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RICE EXPORT: HOW TO HELP FARMERS?

Rice Production

Vietnam is still a predominantly an agricultural economy with 70% of its population living in rural areas and depending heavily on various souces of farm income. Rice is the most important crop in the agriculature sector. Currently, the country produces 32 tons of rice while its 80 million people only need 24 million tons. It is estimated that even when Vietnam population reaches 140 million, only 28 million tons of rice is needed for domestic consumption. Obviously, the rice surplus needs to be exported. Inarguably, Vietnam has successfully managed to increase its exports of rice and is now the second largest rice exporter in the world.[1]

For a very long time, the Government of Vietnam considerred rice cultivation as a top priority in the rural economy. The total area of rice cultivation was strictly regulated by the government and rice growers were typically not permitted to convert rice into other crops eventhough they might have higher value-added.

As time goes by, people at the central government begin to realize that Vietnam does not have a lot of arable land to support the expansion of land-intensive rice production and that the rice price is on a declining trend, and the scope for productivity increase is limited. Things have started to change and in February 2001 Deputy Prime Minister Nguyen Cong Tan, who is in charge of agriculture and rural development, spoke out in a press conference: "It is time to get rid of the mind-set that we must produce as much rice as possible… A big part of rice areas should be changed over to aquaculture, maize and cash crops"[2].

This is a shift in the right direction but it does take time. In the short-term, rice farmers still suffer from the low output price and high input costs, and the government is desperate to find some ad-hoc supporting measures, one of which is the purchase of paddy rice for short-term storage in order to temporarily reduce the supply of rice and hence to prevent the downward spiral in the rice price.

Stockpiling

At the end of 2000, the government planned to export four million tons of rice in 2001, the majority of which would come from the winter-spring crop. In February 2001, farmers expected to get a bumper winter-spring crop with high productivity. Given the high potentail grain outpur, rice price began to decline. In March domestic price of paddy rice decreased to VND1.1-1.2 million per ton from the level of VND1.3-1.4 million per ton in the month before the Lunar New Year. Domestic production costs of

[1] Thailand is currently the world largest rice exporter.
[2] Quoted from the Laborer (Nguoi Lao Dong), March 5, 2001.

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rice, however, have increased on average by 13% on a year-to-year basis due to the high prices of fertilizers, pesticides, and fuels. The Ministry of Agriculture and Rural Development (MARD) estimated that rice farmers would lose VND4,000 billion.

Following the Cabinet Meeting in February and its subsequent resolution, the Government decided to provide loans through its state-owned banks to the Sounthern Food Corporation and other state-owned trading companies in the Mekong Delta to buy one million tons of winter-spring rice at the floor price of VND1.3 million per ton for temporary storage. Interests on these loans would be fully reimbursed by the government for a period of six months.[3] Also in March, the Vietnam Food Association set a floor price for rice export to prevent further declines in domestic prices.[4]

Since the inception of the policy, local trading enterprises have registered to borrow VND2,460 billion ($169,65 million) from the Vietnam Bank of Agriculture and Rural Development to buy rice for stockpiling. These traders also demanded that losses incurred by them in the event of further decline in rice price after the six-month period be compenstated by the Government.[5]

It was reported that traders who applied for loans with a zero interest rate did buy up one million tons of paddy rice from farmers although the process was slow. However, a subtancial part of the stored rice was the existing stocks for normal business rather than additional purchases and some quantities were resold subsequently. The borrowed money was actually used by traders for other business activities, dubbed in the Vietnamese jargon as “quay vong von” meaning “revolving funds”.[6]

As for farmers, they were still hit hard by the price falls. Despite the floor price of VND1.3 million a ton, farmers were forced to sell for as little as VND1.0-1.1 million a ton, since the rice trading companies continued to purchase rice at prices below the floor and in many instances they bought rice indirectly through middle men.

As for the Government, VND50 billion are the amount of reimbursement paid out of the budget to cover the six-month interest on the loans for rice storage.

[3] It is interesting to note that several measures were also proposed during the time of free loan provision to rice trading companies. The rice export quota system was abolished. Except for government-to-government contracts, rice trading firms are now free to export rice. To curb the rising input costs of agriculture in general and rice production in particular, fertilizer tariffs were reduced by the Ministry of Trade from 0-30% to 0-5% in March 2001.

[4] The floor price was $160 per ton for the 5% broken grade , $155 for the 10% brocken grade, $150 for the 15%, and 140 for the 25%.

[5] This compensation is assumed by traders although the Government never officially give endorsement or concrete plans.

[6] This was revealed when in August many rice export contracts came due and the trading companies did not have enough stocks. Coupled with the fact that the winter-spring crop turned to be not as good as had been expected, rice price did rise afterwards.