

TO PURCHASE RICE FROM FARMERS AT REASONABLE PRICES

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According to the Ministry of Agriculture and Rural Development, the Mekong Delta in winter-spring and summer-fall crops would supply some 8.3 million tonnes of commercial rice. Thus, from now until September, state-run food companies should purchase around 6 million tonnes of rice (or 70% of commercial rice output) for export and domestic consumption.

In the winter-spring crop, the rice growing area in the Delta increases to 1.25 million hectares and 2/3 of this area was grown with high-quality rice for export.

To ensure farmers a reasonable selling price, on March 7 and 8, 1997, the PM issued two directives "On Measures to Regulate Food Trade" and "On Control over Rice Exportation and Fertilizer Importation"; and at the conference discussing the task of purchasing rice held in HCMC on March 22, 1997, the PM demanded provincial authorities and food companies to buy rice from farmers quicker and proposed certain measures to complete this task, such as helping food companies secure loans from banks and fixing a reasonable buying price.

However, up to the end of March 1997, the rice price has fallen drastically while only 40% of rice growing area was reaped. Although local authorities of provinces in the Delta have lowered the buying price-floor to VNĐ1,350-1,400 per kilo but the market price kept on falling.

The newly set mechanism for regulating food and fertilizer trade aiming at encouraging production and enhancing farmers' living standard is approved by the public but there are also old regulations needed to be removed (such as regulations on securing bank loans). In addition, the new mechanism is introduced recently while farmers have almost completed their harvests and the supply of rice has far exceeded the market demand. As for food companies, there is no mechanism for protecting them from suffering losses when they are forced to buy rice at a reasonable price. The shortage of capital, the fall of rice price in the world market, high bank interest unfavorable

for rice storing and low market demand are factors that caused the rice price to fall rapidly in recent weeks, from VNĐ1,450 or 1,600 to 1,00-1,350 or even to VNĐ1,200 in spite of efforts made by state-run food companies to buy rice from farmers. This is really an alarming situation.

To solve this problem and realize the Government's directives, in our opinion, the following measures must be taken:

1. The winter-spring crop is harvested in April 1997 (one month late in comparison with other years), and then the rice supply will rise rapidly. If the rice output isn't sold on time, its quality will be affected badly by the coming rainy season because most of farmers have no barn for storing their crops. To buy rice quicker, food companies need capital, or bank loans, and a more flexible mechanism for securing them. In my opinion, the Government had better allow these companies to mortgage rice in their storehouses to banks in order to keep on buying rice from farmers. The companies' purchase of rice will help to keep supply and demand in equilibrium in the harvest time and keep the rice price from falling.

2. The supply of rice is seasonal, this feature, along with the export price and the world market demand must be taken into consideration. At present, the world market demand is low, the f.o.b price is unfavorable, so the rice output must be stored, especially in the harvest time. In order to keep the rice price from falling, state-run food companies must purchase 70-80% of the amount of commercial rice and put it into storage before exportation. This will help to make the supply of rice to foreign markets more regularly, especially in months at the year's end, stabilize the rice price and ensure the national food safety.

3. The decision on the buying price-floor is necessary and come up to the people's expectation, however, this decision requires the Government to give price support to state-run food companies which could suffer losses if the world market price falls while they are forced to buy rice at the fixed price

(in Thailand, the price-floor fixed by the Government equals the production cost plus a profit of 20%). At present, however, provincial governments in the Delta meet with difficulties in fixing the price-floor, and prices fixed by them are different from one another.

So it's necessary to fix an oriented price, or a full-cost price (including the production cost and a profit of 30-40%) and use other instruments to regulate supply and demand with a view to preventing a further fall in rice price.

In order to help farmers sell rice at the full-cost price fixed by provincial governments, state-run food companies must develop networks of purchasing agencies within easy reach of farmers, the Government must create conditions favorable for these companies (supplying capital, seeking for new foreign markets, increasing rice reserves, etc.).

Another matter is to regulate supply and demand: to increase purchase of rice at times and put into storage is a way to stabilize the supply of rice for export, keep the export price stable and ensure rice export companies the good performance.

4. Besides the buying price-floor, it's necessary to fix a minimum export price with a view to protecting export companies. If there is a fall in the world market price of rice (below the minimum export price) the Government had better give subsidies to export companies in order to encourage them to keep on purchasing rice and keep supply and demand in equilibrium.

5. In current conditions, the Government had better take measures to help farmers such as: allowing farmers to postpone their tax payments and repayments to banks until the rice price rises to the oriented price, or reducing export duties in order to encourage exportation.

What mentioned above are some measures to carry out the PM directives on purchasing rice from farmers at a reasonable price. These measures aim at ensuring farmers' interests, national food safety and reliable supply of rice for export.