



## RESTRUCTURING OF VIETNAM'S RICE INDUSTRY TOWARDS INCREASING ADDED VALUE AND SUSTAINABLE DEVELOPMENT



After 20 consecutive-years exporting rice with large scale, Vietnam rose as one of the largest rice exporters in the world. Rice export volume increased to 3.48 million tons in 2000 and 8.02 million tons in 2012 compared with 1.99 million tons in 1995. In 2013, Vietnamese rice export volume reached 6.61 million tons with a total value of US\$2.95 billion, and most recently, the volume of export rice in the first 9 months of 2014 reached about 5.02 million tons, worth US\$2.29 billion. However, price of Vietnamese rice is not high and rice farmers are still poor. Disadvantages of Vietnamese rice are resulted from the overuse of chemicals in growing rice and to the environmental pollution that makes Vietnamese rice hard to access to high-quality segment markets. The effectiveness of public investment policy in the rice industry is also very

limited. Hence, priority of the action plan for the agricultural sector restructuring should be given to the restructuring of rice industry towards increasing added value, farmers' income and its sustainable competitiveness.

At the workshop on "Reforming of Vietnam's rice industry towards increasing value-added and sustainable development for new rural development" organized by the Ministry of Agriculture and Rural Development and IRRI, Minister of Agriculture and Rural Development Cao Duc Phat addressed that: "Vietnam's rice industry needs a stronger reform in term of quality in order to bring higher incomes and create sustained jobs for farmers and to effectively contribute to the agricultural sector and inclusive nation's economy development."

At the present, Vietnam has 10 million farmers living in the rural



areas, about 70% of the population engaged in agricultural production. The value of the rice industry covers almost half of the agricultural sector's value. Restructuring of the rice industry towards better added value has great meaning to improving the income of rice growers and increasing the added value of the agricultural sector.

Transformation of institutional structure of rice value chain by linking businesses with cooperatives, cooperative group on the basis of large-field model is another urgent

need for improving the rice quality. Land use planning at the regional and local levels also needs to be reinforced to utilize the best potentiality and quality of rice from different ecological sub-regions.

At the workshop on reforming Vietnam's rice industry, Vice Minister of Agriculture and Rural Development Le Quoc Doanh said: "Rapid growth and sustainability of the agricultural sector, especially the rice industry, serve as the foundation of Vietnam's comprehensive and successful development. However, challenges of Vietnam's agricultural sector is how to make significant contribution to the nation's growth and continuously make up export turnover from the export of many goods. In addition, given the fact that workers in the agricultural sector covers majority of labor force in the whole country (accounted for 70% of the total labor force), particularly in the rural areas of Vietnam, where production activities are predominant, the contribution to the nation's GDP from this sector is declining, from 20% in 2010 to 19% in 2013 (according to a ADB's report in 2013). Therefore, the agricultural sector will need substantial changes, which enable the rice industry to tackle with these challenges and become the industry, which will significantly contribute to the development of the country".

## INTERNATIONAL COOPERATION AND SUPPORT FOR THE DEVELOPMENT OF VIETNAM'S RICE INDUSTRY

### Six initiatives of IRRI for the restructuring of Vietnam's rice industry

In the meeting between Minister of Agriculture and Rural Development Cao Duc Phat and Director General of IRRI Robert Zeigler in Davos, Switzerland in January 2014, Minister proposed IRRI to engage in a long-term technical assistance and cooperation on reforming Vietnam's rice industry. Within the technical assistance framework, study survey and assessment were conducted by Vietnamese and IRRI officials, and its results were reported at "the workshop on reforming of Vietnam's rice industry towards increasing value-added and sustainable development" held on 26-27 November 2014.

Speaking at the workshop, Director General of IRRI said "Vietnam's rice industry has made remarkable progress in the last years however the industry still needs a lot of improvement when rice farmers are still poor, production efficiency is under its potentiality. Vietnamese rice is exported to many countries around the world however the rice quality and competitiveness are not high".

Director General of IRRI believed that Vietnamese rice sector



*Workshop on reforming Vietnam's Rice industry towards increasing added value sustainable development, Hanoi, 26/11/2014*

would have better progress with technical assistance from IRRI officials and Vietnam's inherent advantages".

