RICE EXPORTATION FUND: A MEASURE TO STABILIZE RICE PRICE

by MECon. NGUYỄN VĂN THỌ

Rice is the main food for Vietnamese people, the main product of farmers and one of Vietnam's staples for export, so production, distribution and exportation of rice is always a cause of anxiety to farmers, the Government and many companies.

Vietnam is building the market economy under the control of the Government, the rice price couldn't be fixed authoritatively by the Government any more but it is affected by the supply and demand relation and value law, however, it's necessary to prevent fluctuation of price from producing bad effects on the economic growth and cost of living. Statistics show that in 1989 the market price of rice was equal, or even lower than the production cost:

Locality	Production cost (VNĐ/Kg)	Market price
North Vietnam	270 - 300	270 - 280
Central Vietnam	260 - 300	200 - 260
South Vietnam	200 - 250	240 - 250

The rise in rice price in 1990, 1994 and 1995; and its fall in 1996 and 1997 have put a lot of farmers, food companies and the economy as a whole at a disadvantage. This situation requires the Government to take measures to intervene in the market to keep the rice price stable and interests of producers, distributors and consumers in harmony.

Instructions given by the central government, in the Decision 140/TTg "On policies and measures to regulate food and fertilizer trade" issued on March 7, 1997; the Decision 141/TTg "On the control of rice exportation and fertilizer importation in 1997" issued on March 8,1997; and in the Official Statement 33/TB "On the building of urgent public works in the Mekong Delta, purchase of winter - spring crops and exportation of rice in 1997" issued on March 28, 1997, all required that "The Minister of Finance must coopperate with the Ministry of Agriculture and Rural Development and the Governmental Price Committee to form a Rice Exportation Fund (REF) pooled by profit-making food exporters and the Treasury. This Fund is used for giving financial support to rice producers and distributors during depression periods" and "to form REF to supply soft loans needed for storing rice for export. This Fund is also pooled mainly by exporters and partly by subsidies from the Treasury".

1. Problems for rice producers and distributors

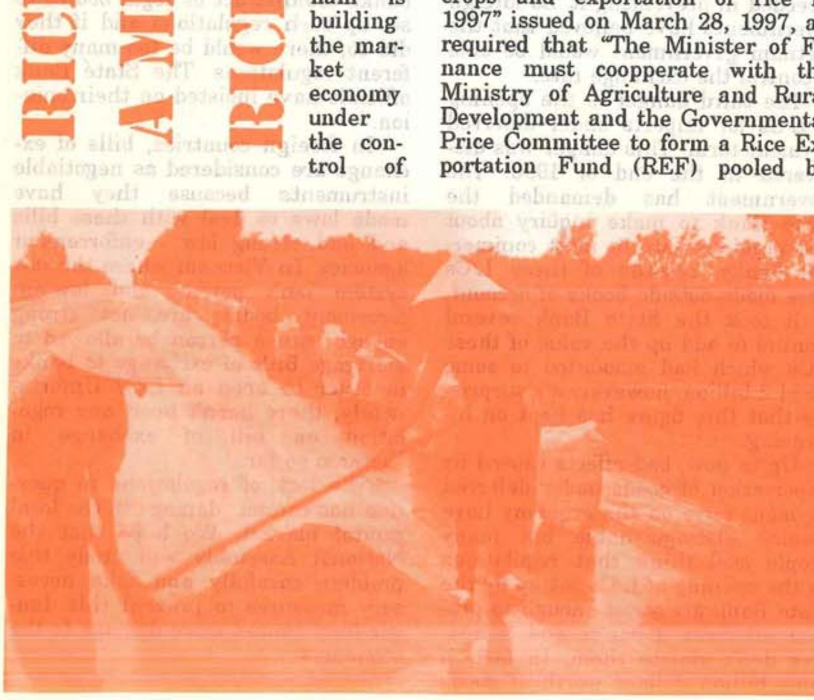
In Vietnam, rice is a staple diet produced by millions of farmers. Under influence of many factors (population distribution, climatic conditions, local farming habits, difficulties in increasing rice growing areas, etc.), the supply of rice always varies with the seasons and localities but the demand for it in both domestic and foreign markets is almost stable. This imbalance between supply and demand has made things difficult for farmers because they have to sell their products after harvesting in order to cover their necessaries of life and next crops whether the market price is high or low with the result that the price tends to fall drastically after the harvest time, sometimes it is lower than the production cost. When the rice insn't in season, usually before the harvest time, the price tends to increase but farmers can't supply more to make some profit. In short, the rice supply in Vietnam is usually price - inelastic.

