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Viabile options for addressing rising pork prices in Vietnam

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Vietnam's food prices have increased by 22.2 per cent between the December, 2010 and June, 2011. A major factor contributing to this growth was the spike in meat prices.

In fact, the prices of meat have risen by 26-60 per cent within the first half of 2011. For instance, in Hanoi, a slaughtered carcass cost VND100,000-120,000 (\$5-\$6) per kilogramme in June 2011, compared to only VND50,000-60,000 (\$2.5-\$3) per kilogramme in the early 2011.

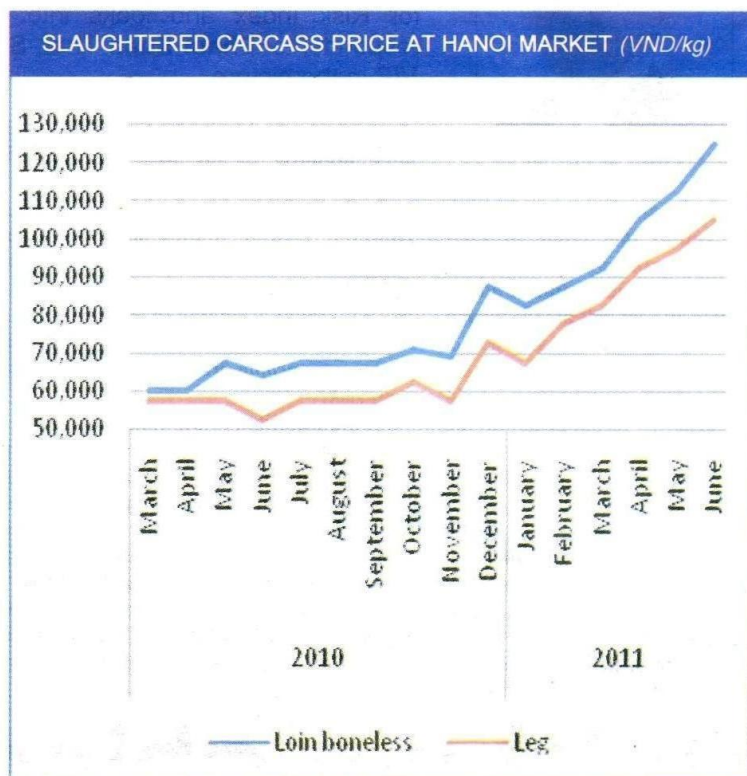
Similarly, the price of live pig in Ho Chi Minh City market doubled from VND36,000 to VND62,000 (\$1.8-\$3) per kilogramme live weight within the past six months. High pork prices are a concern to consumers and the government is pressed to respond.

Recently, it is argued that the border-trade of pork from Vietnam to China may further threaten pork prices in the domestic market. But there is no concrete empirical evidence on the outflows of pork from Vietnam to China. In addition, this argument becomes even more doubtful if looking at the difference of pork prices between China and Vietnam. In fact, retail prices of pork in big cities of China like Beijing and Shanghai are lower than those in Hanoi and Ho Chi Minh City. Therefore, supply shortages in the domestic market are the more likely drivers of currently observed high pork prices in Vietnam.

At a meeting held by the Ministry of Agriculture and Rural Development in July 2011, some officers proposed to establish the Pork Price Stabilisation Fund, following the models of China and Thailand. Yet, this is very difficult at this moment since Vietnam is not ready to have enough storage capacity to procure pork and institutional mechanism to provide subsidised inputs to too many small-holder pig producers. It implies that short-run intervention to the demand side cannot solve the problem of high pork prices and one needs to look for long-term intervention to boost the supply of pork.

Findings from an Australian Centre for International Agricultural Research (ACIAR) funded project on "Improving competitiveness of small-holder pig producers in an adjusting Vietnam market" (see www.vietpigs.com.vn) show that in the long run, the price of pork is likely to remain high, given that pork is a key ingredient in the Vietnamese diet.

The shift to substitute meat such as beef, poultry and seafood is less likely to happen since these products also face rising prices and vulnerable to high risks of epidemic diseases. In this context, acceleration of imported meat is proposed to temporarily deal with the escalation of pork price in the short term. Given Vietnamese consumers' preference for warm pork, this provides natural barrier against imports



and pork imports will thus unlikely pose a threat to the viability of domestic pork production. Most Vietnamese do not want to purchase imported frozen or chilled pork, thereby assuring continuous market dominance of domestically produced fresh pork.

The ACIAR-funded project also shows that rising feed prices, losses from diseases and inefficiencies in pork value chain are some of the critical factors driving rising pork prices due to shortage in supply to meet demand. According to the Vietnam Animal Feed Association, the price of animal feed since early this year has kept increasing 20-30 per cent compared to the same period of last year. This is due mainly to the rising price of raw materials for feed production, most of which are imported.

While Vietnamese demand for pork has been growing at a faster rate than its domestic supply, the weak management along the pork value chain resulting in inefficiencies in distribution also likely contributed to the recent steep rise in pork prices. Normally, high pork price might encourage pig farmers to expand their production to gain benefits. Yet, in spite of the high pork prices, the supply response from production has been weak. Many farmers have been constrained to enlarge their business because of concerns about diseases, high feed costs, the lack of access to inputs (piglets) and ineffectiveness in provision of production supporting services, veterinary service and credit service. This highlights the critical role for the government to find out ways to address such constraints and bring about substantial improvement to the pig production system.

The government's response has been to put emphasise on developing large farms to address supply con-

straints. In contrast, the research findings from the ACIAR-funded project suggests that this will not solve the problem both in the short- and long-term, as shown by projections from a pig sector model developed for Vietnam in which large farms will remain a small contributor to supply.

Even in the worst case scenario of stagnant growth in the traditional small-scale pig production, the large-scale production would take only 12 per cent of total supply in the next 10 years. Small-scale farms are often low cost producers because they utilise feeding inputs that would otherwise be unused or underutilised. They are less reliant on imports of feed in comparison with the large-scale farms. With these cost-effective feed options, small-scale farms are more flexible to cope with volatility in feed market prices, hence creating efficiencies in these systems. Therefore, focusing on large-scale farms and ignoring the majority of small-scale farms and their constraints will not result in long-term efficiency gains.

A combination of small-scale and large-scale pig producers is the most efficient strategy for expanding domestic pork supply in Vietnam at this stage of development. The focus should be in addressing causes of constraints to productivity growth, such as disease outbreaks, rising feed prices, efficient system for replacement of breeding stocks and improving pork value chain performance. Policies that will provide incentives to generate new technological breakthroughs and appropriate institutions to support these would likely to be more effective options.

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