Six initiatives within the framework of the technical assistance on reforming rice industry from 2015 to 2020 were proposed by IRRI specialists during a technical working session with the principles

of: (i) quality; (ii) Environmental-friendly; and (iii) diversified farmers' incomes, inclusively:

1. High-quality rice varieties selection and development;
2. Branding of Vietnamese rice;
3. Reduced pre- and postharvest losses;
4. Climate change adaptation;
5. Support for small rice farmers; and
6. Policy advice to further enhance the country's formidable rice sector.

### Three initiatives of FAO to support Vietnam in rice production and poverty reduction

According to FAO's State of Food Insecurity in the World 2014 report, the country has shown impressive achievements in the last fifteen years, reducing the total number of undernourished people from 32 to 12 million, achieving the hunger target of the first Millennium Development Goal. FAO's Director-General Jose' Graziano da Silva noted progress made by Viet Nam reducing food insecurity and under-nutrition.

In the process of the agriculture and rural development of Vietnam, FAO has had a long history in provision of assistance to Vietnam in its ceaselessly and outstanding reform progress of rice production and export.

Most recently, responding to request of the Minster, FAO agreed to support Vietnam in three initiatives (1) Implementation of the Zero Hunger Challenge (2) Nationalization of the Regional Rice Strategy and (2) Identification and recognition of global agricultural heritage.

For the initiative of nationalization of the Regional Rice Strategy, FAO already started providing assistance to the Department of Crop Production in organization of stakeholder workshops on rice reform and will continue provide consultancy through the FAO Regional Rice Initiatives towards the finalization of the national plan to reform the Vietnamese industry

## REGIONAL RICE STRATEGY FOR ASIA AND THE PACIFIC

**A**t the FAO Regional Conference for Asia and the Pacific held in Ulaanbaatar, Mongolia from 10th to 14th March 2014, launched "Rice strategy for sustainable food security for Asia and the Pacific".

Given the fact that Asia and the Pacific is the region producing and consuming 90% of total rice volume of the world with 140 million rice farmers, it has made positive contribution to the regional food security and poverty reduction and farmers' livelihood improvement. Though, at the present and in the years to come, rice industry will face with many emerging challenges from the economic structural transformation and regional development in Asia and the Pacific.

Regional Rice Strategy set vision for rice industry until 2030 with "Food security and nutrition, prosperity of rice farmers and consumers, who will equally benefit from renewal, dynamic, and creative rice industry with high productivity, efficiency, and sustainability of environment".



*Former Vice Minister of Agriculture and Rural Development Nguyen Thi Xuan Thu, Head of Vietnamese delegates attended the 32nd session of FAO Regional Conference for Asia and the Pacific in Ulaanbaatar, Mongolia on 13th March 2014.*



Regional Rice Strategy for Asia and the Pacific includes 6 targets as follows:

- Sustainably increase productivity and nutrition value of rice;
- Enhance the rice value chain;
- Improve capacity to mitigate and adapt to climate change;
- Minimize the environmental footprint of rice production and enhance the ecosystems functions of rice landscapes;
- Improve the efficiency of rice markets for stabilizing rice price;
- Enhance the well-being and livelihoods of smallholders, women and the new generation of rice producers.

The Regional Rice Strategy also calls for increased investment in research and development, in rural infrastructure and development of favorable policies and institutional innovations. It is expected that member countries will follow up the formulation of renewal of their own rice strategy and truly it is recorded that Vietnam appeared as one of the pioneers in the region to start formulate the national plan to reform its rice sector.

## MEASURES FOR PROMOTING RICE INDUSTRY RESTRUCTURING AND FORMULATING SUSTAINED PRODUCTION CHAIN

**A**t the workshop on “Future of Vietnam’s rice industry” organized in Can Tho city (on 11th December 2014), “what will be the opportunities of Vietnamese rice market in 10 years?” was the issue raised in the workshop.

