WHO HAS BENEFITED FROM HIGH RICE PRICES IN VIET NAM?

Hanoi, October 2013

OXFAM

GROW
FOOD. LIFE. PLANET.

Ipsard

Authors: Tran Cong Thang, Do Lien Huong, Le Nguyet Minh

ACKNOWLEDGEMENTS

The paper was a collaborative effort, involving IPSARD and Oxfam staff and partner organizations. Special thanks are extended to Dr. Dang Kim Son, Director General of IPSARD. Many colleagues contributed with extensive comments and inputs to the draft of the paper. Special mention should be made of Bert Maerten, Andy Baker and Tim Gore from Oxfam; and expert Nguyen Dinh Bich.

Production of the report: Nguyen Qui Quynh Mai, Bui Phuong Lan and Nguyen Hoai Thu

Text editor: Tara Burke

Cover photo: Patrick Brown/Oxfam

This report and information about the GROW campaign are available at www.oxfam.org/grow

Oxfam is an international confederation of 17 organizations networked together in 92 countries, as part of a global movement for change, to build a future free from the injustice of poverty. In Viet Nam, Oxfam is recognized as one of the leading international non-government organizations, especially in rural development, disaster risk reduction and humanitarian response, civil society development, ethnic minorities and women's empowerment. www.oxfam.org/vietnam

IPSARD is a leading agency of research, consultancy on agriculture and rural development policy in Vietnam,trusted to advise the Ministry of Agriculture and Rural Development, businesses and local provinces on the implementation of various programs and important projects. http://ipsard.gov.vn

WHO HAS BENEFITED FROM HIGH RICE PRICES IN VIET NAM?

Hanoi, October 2013

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

LIST OF BOXES

ABBREVIATION

AW	Autumn-Winter crop season
FAO	Food and Agriculture Organization
GSO	General Statistics Office of Viet Nam
IPSARD	Institute for Policy and Strategy for Agriculture and Rural development
MARD	Ministry for Agriculture and Rural development
MKD	Mekong River Delta
MOF	Ministry of Finance
MOIT	Ministry of Industry and Trade
MPI	Ministry of Planning and Investment
SA	Spring-Autumn
SRI	System of Rice Intensification
VHLSS	Viet Nam Household Living Standard Survey
WB	World Bank
WS	Winter-Spring crop season


Patrick Brown/ Oxfam

EXECUTIVE SUMMARY

Over the past two decades, expanding rice production has been heralded as the driver of Viet Nam's rapid economic growth. Record world rice prices meant record profits for the largely state-owned rice exporters, but not for the millions of small-scale farmers who produced it. Indeed, it is at the farmers' expense that the exporters gained. Despite expending the greatest efforts and, compared to others in the rice value chain, spending the greatest proportion of their incomes on production costs, rice farmers benefited the least from the high rice prices of 2008 and 2011.

With the aim of redressing the balance in the future, this briefing summarizes key findings from a research carried out by the Institute for Policy and Strategy for Agriculture and Rural Development (IPSARD) and commissioned by Oxfam. It is part of Oxfam's global GROW campaign which highlights the fact that the global food system is broken. Worldwide, there are 870 million people going to bed hungry each night due to factors including climate change, land grabs, food price spikes and intensive farming. Viet Nam is one of the GROW campaign's focus countries.

Oxfam is one of the leading international NGOs in Viet Nam supporting some of the country's most poor and marginalized people who have so far missed out on the recent prosperity. In this report Oxfam and IPSARD analyze what happened during the recent peaks in rice prices: the government's response; the winners and losers and what lessons have been learned.

While rice growing remains the most popular livelihood in Viet Nam, it is not the main income for the majority of growers. Rice growers experience the worst effects of price fluctuations. If global prices go down, their selling price reduces. However, when global prices rise, increases on farm-gate selling prices have been minimal. A lack of good storage capacity means rice quality diminishes rapidly post-harvest and pushes prices down due to supply surplus or "a good-harvest-bad-price" situation in the country which hits farmers the hardest.

The government's recognition of the value of rice to the country is clear in its recent range of policies. But there is a fundamental problem with the policy making process: the farmers they intend to help are not consulted. Consequently, many policies are inappropriate, do not take into account variations in costs of production and as yet have failed to ensure stable incomes for Viet Nam's poorest people.

For economic growth in Viet Nam to be sustainable and stable, everybody needs to benefit from the increased wealth. To achieve this, we recommend the following actions:

- Strengthen the voice of farmers through associations and ensure they are heard in trade regulation and policy making processes;

- Improve direct linkages between rice growers, exporters and importing countries;

- Develop a strategy to improve the quality and branding of Vietnamese rice to increase demand and higher value addition;

- Plan specialized commercial rice production areas with the participation of farmers. Focus infrastructure development on these areas. Support farmers in other regions to diversify;

- Become more competitive globally through better research and development, extension services, and by producing high-quality and climate resistant rice varieties;

- Speed up the construction of rice warehouses to help maintain rice quality after harvesting and reduce the risk of good-harvest-bad-prices;

- Set a start-of-season floor price, in consultation with farmers, that takes into account all production costs and regional variations.

For rice sector growth in Viet Nam to be sustainable, everybody needs to benefit from the increased wealth. This future is well within reach and can be achieved only if key stakeholders particularly MOIT, MARD, MOF, VFA and rice growers' representative convene to discuss the proposed approaches and determine the steps and processes to take it forward.

Abbie Trayler - Smith/ Oxfam

INTRODUCTION

BACKGROUND AND OBJECTIVES

Rice is an important crop for Viet Nam: for its farmers' livelihoods, for domestic consumption and for export. Viet Nam has experienced high and sustained growth in rice production over the past 20 years. This has been achieved through expanding paddy planted land and increasing and sustainably intensifying rice production.

Rice is also a strategic commodity for national food security. As such, the government has given it significant attention by promoting rice production and regulating rice trading.

Despite the very impressive expansion in rice production and exports, the benefits to rice farmers have been modest (World Bank, 2012). Rice does not generate most rice farmers' main income despite the fact that they spend the biggest share of their working time and efforts on rice production. Few rice growers have become wealthy and most of them can no longer merely rely upon rice as the basis of their households' livelihood.

International rice prices have both increased and become more volatile since 2008. In 2012, the price of rice on international markets remained high with favorable market conditions for Vietnamese rice exports. World rice prices peaked in August 2008, with prices 2.8 times higher than they were during the same period in 2007. The domestic rice market was also badly affected by this global food price crisis.

Domestic rice prices increased continuously and dramatically in the first six months of 2008. The high prices encouraged farmers to expand rice production. As a result, the paddy planted area for the 2008 Winter-Spring crop reached 7.4 million hectares, an increase of 200 thousand hectares. The average yield was about 5.2 tons per hectare, a 0.2 ton increase over the 2007 figure with a total rice production of almost 39 million tons, a significant increase compared to the previous year. However, it appears that rice farmers saw little benefit from the 2008 export price spike, with the bulk of that year's windfall gains going to the trading sector. An analysis of profits for 2009 and 2010 shows industry/trade gross margins to be considerably above the norm during the pre-2008 crisis period, while farmers' profits tended to be squeezed by rising productive input and labor costs.[1]

Food price volatility and related issues like food security, vulnerability and poverty have been the emerging topics in agriculture over the last five years. These topics have been at the center of many international research reports, especially in densely populated Asian countries where rice is the staple food. It is now broadly agreed that price volatility has a strong impact on food security because of its effect on household incomes and purchasing power. Simply put, it can push vulnerable people into poverty and hunger since volatile prices also trickle down into the general consumer price index, social welfare and overall food security.[2]

From the trading and production perspective, research has concluded that farmers, especially small-scale or poor farmers, are unlikely to benefit from higher prices since they are very exposed as consumers to higher prices. On the other hand, big food trading companies have reported increased profits and supermarkets and seed and fertilizer companies are doing well. Some big agribusinesses operating along the supply chain with a strong position in markets are also well placed to reap the benefits of higher prices.[3]

1 *WB (2012).*
2 *HLPE Report 1*
3 *http://www.oxfam.org/en/campaigns/agriculture/food-price-crisis-questions-answers.*

It was certainly the case in Viet Nam, during the high prices of 2008 that rice farmers benefited very little. Therefore, this research aims to:

- Determine how the benefits of windfall gains in rice export during 2008 to 2011 were distributed along the value chain, in particular amongst state-owned enterprises (SOEs) and farmers, but potentially other actors;
- Evaluate the impact and use of such profits by SOEs;
- Analyze the benefit sharing from an equity, poverty reduction and farmer perspective; and
- Recommend how reforms can deliver more equitable benefit sharing, especially in the context of the announced SOE reforms.

DATA AND INFORMATION COLLECTION

Secondary data and information used in this report has been collected mainly from the Viet Nam household living standard survey (VHLSS) and Agrocensus,[4] Viet Nam Agriculture and Rural Household Survey (VARHS).[5]

A field survey was conducted in An Giang province to collect data on rice production. Key informant interviews with some rice exporters provided information on export prices, trends and policies, (especially during the two crises). They also offered insights into the effects of rising rice prices on profits and the distribution of benefits.

Focus group discussions with farmers in Tri Ton and Chau Thanh districts and An Giang province gave a deeper understanding of rice production, especially the difficulties of the process, the impacts of rice policies on incomes and subsequent effects. This information, together with direct interviews with 100 farmers, provides a full picture of rice production during the two recent food crises.

The team has also gathered information from 10 'field collectors' – these are value chain actors that play the most important role in linking farmers with rice exporters. This helps us understand what benefits they gained and the obstacles they are facing in paddy and rice trading.

ANALYTICAL HODOLOGY

We use simple analytical methods in this study.

Cost-benefit analysis: We look at farmers' costs and net incomes from rice production based on a field survey and analyze the benefits gained by other stakeholders in the rice value chain, especially rice exporters.

Value chain analysis: Through information collected from different actors along the rice value chain, we analyze and identify who benefited most from the increase in export prices of rice.

Qualitative analysis: We analyze field survey information to assess the benefits to rice farmers, SOEs and other actors in the rice value chain. We also evaluate how SOEs use their benefit to identify the level of profit gained. We will further investigate the equity in rice export benefit sharing and evaluate how this benefit contributes to poverty reduction. Our analysis results will help us make recommendations for rice policies.

4 This surveys are done by General Statistical Office (GSO)

5 These surveys are supported by Danida project. This survey is similar to VHLSS but it added extra-questions

AN OVERVIEW OF RICE PRODUCTION AND EXPORT

Of all the agriculture subsectors in Viet Nam, the rice sector receives most attention, with abundant information, data, articles and reports available. As this research is aimed at understanding how the benefits earned from rice exports are distributed, we will firstly review rice production, and then look at rice export performance over time.

RICE PRODUCTION

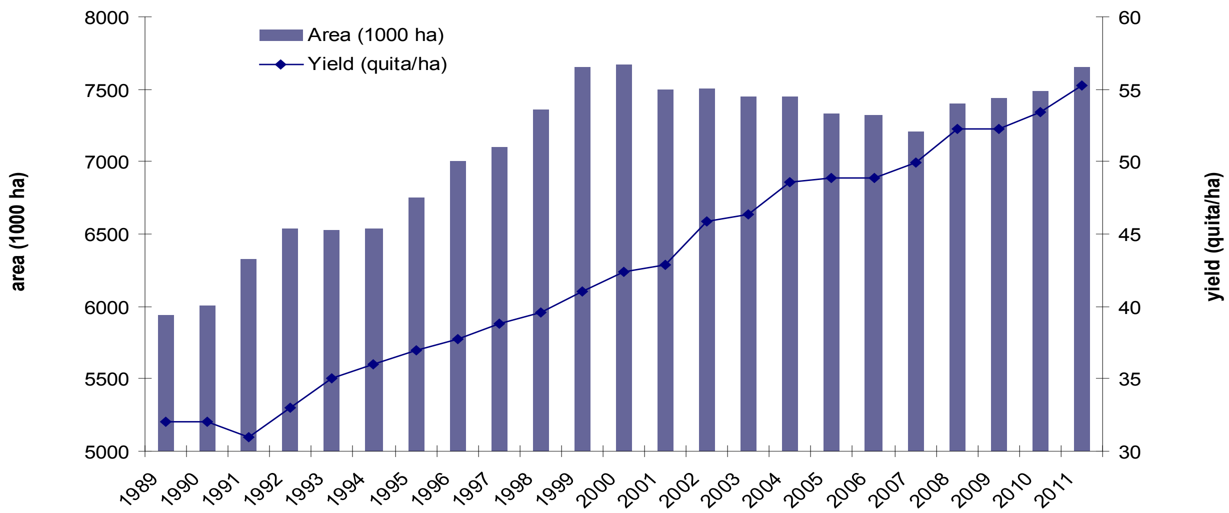
Viet Nam is a country with exceptional comparative advantage[6] in rice production and thanks to this, rice production has made remarkable progress.

The paddy planted area has been kept at around 7 million hectares per year for more than 10 years. In 2011, farming land was about 7.6 million hectares but the area devoted to paddy land has been decreasing since the early 21st century. This is mainly because farmers have been switching to other crops or rice land has been taken by the government for urbanization and industrialization. According to Son (2010), paddy land has been reducing by 70,000 hectares per year for urbanization and other uses.

However, paddy yield has improved remarkably, from four tons per hectare in 2001 to 5.5 tons per hectare in 2011. This is much higher than the world average yield of 4.3 and the yield gained by other world leading rice exporters like Thailand (3.0), India (3.1) and Pakistan (3.7). Therefore, paddy and rice production have increased continuously over time and 2011 saw the country's highest ever production with over 40 million tons of paddy and 26 million tons of rice.

6 Comparative advantage refers to the ability of Viet Nam to produce rice at a social opportunity cost which is lower than the border price of rice.

Figure 1: Paddy and rice production from 1989 to 2011

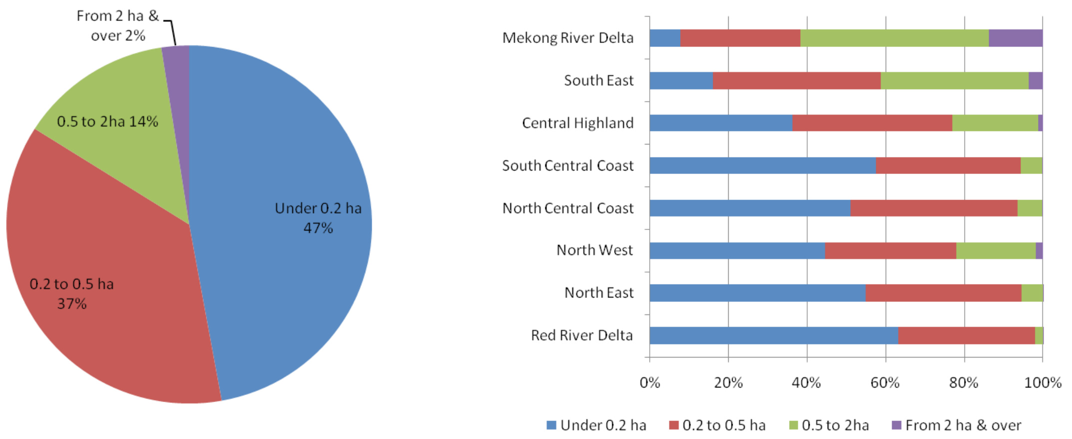


The past 20 years have proved that with the right policy support and incentives, Vietnamese farmers respond well and their efforts are effective in reducing hunger. Vietnamese farmers are generally entrepreneurial and receptive to innovation. One example is the remarkable application and expansion of the System of Rice Intensification (SRI) by over a million small-scale Vietnamese farmers within a short time period: from 2006 to 2011. SRI means farmers use on average around 80 per cent fewer seeds; 30 per cent less chemical inputs and 30 per cent less water and yet productivity increases by 10 per cent.[7]

A prominent characteristic of rice production in Viet Nam is that it is carried out by a large number of rice farmers who have tiny and fragmented farms, low mechanization and limited capital to invest.

7 Simple and Effective: SRI and Agriculture Innovation

Figure 2: Farm size



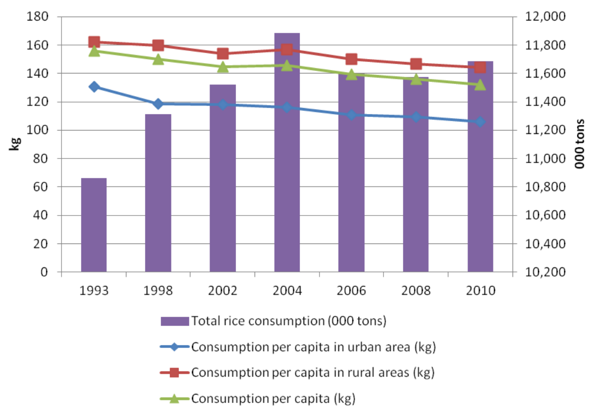
Source: VHLSS 2010 (GSO)

According to VHLSS 2010, nearly 50 per cent of rice farmers farm areas smaller than 0.2 hectares, especially in northern and central areas of Viet Nam. Only two per cent of rice farmers now cultivate paddy land areas of over two hectares. It is noted that tax on landholding larger than three hectares is considered to be fairly high, particularly for typical small farmers.

The remarkable achievements in rice production have helped ensure domestic consumption and sustain surpluses for export bringing in high export income. However, despite increases in rice supply, a steady population increase and the fact that rice is Viet Nam's staple food, rice consumption per capita has recently shown a dramatic downward trend resulting in a drop in total domestic consumption of rice. The reason for this reduction is that as incomes increase, people tend to consume more nutritious food and diets change.

Rice consumption per capita in both rural and urban areas has reduced but quite a substantial difference remains. Since 2010, consumption of rice in urban areas has been two thirds of that in rural areas.

