

# INVESTMENT PROFILE: COFFEE SECTOR IN LAO PDR



ARISE+ Lao PDR

Funded by the European Union



# Acknowledgments

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The International Trade Centre (ITC) is supporting the Government of Lao PDR to implement the ARISE Plus Lao PDR project, funded by the European Union (EU).

The ARISE Plus Lao PDR project contributes to integration of Lao PDR’s economy into global production chains through targeted support to both public and private sectors.

Under the scope of this project, ITC is undertaking activities to support trade and participation in global value-chains in targeted sectors, namely coffee and wood. In this regard, ITC produced Roadmaps for the Coffee Sector and Wood Processing Sector in Lao PDR, and has undertaken studies in relation to export potential and investment opportunities for these two sectors, namely: ‘Export Potential in Lao PDR: Processed Wood and Specialty Agriculture (2019)’, and ‘Leveraging export potential and tariff advantages to attract foreign direct investment into Lao PDR: Wood processing and coffee (2021)’.<sup>1</sup> The Investment Profile for the Coffee Sector draws upon the existing studies to support Lao’s promotional efforts.

This Investment Profile serves to provide foreign investors within an insight into the investment climate in Lao PDR, obtain latest research and market insights into investment in Lao PDR and sector-specific information, and help identify potential investment opportunities within the coffee sector.

The information contained in this profile has been updated as of August 2023.

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# Acronyms

<b>AANZFTA</b>	ASEAN-Australia-New Zealand FTA
<b>ACFTA</b>	ASEAN-Mainland China FTA
<b>ADB</b>	Asian Development Bank
<b>AEC</b>	ASEAN Economic Community
<b>AHKFTA</b>	ASEAN- Hong Kong FTA
<b>AIFTA</b>	ASEAN-India Trade in Goods Agreement FTA
<b>AJFTA</b>	ASEAN-Japan FTA
<b>AKFTA</b>	ASEAN-South Korea FTA
<b>ARISE Plus</b>	ASEAN Regional Integration Support from the EU
<b>ASEAN</b>	Association of South East Asian Nations
<b>ATIGA</b>	ASEAN Trade in Goods Agreement
<b>DFTP</b>	Department of Foreign Trade Policy
<b>DIMEX</b>	Department for Import and Export
<b>DoA</b>	Department of Agriculture
<b>DoF</b>	Department of Forestry
<b>DoIH</b>	Department of Industry and Handicraft
<b>DPC</b>	Department of Planning and Cooperation
<b>DTP</b>	Department for Trade Promotion
<b>EBA</b>	Everything but Arms
<b>ER</b>	Expected Result
<b>ERD</b>	Enterprise Registration Department
<b>EU</b>	European Union
<b>EUD</b>	European Union Delegation
<b>FAO</b>	Food and Agriculture Organization of the United Nations
<b>GI</b>	Geographical Indication

<b>GIZ</b>	Deutsche Gesellschaft für International Zusammenarbeit
<b>GMS</b>	Greater Mekong Sub-region
<b>GoL</b>	Government of Lao PDR
<b>ICO</b>	International Coffee Organization
<b>IPL</b>	Investment Promotion Law
<b>ITC</b>	International Trade Centre
<b>Lao PDR</b>	Lao People's Democratic Republic
<b>LBF</b>	Lao Business Forum
<b>LDC</b>	Least Developed Country
<b>LNCCI</b>	Lao National Chamber of Commerce and Industry
<b>MAF</b>	Ministry of Agriculture and Forestry
<b>MoIC</b>	Ministry of Industry and Commerce
<b>NIU</b>	National Implementation Unit
<b>NSEDP</b>	National-Socio Economic Development Plan
<b>RCEP</b>	Regional Comprehensive Economic Partnership Agreement
<b>REDD+</b>	Reducing Emission from Deforestation and Degradation+
<b>RoW</b>	Rest of the World
<b>SME</b>	Small and Medium-sized enterprise,
<b>SPS</b>	Sanitary and Phytosanitary measures
<b>TBT</b>	Technical Barriers to Trade
<b>TFPB</b>	Trade Facilitation and Policy for Business Section - ITC
<b>TRTA</b>	Trade-Related Technical Assistance
<b>VPA</b>	Voluntary Partnership Agreement
<b>UN</b>	United Nations
<b>WTO</b>	World Trade Organization

# Executive Summary

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Lao People's Democratic Republic (Lao PDR) is a growing economy, averaging 8% per annum in GDP growth over the period from 2005 to 2019. The Government of Lao PDR continues to work on developing a conducive business environment, diversify its economy, and is strongly committed to becoming an important transport "land link" between China and Southeast Asia (a number of infrastructure megaprojects to better connect the country are underway).

Many new investors are looking for opportunities in the agricultural sector, as the land is underutilized and there is a shift toward commercializing and developing a high-value agriculture industry.

Coffee is an important commodity in world trade with consumption growing steadily at an annual rate of just over 2%. With the climate and geographical location of Southeast Asia being ideal for coffee cultivation, some of its countries (Viet Nam and Indonesia) have become coffee exporting giants, emphasizing the potential that Lao PDR has to follow in their footsteps.

The coffee sector in Lao PDR has experienced a tremendous growth in the past 20 years, with both planted areas and production increasing about threefold since 1999. It is the 3rd most exported agricultural crop in terms of value from Lao PDR. ITC analysis indicates that Lao PDR has an export potential of USD 155 million in coffee per year by 2024, including an untapped potential of USD 74 million, which means that Lao PDR has the potential to double its coffee exports over the next few years.

There is a very promising market opportunity for the Lao PDR coffee sector, as the local and regional demands for coffee are rapidly increasing (in both China and Southeast Asia). Moreover, the global demand for high-grade specialty coffee and "sustainable" coffee, for which both the Bolaven Plateau and the emerging North belt are well suited, is rising fast. Strengthened transport linkages with neighbouring countries, and preferential access through regional trading agreements further enhance Lao's place as a suitable investment destination for coffee.

ITC analysis indicates that potential investors can increase their export potential in green coffee beans (unroasted coffee) by USD 85 million per year investing in coffee plantations in Lao PDR and exporting to destinations in which Lao PDR has a tariff advantage over other exporters. Lao PDR also possesses an export potential of USD 28 million in roasted coffee. Accordingly, foreign investors in coffee plantations in Lao PDR may also consider investing in coffee processing as a joint venture with domestic investors. At present, foreign investors may invest up to 25% capital in coffee processing, and discussions are currently underway to increase this level.

This Investment Profile serves to enable investors to understand the general investment climate in Lao PDR, the scope and potential of the coffee sector in Lao PDR and discuss potential investment opportunities that can be explored in the country. This Profile should be referred to in conjunction with the [Export Potential Roadmap for the Coffee Sector in Lao PDR](#). The Profile also provides details of stakeholders in the coffee sector that would be relevant for investors seeking to obtain more information into this sector.



# I. Lao PDR: An Overview

Lao People's Democratic Republic (Lao PDR) located at the heart of the ASEAN region has the strategic geographic advantage of being land-linked and bordering key ASEAN markets including Viet Nam, Cambodia, Thailand, Myanmar, and China. The country is divided into 17 provinces and one prefecture (i.e., the capital city, Vientiane). Each of the provinces are further divided into districts and villages.

Lao PDR is home to breathtaking landscapes, untouched natural environment, and rich tradition, and is striving to increase competitiveness and become a key economy in the region. The land itself is largely mountainous, but not in the developed part of the country. 40% of the remaining land is wild-life reserve or park, and the rest is either grassland, woodland, shrubland, or farmland.

**Table 1: Key Facts**

Capital city:	Vientiane
Land area:	236.8 sqm
Population:	7.58 mn (2023 est.)
Labor force (over 15 years):	3.1 mn (2022)
Population growth:	+1.4% (2022-2023.)
Urban Population:	37.9%
Male youth literacy rate (15-24 years):	95% (2021)
Female youth literacy rate (15-24 years):	93% (2021)
GDP (current USD):	18.83 bn (2021)
FDI Inflow (current USD):	1.07 bn (2021)
Exports:	33.0% of GDP (2018)
Major exports:	Wood products, coffee, electricity, tin, copper, gold, cassava
Imports:	42.0% of GDP (2018)
Major imports:	Machinery and equipment, vehicles, fuel, consumer goods
Exchange rate (per USD):	LAK 8,679 (2019)
Govt. expenditure:	USD 8.2 bn (2017 est.)
Govt. revenue:	USD 3.10 bn (2017 est.)
GDP per capita (nominal):	USD 2,535.6 (2021 est.)
GDP growth:	2.5% (2021 est.)
Inflation rate:	23% (2022 est.)
Currency:	Lao Kip (LAK)
Other major cities:	Pakse, Savannakhet, Thakhek, Luang Prabang
Language:	Lao (official), French, English, various ethnic languages
Religion:	Buddhist 64.7%, Christian 1.7%, none 31.4%, other/not stated 2.1% (2015 est.)

Source: World Bank, CIA, IMF

## 1.1. Economic Outlook in Lao PDR

Lao PDR has made considerable progress in transitioning from a centrally planned economy to a 'market economy regulated by the Government'. It is a growing economy, averaging 8% per annum in GDP growth between 2005 and 2019, halving poverty, reducing malnutrition, and improving education and health outcomes.

In February 2021, Lao PDR was recommended for graduation from LDC status in 2026, which is a testament to the progress it had made to achieve sustainable development in the country. (Refer Box 1 for further information).

### Box 1: Lao PDR's Development Policies, and graduation from LDC status

Lao PDR's growth trajectory has thus far been due to its continued focus on realizing its strategic reform agenda introduced with the objective of driving inclusive, sustained economic growth; development of human assets; and protection of natural resources. Vision 2030, designed by the Ministry of Planning and Investment of Lao PDR, envisions Lao PDR's growth towards an upper middle-income country characterized by inclusive, stable and sustainable economic growth, while pursuing social development including environmental protection and human development.

Development policies are promulgated through five year National-Socio Economic Development Plans (NSEDPs). The 8th NSEDP (2016 – 2020) demonstrated strong commitment from the Government to pursue green and sustainable economic growth, focusing on rural development, poverty alleviation and graduating from its Least Development Country (LDC) Status. The 9th NSEDP (2021 – 2025), approved in March 2021, comes at a time when the country, along with the rest of the world, are dealing with the shock of the Covid-19 pandemic. Accordingly, reform efforts will include measures to deal with the impact of the pandemic crisis and continue to advance sustainable and inclusive growth, invest in human capital and infrastructure, and progress towards a smooth transition from LDC status.

In February 2021, the United Nations Committee for Development Policy (CDP) recommended Lao PDR for graduation from LDC status, with an extended preparatory period of 5 years, thus setting graduation to 2026. The CDP also suggested, to ensure a smooth transition strategy, to focus on (a) strong debt relief and improved macroeconomic stability; (b) sustainable and inclusive structural transformation, including through accelerated economic diversification and further strengthening of regional integration; (c) reducing inequalities through appropriate fiscal and development policies; and (d) building disaster resilience and reversing environmental degradation.



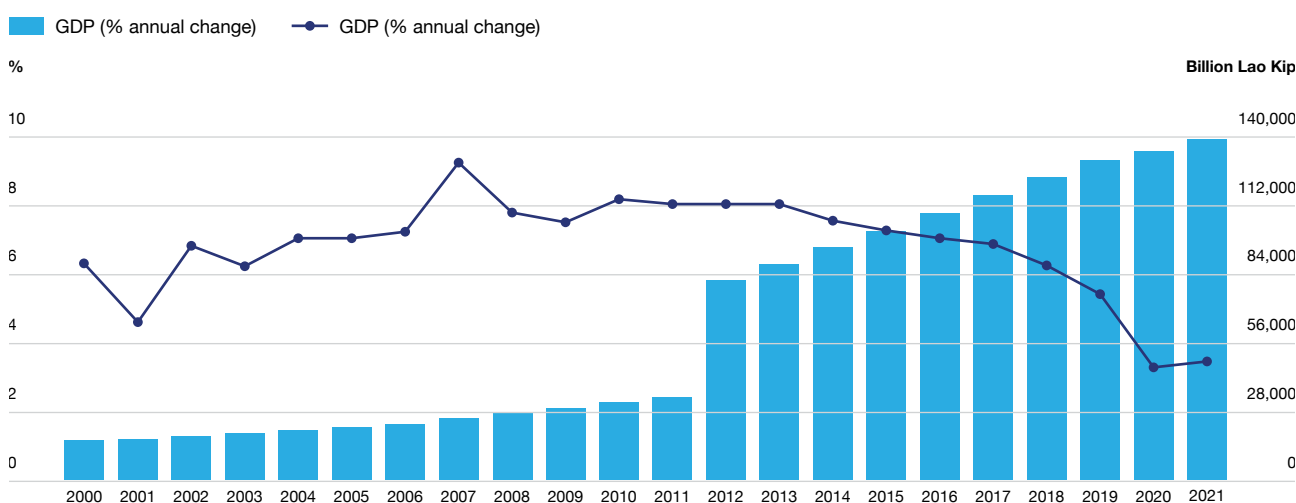
**Macroeconomic Outlook:** The Government is introducing measures to facilitate a well-regulated and liberalized pro-business environment to strengthen the country’s macroeconomic outlook.

**Table 2: Lao PDR’s macroeconomic development – Key Indicators**

	2020	2021	2022	2023
GDP growth (%)	6.3	5.2	0.5	2.5
Inflation (yearly average, %)	2.0	3.3	5.10	3.8
Budget balance (% GDP)	-4.7	-3.35	-5.6	-1.29
Current account balance (% GDP)	-12.0	-6.4	-1.2	2.4
Public debt (% GDP)	59.7	62.6	55.94	53.81

Source: CoFace for Trade<sup>2</sup>

**Figure 1: GDP (at constant prices and % annual change)**



Source: ADB, Key Indicators Database

**Growth Rates:** The significant drop in Lao PDR’s growth rates in 2020, as demonstrated in Figure 1, is attributed to the pandemic, which had a particularly negative effect on tourism-related services, wholesale and retail trade, and manufacturing. The growth in GDP rates after 2021 is mainly attributed to industrial and agricultural exports, with industrial output expanding by 4% supported by increased electricity and mining production, and rising construction activity.<sup>3</sup> The Asian Development Bank (ADB) projections, as of September 2023, provided for a moderate growth of 3.7% in 2023 and 4% in 2024. According to the ADB, upgrades to the connectivity infrastructure, and potential for more international travellers in light of

Lao PDR holding the ASEAN Chairmanship in 2024, and, in turn, increased confidence in and demand for transport, accommodation, and related services – could help Lao’s growth efforts.<sup>4</sup>

The 9th NSEDP (Refer Box 1) set an average annual GDP growth target of at least 4%; with GDP per capita targeted to increase to USD 2,880 by 2025.<sup>5</sup>

Prices are expected to climb as businesses pass on costs from imported goods and wage increases to consumers. Adjustments are also planned for electricity tariffs. As such, domestic consumption and the job market are expected to remain weak.

**Inflation Rates:** Lao PDR's government has been trying to keep inflation under control after the 125% annual peak during the Asian Financial Crisis. A macroeconomic stabilization program was carried out, which has enabled to maintain an effective monetary policy since then. Inflation rates have remained relatively low in the past decade but started to increase significantly since 2020. The Covid-19 pandemic, the rising debt burden, and fluctuation of exchange rates were seen as the reasons for driving up inflation in 2020. In November 2020, the Government announced efforts to control exchange rates and curb inflation.<sup>6</sup>

Inflation has been projected to remain high in 2023 at 28% before moderating to 10% in 2024.<sup>7</sup> Efforts

to address structural imbalances can enable quicker recovery of the economy.

**Fiscal policies:** Lao PDR's public debt being high, the government has been working on strengthening its fiscal governance to support reducing the public debt and creating fiscal space for development, including through the introduction of the Public Debt Management Law 2018.<sup>8</sup> Main taxes payable include profit tax, corporate income tax, deemed profit tax and withholding tax, as detailed in Table 3 below.<sup>9</sup>

A more detailed insight into the taxation structure for companies and individuals in Lao PDR is provided in [Annex II](#) of this Profile.

**Table 3: Summary of taxes payable in Lao PDR (As of 2022)**

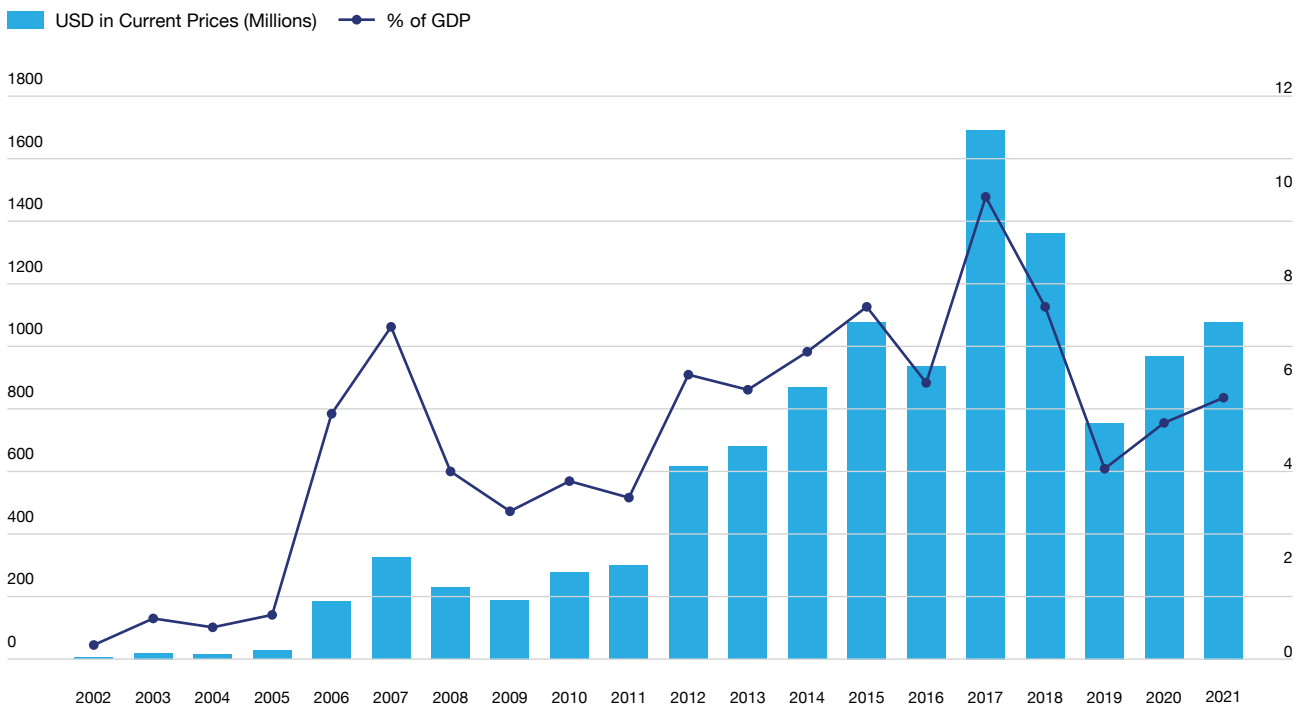
Profit Tax (i.e. corporate income tax)	Standard rate is 20%. The payment of profit tax shall be carried out two times per year as follows: • First time shall be by 20 July of the year. • Second time shall be by 20 January of the following year. The profit tax payments shall be based on the previous year's profit tax payments, or self-estimated amount or actual profit incurred during the period. However, if the amount of profit tax paid during the year is less than the actual amount due after closing the accounting books, the difference will be added to the year-end assessment.
Capital gains tax	There is no separate tax on capital gains. However, the sale of shares (except sale of shares listed on the Lao PDR securities exchange) is subject to Income Tax at the rate 2% on total selling price, regardless of whether a seller will have a gain or loss from this transaction.
Value Added Tax ("VAT")	Current rates include 10% standard rate, exempt and 0% for certain goods or services. Monthly VAT return must be filed within 20 days of the following month. Any excess input tax may be claimed as a refund or used as a credit towards the subsequent months VAT liabilities for up to three months.
Deemed Profit Tax ("DPT")	Certain payments made to a company overseas are subject to DPT at the rate ranging from 1.4%-3% as specified under the law. Service fees paid to a company overseas are subject to DPT at the rate of 3% and 10% withholding VAT.
Withholding tax	Payers of assessable income who are residents of Lao PDR are liable to deduct tax at source from certain domestic and cross-border payments, including interest, dividends, royalties, rent of property, etc. The payer is responsible for deducting the tax, remitting the tax and filing a return within 15 working days after the payment has been made.
Other tax compliance	Stamp duty is payable on a number of documents and transactions as described in the Decree on Fee and Charge, including leases, security transfer documents, loan agreements and hire of work contracts. Customs duty is levied on imports and certain exports. This is generally payable prior to the goods being released by Customs.
Personal income tax	Progressive rates from 0%-25%.
Transfer pricing	There are no transfer pricing regulations in Lao PDR.

**Lao Currency:** The official currency of Lao PDR is the Laotian Kip (LAK). Although only the Kip can be used legally in day-to-day transactions, three currencies are used in trading: LAK, THB (Thai Baht) and USD (US Dollar). The flow of both THB and USD is particularly important to the national economy: an estimated two-third of the money circulating in Lao PDR bears either the THB or the USD. Chinese Yuan (CNY) can also be used in the country's Northern provinces; and in January 2020, China and Lao PDR signed an agreement on bilateral monetary cooperation to enhance the use of local currencies in trade and investment.<sup>10</sup>

**Foreign Direct Investment Flows:** FDI is a key source of investment in Lao PDR. Most FDI into Lao PDR originates from neighboring countries in East Asia and the Pacific, namely, Thailand, Japan, Vietnam, China, and Cambodia.