According to the Southern Food Corporation (Vinafood 2), from 2012 up to the present, Vietnamese rice export tends to be slowdown in volume, and decrease in value. With some 70% of rice export volume having lower level of quality (with 25% broken rice), Vietnamese rice is difficult to access to high segment market while, in the middle and low segment markets, it has to compete with many other countries, that are the reasons why Vietnamese rice receives lower price and profit.



*Dr. Jong Ha Bae, FAO's Representative in Vietnam*

FAO estimates that in 2022, Vietnam continues holding the second largest rice exporter in the world after Thailand. However, whether is this position threatened by other countries like: India, USA, Pakistan, etc. who are implementing many incentive policies to strengthen their rice production and export? They are direct rice competitors of Vietnam in the time to come, Dr. Jong Ha Bae, FAO’s Representative in Vietnam said.

### Measures for Vietnam’s rice industry

Recommendations of the workshop on “The future of Vietnam’s rice industry” focused on the issues and measures

to improve Vietnam’s rice industry, for instance: reforming farming methodology, cultivation habits, branding Vietnamese rice through selecting rice varieties, which meet the increasing nutrition demands, and reduce pre and post-harvest losses in the rice value chain ...

To ensure a sustainable development of rice industry, it is necessary to apply advanced technologies for rice farming, such as: water-save irrigation, input cost efficiency, and to increase productivity, for instance: SRI, increased application of VietGAP. In addition, the study of rice industry should target to the cost-benefit analysis on the basis of the implementation results of conventional and sustainable models as well as the analytical assessment of environmental impact from the use of water, fertilizer, GHG, recommendations of IPSARD.

### The necessity of investment in science and technology research and transfer, development of Vietnamese varieties and breeding industry

According to a report of the Ministry of Agriculture and Rural Development about the analysis, selection and development of rice varieties, it mentioned 48 newly recognized varieties, successful transfer of a number of hybrid rice and pure rice varieties, productivity of F1 hybrid rice variety, which reached from 2.2 to 3.5 tons/ha, and pure rice varieties reached over 5 tons/ha. However, the capacity of rice variety production system is limited and can not meet the demands of commodity production and exports.

At the Meeting on plant varieties and

animal breeds hosted by the MARD, Minister Cao Duc Phat emphasized that a successful and competitive agriculture must be based on an international standardized varieties industry. Specifically, as for rice farming, instead of focusing on creating and selecting high-productivity and short duration varieties, we need to create high-quality varieties, and its quality must be evaluated by consumers/market and through higher price and the stability of the market.

“Vietnam is able to scale up the production of rice varieties with higher value, improve its competitiveness in the export market, and can be expected as the first largest rice exporter of the world because we still see great and stable consumption demand of rice from many import countries in the world. The thing is how we can identify ecological regions suitable for the development of rice farming and be possible to apply crop rotations between rice and other food crops. Vietnam is making efforts to reduce rice production cost however reduction of post-harvest loss is also another issue to concern”, Mr. Jong Ha Bae, FAO’s Representative in Vietnam said in the workshop on reforming rice industry in the Mekong Delta held in Can Tho city on 24<sup>th</sup> June 2014.

Mr. Tran Manh Bao, Chairman of Directors Board, CEO of Thai Binh Seed and Plant Varieties Company, Chairman of Vietnam Seed Trading Association (VSTA) recommended that, within the framework of technical assistance of IRRI, it should target to build seed and varieties research and development systems, especially the industrialization of seed and varieties



industry. Legal documents and Law, above all, should be developed to facilitate the effective implementation of the rice industry restructuring. It is necessary to strengthen further the research/study capacity of institutes, schools, businesses. The conduct of research and study must be based on market demand and consumption need. In addition, the development of rice brandname should be associated with rice variety development.

According to Crop Production Department under MARD, in order to increase added value of rice industry, stronger breakthrough measures for science and technology area in the coming time are needed. At the present, research activities, especially which is related to variety production activities remains many issues;

the set of rice varieties for export mainly targets to easy-going and low value markets while there are not many rice varieties for high value segment market available. Meanwhile, human resources and infrastructure to serve the research activities are inadequate, non-comprehensive and backward. Therefore, in order to successfully implement the restructuring of rice industry in the coming time, the science and technology fields should focus on research, selection and development of short duration, high quality varieties; aromatic rice varieties, which are the ones having special characteristics and suitable for high-value segment, resistant to pests and diseases, as well as have good response to ecological areas and climate change”, Mr. Nguyen Van Vuong from Crop Production Department under MARD said.