Figure 3: Domestic consumption of rice



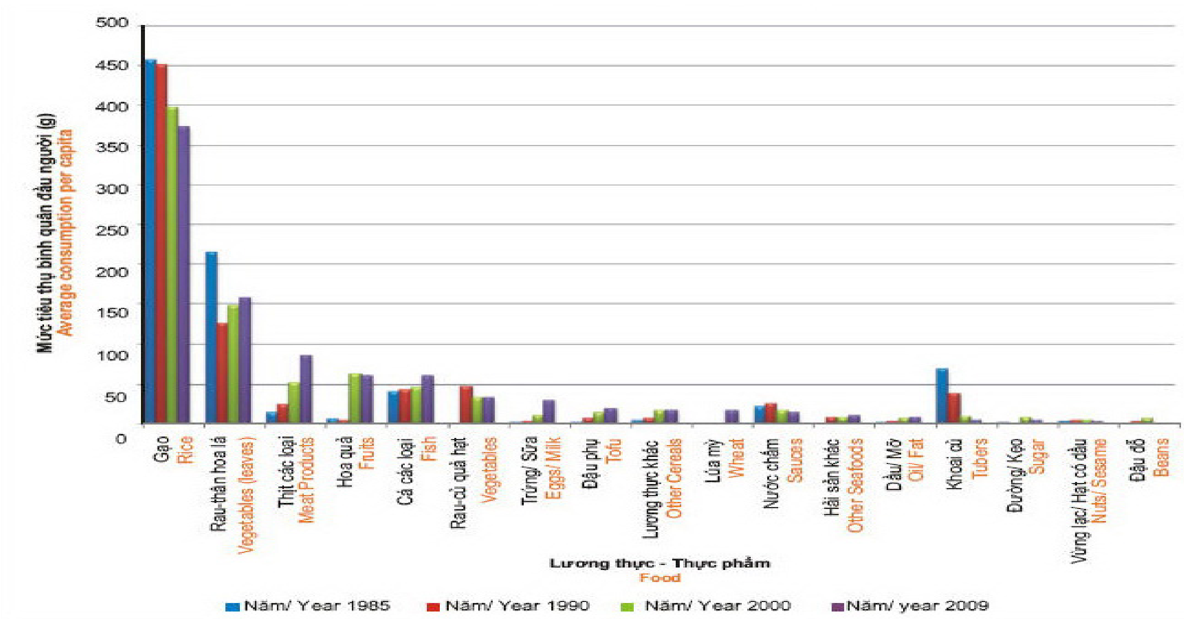
Source: VHLSSs 1993/1998/2002/2004/2006/2008/2010 (GSO)

The nutrition patterns of Vietnamese people have also improved. Since 2000, there have been significant changes in food consumption with a decreasing ratio of rice and tubers consumption and a dramatic increase in the consumption of meat products, fruit, eggs and milk. The contribution of rice to daily calorie intake has also showed a sharp decrease. To illustrate, the proportion of calorie intake from rice accounted for 75 per cent from 1975 to 1985, while it was only 55 per cent in 2008.[8]

Because of this decrease in rice consumption, even taking into account any risks for future rice production in Viet Nam (like climate change and scarcity of land, water or other natural resources), it is forecast that by 2030, Viet Nam will meet domestic demand for food. This should still stand even in the very unlikely events of 'worst case scenario' i.e. ongoing reduction in paddy land, no improvement in rice productivity and no reduction in consumption, as illustrated in Table 1 below.

8 FAOSTAT

Figure 4: Food consumption pattern changes



Source: General Nutrition Survey (2009-2010)

Table 1: Rice surplus under the 'worst-case' scenario (000 tons)

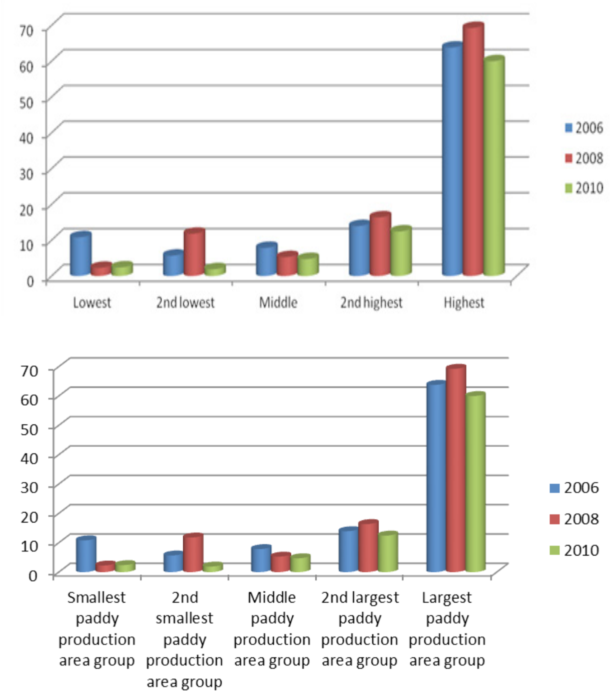
Land (mil ha)	Yield (tons/ha)	Consumption (kg/head/year)	Paddy Output (000 tons)	Human Cons. (000 tons)	Production surplus (000 tons)
3.0	7.0	100	37811	10602	6579
3.0	7.0	120	37811	12722	3929
3.0	6.3	100	34218	10602	4167
3.0	6.3	120	34218	12722	2047
3.0	5.8	100	31828	10602	2911
3.0	5.8	120	31828	12722	790

Source: IPSARD (2010)

Under worst case scenario conditions, if paddy land keeps decreasing at the current rate until 2030, there will only be three million hectares remaining. If productivity stays at the current level of 5.8 tons/hectare and rice consumption per capita is about 120 kg annually nationwide, total production would meet the domestic demand of nearly 13 million tons and produce a surplus of 790 thousand tons.

This means food security in Viet Nam is not a serious problem, especially in terms of food availability. At this point in time, it is more important to look at the profitability of rice production, especially for the poorest people in the value chain – the rice farmers.

Figure 5: Rice income proportion of farmer households in Mekong River Delta (%)



Source: VHLSSs in 2006/2008/2010 (GSO)

Figure 5 illustrates that income from rice remains at a low level for small-scale farmers and has contributed a modest proportion to the total income of farming households even in Mekong River Delta (MKD – the most competitive rice producing region in Viet Nam). There are big differences in the income ratios between different sized landholders. For example, 80 per cent of rice farmers who farm less than 5,000 square meters earn only 20 per cent of their income from rice. In 2010, this income dropped below 10 per cent.[9] Among the largest landholders, income from rice in 2008 accounted for 64 per cent of total household income, which is six per cent higher than it was in 2006. However, this figure dropped to around 50 per cent in 2010.[10]

While rice production in Viet Nam plays an important role in terms of food security and income generation there are three main obstacles holding back production:

(i) Paddy land is small and fragmented;

(ii) Rice production brings a low profit to farmers;

(iii) Rice land is reducing because of competition from other crops and other uses (urbanization, industrialization).

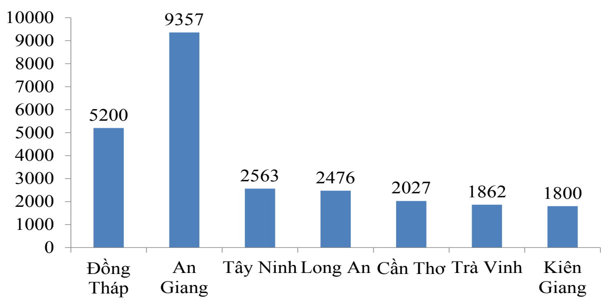
To overcome the obstacle of small and fragmented land, the government has recently been developing "large-scale demonstration field" models. These models encourage both rice and non-rice crops. They are aimed at (i) increasing production efficiency, adding value and reducing production costs; (ii) bringing fairer distribution of benefits; (iii) enhancing mechanization and applying comprehensive/unique techniques and (iv) producing output of a consistent quality and to gradually increase the proportion of quality certified produce.

9 We divide farmer households into different quintile groups of paddy planted production in which those of 1st quintile group have the smallest paddy planted area of less than 1000 m2, 2nd quintile (2nd smallest): 1000-2000m2, 3rd quintile (middle): 2000-3000m2, 4th quintile (2nd biggest): 30000-5000m2, and 5th quintile (biggest): > 5000m2

10 VHLSS 2006, 2008, 2010 (GSO)

Viet Nam now has some successful examples of the "large-scale demonstration field" model like An Giang Plant Protection company (with 1000 hectares of paddy land) and Import- Export An Giang company (with 900 hectares of paddy land). In such cases, the role of enterprises is very important. According to the Ministry of Agriculture and Rural Development (MARD), in Summer-Autumn season 2011 and Winter-Spring 2011 to 2012, total paddy land in "large-scale demonstration fields" was about 27,000 hectares, concentrated in MKD. However, a field survey conducted by our research partner the Institute for Policy and Strategy for Agriculture and Rural development (IPSARD) revealed that participating farmers are not entirely convinced.[11] It is therefore of utmost importance for the integrity of the "large-scale demonstration fields" model that a comprehensive and objective assessment of the impact of a wide implementation policy is carried out.

Figure 6: Paddy land in "large-scale demonstration fields" SA 2011 & WS 2011 to 2012



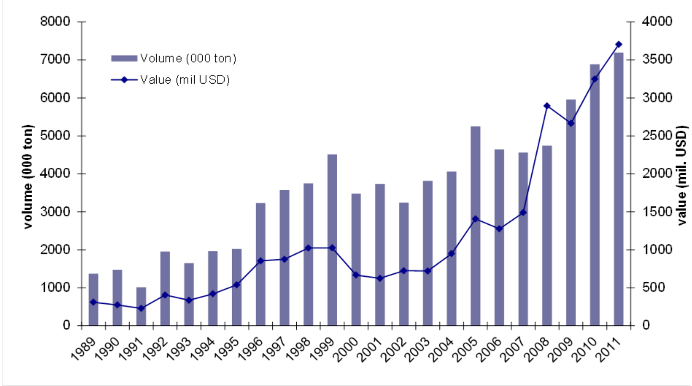
Source: MARD

The benefits of the "large-scale demonstration fields" model are clear. However, the uptake of the model is still very low and there are problems that must be addressed. These include: the need to connect and organize small farmers; the weak organization of enterprises; the poor role of enterprises in marketing agro-products; the lack of trademarks; the limited trade facilitation conditions (warehouse, transportation means etc.); the necessary infrastructure for large-scale production zones (irrigation, machines) and capital shortages for both farmers and enterprises.

RICE EXPORT

The rice sector has performed extremely well in terms of both production and exports over the last two decades. Rice exports have contributed significantly to the national economy in terms of trade balance and the development of the agriculture sector. In 2011, Viet Nam exported over 7 million tons of rice with an export value of $3.7bn.

Figure 7: Viet Nam rice exports: 1989 to 2011



Source: Agroviet

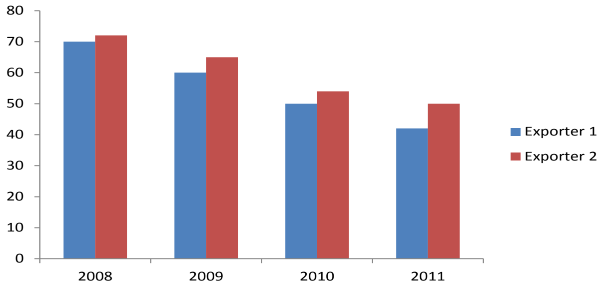
At present, there are more than 200 rice exporters in Viet Nam most of which are state-owned enterprises (SOEs). Rice exported through government to government (G2G) contracts also accounts for nearly 50 per cent of total exports. Dependence on G2G contracts guarantees rice sales and helps strengthen solidarity with importing nations. However, it also creates risks for rice trading by making exporters less likely to find their own importers and less motivated to improve competitiveness.

Recently, the share of rice export under G2G contracts has tended to reduce (from 66.4 per cent in 2007 to 49.2 per cent in 2008 and 42.7 per cent in 2009[12]). For the two surveyed rice exporters, the share of G2G contract volume had gone down since 2008 but still accounts for about 50 per cent of their exports.

11 See more details in the Annex 2

12 VFA

Figure 8: Proportion of G2G export volume (%)

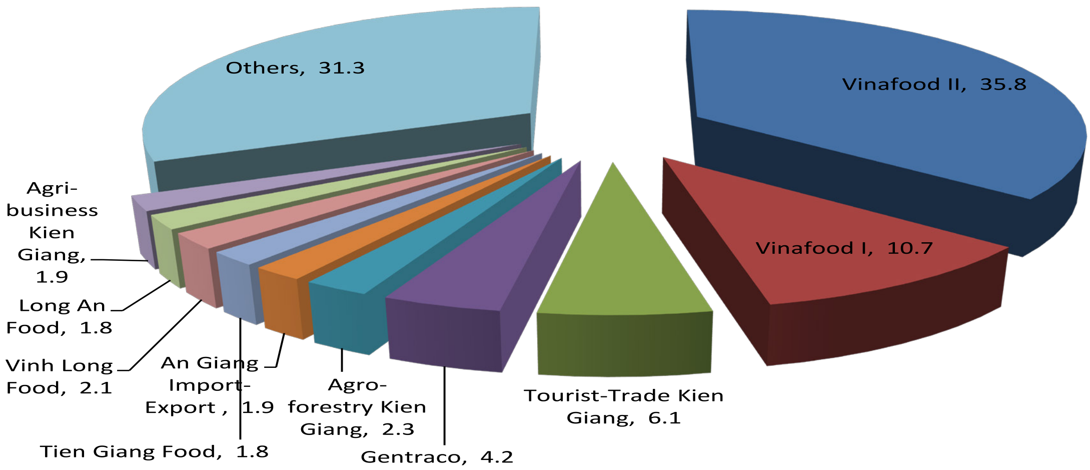


Source: In-depth interview

G2G contracts are only carried out by VFA (Viet Nam Food Association) members. The VFA is also responsible for allocating 80 per cent of G2G contracts to VFA members based on criteria specified in article 16 of the government Decree No.109/2010/ND-CP. This illustrates the monopoly that the VFA has over the rice sector and its unfair treatment of non-VFA members (mainly private and newly-established firms) compared to VFA members who are already more secure as partly state-owned or entirely state-owned enterprises.

Over 70 per cent of total rice export is captured by big exporters, mostly SOEs. In 2008, ten SOEs exported 69 per cent of total export volume, with Vinafood I and Vinafood II, the two biggest national food and rice SOEs accounting for nearly 50 per cent.

Figure 9: Export volume proportion by exporters in 2008 (%)



Source: Agroinfo

The dominant role of Vinafood I, II and some state-owned rice exporters in key rice production provinces like An Giang, Kien Giang, Long An, Vinh Long prevails. The rapid development of rice production and exports in Viet Nam after the "reform" 25 years ago has been seen as a miracle. However, this cannot be taken for granted and it is important to carefully analyze these achievements and look ahead to anticipate challenges for rice export in the future.

Firstly, Thai rice export prices are much higher than Viet Nam's. This is partly due to the fact that Thai rice is considered to have a better flavor and taste and is famous for its brand names, with a price of $60/ton on average more than Vietnamese rice or $130/ton in 2009 according to traders.

Secondly, in terms of branding and marketing, Vietnamese rice does not yet have a firm reputation in the world market, especially in the high-quality market. The quality of exported rice has significantly improved in recent years with currently more than 50 per cent of total rice exports being of high quality and five per cent broken, compared with the 90 per cent of low quality and 35 to 45 per cent broken in the early 1990s. However, Viet Nam has struggled to enter the niche for high quality rice mainly due to the use of backward post-harvest technology which seriously reduces the quality of rice.

Thirdly, some rice exporting countries including Viet Nam are facing challenges caused by self-sufficiency policies from rice importers and the potential emergence of new exporters. For example, the Philippines plans to reduce its rice imports over the next two years and maintain its 2012 import volume of 500 thousand tons. Malaysia and Indonesia have worked out plans to promote rice production in order to be self-sufficient over the next few years. There is also a forecast of rice surplus in the near future since Cambodia is expanding its rice exports and Myanmar is restructuring its economy and planning to be a major player. This will cause prices to decline sharply.

Box 1: Is a rice crisis looming?[13]

"There will be a low food price crisis instead of high food price crisis in the next couple of decades Since the Second World War, the "Green Revolution" has helped to increase agricultural productivity in many countries. However, rice consumption patterns have changed. Higher-income people consume less rice; rice has become a smaller part of overall energy intake and people are tending to demand higher rice quality."

Prof. C.Peter Timmer, Center for Global Development (Stanford University, USA).

13 Speech at IPSARD Workshop on Food Policy, 28 Jun 2012, Hanoi, Viet Nam.

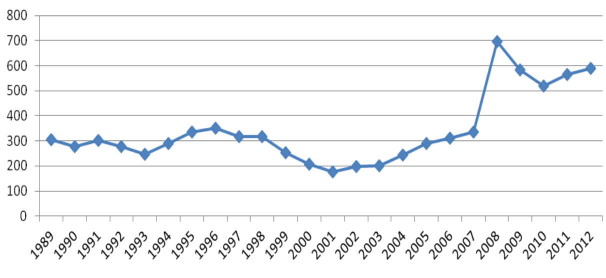
RECENT RICE PRICE SPIKES AND POLICY RESPONSES

Rice prices vary year on year and this has different impacts on stakeholders in the value chain. In response, the Viet Nam government has issued various policies to cope with changing prices. Before investigating who gains from rice price increases, this section will focus on rice price behavior. The period of 2008 to 2011 was very special for the rice sector and exports due to high price volatility in both domestic and international markets and significant changes in rice policies.

RECENT RICE PRICE BEHAVIOR

For more than 30 years, the world rice market has witnessed only two spikes and both happened in quick succession between 2008 and 2012. The spikes are referred to as price volatility which means that there were not only variations in price over time but quite big, unpredictable fluctuations and as a result, a level of uncertainty and risk was experienced amongst all interest groups including rice farmers, exporting enterprises and consumers.

Figure 10: Annual international rice price ($/ton)[14]

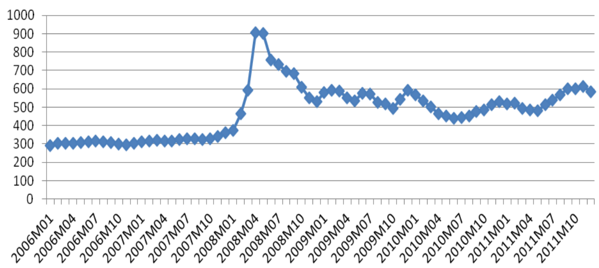


Source: FAO

After the first price volatility started in mid-2007, it took only about a year for the price to reach its record high of about $700 in 2008, over double the figure at the beginning of 2008. It went down rather dramatically in the second half of 2008 but remained higher than pre-2007 levels. The price continued decreasing gradually in 2009 before increasing stepwise in 2010 and starting a new period of volatility in early 2011. The upward trend prevailed since then until May 2012. The remaining period of 2012 continued with the slightly decreasing trend.

Monthly rice prices illustrate more clearly the price volatility during 2007 to 2011. Within five months of 2008, the price increased nearly three times then dropped sharply three months later and at the end of 2008, the price returned to the level prior to the increases. Similarly, in the last five months of 2011, prices rose by nearly 30 per cent, reaching the second highest peak in November 2011.

