



POLICY BRIEF ON PADDY LAND CONVERSION



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INTRODUCTION OF THE PROJECT

The Restructuring for a more Competitive Vietnam (RCV) Project has been designed to support implementation of selected elements of the Government Master Plan on Economic Restructuring (MPER, 2013-2020) via three targeted components: *(1) Enhanced business competitiveness and transparency; (2) Restructuring competition institutions in line with international commitments; (3) Restructuring the rural economy focusing on rice value chains* and a flexible fund to respond to emerging priority issues linked to the economic restructuring program.

Among the three components of RCV, the Institute of Policy and Strategy for Agriculture and Rural Development (IPSARD) has been assigned the component “Restructuring the rural economy focusing on rice value chains”. This component aims to help the GoV formulate evidence-based strategies for restructuring the rural economy to improve access to higher value-added economic opportunities in rural areas. The focus under this pilot phase will be on supporting the development of Vietnam Rice Restructuring Strategy. Vietnam Rice Restructuring Strategy towards 2020 and a vision for 2030 approved by Minister of Ministry of Agriculture and Rural Development on 23/5/2016 has been commenced to implement. The Strategy is expected to enhance the competitiveness of Vietnam rice sector as well as improve farmers’ income and promote the sustainable environment.

Implementation time: June 2014 to June 2017

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- Rice is an important agricultural commodity, contributing significantly to poverty reduction, socio-political stability, economic growth and export of Vietnam.
- With the starting point as a starvation country, most of the strategies and orientations for agriculture, cultivation and irrigation have aimed to maintain the area of 3.8 million hectares of land for paddy with the viewpoint of food self-sufficiency in all situations and increase exports of surplus rice.
- The rice export market has been experiencing a lot of fluctuations, causing difficulties for the farmers' lives due to the intense competition from the world market in supply (Thailand, India and emerging supply countries like Cambodia, Myanmar) and the shift to self-sufficiency of traditional consumption markets (Philippines, Indonesia, Bangladesh, Africa). Even for the higher-quality Jasmine rice, there are also signs of supply excessing and prices declining recently.
- Recently, the rice sector has exposed unsustainable economic, social and environmental factors. Low efficiency, competitiveness reduction, low income of rice farmers, depletion of land and water resources, and large greenhouse gas emissions are critical issues.
- In terms of supply, Vietnamese paddy production has increased rapidly over the past 25 years and has maintained a total production of over 40 million tons in recent years. In terms of demand, the per capita consumption of rice in Vietnam has declined sharply over the past few years and is continuing to decline; the rate of reduction in rice consumption is higher than the rate of population growth.¹ With the projections of population in 2030 and 2050 increasing respectively to 105.2 million and 112.7 million, the current rice production is still abundant for domestic consumption.
- According to the balance of supply-demand estimation, in the worst scenario with a very small probability of just 5% (low productivity of 5.8 tons per hectare, post-harvest losses of 10%, consumption of rice per capita maintains at a high level of 120 kg per person), by 2030, Vietnam needs only 3 million hectares of paddy land (equivalent to over 6 million hectares of cultivated land) to meet domestic demand and have a surplus of 790,000 tons of rice for export. Also with this scenario, if post-harvest losses are reduced to 7% (and this is highly practical when applying large

¹ The average per capita consumption of rice decreased from nearly 140 kg per person per year in 2006 to 115 kg per person per year in 2014, a decrease of 2% per year, higher than the population growth rate in the same period, which is 1.1% per year.

scale production and modern technology for harvesting, preserving and processing), by 2030, Vietnam still has a surplus of about 1.4 million tons of rice for export.