## Development of brand and market for Vietnamese rice

“By 2020, Vietnamese population will reach 100 million people, rice production will be increasingly more difficult because of the shrinkage of cultivation land, pest and disease pressure, and climate change.

Development of rice market is long-term measure to promote and stabilize production activities, reduce risk and increase profits for farmers.

This group of measures will consist of 03 main components, including: study of rice value chain; rice branding; market oriented production and VietGAP, GlobalGAP application; development of market information sharing system to help farmers foresee market demand and make appropriate production plan and reduce risk.



*Dr. Le Van Banh, Director of Cuu Long Delta Rice Research Institute*

Prof.Ass. Dr. Mai Thanh Phung from National Agricultural Extension Center said that local authorities should continue scaling up the large field and promoting the application of science and technology in production through the use of certified seed, fertilizer, pesticides, bio-products, etc., that can be considered as measures to reduce production cost, improve rice quality, access to better market, and finally increase the benefit and farmers’ income, which will encourage rice farmers to proactively engage in rice production and promote the sustained rice industry development following rice value chain.

In response to the development of Vietnamese rice brand, target rice varieties must be identified, that should be unique, and high productivity is not an important issue to consider. Currently, there are many local varieties of rice with good quality providing white grain, sticky and delicious, namely Dien Bien (in Dien Bien province), Nếp Cái Hoa Vàng (in Thai Binh province), Nàng Thơm Chợ Gạo (in Long An province)... In short, to get the good quality of rice, the variety must be

identified along with the analysis of soil nutrition, balanced fertilizer, proper technical care. Rice processing technology must be advanced in milling, color separation (to remove unqualified rice, like brown and black grains)... With the join into the WTO, goods import and export tax of joined countries are free, that becomes our barrier. So, producing rice with high quality is definitely necessary to strengthen the international consumers’ confidence in Vietnamese rice.



*Prof. Dr. Vo Tong Xuan*

Giving comments on Vietnamese rice export policy, Dr. Nguyen Duc Thanh, Representative of technical consultant team for rice industry from Agriculture Alliance said with over-emphasis on only increasing rice productivity in the last years, it made Vietnamese rice quality for export not high; Vietnam exports rice mostly to the low segment and less diversified markets, especially to China and Africa with increasing large export

volume. If these rice import markets face any difficulty, it immediately affects the domestic market price through price reduction pressure, creates risks to local rice value chain stakeholders, particularly, the rice farmers.

In the other hand, it has seen that there are not many horizontal linkage among export companies and vertical linkage among agricultural inputs supply companies in the current rice export

market. The tendency of developing raw material production zones between enterprises and farmer is put in practice but seems very “forced” when enterprises depend mainly on the available suppliers in the market. Besides, there is not much different characters in products for export, unstable market also may result to high risks of profit. Therefore, in the process of rice industry restructuring, it is necessary to quickly transform to producing higher

quality rice along with diversifying export markets and distributing high quality rice to domestic market as well. Value added tax applied to the enterprises who distribute rice to domestic market should be repealed as soon as possible

to ensure an equal benefit between rice suppliers in the domestic market and rice export enterprises. " At the present, the companies, who sell rice directly to domestic markets are subject to 5% of VAT, or do not have to pay tax if they sell

rice to export enterprises. This condition creates disadvantage for enterprises, who want to develop domestic market. Repealing VAT will promote enterprises to build rice brand in the domestic market", Dr. Nguyen Duc Thanh recommended.

## Strengthening the linkage among value chain stakeholders and linking production with market

The workshop on "The future of Vietnam's rice industry" just held in Can Tho city (on 11th December 2014) pointed out the current status of Vietnam's rice industry, and reflected the concerns of the industry's enterprises on the appropriate strategy and specific action plan.

