REGULATING POLICIES ON OIL BUSINESS
REALITIES AND SOLUTIONS

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In Vietnam, oil is a government monopoly. Since 1990, the Government decided to allow this business full autonomy but the oil price was still fixed by the Government. After 1993, necessary measures were taken to help the oil business operate according to the market mechanism under the government's control with the following features:

- The Government fixed the selling price- ceiling based on the CIF prices plus taxes, transport cost and a reasonable profit. To make this ceiling feasible, the Government gave subsidies to the supply of oil to depressed areas.
- The Government, to deal with changes in oil prices on the world market, formed a price stabilization fund from surcharges on goods and services generating excess profit with a view to stabilizing prices of many goods, including oil of all kinds.
- Taxes on oil products were perfected step by step: including import duties, excise duties and VAT.
- To encourage competition in this business, the Government allowed formation of new oil trading companies, raising the amount of these companies from three in 1993 to eight in 1999.
- The system of import quotas on oil was replaced by the system of oriented plans for end users: big companies that need oil in large quantities could get quota of oil imported by state- run oil trading companies.
- The government set forth requirements for individuals and companies that want to engage in the oil trade.
- New regulations on environmental protection for oil trade were also made.

These measures helped the oil business develop and serve the economic development. However, the current mechanism for regulating this business also reveals many shortcomings that should be overcome as soon as possible to make the oil business develop faster in the coming years when the Vietnamese economy is integrated totally into the world economy.

1. Shortcomings of regulating policies on the oil business

a. Price regulating policy

Under this policy, the ceiling of retail price of oil, from 1993 on, was based on import price plus tax payments. In fixing this ceiling, all overheads and profit is fixed at VND450 per liter (or 15% of import price plus tax). However, the transport cost isn't the same when transporting oil to different zones, because the same facilities aren't available in all zones. For example, the transport of oil to provinces and cities near seaports in the South costs some VND250 per liter while the transport to the North and highlands costs VND450 per liter, or even VND750/ liter in case of northernmost provinces (Cao Bằng, Lai Châu, Hà Giang and Sơn La). This policy ensures that the oil is sold at the same price all over the country but it proves inappropriate to the market mechanism:

+ Difference in overheads encourages oil trading companies, in a competitive market, to concentrate in cities and provinces near seaports where trading brings in big profits and avoid supplying oil to remote provinces. At present, two companies under the Ministry of Trade (Petrolimex and Petec) that are under obligation to supply oil to all provinces are suffering heavy transport cost at the expense of their profits.

+ Prices of certain oil products fixed by the Government are too low to cover the overheads. Pricing authorities want oil trading companies to use profit from this article (gasoline for example) to make up for loss caused by others (diesel and fuel oil for example). As a result, up to December 1999, oil trading companies have suffered a loss of VND550-600 on a liter of fuel oil and some VND100 on a liter of diesel oil. That is why no oil company, except the said two ones under the Ministry of Trade, wants to import and sell fuel and diesel oil because they are under no obligation to supply such loss-making articles.

+ The fixing of price ceiling isn't linked with other supporting measures (tax reduction, surcharge, support from the price stabilization fund, etc.) and therefore it looks less persuasive to oil trading companies.

+ Adjustments to oil prices when necessary aren't made opportunely and thus causing losses for oil trading companies and reducing the regular supply of oil. If all factors are taken into consideration (price of oil on the world market, taxes and overheads), unit costs of many oil products are from VND100 to 550 per liter higher than selling prices. It is estimated that in 2000 when Vietnam has to import some 7.4 million liters of oil and no adjustments are

Table 1: Calculation of prices of oil products

Product	CIF price	Import duty	Excise duty	Transport cost	Unit cost	Max. wholesale price	Difference
Mogas 83 (USD/barrel)	27.05	4.06	4.67	1.37	37.15	39.20	2.05
Mogas 92 (USD/barrel)	25.70	3.86	3.86	1.49	35.48	42.49	7.01
Diesel (USD/barrel)	27.35	6.84		1.11	35.30	31.84	-3.46
Kerosene (USD/barrel)	23.80	4.76		1.27	29.83	36.22	6.39
Fuel oil (USD/ton)	138.00			3.45	141.45	115.14	-26.31

Note: CIF price was in September 1999 when the import duty rates was being adjusted.

made, oil trading companies will suffer an enormous loss.