- In the past 25 years, the biggest decline of rice production by year is only 200 thousand tons of rice, and for crop, it is only 500 thousand tons of rice. With 3 million hectares of paddy land, Vietnam can completely guarantee rice self-sufficiency in all situations.
- The large supply of regional markets and Vietnam's participation in the rice reserve mechanisms for emergency situations of East Asia, ASEAN provides more opportunities for Vietnam to import rice, ensuring domestic consumption demand in emergency situations.
- The economic efficiency of rice monoculture is much lower than other agriculture/non-agriculture activities (such as growing corn, soybean, flowers, vegetables, fruits or switch to aquaculture in suitable areas).
- Investment, operation and maintenance of irrigation systems mainly for rice cultivation are very costly and low efficiency, especially in the context of increasingly scarce water resources, saline intrusion and drought.
- In this context, maintaining 3.8 million hectares of paddy land leads to rice surplus and have to export at low prices, causing loss to farmers and the general economic interests of the country. In addition, it also adversely affects the natural resources and environment.
- Paddy land conversion will help to increase land use efficiency, increase GDP, increase farmer's cumulative investment and improve consumer welfare. The optimum conversion rate is 19% of the total area (equivalent to 1.4 million hectares of cultivated area) of paddy land to other crops and livestock will bring the highest economic efficiency, contributing to GDP of about USD370 million each year².
- Although the Party and the State has started to make changes in the policy, allowing the conversion from rice production to more efficient industries in recent times; however, the conversion of paddy land was slow due to difficulties and problems arising from policies and actual deployment.

Law on Land 2013:

- Converting the land use purpose from paddy land to other agricultural land must be in accordance with very strict regulations and procedures; must be authorized by competent state agencies and must fulfill the financial obligations as

² The research was conducted by IPSARD, in collaboration with Australian National University in 2015-2016 under the Restructuring for a more competitive Vietnam Project (RCV) funded by DFAT.

prescribed³ (Article 57, Law on Land 2013). In addition, Article 58, Law on Land 2013 stipulates that to convert less than 10 hectares of paddy land to other agricultural land, must have written approval from the Provincial People's Council; while to convert more than 10 hectares, must have written approval from the Prime Minister. These regulation cause difficulties for businesses and investors.

- It is also difficult to increase the scale of production and the efficiency of rice production due to the limitation on the subjects who are allowed to receive and lease paddy land: Article 191, Law on Land 2013 stipulates that economic organizations shall not transfer the rice cultivation land use rights of households and individuals, except for cases where the land use purpose is converted according to the land use planning, which is already approved by the competent state agency; households and individuals that are not directly engaged in agricultural production shall not be permitted to receive or donate the paddy land use rights.

Decree No. 35/2015/NĐ-CP of the Government on the management and use of paddy land:

- Limitations in promoting the structure of plants and livestock on paddy land (Article 4, Decree No. 35/2015/NĐ-CP): Only allow to use "up to 20% of paddy land to lowering the ground for aquaculture, but can restore the ground when converting back for rice cultivation", causing difficulties to implement in reality with specific requirements of the fishery sector that needs large area and large cost of conversion.
- The allowance for rice cultivation area (Clause 2, Article 7) is still low (VND1 million per ha per year for wet rice land and VND500.000 per ha per year for other paddy land). Meanwhile, except the support for households that convert to

³ Fee for converting land use purpose is calculated based on the area of converted land use purpose. Land use purpose and land price as announced by the provincial People's Committee at the time of converting land use purpose. (Decree No. 45/2014/NĐ-CP regulates on the bases to calculate land use levy, Circular No. 18/2016/TT-BTC guides the implementation of a number of articles of Decree No. 35/2015/NĐ-CP).

grow corn and other crops in some areas⁴, there is no regulation to support the conversion of paddy land to other crops and livestock.

- There is no regulation on infrastructure support for local authorities when converting paddy land to other crops and livestock.

Policy proposal:

Changing the viewpoint:

- Changing the viewpoint from "keeping paddy land" to "keeping agricultural land".
- Changing the viewpoint on food security from "rice self-sufficiency" to "increase income and improve nutrition for farmers".
- Changing the viewpoint from "increase rice export" to "promote the integrated effect of rice (economic, political, and diplomatic)".
- Changing the viewpoint from "rice trade management" to "promote investment partnerships for rice export".

