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Report Highlights: Vietnam has set an aggressive 1999 export campaign target of 3.9 million metric tons (MMT), about 125,000 MT above 1998's record. This year's management decree provides quotas to foreign investors and private sector millers, reimburses selected exporters for storage costs on 1.0 MMT of winter-spring paddy, provisionally eliminates the export tax, and sets a floor price of VND 1,650/kg (1 \$US=VND 1,390) for the important winter-spring crop. Achieving this goal could be a challenge as local meteorologists are predicting drought. The same dire predictions last year proved wrong, and Vietnam went on to register record rice outturn for 1997/98.

Includes PSD changes: No
Includes Trade Matrix: No
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Executive Summary

Vietnam ended 1998 with a record export performance of about 3.75 MMT. After a blistering first-quarter 1998 pace marked by considerable mismanagement and some deferred contracts, Vietnam imposed an export tax to ration supplies in the face of weather problems. By August, it was apparent dry conditions had not affected production. Export taxes were reduced and shipments resumed. For 1999, the export target has been set at 3.9 MMT. Concern over possible widespread drought, especially in the RRD, could dampen export prospects. New developments for 1999 include: 1) authorizing export licenses to four private VN firms; 2) providing a specific quota allocation to foreign joint-ventures; and, 3) establishing rebates for temporary storage of up to 1.0 million MT of winter-spring paddy to be procured at a minimum price of VND 1,650/kg (US\$119/MT).

Production

After a record 1997/8 crop year, caution prevails as meteorologists forecast drought

New year 1999 began with celebrations over another record export campaign tempered by concern of an impending drought in the RRD. Predictions of drought last year gradually gave way to the realization that 1997/98 was going to be the best harvest on record. However, local meteorologists cite several indications of possible drought, especially in the north: 1) water levels in northern rivers are generally 20% lower than normal; 2) the Red River is expected to drop a record 2.2 meters; 3) the Hoa Binh and Thac Ba reservoirs are still low from last year's dry weather; and 4) the Da River that feeds the Hoa Binh reservoir is expected to be 20%-30% lower than normal this year. The Department of Meteorology speculates that as many as 500,000 hectares of mostly mountainous and upland rice could be affected. At this stage, it is much too early to assess the impact of dry conditions on the winter-spring crop, especially as the highly productive RRD is not severely affected. FAS/Hanoi will continue to monitor this situation closely.

Table 3 provides recent planting information on the winter-spring crop in the MRD and RRD. The winter-spring crop in the MRD provides the best quality for exports. Current expectations for the MRD crop are about 7.6 MMT,

paddy basis. Although the usual pattern of seasonal flooding was limited in 1998, the winter-spring crop is in good shape as farmers have reportedly used pumps.

Trade

Campaign 1998 sets new record at 3.75 MMT; target for 1999 is 3.9 MMT

Vietnam recently released the 1999 export target for rice and import level for fertilizer (management decree #250/1998/QD-TTg). The decree sets a target of 3.9 MMT for the 1999 export campaign, of which the Jan-Sep period is pegged at 3.24 MMT (see Table I). Deliveries during the last quarter of the year will be determined based on a review of the exportable supply situation. A total of 1.0 MMT are earmarked for shipment first quarter of 1999. GVN will not allow companies to roll-over unused 1998 quota into 1999. The recently concluded 1998 export season registered another record, as about 3.77 MMT were exported. Good prices and firm demand encouraged farmers to expand area planted and invest more on intensifying rice cultivation for the 1998 campaign.

Policy

Vietnam authorizes export licenses for four private sector companies; joint-ventures given export quota

For the Jan-Sep period, a total of 2.7 MMT are allocated for the Ho Chi Minh City and the rice-producing provinces of the MRD (see Table I). Provinces of the RRD are also provided a quota of 100 TMT, a move likely to appease farmers in Thai Binh and Hai Hung. The Peoples Committee of each province is responsible for distributing its respective quota among licensed rice exporters. Both large SOE rice exporters, the Southern Food Corporation and the Northern Food Corporation, were allocated 500 TMT and 300 TMT, respectively. A special allocation of 50 TMT for foreign joint-ventures is viewed as a token; apparently, these rice-exporting companies may also qualify for allocations from provincial governments. Significantly, four major private sector rice exporters (Vinh Phat , HCMC; Ladfeco, Long An province; Thanh Hoa, Tieng Giang province; and, Thot Not, An Giang province) were authorized to receive export licenses; they reportedly must apply for quota from provinces. Private companies are keen for direct export business, as exports are exempt from the new VAT. In previous years, the privates handled considerable business for the SOE exporters; for 1999, procurement and milling of rice for sale to SOEs will be assessed 5% VAT. Also new for this year is a special allocation for companies (private and SOE) that do not have a license to export rice; details on this category are forthcoming.