It was agreed that improving production method for developing Vietnamese brand through analysis and selection of rice varieties, which meet the demand of high nutrition, increasing productivity by applying advanced technical solutions and technology, reducing post-harvest loss in the rice value chain is necessary.

In this workshop, managers and scientists admitted that rice industry in terms of production and export still remained many issues. The highlighted issues are more related to the lack of policy for the development of 3 fundamental systems: (i) policy for developing rice varieties; (ii) policy for applying science, technology, and agricultural extension; and, (iii) policy for technical service logistics for the rice industry.

The restructuring of rice industry must



*Market oriented production is one of the key measures to help farmers reduce risks*

be based on overall view and value chain principles with appropriate coordination and management mechanism. Special importance on the application of science and technology in production, construction of infrastructure, analysis of international markets should be attached. In the process of implementing the

restructuring as well as in the provincial action plan on the restructuring, it is necessary to pay much attention to the importance of regional linkage, which strengthens the effectiveness of the implementation across the country", Mr. Nguyen Van Sanh, Director of Cuu Long Rice Research Institute said.

## Reforming institutional structure of rice value chain

Reforming institutional structure of rice value chain is also an urgent issue that requires the linkage between enterprises and cooperative, farmers cooperative groups engaged in the large field for improving rice quality. The land use planning at the local and regional level should be strengthened in order to utilize the best quality of rice in different ecological sub-regions.

Policies should be consistently reviewed to promote the development of value

chain, specially to strengthen the role of farm holders in organizing cooperative group and improve bargaining skills of rice farmers. The efficiency of policies should be enhanced through providing financial support policies such as: short-medium-long term credit for the rice value chain stakeholders, from which the stakeholders are able to improve the effectiveness of their value chain. Another important issue is that it is necessary to focus on high quality markets to

release the dependence on one market and diversification of Vietnamese rice products is also importance for developing brandname of Vietnamese rice.

"There is a need of providing national and regional policies for rice industry. Particularly, it must be clearly to determine farmers' position in the rice value chain. If this position is weak, farmers will not be easy to get benefit in the value chain", Dr. Dao The Anh, Director of CASRAD said.

## Some measures for the rice industry development

- Rice quality management based on value chain for export
- Diversification of products to meet the need of different market segmentation.
- Branding and development of rice for specialized rice production regions
- Provision of synchronized measures for the development of Vietnam's rice industry.
- Development of value chain and benefit sharing among the value chain stakeholder: farmer-enterprise-middleman-the State



Mr. Tran Manh Bao, Chairman of Directors Board, President of Thai Binh plant varieties Company, Chairman of Vietnam Seed Trading Association said: Without farmers, the State, scientist and enterprise would not have been developed Vietnam's rice industry. Farmers are the indispensable stakeholder in the process of the rice industry development however the thing is who could be the representative for small-scale farmer holders.

To develop sustainable agriculture, farmer's role must be reckoned as the root factor, do not let them swim alone, farmers must be well-earned from rice growing. Value chain based agriculture should be developed, of which agricultural cooperative is formulated from organizing farmers and large field. Accordingly, enterprises play the key stakeholder together with cooperative to provide support to farmers. Farmers also have to change their thinking way and apply new technology in rice cultivation, and especially all stakeholders have to create a real strong linkage. So that, Vietnam agriculture will be sustainable in terms of environment and economy.



*Prof. Dr. Vo Tong Xuan*

## Investment for production development

Mr. Duong Quoc Xuan, Deputy Head of South West Steering Committee shared that the Mekong Delta has not yet invested as right as its potentiality. Many fields of the region have not been utilized and developed properly. Population livelihood remains many difficulties. The Mekong Delta now have 850 foreign investment projects, worth US\$11 billion of total investment capital but agricultural projects are only 6%, accounted for 2% of capital proportion.

South West Steering Committee had many activities to attach the investment in the agricultural sector, to concentrate in rice production, rice production planning, categorize rice production zones by unique rice, commercial rice, or establish a suitable system to purchase, storage rice and provide rice milling and processing system to minimize rice loss or protect rice from the surplus of the market.



