap in technology adoption and innovation. On the one hand, both countries use readily available machines and agro compounds developed in the United States, Germany, Italy and Japan. It is worth noting that they also buy from Brazil, the only producing country that has a world-class industry in agricultural supplies. Some Colombian firms have designed drying chambers for Pergamino coffee (beans with dried parchment skin still adhering to it) and some other low tech machines, but they have not moved further in the value chain into electronic selection machines or automated threshers (Cano, 1996).

On the other hand, Colombians have a coffee research institute (Cenicafe), which has no counterpart in Vietnam. This institute has a well-funded program

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that concentrates on increasing plant productivity, as well as pest and disease controls. It has made some progress in the development of varieties that better endure 'leaf rust' and of systems to control the 'berry borer', two of the worst problems farmers face. Cenicafe has also been working for a number of years on coffee genomics (Saldías and Jaramillo, 1999).

Coffee institutions are also unique to Colombia. It is the only producing country with an institution that represents the coffee sector domestically and internationally. The National Federation of Coffee Growers of Colombia (NFC) is an important institutional actor, that has the mission of guaranteeing the welfare and progress of the coffee industry in the country (idem). The NFC transfers a significant part of the international price to coffee growers, but most important according to interviews, has built a stabilization fund to buy coffee in harvest time, and to maintain prices above international level when they drop below a threshold. It also provides agricultural extensions and has a strict quality control scheme to assure a consistently superior coffee for export. Additionally, the NFC promotes Colombian coffee's position in international markets.

The Federation has also made substantial investments in social and physical infrastructure in coffee-growing regions. It has financed or co-financed roads, electricity, drinking water and health services. It has pushed the use of environmentally friendly methods of planting and wet processing, as well as the adoption of green certificates by farmers (Potts et al, 2010). These practices set Colombia apart from Vietnam.

Finally as a GVC governance mechanism, NFC has also promoted international self-regulatory systems, such as minimum quality controls, that in some instances have limited Vietnam's exports. "They sold to international firms a product that could hardly be called coffee" (Interview carried out in Colombia, 2009). These governance systems improve the reputations of their members and facilitate better relationships between roasters, traders and growers. National coffee institutes in producing countries have particularly improved coordination among the links of the chain (Muradian and Pelupessy, 2005).

### *3.2 Position in global markets*

Differences found in the first stages of both value chains, carry on to its international portion. Colombia has been an exporter of coffee since the beginning of the 20<sup>th</sup> century. Vietnam, in contrast, only appeared on international markets in the 1990s as a deliberate government response to a boom in world price of coffee and to the realization that Vietnam had a comparative advantage as a grower (Klump & Bonschab, 2004).

This plan generated a production leap, where coffee-export growth rates reached close to 60% per year between 1993 and 1998. It also shifted the balance in world markets. In 1995, Vietnam's coffee exports were 3.53 million

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bags, while Colombia exported 9.81 million bags. By 2000 Vietnam had become the second coffee exporter in the world, displacing Colombia. In 2009, Vietnam exported 18 million bags while Colombia reduced its exports to 8.5 million bags.

After this major change induced by Vietnam's fast market entry, this GVC has changed in recent years, in response to trade liberalization (Fitter and Kaplinsky, 2001), and to changes in domestic and world economies. One such change is that in both countries coffee has lost relevance in their international trade (Ponte, 2001). According to Central Bank statistics, in 1970 coffee exports represented close to 60% of all Colombian exports, and by 2007 declined to only 5.7% of total exports. In Vietnam they accounted for 10.3% of total exports in 1995, and only 3.87% in 2007. The commodity was replaced by oil, gas and mineral products in the case of Colombia (Gutierrez de Piñeres & Ferratino, 1997), and by industrial goods in Vietnam (Athukorola, 2009). In spite of this trend, coffee is still an important source of foreign exchange in both countries (Hallan, 2003). Vietnam exports 14.2 million bags which render around \$1.5 billion per year, and Colombia 7.8 million bags which are valued at around \$1.7 billion per year (ICO, 2003).

These figures also show that coffee-export prices are considerably higher in Colombia. The average price for Colombian coffee in 2001 was \$0.72 per pound, 61% more than Vietnam's price of \$0.28 per pound. In 2009 the average price was \$1.77 for Colombian coffee, 56% over Vietnam's \$0.77 (ICO, 2010). Interviewees explained that the premium corresponds to a quality disparity between Mild Arabicas and Robusta varieties, to a country brand difference, and to a reputation for reliable supply that Colombian exporters have built through the years (Interviews carried out in Colombia and Vietnam, 2009).