Figure 11: Monthly international nominal rice price ($/ton)[15]



Source: Agroinfo

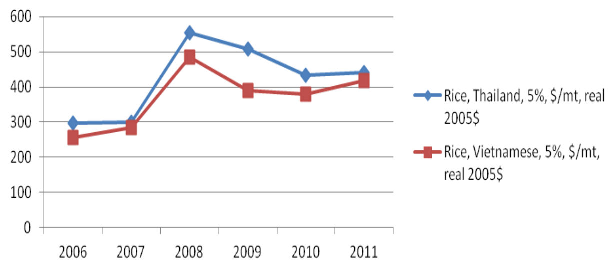
The actual fluctuations of prices in the international market are better proved by the real rice prices.[16] The real prices also reached a record high in 2008 and increased by nearly 200 per cent over the 2007 figure. In 2011, real prices increased by over 10 per cent compared to 2010 prices and also reached the second highest price level on record.

14 White Rice, Thai 100% B second grade, f.o.b. Bangkok price

15 Rice, Thailand, 5%, $/mt, nominal$

16 Real rice price equals nominal rice price deflated by CPI.

Figure 12: Real rice price fluctuations

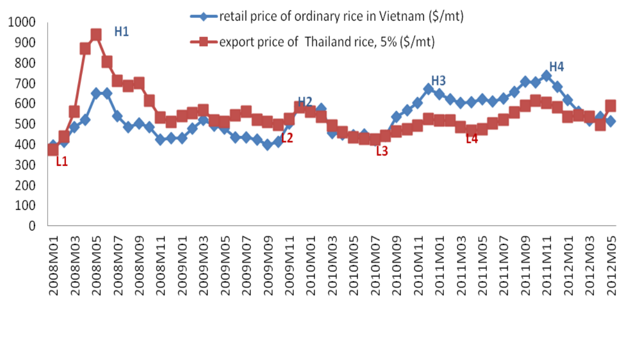


Source: World Bank (2010)

The prices soared up and while they could not have been anticipated at the time of the two recent price crises, on reflection, there were differences between them in terms of their nature, causes, reactions and the consequences for related parties.

The surge in rice prices in 2008 was primarily driven by an increase in oil prices which led to increased rice production costs since agriculture is generally an energy intensive enterprise. This was compounded by a ban on rice exports by some major rice producing countries namely, Viet Nam and India. Other exporters like China and Cambodia also applied restrictions on their rice export market. These restrictions from exporting countries forced importing countries like Indonesia, Malaysia and the Philippines into fierce competition to buy food. This created a dramatic price increase that peaked at $1000 per ton in mid-2008. Global panic rice buying followed in 2008 from developing countries like the Philippines through to developed countries like the US and from rice consuming and importing countries to rice producers and exporters.

Figure 13: Similar trends in domestic and international prices



Source: World Bank (2012)

The 2011 situation was a little different. Price increases were not global due to a good harvest in other regions including Africa. There were no rice export restrictions, which were the key drivers of high prices, so no panic buying ensued. Moreover, world rice stocks as well as national stocks in many countries were much higher than they had been during the previous crisis.

In 2011 the price increases were driven by crop failures due to the impact of unpredictable and extreme weather events in certain countries. This included severe flooding in several South-East Asian rice producing countries and a bad harvest in Thailand. In addition, other importing countries like Indonesia, the Philippines, Cuba and various African nations increased their demand and speculation. Therefore, during 2011 it was the shortfall in production combined with increased demand that caused the price surge. The domestic price volatized in the same way as the world price. In fact, variations in the world market were transmitted to the domestic market fully and without any delay. Figure 13 illustrates that both domestic and international prices either reached their peaks[17] or dropped to their lowest levels[18] at the same time.

However, there is a big difference in the correlation between domestic prices and international prices during the two crises. The international peak price in 2008 was much higher than the domestic peak whereas the opposite was true in 2011, which reflects the instability of the domestic market. The difference was mainly caused by the Viet Nam government's intervention when it temporarily banned rice exports in 2008 while world prices continued to rise. Banning rice exports made the domestic price drop to a much lower level than the international price.

The negative effects of the high price fluctuations on both farmers and exporters led to various interventions from the Viet Nam government. The next section will review these policies.

RICE POLICY RESPONSES

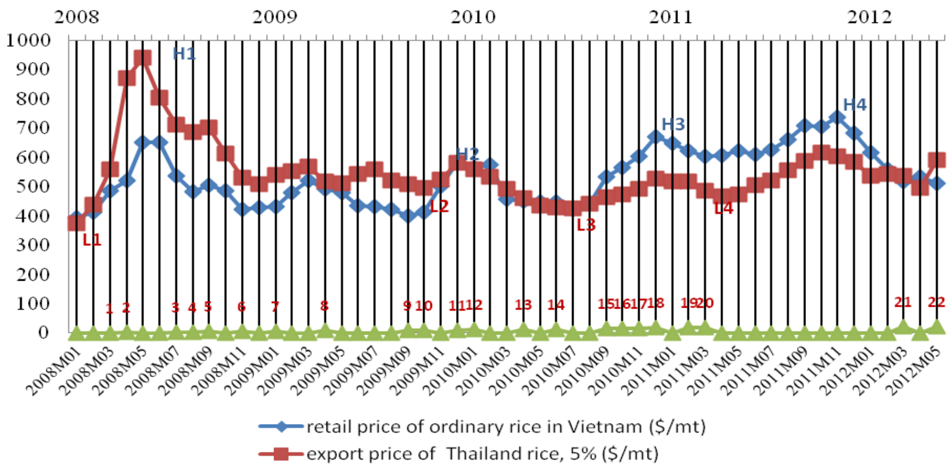
During the rice price volatility of 2008-2011, the rice sector received much greater government attention. In order to ensure national food security on one hand and maintain rice export achievements on the other, the government has addressed the sector's three dimensions: production, trading and export.

Figure 15 gives an overview of their policies, marking the issuing time and the implementation period in association with the domestic and international price movements. There have been about 20 central government policies issued since 2008 aimed at coping with high volatility in rice prices or stabilizing the domestic market. They have targeted various audiences including rice farmers, collectors, millers, rice exporters and other stakeholders involved at the different stages of rice production and trading.

17 *Peaks in 2008, 2009, 2010, 2011 are denoted H1 to H4 respectively.*

18 *Bottom levels in 2008, 2009, 2010, 2011 are denoted L1 to L4 respectively.*

Figure 14: Policy responses[19] in 2008 to 2011

a. 

19 For more details of the policies marked as reference number in the figure, please refer to annex 1
H1 to H4 marks the highest price level in 2008 to 2011 respectively and L1 to L4 marks the lowest price level in 2008 to 2011 respectively.

During the first price spike in 2008, there were five policies (marked 1 to 5 in Figure 12) promulgated over six months from March to September with the aim of stabilizing the domestic price and mitigating the impacts of international price volatility on exports.

Table 2: Policy responses in 2008

Legal Code	Issuing date	Name/ Main content
78/TB-VPCP	25/3/2008	Rice export ban to end of June, 2008
612/CĐ-TTg	27/4/2008	Stabilizing the domestic rice market
104/2008/QĐ-TTg	21/7/2008	Apply absolute tariff on rice export
9417/BTC-CST	15/8/2008	Adjustment of floor export price for tax
107/2008/NĐ-CP	22/9/2008	Punishment on illegal trade

After the first price spike, the government wanted to maintain the sustainable development of rice production, trading and export by issuing a series of policies. The important policies are Decree No. 48/NQ-CP dated 23 September 2009 on reducing post-harvest losses; Decree No. 63/NQ-CP dated 23 December 2009 on ensuring national food security; Decree No. 109/2010/NĐ-CP dated 4 November 2010 on rice export management and decisions on procurement and temporary storage of rice.

The policy on reducing post-harvest losses[20] (No. 10 in Figure 15) refers to the very challenging issue of post-harvest losses in agriculture production in general and in rice production in particular. It provides many crucial measures to reduce the losses, among them the establishment of higher capacity storage and better technology both of which were welcomed by all parties involved. This policy was designed to help farmers avoid the bottleneck in rice production caused by a shortage of qualified storage which always results in losses due to diminished rice quality and low prices because of abundant supply at harvest time.

20 Decree No. 48/NQ-CP dated 23 September 2009

Ensuring national food security[21] (No. 11 in Figure 15) is a policy that covers many topics aimed at boosting rice production and trade. One main measure to ensure sustainable rice production is to ensure farmers a 30 per cent profit margin[22] from rice production by setting up a floor purchasing price.

Managing rice exports[23] (No. 17 in Figure 15) is a policy that outlines the basic guidelines for rice export activities, especially for setting up reasonable rice export prices with a mechanism to ensure the close linkages between purchasing prices from farmers and export prices.

21 Decree No. 63/NQ-CP dated 23 December 2009

22 Margin equals income (the difference between farm-gate price and production costs) over production costs in percentage

23 Decree No. 109/2010/NĐ-CP dated 4 November 2010

Decisions on procurement and temporary storage of rice[24] (Nos. 9,14,19,21 respectively in Figure 15) are aimed at pushing up demand to avoid any reduction in prices and ensure a margin of 30 per cent or more for rice farmers.

24 SA 2009, SA 2010, WS 2011 and WS2012

WHO GAINED FROM HIGH RICE PRICES?

In this section we will analyze the distribution of benefits among actors in the rice value chain. In addition, we will look at who has gained from rice price spikes in recent years. Secondary data from VHLSS together with MARD surveys supports the analysis of benefits between 2006 and 2011. This research's field survey data was collected in 2012 and helps show the benefit distribution in 2012.

Table 3 outlines the different actors involved in the export rice value chain and some of their main characteristics.

Table 3: Rice value chain in MKD

Actor	Characteristics
Farmers	Activity: paddy production
	Cost: production costs
	Constraints: land use, seed improvement, fertilizer and pesticide, irrigation, research and extension, credit
Collectors	Activity: buy paddy then transport to millers
	Cost: paddy purchases (mainly) + transportation costs
	Constraints: competition, credit, capital, price and information
Paddy Millers	Activity: paddy purchase then husk and mill to brown rice or raw white rice
Miller	Activity: brown rice or raw white rice purchase then mill and polish to white rice
	Costs: paddy/ rice purchases (mainly) + other costs
	Constraints: ability to purchase pure high rice quality and varieties, capital, infrastructure (storage and transportation) and marketing
Exporters	Ability: buy rice, then export
	Cost: rice purchases (mainly) + other costs
	Constraints: ability to purchase pure high rice quality and varieties, capital, infrastructure (storage and transportation) and marketing

There are also traders/transporters of rice involved in the trade of other goods and services, as well as people who may be involved in more than one part of the chain like farmers/collectors, farmers/retailers, millers/ collectors/ wholesalers or wholesalers/retailers.

The number of value chain actors has not changed much over time. However, our field survey in An Giang in 2012 shows that:

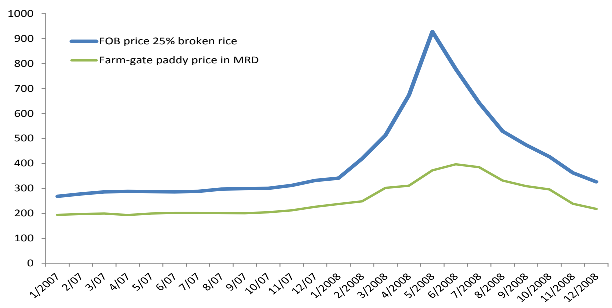
- Collectors participate more actively in the value chain whereas millers tend to act as providers of rice processing services for collectors instead of being actors along the value chain in their own right;

- The number of traders and transporters has reduced dramatically as collectors and wholesalers are now likely to hire transportation services.

FARM-GATE VERSUS EXPORT PRICES DURING PEAK PRICES

As shown in Section 3, rice prices spiked in 2008 but due to the improper export intervention of a temporary export ban, the rice farmers had to deal with both low paddy prices and high production costs. This can be seen clearly by comparing the farm-gate and export prices in 2007-2008 in Figure 16. When the export price jumped from $430/ton in early 2008 to over $900/ton in May 2008, the farm-gate price only increased by $100/ton. In other words, farmers did not gain.

Figure 15: FOB rice export price vs. paddy farm-gate price in MKD ($/ton)



Source: Agroviet

Box 2: The paradox of rice prices taken by rice farmers in 2008

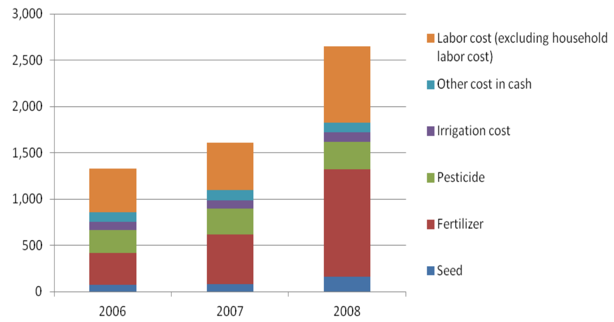
High production costs of rice in 2008 were due to the huge increase in fertilizer costs. At that time, the average price of dry paddy was only about 5000 VND/kg, equivalent to 3500 VND/kg wet paddies. Selling paddy prices fluctuated very heavily that year. When the international and domestic rice prices peaked for about two months, the domestic price peak only lasted until the end of May. However, as the export ban policy was in force at the time, farmers could not sell much of their paddy because export enterprises would not buy. By the end of June and early July, when the export ban was removed, the price came down to about 3000 VND/kg, equivalent to two-fifths of the peak price in May and three-fifths of the annual average price. By the end of July/early August, the paddy price was only 4000 VND/kg and farmers had no alternative but to sell at this price because their paddy had been stored for too long and the Spring-Autumn crop was about to be harvested later in August. After selling almost their entire paddy, domestic prices increased slightly.

Source: PRA in Chau Thanh commune, An Giang province, 201225

COMPARING THE MARGINS IN THE VALUE CHAIN

Farmers did not gain anything from increasing the margin of farm-gate prices because the increase in oil prices in 2008 drove up the costs of inputs for rice production, especially fertilizer. The total production cost for rice in 2008 was 65 per cent higher than it was in 2007 and double the 2006 figures. Fertilizer accounted for 45 per cent of all inputs and it cost twice and three times more than in 2007 and 2006 respectively to buy the same amount.

Figure 16: Paddy production cost (VND/kg)



Source: An Giang DARD

Even when farmers received a higher price for their rice, their profit margin was still lower than the target margins of 30 per cent.[26] In 2010, with the selling price of 4200 VND on average; the margin was only 20 per cent, lower than it had been in 2006 and 2008 (23 per cent and 42 per cent respectively.

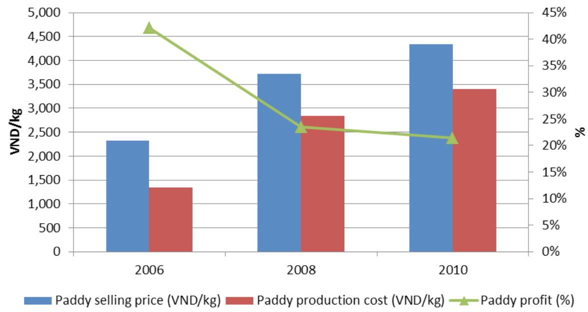
In addition, the government export ban at the end of March 2008 forced the farm-gate price down dramatically. Many farmers had to keep rice at home; others had to sell at a very low price - about $0.16 per kg of paddy.[27] Consequently the 2008 Spring-Winter season was a nightmare for many rice farmers. When the price was high farmers could not sell their paddy although they had an abundance and at low prices they had no alternative but to sell out their entire paddy.

The MARD survey on production costs in 2010 shows that for all types of rice in the 2010 Spring-Autumn crop, farmers' margin was around 20 per cent. This was well below target because they had to sell at the floor price of 4000 VND/kg applicable for the 2010 WS crop.

25 See more details in Annex 2

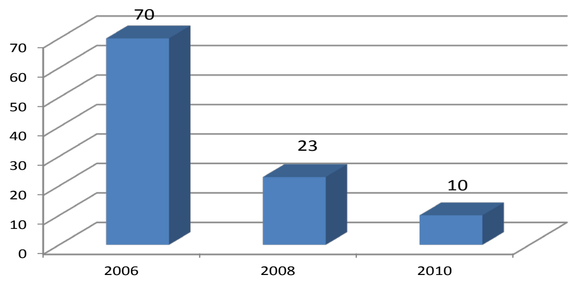
26 As per Resolution 63
27 PRA in An Giang province in 2012

Figure 17: Farmers' margin in MKD in 2010[28]



Source: VHLSS 2006, 2008, 2010

Figure 18: Margins proportion earned by farmers in MKD (%)



Source: VHLSS 2006, 2008, 2010

When comparing the margin[29] that rice farmers received from their own rice production with the total margin[30] from rice production and trading, a rapid decline in benefits for farmers is also evident, especially during the 2008 peak. In 2006, when the rice price was very low, farmers could earn 70 per cent of total benefits from rice production and trading but in 2008 during the high prices, farmers could earn only 23 per cent and in 2010, this fell down to 10 per cent.

In 2011, farmers earned margins of over 30 per cent during the Winter-Spring crop (the most profitable crop of the year) although the production costs in the calculation still do not include household labor costs. In the year's other two crops,[31] especially Autumn-Winter 2011, the margins became even lower, only around 20 per cent. Therefore, with an average paddy planted area of 3.3 hectares/household, the annual income from rice production is 27mn VND, equivalent to 550,000 VND/head/month (assuming an average household of four people). This is much lower than incomes from other cash crops like tea and coffee which are two or five times higher respectively.[32]

28 Paddy production costs exclude household labor cost.
29 Margin from rice production equals farm-gate price received by farmers minus production costs
30 Total margin from rice production, trading equals retail price minus production costs
31 In the core production areas in the Mekong Delta Region, farmers produce three rice crops per year.
32 IPSARD survey in 2011 in Lam Dong (Average annual income from coffee and tea production in 2011 are 40 million and 15 million VND/hectares respectively)

Table 4: Average annual income earned by a rice farmer in An Giang in 2011

	Paddy production cost (VND/kg)	Selling price (VND/kg)	Income (VND/kg)	Margin (%)	Volume (tons)	Total income (million VND)
WS 2011	3400	4600	1200	35%	15	18
SA 2011	3600	4400	800	22%	9	7
AW 2011	4800	5550	750	16%	3	2
Total 2011					26	27

Source: IPSARD survey 2012

Collectors earned 10 times more than rice farmers based on an average transaction of 500 tons of paddy in 2011, for which they earned about 300mn VND.[33]

33 Refer back to Table 3 for income earned by rice farmers.

Table 5: Income earned by collectors

	Paddy buying price (VND/kg)	Total cost (VND/kg)	Selling price (VND/kg)	Income[34] (VND/kg)	Margin[35] (%)	Volume (ton)	Total income (million VND)
WS 2011	4600	4915	5530	615	13%	250	154
SA 2011	4400	4715	5330	615	13%	200	123
AW 2011	5550	5865	6430	565	10%	50	28
Total 2011						500	305

34 Income is the difference between selling and buying prices
35 Margin is the proportion of income over buying price in percentage

Source: IPSARD survey (2012)

The unfair distribution of benefits among value chain actors is illustrated again in the surveyed data.