FDI flows to Lao PDR increased almost nine-fold between 2009 (USD 190 million) and 2017 (USD 1,6 billion).<sup>11</sup> The WTO Secretariat's Trade Policy Review Report for Lao PDR in 2019 noted that the rise in FDI flows recorded were attributed to significant investment in the power sector and infrastructure by China, along with other factors such as political and macro-economic stability, liberal investment policy, deeper regional and global integration, and improved investment climate.<sup>12</sup> FDI inflows to Lao PDR did, however record declines to USD 557 million in 2019, from USD 1,3 billion in 2018 (-58%),<sup>13</sup> while the stock of FDI stood at USD 10 billion in 2019. This contraction of investment took place mostly because of a continued slowdown in FDI projects from China, which is the largest FDI contributor, by far. Apart from China, which accounts for a significant share of FDI in Lao PDR, other large sources of foreign investment into Lao PDR include Thailand, Vietnam, Korea, and Japan.

**Figure 2: FDI inflows in Lao PDR – in USD Million in current prices and as a % of GDP, 2002 - 2021- 2**



Source: UNCTAD Statistics – Foreign Direct investment: Inward and Outward Flows and Stock, Annual (<https://unctadstat.unctad.org/wds/TableView/tableView.aspx>)



Over the past 15 years, the Government has been pursuing a policy of FDI promotion, with the investment law being amended at the end of 2016. The revised version of the law clarifies investment incentives, transfers responsibility for Special Economic Zones to the Ministry of Planning and Investment (MPI) and removes strict registered capital requirements for opening a business.

The Lao government also seeks to welcome both domestic and foreign investment. Foreigners may invest in any sector or business, unless it would cause a threat to national security, health, or national traditions, or if it may negatively impact the environment. Foreign companies may however find it beneficial to collaborate with a local partner to navigate the various procedures and steps to set up and engage in operations in Lao PDR. To promote and facilitate domestic and foreign investment, the Prime Minister issued Order 02 and Order 03 in 2018

and 2019 respectively to reform the ease of doing business and improve services on investment and operational licenses.

Lao PDR, in its efforts to strengthen its investment environment, has entered into bilateral investment treaties, and as a Member of the ASEAN, is party to investment agreements and trade agreements containing investment provisions.<sup>14</sup>

It is also noteworthy that Lao PDR has been actively engaged in the WTO Investment Facilitation for Development (IFD) negotiations and has undertaken a preliminary assessment of the domestic policy framework to understand gaps in implementing the WTO IFD Agreement and the technical assistance needs in this regard. This signals a strong interest on the part of the Lao government to make it easier for investors in all sectors of the economy to invest and conduct day-to-day business.

## Box 2: Investment Facilitation Developments – Multilateral and Regional

The recently concluded negotiations on the WTO Investment Facilitation for Development Agreement set an important standard in place for facilitating foreign direct investments. Negotiations towards an Agreement on investment facilitation for development were formally launched in September 2020. Lao PDR signed on to these negotiations and has undertaken a preliminary assessment on its compliance with investment facilitation provisions.

In the ongoing negotiations on investment facilitation for development, participating WTO members are discussing notably the following topics:

- Improving the transparency and predictability of investment measures.
- Simplifying and speeding up investment-related administrative procedures.
- Strengthening the dialogue between governments and investors, promoting the uptake by companies of responsible business conduct practices, as well as preventing and fighting corruption.
- Ensuring special and differential treatment, technical assistance and capacity building for developing and least-developed countries.

This Agreement, when in place, will set up rules making it easier for investors to establish and expand their investments and conduct day-to-day business in host countries. The concept of investment facilitation has also already been addressed/built into international investment agreements (IIAs) – and accordingly practices in this context are also already at play.

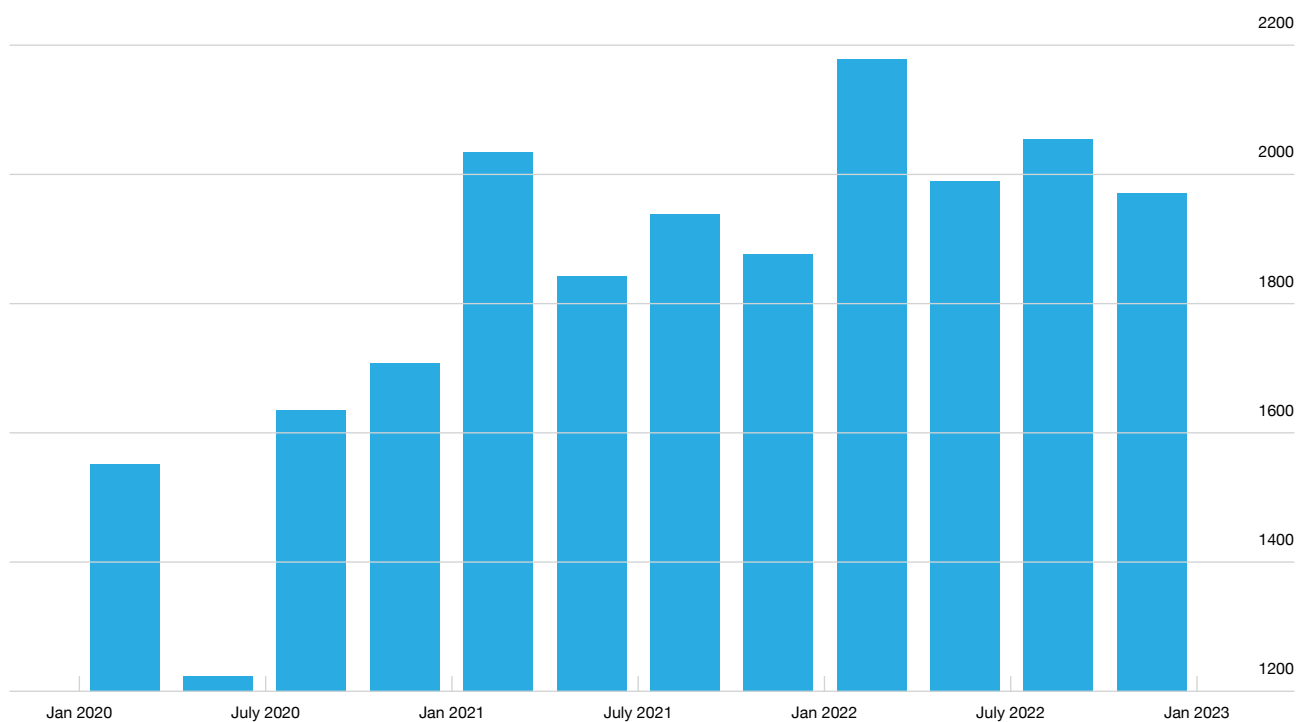
In addition, elements of investment facilitation are also found in the ASEAN Comprehensive Investment Agreement (ACIA) and ASEAN+ 1 FTAs such as the ASEAN-Hong Kong, ASEAN-Japan, ASEAN-China, as well as RCEP. Certain EU agreements also include these elements such as with Central America, and Eastern and South Africa.

## 1.2. Lao PDR's Trade Profile

With liberalization of Lao PDR economy, exports have been growing in the past 15 years. Agricultural products and natural resources account for most Lao PDR exports, with the main exports comprising

of wood, clothing, coffee, electricity, metals, corn, and rubber. Lao PDR's main exports partners are Thailand, China, and Viet Nam.

**Figure 3: Lao PDR's Exports – 2020 - 2023 (USD million)**



Source: Trading Economics – Bank of Lao PDR

ITC analysis also indicates that Lao PDR possesses significant export potential, particularly in the ASEAN region (close to USD 6 billion), China (more than USD 2 billion), and the EU (USD 450 million); and the country's agricultural sector has promising opportunity in terms of high-quality niche products.<sup>15</sup>

Lao PDR's limited size and lack of sea access has made it difficult for the country's commercial crops exports to be price competitive, but its comparative advantage lies in its topography, which allows growing a wide range of specialty vegetables and

fruits, and its ability to provide organic products due to a traditionally low usage of fertilizers.<sup>16</sup>

More specifically, as of 2019, Lao PDR recorded an export potential of USD 634 million in specialty agriculture, with coffee being one of the most important products in this sector in terms of export potential.<sup>17</sup> The efforts being taken to increase connectivity and improve connections to seaports (such as to Viet Nam) may also contribute to strengthening competitiveness of Lao PDR's exports.

Figure 4: Lao's Main Goods Export Categories (2022)



Source: ITC Trade Map

Figure 5: Lao PDR's Main Export Destinations for Goods – 2021



Source: ITC Trade Map

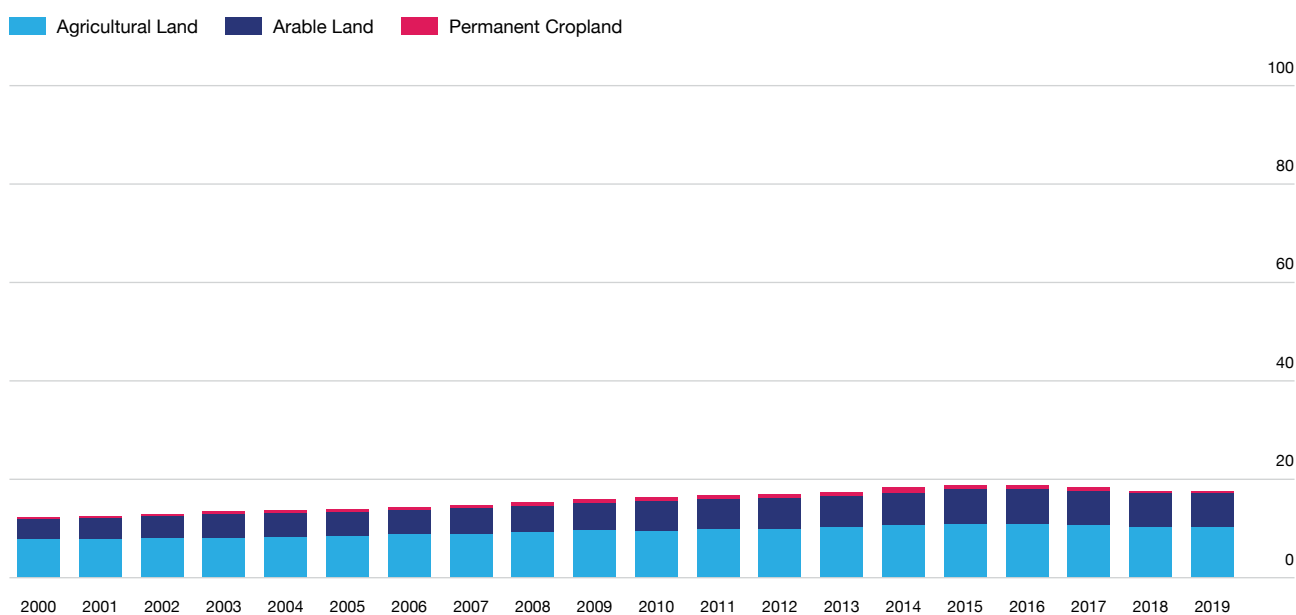
**Key Economic Sectors and Reform Efforts:** Lao PDR’s growth model has traditionally relied on the exploitation of abundant natural resources: minerals (copper, gold, bauxite, iron, zinc), and agricultural commodities (maize, rice, sugar cane, rubber, manioc, soya, coffee). Its electricity (mainly hydropower) and mining sectors have been the pillars of the country’s economic growth. While the hydro power sector is still rapidly expanding, Lao PDR is aiming to diversify its economy, recognizing the limitations of this growth model (increasing pressure on the environment). The country is focusing on reforms to support greener, more inclusive growth and aiming to move up the value chain through processing and entering niche, high value markets (i.e. organic and fair-trade produce).

Moving forward, the Government is strongly committed to becoming both an important transport “land link” between China and ASEAN, as well as “the battery of Southeast Asia” by exploiting hydropower (and to a lesser extent wind, solar, and thermal energy resources) to export electricity throughout the region. The power sector accounts for 12% of the country GDP and 22% of exports. Lao power generation has doubled in size from 2016 (22,000 GWh) to 2020 (45,000 GWh).<sup>18</sup>

The **mineral and mining sector** (particularly copper and gold) remains an important economic sector for the country, accounting for 6% of the country GDP and 28% of merchandise export in 2018. However, both copper and gold mining outputs have experienced a decline since 2017.<sup>19</sup> Lao PDR has taken proactive steps to diversify its economy, recognizing that heavy dependence on the mining sector limits its growth model.

The **agricultural sector** accounted for 15.7% of the GDP and 63.2% of employment in 2018. Although the main type of work is subsistence farming, there is a shift toward commercializing and developing a high-value agriculture industry, which has become a priority for the Government. The agricultural sector accounted for 16.1 % of the GDP. The Agriculture Development Strategy 2025 – 2030, reiterated the importance of the agricultural sector for Lao PDR, and set out clear goals and directions to facilitate an enabling environment for agriculture, shift towards industrialized and modern agriculture, and better integrate into regional and international value chains.<sup>20</sup> Given the low population density, its land is underutilized. Consequently, many new investors from neighboring countries are exploring agricultural opportunities (mainly livestock, dairies, and agribusiness) in the country.

**Figure 6: Agricultural Land, Arable Land, and Permanent Cropland (% of land area)**



Source: ADB, Key Indicators Database – Lao PDR (<https://kidb.adb.org/economies/lao-peoples-democratic-republic>)



**Tourism** contributed to USD 2 billion (14% of the country GDP) in 2017 and is expected to significantly grow in the next decade. The Government allows up to 70% foreign equity as part of its incentives to attract foreign investments in this sector. Tourism has contributed to the development of new infrastructure projects (hotels, transportation services, roads) and the creation of many jobs.

The emergence of **light manufacturing** has begun to help Lao PDR integrate into regional supply chains, and improving infrastructure should facilitate this

process, making Lao PDR a legitimate locale for regional manufacturers seeking to diversify from existing production bases in Thailand, Viet Nam, and China.<sup>21</sup> In particular, 12 special industrial economic zones were created, with over 15 light industries sectors represented (about 380 foreign and domestic companies established), providing a good basis for the development of local manufacturing and therefore access to spare parts for machineries and other important industrial related services (technology innovation, maintenance etc.).

### 1.3. Population and Labor Force

As of 2020, Lao PDR's total population totaled 7.3 million, increasing by 2 million from 2000. The population growth rate is moderate, and this trend is expected to continue in the coming years. The country population is expected to grow to 9.7 million by 2060 before beginning to decline. Lao PDR has the youngest population of any Asian country with a median age of 21.6 years. The 2015 census showed 60% of the Lao population was under the age of 25 years. This represents a labor force (over 15 years old) of 3.6 million people. Unemployment remains extremely low (0.6% in 2020, according to World Bank). Although its urbanization is progressively increasing, the country remains mainly rural, its urban population (essentially concentrated in Vientiane) representing only one third of the total population.<sup>22</sup>

**Technical Capacity and Skill Levels:** Although economic progress and trade expansion is hampered by a shortage of workers with technical skills and a weak education system (literacy rate was about 85% in 2015), Lao PDR has made good progress in expanding access to basic education over the last two decades.<sup>23</sup> Lao PDR created future-oriented education programs ensuring its young population is equipped with the right skill sets and knowledge, contributing to a sustainable economic growth in the longer term. Lao PDR also created the Education Sector Development Plan (ESDP) (2016 and 2020), aiming at improving equity, developing better quality teachers, and realigning the education sector to growing labor markets.<sup>24</sup> Technical vocational schools and agriculture colleges are developing coffee specific curriculum to support growth of the sector, thus providing a qualified workforce for the agricultural region.

**Wage Rates:** Average wages in Lao PDR are the lowest in the region (30% less than in Viet Nam, 50% less than in Thailand and 10% less than in Cambodia). The monthly minimum wage is around USD 120.<sup>25</sup>

**Foreign Labor:** All foreign workers who work in Lao PDR are required to have work permits. Among the 14 types of work visa (Article 19, Law on Entry-Exit and Management of Foreigners in the Lao PDR), the two predominant ones used by foreign companies are the Business Visa (NI-B2) for managing directors, and the.<sup>26</sup> If the demand for labor cannot be supplied by domestic workers, employers can request the Labor Management Authority's (LMA) permission to hire foreign workers, subject to quotas (Article 68, Labor Law). The LMA also considers requests in excess of the quotas on a case-by-case basis. Visas are valid for 12 months, and extendable for 12 months up to a maximum of five years.



## 1.4. Access to Key Utilities

**Land:** In line with Lao PDR's Constitution, land is owned by the national community and only available on a lease or concession basis. Access to and use of land is governed by Land Law, No.70/NA (2019) and the Prime Ministerial Decree on Implementation of Land Law 88/PM (3 June 2008).<sup>27</sup>

While foreign investors are currently not permitted to own land, investors are still able to obtain land for use through long leases or concession contracts under Article 16 of the Investment Promotion Law 2016; and have the right to transfer and improve leasehold interests. Government approval is not required to

transfer property interests, but the transfer must be registered, and registration fee paid.

As a result of the country's low population density and the high availability of land, land concession rates (negotiated between the investor and the landowner on a case-by-case basis, depending on the investment size) are much cheaper than those of Lao PDR's neighboring countries, Thailand, and Viet Nam.

Foreign entities can retain their leasehold or concession rights in land in Lao PDR for up to certain time-periods,<sup>28</sup> as specified in table 4 below:

**Table 4: Foreign land use rights – duration**

Type of Land Use Right	Maximum Duration
Lease or concession of State land	50 years, extendable upon approval of the Government or National Assembly or the Provincial Lao People's Assembly according to the proposal of the Government or provincial administration
Lease of land from Lao citizens or entities	30 years, extendable upon agreement between the parties at the approval of provincial administration, according to the proposal of the provincial natural resource and environment department
Time limited sale-purchase of State land use right*	50 years, extendable upon approval of relevant State authorities

\*Time limited sale-purchase of state land use right is a newly introduced form of acquisition of land use right in Lao PDR. It is essentially a purchase of State land use right by way of an execution of a sale and purchase agreement between the State and buyer, who can be a Lao citizen, alien, stateless person, foreign individual, and foreigner with Lao ethnicity.<sup>29</sup> While similar to lease of concession of State land – the time limited sale-purchase of state land is only permitted for the purpose of urban development, construction of condominiums, apartments, or townhouses. It should also be noted that foreign incorporated bodies are not permitted to acquire land use rights in Lao PDR through this method.<sup>30</sup>

It should, however, be noted that there are efforts being taken to reform existing land policy, even if at a measured pace. For instance, in 2020, the Amended Law on Land No. 70/NA, amending the 2003 Land Law, was published on the Lao Official Gazette, permitting foreign nationals to own structures on Lao land. More specifically, Lao citizens and foreign nationals are now allowed to own apartments in condominiums whose construction was authorized by the government.<sup>31</sup>

**Power Sector:** The Lao PDR power sector has significantly developed since 1975 (only 10% of the population had access to electricity then). Today, more than 96% of households have access to electricity.<sup>32</sup>

Lao is also developing its hydropower resources, with its hydropower production as of 2020 amounting to 170% more than its domestic consumption of electricity.<sup>33</sup>

**Water:** Water is cheap and plentiful in Lao PDR. The irrigation system, reservoirs and water pump stations have been gradually expanded and enable two-season cropping.<sup>34</sup> Support continues to be provided for irrigation (construction and pumping).<sup>35</sup>

**Banking Facilities:** The banking system is well capitalized,<sup>36</sup> and largely concentrated in commercial banks. Lao PDR currently has some 38 banks, including 1 state-owned commercial banks, 1 specialized bank, 5 joint-venture banks, 7 privately banks, 8 subsidiary banks and 16 foreign commercial bank branches.<sup>37</sup> There has been a noticeable expansion in foreign banks in the past two decades with new foreign branches entering the market.

State-owned commercial banks still play an important role in the sector with around 43% of total assets, including one single majority state-owned commercial bank, which represents around one-third of all banking system assets and has the largest distribution network.<sup>38</sup>

To facilitate business transactions, foreign investors generally open commercial bank accounts in both local and foreign convertible currencies at domestic and foreign banks in Lao PDR. Bank lending to FDI based companies is only available in LAK. While foreign investors need an operational bank account in LAK, they are allowed to hold a foreign currency account. Transfers from local currency to foreign currency accounts are permitted (subject to the Central Bank applicable exchange rates), and there are no restrictions on international transfers.