Final export markets also have an influence over prices. Colombia's main five markets are: the United States, Japan, Germany, Canada and Belgium and Luxembourg. The United States represents the main market, accounting for 35% of the total Colombian coffee exports; second is Japan with 15%, third is Germany with 14%, fourth is Canada with 6% and fifth is the combined Belgium and Luxembourg market with 5%. Three countries, the USA, Japan and Germany accordingly buy 64% of Colombia's coffee (See Table 1).

Vietnam, on the other hand, has its biggest markets in Germany, Spain, the United States, Italy and Poland. Germany is the main market for Vietnam, accounting for 14.5% of the total coffee exports, followed by Spain with 11.28%, the USA with 11.20%, Italy with 7.15% and Poland with 5.16%. European countries are the largest importers of Vietnam's coffee, representing approximately 40% of the total (See Table 1). According to interviewees, Spain, Italy and Poland pay less than quality sensitive Germany (Interviews carried out in Colombia and Vietnam, 2009).

Cooperation in marketing strategies seems to be possible between the two countries to increase revenues, according to some interviews. Changes in destination markets should not be very difficult to coordinate in each country, due to the small number of large exporters. In Colombia, international coffee

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sales are concentrated in the NFC and five private exporters. In Vietnam, there are around 150 exporters, but sales are highly concentrated among a few of them such as Vinacafe (Interviews carried out in Colombia and Vietnam, 2009).

A word of caution comes from interviews in the sense that international prices do not depend on destination markets alone. Prices are determined by fundamentals of supply and demand. In 1999 for instance, prices dropped by 21% as a response to a world production increase mainly because of new production areas in Brazil and rapid production growth in Vietnam. Nonetheless, they currently receive substantial speculative pressures from hedge and investment funds which have gained great relevance in price formation (Gilbert & Morgan, 2010).

#### **4. Vietnam's and Colombia's participation in the coffee GVC**

An option to increase farm revenues is to move along the value chain, a task in which Colombia has surpassed Vietnam. Both countries are trying to participate more in the processed and specialty coffee markets, in order to move away from green coffees.

Vietnam has been focusing in the low-priced Robusta market and is timidly beginning to join the processed coffee segment. In 2010, 1.3% of its 17.4 million bags exported were processed coffees (1% instant and 0.3% ground) (LMC, 2011). It also has a minor market for specialty coffees with its Weasel coffee (or Civet coffee), which is the most expensive in the world. This coffee was once obtained from beans eaten by the Asian Palm Civet, but it is currently artificially produced (Power et al, 2011). The country is also beginning to identify the possibilities of producing Culi coffee as a high-end Robusta selection. Culi coffee is made with small un-split beans (peaberries), and recently began to promote Arabica planting.

Colombia, on the other hand, is in the high-priced Arabica segment. It has built a strong position in instant coffee and has successfully developed some specialty brands. According to an interview with NFC's General Manager, 32% of all exports in dollar terms have value added, (6% for processed and 26% for specialty).

This brand-building path to upgrading these countries' GVC is not easy. Coffee has a buyer-driven GVC where players such as Altria, Nestlé, Sara Lee and Procter & Gamble play a major role (Bitzer et al, 2009; Muradian & Pelupessy, 2005, and interviews). Nestlé has made relevant investments and a large share of instant coffee production in both countries (46% in Colombia and 33% in Vietnam) (Ibrahim & Zailani, 2010). Nestlé is the largest instant coffee producer in Colombia, followed by Colcafé, and it ranks second in Vietnam, behind Vinacafe, which has 50% of the market. This situation reflects the dominance of multinational companies in the world coffee industry, especially brand-named instant coffee. "Exporting countries fear to compete with multinational roasters, in international consumer markets because it is tremendously expensive, and

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because they are, at least for the time being, also their main customers." (Interviews carried out in Colombia and Vietnam, 2009).

Hence is it not surprising that the coffee GVC has been upgraded through product development and positional consumption: agricultural producers have focused mainly on productivity improvement, whereas roasters and retailers have emphasised product innovation and differentiation (Kaplinsky, 2006). The obvious brand-building strategy has not been a financial success in Colombia. The Juan Valdez coffee-bar chain has proven a difficult endeavor. After seven years in operation, it has not produced profits nor dividends for stockholders (Interviews carried out in Colombia and Vietnam, 2009).