Table 6: Margin analysis of export value chain in 2012

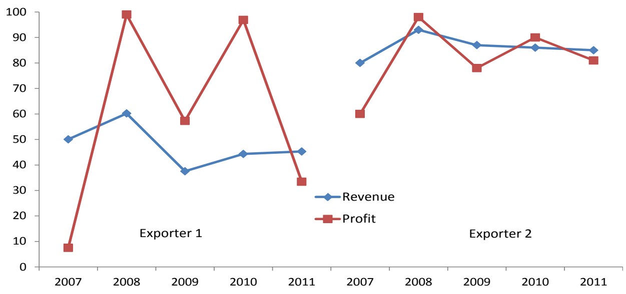
Actors	Total costs	Unit cost per actor		Price received (VND/kg)	Unit Margin per actor (VND/kg)		Average quantity per actor per year (tons)	Total margin
	VND/kg	VND/kg	%	VND/kg	VND/kg	%	tons	000 VND
Farmers	3,800	3,800	63%	4,850	1,050	55%	26	27,300
Collectors	4,900	1,100	18%	5,500	600	32%	500	300,000
Export enterprises	6,000	1,100	18%	6,250	250	13%	100,000	25,000,000
Total		6,000	100%		1,900	100%		

Source: IPSARD survey 2012

Comparing unit cost and margin per actor, production costs by farmers account for the largest proportion of total costs (63 per cent). They can also earn the biggest unit margin (55 per cent) but due to their limited capacity, their total margin is very small.

If we look at rice export enterprises, the story is rather different. Almost all were profitable during 2008 to 2011 and rice exporters reported their highest profits in 2008 and 2010; even if they missed out on exporting rice during the period of record high price levels in 2008 or experienced lower prices in 2010.

Figure 19: Share of revenue and profit from rice export by interviewed exporters (%)



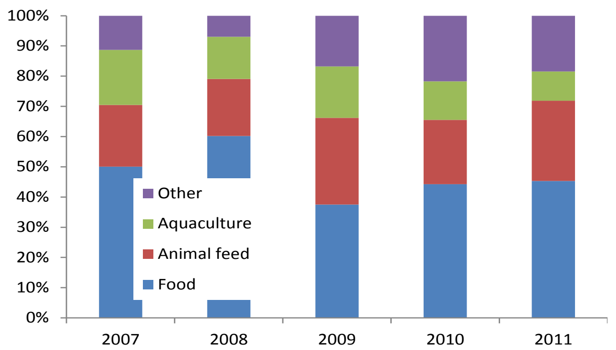
Source: IPSARD survey 2012

Surveys in two export enterprises show remarkable increases in their profits from rice export. The proportion of profits from rice export over total profits gained by Exporter 1 rocketed from seven per cent in 2007 to 99 per cent and 97 per cent in 2008 and 2010 respectively while turnovers increased at much slower rates. The same trend occurred for Exporter 2 proving that rice export became an extremely profitable activity for them both in 2008 and 2010.

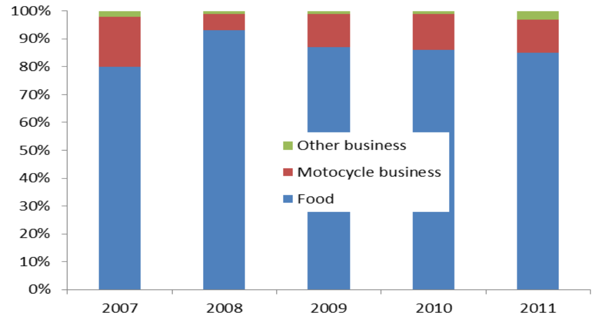
This analysis illustrates that it was the rice exporters who captured most of the profit from the rice price spikes. Unfortunately, exporters tend not to be interested in investing profits back into rice production or support for rice farmers. The use of profits from rice export is quite diverse. Among the limited number of surveyed rice exporters, there is clear evidence that most are trying to diversify their businesses into other agricultural or non-agricultural business.

Figure 20 presents the decomposition of total revenue by business activities of two selected rice exporters in An Giang province. Exporter 1 has been diversifying its business to other agricultural business such as animal feed and aquaculture. Exporter 2 has used its profits from rice export to invest in non-agricultural sectors like motorbikes.

Figure 20: Share of rice exporters' revenue by activities (%)



Export 1



Export 2

Source: In-depth interview

Rice exporters' reasons for not investing in rice production or supporting farmers included:

(i) Rice exporters think that providing inputs, loans and trainings for farmers is not their responsibility, it should be done by the government;

(ii) Providing loans to farmers is quite risky. They are afraid of slow pay back or withdrawal from farmers;

(iii) Investing in rice farmers requires large amounts of money that exporters cannot afford;

(iv) In the context of price volatility, diversification into other businesses could help exporters to reduce risk and seek higher profits.

However, Exporter 1 partially supports farmers by supplying inputs (fertilizer) in advance and has a plan to develop the "large-scale demonstration fields" model[36] in order to (i) increase the quality of rice; (ii) actively control rice production and (iii) build a public-private partnership with support from the government. However, the company worries a great deal about the risks associated with investment and management of farmers' contracts.

36 "Large-scale demonstration fields" model is seen as a new strategic orientation from the Viet Nam government. It refers to the organization of production by convincing farmers to merge their small farm size lands to a large-scale field. Farmers in large-scale fields can produce consistent products; reduce costs by using machines instead of human labor. Exporters will be willing to sign contract with a groups of farmers in "large-scale fields" other than small households.


Hai Yen/ Oxfam

SOME POLICY ISSUES

Since its reforms in 1986, Viet Nam has issued plenty of policies to stimulate rice production and trade facilitation. As a result, Viet Nam is now one of the largest rice exporters in the world.

However, recent rice sector policies raise some issues which the government needs to consider, especially those regarding market and export interventions. Some policies do not focus on economic efficiency, but are concerned with political economics. Others are biased in favor of a specific group in the value chain. We will analyze some of the issues below.

FLOOR PRICE POLICY IS NOT BENEFICIAL TO FARMERS

The floor price policy is issued with the intention of increasing farmers' profits. The floor price changes over time. According to Resolution No. 63/NQ-CP[37] on food security, to 'encourage farmers to keep rice land', the government has to set a floor price that ensures the farm-gate price and helps paddy producers earn a profit of more than 30 per cent over production costs. However, the Resolution No. 63/NQ-CP does not give a detailed mechanism for determining the production costs.

A better way could be to use the directed paddy price (a modified floor price) as used in Decree 109/2010/NĐ-CP (issued 4 November 2010) on export management. The directed paddy price is determined by the Ministry of Finance based on production costs stated by provincial People's Committees in consultation with the Ministry of Agriculture and Rural Development. This states that when the market price of commodity rice is equal to or higher than the directed price of paddy, the government makes no interventions. When the market price of paddy is lower than the directed price, the Ministry of Agriculture and Rural Development will make a proposal to the Prime Minister in association with the Ministry of Finance, the Ministry of Industry and Trade, the State Bank of Viet Nam and the Viet Nam Food Association. They will recommend that the government takes specific measures to keep the market price of commodity rice above the directed paddy price while ensuring efficient rice export.

37 issued on 23 December 2009

Box 3: Regulation of prices of paddy in Decree 109/2010/NĐ-CP

1. Principles

To regulate market prices of commodity rice for export, based on the average directed price of paddy for each crop, which is determined and announced under this Article to guarantee profits for rice growers under current policy (below referred to as directed paddy price).

2. Determination and announcement of the directed paddy price

a) The Ministry of Finance shall assume the prime responsibility for, and co-ordinate with the Ministry of Agriculture and Rural Development in promulgating regulations on and guiding methods to survey and determine the production cost and calculate the cost price of commodity paddy as the basis for provincial-level People's Committees to determine and announce the estimated average cost price of paddy in their provinces or cities from the beginning of each crop in the year. Based on the estimated average cost price for each crop announced by provincial-level People's Committees, the Ministry of Finance shall assume the prime responsibility for and co-ordinate with the Ministry of Agriculture and Rural Development in examining, reviewing and determining the average cost price of paddy for each crop in the entire production sector.

b) Based on the average cost price estimated for each crop, the Ministry of Finance shall determine and announce the directed paddy price at the beginning of a crop as the basis for regulating market prices of commodity rice to guarantee the average profit for rice growers under current policy.

3. Regulation mechanism

a) When the market price of commodity rice is equal to or higher than the directed price of rice, the State makes no interventions.

b) When the market price of commodity rice is lower than the directed paddy price, the Ministry of Agriculture and Rural Development shall assume the prime responsibility for and co-ordinate with the Ministry of Finance, the Ministry of Industry and Trade, the Stale Bank of Viet Nam and the Viet Nam Food Association in proposing that the Prime Minister consider and take specific measures to keep the market price of commodity rice not lower than the directed paddy price while ensuring efficient rice export.

However, in practice, the floor price is not effective because of different reasons, including:

(ι) The floor price is paid only by enterprises. In practice, enterprises rarely buy directly from farmers but rather from traders or assemblers. For example, only 30 per cent of rice/paddy bought by rice exporters in An Giang was procured directly from farmers in 2012.[38] Consequently, exporters do not care about the price paid to farmers.

38 *Field survey in 2012*

Box 4: The floor purchasing price does not bring benefits for farmers

The floor paddy price for the 2010 Winter-Summer crop was 4000 VND/kg. This was also applicable for Summer-Autumn even though production costs were much higher. However, VFA did not buy at the floor price; they bought at 3500 VND/kg due to difficulties in finding export markets. In fact, they exported at the price of $469/ton, equivalent to 5178 VND/kg which is high enough for them to buy paddy at floor price or even higher.

Source: PRA in An Giang (2012)

(ιι) It is difficult to ensure a 30 per cent margin for farmers in accordance with the Decree No. 63/ NQ-CP because:

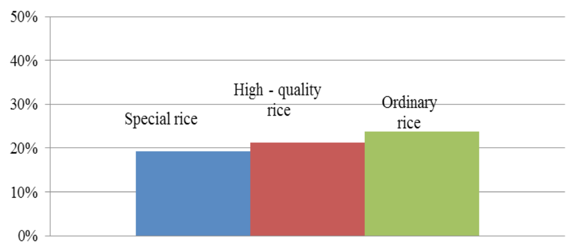
α. The current calculation of rice production costs may not take into account all components such as household labor costs, land rental fees and interests. This may not be accepted by farmers in different provinces. If enterprises base their procurement price on the current calculation of production costs, it causes problems because farmers and their farms are not homogenous. It is unfair to apply the same production costs for an ecological region as there are many differences among provinces in the same region, leading to big differences in production costs.

β. Under the regulation, the floor purchasing price *must* be given at the beginning of each crop but the Ministry of Finance (MOF), who is responsible for determining and circulating the price, is always late in doing so.

χ. The purchasing price under the Decree should be the farm-gate price but in practice, farmers have to pay additional transportation fees for delivering paddy to exporters' storage and production costs do not take transportation fees into account.

These problems can be illustrated by the profit gained by farmers in the 2010 Winter-Spring crop with the floor price of 4000 VND/kg for MKD. With this price, all farmers (including producers of special rice, high quality rice and even ordinary rice) could not get a profit 30 per cent higher than production costs.

Figure 21: Profit as percentage of production cost in 2010 WS crop in MKD with the floor price of 4000 VND/kg[39]



Source: Department of Crop Production, MARD (2010)

Similarly, the production costs announced by MOF for the 2012 Summer-Autumn crop for provinces in MKD were not acceptable by farmers. Most farmers reported that their practical costs were higher than the MOF's costs. In addition, costs by MOF fluctuated quite a lot between provinces.

39 This is the figure for MRD as a whole but there are big differences in labor costs, land preparation costs among provinces in the region.

Table 7: Production costs announced by Ministry of Finance
Summer-Autumn 2012

No	Province	Paddy production cost in SA season in 2011	Paddy production cost in SA season 2012 (= cost in 2011*110%)
1	An Giang	3279	3607
2	Bac Lieu	3375	3713
3	Ben Tre	3629	3992
4	Ca Mau	3585	3944
5	Can Thơ	3651	4016
6	Dong Thap	3932	4325
7	Hau Giang	3970	4367
8	Kien Giang	3204	3524
9	Long An	3960	4356
10	Soc Treng	3388	3727
11	Tien Giang	4127	4540
12	Tra Vinh	3329	3662
13	Vinh Long	3761	4137

Source: 8605/BTC-QLG

FARMERS GAIN LITTLE FROM RICE PROCUREMENT POLICIES

Procurement policies are a popular intervention by the government. With these policies, rice exporters receive three to four month interest-free loans to procure paddy/rice. These procurement policies relate closely to floor price policy since they aim to push up demand, thus avoiding a reduction in prices and ensuring a margin of 30 per cent or more for rice farmers.

At first glance, these policies look quite effective since they are issued with rational timing, often at the point of lowest price. In addition, paddy price usually tends to increase after procurement policies are released.

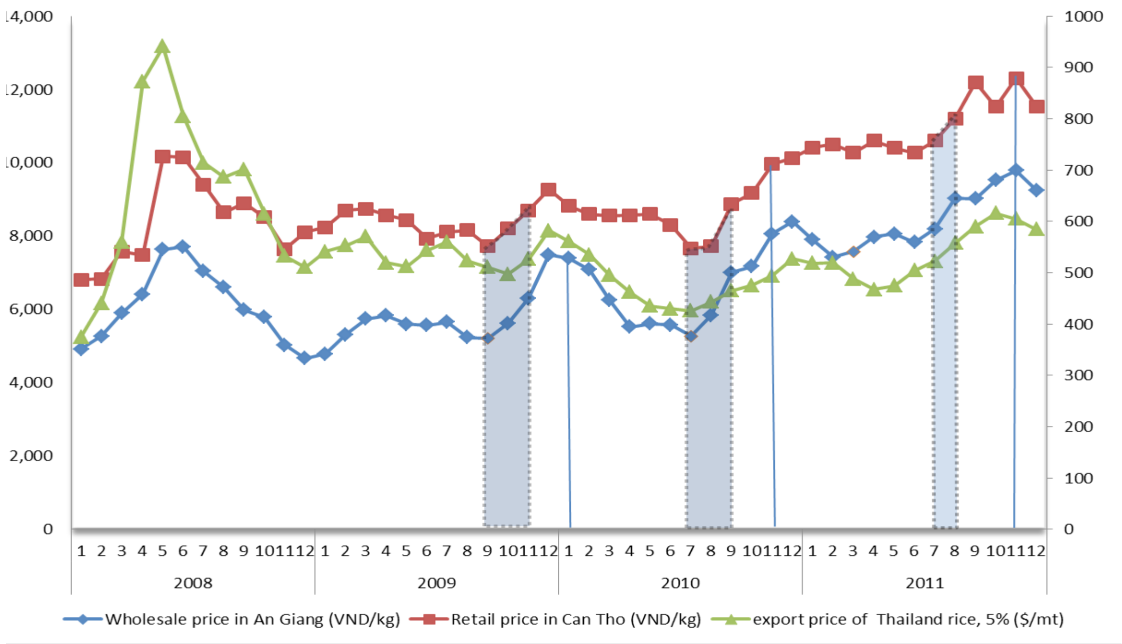
Box 5: Procuring paddy/rice in Summer-Winter 2010
Decision 993/QD-TTg issued on 30 June 2010

Article 1: *Procuring a maximum one million tons of rice equivalent in Summer-Winter 2010. Time for procuring paddy/rice is from 15 July 2010 to 15 September 2010*

Article 2: *Ministry of Trade and Industry chair role and in co-operation with Ministry of Agriculture and Rural Development, guide the Viet Nam Food Association (VFA) to distribute a quantity of paddy/rice procured for rice exporters.*

Article 3: *Government supports 100 per cent interest on commercial loans to buy rice/paddy in 4 months, from 15 July 2010 to 15 Sep 2010*

Figure 22: Procurement activities and price fluctuation



Source: Agroinfo

However, in practice, procurement policies are not effective due to:

α. Determining the price that exporters pay to farmers is complicated and does not work well (as with floor price policies) since farmers do not sell directly to exporters, they mainly sell to middlemen.

β. The duration of subsidized loans in paddy/rice procurement policies is often three months. So exporters do not buy paddy/rice at the high price, they buy when the price has gone down, meaning farmers still have to sell their paddy at the peak of harvest time at a very low price.

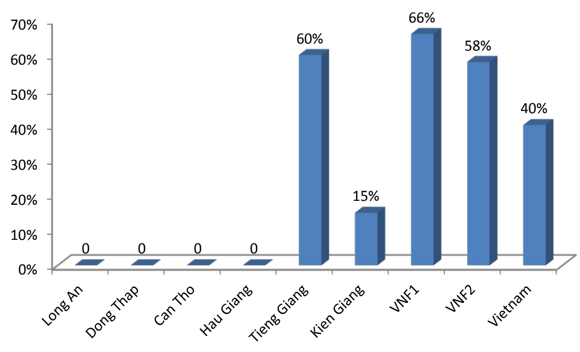
χ. Harvest time varies between provinces but the duration for procurement policy is fixed.

Due to these limitations, many farmers and government officers agree that procurement policies are not beneficial for farmers and that most benefits are captured by rice exporters, mainly state-owned enterprises. To improve the effectiveness of these policies, MARD is drafting a new policy on paddy/rice procurement in which subsidized loans will provide for both farmers and enterprises who have signed contracts to buy paddy from farmers. With these changes, farmers can store paddy at home and sell when they want.

In addition, the procurement policies should relate to the storage capacity of enterprises. At present, many exporters do not have good storage warehouses.

To improve the warehouse system, the government released Decree No. 48/NQ-CP on 23 September 2009 for storage development in MKD. Under this Decree, a storage system for four million tons was planned for completion by the end of 2011, however only 40 per cent of the project was completed by that time. In some provinces in MKD such as Long An, Dong Thap, Can Tho and Hau Giang, the implementation process has not even started, thus the aim of preventing the "good harvest- bad price" is unlikely to be met.