The rice decree also authorizes the Ministry of Trade to negotiate export contracts with countries having monopoly food agencies. MOT and the Export-Import Management Committee will appoint exporters to sign contracts. This appears to be a break from prior practice. For rice shipped to other markets, all licensed exporters may sign contracts, provided they meet with price guidelines (currently at VND 1,650/kg for winter-spring paddy). For debt repayment contracts, a bidding system among licensed exporters will be applied.

Marketing

GVN authorizes storage rebates on 1.0 MMT of winter-spring paddy

The Ministry of Finance has set the export tax at zero for the first half of 1999 in effort to boost shipments. Last October, the GVN scrambled to lower export taxes in the face of sagging Thai export prices at harvest. In order to stabilize farm prices during the peak winter-spring harvest, the GVN will direct some MRD rice exporters (see Table

II) to procure and store temporarily up to 1.0 MMT of paddy. The floor price is set at VND 1,650/kg. The cost of temporary storage will be reimbursed by the government. Higher paddy floor prices in part reflect GVN concerns that MRD farmers will face higher costs of production for the winter-spring crop, e.g., more irrigation and fertilizer due to lack of usual heavy seasonal flooding.

Prices

Vietnam rice prices are at very competitive levels vis-a-vis Thai rice; however, demand is slack. Quotations for 5% broken and 25% broken grades are about US\$ 248/MT and US\$220/MT (FOB Saigon), respectively. With no purchasing pressure, prices for rice and paddy in the MRD are VND 1,700-1,850/kg (15%-16% moisture), with prices for raw material white rice at VND 2,550-2,650/kg (15% moisture). Some local processors have reportedly been receiving orders from SOE s for 5% broken rice at VND 3,200/kg (or US\$ 243/MT), FOB Saigon.

Table 1: Rice export quota allocation for the first phase of 1999

Unit: TMT

No.	Provinces and companies	Jan-Sep period 1999
A	Provinces	2,200
1	Long An	170
2	Tien Giang	290
3	Dong Thap	270
4	Vinh Long	280
5	Tra Vinh	100
6	Can Tho	340
7	Soc Trang	100
8	An Giang	340
9	Kien Giang	100
10	Bac Lieu	60
11	Ca Mau	50
12	Ben Tre	10
13	Ho Chi Minh City	90
B	National Food Companies	840
1	VINAFOOD I	300
2	VINAFOOD II	500
3	GEDOSICO (MoT)	20
3	VINACAM (MARD)	20
C	Others	200
1	Foreign-Invested Companies (i.e., joint-ventures)	50
2	Exporters seeking new markets (i.e., traders not milling rice)	50
3	Northern provinces (e.g., Thai Binh, Hai Hung)	100
	TOTAL	3,240

Table 2: Allocation of Winter-Spring Paddy for Temporary storage

Unit: TMT

No.	Provinces, companies	Amount
1	Long An	90
2	Tien Giang	70
3	Dong Thap	120
4	Vinh Long	60
5	Tra Vinh	40
6	Can Tho	130
7	Soc Trang	50
8	An Giang	170
9	Kien Giang	40
10	Bac Lieu	20
11	Ca Mau	30
12	VINAFOOD II	120
13	VINAFOOD I	60
	TOTAL	1,000

Table 3: Status report on rice production up to December 25, 1998

Units: 1000 Ha

Description	Planned	Actual	Actual	% actual Dec.25/98 comparing	
	crop/year	Dec.25/97	Dec.25/98	Planned	as of Dec.25/97
1) 1998's Lua mua rice crop harvested					
In the South	1,128.0	770.7	624.5	55.4	81.0
Of which in MRD	590.0	301.0	246.5	41.8	81.9
2) 98/99 Winter-Spring rice planted					
	2,750.0	1,407.4	1,392.5	50.6	98.9
In the North	1,100.0	38.6	12.5	1.1	32.4
In the South	1,650.0	1,368.9	1,380.0	83.6	100.8
Of which in MRD	N/A	1,201.6	1,229.3	N/A	102.3
Source: MARD, Department of Planning, FAS/Hanoi					