Adjustment of paddy land planning:

- Reviewing the planning policy that converts about 20% of paddy land to other plants and livestock and other forms of production to ensure the efficiency of economic, social, livelihood and employment for farmers as well as environmental costs.
- Focusing on developing rice in specialized areas with the most suitable conditions (such as the Mekong Delta, Red River Delta), the scale of households from 2 hectares or more. For these areas, focusing on supporting infrastructure, supporting the selection of plant varieties to produce high quality rice, specialty rice, applying science and technology, large-scale production, as well as combining with chain linking, branding and marketing.
- For the areas identified that rice cultivation is not optimal, facilitating households to convert to perennial crops and aquaculture. For the midland and mountainous, strongly converting to other crops such as corn, soybean, and livestock. For the Central Coast, in areas where rice cultivation is inefficient, converting to other crops,

⁴ Decision No. 915/QĐ-TTg on support policy to convert from rice cultivation to maize cultivation in the Northern Midlands and Mountains, North Central, Mekong Delta, South Central Coast and Central Highlands.
Decision No. 580/QĐ-TTg on support policy for plant varieties to convert from rice cultivation to other crops in Mekong Delta.

livestock and aquaculture. For the Central Highlands and the South East, converting to industrial crops and fruit trees.

Proposal to amend some specific documents and policies:

• **Law on Land 2013:**

- Amending Article 58, Law on Land 2013 to assign local authorities to appraise plans for converting paddy land use purpose to other agricultural, livestock and fishery purposes with the area of less than 300 hectares under planning.
- Amending Clause 2, Clause 3, Article 191, Law on Land 2013 on transferring and leasing of land in order to allow households and individuals that are not directly engaged in agricultural production to receive or donate land use rights to increase investment opportunities and increase large-scale production.

• **Decree 35/2015/NĐ-CP of the Government on the management and use of paddy land:**

- Amending Article 4: Removing the regulation on “up to 20% of paddy land to lowering the ground for aquaculture”, as well as regulation on preserving the status of the land when growing rice again in the combined area for aquaculture.
- Supplementing regulation on direct support for rice farmers in the specialized areas under the planning to VND2 million per hectare per year.
- Supplementing regulation on assigning the Ministry of Agriculture and Rural Development to plan and build rice cultivation areas from 5,000 hectares or more.
- Supplementing one-time allowance for farmers that convert rice cultivation areas to other crops, livestock and aquaculture under the planning of VND5 million per hectare.
- Supplementing one-time investment allowance on infrastructure for local administrations to convert paddy land to other crops, livestock and aquaculture under the planning of VND10 million per hectare.

REFERENCE LIST

Law on land 1993, 2003, 2013.

Resolution no. 134/2016/QH13 dated 09/4/2016 on adjustment on land use planning to 2020 and national land use plan for the end period (2016 – 2020)

Resolution no. 17/2011/QH13 dated 22/11/2011 on land use planning to 2020 and national 5 year land use plan (2011-2015)

Resolution no. 63/NQ-CP dated 23/12/2009 of the Government ensuring national food security

Resolution no. 15-NQ/TW dated 18/3/2002 of the 5th Plenum of the 15th Party Central Committee on accelerating the agricultural and rural industrialization and modernization in the period of 2001 – 2010.

Decree no. 01/2017/NĐ-CP dated 06/01/2017 of the Government on amending and supplementing a number of decrees detailing the implementation of the Law on Land

Decree no. 35/2015/NĐ-CP dated 13/4/2015 of the Government on management and use of paddy land

Decision no. 915/QĐ-TTg dated 27/5/2016 of the Prime Minister on policy supporting for conversion from rice to maize farming in the Northern mountainous region, North central region, Mekong Delta, South central region and Central Highlands

Decision no. 1898/QĐ-BNN-TT dated 23/5/2016 approving Strategy on restructuring Vietnam rice sector to 2020, vision to 2030

Decision no. 580/QĐ-TTg dated 22/4/2014 on policies supporting seed conversion from rice to other crop production in the Mekong Delta

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Decision no. 899/QĐ-TTg dated 10/6/2013 on approving the Strategy of restructuring the agricultural sector towards improving added value and sustainable development

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