Figure 23: Actual vs. planned storage capacity by 2011



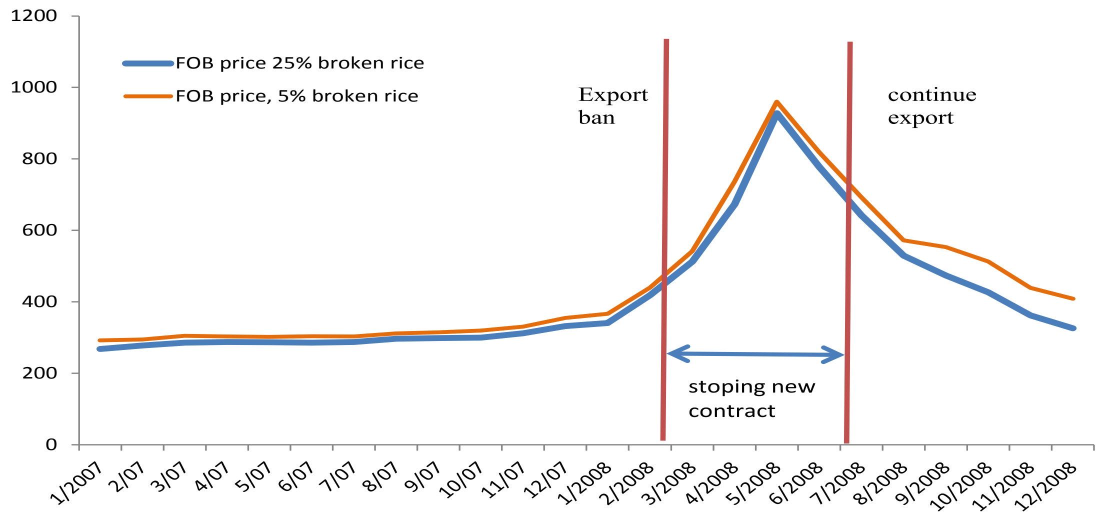
Source: IPSARD.

EXPORT INTERVENTION: DEFICIENT AND FAVORABLE FOR SOES

As presented in Section 3, the government uses different policies for rice export management such as export bonuses, tariffs, floor export price and more recently a package of policies on export management through Decree 109. To some extent, those policies are useful for controlling/intervening in rice exports but some policies are not efficient or even cause harm. The export ban policy issued on 25 March 2008 is a very clear example. During January and March 2008, both international and domestic rice prices showed an upward trend. This period coincided with the harvesting of the 2007/2008 Winter-Spring crop, and was the time when rice export enterprises boosted their procurement to meet their contracts and rice farmers restricted their paddy sales to wait for higher prices. Despite the increasing and high export rice price, the government issued instructions to temporarily postpone the signing of new rice export contracts and reduced the 2008 rice export volume to 3.5 or four million tons, one million tons lower than that in 2007. The intention was to ensure national food security in the context of a remarkably cold period in January and February 2008 in Viet Nam which damaged rice production in the North and scaled down export volume of one of the world leading exporters. The aim of ensuring food security was inappropriate because rice production in 2008 kept increasing and exceeded domestic consumption and with three crops annually, it takes only three months to grow a crop in Viet Nam.

Therefore, the implementation of the export ban from March to end of June 2008 (Instruction No.78/TB-VPCP) had a negative impact on the total rice export volume and limited the export turnover from rice because it meant the sector missed out on the record high prices. In May and June, the world and domestic rice prices continued going up but domestic enterprises could not sign new contracts due to the export ban. Of the 2.4 million tons of rice exported from Viet Nam during in the first six months of 2008, 1.4 million tons was exported during January and March. In June 2008, Viet Nam exported 200,000 tons of rice with the average rice export peak price at $1,005 /ton. However, the majority of rice exported in the first six months of 2008 was delivered in March and April at lower prices, only 60-70 per cent of the world record peak.

Figure 24: Viet Nam FOB export rice price in banning period in 2008 ($/ton)



Source: Agroviet

After three months of rocketing prices and a period of implementing the export ban, the government regulated the market by imposing a tariff (Decision No.104/2008/QĐ-TTg) to limit exports. However, the tariff on rice exports in July and August 2008 as well as the policy to remove the tariff in November 2008 did not help to stabilize the market and maintain benefits for rice farmers because both export and domestic prices dropped dramatically and by the end of 2008 had returned to pre-crisis levels.

The objective of the 2008 export ban policy was to ensure food security as stated in Instruction No.78/TB-VPCP. However, this reason may not be justified since this policy may have been driven by a difficulty faced by rice exporters due to international prices during March 2008. International prices were continuously increasing making domestic prices rise too. With such high procuring prices, many rice exporters got lost because they had signed a contract to export rice at a fixed price from the beginning of 2008. The fixed price was lower than the actual price so the export ban reduced the domestic price dramatically. The rapid reduction caused a big loss for rice farmers but helped rice exporters buy paddy at very low prices. Therefore overall, while the export banning policy in 2008 caused a big loss for Viet Nam, it was very beneficial for many rice exporters.

RICE EXPORT POLICY MAKING: WITHOUT FARMERS' VOICE

Rice exports have been mainly managed by the rice export management board established in 2008 as a replacement for the steering committee for rice export and fertilizer import. The mechanism for rice export management can be illustrated in Figure 25.

The rice export management procedures are as follows:

(1) MOIT sends the proposal on estimated annual rice export volume.

(2) Prime Minister approves the proposal.

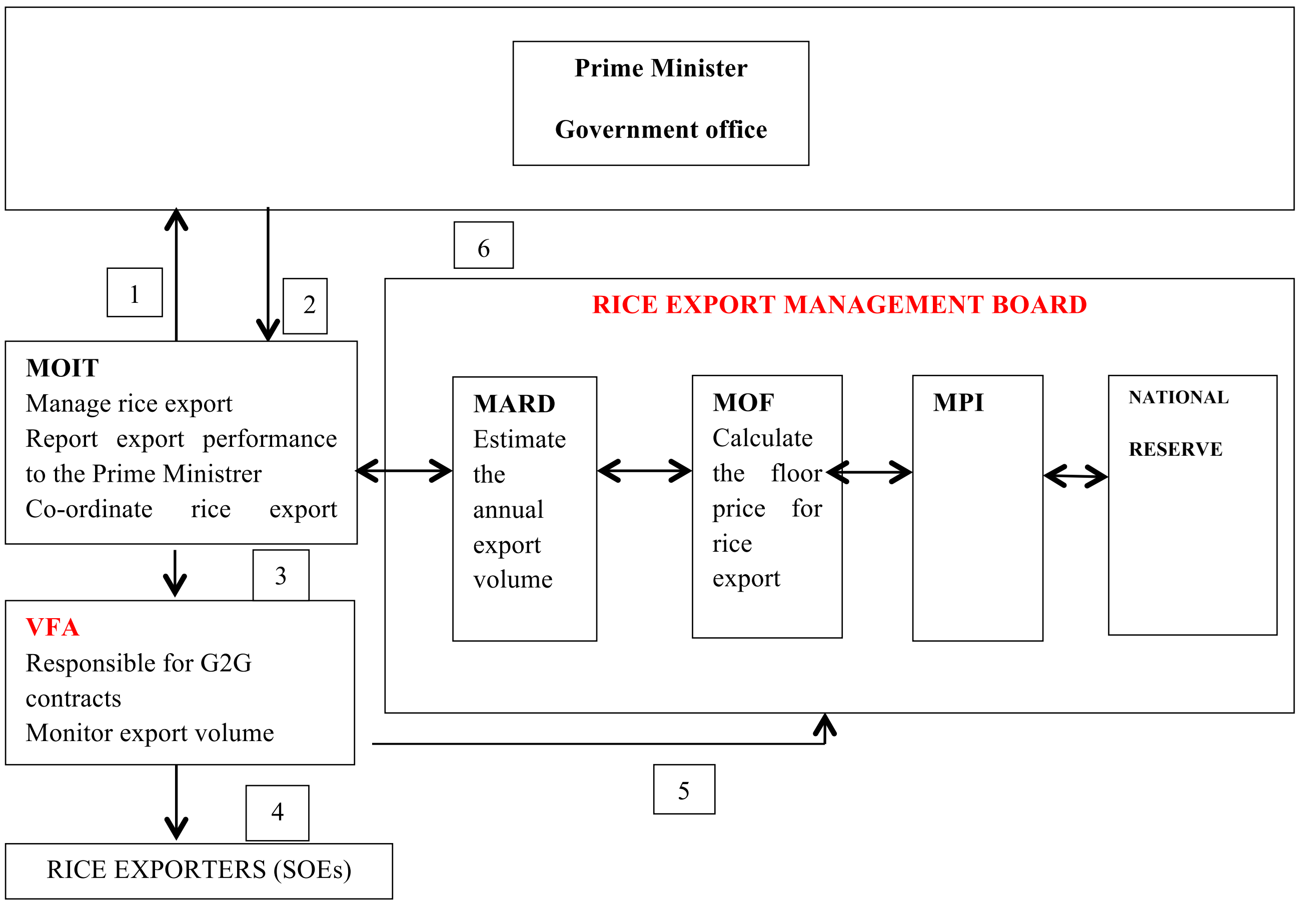
(3) MOIT circulates the approved proposal to VFA and asks VFA monitor the export volume.

(4) VFA monitors rice exporters.

(5) (6) VFA reports to the management board and the board reports to the Prime Minister when it meets any issues out of its assigned tasks.

It is easy to see that although there is a management board, the VFA plays a key role in rice export management and its tasks are clearly assigned by Decree No. 109/2010/NĐ-CP - the most important legal document on rice export management. Its role is as follows:

Figure 25: Rice export management mechanism



- VFA monitors the rice export volume because it is responsible for registering the rice export contracts of all rice exporters, both VFA and non-VFA members;

- VFA is a member of the rice export management board together with Ministry of Agriculture and Rural Development, Ministry of Finance, Ministry of Planning and Investment and the National Food Reserve. VFA is responsible for determining the floor export price under the instruction and supervision of the Ministry of Finance and the Ministry of Industry and Trade. The floor price for rice export and the role of VFA in setting it is very controversial in Viet Nam. The aim of a floor price for rice export is to avoid dumping by rice exporters but it is set up by the VFA – the representative of rice exporters – a clear conflict of interests;

- VFA allocates 80 per cent of G2G contracts among VFA members so they can perform the export entrustment, basing on the criteria specified in Article 16.

While it could be argued that exporters' interests are over-represented on the management board, there is no agency representing the rice farmers who take part in the rice export management mechanism. At present, the Farmers' Union represents farmers in Viet Nam; however, it has not participated in any rice export regulation or policies. This is evident in Decree 109 on rice export management which makes no mention of the role of the Farmers' Union.

Box 6: Decree 109 without farmers' voice

"Whether rice farmers can benefit from rice export or not depends on the price at which they sell their paddy. This depends upon the availability of qualified storage capacity to avoid the "bumper harvest- low price" situation and the mechanism to allow the paddy purchasing price movements to correspond with export price. These issues are not stipulated in the Decree 109" by Hoang Kim. [40]

[40] http://www.thesaigontimes.vn/Home/diendan/bandocviet/43487/Xuat-khau-gao-theo-Nghi-dinh-109-Cai-nong-dan-can-thi-khong-co.htm

CONCLUSION AND POLICY RECOMMENDATIONS

Given that:

- Rice is a special commodity with political importance; many rice growing countries strongly intervene and protect the sector. This means that the price of rice does not directly reflect the supply-demand relationship, and is distorted in many cases;

- Decreasing trends in world rice demand due to lower rice consumption per head and self-sufficiency policies by many rice importers could potentially make rice trade more challenging in the coming years;

- Rice production clearly shows a comparative advantage in Viet Nam's agricultural sector. It is the most common livelihood for many rural households and a source of employment for the majority of the Vietnamese population;

- Rice prices are not high but they are very unstable. Therefore, relying on rice income alone cannot provide stable incomes for farmers. In addition, rice production is costly and uses many inputs plus a lot of water and land resources; this leaves farmers little room to maneuver in terms of profit margins;

- Farmers receive much less benefit compared to others in the rice value chains who are not directly involved in the production process.

Policy changes in the future should focus on the following areas:

Investment agreements with rice importing countries instead of sales contracts must be promoted to address the political rice demand of importing countries. Such a policy of international co-operation would help strengthen Viet Nam's position in the international arena and better connect importers with production zones. It would also reduce the middle layers in the value chain and increase the farmers' rice selling price.

Specialized commercial rice production areas should be planned to accommodate large-scale production through carefully chosen investment in facilities and high-quality rice varieties that meet consumer's preferences. The recent "large-scale demonstration field" production model has received a lot of attention from the government but the investment supporting policies for specialized production zones have not yet been well designed. Therefore, policy changes should focus on enhancing the rice value chain in specialized production areas with the participation of farmers; and on supporting all actors in the value chain starting from production, through to trade and export.

The current "large-scale demonstration field" production model should aim to address the poor linkages and co-operation between exporters and growers. An additional condition applicable to rice exporters should be considered for Decree No. 109 to make sure that farmers' linkage in the form of contract farming really exists. Co-operatives should be enhanced to help farmers' linkage, especially when it comes to small-scale growers. In addition, policies supporting infrastructure development (irrigation systems), processing (drying facilities and warehouses) establishment and trade (transport) should only focus on the main specialized production areas instead of the whole country. Other areas should be allowed to take initiative in production diversification following market signals. Prices in the specialized production areas should be used as the indicative price to direct rice trading regulation countrywide.

Rice competitiveness should strengthen as a result of improved yields, improved research and development capacity, better extension services and new rice varieties especially high-quality (fragrant) and climate resistant varieties. Large exporters should be assisted in step-by-step brand building for Vietnamese rice. The government of Viet Nam should support improved competitiveness and the Vietnamese rice brand, in order to support higher prices for Vietnamese rice.

Rice production is highly input-intensive and is a high carbon emitter, thus rice production is extremely costly when all costs count. Farmer-led and climate-resilient practices such as the System of Rice Intensification should be promoted. The government should have a rice sub-sector master plan with two different but mutually complementary policy targets, including commercial production and small-scale production for self-consumption or for sale in local communities. This would help to improve targeting and impact of rice policies. Under this master plan it should increase investment in infrastructure particularly transportation and irrigation systems for rice production; promote land accumulation; support the establishment of economic co-operation and set up better linkages between enterprises and farmers, especially in MKD.

As far as rice regulation policies are concerned, the government should establish a steering committee (with the participation of trading companies and farmers) to be in charge of market forecasting, trade promotion and production planning. The real role and voice of rice farmers should be seen and heard clearly throughout the trade regulation process to ensure that farmers' interests are well protected. Prior to widespread implementation, new policies should be piloted in one or a few areas. Evaluation should draw out lessons learned and policies should be adjusted accordingly before implementation. Policy implementation should be subject to regular and independent assessment.

Rice trade and export promotion is very much needed, especially through increasing transparency in the export process and improving rice competitiveness. This can be achieved by:

- implementing a tender mechanism for G2G contract allocation among rice exporters;

- speeding up the construction of rice warehouses to achieve the planned four million ton capacity while ensuring that good facilities and equipment are provided to help maintain rice quality after harvesting and reduce the good-season-bad-price situation;

- setting a floor price that includes all the related costs at the beginning of the season; including a ratio to reflect the input price changes. Differences in geographical locations and weather conditions must be considered in production costs as part of the floor price calculation formula. The buying price, as such, should be agreed upon between farmers and companies at the beginning of the season.

For rice sector growth in Viet Nam to be sustainable, everybody needs to benefit from the increased wealth. This future is well within reach but can be achieved only if key stakeholders particularly MOIT, MARD, MOF, VFA and rice growers' representatives convene to discuss the proposed approaches and determine the steps and processes to take it forward.

REFERENCES

Asian Development Bank (2008). Soaring Food Prices. Response to the Crisis, 2008

http://www.adb.org/Documents/Papers/soaring-food-prices/soaring-food-prices.pdf

Dawe, D. (2008). Have recent increases in international cereal prices been transmitted to domestic economies? The experience in seven large Asia Countries. ESA Working Paper. Rome: 12.

Dawe, D. and T. Slayton (2010). The world rice market crisis of 2007-2008. The rice crisis: markets,

policies and food security. D. Dawe. London, Earthsan and FAO: 15-29.

FAO (2008). The State of Food and Agriculture 2008. Biofuels: prospects, risks and opportunities. Rome, FAO.

FAO (2010c). State of Food Insecurity in 2010. Rome, FAO.

FAO (2011a). FAOSTAT.

FAO, IFAD, IMF, OECD, UNCTAD, WFP, the World Bank, the WTO, IFPRI and the UN HLTF (2011).Price Volatility in Food and Agricultural Markets: Policy Responses. Rome, FAO.

HLPE Report 1 (2011). Price volatility and Food Security. Committee on World Food Security, Rome.

IMF (2011). World Economic Outlook. Washington, IMF.

OECD (2009). Agricultural Policies in Emerging Economies: Monitoring and Evaluation. Paris, OECD.

Oxfam et al (2011): Simple and Effective: SRI and Agriculture Innovation.

Slayton, T. (2009). Rice crisis: How Asian governments carelessly set the world rice market on fire. Washington, Center for Global Development.

Standing Committee on Agricultural Research (2011). The 3rd SCAR Foresight Exercise: Sustainable food consumption and production in a resource-constrained world. Brussels, European Commission: 149.

Timmer, C. P. (1990). The Agricultural Transformation. The Handbook of Development Economics. H. B. Chenery and T. N. Srinivasan. Amsterdam, North Holland, Elsevier.

Timmer, C. P. (2010). "Reflections on food crises past." Food Policy 35: 1-11.

The Saigontimes online. http://www.thesaigontimes.vn/Home/diendan/bandocviet/43487/Xuat-khau-gao-theo-Nghi-dinh-109-Cai-nong-dan-can-thi-khong-co.html.

World Bank (2007). World Development Report 2008: Agriculture for Development. Washington,

World Bank (201=20). Viet Nam Rice, Farmers and Rural Development: From Successful Growth to Sustainable Prosperity. Viet Nam, World Bank

Yang, J., H. Qiu, et al. (2008). "Fighting global food price rises in the developing world: the response of China and its effect on domestic and world markets." Agricultural Economics 39: 453-464.