The Enterprise Accounting Law does not place any limitations on foreign investors transferring after-tax profits, income from technology transfer, initial capital, interest, wages and salaries, or other remittances to the company's home country or third countries. Foreign enterprises must report on their performance annually and submit annual financial statements to the Ministry of Planning and Investment (MPI).<sup>39</sup>



## II. Lao PDR's Coffee Sector

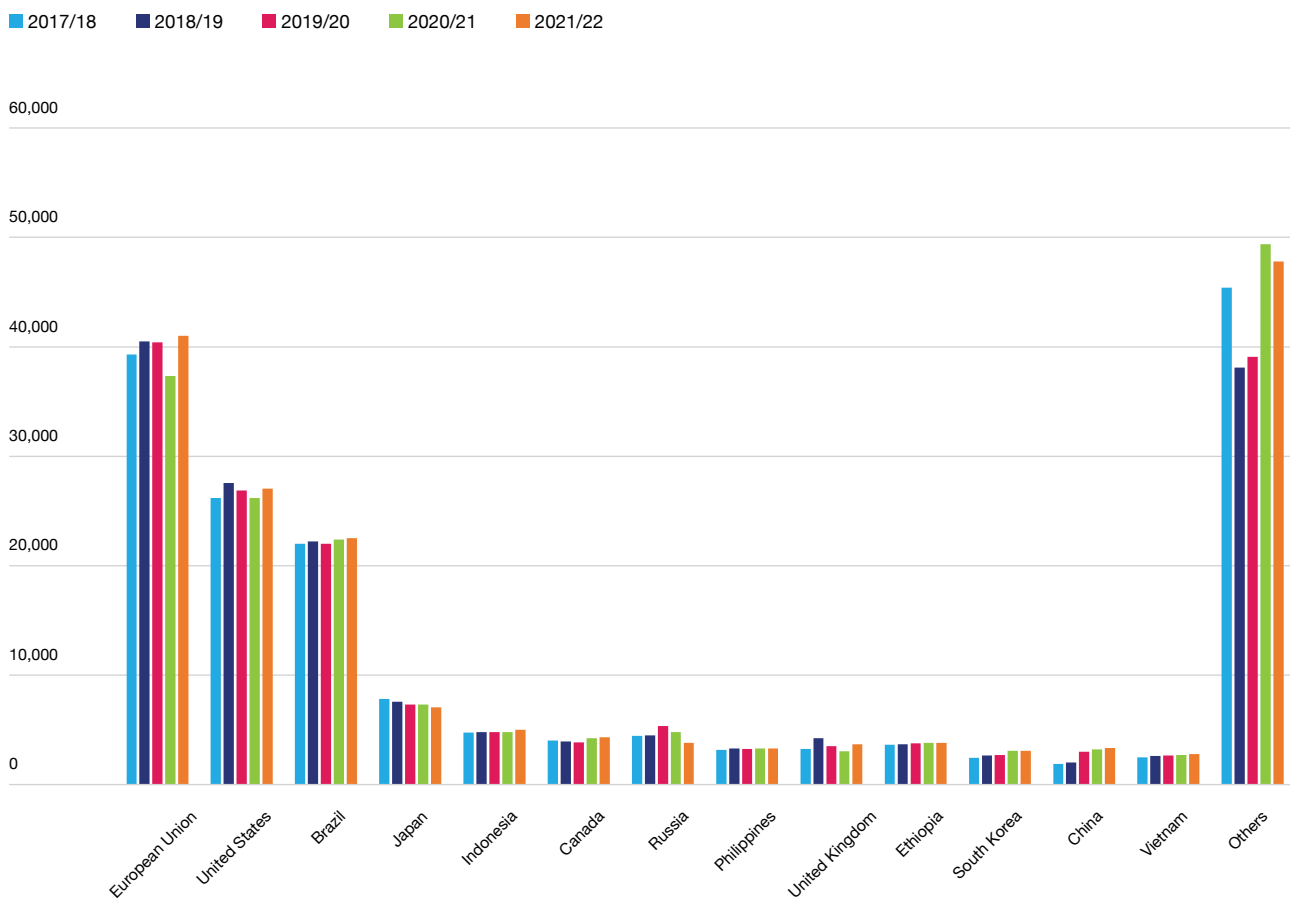
### 2.1. Global Trends in the Coffee Market

**Global Trends in Consumption:** The global coffee market has grown by over 80% over the past 30 years, with total coffee consumption increasing from 98 million bags in the early 1990s to 178.5 million bags (10.7 million tons) in coffee year 2021/22. Over that period global coffee consumption has been growing on average by around 2% per annum although the rate of expansion has varied from

region to region and was certainly impacted by the global pandemic.

The European Union, United States, Brazil, Japan, and the Indonesia are the world's largest consumers of coffee. The largest importers of coffee by volume are: the European Union (41.8 million bags), the United States (27.4 million bags), and Japan (7.4 million bags).

Figure 7: Coffee consumption by Country 2017/18 to 2021/22 ('000 bags)



Source: International Coffee Organization (ICO)



Over the last 30 years the global coffee market has undergone a radical transformation with the growing importance of what have been termed “emerging or new markets”, particularly in Asia, but also in Eastern Europe as well as in producing countries. These new markets have almost doubled in size and today account for almost 50% of world consumption. Furthermore, during that time the global coffee market has evolved, becoming more differentiated and stratified with the emergence of the specialty coffee sector. Whilst there is no universally accepted definition of specialty coffee, the global specialty coffee market, assuming its’ widest definition, is thought to account for anywhere between 15% to 20% of the global coffee market, that is between 25 million bags and 34 million bags. On its’ narrowest definition assuming coffees that score over 80 on the Q grading scale, however, it is thought to account for between 7% and 10% of the global coffee market i.e., between 11.75 million bags and 17.0 million bags. Either way it is still the fastest growing sector of the coffee industry, and it is expected to reach a minimum of around USD 83.5 billion in revenue and 1.6 million tons (25 million bags) in volume by 2025.

Both of these developments provide new entrants into the coffee market, like Lao PDR, with unique opportunities to not only expand their exports to these new markets but also to benefit from the specialty coffee market sector’s thirst for new and exciting coffees from origins which are largely unknown to this sector of the global coffee community. Furthermore, demand for “sustainable and certified coffees” is also growing and although estimates differ, one source<sup>40</sup> suggests that about 55% of total global coffee production was certified in 2019, but that only 25% was purchased as certified suggesting that the remainder was sold as conventional coffee. There are a number of different certification schemes, but the main ones include 4C, Fairtrade, organic, Rainforest Alliance & UTZ, and the private sector standards of Starbucks’ C.A.F.E. Practices and Nespresso’s AAA Guidelines (see Annex VIII for more details on these schemes).

In terms of the type of coffee, Robusta currently accounts for around 42% of global exports (up from around a third ten years ago), while Arabica

accounts for around 58%. Most of the Robusta coffee produced globally is used in the manufacture of instant coffee but the bulk of the better-quality Robusta finds a ready home in many of the world’s best known espresso blends and some washed Robustas frequently form a significant proportion of many filter coffee blends as well.

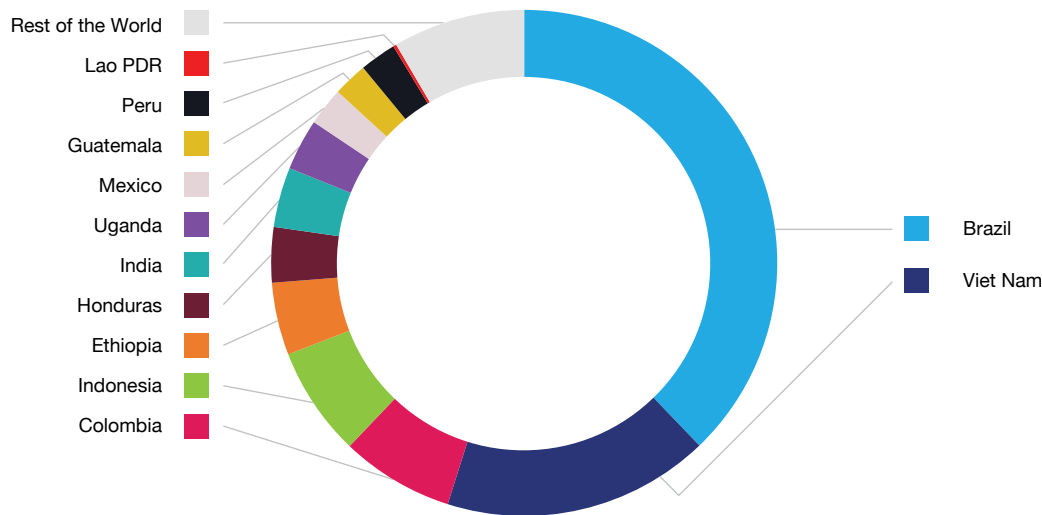
**Trends in production capacities:** According to the latest statistics from the International Coffee Organisation (ICO), global coffee production in coffee year 2021/22 amounted to just over 171 million bags (10.1 million tons).<sup>41</sup> This is just over 2% higher than it was five years ago and 21% higher than ten years ago. Indeed, global production has been on an almost continuous upward trajectory for more than three decades, although the bulk of this expansion can be attributed to a handful of origins, namely Brazil, Viet Nam, Colombia, and Honduras, which account for around 92% of the increase in global production witnessed over the last ten years.

Although some 70 countries produce coffee on a commercial scale, there has always been a significant degree of concentration in world production, primarily as a result of the dominance of Brazil, which accounts for more than one third of world output. Over the last ten years this degree of concentration in coffee production appears to be increasing at an accelerating rate. In 2021/22, the 5 largest producing countries accounted for almost three quarters (73.7%) of world production up from 67.4% in 2011/12, a percentage which had, more or less, remained constant since the turn of the century.

Viet Nam, which thirty years ago was producing around 1.4 million bags, now occupies the second spot producing over 29 million bags or just over 17% of world output. Colombia continues to be an important origin, despite experiencing 3 years of heavy rain which has negatively impacted the country’s output, but it still accounts for around 7% of world output. Indeed, there are only a few other origins which are producing more than they did five years ago as the vast majority have either stagnated or shrunk further.



**Figure 8: World Coffee Production by Origin 2021/22**



Source: International Coffee Organization

Although no exact figures exist, it has been estimated that the annual gross revenue generated by the global coffee industry exceeds USD 200

billion. The value of exports by producing countries, however, only amounted to just over USD 28 billion in 2021/22.

## 2.2 The Structure of Lao PDR's Coffee Value Chain

**The growing coffee industry in Lao PDR:**<sup>42</sup> It is thought that coffee was first introduced into Lao PDR around 1915 by the French, and despite various interruptions grew throughout the century to produce around 190,000 bags by the year 2000. **Over the last 20 years or so, however, as a result of a greater emphasis on the development of the industry, coffee cultivation in the country has tripled, expanding until recently by around 11.4% per annum to overtake the Philippines, Thailand, and Yemen to become the fifth largest producer in Asia and the Pacific.** This rapid development can also, in part, be attributed to the climate and geographical location of Lao PDR, which make it ideal for coffee cultivation, like so many of its neighboring countries.

It is estimated that about 40,000 to 50,000 ha of Robusta (*c. canephora*) is cultivated in Lao PDR today, along with about 20,000 to 25,000 ha of Arabica (Typica and Catimor), with some limited pockets of Liberica and Excelsa remaining as well. Older varieties of Arabica, such as Typica, are grown with an average density of around 1,111 trees per hectare, but newer dwarf varieties, such as Catimor, are planted with up to 4,000 trees per hectare. The average yield overall is around 700kgs/ha but there is a huge variation between that achieved with the older varieties, especially as some of the traditional varieties planted are over 50 years old, to that achieved with the newer, more high yielding, varieties.

Production reached a peak of 625,000 bags in 2019/20, but since then has fallen back to just 350,000 bags in 2021/22. The Lao Coffee Association has attributed the sharp fall to adverse weather conditions and indeed, early signs suggest that the crop is recovering well.

The internal structure of the industry is overseen by the Lao Coffee Board which was established by Presidential decree and comprises 12 board members representing different Government Ministries, Deputy Governors of the main coffee growing Provinces and the Private Sector. It is responsible for:

- Implementing national coffee strategies;
- Liaising with all sectors of the industry;
- Preparing and proposing appropriate coffee legislation;
- Analysing and distributing market intelligence;
- Advising the industry on the latest technical innovations;
- Promoting development of the coffee sector;
- Supporting the development of domestic coffee groups and associations; and
- Overseeing the future development of the industry.

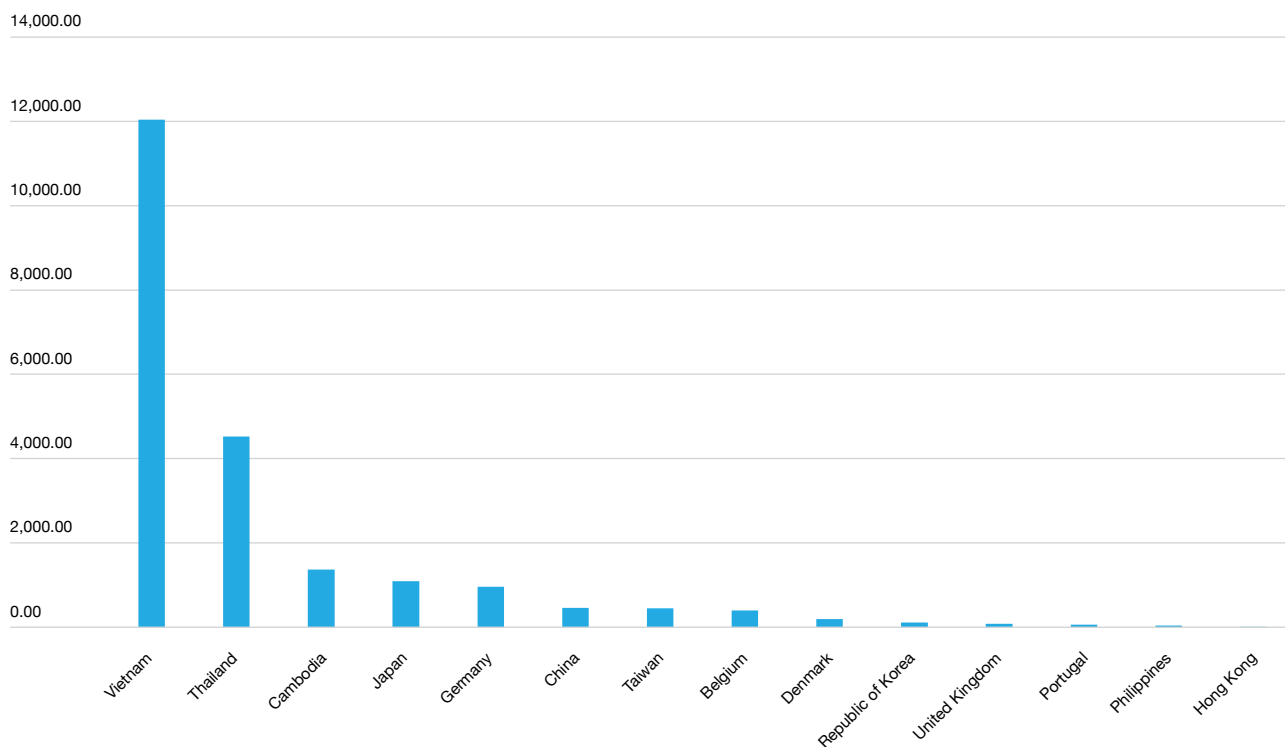
Supporting the Lao Coffee Board is the Lao Coffee Association which is a non-profit organization established in 1994 with the aim of promoting Lao coffee and improving the quality and efficiency of coffee production in the country. Its main role is to support its' members gain access to markets, improve their competitiveness, as well enhance their necessary technical skills and knowledge. It has 84 members.

In addition, the Department of Agriculture is responsible for providing advice and technical support to coffee growers while the Ministry of Industry and Commerce of Lao PDR provides business support, market advice and a limited amount of promotion.

Data from different sources differ, but according to the Lao Coffee Association the country exported 350,000 bags (just under 21,000 tons) of coffee in 2022. Over half of this, 183,000 bags (10,985 tons), was Arabica, 146,000 bags (8,769 tons) or 43% was Robusta and 5,500 bags (331 tons) or 1.6% was Excelsa. 92% of the country's exports went to regional markets in Asia with Viet Nam accounting for over 55% of these exports followed Thailand (21%), Cambodia (6%) and Japan (5%). Over the last ten years there has been a significant shift in the destination of coffee exports from Lao PDR with Viet Nam now being the most important destination whereas previously it was the European Union. It is difficult to pinpoint why this change in destinations has occurred but can probably be attributed to exporters in Lao PDR strengthening their business ties with regional partners. Nonetheless, it is clear, given past export performance, that there remains tremendous market potential for Lao coffee in mature markets such as the EU and America which in general tend to pay higher prices than other destinations.

The ICO estimates that Lao PDR earned USD104.75 million from coffee exports in 2022.



**Figure 9: Lao PDR exports by destination 2022 (Tonnes)**

Source: Lao Coffee Association

### Role of smallholders in the Lao coffee industry:

The coffee sector of Lao PDR comprises a large number of small producers (between 20,000 to 25,000 households mostly farming plots ranging from 0.5 to 3.5 ha, although some are as large as 10 ha.). Many of these smallholders grow Robusta coffee which they process naturally, sun-drying the whole cherry before selling to buyers and other middlemen who process the coffee through to green bean. Some smallholders grow arabica coffee which they also sell as sun-dried cherry, others sell their fresh cherries to roadside buyers or direct to washing stations or occasionally to commercial plantations. An increasing number, however, now process their coffee through to the parchment stage using hand pulpers. It should be noted however, that most smallholder coffee producers face significant challenges maintaining

their plantations, meeting quality standards and connecting with international markets, as a result some producers did shift to other products, such as cassava and passionfruit. Although a recent directive adopted in April 2023 has banned the cultivation of crops and trees that are likely to deteriorate soil quality in many areas of the Bolaven Plateau. The banned crops include cassava, large bananas, Jatropha and eucalyptus.<sup>43</sup> In addition in order to better equip small producers to face these challenges, a number of different initiatives have been developed which directly support coffee producers and are aimed at strengthening the coffee sector. These include coffee tasting campaigns, participation in trade fairs and coffee promotion activities implemented by the Department of Agriculture, and project funded support such as training

programmes for the coffee sector under the [ARISE Plus Lao PDR project](#),<sup>44</sup> the [ReCoSeL project](#)<sup>45</sup> and [UNODC under their opium substitution scheme](#).<sup>46</sup>

**Nevertheless, the industry is actively looking for investors who would be interested in exploring partnership models with smallholder coffee producers.**<sup>47</sup>

**Coffee Estates in Lao PDR:** Commercial plantations are rising in importance, currently representing a third of the total harvested coffee area and around half of the nation's production. The biggest plantations are foreign companies (Paksong Highland from Thailand which farms 3,100 ha), Out-span-Olam from Singapore (1,100 ha), 3 large Vietnamese companies (between 500 and 1,000

ha each) and other large investors from Canada, China, India, Malaysia, and Chinese Taipei. These foreign investors are more involved in the farming of Arabica coffee for niche markets, especially high-quality specialty markets. These companies have demonstrated profitable business models, and are expanding their business, although only in the South at the moment. **This demonstrated success provides a strong incentive to explore investments in the remaining available areas in the South and/or to take advantage of the early boom of the coffee sector in the North. Furthermore, Viet Nam has demonstrated that the intensive production of Robusta can be very profitable, and investors should explore the opportunities that both varieties offer.**

### Box 3: Analysis of Coffee Production Costs in Lao PDR

As coffee can take between 3 to 5 years to reach full maturity, depending on the variety planted, it is important to divide the cost of coffee production into establishment costs and into running costs. It was estimated, in a study undertaken in 2018, that the cost of establishing a coffee plot in Lao PDR was about LAK 14 million (USD 1,649) per ha. It takes at least LAK 9 million (USD 1,054) per ha. to maintain the plot until the coffee reaches full maturity, but it should be noted that some of this cost can be offset as the trees will produce a limited amount of coffee for harvesting after about 2 years with modern hybrids or after 3 years with more traditional varieties. Once fully mature, the annual operating cost (including labor inputs, various activities, and land taxes) was estimated to be around LAK 11.82 million (USD 1,385) per ha.

The study estimated that productivity on a typical Lao coffee farm was around one ton of green bean per ha, worth LAK23.2 million (USD 2,718) per ha at 2018 prices (maybe as much as 50% higher at 2023 prices). However, with modern farming techniques yields could be as much as twice this for arabica or up 3 or 4 times this with Robusta. The income from coffee varies depending on its type, quality, and when it is sold: if it is sold before processing i.e., as cherry then the returns calculated at 2018 prices were between USD703 and USD 1,230 per ha.; after primary processing up to USD 1,680, or higher for certified organic beans, or after secondary processing as green bean up to USD 2,953. However, coffee prices are notoriously volatile, and while these returns will be higher today, they do depend on the international price prevailing at the time of selling.

Refer [Annex VII](#) for details of cost and income analysis.



**Primary and secondary processing facilities in Lao PDR:** There are approximately 120 groups including 6 cooperatives as well as a number of middlemen and wholesalers who are engaged in buying and processing coffee, mainly from small growers although a small number of plantations also supply raw coffees to these groups for processing. For naturally sun-dried cherries this involves removing the husk and polishing the resulting green bean. While for better-quality washed coffees this involves pulping, fermenting, washing, drying, sorting, and grading, tasting and then transporting either to the market or to an exporter. **As post-harvest processing is extremely important in determining quality, investors may wish to consider investing in this sector to introduce the latest innovations in processing technology, thereby enhancing the value of any throughput.**

**Coffee Exporters from Lao PDR:** There are currently 64 exporters listed by the Lao Coffee Association, not all are active, but all are registered with the responsible department within the Ministry of Industry and Commerce. It is, however, estimated that around 10 exporters are responsible for the bulk of the coffee exported from the country. Exporters are responsible for negotiating sales with buyers, the assemblage of coffee into appropriate lot sizes, regrading and quality control, transport to the border and/or to the port of embarkation, export procedures and the payment of any taxes, arranging insurance and booking shipping space if sold on FOB terms or booking and paying for shipping if sold on a CIF basis. Most coffee is exported through Laem Chabang and Bangkok sea-ports in Thailand, or through Vinh and Da Nang in Viet Nam.