With respect to functional upgrading, growers have been blocked from moving up the value chain by tariff escalation policies (Talbot, 1997). Customs tariffs have been considerably reduced over the years, but a number of importing countries protect their roasting industries through tariff escalation measures. Tariff escalation involves an increase in duties applicable to each stage of production, from the processing of the green coffee to the final product. According to ICO (2010) figures, the European Community applies an *ad-valorem* tax of between 7.5% and 9% while Japan applies a tax of 20% on its imports of processed coffee.

#### *4.1 Domestic coffee consumption in Colombia and Vietnam*

Another opportunity to increase country or farm revenue is to develop local consumption, which has become more important in recent years because of the recession in developed economies. Although promising, it also appears to have a slow development. The Vietnamese domestic market consumes around 5% of its production while in Colombia the figure is closer to 10%. Vietnam has a per capita demand of 0.5 kg per annum, almost a fourth of the 1.9 kg per person per annum in Colombia. In both countries domestic consumption is smaller than in other producing countries like Brazil or Mexico.

In 2003 the Colombian NFC and local roasters tried unsuccessfully to trigger domestic consumption with a plan that followed a Brazilian scheme that doubled per capita consumption in 10 years (NFC, 2010). Nonetheless, the strategy was relaunched in 2010 with a new, more modest goal to increase consumption by 30% in six years.

There are some factors that could bring down domestic coffee consumption. Demand for substitutes like iced tea and water is growing explosively in Colombia. Interviews with marketing managers point out that Nielsen surveys show double-digit growth in both categories, and that domestic consumers are increasingly concerned with health issues related to coffee consumption.

As domestic consumption increases, Colombia also increased its coffee imports to nearly 300.000 bags in 2010. This trend might be reinforced in the future by

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changing tastes in local markets, as new blends become available. The fact supported by interviews is that a large majority of Colombians drink lower quality coffee. This implies that a rise in consumption will almost surely lead to higher imports. (Interviews carried out in Colombia and Vietnam, 2009).

Coffee consumption in Vietnam is less important due to the strong tea tradition that has influenced buying patterns over the years. According to interviews, this trend will probably change in the future due to the proliferation of coffee bars and the changes in consumption patterns in the world. Tea is among the cheapest beverages in emerging markets, but its consumption is sensitive to international price increments. A study carried out by FAO shows that its consumption in countries with tea culture such as Sri Lanka, Bangladesh and China could fall between 7% and 17% on a 1% price increase (FAO, 2010). Nevertheless, according to interviewees, this transition will be slow.

## **6. Cooperation and competition between Colombia and Vietnam: a discussion**

From the evidence put forward in the previous sections, it seems clear that Colombian coffee is highly different from Vietnamese coffee, because of the deep disparities they exhibit in their value chain, in terms of production costs, location, social and environmental practices. Nonetheless, this is not always recognised by producers in either country. They seem to think that they compete on exactly the same grounds.

Colombians perceive Vietnam as a fierce competitor that has driven them out of some markets based on low prices. But a closer look at its value chain shows that social and environmental considerations could place Colombia on a different standing than its Asian counterpart.

The Vietnamese, on the other hand, think that their low-cost product strategy is sustainable in the long run. They do not perceive Cambodia, Laos or Myanmar as competitors, although they surely have the potential to be, since they too have good climate conditions and low labor costs. Nor do they appear to care much about the fact that developed markets will require green and social standards that they currently do not meet.

Because these differences make each product unique, they can be used as a tool for cooperation and hence boost the initial comparative advantages each country has.

Colombia cannot compete with Vietnam in terms of costs. aside from lower labour costs, elements such as interest free loans granted for 50 years by the Vietnamese government to promote coffee farming, lower production costs even more. Due to its location and cultural proximity, Vietnam is also the natural seller to other Asian Countries, a market that according to interviews to NCF officers, absorbs 13.2 million bags, and has grown from 2004 to 2010 at a rate

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similar to the world, 2% per year (Saldías, 2011). As a consequence, Vietnam has and probably will continue to have a competitive advantage in lower production costs.

Colombia, in turn, has a more expensive coffee to produce and take to international markets, it has built its competitive advantage on quality, environmental and social practices.