*Mr. Duong Quoc Xuan, Deputy Head of South West Steering Committee*

# NEWLY RELEASED POLICIES TO PROMOTE RICE PRODUCTION

## STRENGTHENING THE STEERING OF THE NATIONAL KEY PROGRAM ON RICE RESEARCH

**M**inister of Agriculture and Rural Development Cao Duc Phat approved the decision on the establishment of Steering Committee on the National key program on rice research until 2020 (Decision No. 3474/QĐ-BNN-KHCN dated 07 August 2014) headed by Vice Minister Le Quoc Doanh. The main tasks of the Steering Committee on the National key program on rice research until 2020 consist of the development of the National key program on rice research towards achieving the goals, high quality, high productivity.

### Objective of the restructuring of crop production

On 13<sup>th</sup> May 2014, the Ministry of Agriculture and Rural Development issued the Decision No. 1006/QĐ-BNN-TT regarding the Action Plan for implementing the restructuring of crop production sub-sector from 2014 to 2015 and the period 2016-2020 with the key objectives as follows:

According to the action plan, as for the rice industry, the restructuring of rice industry is implemented to ensure better food security and export; transform from low-productivity rice cultivation land area to growing other crops or associating with

The Minister requested the Steering Committee to provide organization and guidance for successfully implement the Program, coordinate with authorized agencies in the progress of evaluation, approval, and allocation of the State's budget for this program.

In addition, the Steering Committee is assigned to take lead, coordinate with relevant agencies, to investigate, evaluate, and approve the obtained results of the National key program on rice research until 2020.

fishery farming; review the master plan and identify land areas specialized for wet rice cultivation that need to be protected and synchronic infrastructure investment; identify the structure of varieties suitable with market's demand; increase the proportion of using certified seeds; apply advanced production practices for saving seed, fertilizer, water, minimizing the use of pesticides; link production with processing, distribution in the commodity value chain; collect and recycle by-products from rice (straw, rice husk) to increase added value.

### Decision No. 3367/QĐ-BNN-TT dated 31/07/2014:

Regarding the approval of the master plan on the restructuring of plants on the rice cultivation land for improving the efficiency of land use, maintaining rice cultivation land area, ensuring national food security, increasing income for population, contributing to poverty reduction and hunger eradication and social and political stabilization, environmental production and climate change adaptation.

The restructuring of plants must respect the principles of transformation, of which any characteristic suitable for rice cultivation must be protected, so that it will ensure the re-cultivation of rice at any time without large investment. Available market, higher competitiveness and economic efficiency of transformed plants must be taken into account. The master plan described the followings:

- The Mekong River Delta concentrates on transforming from rice-growing area to rotational cultivation area with 2 rice season – 1 crop season, 1 rice season -2 crop seasons; associate the growing of vegetables and other food crops with fishery farming. From 2014 to 2015, the transformation is made with about 112,000 ha of rice cultivation areas, of which 30,000 ha is used to growing maize, 8,000 ha for soybean, 11,000ha for sesame and peanut, 27,000ha for vegetables and flowers, etc. From 2016 to 2020, about 204,000ha will be continuously transformed.

- The Red River Delta concentrates on transforming from rice cultivation with 2 seasons to growing vegetables, flowers, other food crops; from 1 rice season to growing vegetables and food crops, from rice cultivation to rice cultivation and fishery farming and increasing cultivation land area for Winter crops on rice fields.

- The Midlands and Mountainous provinces in the North transform some cultivation land areas from 2 rice seasons to growing vegetables and flowers; from 1 rice season to growing vegetables, food crops and increasing the area of Winter crops on rice fields.

- The Northern Central region, in the year 2014-2015, transform about 26 thousand ha from rice cultivation land area to growing maize, soybean, sesame, peanut ... From 2016 to 2020, continuously transform 34,000ha of rice cultivation land area to growing other crops.

- The Southern Central Coast, in the year 2014-2015, transform about 105,000ha rice field to growing other plants.

- The Central Highlands transform about 15,000ha rice field to growing maize and other plants.

- The Southeast region concentrates on transforming from the rice-growing areas to growing higher economic value such as: flowers, decorative plants, safe vegetables, etc...

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