The Decision on Registration of Importers and Exporters of Goods, (No. 0752) published on 23 May 2023 outlines the requirements and obligations governing the role of both importers and exporters. This applies to all coffee exporters and specifies that all exporters must be registered with the Ministry of Industry and Commerce. Any company wishing to export coffee must complete an application form issued by the Department of Import and Export, provide a copy of their business registration or business certificate (essential for Foreign Traders), and a copy of their business license. The Department will issue a certificate of registration within three working days of receiving the required documents. This certificate is valid for one year but can be extended. The regulation also outlines the obligations that the exporter must follow and how the registration is managed.

**End Processing Capacities in Lao PDR:** It has been estimated that around 13,500 bags (800 tons) of both Arabica and Robusta coffee, is roasted in the domestic market, where most of it is consumed. Some find its way into neighbouring countries' markets, mainly Thailand, but the amounts are relatively small. In addition, there are two instant coffee manufacturers operating in the country, Dao Coffee and Sinouk Coffee, who mainly supply the domestic market, but also export around 13,500 bags (GBE) to regional markets, with, once again, Thailand being the most important destination, but smaller quantities also going to China and the Philippines, as well as to other destinations.

**Government policy support to grow Lao's coffee industry:** The Government of Lao PDR is supportive of all efforts to foster growth in the coffee sector. In this regard the Lao Coffee Sector Development Strategy by 2025, which was released in June 2014, and the more recent Export Roadmap for the Coffee Sector in Lao PDR (2021-2025) are the most important. The Development Strategy focuses on improving productivity and competitiveness and aims to create *"a coffee growing sector, oriented toward quality and respect for the environment, providing sustainable and decent incomes for smallholder producers, as well as viable business conditions for private sector partners"*. The Coffee Sector Export Roadmap builds on, complements, and supports the implementation of the Development Strategy by enhancing and updating its' activities. The roadmap is centred on four strategic objectives, namely:

- Enhancing Productivity and Sustainability in Production and Processing for Export Competitiveness.
- Strengthening Quality Management Systems and Compliance with International Standards;
- Fostering Sector Dynamism for Future Growth; and
- Connecting the Sector with New International Opportunities.

The Development Strategy and the Coffee Sector Export Roadmap were developed in close cooperation with the whole industry and therefore enjoy widespread support. Both recognise the importance of foreign investment in the industry.

### III. Why invest in Lao PDR?

#### 3.1. Favorable Conditions for Coffee

Lao PDR is seeking to grow its economy from its vast natural resources: electricity (it is a major hydropower player in the region), agriculture (increasing exports of quality, high value-added agricultural products (such as coffee), forestry and minerals).

Coffee has been identified as one of the most promising and sustainable crops in the sector and has an estimated export growth potential of USD 62 million.<sup>48</sup> This estimate was based on prices prevailing in 2019, and as of 2023, coffee prices are already over 50% higher.

With a large portion of Lao PDR’s land being used as plantations (1.80 million hectares (ha) in 2017),<sup>49</sup> the country has transformed into a potentially important area for agricultural production in the ASEAN region. Although only 6% of the Lao PDR total area is flat (approximately 108,000 ha), the amount of arable land has significantly increased in the past 15 years.<sup>50</sup> Lao PDR’s farmers grow a wide variety of crops such as rice (60% of arable land is used for its cultivation), bananas, and coffee.

Lao PDR’s tropical climate (with a pronounced rainy season from May through October, a cool dry season from November through February, and a hot dry season in March and April) and its mountainous terrain (coffee growing at between 800m and 1200m above sea level), provide the perfect conditions to grow coffee.

There is a sharp difference in rainfall between regions. For instance, in the Phou Luang province (Annamite Chain), the annual average rainfall is around 300 millimeters. In Xiengkhouang, Luang Prabang and Sayaboury provinces, annual rainfall is 100-150 millimeters; and in Vientiane and Savannakhet there is an annual rainfall of 150-200 millimeters every year. The increasing rainfall in rainy season is also a reaction from tropical cyclones and typhoons from the Pacific. While the Southern part of the country belongs to the “coffee belt” linked to Viet Nam main production areas, the North is connected to the Yunnan coffee belt where production and trading is rapidly increasing.

As of 2018, the total area used to produce coffee was 95,400 ha.<sup>51</sup>

Figure 10: Map of Provinces with Coffee Production in Lao PDR



Source: Taken from Maps of World. Coffee growing provinces are highlighted in pink.

Provinces in the Southern region remain the main centers of the coffee sector in Lao PDR:

- Champasak (Bolaven Plateau), Xekong, Saravan, and Attapu together accounted for 95.9% of both total harvested area and total production in the country. The Government has officially dedicated 100,000 ha as per the Department of Forestry for coffee plantation in the Champasak province, where only 80,000 ha are planted today.<sup>52</sup>
- Southern regions (Champasak (Bolaven Plateau), Xekong, Saravan, and Attapu) together account for 95.9% of both total harvested area and total production of coffee in the country.
- In 2020, coffee from Paksong (Champasak province) was granted Geographical Indication Status (GI).<sup>53</sup> It is anticipated that this will be extended to other regions in the country as the Lao Coffee Development Strategy promotes the development of GI.

The Northern part of the country is witnessing rapid coffee plantation development and has an incredible potential to expand at scale given the geographical and climatic conditions.

- There are to date 17,000 ha planted and the potential is over 100,000 ha.<sup>54</sup>
- The 7 Northern regions (Phongsali, Louang Prabang, Louang Namtha, Bokeo, Oudomxai, Houapan and Xiangkhoang) represent the emerging North coffee belt.

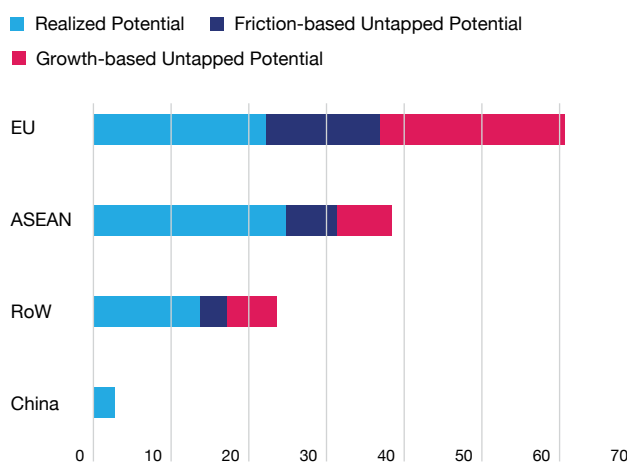
The global demand for high-grade specialty coffee and/or “sustainable” coffee, for which both the Bolaven Plateau and the emerging North belt are well suited, is rising fast.<sup>55</sup>

### 3.2. Lao PDR’s Export Potential for Coffee

With favorable environmental factors (climate and soil diversity, altitude, etc.), Lao PDR has an immense potential to grow specialty coffee exports. ITC analysis indicates that significant untapped potential exists in the EU, ASEAN, and Chinese market (as demonstrated in Figure 11 below); and fully exploiting export potential in coffee, could increase coffee exports from Lao PDR by USD 62 million.<sup>56</sup>

Generally favorable global trends, in particular the shifting geography of demand, the growing interest in specialty coffee (both Arabica and Robusta), and the opportunities presented by voluntary sustainability standards (Fair Trade Organic - FTO) all provide exciting opportunities which need to be seized by Lao PDR’s producers and exporters as well as investors in the industry.

**Figure 11: Export Potential for Coffee in Lao PDR (USD million)**



Source: ITC, Export Potential in Lao PDR (2020)



Consumers in the EU are increasingly looking for certification, as well as becoming more knowledgeable and demanding about the coffee they drink. They are not only concerned about quality, but also about social and environmental impacts of the products. The most common sustainability certifications are Rainforest Alliance, C.A.F.E. Practices, Nespresso AAA, and the 4C Association; and obtaining such certification may help to access certain market segments in the region. (Refer *Annex VIII* for details of processes to obtain these certifications). It should also be noted that the EU, and indeed a number of other consuming countries, have legislated against importation of coffee (and a number of other products) that has been produced on land which has recently been deforested (since 31 December 2020). This effectively means that the coffee now needs to be traced back to the grower. **Fortunately, in Lao PDR such traceability will not be a problem for either existing producers or indeed for any new coffee developments.**

Rising incomes, growing middle classes, urbanization, tourism, and international and regional economic integration are the key elements of the rapid growth in demand for coffee in **Southeast Asia**. Lao PDR is already a significant supplier of coffee to ASEAN countries, so it is highly probable that these markets are likely to figure in short-term growth planning for sector exports.

Furthermore, Lao PDR is a small but rising source of **Japan's** coffee imports. In the shorter term, exporters can leverage this momentum and proximity, while adapting to secure additional market share and higher-valued sales in the medium term.

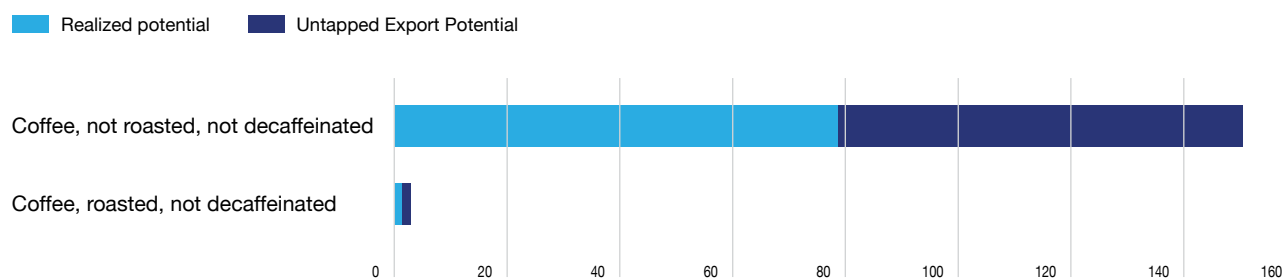
As a minor supplier of coffee to the **US** market, Lao PDR will need time to adapt before making significant inroads in this region, although previous successful exports to the US demonstrate that there is significant potential for Lao PDR to increase its exports of specialty coffee to the country.

### 3.3. Lao PDR's Investment Potential for Coffee

Lao PDR's untapped export potential in coffee presents an important opportunity for international investors. ITC's 2021 report titled 'Leveraging export potential and tariff advantages to attract for-foreign direct investment into Lao PDR' indicates

that opportunities exist in the context of unroasted coffee (green beans), and roasted coffee, as demonstrated in Figure 12, and investors can make use of Lao PDR's tariff advantages and engage in markets with significant untapped potential.<sup>57</sup>

**Figure 12: Opportunities in the context of unroasted coffee (green beans), and roasted coffee (USD million)**



Source: ITC – Results capture yearly export potential by 2024

Given below is an overview of the key points from ITC's analysis outlining the potential that exists for investors for unroasted and roasted coffee products in Lao PDR:

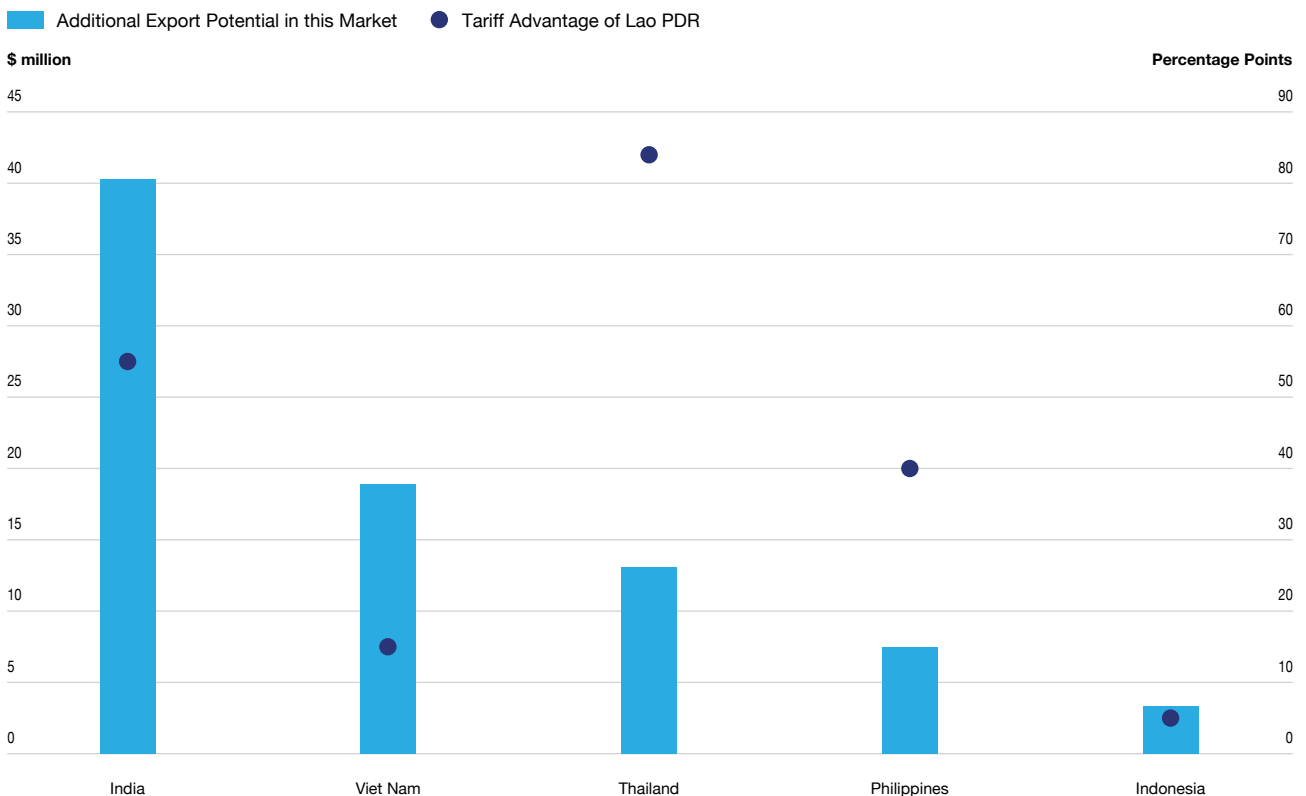
**Green Beans:** At present, export potential exists almost exclusively in green coffee beans (un-roasted coffee), implying that there is a large demand to access Lao PDR's resources and that local processing capacities are currently still limited.

**Investors can benefit from Lao PDR's tariff advantages over other exporters in the green coffee bean market** (as demonstrated in Figure 13): Potential investors could increase their export potential in green coffee beans coffee by USD 85 million per year by producing green beans in Lao PDR and exporting from there to destinations in which Lao PDR has a tariff advantage over other

exporters. Lao PDR has a tariff advantage over major exporters of green beans in several important Asian markets. India has been identified as one of the top markets in terms of potential gains for investors. Due to the large size of the Indian market and Lao PDR's average tariff advantage of 54 percentage points, investors have the potential to increase their exports of roasted coffee to India by USD 40 million if they use Lao PDR as a production and export hub. Lao PDR's large tariff advantage stems from the ASEAN-India FTA, which includes preferential access for coffee that is not roasted and not decaffeinated and LDC preferences, in which India offers a 0% tariff for coffee that is not roasted but decaffeinated.

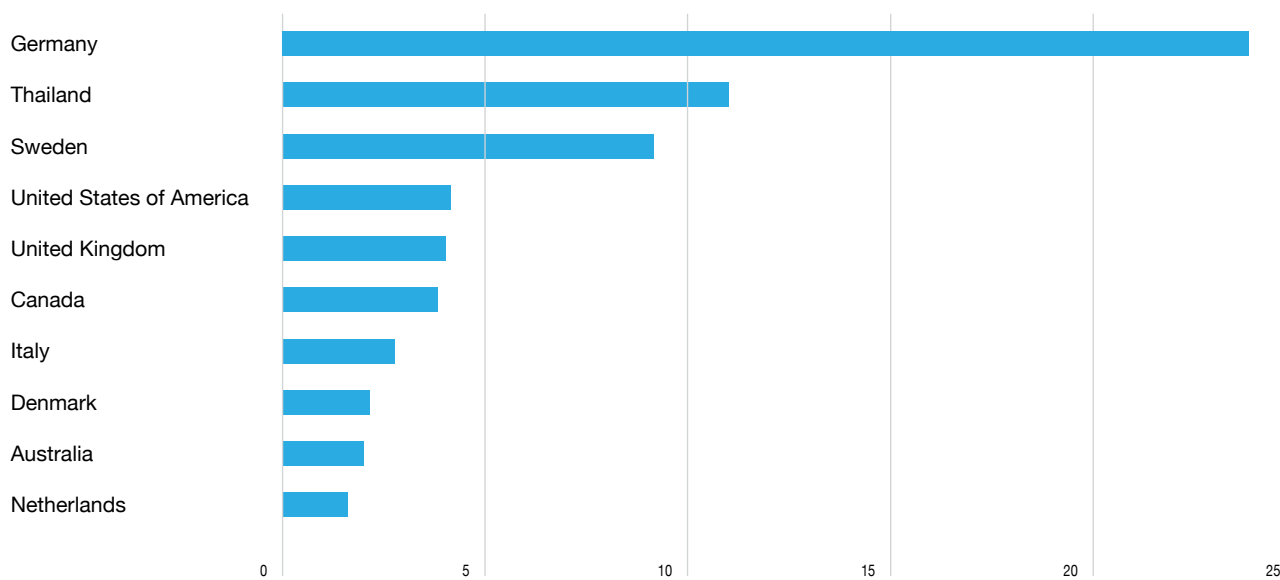
Other markets with important potential gains include the Viet Nam (USD 18 million) and Thailand (USD 13 million) and other ASEAN countries in which Lao PDR benefits from duty-free market access.

**Figure 13: Additional export potential through investing in green beans in Lao PDR and tariff advantage, by market**



Source: ITC. Results capture yearly export potential by 2024.

**Figure 14: Lao PDR's untapped export potential in coffee, by market (USD million)**



Source: ITC. Results capture yearly export potential by 2024

**Further, investing in coffee production in Lao PDR also opens up access to markets with significant untapped potential** (as demonstrated in Figure 14): **Germany** has the potential to import USD 30 million of green beans from Lao PDR per year by 2024, to meet needs of coffee processors in Germany. More than three quarters of this potential (USD 24 million) is still un-tapped. **Thailand's** import potential of green beans from Lao PDR amounts to USD 16 million per year by 2024, out of which 68% is still untapped. Further, virtually all of **Sweden's** potential to import green beans from Lao PDR (USD 9.1 million per year by 2024) is still untapped, resulting in a strong motivation for companies to invest in the production of green beans in Lao PDR to ensure access to this resource for imports to Sweden. Similarly, **Switzerland's** potential to im-port green beans from Lao PDR is also almost fully untapped (USD 800,000 per year by 2024). The **United States** could import green beans for the value of USD 6.8 million from Lao PDR per year by 2024. USD 2.8 million of the US import potential is already realized, while USD 4 million remains untapped.