As for consumers, because rice is their staple diet, they always buy a fixed amount of rice, that is, their demand for rice is also price - inelastic.

In the healthy competition of the rice market, a farmer can only supply a small amount of rice, they can't influence buyers to compete with each other in forcing up price. The presence or absence of a farmer in the market makes no difference to the price. Farmers have to accept the market price however it is and they have no chance to select the buyer. In short, they are in a buyer's market.

2. Interventionist measures to stabilize the rice price

As was stated above, the market price of rice in Vietnam is determined by the relation between supply and demand. A shift in the demand or supply curve can make the price increase or decrease. This



characteristic produces a two sided effect on rice production, distribution and consumption.

A high price could encourage farmers to reclaim more area, make bigger investment, apply new techniques in order to increase rice supply, but they could face the danger of a fall in rice price when the supply exceeds the demand.

A low price, on the other hand, will discourage rice farming, farmer will make some profit because the rice price will rise and put rice consumers to a bigger expense.

This two - sided effect caused by the rice price has made agricultural production and the whole economy unstable. Individual efforts made by rice producers and distributors can't make the market mechanism controllable, so there must be government intervention. The formation of a REF is one of measures to regulate the interaction of supply and demend forces and keep the rice price from falling or rising too much.

The REF is in fact a sum of money coming from different sources: the Treasury, profit - making food exporters, foreign aid, external debts, the banking system, surtax on rice exportation, supernormal profit earned by companies enjoying a position of monopoly, etc. It is used for providing assistance to rice producers and exporters in difficult situation and aims at:

-buying up commercial rice supplied by farmers in harvest in order to keep price stable as directed by the Government.

- keeping the rice price at a reasonable level in order to ensure interests of rice producers and consumers.

- reducing super profit earned by food traders if there are fluctutions price in domestic or international markets.

- stabilizing the rice price with a view to ensuring socio - economic stability.

3. Necessity to form the REF

In many countries, a fund of this kind is also established. In certain developed countries (the US, Japan, EU members, etc.), about 2% of total budget income is put in this fund. In Thailand, payments for a surtax on certain exports (oil for example) are put in the fund in order to encourage exportation of other products or give subsidies to agriculture.

The rice price in the world market sometimes increases and when the Government exports rice in order to repay external debts, the rice price in the home market also rises. On the other hand, when the price in the world market falls or in harvest time, the price in home market will fall, food companies tend to stop buying rice causing difficulties for farmers.

The market for Vietnam's rice is limited, the best part of our exported rice comes to intermediaries who are usually Asian countries, and as we know, rice is reaped almost in the same month in Vietnam and these countries so the price usually falls sharply during this period. After June every year, the rice price in the world market starts to rise before Vietnam farmers can harvest their crops, so the price in home market also rises.

A short time after harvest, the rice supply increases strongly while food exporters can't buy up the amount of rice supplied because most of them lack capital, warehouses and a network of purchasing agencies within easy reach of farmers.

These facts show that it's necessary to form a REF for the interests of producers, distributors and exporters.

4. Formation and use of REF

At present when Vietnam's budget income is limited so it's difficult to form this fund depending on grants-in aid. So this fund could be formed by:

- An initial subsidy from the Government.

- A part of super-profit earned when the price in the world market rises suddenly or rice is exported athigh price to creditor countries as payments in kind for debts.

- A part of profit earned by food export companies before they pay company income tax.

- Certain fees and income proposed by the PM.

This fund could be used for:

- Supplying soft loans in order to help food companies store rice before exportation, thereby keeping supply and demand in equilibrium during harvest time.

- Supplying soft loans to farmers in order to help them store rice when the price is falling.

- Giving subsidies to suppliers of agricultural materials in order to force down prices of these products.

- Covering transportation cost for rice and fertilizer supplied to remote areas, mountainous regions and islands with a view to helping these zones develop.

- Giving subsidies to exporters if the price in the world market is lower than the buying price they offered to farmers.

Thus, this fund will help rice producers and exporters deal with unfavorable fluctuations of rice price, and moreover, keep the rice price stable. As for food export companies, they had better gather information needed for their businesses and make plans to purchase and store rice waiting for exportation. Good mangement is one of preconditions for them to receive support from the REF.

The formation and use of the REF is a matter of urgency. It needs to be studied carefully and realized as soon as possible, especially in this period when there are always changes in the rice market. This fund could be formed in a pilot scheme before it is officially established■