



MEASURES TO INCREASE PRICES OF EXPORT RICE

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Since 1989 when the export of rice was promoted strongly, many achievements have been obtained. In the years 1989-1996, Vietnam exported some 14.5 million tonnes of rice and earned US\$3.4 billion (see Table 1).

Table: Vietnam's export of rice (1989-1996)

Year	Quantity (1,000 tonnes)	Unit price (US\$/tonne)	Export earnings (mil.US\$)
1989	1,372	226.2	310.3
1990	1,478	186.3	275.4
1991	1,017	226.1	229.9
1992	1,954	207.3	405.1
1993	1,649	203.2	335.0
1994	1,962	214.5	420.9
1995	2,052	262.6	538.8
1996	3,048	284.9	868.4

Source: The annual report of the Association of Vietnam Food Export-Import Companies.

The Table 1 shows that the growth rate of the export of rice in recent years was rather high (the quantity exported increased by 12% and rice export earnings by 15.8% annually). Particularly, the quantity of exported rice in 1986 increased strongly in comparison with 1995, from 2,052,000 to 3,048,000 tonnes (increasing by 148.7%) and it helped to raise Vietnam from the fourth place in the list of the world's biggest rice exporters in 1995 (after Thailand, India and the US, with a market share of 10%) to the third place from the top in 1996 (controlling 16% of the world market, after Thailand and India).

The export of rice has produced great effects on the socio-economic life in Vietnam and has helped to increase the foreign currency reserves needed for the first stage of the national industrialization: gross receipts from the export of rice represented 10-16% of the total export earnings; net income from the export of rice (after taking away expenses on imported goods, such as fertilizer, pesticide, fuel, machinery, etc.) equalled some 85% of the gross receipts. Thus, of the gross receipts of US\$3.4 billion received in the period from 1989 to 1996, the net income was US\$2.9 billion. Financial analyses also show that through exporting rice, the value of rice for export increased by 23% as compared with rice for domestic consumption. The added value represented about 18% of the gross receipts of exported rice, that is, around US\$610 million out of the total rice export earnings of 3.4 billion was the value added to the rice for export.

However, these achievements didn't come up to expectations because the price of Vietnam rice is much lower than the international average. So the problem is to answer the following questions: What is the difference between the price of Vietnam rice and the average price on the world market? Why is the price of Vietnam's rice so low? What must we do to raise the price of Vietnam's rice in the world market?

In 1996, the price of Vietnam's rice reached its peak: about US\$284.9 a tonne (FOB). This price increased by 126% in comparison with 1989 (that is, it increased by 3.4% a year). Comparing the prices of Vietnam's and Thailand's rice, we saw that the price of Vietnam's rice tended to catch up with the Thailand's price: for example, in 1994 the price of Vietnam's rice of 1st grade was 15% lower than Thailand's (US\$228 as compared with 270 a tonne) and this difference reduced to 11% in 1995 (US\$284 and 320 a tonne). However, of the quantity of rice exported by Vietnam, rice of medium and low grades represented a bigger percentage as compared with Thailand, therefore the average price of Vietnam's rice is always lower than that Thailand's (see Table 2).

Table 2: Comparison between Thailand's and Vietnam's rice prices

Year	Vietnam's rice (US\$/tonne) (1)	Thailand's rice (US\$/tonne) (2)	Ratio of (1) to (2)
1989	226.2	300.0	75.4%
1990	186.3	271.0	68.7%
1991	226.1	293.0	77.2%
1992	207.3	268.0	77.3%
1993	203.2	236.0	86.1%
1994	214.5	270.0	79.4%
1995	262.6	320.0	82.1%

In 1990, the average price of Vietnam's rice equalled 68.7% of that of Thailand's rice (or US\$84.7 lower for a tonne). In 1995 the difference reduced: US\$57.4 for a tonne, or 17.9% lower.

The price of rice for export is determined by many factors: quality and homogeneity of rice for export, opera-

tion of the machinery for purchasing and exporting rice, goodwill of rice traders and exporters, business risk in realizing sale contracts. Studying these factors, we could find out causes of the low price of Vietnam's rice and measures to solve this problem.

1. Quality and homogeneity of rice

Vietnam's rice for export doesn't reach high standards of quality and homogeneity because farmers paid too much attention to food output instead of rice quality: for example the rice strain IR 50404 which has become popular in the Mekong Delta is of high yield and resistant to pest, but the grain is fragile and opaque, so it's hard to make it the high-quality rice for export.

A lack of equipment used for reaping and processing rice makes farmers meet with difficulties in drying and storing rice, especially in rainy season, and makes the quality of rice poorer. In rice mills, a lack of modern machines and equipment also makes them unable to produce rice of better quality (such as rice of A and B grades with no broken grain). Moreover, the exporter buys rice from many suppliers and many rice mills, therefore it's difficult to ensure the homogeneity.

Solutions to this problem are: introducing new rice strains which are marketable in the world market and new farming techniques to Mekong Delta farmers with a view to forming zones specialized in producing rice for export; making investments in warehouses and drying machines; encouraging farmers to invest in huskers with a view to helping large rice mills concentrate on processing rice for export.

2. High handling expenses

There are only a few ports and warehouses for rice storing, the handling capacity of these ports is low (the Saigon Port can handle only 1,000 tonnes of rice a day whereas the Bangkok Port handles 2,000 tonnes). This situation causes handling expenses to rise.

In the coming years, it's necessary to invest in developing ports for rice exporting (Saigon and Cần Thơ Ports) with a view to helping them to receive high-tonnage ships and increasing the handling capacity of these ports to 2000 tonnes a day. This solution will help to reduce handling expenses and increase the profit margin by at least US\$2 per tonne.

3. Quality of services relating to the export of rice

These services (quality control, storage or spraying of pesticide) are of low quality and fail to meet required standards. Moreover, because of low shipping capacity, Vietnam export rice mainly at the FOB price which is less favorable than the CIF and CF prices. Therefore it's necessary to develop the national shipping and improve the ship's chandler services, especially insurance service, in order to help exporters to sell rice at CIF and CF prices, thereby increasing the price of Vietnam's rice (with an increase of US\$ 25-35 for a tonne).

4. Government intervention in rice exporting business

A lack of the government intervention in this business also causes the price of Vietnam's rice to fall. This situation leads to:

- Unfair competition between rice exporting companies: foreign buyers could profit from this competition in order to force the rice price to plummet down.

- Bad relations with foreign buyers: Vietnam exporters didn't have close relations with foreign buyers so they couldn't enter into long-term contracts and used to have to export through intermediaries (food companies from Europe, Singapore or Hong Kong re-exported Vietnam's rice to the South America or Africa).

To solve this problem, the Government has better punish companies for exporting at a knock-out price or

supplying rice of low quality, and help Vietnamese rice export companies to market Vietnam's rice in foreign countries with a view to entering into direct contracts with foreign buyers, thereby cutting out intermediaries. More importantly, the Government can enter into long-term contracts with foreign governments to supply rice at more favorable prices, or purchase rice for reserve when the rice price drops in order to save farmers from troubles and export it when the price rises.

If the price of Vietnam's rice makes a raise of US\$ 30-40 a tonne, the export earnings will make a raise of US\$ 120-40 million a year (Vietnam exports some 4 million tonnes of rice a year now). In the next ten years, it's planned that Vietnam would export some 6 million tonnes of rice a year, this business would bring in some US\$200 million more a year. This fact proves the great meaning and urgency of measures to increase the price of Vietnam's rice on the world market in the coming years■

