

Quotas on Rice Export and Food Safety for Vietnam

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Rice is one of Vietnam's staple exports but to ensure the supply of rice is one of priorities set forth by the governmental policies. To meet both objectives is always a problem to the Government and companies as well.

Regarding relative benefits, policies to ensure the food safety are always more effective than the policy to ensure the subsistence agriculture. This is feasible when the free trade between countries is ensured. Unfortunately, no governments today agree on trade barriers. In such a condition, it's hard to achieve benefits from the food safety policy. I want to note that I refer to the food self-sufficiency instead of the food safety, because the food safety is associated with the free trade. When a government uses trade barriers to ensure the self-sufficiency in food, it isn't pursuing the national food safety.

Vietnam has experienced shortage of food and it knew the price of the situation. Moreover, when it became the world's second largest exporter of rice, its food safety was not well secured. And as a result, Vietnam still pursues the policy to ensure the self-sufficiency in food although it has no economic efficiency, because it feels it couldn't rely on market forces, and food import or foreign aid.

These analyses help explain why Vietnam needs the self-sufficiency in food and poses quotas on rice export. Many governments

usually use the export quota to protect the natural resources and ensure the self-sufficiency in food. The problem is why the Vietnamese government stopped applying the export quota. Does this policy imply limitations? The following are reasons for the current policy.

Firstly, the export quotas, like export duties, cause damage to net social benefits and productivity.

Secondly, the distribution of quotas usually took place among state-owned companies. From 1998 on, a limited number of private companies were given some quotas. For example, in 1999, of 41 companies provided with quotas, 33 were state-owned ones and they accounted for over 80% of the rice export in the first half of the year. This situation prevented the government from developing a level playing ground for all sectors.

Thirdly, the way of distributing the export quotas usually led to waste of resources because of lobbying and corruption, which prevented exporters with good

performance and financial strength from securing necessary quotas. This situation led to the trade of quotas among companies, more corruption, smuggling activities, increases in the selling price and decreases in the competitiveness.

Fourthly, the control over export using the quotas caused difficulties for

rice exporters making their business riskier with the result that rice exporters couldn't work out effective business strategies.

Fifthly, the use of quotas to control the rice export also led to many other disadvantages. For example, it's hard to estimate exactly the supply of rice every year to set the right



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quota on the export volume. This situation could lead to falls in the market price causing damage for rice producers. A study by the International Institute of Food Policy in 1996 estimated that the removal of quotas on the rice export could make the national income rise by US\$225 million along with improvements in the personal income in rural areas. When the total quota is lower than the rice surplus and the international market demand rises, the smuggling of rice will increase threatening the food safety of the country. This situation happened in 1995 when rice was smuggled to Indonesia in large quantities.

Sixthly, the method of granting quotas not only prevents export companies from doing their business on time but also threatens the national food safety. In some years, the Government distributed the quotas on a quarterly or monthly basis, which made exporters meet with difficulties in exchanging contracts with foreign buyers and purchasing rice from local producers. In 1997 and 1998, the Gov-

ernment distributed the quota for the whole year. This practice helped exporters a lot but the Government had to face difficulties when the world demand for rice rose and companies had used up their quotas. In these years, the increases in the world demand made the rice price on the domestic market rise threatening the self-sufficiency in food. The Government had to beef up the control over the rice export with the result that many exporters couldn't ensure timely delivery. In 1998, moreover, the rice price on the world market rose remarkably, rice exporters used up their quotas in the first half of the year. In the second half, the price kept rising but they had no rice to export missing a chance to enjoy the optimal price on the world market.

To deal with the disadvantages, the Government introduced the "oriented plan on the rice export" in the years 1994 and 1995, but this policy, in fact, wasn't different from the quota policy and caused more difficulties. From 1996 to May 2001, the quota policy was applied

again. After May 2001, this policy was removed. But the new policy couldn't help the Government ensure the self-sufficiency in food and exporters do well their business. In 2004 for example, Phạm Văn Đước, Director of Docimex Đồng Tháp said that the rice export was carried out well when the Ministry of Trade reduced the volume of rice export to 3.5 million tons, which made us meet with a lot of difficulties in re-negotiating with our customers.

The self-sufficiency in food is an important matter but to ensure the trust from customer is no less crucial if Vietnamese exporters want to be reliable suppliers on the world market.

The above-mentioned analyses show that disadvantages of the quota system sometimes come from the way the Government employs it. In addition, these disadvantages could be overcome. In my opinion, the Government had better employ both the quota system and export duties on the rice export according to the following practices.

- The Government could predict the minimum volume of rice export based on information about the world market demand and the possible rice output.

- The total quota on the rice export could be publicized at the beginning of the year based on the minimum volume of rice export.

- The rice export under the quota will be free from export duties while the volume beyond the quota is taxed.

- Minimum and maximum duty rates on rice export beyond the quota should be publicized. The VAT could be applied if necessary.

- Quotas could be put in auction or traded among exporters in order to ensure a level playing field for everybody.

These practices bring about the following benefits:

- + Exporters could work out their business plans easier while the Government could deal with the rice surplus.

- + Exporters could decide to export more rice if they know it is still profitable after paying the export duty for the volume beyond the quota. The export duty could help the Government maintain the food safety to a higher extent.

- + Such a flexible policy could encourage more companies to engage in the export business.

- + The auction of quotas helps deal with corruption originating from the quota system, increases the budget income, and ensures enough quotas for exporters with good performance.

However, these practices are only feasible and effective when necessary information is gathered and publicized on time, and all policies and systems must be made transparent. ■

