

The Market for LPG and Its Potentials

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1. The domestic market for LPG in recent years

In Vietnam, LPG, or gas for short, was introduced in the late 1950s. The gas consumption reached 15,000 tons per year in the 1970s. From 1975 to 1990, it disappeared totally from the market because the market was closed to foreign trade. In 1992, the Elf Saigon Joint Venture came into operation bringing the gas back to consumers. It is now the most widely used fuel in industries, households, service sector and transport. The gas consumption rose by 20%-25% per year. According to the Vietnam Oil and Gas Corporation, household sector accounts for 65% of the gas consumption, the industrial use 25% and others 10%.

In the years 1993-1998, there were only 10 gas suppliers in Vietnam because they had enough warehouses and licenses to import gas. In 1999, the Dinh Cố Gas Factory run by Petro-Vietnam Gas Corporation came into operation and became the first gas-producing concern in Vietnam.

Since 2000, some 50 gas companies with national brand names have come into being but most of them are of small scale.

Although gas trading is a conditionally-licensed business, of the same kind as the fuel trading business, it is open to all economic sectors and considered as an essential commodity to the socioeconomic life.

This business is increasingly busy because more and more households and factories decide to use this fuel, which encourage production and distribution of gas-fired appliances and their spare parts, along with various gas-relating services.

There are two sources of gas: the domestic one from the Dinh Cố Gas Factory with an installed capacity of 300,000 tons per year; and the foreign ones from Thailand, Malaysia, Singapore, China, Japan and South Korea. At present, there are some 60 concerns acting as distributors, wholesalers or retailers. The competition becomes keener and keener between

major players, some are foreign ones, such as BP, Shell, Elf, Total, and Exxon Mobile Unique and local ones, such as Vinagas, Thành Tài, Hồng Mộc, Saigon Gas, and Gia Định.

In the past two decades, the growth rate has been rather high while the inflation rate was kept at a one-digit level although the 1997 financial crisis slowed down the economic development for some times.

Table 1: Vietnam's growth rate in recent years

Year	Growth rate	Year	Growth rate
2000	6.79%	2004	7.70%
2001	6.89%	2005	8.43%
2002	7.08%	2006	8.17%
2003	7.24%		

The industrialization and modernization process and foreign investment have helped improve the personal income and living standard with the result that the demand for gas by both industrial and household sectors starts to increase offering a great business opportunity to the gas business.

On the world market, China has become an important player and its demand for fuel and energy is very great, which will affect the gas supply and demand and make its price to rise in future. This tendency will affect unfavorably the gas trading business while the increased price of gas will encourage the use of gas substitutes.

Regarding the political and social life, Vietnam enjoys the freedom from riots, social unrest and terrorism and it is ranked among countries with the best political stability. The government has also adopted many measures to improve the business climate and offer a level playing ground to all players.

The legal infrastructure is also beefed up by promulgation of many acts and laws. The Environment and Forest Protection Laws will encourage the use of gas when they come into effect. The fact that the import duty rate on the gas is reduced from 30% to 5% has good

effects on the gas trading.

Regulations and rules affecting the gas business, however, are still lacking and not perfect if any. Up till now, there is only a decree by the Government (11/1999/NĐ-CP dated March 3, 1999) and a circular by the Ministry of Commerce (15/1999/TT-BTM dated May 19, 1999) that give some guidelines on the trade in the LPG. They have become obsolete now and reveal many loopholes for commercial frauds.

The international integration offers both opportunities and challenges to local companies, including gas trading ones. In the gas business, the competitive edge lies in storage facilities and financial strength. The presence of foreign oil and gas giants in Vietnam after it becomes a WTO member will make the competition keener and cause a lot of difficulties to local companies.

Political crises in Middle East and West Asia and terrorism cause prices of crude oil and gas to rise. They are expected to keep rising and causing difficulties to gas companies and consumers as well.

When the personal income is improved and urbanization takes place at high speeds, the urban population and their demand for gas start to rise. In addition, the use of gas in households helps save women from certain chores.

These factors lead to increases in the market demand and change proportion of gas consumption in industrial and household sectors.

As for the population, in spite of various measures taken in recent years, it keeps increasing over years, about one million a year. The following table shows increases in the population in recent years.

Table 2: Increases in Vietnam's population

Year	Birth rate	Population (million)
2000	1.36%	77.6
2001	1.35%	78.6
2002	1.32%	79.7
2003	1.47%	80.9
2004	1.40%	82.0
2005	1.33%	83.1
2006	1.21%	84.1

In recent years, the industrialization has made the demand for electricity exceeds the supply; and the energy authorities have take measures to discourage the unnecessary use of electricity in households with a view to increasing the power supply to manufacturing sector. And as a result, the price of electricity tends to rise, which encourage more urban residents to use gas. Technical advances also allow the use of gas in more and more businesses, including transport and

ceramics. It is estimated that the use of gas will be common among many industries while the introduction of new source of energy in next decades is more unlikely.

2. Prediction of the market for gas by 2015

Although the price of gas may rise in the coming years, the use of gas will continue to become widespread in production, households and transport. It will replace oil and petrol in transport and production, and coal and wood in cooking. With its reserves of oil, Vietnam has built facilities for producing gas in Dinh Cố and Dung Quất.

At present, the per capita gas consumption is 10.7 kg per year, lower than the regional average (48 kg in Thailand and 57 kg in Malaysia for example). With its target of becoming an industrial country by 2020, the demand for gas, especially for industrial use will certainly increase, by 14-17% in the years 2007-2010 and 9-13% in 2011 – 2015 according to a rough estimate. In the next 10 years, the demand by rural areas will start to increase.

As for the supply, the South Côn Sơn project will produce some 500,000 tons a year from 2007 on; Dung Quất project 600,000 tons from 2009 on, and Southwest project 500,000 tons from 2010 on. Thus, the supply and demand will be equal by 2010 and this situation will be maintained for some three years. From 2012 on, Vietnam has to import it if the domestic supply is not improved.

The price war has broken out between gas companies with the result that some of them will go out of business if no measures to be taken to ensure fair competition. Some companies, such as Gia Định anhd Thành Tài, have cooperated in building storage facilities and buy ship. Acquisition has also taken place: Picnic Gas has bought Phú Mỹ Gas and Petronas bought Vietnamese branch of Exxon Mobil Unique. This trend will be stronger in the coming years ■

Table 3: The matrix of factor affecting the trade in gas

Factor	Degree of importance	Classification	Point
1. Economic growth, international integration	0.05	3	0.15
2. Improved legal infrastructure	0.06	3	0.18
3. Increased degree of urbanization	0.05	3	0.15
4. Increases in population	0.06	3	0.18
5. Increases in the market demand	0.10	4	0.40
6. New technologies	0.05	3	0.15
7. Customers's awareness of brand names	0.15	3	0.45
8. Increased supply from domestic sources	0.05	3	0.15
9. Increased price of gas	0.10	2	0.20
10. Failure to prevent fake gas	0.15	2	0.30
11. Keener competition	0.10	2	0.10
12. Increased use of gas substitutes	0.08	2	0.16
Total	1.00	-	2.67

Source: Author's calculation based on Focus Group method