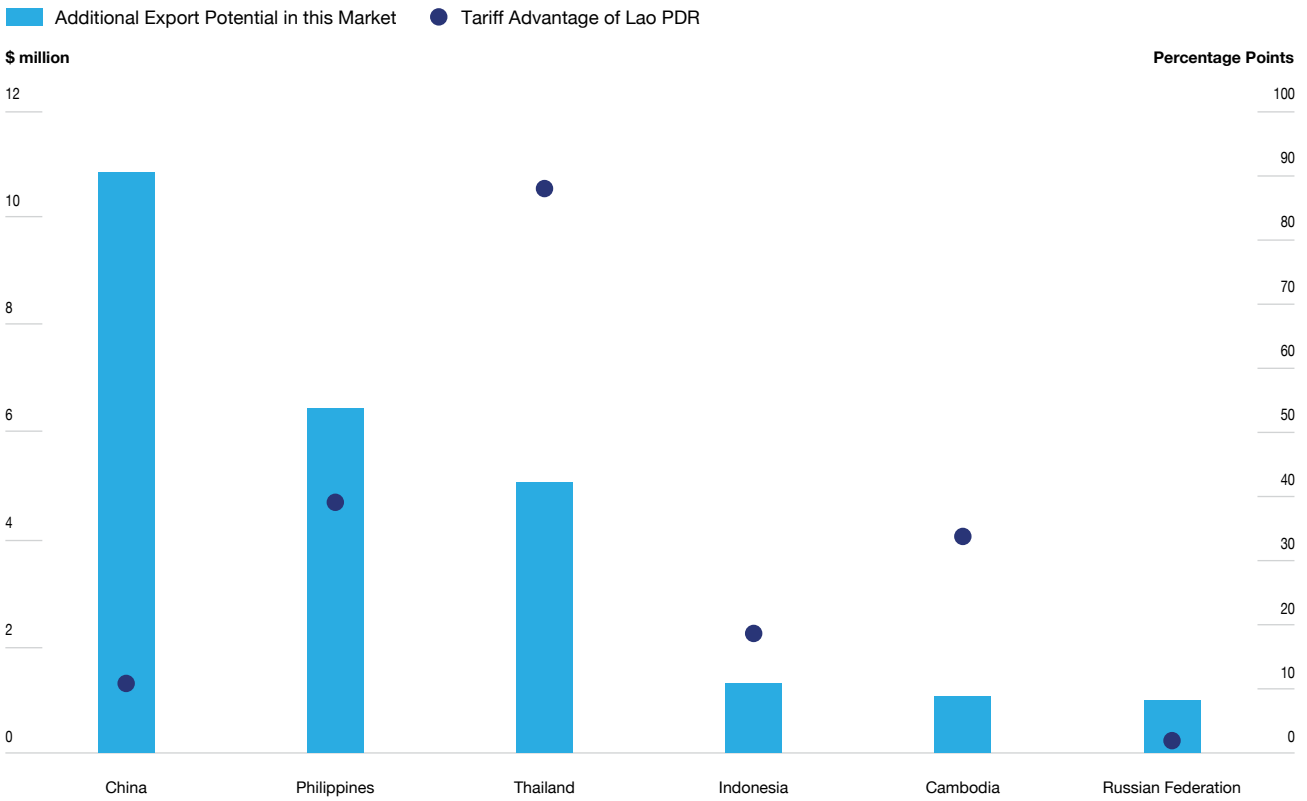
**Roasted Coffee:** The ITC report also suggests that Lao PDR has the potential to increase exports of

roasted coffee produced in the country by USD 28 million per year. **In this context, there is potential to invest in roasting capacities in Lao PDR and benefit from the country's tariff advantages when exporting to third countries.**

Investors investing in coffee plantations in Lao PDR, may also consider investing in coffee processing in the country to benefit from this opportunity. Currently, foreign investments into coffee processing in Lao PDR are possible as a joint venture with domestic investors for up to 25% of the capital.<sup>58</sup> These levels may witness increase in the coming period.<sup>59</sup>

As demonstrated in Figure 15, China is the top market in terms of potential gains for investors. Due to the large size of the Chinese market and Lao PDR's average tariff advantage from the ASEAN-China FTA, investors can increase their export potential in roasted coffee to China by USD 11 million if they use Lao PDR as a production and export hub. Other markets with important potential gains include the Philippines (USD 6.5 million) and Thailand (USD 5 million) and other ASEAN countries in which Lao PDR benefits from duty-free market access.

**Figure 15: Additional export potential through investing in roasted coffee in Lao PDR and tariff advantage, by market**



Source: ITC. Results capture yearly export potential by 2024.

### 3.4. Other Favourable Factors

#### 3.4.1. Stable political environment and improved lawmaking framework

A peaceful and stable one-party socialist republic (the only legal political party being the Lao People’s Revolutionary Party (LPRP)), the country has not experienced any major security incidents since the LPRP came to power in 1975.

The 2023 Global Peace Index (GPI) rated Lao PDR as the 46th most peaceful country in the world and the 4th in ASEAN.

The Constitutional Amendments of 2015 strengthened the framework of policies and coordination in the Government towards the enforcement of the rule of law – with reforms introduced to rein-force democratic governance through establishment of an elected People’s Council and clarification of status and functions of state organs; improved accountability with respect to budgetary outlays; and stronger emphasis on democratic rights and entitlements.<sup>60</sup> According to the Government of Lao PDR, the Constitutional reforms are demonstrative of the interest of Lao PDR to promote foreign investment and highlight that lawful assets and capital of investors shall not be confiscated, seized by the State or nationalized.<sup>61</sup>

The Law on Lawmaking 2012 was a major step towards transparency and consistency - making it mandatory for all laws to be available on the official gazette website (although still being implemented); and establishing a clear hierarchy for various regulatory instruments. In addition, the 2012 Law notes that if existing legislation and newly adopted legislation of general application is found to be inconsistent with provisions of international treaties that Lao PDR is party to, the provisions of the international treaty prevail, and the provisions of existing legislation or newly adopted legislation shall be revised in due time.<sup>62</sup>

The political stability, commitment to transparency, democratic reforms and compliance with international standards, and peaceful nature of the country not only contributes to a conducive business environment for the FDIs, but also a safe and clean environment to live in for expatriates and their families working in Lao PDR.

**Figure 16: 2023 Global Peace Index (GPI), Asia-Pacific**

Regional Rank	Country	Overall Score	Score Change	Overall Rank
1	New Zealand	1.313	-0.004	4
2	Singapore	1.332	-0.013	6
3	Japan	1.336	-0.004	9
4	Malaysia	1.513	0.036	19
5	Australia	1.525	-0.040	22
6	Taiwan	1.649	0.002	33
7	Vietnam	1.745	-0.044	41
8	South Korea	1.763	-0.028	43
9	Mongolia	1.765	0.006	44
10	Laos	1.779	-0.041	46
11	Timor-Leste	1.796	-0.042	49
12	Indonesia	1.829	0.054	53
13	Cambodia	1.947	-0.009	80
14	China	2.009	-0.009	80
15	Thailand	2.061	-0.070	92
16	Papua New Guinea	2.095	-0.068	98
17	Philippines	2.229	-0.059	115
18	Myanmar	2.741	0.129	145
19	North Korea	2.848	-0.046	149
<b>Regional Average</b>		<b>1.857</b>	<b>-0.006</b>	

Source: Institute for Economics & Peace (IEP)



### 3.4.2. Improvements to ease of doing business in Lao PDR

Lao PDR has been taking important steps to improve the business environment, diversify its economy, enhance enterprise competitiveness (e.g. the “One District, One Product Programme”), and deepen economic integration.

For instance, measures have been taken to ease the process to apply for tax registration at the time of incorporation of businesses; and speed up the process for obtaining operating licences.

Recently Lao PDR issued three important decrees to improve the business environment in the country:

- Order No. 002/PM dated 01 February 2018, on the improvement of regulations and coordinating mechanisms for the Ease of Doing Business in Lao PDR.
- Order No. 012/PM dated 16 October 2019, on import-export facilitation, border crossing, temporary imports, and movements of goods in the country.
- Order No. 003/PM dated 21 January 2020, on the improvement of administrative services for investments and business operating licenses.

These decrees pave the way to enhance the business climate, attract quality investments, promote local products and industries, and enhance the competitiveness of domestic businesses.<sup>63</sup> A detailed list of all reforms undertaken by the Lao PDR’s Government to improve ease of doing business is available on the “[Doing Business Reforms in Laos](#)” website.

In February 2021, Lao PDR also operationalized its National Single Window, which will simplify and streamline import, export and transit of all goods and cargo, and can bring significant benefits in terms of [saving cost and time for traders](#).

Refer [Annex I](#) for details on how to set up a business in Lao PDR.

### 3.4.3. Incentives for Investments in Lao PDR

The [8th NSEDP](#) sought to encourage investment from private domestic and foreign sectors and create a favorable legal framework and investment climate. Realizing the importance of investment from the private sector, Lao PDR launched several initiatives to promote investments and create a resilient and diversified economy. The [9th NSEDP](#) further built on these plans and highlighted the importance of driving investments that could facilitate green and sustainable economic growth, increase production to substitute imports and promote exports, and create more diversified jobs. Noting the slowdown in FDIs as a result of the pandemic, the 9th NSEDP also drew attention to the need to attract domestic investments.

Several initiatives have been undertaken/are underway to strengthen the investment climate in Lao PDR. The [2009 Law on Investment Promotion was amended in 2016](#), based on recommendations of the Organization for Economic Cooperation and Development (OECD) and aligned with the [ASEAN Comprehensive Investment Agreement \(ACIA\)](#). The 2016 Law introduced [uniform business registration requirements and tax incentives](#) applying equally to foreign and domestic investors. These efforts are complemented by other institutional developments and tools set up to further ease the process for investors and encourage investment into the country such as the platform – [www.investlaos.gov.la](#). – established by the Ministry of Planning and Investment.

Securing FDI in coffee plantations is among the priority areas for Lao PDR. Investors seeking to invest in coffee plantations can make use of the one-stop shop service offered by the Ministry of Planning and Investment to work through the necessary investment approvals; while investors seeking to engage in joint ventures with domestic investors for coffee processing will apply directly to the Ministry of Industry and Commerce – Department of Enterprise Registration to obtain the necessary approvals.

Details of the investment approvals procedures are further elaborated upon in [Annex III](#).



**Figure 17: Services offered by the one-stop shop**



Source: Investment Promotion Department (One-Stop Service)

**One-Stop Services:** For controlled and concession business activities (Refer [Annex III](#)) - the Ministry of Planning and Investment (MPI) launched a “One-Stop Service” which provides all-round services and facilities to the investors with information, approval processes of investment projects, issuance of investment licenses and other investment notices (as demonstrated in Figure 17).

The Central Investment One-Stop Office is located at the MPI and has a working team composed of representatives of multiple ministries concerned. In addition, one-stop service officers are located at relevant provincial and capital Departments of Planning and Investment.

In addition, each of the Special Economic Zones (SEZs) in Lao PDR (discussed below), also maintain one-stop services for investors into the SEZs.

**Range of investment incentives:** Incentives provided under the 2016 Law on Investment Promotion are based on three categories:

- Incentives for business sectors
- Incentives of a certain magnitude; and
- Incentives in certain Special Economic Zones ([SEZ](#)).

Incentives include exemptions/reduced rates for taxes (profit tax, VAT, customs duty) and exemptions from rental or concession fees of state land. These are elaborated upon in further detail in [Annex IV](#).

**Investment Protection for Investors:** Lao PDR has signed and ratified a number of Bilateral Investment Treaties (BITs), the ASEAN Comprehensive Investment Agreement (ACIA), the ASEAN+ 1 Free Trade Agreements, chapter 4 which aims at the impact of FTA in FDIs in the Asia Pacific Region. Regional Comprehensive Economic Chapter (RCEP) also includes an investment chapter. Further, as a member of the WTO and ASEAN, Lao PDR is bound by relevant investment commitments in the services sector under the GATS of WTO and ASEAN Framework Agreement on Services (AFAS).<sup>64</sup>



### Rights of Foreign Investors to Reside in Lao PDR:

Foreign investors and their families have the rights to reside in Lao PDR in accordance with the terms of their investments; and foreign specialists and experts also have rights to reside based on their employment contracts.<sup>65</sup>

**Repatriation of Funds:** Foreign investors also have the right to repatriate capital, assets and income, such as profits from investment, personal cash and assets, or assets of the enterprise through banks located in Lao PDR after full payment of duties, taxes and other fees in accordance with laws and regulations.<sup>66</sup>

#### 3.4.4. Moving from land-locked to land-linked

A landlocked nation in Southeast Asia, Lao PDR is rapidly seeking to overcome the lack of access to the sea, through the government policy of transforming the country from land-locked to land-linked,<sup>67</sup> effectively contributing to integration of Lao PDR's economy with the larger economies of the countries along its border.

The Northern provinces border China, and the North-Eastern provinces are connected to Haiphong (Viet Nam) seaport.

The Southern provinces are connected to Laem Chabang (near Bangkok, Thailand) and Qui Nhon (Viet Nam) seaports.

Efforts are currently underway to strengthen connectivity and boost cross-border trade – which include a number of infrastructure megaprojects to better connect the country, not only with China, but also with other countries in the Mekong Subregion through the ADB's Greater Mekong Subregion (GMS) Cooperation Program. (Refer Box 4).

Lao PDR has benefitted from the infrastructural development programs under the GMS Cooperation Program, in addition to undertaking various efforts to connect Lao PDR with border countries and increase access to seaports and is becoming well-linked in the region with the increased ability to access key markets. Some of the key infrastructural development efforts are noted below.

Figure 18: Lao PDR's Crossing Points



Source : <https://www.laos-guide-999.com/laos-border.html>

\*As outlined in Figure 18 above, there are 19 border crossing points in total. The blue points signify the checkpoints for which visa on arrival is available, and the red points outline the checkpoints at which visa on arrival is not available.



## Box 4: Greater Mekong Subregion Cooperation Program

The Greater Mekong Subregion comprises of 6 Member States: Cambodia, China (specifically the Yunnan province and Guangxi Zhuang Autonomous Region), Lao PDR; Myanmar, Thailand and Viet Nam. With support from the Asian Development Bank (ADB), these six countries entered into a program of subregional economic cooperation, designed to enhance economic relations.

Through this programme, efforts are being taken to increase connectivity through development physical infrastructure and transformation of transport corridors into transnational economic corridors; improve competitiveness through efficient facilitation of cross-border movement of people and goods and integration of markets, production processes and value chains; and build a greater sense of community through projects and program that addressed shared social and environmental concerns. In this context, with the support of the ADB and other donors, various projects have been undertaken to build infrastructure and improve connectivity along the Mekong River.

Physically connecting the countries of the sub-region was one of the first initiatives of the GMS programme with the objective of enhancing better cooperation in trade, tourism, and investment. Over the past decade, the GMS road network has expanded by almost 200,000 km and overland road freight has almost doubled. “Economic corridors” were developed, which are geographic areas, often along major highways, where a variety of development projects are undertaken – including infrastructural initiatives, improvement of urban centres, and development of laws and regulations.

A new framework for this subregion’s development for the following ten years is provided under the Greater Mekong Subregion (GMS) Economic Cooperation Program Strategic Framework 2030 (GMS-2030). This Program seeks to build on deeper regional cooperation and integration in critical sectors and respond collectively to key local trends including, the risk of pandemics, weaker global growth, severe environmental challenges, technological change and digitalization, among others.



**Railway Development:** Estimates indicate that almost 70 percent of bilateral trade between China-Lao PDR and transit trade with Thailand, Malaysia,

and Singapore could shift to rail through Lao PDR by 2030. This is attributed to the various railway projects currently under development in Lao PDR:

**Table 5: Railway projects in Lao PDR**

Title of Project	Description	Current Status
China – Lao PDR Railway Kunming – Vientiane Railway	A 414km railway line linking Kunming from the Yunnan province of China to Vientiane in Lao PDR, as part of the Chinese Belt and Road Initiative.  This railway line connects the Northern Lao PDR cities of Boten, Vang Vieng and Luang Prabang with Vientiane; and will interconnect with a rail through to Bangkok, and head south down the Malay Peninsula to <a href="#">Singapore</a> .	The line was officially opened on 3 December 2021.  The first international passenger train on the China-Lao PDR Railway departed Kunming in Yunnan province of southwest China for Vientiane started operating in April 2023.
Savannakhet – Lao Bao Rail Link Project	A 220 km route electrified railway linking Thailand with Viet Nam through Lao PDR (running from east to west in Lao PDR). <sup>68</sup>	Feasibility study was initiated in September 2022.
Laos – Vietnam Railway Project	Single rail track connection between Lao PDR and Vietnam spanning across 452 kilometers and allowing for electrified locomotives.  The initial phase would link Thakhek District in Khammouane Province, Lao PDR – with the Vug Ang Sea Port in Vietnam.  The second phase would then link Thakhek to Vientiane Capital.	Feasibility study commissioned in 2022; with construction expected to commence <u>end 2023, or early 2024</u> .
Pakse – Veun Kham	Proposal to connect railway line from Pakse in Lao PDR to Veun Kham on the Cambodian border.	Reported to be under discussion in 2021.

Source: ASEAN Briefing: Laos Planned Railways: Opening a National Railway Network in 2021

The railway infrastructure being set up in Lao PDR will result in significant changes – connecting the landlocked country with access to seaports, as well as rail access through to neighboring China, Cambodia, Thailand, and Viet Nam, with the potential to connect to ASEAN’s regional financial and services capital of Singapore.

Lao PDR sees significant growth opportunities resulting from the China-Lao PDR Railway,<sup>69</sup> and represents the backbone infrastructure on which the Lao PDR authorities plan to develop the country. Through this railway link, Lao PDR is not only connected to China and Singapore, but also the entire Belt and Road Initiative network.<sup>70</sup>

With complementary policies in place, the railway could attract traffic that is currently using maritime and air transport routes by steadily lowering land transportation costs: by 40-50% (a decrease of about USD 30 per ton) between Kunming and Vientiane; by 32-50% between Kunming and the deepwater port of Laem Chabang (Thailand); and by 20-40% for trade within Lao PDR.<sup>71</sup>

**Figure 19: Railway Connections Planned for Lao PDR**



Source: ASEAN Briefing, 2021



The transport service provided by Lao PDR-China railway is expected to benefit different stake-holders such as producers, farmers, entrepreneurs and investors, and provinces along the railway corridor, particularly the Northern and Central provinces of Lao PDR including Luangnamtha, Oudomxay, Luang Prabang (an emerging coffee belt) and Vientiane.

**Road Infrastructure:** Lao PDR has been steadily improving its road infrastructure through the construction of highways and expressways linking different parts of the country and linking major provinces to border points.

**Table 6: Road connectivity in Lao PDR**

Highway/Expressway	Details
Savannakhet - Lao Bao Highway	Connecting Southern Lao PDR to the Viet Nam border (part of the ADB's " <u>East-West Corridor Project</u> ")
China – Lao PDR Expressway	The China-Lao PDR expressway starts in Vientiane and will end in the Lao PDR-China border town of Boten (approximately covering 440km). The Vientiane-Vangvieng section (109km) of the China-Lao PDR expressway opened in December 2020, cutting down travel time between these two districts from 4 to 1 hour. This expressway will benefit the emerging Northern coffee belt.
Kunming – Bangkok Highway	Highway connecting Chiang Khong district in Thailand to the city of Kunming in Yunnan province in South-Western <u>China</u> – will run through Lao PDR.
<u>East-West Economic Corridor</u>	Links important commercial areas in Lao PDR, Myanmar, Thailand, and Viet Nam – helping Lao PDR access seaports in neighboring countries. Road improvements on this corridor in the Savannakhet province based in <u>Southern Lao PDR</u> .
Lao PDR – Viet Nam Expressway	Plan to build a six-lane 707km-long highway connecting the capitals of the two countries – to overcome the poor status of the roads currently.

**Airports:** Lao PDR has four international airports based in Attapeu, Pakse (both Southern provinces being the hub of Lao PDR coffee industry), Luang Prabang (emerging coffee belt), and Vientiane. The Lao PDR's Ministry of Public Works and Transport (MPWT) has proposed plans to expand the existing international airports, develop another airport, and renovate six domestic airports. Upgrades and construction of new airports are driven by the government's goals to boost the tourism sector.

Strengthened connectivity with its neighbors, particularly China and Viet Nam, is important for Lao PDR's coffee sector. Both countries have been increasingly importing Lao PDR coffee in the past years (for instance, Viet Nam imports about 50 percent of Lao PDR's total Arabica coffee output). Furthermore, its proximity with China, which is a fast-growing market in terms of coffee consumption, and its border with Yunnan province, which the Chinese

Government has declared as the next world coffee capital (with a coffee stock exchange platform soon to be open) provide Lao PDR with a great opportunity to develop its coffee industry.

### 3.4.5. Strengthened multilateral and regional integration

Lao PDR has been an active member of the Greater Mekong Sub-region Economic Cooperation Program since 1992, the Association of Southeast Asian Nations (ASEAN) since 1997, and the World Trade Organization (WTO) since 2013. Lao PDR's policy of increasing regional and international integration via economic-trade cooperation over the past 30 years has enabled Lao PDR to benefit from trade preference in terms of tariff exemption or reductions, including for coffee products. Following Lao PDR's accession to WTO (in 2013), export taxes on most products have been eliminated, including for coffee.

In terms of regional integration, as an ASEAN member, Lao PDR benefits from preferential market access to other ASEAN members, and also to countries with whom ASEAN has formed trade partnerships (also referred to as ASEAN +1 FTAs). Lao PDR is also currently engaged in negotiations to upgrade existing trade agreements with the objective of modernizing these partnerships, and integrating emerging trends such as digitalization and sustainability, among others.

More recently, in November 2020, the Regional Comprehensive Partnership Agreement (RCEP) was signed between the ASEAN, Japan, China, Republic of Korea, New Zealand, and Australia. RCEP entered into force on 1 January 2022 for Lao PDR. Data from the World Bank shows that RCEP will cover 2.3 billion people, 30% of world's population, USD 38,813 billion or 30% of global GDP, USD 12.7 trillion of global trade in goods and services, and 31% of global Foreign Direct Investment in-flows. According to media reports, RCEP could add USD 209 billion annually to world incomes and USD 500 billion to world trade by 2030.

In addition, Lao PDR maintains other partnerships outside the ASEAN, such as the (Asia Pacific Trade Agreement (APTA), bilateral agreements, namely the Lao PDR -Thailand Preferential Trading Arrangement

and the Lao PDR-Viet Nam Trade Agreement. Further, due to Lao PDR's LDC status, it also benefits from preferential market access arrangements such as the EU Everything But Arms Arrangement (EBA) applicable to LDCs, and the UK's Developing Countries Trading Scheme (DCTS). **Investors in Lao PDR will therefore also be able to benefit from such preferential terms to access key markets around the world – which, more specifically, enable Lao PDR to export coffee products to important markets under preferential terms.**

Table 7, below, provides an overview of agreements/schemes from which Lao PDR benefits from and the level of market access available. Wherever available, references have been drawn to [ITC analysis](#) which have explored the export potential for Lao PDR's coffee products in relevant export markets.

