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Report Highlights: Vietnam faces widespread drought in upland northern areas. However, the key winter-spring crop is nearing harvest in the Mekong River Delta (MRD), and transplanting is under full press in the Red River Delta (RRD). Production generally is forecast to be average in the RRD, but localized hardships are anticipated in Upland areas. VN's January export performance is under expectations at 160,000MT (160TMT).

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EXECUTIVE SUMMARY

Vietnam's two fertile deltas produce the bulk of rice for the country. For the annual export campaign, the comparatively high quality winter-spring (W-S) crop in the MRD is crucial. At the start of February, the W-S crop is nearing completion in the MRD and transplanting is in full swing in the RRD. A complicating factor to VN efforts to achieve another record export campaign is the current drought. Although the W-S crop may not be affected significantly, continued drought would almost certainly lower production of subsequent crops, thereby driving prices higher and limiting exportable supplies. Therefore, the drought will be followed closely. VN's 1999 export campaign got off to a slow start with only 160TMT; however, current VN export prices are competitive vis-a-vis Thai prices. Given lower demand from overseas markets and an uncertain exportable supply situation, VN will be hard pressed to achieve its export goal of 3.9MMT

PRODUCTION

VN export campaign depends on key Winter-Spring Rice Crop.

The Winter-Spring rice crop is arguably Vietnam's most important as it contributes nearly 50% of the total rice output of the country. Comparatively drier conditions in the MRD during the W-S season help produce high-quality rice for export. Although planted throughout the country, the S-W crop in the two deltas represents the largest share of production. Because of distance and agroclimatic differences, the MRD is usually planted at least two months before the RRD. Table 1. shows that Vietnam expects to plant about 2.83MHa of W-S area this year, about two percent higher than 1998. Of this total, about 50% are nearing harvest in the MRD.

Drought threatens 1999 Winter-Spring rice crop, especially in upland northern provinces.

Protracted dry conditions, especially in northern Vietnam, have lowered major reservoirs and parched smaller irrigation ponds and streams. MARD estimates that about 250THa-300THa of W-S rice are affected by drought in varying degrees throughout the country. This total includes about 50THa in the northern mountainous region, 60THa in North Central provinces, and about 50THa in the RRD. These areas are being converted to other crops such as corn, sweet potato, and peanuts.

MRD sown area for W-S crop exceeds target, higher than last year's by about 6%; early harvest begins.

Reports from the MRD note that 1.4MHa-1.42Mha were planted, about 40THa above target and 15 days earlier than last year. Pumps and a good irrigation system have assured development of the crop despite dry conditions. There is some concern over rodent infestation on 100THa of Dong Thap, Kien Giang, An Giang and Can Tho provinces, but according to official estimates the extent of damage is not high. However, this will be followed closely in coming weeks as the early W-S harvest is just beginning. According to official estimates through January 20, 1999, farmers in Can Tho have harvested 8.6THa with an average yield of 5.8MT/Ha. And in Kien Giang province, about 40THa were harvested with yields in the range of 4.5MT-5MT/Ha. Meanwhile, at the other end of Vietnam, farmers in the RRD are busy transplanting W-S rice before the start of Tet.

RRD farmers busy transplanting W-S crop.

Last year, also facing dry conditions, farmers in northern Vietnam harvested about 1.14MHa of W-S crop, producing about 5MMT of rice for an average yield of 4.6MT/Ha. For 1999, the GVN plans to nudge production up by 500TMT on slightly fewer hectares by increasing yields (see Table 1). Reports from RRD provinces indicate that farmers will be able to complete transplanting the target area of 510THa. A recent field trip (Feb. 5-6) down the southwestern flank of the RRD, through Thanh Hoa province to Vinh in Nghe An province, confirmed that all areas were under intensive soil preparation and transplanting.

North Central Coast province Nghe An faces drought

The outlook in upland Nghe An province is mixed, as most areas have yet to be plowed, and reservoirs and streams were low. NgheAn has a total of 662 reservoirs, of which four have a capacity of more than 10 million m³; 52 have a capacity ranging from 1million to 10 million m³ of water. At the beginning of the W-S planting season crop, the total volume in all reservoirs was 92million m³ of water, accounting for only about 25% of the total designed capacity. This is the third consecutive year NgheAn is faced with drought. For example, the volume of the Lam River is about 65% that of the last year's flow. Some small streams, ponds and lakes have vanished. Other water storage reservoirs such as Dinh Du, Bau Da, Dong Kho are almost dried up. The water level in Lam, Hieu, and Con rivers is also lower than in previous years. These conditions have prompted local authorities to recommend switching about 20THa of rice area to other crops. The province has also increased sales of hybrid seed rice on about 40% of Nghe An's total 60THa of S-W rice area.

In Northern provinces, 1998 rainfall was 30-40% lower than the average rainfall in previous years.