Some cooperation strategies could be followed to strengthen both countries' competitive positions and upgrade the value chain. But are there incentives to cooperate? The answer drawn from interviews and from the author's conclusions seems to be yes.

In marketing, some strategies followed by each country alone, such as moving closer to final consumers or developing the domestic market, are interesting but costly and slow. Cooperation seems to provide a faster way to increase market share and revenues. Colombians could profit from the Vietnamese knowledge of Asian markets. Vietnamese, in turn, could free ride on the image of Juan Valdez and Colombian coffee, brands that have been built for at least four decades at multimillion-dollar costs.

Strategic partnerships can be explored in avenues such as coffee bar chains. The Colombian chain Juan Valdez would clearly benefit from a union with Vietnamese experts, who could help usher them into China, a move that international competitors like Starbucks and Costa have already made.

Cooperation could move both countries in the direction of developing new blends and products that could be sold on international markets. For Colombians, using lower-priced Vietnamese coffees would be a way to lessen competitiveness loss due to high labor costs. Even the creation of bi-national specialty coffees is something that can be explored and where Vietnamese could profit from the experience of the South Americans.

Additionally, the development of the Colombian domestic market (which has been stagnant at 1.4 million bags for at least ten years), could rely heavily on lower cost Vietnamese-based blends. Higher priced Colombian coffee can be exported, at a net gain to local producers.

Colombians could transfer their experiences on good social and environmental practices, and they could transplant some of their institutional infrastructure, such as the Federation of Coffee Growers and Cenicafe, that have proved useful in promoting technological advancement in coffee plantations.

Financing is another area of cooperation which could render interesting results for both parties. A coffee-backed security is an instrument that, according to the interviews, has been considered in Colombia as a tool to provide working capital for coffee growers. A bi-national security could have less agrological risk and greater liquidity, thus reducing the final cost for farmers.

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But most importantly, coordination between these countries could partially shift the axis of power of the coffee industry away from Brazil. Currently, international prices are determined mostly by changes in Brazilian production, given its 40 million-bag output. Coordination would centralize decisions on the production of Vietnam's 18 million bags and Colombia's 9 million bags, which would make each country more interesting for investors in this commodity.

## 7. Concluding remarks

Lately, some important trends have influenced major changes in world coffee consumption,<sup>1</sup> with particularly strong implications for Colombia and Vietnam. First, changing income levels in consumer countries, which is a primary driver of long-term demand. Second, the emergence of major urban centres, and a new middle class in developing economies. Third, new technologies such as the steam process<sup>2</sup>, that enable roasters to incorporate a wide range of coffees into their blends. Fourth, the interest of roasters to mix new coffees in their blends in order to have broader access to raw materials at a wider price range<sup>3</sup>. Fifth, a brand-coffee war that induces faster innovation to increase market shares in different segments, while consumers are simultaneously entering the market, attracted by new coffee products. Traditional products are stagnating and new products are gaining more space, such as different flavoured coffees. Sixth, coffee is available in a larger number of places in major consumer countries; supermarkets and other retailers are increasing their presence. Coffee bars are also growing and they are highly visible in major cities. An example of this fast growth is the UK-based chain Costa Coffee. It has set a goal to almost double its 1,870-store chain to 3,500 worldwide by 2013 (Balcher, 2009).

These trends will change the appearance of the world coffee market, in some cases, threatening Colombian producers, and in some others, Vietnam's. They will, for instance, move demand from developed economies to emerging economies; they will require new logistics (shipping smaller lots in a "just in time" fashion to stores in diverse locations), new products (with new blends, flavours and appearances). In this new, at times, harsher scenario, Colombia and Vietnam can choose to compete or cooperate. The later is a choice that has never been considered until now, but seems to create room for better outcomes for both.

## ANNEX

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<sup>1</sup> Those major changes are described in detail in Lewin *et al*, 2004.

<sup>2</sup> Steam process is widely used in Europe, especially in Germany, and results in cleaning the Robusta aftertaste and reducing the bitterness of the Robusta green coffee beans in the roasting process. For instance, some years ago Germany used to consume higher quantities of Colombian coffee. Nowadays, Germans are buying more Robusta and it has become an important market for Vietnam's coffee exports.

<sup>3</sup> This trend is not common yet in Colombia and Vietnam, but in the near future when those countries increase their domestic consumption they likely will incorporate coffees of other origin in their blends.