**Table 7: Lao PDR's Preferential Access to Markets**

Agreement/Arrangement	Description	Relevance for coffee sector
Regional Trade Agreements		
Association of South East Asian Nations (ASEAN) – ASEAN Trade in Goods Agreement (ATIGA)	<p>The ASEAN Free Trade Area (AFTA) is a trade bloc agreement supporting local manufacturing in all ASEAN countries – with membership of Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Cambodia, Lao PDR, and Viet Nam.</p> <p>As a member of ASEAN, Lao PDR economy is open to other significant trade agreements with key regional markets, such as Mainland China and India. All ASEAN members are following an agreed schedule for reducing tariffs on goods originating in trading partners under the ASEAN Trade in Goods Agreement (ATIGA).</p> <p>Lao PDR is currently engaged in negotiations with other ASEAN Member States to upgrade the ATIGA, with the objective of modernizing provisions and integrating emerging trends such as digitalization and sustainability.</p>	<p>Lao PDR benefits from increased regional integration and tariff liberalization, which includes the elimination of import duties in various sectors and classes of goods and maximum tariffs of up to 5% between members. These factors will help reduce input costs for businesses and increase the country's exporting capacity and industrial base in the long term.</p> <p>Exports of most agricultural and industrial products from Lao PDR to these markets are not subject to tariff rates, except for those under the General Exception List or the Sensitive List when exporting to newer ASEAN members (Cambodia, Myanmar, and Viet Nam), which were to be cut to zero by 2018.</p>
ASEAN-Mainland China FTA (ACFTA)	<p>Agreement signed in 2002, providing for access to the Chinese market on reduced duty- or duty-free basis.</p> <p>China is an important market for Lao PDR as it is the country's major trading partner and an important source of investment.</p> <p>Negotiations are currently underway to upgrade the ACFTA covering areas such as digital economy, green economy, supply chain connectivity, competition, consumer protection, and Micro, Small, and Medium Enterprises (MSMEs).</p>	<p>ITC's 2021 Report reveals that China is a top market for Lao PDR's roasted coffee in terms of potential gains for investors. The large size of the Chinese market and Lao PDR's average tariff advantage from the ACFTA, can contribute to investors increasing their export potential in roasted coffee to China by USD 11 million if Lao PDR is used as a production and export hub.<sup>72</sup></p>

Agreement/Arrangement	Description	Relevance for coffee sector
ASEAN-Japan FTA (AJFTA)	<p>Agreement signed in 2003 – with the objective of liberalizing and facilitating trade in goods between ASEAN and Japan and promoting cooperation in fields such as information and communications technology, intellectual property, and small- and medium-sized enterprise development.</p> <p>Japan is a large developed market and one of Lao PDR’ major trade partners.</p>	<p>Japan is one of the world’s largest consumers of coffee. Lao PDR is currently a small, but growing source of coffee imports for Japan. As noted in ITC’s Export Roadmap for the Coffee Sector (2020), exporters from Lao PDR can leverage this momentum and proximity, while adapting to secure additional market share and higher-valued sales in the medium term.</p> <p>Imports of non-roasted and non-decaffeinated coffee from Lao PDR are subject to no tariffs (MFN duties are 0%), although Lao PDR needs to comply with a range of import requirements to benefit from this market access.<sup>73</sup></p>
ASEAN-India Trade in Goods Agreement FTA (AIFTA)	<p>Agreement signed in 2009, providing for access to the Indian market on reduced duty- or duty-free basis.</p> <p>Given the size and performance of the Indian economy, this level of preferential access can help Lao PDR in terms of trade growth and diversification.</p>	<p>The AIFTA provides preferential access for coffee that is not roasted and not decaffeinated, and LDC preferences through which a 0% tariff rate is applied for such products.</p> <p>ITC’s 2021 Report identifies India as a top market for “green coffee beans” in terms of potential gains for investors. The large size of the Indian market and average tariff advantage from the AIFTA means that investors can increase their export potential in roasted coffee to India by USD 40 million if Lao PDR is used as a production and export hub.<sup>74</sup></p>
ASEAN-Australia-New Zealand FTA (AANZFTA)	<p>Agreement signed in 2009 and sought to eliminate tariffs on at least 90% of all tariff lines within specified timelines; and facilitate the movement of goods via a more modern and flexible rules of origin, simplified customs procedures, and more transparent mechanisms.</p> <p>Negotiations to upgrade the AANZFTA were concluded in November 2022 – with three new chapters included on government procurement, MSMEs, and trade and sustainable development., including new provisions on e-commerce, competition and consumer protection, customs procedures and trade facilitation, trade in services, and investment.</p>	<p>The markets for Lao PDR’s “coffee, not roasted, not decaffeinated” have an export potential of USD 1.9 million to the Australian market; and USD 205,600 to the New Zealand market.</p> <p>Tariff barriers are to be eliminated for all coffee types by 2021.<sup>75</sup></p>
ASEAN-South Korea FTA (AKFTA)	<p>Agreement signed in 2005, providing for progressive reduction and/or elimination of tariffs by each country on almost all products.</p>	<p>Korea has progressively reduced/eliminated tariffs on coffee products, which can benefit Lao’s coffee exporters.</p>
ASEAN-Hong Kong FTA (AHKFTA)	<p>Agreement signed in 2018, covering Hong Kong, and five ASEAN Member States, namely, Lao PDR; Myanmar, Singapore, Thailand, and Viet Nam.</p> <p>Under the Agreement, Hong Kong committed to granting tariff free access to all products originating from the ASEAN Member States; and strengthen cooperation in SPS measures, TBT and customs matters.<sup>76</sup></p>	<p>The Agreement entered into force on 11 June 2019 for Lao PDR – following which Lao PDR’s coffee products are entitled to duty free access to the Hong Kong market.<sup>77</sup></p>



Agreement/Arrangement	Description	Relevance for coffee sector
Regional Comprehensive Economic Partnership Agreement (RCEP)	<p>Agreement signed in 2020 and covers the largest regional free trade agreement (FTA) outside the WTO (10 ASEAN countries, Australia, China, Japan, New Zealand, and South Korea). Lao signed this Agreement on November 15, 2020.</p> <p>The RCEP aims to reduce or eliminate customs tariffs on originating goods of member states by approximately 90% over a period of 20 years. Further, the Agreement seeks to eliminate non-tariff trade barriers between member states.</p>	<p>The partnership accounts for 30% of global GDP and 30% of the world population – thereby providing preferential access to a large market for Lao PDR’s coffee products.<sup>78</sup></p> <p>The Agreement also seeks to establish a common Rules of Origin for all Member States – which can ease the supply-chain management process by requiring a unique certificate of origin to ship the same products between members; and effectively reduce transaction costs for trading with multiple countries.</p>
Asia – Pacific Trade Agreement (APTA)	<p>Previously known as the Bangkok Agreement and signed in 1975 – this Agreement has thus far undergone four rounds of negotiations resulting in deepening of tariff concessions among participating countries.</p>	<p>Lao PDR has preferential market access to markets in Bangladesh, China, India, Korea, and Sri Lanka – with the level of concessions offered based on the lists drawn up by each Member State.</p> <p>The APTA also offers a common rule of origin – which can reduce transaction costs for Lao PDR when trading with several countries under this Agreement. It should be noted that preferences under APTA may overlap with Lao PDR’s preferential access through the ASEAN+1 FTAs with India, China and Korea.</p>
Lao PDR-Viet Nam Border Trade Agreement <sup>79</sup>	<p>Agreement signed in 2015 – providing reciprocal access for 32 tariff lines with 50% of the AFTA rate, while all other products are at a 0% rate (including coffee), except for 155 tariff lines which fall under the GEL of Viet Nam.</p> <p>Viet Nam is a high growth developing market and Lao PDR’s third highest import source and export destination.</p>	<p>Duty-free market access for certain coffee products, also makes Viet Nam an important market for investors in green coffee beans in Lao PDR to gain from, with an export potential of USD 18 million.<sup>80</sup></p>

Agreement/Arrangement	Description	Relevance for coffee sector
Beneficiary of Preferential Market Arrangements		
EU GSP- EBA Scheme	<p>As an LDC, Lao PDR qualifies for duty-free, quota, free access to the EU market, in all products, apart from arms and ammunition.</p> <p>The other schemes under the EU GSP are the (a) Standard GSP for low and lower-middle income countries; and (b)GSP+ which is a special incentive arrangement for sustainable development and good governance – which provides partial or full removal of tariffs on two third of the tariff lines.</p> <p>Upon graduation from LDC status, which is currently scheduled to take place in 2026, Lao PDR will continue to benefit from EBA access for a three-year transition period – and therefore, will be able to benefit from this duty-free, quota-free access at least until 2029.</p> <p>Lao PDR can then qualify for the Standard GSP (if it meets relevant income level criteria) or apply for access under the GSP+ scheme.</p>	<p>Lao PDR can benefit from duty free, quota free access to the EU market for agricultural products. It should be noted that coffee products are already eligible for entry into the EU at MFN zero-duty – and therefore, benefit from duty free access even without the EBA.</p> <p>ITC’s 2019 report found that Lao PDR had an export potential of USD 82 million in specialty agriculture to the EU, of which 70% of the export potential (USD 57 million) is currently unused.</p> <p>The EU is identified as the largest market for Lao PDR’s “coffee, not roasted, not decaffeinated” product, although this is only with 36% of its total export potential, thus implying that exports can still further increase in this region alone.<sup>81</sup></p>
UK DCTS -LDC Framework	<p>Lao PDR qualifies for duty-free and quota free access to the UK, on all goods, other than arms and ammunition.</p> <p>Similar to the EU GSP scheme, upon graduation from LDC status, a three-year transition period is applied before removing the country from the relevant framework. Thereafter, Lao PDR can qualify for the ‘General Framework’ and benefit from reduced tariff rates on certain goods; or apply for the ‘Enhanced Framework’ access and benefit from tariff exemptions on certain goods.</p>	<p>According to ITC’s Export Potential Map, Lao PDR has an untapped export potential of USD 3.1 million in “coffee, not roasted, not decaffeinated” to the UK.</p>

## IV. Investment Opportunities in Lao PDR's Coffee Sector

As discussed in the preceding sections, Lao PDR has potential to supply specialty coffee products (including organic products), with untapped potential in both unroasted and roasted coffee exports; and enjoys tariff advantages in key export markets for coffee products.

Investors seeking to engage in the Lao coffee market may explore some of the opportunities identified below based on stakeholder consultations, in terms of investing in coffee plantations and engaging in processing of coffee products (subject to relevant regulations in place):

**a) Remaining unplanted area of 20,000 hectares in the South (Bolaven Plateau)** The Department of Forestry has officially dedicated 100,000 ha for coffee plantation on the Bolaven Plateau (in the Champasak province). Currently, only 80,000 ha. have been planted. However, with the lower prices prevailing in 2018 farmers began to replace coffee trees with cassava and passionfruit, but the adoption of the new directive banning the cultivation of crops that are likely to have an impact on soil quality together with higher prices have slowed this trend way from coffee down significantly. This temporary shift away from coffee may also have been motivated by the fact that farmer were experiencing difficulties selling their coffee on the internal market due to various factors, such as the temporary halting of operations of the Dao Huang Group which was one of the main buyers of smallholder coffee. **The remaining 20,000 ha (or more) represents a major opportunity for foreign investors (who have demonstrated profitability models in this region).**

The investment potential for coffee in the South is, in part, driven by the recent establishment of a Geographical Indicator (GI – Coffee from The Bolaven) and the exceptional climatic and land conditions for growing coffee.

**b) Supply capacity left out by departure of Dao Huang Group, one of the largest buyers in the Bolaven Plateau** The Dao Huang Group was one of the largest players on the Bolaven Plateau. It owned 250 hectares of coffee plantation (in Champasak Province) and annually harvested 500 tons. It had the largest coffee processing plant in Lao PDR and

bought coffee cherries from smallholders, producers and groups, to export green beans of coffee or to produce instant coffee.

The temporary halting of operations of the company in 2020 impacted internal market demand. However, the Government of Lao PDR now owns a significant portion of the company and **is committed to re-setup company operations and provide incentives for other investors to develop an efficient network of SMEs in the sector.**

**c) Emerging high quality coffee production in the Sekong Province** The Sekong province is emerging as a location for high quality coffee production, with initial production having penetrated the US specialty coffee market. This is a new province located on the eastern side of the Bolaven plateau where pioneering entrepreneurs have managed to develop very high-quality coffee production on a small scale. **It represents an important and unique opportunity for enterprising investors to further develop the sector in this area.**



**d) Untapped existing potential for Fair Trade Organic (FTO), agro-forestry coffee production in the North**

The northern part of the country is witnessing rapid development of coffee plantations and has an incredible potential to expand at scale given the geographical and climatic conditions. According to the Department of Agriculture, 17,000 ha of coffee plantations have already been established in the area, with a potential of over 100,000 ha.<sup>82</sup> **This represents a major opportunity for foreign investment,** particularly for those investors interested in Fair-Trade Organic (FTO) certification and/or in agro-forestry coffee production. The investment potential in the northern areas of Lao PDR is driven mainly by the opportunity to develop high quality coffee production, driven by FTO principles and targeting high ends market in the World. Also, the proximity with the Chinese market, and the development of high connectivity through modern infrastructure is a key advantage.

**e) Proximity of China, a large emerging market:**

The proximity of a large emerging coffee market in China and the tremendous increase in connectivity through the development of modern infrastructures towards the Chinese market represents a major opportunity for foreign investors in the North of the country. The Chinese Government has declared Yunnan province as the next world coffee capital (with a coffee stock exchange platform soon to be opened), providing Lao PDR with a great opportunity to develop its coffee sector.

Refer Annex VII for cost and income analysis, and estimated production costs for coffee production in Lao PDR.





## V. Key Stakeholders in Coffee Sector in Lao PDR

Institution	Assessment of relevant activities	Interaction with the investor
<b>Government Department</b>		
<u>Lao National Coffee Board (LCB / CNCL)</u>	The Lao National Coffee Board is the body responsible for representing the Lao coffee sector. Officially created by Prime Minister's Decree No. 085/ PM, 25/06/2010, the CNCL gathers public and private stakeholders involved in the coffee value chain with the core mandate of ensuring political and institutional steering of the National Strategy for Lao Coffee Development and Promotion (LCSDS).	Provides overall governance of the Coffee Sector. Facilitate the visibility of the Lao coffee sector on the international scene. Provides a platform to support the representation of the coffee sector with international organizations.
<u>Ministry of Agriculture and Forestry (MAF)</u>	MAF plays a lead role for the development of the coffee sector through DoA (Department of Agriculture) as well as DPC (Department of Planning and Cooperation) and DAEC (Department of Agricultural Extension and Cooperatives), and also hosts the Lao National Coffee Board.	Provides extension services, facilitate contract farming, provides R&D functions
<u>National Agricultural and Forestry Research Institute, MAF</u>	The National Agricultural and Forestry Research Institute is in charge of agronomic research and the development of varieties through the Coffee Research Experimentation Centre in Ban Itou.	Provides research services and pest control support
<u>Ministry of Industry &amp; Commerce (MoIC)</u>	MoIC regulates industry in Lao PDR and its provincial offices oversee the sale, transport, processing, and export of coffee.	Business registration and export promotion functions
<u>Ministry of Finance (MoF)</u>	MoF is in charge of finances, budget, and taxes nationwide, and as such is capable of allocating public funding in order to develop the coffee value chain. It is a key actor in supporting the competitiveness of the coffee sector through adaptations to the taxation regime and targeted tax exemptions.	Tax related matters
<u>Ministry of Natural Resources &amp; Environment (MoNRE)</u>	MoNRE is a key player supporting the agroforestry model in coffee production and leads work on sustainability standards and climate change adaptation. It was created in 2011 by merging the Water Resource and Environment Administration (WREA) with departments of the National Land Management Authority (NLMA) and portfolios of other ministries including the Geology Department, and the Forest Conservation and Divisions within the Ministry of Agriculture and Forestry (MAF).	Environment Impact Assessments and Environment Framework monitoring
<u>Department of Intellectual Property Standardization and Metrology (DISM), NAST</u>	Under the National Authority for Science and Technology (NAST), which is in charge of defining standards (e.g. food safety) and dealing with intellectual property, the DSQ is particularly relevant to the efforts for setting standards and grades for coffee quality.	Intellectual Property
<u>Provincial Agriculture and Forestry Office (PAFO)</u>	PAFO is the provincial-level authority for MAF, which issues licenses, supervises the implementation of national policies locally, collects data, and provides support as needed through existing programs.	Local support functions of the MAF
<u>District Agricultural and Forestry Office (DAFO)</u>	DAFO is the local agent of MAF in charge of implementation of national policies locally and day-to-day interaction with farmers.	Local support functions of the MAF
<u>Provincial Industry &amp; Commerce Division</u>	The Division facilitates sale to processing companies/factories or exporters, and subsequently issues transport permits. It monitors the transportation of coffee lots.	Local support functions of the MOIC

Institution	Assessment of relevant activities	Interaction with the investor
<b>Private Sector Associations</b>		
<u>Lao National Chamber of Commerce and Industry (LNCCI)</u>	The Lao National Chamber of Commerce and Industry (LNCCI) was established in 1989 as an independent body that represents the business community in Lao PDR. It currently has more than 1,000 members represented through 18 provincial chambers of commerce and business associations and groups.	Overall advocacy platform for the private sector to improve the ease of doing business in the country
<u>Lao Coffee Association (LCA)</u>	LCA has been the private sector association that supports coffee production, collects statistics on exporting, and promotes Lao coffee internationally since 1994.	Main advocacy body for the actors of the coffee sector in Lao PDR
Major Companies having demonstrated profitability of the sector in Lao PDR	OLAM International – Paksong Highland coffee (Beer Chang Group – Thailand) – Bolaven Farm (Hong Kong) – Viet Nam Laos Coffee Joint Stock Co. (Vietnam) – Delta Coffee (Malaysia)	



## Annex I: How to set up a business in Lao PDR<sup>83</sup>

No.	Procedures	Time	Associated costs
1	<p><b>Obtain the Enterprise Registration Certificate (ERC)</b> Agency: Ministry of Industry and Commerce, Vientiane</p> <p>i. Applicants apply for the Enterprise Registration Certificate (ERC) at the Department of Enterprise Registration and Management at the Ministry of Industry and Commerce</p> <p>ii. The unique application form used for the name reservation and the ERC must list three potential names for the company to be established.</p> <p>iii. A signed Contract of Incorporation (if there are multiple shareholders) in the format approved by the MOIC must be submitted to obtain the ERC.</p> <p>iv. The approved format can be downloaded at the MOIC website.</p> <p>Founders shall complete the application form for the ERC in the MOIC standard application form attaching the following required documents:</p> <ul style="list-style-type: none"> <li>• 3 copies of the Contract of Incorporation,</li> <li>• 3 original copies of the signed Articles of Association in the MOIC standard template,</li> <li>• 3 copies of the Resolution of founders of the company,</li> <li>• 3 copies of the Power of Attorney in the MOIC standard template (if another person is assigned to submit the application),</li> <li>• 3 copies of ID card/passport of founders (only for foreigners) or business licenses for entities,</li> <li>• Office location certificate and the Map signed and sealed by the village chief,</li> <li>• 6 photos size 3cmx4cm of the nominated Managing Director,</li> <li>• Compliance letter stating that the founders of this company will comply with the rules of law.</li> </ul> <p>When issuing the ERC, the MoIC issues (1) a letter for the tax office to register for a Tax ID and (2) a letter of approval for the Public Security Office for the company seal.</p> <p>Presidential Order N 003, of December 26, 2012 regulates the fees related to obtaining the ERC.</p>	2-3 months	LAK 30,000/USD 3 (Incorporation form) + LAK 60,000/USD 6 (Application form) + LAK 500,000/USD 54 (Registration service fee for companies with registered capital of LAK 100,000,000-400,000,000 / USD 10,800-43,100)
2	<p><b>Register the Articles of Association</b> Agency: State Asset Management Office, Ministry of Finance</p> <p>Once the company obtains the ERC, it shall thereafter register its Articles of Association (AoA) with the State Assets Management Department (SAMD), Ministry of Finance.</p> <p>For registration, the following documents are required:</p> <ul style="list-style-type: none"> <li>• letter request,</li> <li>• the original signed Articles of Association, and</li> <li>• copy of ERC.</li> </ul>	1 week	LAK 40,000/USD 4 (Registration of AoA) + LAK 40,000/USD 4 (Contract of Incorporation) + LAK 10,000/USD 1 (Service fee)