The Hydro-Meteorology Department has reported that rainfall at the beginning of this W-S crop cycle was between 20-40% lower than the average of the past several years. The flow of water in major rivers is about 30-40% lower than the volume at the same time last year. In North-Central province rivers, the level of water is 40-50% lower than the level at the same time last year.

Department of Water Management of MARD reports major river levels are down 0.5-0.73 m compared with last year.

As of mid-January, MARD reported that the water level in the Red River was about 0.73 m lower than at the same time last year. There has been little rain in the catchment area since then. Similar declines are noted for the Thao River (Yen Bai province). The water level in Lo River (Tuyen Quang province) was 16.01m, or 0.5 m lower than the same period in 1998. Perhaps most important, the level of the Da River upstream from the key Hoa Binh Hydro-electric dam was 11.88m, or 0.5m lower than last year's level. This is the main source supplying Hoa Binh reservoir; by start of February the pool level at Hoa Binh was 30-35% lower than last year -- also a drought year. Indeed, Hoa Binh reservoir is already 3-4 m below the danger level. The same is reportedly true of medium and small lakes and reservoirs: Yen Thuy, LacSon, Xa Huong and Tan Lac (Hoa Binh province), and Dong Mo (Ha Tay province), Vuc Mau (Nghe An province), and Ta Keo (Lang Son province). Therefore, the GVN will be hard pressed to meet the combined demands of industry, Hanoi, and the S-W rice crop. Given the vital importance of the rice crop and the forecast of continued dry conditions for the next few months, scheduled power outages for Hanoi are likely to come.

MARD supports opening Hoa Binh floodgates to help drought-hit farmers plant rice crop.

Gates of the Hoa Binh reservoir, about 70km southwest of Hanoi, were recently opened for the first time of this year, supplying water to RRD farmers transplanting W-S rice. As a result, the depth of the Red River increased up to 2.66m from 2.1m, ensuring adequate water supplies to irrigation canals. MARD has also supported efforts at key provinces to clean and deepen canals, ponds, and lakes. Other measures include: 1) applying water saving technologies such as nursing seedlings under plastic cover to reduce evaporation; 2) substituting hybrid and short-season rice varieties in mountainous and central provinces; and, 3) in the RRD, encouraging farmers to plant more late season W-S rice (about 60-70%). It remains to be seen whether these measures will be effective in boosting yields.

The Deltas appear to have adequate irrigation supplies; upland and mountainous areas are parched

Drought is hitting hard not only in the Northern Mountainous provinces, but also other upland areas of North Central Coast (Thanh Hoa and Ha Tinh). However, experts speculate there will be enough water in the Red River and major tributaries to supply the irrigation system of the RRD. For the MRD, the situation is not problematic as the W-S crop is already nearing harvest. Thus, as was the case last year, the fertile, well-irrigated deltas will likely enjoy an average crop, while upland areas facing withering drought and lacking irrigation systems will likely suffer reduced yields. Of course, as a contribution to total outturn, the upland and mountainous areas are much lower. Some localities will certainly face hardships. However, at this juncture in the crop cycle, it is too early to estimate the impact of the drought on the W-S crop. By early March more will be known about the extent of crop damage in the MRD and irrigation supplies in the RRD.

**Table 1. VN Winter-Spring Rice Production by Region
1997-1999**

	1997 Winter-Spring rice			1998 Winter-Spring rice			1999 Winter-Spring rice (Plan)		
	Harvested Area	Yield	Production	Harvested Area	Yield	Production	Planted Area	Yield	Production
	THa	MT/Ha	TMT	THa	MT/Ha	TMT	THa	MT/Ha	TMT
Whole country	2683	5.0	13310	2777	4.90	13614	2830	4.90	13867
Northern VN	1139	4.76	5415	1135	4.61	5228	1130	4.70	5311
Northern mountainous	298	3.72	1107	296	3.56	1053	n/a	n/a	n/a
Red River Delta	515	5.63	2901	513	5.51	2829	513	5.60	2873
North Central	326	4.32	1407	326	4.13	1346	n/a	n/a	n/a
Southern VN	1544	5.11	7895	1642	5.11	8386	1700	5.10	8670
South Central VN	186	4.27	795	186	4.11	765	n/a	n/a	n/a
Central Highlands	35	4.60	161	36	3.88	141	n/a	n/a	n/a
South East	69	3.61	248	69	3.29	228	n/a	n/a	n/a
Mekong River Delta	1254	5.33	6690	1350	5.37	7252	1442	5.40	7780

Source: MARD, FAS/Hanoi, official estimates.