ANNEX 1: POLICY REVIEW

Seq	Legal Code	Issuing date	Name	Ref# in figure 12
1	64/1993/NĐ-CP	27/9/1993	The enactment of regulations on the allocation of land to households and individuals for stable and long term use for the purpose of agricultural production	
2	14/1993/NĐ-CP	3/2/1993	Credit for farmers to develop agro-forestry-fishery and salt production and rural economy	
3	151-TTG	4/12/1993	Establishment of use and management of price stability fund	
4	39/1998/QĐ-TTg	18/02/1998	The establishment of the steering committee for the rice export and fertilizer import management	
5	764/QĐ – TTg	24/8/1998	Setting up of export reward fund	
6	20/1999/QĐ-TTg	13/2/1999	Establishment and issuance of regulations of steering committee for rice export and fertilizer import	
7	195/1999/QĐ-TTg	27/9/1999	Setting up, use and management of export support fund	
8	397/2001/QĐ-TTg	4/10/2001	Solutions on commodity sales in the Mekong river delta and ehancement of rice export in 2001	
9	46/2001/QĐ-TTg	4/4/2001	Export and import regulations in 2001-2005 (Remove quota and encourage stakeholders to take part in rice export)	
10	68/2001/NĐ-CP	10/1/2001	Land use planning	
11	80/2002/QĐ-TTg	24/6/2002	Encourage the development of contract farming	
12	13/2003/QH11	26/11/2003	Land Law	
13	181/2004/NĐ-CP	29/10/2004	Guidance on implementation of the Land Law	
14	184/2004/QĐ-TTg	22/10/2004	Solidifying interior canals in rice growing regions	
15	45/2005/QH11	14/6/2005	Export and import tax	
16	36/2005/QH11	14/6/2005	Commercial Law	
17	154/2007/NĐ-CP	15/10/2007	Exemption of irrigation fee to reduce paddy production cost	
18	78/TB-VPCP	25/3/2008	Rice export ban to end of June, 2008	1
19	612/CĐ-TTg	27/4/2008	Stabilizing the domestic rice market	2

Seq	Legal Code	Issuing date	Name	Ref# in figure 12
20	104/2008/QĐ-TTg	21/7/2008	Apply absolute tariff on rice export	3
21	9417/BTC-CST	15/8/2008	Adjustment of floor export price for tax	4
22	107/2008/NĐ-CP	22/09/2008	Punishment on illegal trade	5
23	115/2008/NĐ-CP	14/11/2008	Exemption of irrigation fee to reduce paddy production cost	6
24	13/2009/QĐ-TTg	21/01/2009	On usage of state budget on solidification of canals, development of rural roads, infrastructure for aquaculture and in craft villages in rural areas in 2009 - 2015	7
25	497/QĐ-TTg	17/4/2009	Favorable interest rates on credit for purchasing machinery, materials to agriculture production and construction of houses in rural areas	8
26	1518/QĐ-TTg	22/09/2009	Procurement and temporary storage of rice in SA 2009	9
27	48/NQ-CP	23/09/2009	Mitigation of post-harvest losses	10
28	63/NQ-CP	23/12/2009	Ensuring National Food Security	11
29	176/QĐ-TTg	29/01/2010	Approval of the plan on development of high technology agriculture towards 2020	12
30	41/2010/NĐ-CP	4/12/2010	Credit policy for agriculture and rural development	13
31	993/QĐ-TTg	30/6/2010	Procurement and temporary storage of rice in SA 2010	14
32	57/2010/QĐ-TTg	17/9/2010	Exemption of land rental fee for construction of storage for agriculture products	15
33	63/2010/QĐ-TTg	15/10/2010	Measures to mitigate post-harvest losses	16
34	109/2010/NĐ-CP	11/4/2010	Regulation of rice trading activities	17
35	55/2010/QH12	24/11/2010	Exemption and reduction of taxes on uses of agricultural land	18
36	15/2011/QĐ-TTg	3/9/2011	On annual procurement and temporary storage of rice	19
37	20/2011/NĐ-CP	23/03/2011	Guidance on implementation of 55/2010/QH12	20
38	287/QĐ-TTg	3/9/2012	On procurement and temporary storage of rice in WS 2011-2012	21
39	42/2012/NĐ-CP	5/11/2012	On regulation and management of paddy land	22

ANNEX 2: PRA MINUTES

PRA IN TRI TON

VENUE: TRI TÔN DISTRICT

TIME: SEP 2012

I. General questions

a. **Value chain structure**

90% of farmers sell wet paddy to collectors

5% of farmers sell dry paddy to collectors

5% of farmers sell wet paddy to An Giang Plant Joint Stock Company

b. **Cropping seasons (lunar calendar)**

80% areas are cultivated in two crops, 20% in three crops

- In Winter-Spring crop, seeds are transplanted in Oct or early Nov due to floods and harvested in late Jan or early Feb. Its yield is about 900kg/1000m2.

- Seeds are transplanted in late Feb or early Mar with its yield of about 550 kg/1000m2

- In autumn-winter rice crop, seeds are sown in early Jul with about 600kg/1000m2 of yield

c. **Comparative and competitive advantages**

Comparative advantage: None

Competitiveness advantage: mechanization in harvest (harvesting costs by machine is 50% lower than by hands).

d. **Rice competition with other regional localities or neighboring countries: None**

e. **Labor use in rice industry**

Lack of labor in main crops, especially in sowing (80%) as farmers go to work in Binh Duong. No excess of labor.

f. **Profits from rice production**

Winter-spring crop: 2 million VND/1300m2 (due to high labor hiring cost)

Summer-fall crop: 400,000 VND/1300m2 (due to unfavorable weather)

Autumn-winter crop: about 700,000 VND/1300m2

g. **Rice quality**

The quality can meet market's demand but it is not quite higher than that of neighboring areas.

h. **Rice transportation**

Conveniently, the transport is mainly by waterway but costs are charged to traders so they are unable to be estimated.

i. **Post-harvest and expenses**

In general, post-harvest activities are convenient because farmers are mainly selling fresh rice. Some households have drying-rooms but their stock is not effective because price increases after stock period are not significant. Number of machines meet farmers' demand. Cost for using machines is 200,000 Dong/1300m2, only equal to ½ labor hiring cost.

10. Opportunity for local commodity development

Input price is upward but rice price is unchanged, thus profits for 1 ton of rice are likely to be downward in the coming time.

In addition, it is strongly competed by India and Myanmar.

II. Detailed questions

α. **Risk of rice production:**

Input price is upward and output price is unstable. In addition, in context of diseases, agents raise agricultural input prices, which pushes its costs up.

β. **Difficulties for farmers**

Lack of knowledge and market information

χ. **Solutions**

- Farmers need support to avoid risks in price movements.

- Local agricultural extension staff need to help farmers avoid diseases and gain initiatives, learn +about lessons.

δ. **Linkage mechanism and situation among actors in the chain**

In 2011, there were 720 households linked with An Giang Plant Protection Company to sell rice but the company's rice purchase was not in time so it lost farmers' belief. As a result, in this year many households stopped linking with the company to sell rice, despite firm purchase prices from the company. Currently, there is no linkage between households and input suppliers.

ε. **Lessons**

Failure of co-operation between farmers and An Giang Plant Protection Joint Stock Company is blamed for the fact that the company has not prepared enough facilities to meet integration scale. Resources and time for implementation of large field should be concentrated.

φ. **Vertical and horizontal linkage of rice value chain**

There is no close vertical linkage.

Farmers are often provided technical assistance from Division of Agriculture.

γ. **Assessment of rice policies**

- The policy on purchasing rice varieties from multi-media is not irrelevant.

- Policy on price floor, which aims to ensure 30% profits for farmers, is not effective because in fact, traders and companies do not implement well.

- Policy on capital support for enterprises is not effective because the enterprises do not pay such a high price.

η. **Proposal for commodity development include:**

- Direct support to farmers, instead of enterprises

- Solutions to control fertilizers and agricultural input prices.

III. Profits of rice production and policy effects in 2008-2011

α. **2008**

Paddy price was downward in mid-year but input price increased.

β. **2011**

- Rice price in 2011:

Winter-spring crop: 5,600 – 5,900 Dong/ 1 kg for dry rice.

Summer-autumn crop: 5,600-5,700 Dong/ 1 kg for dry rice

- Input costs for rice production witnessed an increasing trend

χ. **Rice policies**

In 2008: farmers could not sell rice or sold at low price, leading to loss or debt.

In 2011: the policy helped farmers to be more advantageous in production and sales but farmers could not specialize the policy

PRA IN CHAU THANH

VENUE: CHÂU THÀNH DISTRICT

TIME: SEP 20112

I. General questions

α. **Value chain structure**

95% farmers have to carry fresh or dry rice to purchasers, instead of selling directly to rice companies, because their productivity is quite low to satisfy companies' conditions.

Remaining 5%, who participate in large sample field model of An Giang Plant Protection Joint Stock Company and receive its investment in seeds, fertilizers, have their rice purchased by this company.

β. **Cropping seasons (by solar calendar)**

There are three rice cropping seasons:

- Winter-spring rice (WSR): from November to March,
- Summer-fall rice (SAR): from April to July,
- Autumn-winter rice (AWR): beginning in August or Sep, depending on the weather (flood, diseases, etc.)

χ. **Comparative and competitive advantages**

Competitiveness advantage: high mechanization

Comparative advantage: None

δ. **Rice competition with other regional localities or neighboring countries:** None

ε. **Labor use in rice industry**

In harvest time, there is a lack of labors but it is not quite serious thanks for high specialization in production and machines like combine harvesters (used by 99% farmers), gain driers, etc.

Sometimes, labors for soil preparing activity are not enough; for example, in 2011/12 WSR crop, lack of labor raised 20% of labor hiring cost for preparing soil compared to the previous year.

φ. **Profits from rice production**

Unstable rice paddy makes profits fluctuate within 800 thousand Dong to 2 million Dong per 1300 m2.

WSR experiences the highest profits, from 1.7 to 2 million Dong/1300 m2

SAR produces lower profits, the previous crop's productivities are reduced due to serious piricularoise diseases, the profit are about 0.8 million Dong/1300 m2

AWR, which further suffers from insects, witnesses an increase in production cost and downward yield, leading to reduction of profits.

γ. **Rice quality**

4218 rice (long grain white rice) and Jasmine rice are considered quality varieties, their quality is just lower than some special varieties.

η. **Rice transportation**

Farmers carry their rice to trading sites. If transportation mean are boats, the hiring price is 60,000 - 80,000 Dong/ton, depending on distance.

ι. **Post-harvest and expenses**

Farmers have to hire combine harvesters (220,000-260,000 Dong/1300m2) only for healthy rice, meeting 80% of demand.

Labor cost for harvesting is 200,000-260,000 Dong/1300m2

Drying-room meets only 20-30% demand. Farmers sell fresh rice due to price increase or no conditions of drying. On average, 80% of farmers sell fresh rice.

φ. **Local opportunity for commodity development**

Positive point: There will not be a loss on growing rice even if the situation becomes even worse because farmers will still have rice to ensure their daily meals.

Negative points:

- Farmers remain passive and have no voice in the matter, even Farmer Association cannot help. They are put to a lot of expenses. When rice prices increase, farmers may not benefit from this.
- Large sample field model only benefit enterprises and Food Association, not small households, who account for a large percentage.
- The State's policies support significantly enterprises, while farmers receive no direct benefits from these policies.

b.

II. Detailed questions

α. Risk in rice production

- Low selling price is considered the major risk.

There are many reasons making farmers suffer from low selling prices. Firstly, media mass seem to blow up policies on farmer subsidies. Finally, inconsistent and incorrect information from food enterprises and associations are putting farmers at a disadvantage. For example, difficulties in rice exports are usually dramatized by VFA in early cropping seasons to force down farm gate prices, and then VFA will publish good information about exports after enough purchasing.

- Disasters and epidemic diseases can be coped with.

β. Difficulties challenging farmers

- Lake of capital is the most major challenge to farmers, which make them suffer from low selling prices.

- While adopting technology is not an obstacle to farmers.

χ. Solutions

- The problems will be solved most effectively when 30% of profits is ensured, instead of loans for production and investment, because farmers cannot manage their capital unless profits are sustainable.

- Rice stock policy should be implemented with increasing quantity, ensuring that all farmers will have their rice purchased, because farmers now sell almost their rice, they only reserve a very small amount. .

- Rice growers must reserve the right to raise their voice. While rice enterprises are protected by VFA, an economic association, rice growers have no support. Farmer association seems to be useless.

δ. Linkage mechanism and situation among actors in the chain

5% of farmers, participated into the large sample field program as mentioned above, are selling rice to An Giang Plant Protection Joint Stock Company; in this case, they are invested in seeds and fertilizers by the company. However, it lose farmers' belief due to late purchasing.

In general, there is no connection between suppliers of input materials and farmers while co-operation among producers is quite loose.

ε. Lessons

The company has not prepared enough infrastructure for connection => in order to implement large sample field model, resources and time should be prepared carefully.

ϕ. Vertical and horizontal linkage of rice value chain

There is no closely vertical linkage.

Lack of horizontal linkage, but farmers appreciate technical support from of district's agriculture division

γ. Assessment of rice policies

- Good policies:

o Free charge of irrigation: good policy, seeds are given supporting reproduction after disasters.

o New rural program: meeting demand of farmers. Especially, capital is invested in construction of pump stations, support of irrigation in AWR.

o Agricultural extension and plant protection services: good support in agricultural knowledge, relation between farmers and scientists

- Irrelevant policies:

o Farmers have to suffer from irrelevant tolls.

o In 2008, domestic gasoline price was quite high while the global price was lower, bringing disadvantage to farmers

o Land limitation is 03 ha, which is quite small, especially when Government is encouraging farmers to pile up lands for technology application. Tax on exceeding land limitation is quite high (16kg/1200m^2 x 3000 VND/kg)

η. Proposals for commodity development include:

- Good varieties with good quality and high yield

- Increasing rice stock volume directly from farmers (without VFA)

- Relevant policies encouraging farmers to grow high-quality rice

- Controlled input prices aimed at avoiding great impacts

- Effective policy on price floor

III. Profits from rice production and policy impact in 2008-2011

α. **2008**

- High production cost

- Selling prices were 3,300-3,500/kg for wet paddy, equal to about 5,000/kg for dry paddy

- The prices were 10,000 Dong/3 kg in June and July 2008, despite previous prices were 5,000/kg and 8,000/kg within the last 10 days.

- 2 shortcomings: while global prices rose, domestic rice was being sold at a very low price, leading to loss and debt (10,000 Dong/3 kg in June and July 2008); despite the previous prices were 5,000 Dong/kg and 8,000 Dong/kg within the last half month. After that, both global and domestic prices experienced an increase, farmers had sold out their rice.

- Average paddy prices were 4,500 Dong/kg in 2008, 4,800 Dong/kg in 2009, 5,000 Dong in 2010, 5,500-5,800 Dong/kg in 2011 and 5,800 Dong in 2012, respectively.

β. **2011**

- Input material prices in 2011 continued seeing volatility

- Dry paddy price was 5,500-5,800 Dong/kg on average.

χ. **Rice policies**

- The policy on price floor is well known but it cannot ensure 30% of profits due to irrelevant price floor.

- Support in AWR is suitable and all farmers are received support; however, the support is not in money, they are invested in dyke construction.

- Large sample field program: farmers do not want to participate in the program because it does not meet their demand in rice purchase...

ANNEX 3: RESOLUTION NO. 63/NQ-CP

THE GOVERNMENT -------	SOCIALIST REPUBLIC OF VIET NAM Independence - Freedom - Happiness ----------
No. 63/NQ-CP	*Hanoi, December 23, 2009*

ESOLUTION

ON NATIONAL FOOD SECURITY

THE GOVERNMENT

Food (including food and foodstuffs) security, which has always received a special concern and direction of the Party and State so as to ensure national food security in the immediate- and long-term future, is crowned with important achievements, prominently: The grain food output averagely increased 3.7%/year in the 2001-2008 period, about three times higher than the population growth rate in the same period. Rice production met the domestic and export demands, averagely with some 4-5 million tons of rice exported annually. The output of foodstuffs from vegetables, fruits, husbandry and fishery products rose considerably. The food circulation system was renovated, creating favorable conditions for people to access food. The domestic market has gradually shifted to the market mechanism under the State's management. The malnutrition rate among people dropped markedly; particularly that among under-five children fell from 25% in 2005 to 20% in 2008, achieving the plan target set for 2010. Despite the above-mentioned achievements, our country's food security still sees such limitations and shortcomings as food and foodstuff production is not really sustainable; agricultural production organization is slow to be renovated; production infrastructure and services remain insufficient; production, business, export and import management still sees constraints; and producers' incomes remain low. Food security constitutes an important issue of the country in the immediate- as well as long-term future. In order to redress the above-said shortcomings, the Government promulgates the Resolution on national food security with the following contents:

I. VIEWPOINTS

1. Food security must be part of the socioeconomic development general strategy, associated with the objectives of national industrialization and modernization and the addressing of the questions of agriculture, peasantry and rural areas, of which hunger elimination, poverty reduction, job creation and higher incomes for people are important, contributing to ensuring steady national food security.

2. Comprehensive and efficient agricultural production development served as a basis to ensure national food security; production shall be linked with appropriate organizational forms to fully and promptly meet food and foodstuff demands in all circumstances; to raise nutrition and improve the quality of people's meals.

3. To bring into play the advantage of rice as the principal task and to develop food and foodstuffs into commodity production zones with high efficiency and competitiveness; to step up mechanization, processing and preservation towards industrialization, modernization and sustainable environmental protection.

4. To well organize the trading and reserve systems in various regions and areas, creating favorable conditions for people to easily access food and foodstuffs with higher and higher quality and efficiency. To harmonize domestic consumption and export of food and foodstuffs.

5. To bring into full play resources of people and all economic sectors; the State shall only provide active support in ensuring national food security; ensure incomes for food producers and create conditions for the development of purely agricultural localities.

II. OBJECTIVES

1. General objectives

By 2020 with a vision towards 2030, to ensure adequate food supply sources with an output higher than the population growth rate; to put an end to food shortage and hunger and raise meal quality; to ensure that rice producers earn profits averagely more than 30% over production costs.

2. Specific objectives

a/ To ensure food supply sources

To further step up intensive rice farming, particularly in the Mekong river and Red river deltas, creating stable supply sources for immediate- and long-term national food security.