No.	Procedures	Time	Associated costs
3	<p><b>Apply for Tax Registration Certificate</b> Agency: Tax Department</p> <p>Enterprises operating in Lao PDR are subject to direct and indirect taxes. The following documents must be submitted:</p> <ul style="list-style-type: none"> <li>• Application form</li> <li>• Resident certificate of managers</li> <li>• List of assets</li> <li>• List of employees and estimates salaries</li> <li>• Copy of lease agreement</li> <li>• Office location certificate and Map signed and sealed by the village chief</li> <li>• 2 photos 3x4 of the managing directors</li> <li>• Copy of the resolution of formation</li> <li>• Copy of the ERC</li> <li>• Copy of ID cards</li> <li>• Registered AOA</li> </ul>	1 month	LAK 25,000/USD 3 (Registration form for taxes) + LAK 100,000/USD 11(Tax certificate)
4	<p><b>Attend to a Tax Orientation meeting and obtain Tax Identification Number (TIN)</b> Agency: Tax Division</p> <p>Upon issuance of the Tax Certificate is issued, the Tax Division will arrange for a Tax Orientation meeting to explain the different taxes that a company will have to pay, how to calculate them and how to keep your books in order. This is to ensure that companies prepare their tax return properly and pay the correct amount.</p> <p>After the Tax Orientation meeting, the Tax Division issues the Tax Identification Number (TIN) for the newly registered company.</p>	1 month	No charge
5	<p><b>Carve a company seal</b> Agency: Ministry of Industry and Commerce and Ministry of Public Security</p> <p>Upon receipt the ERC from the MoIC, the entrepreneur needs to submit a color copy of ERC at the Seal Carving Unit within the Ministry of Public Security.</p>	2 weeks (simultaneous with previous procedure)	LAK 10,000/USD 1 (application form for making the company seal) + LAK 60,000/USD 6 (the certificate authorizing the design) + LAK 50,000/USD 5 (carving of a seal in Lao language only) or LAK 53,000/USD 5 (the carving of a seal in Lao and in another language)
6	<p><b>Register company seal at the Department of Public Security</b> Agency: Department of Public Security</p> <p>After the seal is carved, the company needs to register it at the Department of Public Security in order to use it.</p>	1 to 2 weeks	No charge
7	<p><b>Obtain Approval of Content on the Company Signage</b> Agency: Ministry of Information Culture and Tourism (MICT)</p> <p>It is no longer required by law to obtain the content approval of the signage; however, majority of entrepreneurs continue to obtain it as the local officers of Information Culture and Tourism advise them to do so.</p> <p>For the content approval application, the company must complete the application form in MICT and provide the following: (i) the name of the company in Lao, enterprise code provided under the enterprise registration certificate, office location and contact details of the company; (ii) the color in red for the letters, and yellow for the background (these colors applied to domestic companies), and the size shall not exceed 2mx4m.</p>	1 to 2 weeks	LAK 10,000/USD 1

No.	Procedures	Time	Associated costs
8	<p><b>Register the workers for social security</b></p> <p>Agency: Social Security Office</p> <p>The application form to register workers for social security insurance is available at the Social Security Office. Employees and employers must participate in the compulsory social security regime. They may not enter into mutual agreements to avoid participation in the social security regime.</p> <p>The social security regime for company employees is established on the principle of state-guaranteed insurance.</p> <p>Contributions to the social security regime are paid by both the employers and employees:</p> <ul style="list-style-type: none"> <li>• 6.0% of gross salary is to be contributed for social security by the employer, and</li> <li>• 5.5%, by the employee.</li> </ul> <p>The maximum ceiling for calculating these contributions is LAK 2,000,000 (6% and 5.5% of LAK 2,000,000).</p>	1 week (simultaneous with previous procedure)	No charge
9	<p><b>Register for VAT*</b></p> <p>Agency: Tax authority</p> <p>As per Article 9 of Law of Value Added Tax of 26 December 2006, all companies with a turnover higher than LAK 400,000,000 are subject to value-added tax registration with the tax authority.</p>	3 weeks (simultaneous with previous procedure)	No charge

Source: World Bank

\*The VAT registration number will define tax exemptions (mentioned in the “Investment incentives section above) that the investor will be able to benefit from.

## Annex II: Lao PDR Tax Guide 2020<sup>84</sup>

The general tax regime in the Lao PDR is governed by:

- Law on Tax Administration (Amended) No 66/NA, date 17 June 2019 (“Tax Administration Law”)<sup>85</sup>
- Law on Income Tax No. 67/NA dated 18 June 2019 (“Income Tax Law”)<sup>86</sup>
- Law on Excise Tax No. 68/NA, dated 19 June 2019 (“Excise Tax Law”)<sup>87</sup>
- Law on Value-Added Tax No. 48/NA dated 20 June 2018 (“Law on VAT”)<sup>88</sup>
- Law on Investment Promotion No. 14/NA dated 19 April 2017 (“Investment Promotion Law”).<sup>89</sup>

### Taxation of Companies

**1. Taxable Presence:** Lao PDR companies are subject to profit tax on their Lao and foreign incomes. A non-resident company will be subject to profit tax in Lao PDR if it derives income from sources in Lao PDR. For such companies, the tax is paid by means of a withholding that is applied by the Lao enterprise that remits the income. This withholding is calculated on a deemed profit basis. The deemed profit is the annual income multiplied by the profit ratio of each type of activity.

**2. Profit tax rates:** Resident companies are subject to the following tax rates -

Type of Entity Company	
Resident Lao PDR Company	20%
Companies listed on the Lao Stock Exchange Market*	13%
Companies that manufacture, import, and sell tobacco products**	22%
Mining concessionary companies	35%
Companies operating business relating to the development of human resources such as school, training centers and other education and business activities relating to modern hospitals, medicine production and medical equipment	5%
Companies operating businesses which utilize new innovative technology, eco-friendly technology, saving of natural resources and clean energy in manufacturing***	7%

\* for a period of four years, commencing from the date of registration, after that the regular rate shall apply.

\*\* 2% will be contributed to the Smoking Control Fund.

\*\*\* This profit tax rate shall apply after the expiration of profit tax holiday under the Investment Promotion Law.

Companies with a concession agreement with the Government of the Lao PDR (particularly companies in the mining and hydropower sectors) may pay a reduced rate as determined in the concession agreement.

Reduced tax rates are also available for companies investing in the special economic and specific economic zones (as discussed in Annex III).

**3. Withholding Profit Tax for Non-Resident Companies:** Lao PDR has no concept of Permanent Establishment under its domestic tax regulations. It has, however, its own set of rules for taxing the Lao PDR derived business income of foreign entities.

The profit tax rate for a non-resident company is 20%, which is calculated on a deemed profit basis.

A Lao PDR entity is responsible for filing a separate tax declaration and tax payment with the Tax Department within 15 days from the date of withholding such tax.

Class of Income	Deemed Profit Rate	Tax Rate	Effective Rate
Agricultural and Handicraft	7%	20%	1.4%
Industrial production and other industrial	10%	20%	2%
Commerce Trade and Services	15%	20%	3%

### Taxation of individuals

Under the Income Tax Law, a resident means a person who has a permanent address, lives, earn a living or operates a business in the Lao PDR.

Taxable Salary at each level	Basis of Calculation	Tax Rates	Tax at each level	Total tax Payable
LAK 1,300,000 and below	1,300,000	0%	0	0
LAK 1,300,000 - 5,000,000	3,700,000	5%	185,000	185,000
LAK 5,000,000 - 15,000,000	10,000,000	10%	1,000,000	1,185,000
LAK 15,000,000 - 25,000,000	10,000,000	15%	1,500,000	2,685,000
LAK 25,000,000 - 65,000,000	40,000,000	20%	8,000,000	10,685,000
LAK 65,000,000 and above	-	25%	-	-

Income from Employment – Progressive Tax Rates Income tax on salary and remuneration is withheld monthly by the employer and is payable by the 20th of the month following the month of the salary payment.

### Indirect and Other Taxes

Value Added Tax (VAT)	<p>Value Added Tax (VAT) was introduced to Lao PDR on 1 January 2009 and replaced the Business Turnover Tax (BTT). The current VAT Law No.48/NA, dated 20 June 2018 replaced the VAT Law No. 52/NA, dated 23 July 2014. VAT is an indirect tax which is collected on the value-added proportion of goods and services at all stages of production manufacturing and distribution to the provision of services and consumption. The VAT regime in the Lao PDR follows the conventional VAT system whereby inputs on purchases can be offset against outputs on sales.</p> <p>Individuals, legal entities and organizations that are registered as a business, with an investment license and a taxpayer identification number, are required to register for VAT, except micro enterprises which have an annual business turnover of less than LAK 400,000,000 (approx. USD 47,000).</p> <p>The standard rate of VAT for domestically sold goods and services and imports is 10%, while a 0% rate applies to the exported sale of goods.</p> <p>If the goods are for export (i.e. subject to VAT at zero-rate), the VAT can be refunded. For the supply of goods and services within the Lao PDR any excess input VAT credits can be carried forward for deduction in the following months for up to three (3) consecutive months. The deduction of input VAT must start from the month that the input VAT is occurred. If the deduction is not exhausted within three (3) months, the input VAT can be refund.</p>
Property Tax	<p>Under the Income Tax Law, income from the sale-purchase of land, transfer of land use rights and land with the existence of structures is subject to income tax at 2%. A sale-purchase or transfer of property that is in the asset list of enterprises is exempt from income tax.</p> <p>The transfer is also subject to a transfer fee of 1% of the land value.</p> <p>Tax on land and property varies depending on the location and the type of the land (e.g. land for construction, land for agriculture, etc.). The tax on land and property is calculated based on both the location and the size of the land or property and is imposed at an annual rate per square meter.</p>



Capital Gains Tax	Income derived from the sale or transfer of shares is subject to income tax at 2% of the sales proceeds or transfer value. In practice the tax may apply to both direct and indirect sales or transfers of shares in Lao PDR companies
Withholding Tax	<p>The following withholding taxes (WHT) are applied in Lao PDR:</p> <p>(a) Dividends: income from dividends is taxed at the rate of 10%. The payer is required to withhold tax before making payment to the payee. The tax is to be remitted to the Tax Department within 15 working days of making the payment.</p> <p>(b) Interest: interest payments on loans are subject to income tax at 10%. The payer of the interest must withhold the income tax at the time when making a payment. The tax is to be remitted to the Tax Department within 15 working days of making the payment.</p> <p>(c) Royalties: income from patents, copyright, trademarks, and other intellectual property is taxed by way of withholding. The payer of the relevant income is required to withhold tax at the rate of 5% before making payment to the payee. The tax is to be remitted to the Tax Department within 15 working days of making the payment</p> <p>(d) Other income:</p> <ol style="list-style-type: none"> <li>Income tax on income from sale-purchase, transfer of agriculture land is 1%</li> <li>Income tax on income from online sale is 2%</li> <li>Income tax on income from consulting fees of independent consultants is 5%</li> <li>Income tax on income from the leases, such as land, houses constructed items, vehicles, machinery, or other assets is 10%.</li> </ol>
Environmental Tax	Environmental tax is a direct tax levied on individuals, legal entities, and organizations authorized to operate businesses, import, or use natural resources in the Lao PDR that causes pollution to the environment, damage health, life of humans, animals, and plants, and balance of the ecosystem. This tax is applicable to any kind of concession.
Excise Tax	<p>Under the Excise Tax law, excise tax is levied on the importation or domestic supply of certain goods and services.</p> <p>The types of goods and services that are subject to excise tax include:</p> <ul style="list-style-type: none"> <li>• inflammable fuel</li> <li>• alcohol, beer, alcoholic beverages</li> <li>• cigarettes</li> <li>• cosmetics</li> <li>• vehicles</li> <li>• appliances, such as air-conditioners, washing machines and refrigerators</li> <li>• services relating to entertainment</li> <li>• all types of game playing devices</li> <li>• all types of carpets.</li> </ul> <p>The excise tax on these goods and services ranges from 3% to 90%. The excise tax is payable by importers and producers of taxable goods and providers of taxable services. Importers pay the excise tax at the time of importing the goods. For domestic producers and service providers the tax is declared and payable to the tax department by the 20th of the month following the production of the goods and the supply of the services subject to excise tax.</p>
Customs and Import Duties	<p>The Customs Law defines that all goods imported or exported are subject to duties unless exemptions are provided for by law or contained in specific government agreements.</p> <p>Import and export duties must be paid at the point of importation before goods can be removed from the customs. For companies that undertake promoted activities, import duties may be exempted for certain goods to be used in production.</p> <p>Lao PDR is using import tariffs that are aligned with the ASEAN Harmonized Tariff Nomenclature (AHTN). The rates vary from 5% to 40%.</p> <p>Besides AHTN, the Lao PDR (as part of ASEAN) has free trade agreements with several other countries such as Australia, New Zealand, South Korea, China, Japan, and India.</p>

\*Please note that the information above is subject to updates/revisions, and investors should check with relevant sources for the most up to date information.

## Annex III: Investment Approval Process in Lao PDR<sup>90</sup>

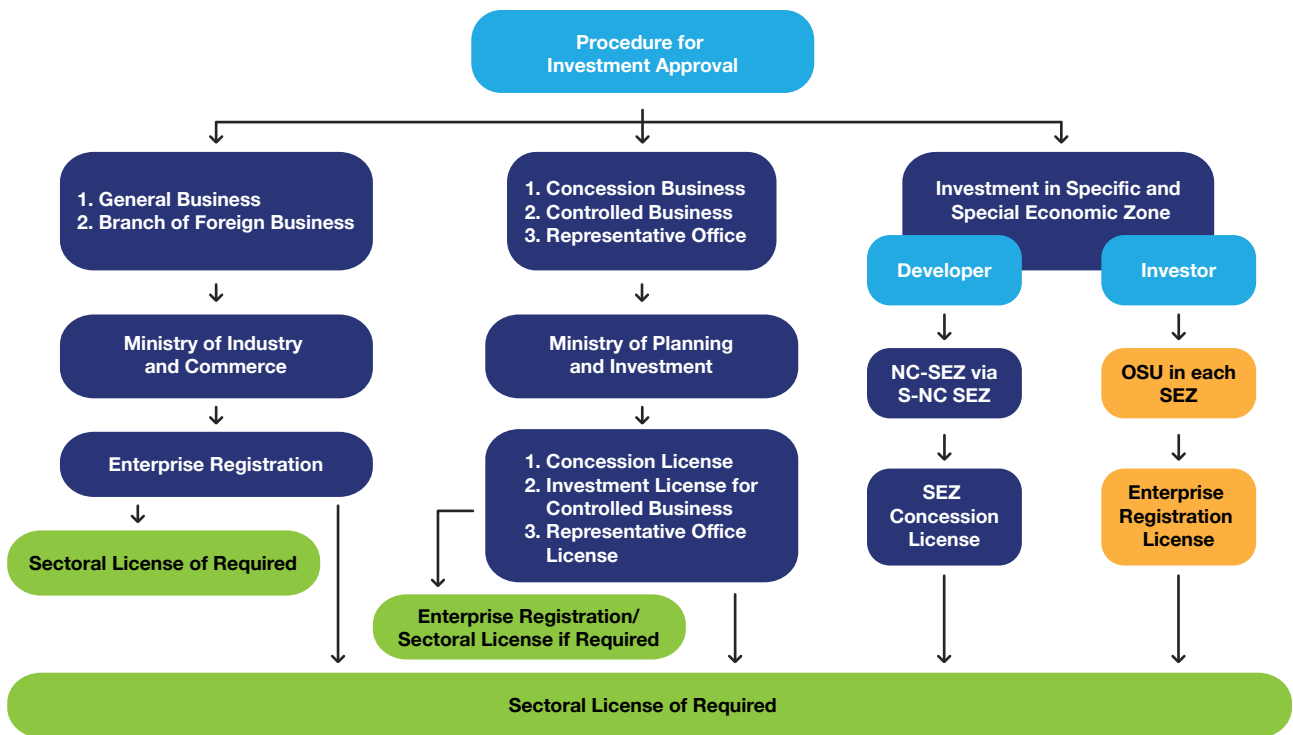
Investments into Lao PDR can be categorized as (a) Uncontrolled General Business; (b) Controlled General Business, or (c) Concession Business.

Details of each of these categories of investments are provided in the table below:

	Uncontrolled Business List	Controlled Business List	Concession Investments
Responsible Ministry	Ministry of Industry and Commerce	Ministry of Planning and Investment	Ministry of Planning and Investment
Relevant Legislative Authority	Law on Enterprises No. 46/NA (2013)	Decree on Approval of the Controlled Business List and Concession Businesses of Lao PDR No. 03/PM (2019) Refer: <a href="https://laotradeportal.gov.la/index.php?r=site/display&amp;id=1655">https://laotradeportal.gov.la/index.php?r=site/display&amp;id=1655</a>	
Description	Applies generally to all businesses in Lao PDR.	Businesses that impact on national security, social peace, national tradition, environment, society and nature. Investments into controlled list are subject to consideration and feedback from relevant agencies. The Decree lists 43 Controlled Businesses	Business list where investors receive approval for investment such as land concessions, development of social economic and processing manufacture zones with purpose to export, mines exploration, development of energy sources, airlines concession and telecommunication. The Decree lists 22 Concession businesses.
Relevant Legislative Provisions	The Enterprise Law (2013) sets out the type of businesses that can be set up in Lao PDR, and the relevant procedure. There are three lists under this law: 1) Reserved List – No. 1328 (2015) – Foreign investors can access sectors subject to issuance of ERC and necessary operational licences; and are subject to foreign equity restrictions. 2) Conditional List – No. 1327 (2015) - Foreign investors can access sectors on this list subject to minimum capitalization requirements; and subject to foreign equity restrictions. 3) Prohibited List - No. 1592 (2015) – FDIs not permitted into sectors on this list.	Article 36 – 38 of the Decree sets out procedures for submitting an approval request for controlled businesses. Annex A of Decree sets out type of activities deemed as controlled business list activities.	Article 41 – 46 of the Decree set out details on concession investments. Annex A (List 2) sets out the activities deemed as concession investments, with details of investment conditions, relevant legislative provisions and responsible sectors.
		An investor must submit the application to the One-Stop Service Office (OSSO) maintained by the Ministry of Planning and Investment. The OSSO will coordinate with relevant governmental agencies at central and local levels to review and submit the application to the Investment Promotion and Management Committee for consideration. Those investing in Controlled Business and Concession Businesses may apply to register an enterprise at the MoIC only upon obtaining necessary investment approval(s).	
SEZ Investors	Business activities that require, by law or regulation, specific licences are required to apply for these licences prior to operating such activities.		
	SEZ investors will refer their investment proposals to the relevant SEZs – and the one-stop shop in the relevant SEZ will handle all the investment applications, enterprise registration and applications.		

The process for investment approvals is more clearly demonstrated in the figure below, taking from the Investment Reform Map for Lao PDR published by the International Finance Corporation in January 2021.

**Figure 20: Investment Approval Procedure in Lao PDR**



Source: Taken from Investment Reform Map for Lao PDR, International Finance Corporation, January 2021

## Annex IV: Investment Incentives

The main provisions on investment incentives in Lao PDR are laid out in the 2016 Investment Promotion Law (IPL), as amended. In addition, incentives are also set out in the 2016 Tax Law and regulations on SEZs.

Under the Investment Promotion Law, incentives are available for investments based on business sectors/categories and based on zones in which operations are set up. This is elaborated upon below:

### Investments in business sectors or activities; and of a certain magnitude.

The IPL provides incentives for 9 categories of business sectors (activities) covering research and development, agriculture, tourism, education and sports, health, public infrastructure, financial institutions and commercial centers. The business categories relevant for agricultural activities are set out below:<sup>91</sup>

1. Clean agriculture, toxic-free agriculture, seed production, animal breeding, industrial crops and plants plantation, forestry development, environment and biodiversity protection, activities promoting rural development and poverty reduction.
2. Environmentally friendly agro-processing industry, handicraft industry specializing in national traditional and uniquely handicrafts.
3. Using high and modern technology, scientific research, research, and development, using the innovation, environmentally friendly, and efficient use of natural resources and energy.
4. Investment in, service provision for and development of public infrastructure solving urban traffic congestion and overpopulated residential area issues; development of infrastructure supporting agriculture and industry, cargo transportation, transit, and international linkage services.

Investments into the abovementioned categories are entitled to fiscal and non-fiscal incentives, as summarized in the table below, subject to:

- Having a minimum investment capital of LAK 1.2 billion; or
- Employing at least 30 Lao technical staff, or
- Employing 50 or more Lao workers with employment contracts of at least one year.

**Table 8: Incentive Instruments for Investments into Business Categories under Article 9 of IPL**

Fiscal Instruments	Non-Fiscal Instruments
1. Exemption and reduced rate of profit tax (CIT)	1. Land use-related incentives (Article 16): right to lease or have a concession over State land to conduct investment activities, right to transfer land use rights under certain conditions
2. Exemption of Customs duties for imports of certain inputs (material, raw material, machinery, and equipment) Non-Fiscal Instruments	2. Access to finance incentives (Article 13)
3. Zero-rated VAT for these imports (materials, raw materials, machinery, and equipment)	3. Government commendation for investors to have fulfilled tax obligations in a timely manner, contributed to community development or to Lao society, to skills-building or resolving environmental issues
4. Zero-rated VAT for use of certain domestic raw materials	
5. Exemption of export duties/taxes for export of raw materials	

Source. Taken from IFC's Investment Reform Map for Lao PDR (Table 3 – Page 33)

Further, under Article 19 of IPL, the Government of Lao PDR may also propose an additional “special incentive” as deemed necessary for a given project.

### Incentives based on certain zones or locations

The incentive structure under this category is organized into three zones (Article 10 of IPL):

**Figure 21: Categorization of Zones – Article 10 of the Investment Promotion Law**



Incentives include tax holidays and exemptions on rental/concession fees for state lands, as summarized below:

### In the case of Zones 1 and 2:

**Table 9: Duration of Tax Holidays and Rental/Concession Fee Exemptions for State Lands under Zones 1 and 2**

Zone	Tax Holidays			Rental/Concession Fee Exemptions		
	Normal Duration	Extension for Priority Sectors*	Maximum	Normal Duration	Extension for Priority Sectors*	Maximum
Zone 1	10 years	5 years	15 years	10 years	5 years	15 years
Zone 2	4 years	3 years	8 years	5 years	3 years	8 years

Source: Investment & Competition unit, Macroeconomics, Trade and Investment Global Practice.