**Table 2. Status of 1998/99 VN Rice Production
Lua Mua & Winter-Spring Crops**

	Unit	Actual/ planned areas	As of Jan 25, 1999
1. Lua mua rice crop harvested		Actual harvested area	Harvested
('98 Lua mua rice crop)			
In the South	1000Ha	1139	967
MRD	1000Ha	598	489
		Planned area	Planted
2. Winter-Spring rice planted	1000Ha	2830	1393
(98/99 Wintr-Spring rice crop)			
In the North	1000Ha	1130	232
RRD	1000Ha	510	49
In the South	1000Ha	1700	1696
MRD	1000Ha	1400	1442

Source: MARD, FAS/Hanoi

PRICES

Northern paddy prices rise on dry conditions and approach of Tet

Throughout January paddy price in Northern provinces increased by VND 200-500/kg, fluctuating between VND2,500-2,800/kg (US\$0.18-0.20/kg) as dry conditions persisted and the Tet New Year approached.

Paddy prices in the MRD strengthen to US\$0.13-0.20/kg

Table 3, below, shows MRD paddy prices are steady at VND1,800-1,950/kg (US\$0.13-0.20/kg). Although the main harvest season of the winter-Spring crop will shortly enter full swing, prices have strengthened recently on 500TMT of firm orders from various markets including Iran, Iraq and African countries. Moreover, widespread speculation of severe drought in the north has also boosted prices. Government policy also aims to strengthen prices by authorizing rebates to store 1.0 MMT of MRD Winter-Spring paddy.

TRADE

Low shipments in January make 1.0MMT export target in Q1/1999 difficult to reach

January 1999 exports are estimated at 160TMT, a 36% drop from the same period last year, as the market hit the doldrums at the end of 1998. About 50% of shipments were destined for the Philippines, with Malaysia, Iraq, and African ports rounding out the list (see Table 4, below). Trade sources note that VN sales to Iran reached more than 200TMT (Southern Food Corporation, 90TMT; Cargill/Toepfer/VoestAlpine/Daewoo, 30TMT each). More sales to this market are expected next month as current VN prices are competitive with Thai prices. VN export quotes for 5% and 25% broken are US\$242-244/MT and US\$215-220/MT (FOB), respectively. Given the slow start of the 1999 export campaign, it appears increasingly difficult for VN to reach the first quarter target of 1.0MMT. However, as was witnessed last season, VN has the potential to recover and charge ahead. Last year's overheated market has given way to lower demand from export markets in 1999. The key to VN's export campaign for 1999 will be adequate exportable supplies.

POLICY

Hai Phong Trading & Tourist Company authorized to export rice from northern VN.

A local SOE in the northern port of Hai Phong has been authorized to export rice originating in northern Vietnam (No.242/VPCP-KTTH, dated 1/19/99). This will not likely amount to more than 20TMT.

**Table 3. January Prices of Paddy and Raw Material 25% Broken
MRD Provinces**

MRD Province	Paddy price	Raw 25% white rice
CanTho/AnGiang	1,850-1,950	2,650-2,750
TienGiang	1,800-1,900	2,600-2,700
VinhLong	1,850-1,950	2,650-2,750
DongThap	1,750-1,850	2,550-2,650
LongAn	1,800-1,900	2,600-2,700
TraVinh	1,800-1,900	2,600-2,700
SocTrang	1,800-1,900	2,650-2,650
KienGiang	1,750-1,850	2,550-2,650
BacLieu/CaMau	1,750-1,850	2,550-2,650
BenTre	1,900-1,950	2,770-2,800

Source: trade. Prices basis 15%-16% moisture for raw material; 16%, paddy
Unit: VND/Kg (US\$1.00=VND13,900)

**Table 4. Rice Exports in January 1999
by VN sellers and destinations**

Seller/Exporter	5%	10%	15%	25%	35%	Subtotal
Southern Food Corporation	15,135	15,000	62,371	7,417	0	99,923
Angifood	0	0	15,720	6,515	0	22,235
Dagrimex	0	0	14,036	0	0	14,036
Afiex	0	0	2,950	4,800	0	7,750
VinhLongfood	0	0	0	6,515	0	6,515
LongAnfood	0	0	5,514	0	0	5,514
Foodcosa	1,504	0	0	0	0	1,504
JFTrice	0	0	0	0	1,000	1,000
Angimex	750	0	0	0	0	750
KienGiang	450	0	0	0	0	450
Subtotal	17,839	15,000	100,591	25,247	1,000	159,677
Destination	5%	10%	15%	25%	Other	Subtotal
Philippines	0	0	76,407	0	0	76,407
Malaysia	15,135	0	0	0	0	15,135
Iraq	0	15,000	0	0	0	15,000
Cuba	0	0	0	13,030	0	13,030
Tanzania	0	0	9,370	0	0	9,370
Indonesia	1,504	0	0	7,417	0	8,921
East Africa	0	0	2,950	4,800	0	7,750
Yemen	0	0	6,350	0	1,000	7,350
West Africa	0	0	5,514	0	0	5,514
Singapore	750	0	0	0	0	750
HongKong	450	0	0	0	0	450
Subtotal	17,839	15,000	100,591	25,247	1,000	159,677

Source: trade, various; FAS/HCMC