b. Surcharge and price stabilization fund

The Price Stabilization Fund was formed by Decision 151/TTg made by the PM on April 12,1993. According to this Decision, the Government surcharges a percentage of the CIF price on imported oil (this surcharge at times reached 30-40% of the CIF price, as in August 1998 for example). The aim of this fund based on surcharges on oil is to keep the oil price stable when the CIF price rises. When the CIF price goes down, the surcharge is payable; and when the CIF price rises, the fund supplies subsidies to oil trading companies. This fund is useful and necessary when there are wide fluctuations in oil prices on the world market. This practice is very common among both developing and developed countries. However, the mechanism for surcharging on oil and using the Price Stabilization Fund for the oil business proves to be defective.

+ The surcharge, as stipulated in the Decision, is the difference between the CIF price and fixed selling price on domestic market but it is collected, at a percentage of the CIF price, when the oil is imported as an import duty, that is, it is payable before the oil is sold on the market and before the difference in prices generates. As a result, many companies had to pay surcharges although they were suffering losses.

+ Surcharges are imposed separately on articles, but the Government, when giving subsidies (or deficiency payments) only compensates for the total loss if any. In other words, the Government doesn't allow companies to obtain profits from saleable articles. This practice is unreasonable because companies (such as Petrolimex and Petec) under obligation to supply loss-making products (such as fuel oil) have to suffer losses.

+ Procedures for collecting surcharges is too inflexible and complicated to smooth the job. When applying this mechanism, the Government should make it flexible and opportune: when the world price of oil rises, the surcharge should reduces and vice versa. This mechanism should operate automatically without waiting for instructions from the Government. Without this flexibility, the policy on surcharge hasn't produced intended results and the Government had to regularly adjust the import duty and surcharge rates when the world prices fluctuated. Thus, this mechanism produced bad effects on market prices.

+ Besides Mogas 83, many companies also imported condensate or used local condensate for making Mogas 83 but the Government had no measure to surcharge on this kind of petrol.

c. Taxes on oil

At present, tax receipts from oil contribute a lot to the budget income. When imported, the oil is taxed at an import duty rate equaling 150% of the CIF price; a VAT rate of 10% of import price plus import duty; an excise duty rate of 25% of import price plus import duty and a surcharge as a percentage of the CIF price (the surcharge rate isn't fixed). Tax rates on the oil are usually high and changeable (see Table 3).

There are many shortcomings in the system of taxes on the oil:

Table 2: Adjustments to duty and surcharges on imported oil

Object of adjustment	Number of adjustments						
	1993	1994	1995	1996	1997	1998	1999
Import duty	1	2	3	3	3	3	5
Surcharge	2	2	3	3	2	4	2
Total	3	4	6	6	5	7	7

Table 3: Import duty, excise duty and surcharge on imported oil

Date	Total taxes and surcharge as % of CIF price			
	Petrol	Diesel	Kerosene	Fuel Oil
Jan.1,1999	104	101	86	32
April 4,1999	115.5	101	86	32
July 1,1999	84	76	76	10
Oct. 1,1999	32.25	37.25	32	10

+ Because the total tax and surcharge on the oil is too high, a small change in the world price of oil will produce a great effects on the price of oil on the domestic market while the Price Stabilization Fund isn't flexible enough to prevent such effects, and as a result the Government should adjust many tax rates and causes a lot of trouble for the tax authorities.

+ Taxation of imported oil aims only at increasing the budget income, instead of encouraging local production. In many cases, the import duty is contrary to the fixing of price ceiling with the result that oil companies have to suffer great losses (such as the trade in fuel oil in the fourth quarter of 1999).

+ Taxation of oil is an important source of budget income but it isn't stable because of wide and seasonal fluctuations in tax rate and the CIF price.

+ Finally, the taxation fails to be a regulatory instrument that orients consumers towards certain problems such as environmental protection or encouragement to the use of local goods.

d. Import control

According to current regulations, oil is a conditional trade, that is, only companies with necessary facilities as required (such as fire-fighting equipment, pollution control equipment, etc.) may get licenses to import and trade in oil. However, when increasing the number of oil trading companies, necessary inspections haven't been carried out properly with the result that some companies that fail to meet these requirements were also granted licenses. They usually cause waste and pollution when importing small quantities because of the lack of warehouses and specialized transport means.