By 2020, to protect the rice land fund of 3.8 million hectares for an output of 41-43 million tons of paddy to meet the total domestic consumption and export demand of around 4 million tons of rice/year; to increase the maize acreage to 1.3 million hectares for an output of 7.5 million tons, the fruit tree acreage to 1.2 hectares for an output of 12 million tons, the vegetables acreage to 1.2 million hectares for an output of 20 million tons; to increase the subsidiary food crop output over 30%, the outputs of domestic animals in live weight to 8 million tons, fresh milk to 1 million tons, poultry eggs to 14 billion, fishing output to 2.4 million tons and aquaculture output to 4 million tons.

b/ To meet nutrition needs

By 2020, to improve the nutrition conditions towards nutrition balance, raising the average daily calorie consumption to 2.600-2.700 kilocalorie/person and reducing the malnutrition rate among under-five children to below 5%.

To improve the food consumption structure and quality, achieving by 2020 the average per-head consumption of only 100 kg of rice, 45 kg of meat, 30 kg of fish, 50 kg of fruits and 120 kg of vegetables, and the egg and milk consumption doubling the current levels. All agricultural products and food sold on the market must meet food hygiene and safety standards.

c/ To ensure people's accessibility to food

To put an end to food shortage and hunger by 2012. ensuring that 100% of the population anywhere and anytime will be supplied with adequate food after 2012.

To ensure that by 2020, the food producers' income will be 2.5 times higher than the current level.

III. MAJOR TASKS AND SOLUTIONS

1. Planning

a/ General planning

The national food production is planned on the basis of bringing into play the advantages of each region and efficiently using land and water resources; to attach importance to planning zones of food production with great outputs of rice, maize, vegetables, fruits, aquatic products and husbandry in order to achieve the national food security targets.

The food production planning must ensure the balance of various domains to ensure the sustainable development with high economic efficiency; not causing contradiction between the bio-fuel production planning and the food production planning.

b/ Rice land planning

Rice land planning must ensure uniformity and conformity in size and rice land location with the national land use planning.

In order to ensure national food security, by 2020 and a vision towards 2030, the rice land acreage shall be kept at 3.8 million hectares, including 3.2 million hectares of land under two or more rice crops a year with complete irrigation networks.

The rice areas to be kept and strictly protected will be specified for each locality (province, district and commune), and maps on current rice land use by households will be drawn.

The Ministry of Agriculture and Rural Development shall co-ordinate with the Ministry of Natural Resources and Environment and provincial-level People's Committees in directing the formulation of detailed planning on rice land fund under the above-said orientation, and submit it to the Prime Minister for approval in the second quarter of 2010.

The Ministry of National Resources and Environment shall assume the prime responsibility for, and co-ordinate with the Ministries of Agriculture and Rural Development; Trade and Industry; Construction; and Transport, as well as concerned ministries and branches in, pinpointing the land use demands of various branches, including the demands for land converted from rice land, on the principle of thrifty use of rice land.

Provincial-level People's Committees shall base themselves on the approved national rice land planning to determine the rice land acreages to be kept in their respective localities, particularly areas under two rice crops, which need to be strictly protected, and draw maps on rice land use by communes and households. This shall be completed in the fourth quarter of 2011.

2. Infrastructure, scientific and technological development

a/ Infrastructure development

The Ministry of Agriculture and Rural Development and provincial-level People's Committees shall co-ordinate with concerned ministries and branches in directing and implementing the following tasks:

- To further invest in build and consolidate irrigation works, ensuring active irrigation and drainage for 100% of areas under two rice crops and increase the irrigated areas of vegetables, subsidiary food crops or fruit trees. To prioritize investment in the construction of irrigation works in service of aquaculture; and small irrigation works in mountainous regions.

- To further invest in building new dike systems and upgrading the existing ones; to soon materialize investment projects on sea dike systems, protecting production and assets of the State and people; to prepare for coping with sea level rise.

- For concentrated food production regions, to complete the irrigation systems in association with rebuilding the fields and developing intra-field communications, creating favorable conditions for scientific and technical application to mechanization of commodity production with higher efficiency.

- To expeditiously complete the construction of systems of warehouses for food reserve and preservation in rice production regions, ensuring a rice and paddy reserve of 4 million tons; to develop food processing establishments with modern technologies in order to raise the quality of agricultural products.

b/ Scientific and technological development and application

The Ministry of Agriculture and Rural Development and the Ministry of Science and Technology shall co-ordinate with provincial-level People's Committees in:

- Increasing resources for scientific research, agricultural promotion, information and international co-operation on food security; the annual state budget investment in this domain will increase 10-15%.

- Selecting, creating and producing adequate plant varieties and animal breeds, aquatic strains of high yield and high quality, especially plant varieties resistant to such unfavorable conditions as salinization, drought, water logging, and genetically modified varieties in service of production.

- Stepping up the research into, and application of, co-ordinated mechanization of production, harvesting, preservation and processing. For rice, to boost the mechanization of harvesting in order to reduce loss; by 2020. the harvesting mechanization will achieve 50%, of which 80% for the Mekong river delta, mainly with the use of combined harvester-threshers of hi-tech properties.

- Building epidemics-free production zones, hi-tech production zones and concentrated production zones with the application of the good agricultural practices (GAP); developing garden economy.

- Applying advanced quality control systems to preservation and processing establishments.

- Increasing investment in modern equipment and technologies, in the development of synchronous infrastructure and fishery logistics services for efficient fishing; planning and building synchronous infrastructure for aquaculture areas, first of all irrigation in service of aquaculture; widely applying man-made breeding technologies; building fishery veterinary systems; strictly controlling the quality of breeds, feeds and rearing environment; modernizing the processing establishments, ensuring food hygiene and safety norms.

- Expeditiously applying measures for adaptability to climate change and sea level rise which affect national food security.

3. Human resource training

The Ministries of Agriculture and Rural Development; Labor, War Invalids and Social Affairs; and Education and Training shall co-ordinate with provincial-level People's Committees in efficiently implementing the programs on vocational training for agricultural and rural laborers, focusing on:

- Training and raising the capability of the contingent of scientific and technical workers, agricultural extension officers and food production and trading managers at different levels; introducing national food security contents into schools.

- Intensifying the training of peasants in science and techniques as well as managerial knowledge by appropriate methods in order to raise food production efficiency and raise food producers' incomes so that by 2020, 50% of the food producers will be trained.

4. Policies towards peasants, localities and enterprises producing and trading in rice

a/ Encouraging peasants to keep rice land

To apply synchronous solutions to cutting production costs and raising incomes for rice producers, ensuring that rice producers will earn a profit of more than 30% over production costs.

The Ministry of Agriculture and Rural Development shall assume the prime responsibility for drafting a decree on rice land management and submitting it to the Government in the second quarter of 2010.

- To continue with policies of supporting peasants in building terrace fields in mountainous regions.

b/ Encouraging localities to keep rice land

The Ministry of Finance shall assume the prime responsibility for and co-ordinate with concerned ministries and branches and provincial-level People's Committees in studying the revision of the State Budget Law towards increasing the development investment in agriculture and rural areas; regulating state budget allocations to ensure the interests between localities with industrial development conditions and purely agricultural localities, particularly those specialized in rice farming.

c/ Encouraging enterprises to sell rice

The Ministry of Agriculture and Rural Development shall assume the prime responsibility for, and co-ordinate with concerned ministries and branches and provincial-level People's Committees in directing investors to expeditiously implement investment projects to construct rice storehouses so that by 2012 the investment construction of warehouses for storage of 4 million tons of rice must be completed under planning. The mechanisms and policies to support the construction of warehouses comply with the Government's Resolution No. 48/NQ-CP of September 23. 2009. on mechanisms and policies to reduce post-harvest losses of agricultural and aquatic products.

The Ministry of Finance shall study and formulate mechanisms and policies to support enterprises in performing the rice sale tasks assigned by the State in case the rice prices drop to below production costs and submit them to the Prime Minister in the first quarter of 2010.

d/ Social policies on food security

The Ministry of Health and provincial-level People's Committees shall apply effective measures to control population growth under Viet Nam's Population Strategy.

To continue with policies of providing rice support for people in regions struck by food shortage and hunger due to natural disasters and epidemics.

The Ministry of Agriculture and Rural Development shall assume the prime responsibility for and co-ordinate with concerned ministries and branches in inspecting and assessing implementation results and proposing amendments and supplements to rice support policies applicable to ethnic minority people in mountainous regions where forests are planted in replacement of terrace rice fields and submit them to the Prime Minister for approval in the second quarter of 2010.

5. To consolidate the food circulation and export systems

To develop food circulation systems, creating conditions for every consumer to have convenient access to food in all circumstances.

The Ministry of Finance shall study and propose reasonable rice volumes for national reserve and for circulation reserve in case of natural disasters and for market stabilization, early finalize a scheme on agricultural insurance, immediately rice production insurance, and submit it to the Prime Minister for approval in the first quarter of 2010.

The Ministry of Industry and Trade shall assume the prime responsibility for formulating mechanisms to flexibly administer food and foodstuff export, aiming to raise the export competitiveness and efficiency and sell all agricultural products being food and foodstuffs; to well combine the circulation reserve and state reserve in order to meet the requirements of food and foodstuff relief in case of emergency.

State corporations shall play the leading role in consuming products for peasants, regulating and stabilizing the market and supplying essential goods to people in case of natural disasters.

6. To renovate production organization

To further consolidate organizational forms of food production towards alignment of peasant households to form co-operation organizations or co-operatives based on geographical areas or products; to facilitate the association of production with sale enterprises; to develop farm economy and food enterprises with peasants contributing their land use rights as shares for membership; to develop agricultural service-providing networks.

The Ministry of Agriculture and Rural Development shall soon finalize and submit to the Prime Minister a scheme on development of model of production alignment between peasant households and various economic sectors in rural areas (farms, co-operatives, enterprises, scientific institutions, traders and commodity-based associations), immediately to be implemented on a pilot basis in rice production.

7. To develop food security information systems

The Ministry of Agriculture and Rural Development shall co-ordinate with provincial-level People's Committees in:

- Consolidating and enhancing the systems of supervising and monitoring production development, forecasting food output of the whole country and each locality down to district level, and warning of adverse weather conditions affecting food security for taking effective response measures.

- Completing the domestic and international food market information and forecast systems.

- Building databases on national food security.

8. International co-operation

- To intensify international co-operation, especially in regional and global domains affecting national food security such as use of water sources, climate change, animal quarantine and hygiene; co-operation on human resource training and scientific as well as technological development and trade promotion.

- Viet Nam commits to making actively contributions to the target of ensuring world food security.

IV. ORGANIZATION OF IMPLEMENTATION

1. The Ministry of Home Affairs shall study and propose to the Government the establishment of the National Food Security Committee.

2. The Ministry of Agriculture and Rural Development shall co-ordinate with other ministries, branches and provincial-level People's Committees in organizing specific activities, guiding implementation plans, guiding the inspection and supervision of implementation, and periodically sending sum-up reports to the Prime Minister on national food security situation.

3. Ministries and branches shall, according to their functions and tasks, implement tasks in their respective domains which are related to food security under this Resolution.

4. Provincial-level People's Committees shall formulate and approve food production plans according to local branches; strictly manage the fund of agricultural production land, especially planned rice land; to well implement state policies and sale on food production and sale, supplement local policies and mechanisms to suit the practical conditions; and encourage production development to contribute to ensuring food security throughout the country in all circumstances.-

ON BEHALF OF THE GOVERNMENT
PRIME MINISTER
Nguyen Tan Dung

ANNEX 4: DECREE NO. 109/2010/ND-CP

THE GOVERNMENT -------	SOCIALIST REPUBLIC OF VIET NAM Independence - Freedom – Happiness ---------
No. 109/2010/ND-CP	*Hanoi, November 04, 2010*

DECREE

ON RICE EXPORT BUSINESS

THE GOVERNMENT

Pursuant to the December 25, 2001 Law on Organization of the Government;
Pursuant to the June 14, 2005 Commercial Law;
Pursuant to the November 29, 2005 Enterprise Law;
At the proposal of the Minister of Industry and Trade.

DECREES:

CHAPTER I

GENERAL PROVISIONS

Article 1. Scope of regulation

1. This Decree provides the commercial export of paddies and rice of all categories (below collectively referred to as rice).

2. This Decree does not govern the import, temporary import for re-export, temporary export for re-import, border-gate transfer and transit of rice and subcontract production of rice for foreign parties and non-commercial export, donation and giving as a gift of rice.

Article 2. Subjects of application

This Decree applies to traders defined in the Commercial Law: agencies and organizations in charge of rice export management and administration and other concerned organizations and individuals.

Article 3. Right to rice export business

1. Vietnamese traders of all economic sectors that fully satisfy the conditions specified in Article 4 of this Decree and obtain a certificate of eligibility for rice export business (below referred to as certificate) may conduct rice export business under this Decree and relevant laws.

2. Traders being foreign-invested enterprises shall conduct rice export business under this Decree; relevant laws of Viet Nam and commitments of the Socialist Republic of Viet Nam under treaties to which the Socialist Republic of Viet Nam is a contracting party.

CHAPTER II

RICE EXPORT BUSINESS CONDITIONS AND CERTIFICATES

Article 4. Rice export business conditions

1. To export rice, a trader must fully satisfy the following conditions:

a/ Being established and registering business under law.

b/ Having at least 1 (one) warehouse which can store at least 5,000 (five thousand) tons of paddies and meets general regulations promulgated by the Ministry of Agriculture and Rural Development.

c/ Having at least 1 (one) rice mill with an hourly capacity of at least 10 tons of paddies which meets general regulations promulgated by the Ministry of Agriculture and Rural Development.

2. The rice warehouse and mill mentioned in this Article must be owned by the trader and located in a province or centrally run city which has export commodity rice or an international seaport with rice export activities at the time the trader applies for a certificate.

Article 5. Inspection and certification of rice warehouses and mills

Within 10 (ten) working days after receiving a trader's written request and related documents, provincial-level Industry and Trade Departments shall assume the prime responsibility for, and co-ordinate with provincial-level Agriculture and Rural Development Departments in, inspecting and certifying rice warehouses and mills in localities according to the forms provided in Appendices TV and V to this Decree.

Article 6. Grant of certificates

1. The Ministry of Industry and Trade shall grant certificates to traders under Article 4 of this Decree.

2. A certificate application dossier comprises:

a/ An application made according to the form provided in Appendix I to this Decree.

b/ A valid copy of the business registration certificate or enterprise registration certificate or investment certificate.

c/ The original statement of rice warehouses and the original statement of mills made according to the forms provided in Appendices IV and V to this Decree, which are certified by a provincial-level Industry and Trade Department under this Decree.

3. Within 15 (fifteen) working days after receiving a complete and valid dossier, the Ministry of Industry and Trade shall consider the dossier and grant a certificate according to the form provided in Appendix II to this Decree.

In case of refusal, the Ministry of Industry and Trade shall issue a written reply clearly stating the reason.

4. A certificate is valid for 5 (five) years from the date of its grant. When a certificate expires a trader shall apply for a new certificate to continue rice export business.

5. A new certificate in replacement of a to-be-expired one shall be granted as follows:

a/ At least 30 (thirty) days before a certificate expires, a trader shall submit a dossier of application for a new certificate to the Ministry of Industry and Trade. A dossier comprises:

- The papers specified in Clause 2 of this Article.

- The original certificate. When the original certificate is lost, damaged or destroyed, the trader shall make a written explanation clearly stating the reason.

- A report on rice export business made according to the form provided in Appendix VI to this Decree.

b/ The time limit for consideration and grant of a new certificate complies with Clause 3 of this Article,

Article 7. Re-grant and modification of certificates

1. The Ministry of Industry and Trade shall consider and re-grant or modify a certificate when:

a/ There is a change in the certificate's contents.

b/ The certificate is lost, damaged or destroyed.

2. A dossier of application for re-grant or modification of a certificate comprises:

a/ An application made according to the form provided in Appendix III to this Decree.

b/ The original certificate. When the original certificate is lost, damaged or destroyed, the trader shall make a written explanation clearly stating the reason.

c/ Documents related to changes in the certificate's contents, for the case defined at Point a. Clause 1 of this Article.

3. The time limit for consideration and re-grant or modification of a certificate is 15 (fifteen) working days after receiving a complete and valid dossier. In case of refusal, the Ministry of Industry and Trade shall issue a written reply clearly stating the reason.

4. The validity of a re-granted or modified certificate under Clause 1 of this Article is the same as that of the previously granted certificate.

Article 8. Revocation of certificates

1. The Ministry of Industry and Trade shall consider and revoke a certificate when:

a/ The trader possessing the certificate requests such revocation.

b/ The trader is dissolved or bankrupt under law.

c/ The trader has its business registration certificate or enterprise registration certificate or investment certificate revoked.

d/ The trader fails to export rice for 12 (twelve) consecutive months, unless the trader has announced business suspension under law.

e/ The trader fails to maintain the business conditions specified at Points b and c. Clause 1, Article 4 of this Decree during its business operation.

f/ The trader commits any of the violations specified in Clauses 1 thru 5, Article 26 of this Decree.

g/ The trader commits recidivism under Point c. Clause 3, Article 27 of this Decree.

2. The Ministry of Industry and Trade may only consider and grant a new certificate to a violating trader that is handled under Point e. Clause 1 of this Article, past the following time limits:

a/ 12 (twelve) months after the issuance of the certificate revocation decision, for a trader committing a violation for the first time.

b/ 36 (thirty six) months after the issuance of the certificate revocation decision, for a trader committing a violation for the second time onward or committing 2 (two) or more violations for the first time.

3. The grant of new certificates to traders subject to certificate revocation complies with Article 6 of this Decree.

The grant of a new certificate to a trader subject to certificate revocation under Point f. Clause 1 of this Article must comply with the time limits defined in Clause 2 of this Article.

4. In addition to cases subject to certificate revocation under this Decree, rice exporters may-have their certificates revoked under other legal documents promulgated by competent state agencies.

Article 9. Fees for grant, re-grant and modification of certificates

Applicants for grant, re-grant and modification of certificates are not required to pay any fees.

CHAPTER III

RICE EXPORT ADMINISTRATION

Article 10. Objectives and principles of rice export administration

The administration of rice export must adhere to the following objectives and principles:

1. Increase of commodity rice sale and assurance of interests of rice growers under current policy.

2. Balance of export and domestic consumption; contribution to the valorization of domestic rice prices.

3. Fulfillment of international commitments; assurance of efficient export.

Article 11. Balance of commodity rice sources for export

1. Annually, the Ministry of Agriculture and Rural Development shall assume the prime responsibility for. and co-ordinate with provincial-level People's Committees in. balancing domestic needs for rice and announcing in the fourth quarter commodity rice sources for export in the subsequent planning year; and update and notify the Ministry of Industry and Trade and the Viet Nam Food Association of crop-based production, output and categories of rice in the year.

2. Rice export shall be administered based on commodity rice sources planned for annual export under Clause 1 of this Article.