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Table 1: Coffee industry structure in Colombia and Vietnam

		COLOMBIA	VIETNAM
<b>INFRASTRUCTURE</b>			
History of the coffee industry			
	Date of creation	First coffee plantation 1730- coffee historical growth by 1950s	First coffee plantation was 1857 in French colony
	Management system/style	Cooperatives	None
	Number of owned farms	661,613	None
	Number of threshers	132 (2008)	NA
	Cultivated area	877,713 (2008)	506,000 ha
	Associations of coffee providers	38 cooperatives and 494 purchasing centers*	None
	Number of growers	511,133 coffee growers	600,000 coffee growers
	Forms of workers representation	Cooperatives	None
	% of employees who are part of a trade union	None	None
	Corporate organization	None	None
	Economic indicators (net profit, sales, etc)	Total production: 12.6 million bags (2007)	Total production 961000 tons (2007)
		Total exports: 11. 3 million bags (2007)	Total export 897 million tons (2007)
	Number of employees	640,000 direct employment	NA
	Number of workers with permanent contract	90%-95% have no permanent contract, they work only at harvest time.	NA
	Production capacity (farms, processing mills, etc.)	1-5 hectares, average farm area: 1,628,396 hectares	NA
	Growth in the last 10 years	(1998-2007): 0,3%	(1998-2008) 14%
	Market projections in the next 10years	Increase specialty coffee production	Increase domestic consumption
			Shift from Robusta to Arabica coffee types
	Market positioning	Main Colombian exports (2006)	Main export in 2006
1. USA: 35%		1. Germany: 19.9%	
2. Japan: 15%		2. USA: 16.4%	
3. Germany: 14%		3. Spain 11.2: %	
4. Canada: 6%		4. Italia:10.1%	
5. Belgium and Luxembourg : 5%		5. Belgium: 3.4%	
<b>ADDED VALUE</b>			
Certifications	Rainforest	None	
	Fair trade		
	UTZ Certified		
	USDA Organic		
Types of coffee	Arabica Colombian Mild	Robusta	
Speciality coffee	1. <u>Origin coffees</u> : regional coffee, exotic coffee, state coffee	Traditional coffee, Weasel coffee	
	2. <u>Sustainable Coffees</u> : certified organic, relationship coffee, conservation coffee		
	3. <u>Preparation coffees</u> : peaberry coffee, supremos coffee, select coffee.	Culi cofee	
<b>INTERNATIONALISATION PATTERNS</b>			
Alliances-Joint Ventures with traders –retailers	Procafecol has alliances with: - Coffee Arabicas Beverages S.A, production and distribution alliance of Colas de Cafe.	None	

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		- Pod Col Coffee Ltda (PCC Ltda), production alliance for Pods. - Cafescol Tiendas, for the creation of Juan Valdez's stores in Spain. -NFCGC Investment Inc, for the creation of Juan Valdez stores in USA.	
Alliances-Joint Ventures with multinationals		Alliance with Mitsubishi to penetrate Japanese market. Alliance between FNC and Coca Cola company, Distribution alliance	None
Alliances-Joint Ventures with roasters		NA	None
<b>MARKETING AND BRAND INNOVATION</b>			
Country Brands		FNC: Juan Valdez different type of coffees, freeze dried coffee (from Buen Dia factory). Colcafe Sello Rojo and Sello dorado. Aguila Roja: Aguila Roja. Casa Luker: Lukafe and New Colony	TrungNguyen (ground roasted coffee), G7 and Moment (instant coffee)
	Origen Denomination	100% Colombian coffee Juan Valdez's brands like: Cundinamarca, Huila, Amazonico, Guajira and Narino. They Represent the different coffee departments of Colombia	NA
	100% coffee of XXX	Trademark for all the coffee exports 100% Colombian coffee"	No
<b>REGULATORY FRAMEWORKS AND POLICIES</b>			
Government legislation regarding coffee		NA	NA
	Agricultural legislation	NA	NA
	Environmental legislation	Same applied to all industries.	Same applied to all industries.
	Labor legislation	Same applied to all industries.	Same applied to all industries.
National Association of Coffee Growers		FNC	VICOFA
Certifications (national and internationals)		ISO 14001Environmental Management system	ISO 9000
		Rainforest Alliance	
		Kosher	
		Fair trade	
		UtZ Certified USDA Organic	

\*Information based on personal Interviews both in Colombia and Vietnam.

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