\*Priority sectors refer to those covered under Article 9 (2), (3), (5) and (6) of the IPL – which apply to businesses engaged in eco-friendly agriculture and agribusiness, health, education, and skills development.

Accordingly, investments into **clean agriculture, agro-processing industry for coffee sector can benefit from these extended tax exemptions and exemptions from rental/concession fee for state lands.** To benefit from these tax exemptions, plantations may mainly be done in Zone 1, while processing activities should be located in Zone 2 and Zone 3(for logistic issues).



### In the case of Zone 3 – SEZs:

Operations set up in SEZs (Refer Annex IV below for list of SEZs available in Lao PDR), as set out under the ‘Decree on Special Economic Zones No. 188 (7 June 2018), are entitled to fiscal and non-fiscal incentives.

There are no specific eligibility requirements for an investor to locate in an SEZ. Investors setting up in SEZs are entitled to the following incentives:

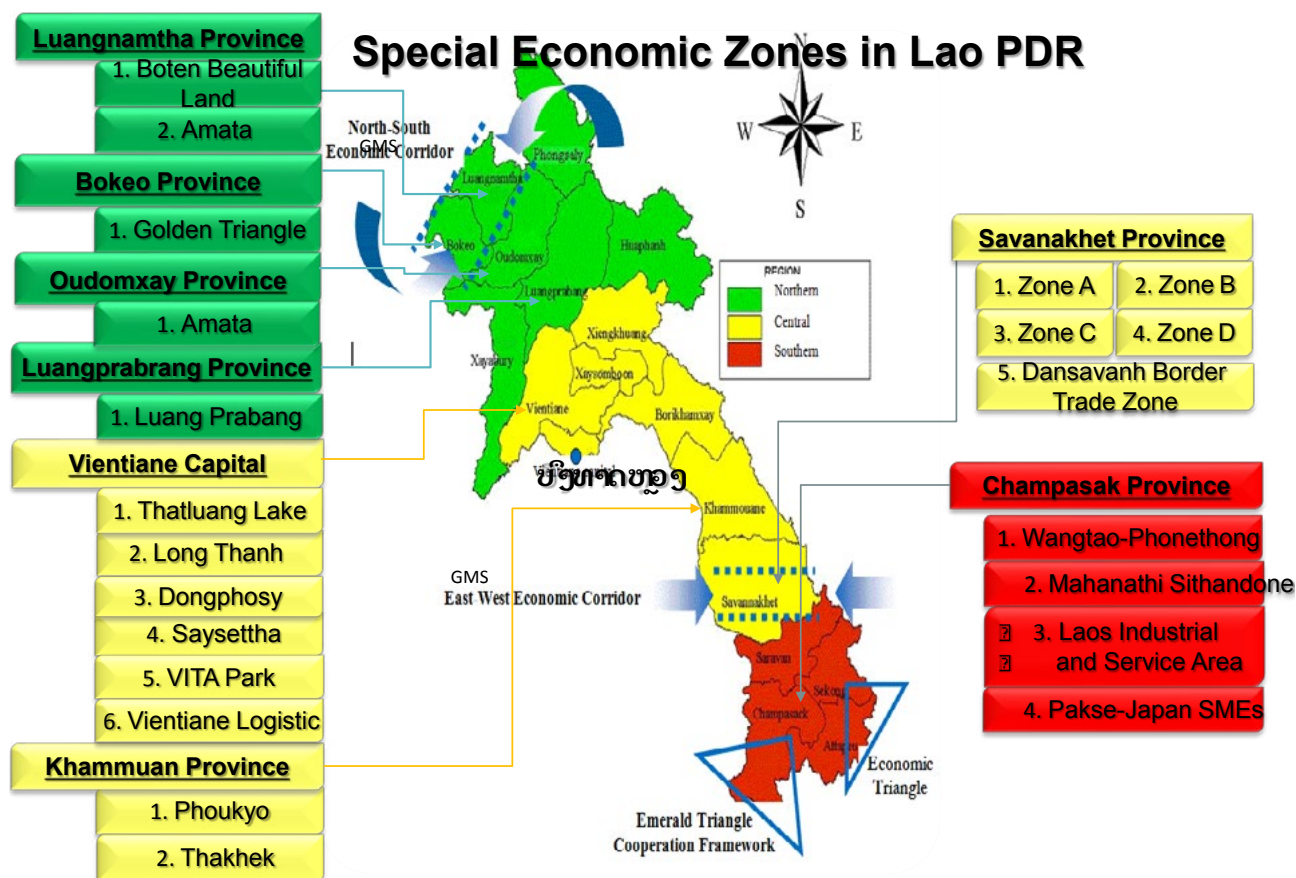
**Table 10: SEZ Incentive Packages for Investors (Article 43 – 45 of Decree 188)**

<b>Fiscal Incentives</b>	
Exemption of Import Tax and Duties	On imported and exported goods (subject to provisions stipulated in the IPL)
Tax holidays on Corporate Income Tax	SEZ investor investing in a promoted sector listed in Article 9 of the IPL 2016 can receive 2 additional years of tax holiday in Zone 1 and Zone 2. (i.e. 12 years for Zone 1 investments, and 6 years for Zone 2 investments)
VAT exemption	Construction of manufacturing for export will be granted 100 percent VAT exemption and pay 50 percent of the full VAT rate for electricity and water supply consumption for construction.
	Construction of infrastructure supporting investment activity not for 100 percent export shall pay 50 percent of the full VAT rate.
Tax incentives in the IPL	Investors in SEZs are also eligible to receive any tax incentives determined in the IPL.
<b>Non-fiscal incentives</b>	
Land	Right to use, lease, handover or transfer the leased portion of land based on term and period stated in the lease contract, but not more than the period of development contract.
	Owner of property located in the SEZ has the right to ownership of land and property over the period of the contract and can sell, handover, transfer or inherit.
	Upon the end of the contract, the land will return to the government.

Source: Taken from the IFC (2021), Investment Reform Map for Lao PDR – Table 15 in Annex 5

# Annex V: SEZs in Lao PDR

Figure 22: Location of SEZs in Lao PDR



Source: Ministry of Planning and Investment ([https://www.asean.or.jp/ja/wp-content/uploads/sites/2/1-2.SPECIAL\\_ECONOMIC\\_ZONES\\_IN\\_LAO\\_PDR.pdf](https://www.asean.or.jp/ja/wp-content/uploads/sites/2/1-2.SPECIAL_ECONOMIC_ZONES_IN_LAO_PDR.pdf))

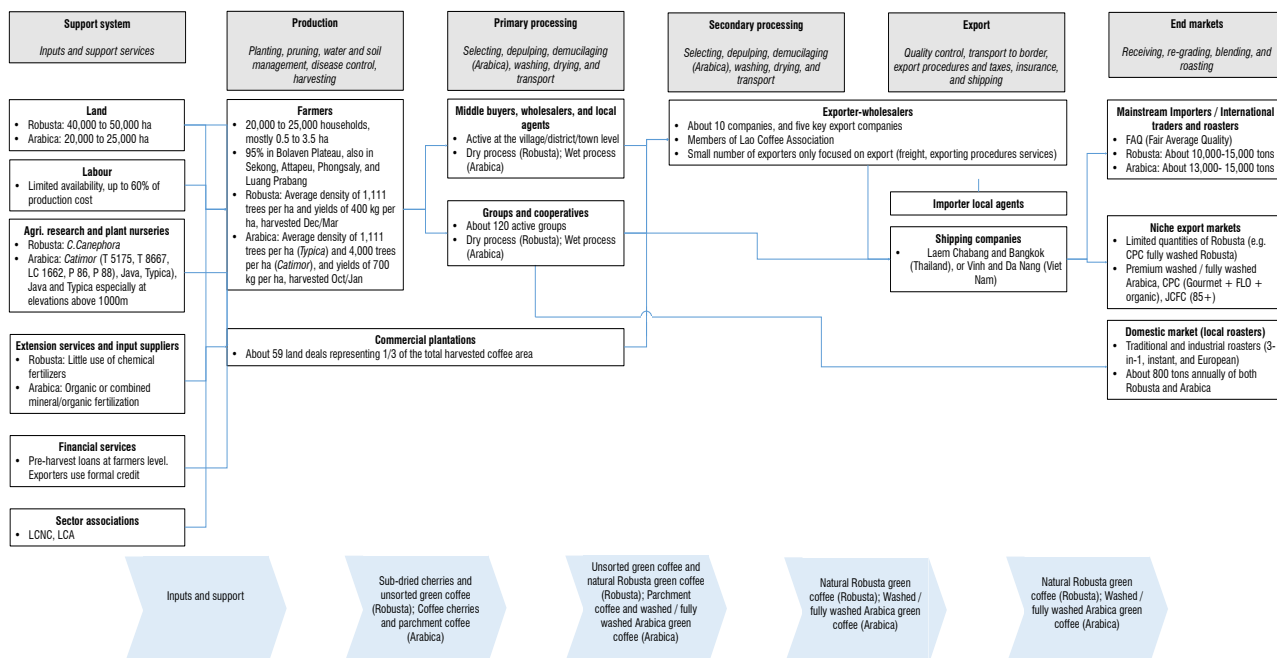
Details of selected SEZs are elaborated upon below:

SEZ	Year Estd	Investment	Incentives	Focus Sectors
1 Savan-Seno SEZ	2003	Industrial zone	Decree No. 177/PM, 13 November 2002	<ol style="list-style-type: none"> <li>1. Industrial sector - electrical appliance manufacturing plants, food-processing plants, wood-processing plants, garment and textile factories, automobile assembly plant, and other electronic parts assembly plant.</li> <li>2. Distribution logistics service sector - transportation, cargo delivery service, freight forwarding, warehouses, and cool storage.</li> <li>3. Service sector - banking, financial institution, training center, and real estate</li> </ol>
2 Vientiane Industrial and Trade Area	2011	Industrial zone	Based on the Joint Development of Industry and Trade Area at Km21, Vientiane Capital, 30 October 2009 177/PM, 13 November 2003	<ol style="list-style-type: none"> <li>1. Light industry – manufacturing, agriculture processing, garment factories, etc.</li> <li>2. Service sector supporting industrial park, such as logistics and dormitories</li> </ol>
3 Saysettha Development Zone	2010	Industrial Zone	Based on the Agreement of the Saysettha Development Zone, on 11 July 2012. Decree No. 177/PM 2003	<ol style="list-style-type: none"> <li>1. Agro-processing zone (producing foods, organic produce and animal feed)</li> <li>2. Timber processing</li> <li>3. Manufacturing – machinery, electronic appliances</li> <li>4. Green energy</li> <li>5. Textile and garment factories</li> <li>6. Logistics</li> <li>7. Residential zone (leisure area, staff accommodation, commercial, cultural, educational and health facilities)</li> </ol>
4 Phoukhyo SEZ	2010	Industrial Zone	Based on the Development Agreement of the Phoukhyo Specific Economic Zone, Thakhek District, Khammuan Province, Lao PDR, on 28 December 2010	<ol style="list-style-type: none"> <li>1. Industrial zone - manufacturing and processing for export</li> <li>2. Information technology information development project</li> <li>3. International financial services center</li> <li>4. New town construction project</li> </ol>
5 Boten SEZ	2003	Trade and logistics zone	The policy is based on the agreement and concessions of 4 April 2012 for the transformation of Golden Boten City to Boten Beautiful Land SEZ.	<ol style="list-style-type: none"> <li>1. Lao-China northern inland logistic center – USD 10 million, 30 ha</li> <li>2. International border business center – USD 40 million, 30 ha</li> <li>3. International golf-course and tourism center – USD 20 million, 50 ha</li> <li>4. Cultural-tourism resort center – USD 7 million, 10 ha</li> <li>5. Education, culture, and healthcare center – USD 6 million, 10 ha</li> </ol>

	SEZ	Year Estd	Investment	Incentives	Focus Sectors
6	Golden Triangle SEZ	2007	Tourism and new urban center	The policy is based on the agreement on the development of the integrated AEC, and on the prime minister's decree on the organization, activities, and management of the Golden Triangle SEZ, Tonpherng District, Bokeo Province, Lao PDR, No. 090/PM, 4 February 2010	<ol style="list-style-type: none"> <li>1. International airport – USD 140 million, 175 ha</li> <li>2. Golf and Leisure Center – USD 50 million, 300 ha</li> <li>3. Real estate development project on Don Xao Island – USD 80 million, 90 ha</li> <li>4. ASEAN-China cultural tourism centers - USD 60 million, 300 ha</li> <li>5. High-class spa resort – USD 70 million, 290 ha</li> <li>6. International hospital – USD 40 million, 11ha</li> </ol>
7	Dongphosy SEZ	2012	Trade and logistics zone	Amendment of and addendum to the contract on the development of the SEZ at Dongphosy, Lao PDR, on 12 September 2009	<ol style="list-style-type: none"> <li>1. Commercial area: shopping centers</li> <li>2. Hotels</li> <li>3. Community amenities - specialist medical center, educational institutions</li> <li>4. Bonded warehouses, showrooms, wholesale trade area</li> </ol>
8	Thakhek SEZ	2012	Trade and logistics zone	Based on the agreement of the Thakhek SEZ, Thakhek District, Khammaun Province, Lao PDR, on 18 May 2012	<ol style="list-style-type: none"> <li>1. Trade center</li> <li>2. Logistics and bonded warehouses</li> <li>3. Hotels and recreation center</li> <li>4. Financial and business center</li> <li>5. Telecommunications</li> <li>6. Exhibition hall</li> </ol>
9	Champasak SEZ	2015	Industrial zone	Decree No. 188/GOV Decree No. 177/PM	<ol style="list-style-type: none"> <li>1. Light industrial projects</li> <li>2. Manufacturing, spare parts production</li> <li>3. Opportunity to cooperate with the Government to develop a new tourism specific economic zone.</li> </ol>

Source: World Trade Organization Trade Policy Review for Lao PDR (2019) – Secretariat Report, Table A3.

# Annex VI: Coffee sector value chain<sup>92</sup>





## Annex VII: Coffee Production stage - Cost and Income Analysis

A study<sup>93</sup> in 2018 analyzed the costs and returns of producing coffee in Lao PDR by interviewing selected growers. The study acknowledges that the values presented should only be seen as indicative. Furthermore, it should also be noted that both the costs and returns will be higher in 2023 than they were in 2018, with current prices suggesting that coffee should be more profitable today than it was then. Even so, it does provide a useful insight into the costs and returns a typical farmer in Lao PDR would have experienced.

**Cost of Production:** As coffee can take between 3 to 5 years to reach full maturity, depending on the variety planted, the study recognized that it is important to divide the cost of coffee production into establishment costs and into running costs. It estimated that the cost of establishing a coffee plot in Lao PDR was about LAK 14 million (USD 1,649) per ha. Furthermore, that it takes at least LAK 9 million (USD 1,054) per ha. to maintain the plot until the coffee reaches full maturity. It should be noted however that some of this cost can be offset as the trees will produce a limited amount of coffee for harvesting after about 2 years with modern hybrids or after 3 years with more traditional varieties. Once fully mature the annual operating cost (including labour costs to cut grass three times a year and to prune coffee trees, to purchase fertilizers, pick cherries, mill, or hull coffee beans, and pay land taxes) was estimated to be around LAK 11.82 million (USD 1,385) per ha. See table on costs below.

**Income from Coffee:** The study also provided an estimation of farmers' income from coffee production. The productivity (yield) of coffee cherries (both organic and non-organic) was between 3-5 tons per ha, worth at the time LAK 6-10.5 million (USD 703-1230) per ha. It was acknowledged that the revenue would vary depending on the coffee type and quality and that the revenue from coffee depended and still does on when it is sold - before processing (unprocessed as cherries or red beans), after primary processing (as parchment or white beans), or after secondary processing (as milled or green beans). It also is dependent upon the international price prevailing at the time. Based on prices prevailing in 2018, the study found that a farmer can earn around USD 1,230 per ha from selling unprocessed coffee cherries. The price would increase by around 37 % (possibly up to as much as USD 2,000) for parchment beans after primary processing or to around USD 2,700 if the beans are certified organic. The revenue would be even higher, (USD 2,953) for hulled organic coffee beans after secondary processing.

With the annual operating cost being around USD 1,385 per ha, farmers would have lost around USD 39 from selling coffee cherries (i.e., before processing) in 2018. If farmers processed the cherries to produce parchment beans, an additional cost of around USD 100 per ha is added to the total estimated cost (for electricity as well as additional labor costs), but this would have meant that the margin that a farmer would have received from selling non-organic parchment beans would be about USD 480 per ha, while the margin from organic beans could be USD 1,200 per ha. Of course, with the higher prices prevailing in 2023 these margins will be higher still. See table on income below.

### Costs per hectare

Item	Costs (LAK)	Costs (USD)	Notes
<b>(A) Pre-harvest / start-up</b>			
Clearing of a new plot and ploughing per ha	3,750,000	440	It costs LAK 600,000 per 1,600 sqm
Seedlings per ha	2,520,000	295	LAK 700 per seedling
Digging holes to plant per ha	1,800,000	210	LAK 500 per hole (*3,500)
(Organic) fertilizer @ 5 tons	5,000,000	585	
Planting coffee trees/seedlings	1,000,000	117	Daily wage: LAK 50,000
<b>Total</b>	<b>14,070,000</b>	<b>1,647</b>	





Item	Costs (LAK)	Costs (USD)	Notes
<b>(B) In-between harvest</b>			
Cleaning farm/weeding	3,078,000	360	3 times per year
Pruning	500,000	58	
(Organic) fertilizers and transport	2,200,000	258	It costs more depending on a level of soil infertility; LAK 323,000 per transport trip
<b>Total</b>	<b>5,778,000</b>	<b>676</b>	
<b>(C) Harvest</b>			
Picking coffee cherries	5,000,000	585	Average 5 tons per ha, pick wage is LAK 1,000 per kilogram
Milling/hulling parchment beans	1,000,000	117	
<b>Total</b>	<b>6,000,000</b>	<b>702</b>	
<b>(D) Others</b>			
Land tax per year	45,000	5	
<b>Estimated operational costs of farm (annual)</b>	<b>11,823,000</b>	<b>1,385</b>	

### Income per hectare

Output per hectare	Unprocessed		After Primary Processing		After Secondary Processing	
	Volume	Value (LAK)	Volume	Value (LAK)	Volume	Value (LAK)
Red Cherries (Organic)	4,000kgs	10,600,000				
Red Cherries (Non-Organic)	4,000kgs	6,100,000				
Parchment (Organic)			800kgs	14,500,000		
Parchment (Non-Organic)			800kgs	8,360,000		
<b>Green Bean (Organic)</b>					569kgs	23,200,000
<b>Green Bean (Organic)</b>					569kgs	16,800,000

Source: UNCTAD, Sustainable commercialization in the coffee value chain

## Annex VIII: Links to the most common sustainability certifications (for a complete list of certification processes)

<p><b>Rainforest Alliance</b></p> 	<p>The Rainforest Alliance is an international non-profit organization working at the intersection of business, agriculture, and forests to make responsible business the new normal.</p> <p>The Rainforest Alliance Certification means that the certified product or ingredient was produced using methods that support the three pillars of sustainability: social, economic, and environmental</p> <p><a href="https://www.rainforest-alliance.org/business/sustainable-farming/farm-certification/how-to-get-rainforest-alliance-certified-a-guide-for-farmers/">https://www.rainforest-alliance.org/business/sustainable-farming/farm-certification/how-to-get-rainforest-alliance-certified-a-guide-for-farmers/</a></p>
<p><b>C.A.F.E. Practices</b></p> 	<p>Coffee and Farmer Equity (C.A.F.E.) Practices evaluates, recognizes and rewards producers of high-quality sustainably grown coffee for Starbucks stores.</p> <p><a href="https://www.scsglobalservices.com/services/starbucks-cafe-practices">https://www.scsglobalservices.com/services/starbucks-cafe-practices</a></p>
<p><b>Nespresso AAA</b></p> 	<p>Nespresso AAA Sustainable Quality Program was developed to meet a goal shared by Nespresso and the Rainforest Alliance – to create a sustainable supply of the highest quality coffee, while improving the situation for coffee farmers and their communities.</p> <p>This program provides farmers with the support, expertise, and techniques to grow coffee more efficiently, boosting livelihoods, incomes, and productivity in the process.</p> <p><a href="https://sustainability.nespresso.com/aaa-sustainable-quality-program">https://sustainability.nespresso.com/aaa-sustainable-quality-program</a></p>
<p><b>The 4C Association</b></p> 	<p>4C certification applies high standards on economic, social, and environmental conditions for coffee production and processing to establish sustainable trustworthy and fair coffee supply chains.</p> <p>4C Complaint Coffee is coffee that has been produced in accordance with the 4C Code of Conduct, a set of baseline sustainable practices and principles for the production of green coffee beans.</p> <p><a href="https://www.4c-services.org/">https://www.4c-services.org/</a></p>

# Endnotes

1. Refer ITC's ARISE Plus Lao People's Democratic Republic project page for these publications: <https://www.intracen.org/arise-plus-laos/publications/>
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