In addition, the business performance of oil trading companies depends a lot on the scope of import and trading. The increase in number of oil trading companies and unfair competition between state-run companies will work to the advantage of private traders. At present, importers and wholesalers of oil (all are state-run companies) are suffering losses while distributors and retailers (most of them are private traders) make good profit.

The import control task isn't performed well. In granting import quotas to companies, the Ministry of Trade doesn't bind them to any obligation (except two companies under the Ministry of Trade). After granting quota, no inspection is carried out, therefore most companies only import and trade in oil products of high profitability and leave the trade in other products to companies under the Ministry of Trade. This situation leads to unfair competition, weakens the public sector and hampers the development of the oil business when it is about to face foreign competition.

Table 4: Import of oil in the first three quarters of 1999 (ton)

Company	Quota and import	Mogas	Diesel	Kerosene	Fuel Oil
Petrolimex	Quota	950	2,080	80	900
	Import	620	1,126	22	749
Petec	Quota	230	500	120	250
	Import	148	341	54	150
SaigonPetro	Quota	150	650	80	110
	Import	112	482	60	46
Vinapco	Quota	20	210		40
	Import	15	202		
Petechim	Quota	10	100	20	50
	Import	10	100	20	16
Đồng Tháp	Quota		85	15	
	Import		64	10	
Military Oil Company	Quota		20		
	Import				
PetroMekong	Quota	6	10	4	
	Import		5		

e. Pollution control

At present, the governmental bodies only control the quality of products when they are imported or produced from local oil refineries but there is no control over the distribution of oil products through retail outlets. To make more profit, many outlets mix kerosene or Jet A1 with petrol and thus causing pollution. There is a plan to ban the import and use of leaded fuel but no policy is adopted to support the import and use of unleaded petrol.

2. Measures to perfect policies on the oil business

a. When many companies engage in the oil trade, the Government had better reform the mechanism for fixing the price ceiling. This ceiling should include all costs of supplying oil to the remotest provinces in order to ensure fair competition between companies. The Government could use other instruments (subsidies for example) to make sure that the oil is sold at the same price in all provinces instead of forcing oil trading companies to suffer losses in undertaking this task.

b. To stabilize the oil price, the Government could re-establish the Price Stabilization Fund (which was dissolved on Sep. 27, 1999 when the Export Promotion Fund was formed) based on surcharge on imported oil and create a mechanism that is flexible enough to allow this fund to operate automatically when collecting surcharges and granting subsidies. To achieve this aim, the Government could fix a standard CIF price based on a maximum price ceiling and maximum tax rates. When the world price is lower than the standard CIF price, some 70% of the difference will be paid to the Fund and companies retain the rest to form a fund for loss compensation. When the world price is higher than the standard CIF price, the difference will be made up for by both two funds. To encourage companies to improve their performance, the Government only grants subsidies when the total funds for compensation held by companies suffers a deficit. Each company will have its own share in the subsidy granted by the Government according to its contribution to the Price Stabilization Fund.

c. To avoid effects of fluctuations in the world price of oil and ensure the budget income, the Government could impose tax rates based on the standard CIF price. Moreover, the additional corporate tax could be exempted when companies turn its retain profit into new investments.

d. The Government could base import quota on contribution from each company to the Price Stabilization Fund in order to encourage companies to import oil at as low price as possible, improve their performance and achieve economies of scale.

e. The Government should carry out regular inspections of the fire equipment and pollution control facilities, refuse to grant import licenses to companies without necessary technical facilities and ban the transport or ship-to-ship loading of inflammable materials in order to prevent pollution.

f. To control the quality of oil supplied to consumers, the Government should make regulations on oil agency business forcing oil retail outlets to enter into a contract with only one supplier and bear full responsibility for the quality of products they sell. It's difficult to control the product quality when an outlet could make contracts with many suppliers.

g. To avoid waste in building too many oil depots, the Government should make a master plan to build depots and other facilities needed for the development of the oil business in coming years and encourage companies to invest in strategic facilities with a view to enhancing their competitiveness in the international integration process.

h. A new organization (for example, an Energy Committee as suggested by the World Bank) could be formed to manage the oil business instead of having this business controlled by too many authorities.

i. One of the important objectives set for the oil business at present is to prepare itself for the competition with foreign rivals. So the Government should restructure the system of oil trading companies and link them with oil prospecting companies and oil refineries with a view to forming powerful groups that are strong enough to survive the international competition■