Article 12. Circulation reserves

Rice exporters shall regularly maintain a circulation reserve equal to at least 1096 (ten percent) of their rice exports of the previous 6 (six) months.

Article 13. Procurement of commodity rice for export

1. Rice exporters shall notify their rice procurement points to provincial-level People's Committees and make public these points; and post up buying prices based on commodity rice quality and categories to facilitate farmers' direct sale.

2. For procurement of commodity rice from other traders or processors, those traders and processors shall associate and organize themselves into a stable system for compliance with Clause 1 of this Article.

3. Traders are encouraged to procure commodity rice under contracts signed with producers according to current state policy on procurement of commodity farm produce under contracts.

4. Traders procuring commodity rice under this Article may take export credit loans under current regulations.

Article 14. Regulation of prices of commodity rice for export

1. Principles of regulation

To regulate market prices of commodity rice for export based on the average directed price of paddy for each crop, which is determined and announced under this Article to guarantee profits for rice growers under current policy (below referred to as directed paddy price).

2. Determination and announcement of the directed paddy price

a/ The Ministry of Finance shall assume the prime responsibility for, and co-ordinate with the Ministry of Agriculture and Rural Development in, promulgating regulations on and guiding methods to survey and determine the production cost and calculate the cost price of commodity paddy as the basis for provincial-level People's Committees to determine and announce the estimated average cost price of paddy in their provinces or cities from the beginning of each crop in the year.

Based on the estimated average cost price for each crop announced by provincial-level People's Committees, the Ministry of Finance shall assume the prime responsibility for. and co-ordinate with the Ministry of Agriculture and Rural Development in, examining, reviewing and determining the average cost price of paddy for each crop in the entire production sector.

b/ Based on the average cost price estimated for each crop, the Ministry of Finance shall determine and announce the directed paddy price at the beginning of a crop as the basis for regulating market prices of commodity rice to guarantee the average profit for rice growers under current policy.

3. Regulation mechanism

a/ When the market price of commodity rice is equal to or higher than the directed price of rice, the State makes no interventions.

b/ When the market price of commodity rice is lower than the directed paddy price, the Ministry of Agriculture and Rural Development shall assume the prime responsibility for and co-ordinate with the Ministry of Finance, the Ministry of Industry and Trade, the Stale Bank of Viet Nam and the Viet Nam Food Association in, proposing the Prime Minister to consider and take specific measures to keep the market price of commodity rice not lower than the directed paddy price while ensuring efficient rice export.

Article 15. Valorization of domestic rice prices

1. Provincial-level People's Committees shall assume the prime responsibility for and co-ordinate with the Ministry of Industry and Trade and the Ministry of Agriculture and Rural Development in directing rice exporters in their localities in organizing rice procurement and distribution networks to stabilize the domestic market; and inspect the procurement of commodity rice under this Decree.

2. When the domestic rice price is higher than the limit currently prescribed by law the Ministry of Industry and Trade shall assume the prime responsibility for, and co-ordinate with provincial-level People's Committees and the Viet Nam Food Association in, pursuant to the current law on rice price valorization and the Prime Minister's direction, guiding rice exporters in promptly supplying their rice circulation reserves for the domestic market.

3. Rice exporters shall participate in price valorization and may have arising expenses offset under competent state agencies' guidance.

4. Measures to valorize rice prices shall be announced and applied under current law.

Article 16. Performance of contracts on centralized rice export

1. A contract on centralized rice export is the one signed under agreement between a competent agency of the Vietnamese government and a foreign government or foreign territory, or the one signed under the Prime Minister's direction.

2. The Ministry of Industry and Trade shall assume the prime responsibility for, and co-ordinate with the Ministry of Finance, the Ministry of Agriculture and Rural Development and the Viet Nam Food Association in, elaborating mechanisms and criteria for designation of traders to sign and perform centralized contracts, and direct the performance of these contracts.

3. A trader signing and performing a centralized contract shall directly export 20% (twenty percent) of the rice volume staled in the contract.

Based on the criteria specified in Clause 4 of this Article and the Ministry of Industry and Trade's regulations, the Viet Nam Food Association shall allocate the remaining 80% (eighty percent) of the rice volume stated in the contract to other traders for entrusted export.

4. Rice export volume under a centralized contract shall be allocated to traders for entrusted export based on the following criteria:

a/ Traders' direct export performance in the previous 6 (six) months.

b/ Responsibilities for rice delivery under centralized contracts previously assigned to traders.

c/ Traders' available volume of rice.

d/ Traders' rice procurement performance as directed by competent agencies and organizations.

5. Pursuant to this Decree, the Ministry of Industry and Trade shall promulgate regulations guiding contracts on centralized rice export and handle violations related to the negotiation, signing and performance of contracts on rice export to markets with centralized contracts.

Article 17. Registration of rice export contracts

1. Pursuant to this Decree, the Ministry of Industry and Trade shall promulgate regulations on registration of rice export contracts for the Viet Nam Food Association to register rice export contracts.

2. Within 3 (three) working days after a rice export contract is signed, a trader shall submit a dossier under the Ministry of Industry and Trade's regulations to the Viet Nam Food Association for registration of such contract. In case of having plausible reasons, this time limit may be extended for not more than 10 (ten) working days.

3. A trader is liable for the accuracy of the registered contract's information: may only deliver goods after the contract is registered under regulations; and shall produce the registered export contract to a customs office when clearing export procedures.

4. Within 2 (two) working days after receiving a trader's valid registration dossier, the Viet Nam Food Association shall register the trader's contract under the Ministry of Industry and Trade's regulations if the trader fully satisfies the criteria specified in Clause 1, Article 18 of this Decree.

In case of refusal, within 2 (two) working days after receiving a trader's registration dossier, the Viet Nam Food Association shall issue a written reply clearly stating the reason.

Article 18. Criteria for registration of rice export contracts

1. A trader with a certificate may register a rice export contract when fully satisfying the following criteria:

a/ The export price under the contract is not lower than the floor export rice price announced under Article 19 of this Decree.

b/ The trader has an available rice volume equal to at least 50% (fifty percent) of the export volume under the registered contract, excluding the regular rice reserve for circulation under Article 12 of this Decree.

c/ The trader complies with regulations on centralized rice export contracts promulgated by the Ministry of Industry and Trade in pursuance to this Decree.

2. Contract registration priority is given to traders fully satisfying the criteria specified in Clause 1 of this Article that procure rice directly from rice producers under farm produce sale contracts according to current state policy.

Article 19. Floor export price of rice

1. The Ministry of Finance shall assume the prime responsibility for and co-ordinate with the Ministry of Industry and Trade, the Ministry of Agriculture and Rural Development, provincial-level People's Committees with high commodity rice output and the Viet Nam Food Association in guiding methods to determine the floor export price of rice on the following principles:

a/ Conformity with domestic and world market developments.

b/ Conformity with the announced directed paddy price and domestic purchase price of commodity rice, and business costs and profits of rice exporters.

2. Based on the Ministry of Finance's guidance, the Viet Nam Food Association shall announce the floor export price of rice in each period as a basis for the signing and registration of export contracts.

3. The Ministry of Finance shall assume the prime responsibility for and co-ordinate with the Ministry of Industry and Trade in inspecting and supervising the Viet Nam Food Association in announcing the floor export price of rice under this Decree.

Article 20. Statistics and reporting tin export contract registration

1. The Viet Nam Food Association shall make statistics on and update rice volumes, value, categories, markets, customers, exporters, and number of contracts registered daily, and submit weekly, monthly, quarterly and annual or irregular reports upon request to the Ministry of Industry and Trade, the Ministry of Finance and the Ministry of Agriculture and Rural Development.

Periodical reports shall be also sent to provincial-level People's Committees of localities with commodity rice exports.

2. The Viet Nam Food Association shall promptly report abnormal developments in the registration of export contracts to concerned ministries and sectors for timely settlement.

Article 21. Rice export duties

Rice export duties shall be imposed under the tax law.

Article 22. Assurance of objectives and principles of rice export administration

To assure the objectives and principles of rice export administration and based on actual requirements for export administration, the Prime Minister shall consider and adjust rice export activities at the proposal of the Ministers of Industry and Trade; Agriculture and Rural Development; and Finance and the Viet Nam Food Association.

CHAPTER IV

RESPONSIBILITIES OF STATE AGENCIES AND CONCERNED ORGANIZATIONS AND INDIVIDUALS

Article 23. Responsibilities of ministries, sectors and provincial-level People's Committees

In addition to the responsibilities defined in this Decree and other current laws, the Ministries of Industry and Trade; Agriculture and Rural Development; and Finance, the State Bank of Viet Nam and provincial-level People's Committees of localities with commodity rice exports have the following responsibilities:

1. The Ministry of Industry and Trade

a/ To proactively seek and expand rice export markets under centralized contracts, negotiate with countries with import demands, and sign memoranda of understanding on rice export with other countries or territories.

b/ To inspect traders in meeting business conditions; to co-ordinate with competent agencies and organizations in inspecting, detecting and handling violations of regulations on rice export business: to settle complaints and denunciations and handle violations of regulations on rice export business according to its competence.

c/ To assume the prime responsibility for. and co-ordinate with concerned ministries and sectors. provincial-level People's Committees and the Viet Nam Food Association in, administering rice export on the principles laid down in this Decree.

2. The Ministry of Agriculture and Rural Development

a/ To uniformly direct localities in elaborating and implementing master plans on commodity rice zones; to guide farmers in intensively growing quality and high yield rice varieties; applying scientific and technological advances to rice production and processing; and improving the Vietnamese rice brand in the market.

b/ To assume the prime responsibility for and co-ordinate with provincial-level People's Committees and the Viet Nam Food Association in monitoring production and rice output to balance rice sources for export; to assume the prime responsibility for and co-ordinate with ministries, sectors, localities, the Viet Nam Food Association and state food corporations in, guaranteeing national food security, stabilizing the domestic market and meeting the objectives and principles office export administration under this Decree.

c/ To co-ordinate with provincial-level People's Committees of localities with commodity rice exports in directing the direct procurement of rice from producers undercurrent policy and this Decree.

d/ To plan on the system of rice warehouses and mills; to promulgate general regulations on rice warehouses and mills and guide their application nationwide from May 1, 2011.

3. The Ministry of Finance

a/ To promulgate according to its competence or propose the Government or the Prime Minister to promulgate policies and regulations on investment credit and export credit for traders building, expanding or modernizing rice warehouses and mills, and rice exporters.

b/ To assume the prime responsibility for and co-ordinate with concerned ministries, sectors and localities in taking rice price valorization measures under current law.

c/ To direct the General Department of Customs in reviewing and monthly reporting on rice export volumes, prices, markets and performance of each rice exporter to the Ministry of Finance, the Ministry of Industry and Trade, the Ministry of Agriculture and Rural Development, the Government Office and the Viet Nam Food Association.

4. The State Bank of Viet Nam

To direct commercial banks in proactively balancing and ensuring funds for borrowers to procure commodity rice under planning according to this Decree.

5. Provincial-level People's Committees of localities with commodity rice exports

a/ To elaborate and organize the implementation of master plans on paddy production development, ensuring the variety structure, to direct the provision of supplies and farming techniques and improvement of rice quality to meet market demands; to inspect rice production, circulation and sale in their localities: to manage and organize the implementation of master plans on rice warehouse and mill systems in their localities: to direct the procurement of rice directly from producers and under contracts signed with producers according to current state policy.

b/ To report regularly or upon request by the Prime Minister or concerned ministries and sectors on commodity rice yield, categories and inventories and expected rice productivity and yield in their localities for rice export administration.

c/ To direct provincial-level Departments of Finance; Agriculture and Rural Development; and Industry and Trade in conducting surveys on production cost and cost price of paddy of each crop in their localities under this Decree and the Ministry of Finance's specific guidance; to direct, inspect and supervise rice exporters in their localities in observing regulations and the direction of competent agencies and organizations under this Decree.

d/ To mobilize local organizations and people to produce rice under planning and general orientations of the State to develop production and raise the efficiency of rice production, trading and export.

Article 24. Responsibilities of the Viet Nam Food Association

In addition to its functions and tasks under current law, the Viet Nam Food Association has the following specific responsibilities:

1. To co-ordinate with provincial-level People's Committees in directing and guiding rice exporters in procuring rice under contracts signed with producers according to current stale policy.

2. To co-ordinate with competent agencies in inspecting and detecting violations of regulations on rice export business and propose competent agencies to handle these violations.

3. To co-ordinate with ministries, sectors and localities in directing and guiding traders in procuring commodity rice to maintain compulsory circulation reserves for market stabilization under this Decree.

4. To set up and maintain the operation of a website on rice supply and demand in domestic and overseas markets, importers, prices and commercial forecast of rice, and information on rice export and sale.

5. To proactively seek and expand rice export markets; to guide its members in proactively seeking, negotiating and signing export contracts to increase rice export efficiency.

6. To submit weekly, monthly and quarterly reports on purchase rice prices; export rice prices; and rice circulation reserves of rice exporters to the Ministry of Finance, the Ministry of Industry and Trade, the Ministry of Agriculture and Rural Development, the Government Office and People's Committees of Mekong River delta provinces and centrally run cities.

7. To promptly report to concerned ministries and sectors on arising problems according to its assigned functions and tasks and propose handling measures.

Article 25. Reporting responsibilities of traders

Rice exporters shall comply with reporting regulations as follows:

1. Reporting on rice procurement, purchase prices, temporary storage and reserve and signing and performance of rice export contracts quarterly, annually and at the request of the Ministry of Industry and Trade, the Ministry of Finance, the Ministry of Agriculture and Rural Development, the Viet Nam Food Association or provincial-level People's Committees and Industry and Trade Departments of localities in which they are headquartered and their rice warehouses and mills are based. Periodical reports shall be made according to the form provided in Appendix VI to this Decree.

2. Promptly reporting in writing to the Ministry of Industry and Trade and provincial-level Industry and Trade Departments when failing to satisfy the conditions on rice warehouses and mills specified in Article 4 of this Decree or no longer having certificates due to loss, damage or destruction, clearly stating the reason.

CHAPTER V

VIOLATIONS AND THEIR HANDLING

Article 26. Violations in rice export business

1. Untruthfully declaring rice warehouses and mills or committing other frauds to obtain a certificate.

2. Forging, erasing or modifying a certificate.

3. Failing to comply or improperly complying with the direction and administration of competent agencies and organizations under Article 15 of this Decree.

4. Speculating rice to manipulate the market, causing rice price fluctuations in the market; forcing growers to sell rice at low prices or committing other acts in the course of rice export causing damage to rice growers.

5. Failing to maintain rice reserves for circulation under Article 12 of this Decree.

6. Fraudulently declaring export prices or available rice volumes or committing other frauds to be eligible for rice export contract registration: failing to register rice export contracts under regulations.

7. Forging documents or committing other frauds to receive priority in export contract registration and assignment to perform centralized contracts.

8. Bidding or making transactions for contracts on rice export directly or indirectly to markets with centralized rice export contracts in violation of regulations and the direction of competent state agencies.

9. Untruthfully reporting or failing to report under Article 25 of this Decree.

Article 27. Handling of violations in rice export business

1. Violators of regulations on rice export business under this Decree shall, depending on the nature and severity of their violations, be disciplined, administratively sanctioned or examined for penal liability, and pay compensation under law if causing damage.

2. In addition to being handled under law, rice exporters violating this Decree shall be handled under Clauses 3 and 4 of this Article or have their certificates revoked under Article 8 of this Decree.

3. Traders committing any of the violations defined in Clauses 6 thru 9, Article 26 of this Decree shall be suspended from rice export contract registration as follows:

a/ Traders that commit violations for the first time shall be suspended from rice export contract registration for 3 (three) months.

b/ Within 12 (twelve) months after being suspended from export contract registration for 3 (three) months, traders that commit recidivism shall be suspended from rice export contract registration for 6 (six) months, not to mention the time of previous suspension from export contract registration.

c/ Within 12 (twelve) months after being suspended from export contract registration for 6 (six) months, traders that commit recidivism shall have their certificates revoked by the Ministry of Industry and Trade.

4. The Ministry of Industry and Trade shall consider and apply measures to handle violators of this Decree under this Decree and relevant laws at the written proposal of provincial-level People's Committees and Industry or Trade Departments, the Viet Nam Food Association or other agencies or organizations.

CHAPTER VI

IMPLEMENTATION PROVISIONS

Article 28. Transitional provisions

1. Within 9 (nine) months after the effective date of this Decree, traders without a certificate may continue their rice export business.

From October 1, 2011, traders without a certificate may not conduct rice export business.

2. Foreign-invested traders engaged in rice production and export before the effective date of this Decree may further operate under their licenses.

3. Within 1 (one) year after the expiration of the transitional period specified in Clause 1 of this Article, traders may hire rice warehouses and mills meeting the business conditions specified at Points b and c. Clause 1, and Clause 2, Article 4 of this Decree:

The Ministry of Industry and Trade shall assume the prime responsibility for. and co-ordinate with the Ministry of Agriculture and Rural Development in, specifically guiding the hiring of rice warehouses and mills.

Article 29. Effect

1. This Decree takes effect on January 1, 2011.

2. To annul Clause 1, Article 10 of the Government's Decree No. 12/2006/ND-CP of January 23. 2006. detailing the Commercial Law regarding international goods trading and goods agency, trading, subcontract production and transit with foreign parties, and previous guiding documents which are contrary to this Decree.

Article 30. Organization of implementation and implementation responsibilities

1. Based on specific responsibilities assigned to them under this Decree and other relevant laws, the Ministry of Industry and Trade, the Ministry of Finance, the Ministry of Agriculture and Rural Development and the State Bank of Viet Nam shall guide the implementation of this Decree.

2. Ministers, heads of ministerial-level agencies, heads of government-attached agencies, chairpersons of provincial-level People's Committees and the chairperson of the Viet Nam Food Association shall implement this Decree.-

ON BEHALF OF THE GOVERNMENT
PRIME MINISTER
Nguyen Tan Dung

Notes: All the appendices mentioned in this Decree are not printed herein.

OXFAM

GROW

FOOD. LIFE. PLANET.

Ipsard

Quynh Mai/Oxfam

LUCK HOUSE
GRAPHICS

06 - 230
24 - 09

Print 300 units Vietnamese and 50 units English, dimension (cm): 21 x 29,7
at L.U.C.K H.O.U.S.E GRAPHICS LTD
Registration publishing plan number: 1363-2013/CXB/06-230/LĐXH
Publishing permit number: 654/QĐ-NXBLĐXH
ISBN: 978-604-65-0821-2