

MEASURES TO INCREASE EXPORTS FROM VEGETABLE OIL INDUSTRY

by MEcon. PHAN NGOC TRUNG

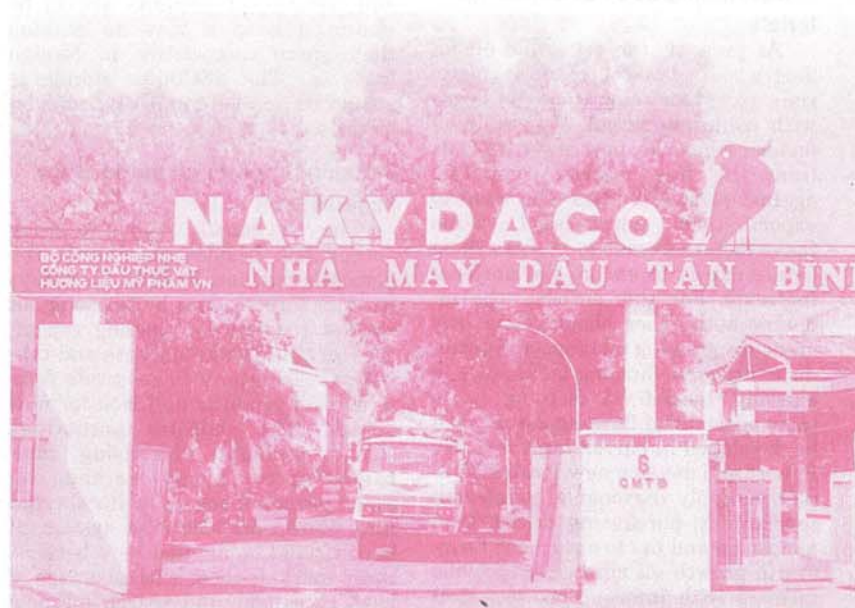
Vegetable oil could be used as food and for industrial purposes (in producing detergent, paint, pharmaceuticals and cosmetics for example). According to the *Oil World Annual 1999*, the world vegetable oil output increased from 69.55 million tonnes in 1995 to 79.74 million tonnes in 1999 and the world market demands 15 million tonnes more. The need for vegetable oil increases because it is used as a substitute for animal fat. This means that there is a potential market for vegetable oil exported from Vietnam.

I. SITUATION

The export of vegetable oil under the direction of the Ministry of Industry experienced two development stages:

1. From 1986 to 1990

In this period, main buyers of Vietnamese vegetable oil were the USSR and East European countries. Oil was exported according to protocols between Vietnam and socialist countries in a program to develop coconut orchards in Vietnam. In fact, such partners as the USSR and DRG bartered other goods (equipment, machinery, etc.) for oil. The vegetable oil industry only had to supply oil five years after receiving goods from these partners at the price of 518 ruble a tonne. That is why the value of export oil increased quickly in this period.



by Vietnam. Main export products were raw coconut and arachis oil. Other products, such as sesame oil, peanut and refined oil, were also exported to Japan, Singapore, Hong Kong and Australia.

2. From 1991 to 1999

After the collapse of the socialist bloc, the export of vegetable oil stooped and the oil industry should look for new markets. Vietnam started to export refined arachis oil, sesame oil, peanut and refined oil to

saleable in these markets because it couldn't compete against coconut oil of better quality from other ASEAN countries (Philippines, Thailand and Indonesia, etc.). The value of export oil fell drastically in the years 1993-96 because the coconut oil represented some 50% of vegetable oil output. (see Table 2 next page).

Technical innovations and new machinery in the years 1997-99 allowed the vegetable oil industry to diversify its products and improve their quality. New markets were opened in this period: South Korea, Israel, West Asia and Ukraine. Main export products in 1999 were coconut oil (36.56%), raw peanut (41.55%), sesame oil (12.46%), arachis and refined oil.

However, the export value of US\$20 million is too small for such an industry with comparative advantages as the vegetable oil, while its counterparts in Indonesia, Philippines and Thailand can earn from US\$1 to 3,5 billion a year in export. That is why the farming and process-

Table 1: Value of export vegetable oil in 1986-1990

Value	1986	1987	1988	1989	1990
Transferred ruble	4,562,760	6,693,157	5,636,222	10,224,935	5,605,834
U.S. dollar	726,579	1,748,702	1,292,489	783,941	4,057,807

Source: Vietnamese Association of Vegetable Oil.

The table shows that in this period, the socialist bloc bought from 55% to 92% of vegetable oil exported

Japan, Singapore, Hong Kong, Taiwan, France, England and Australia. The coconut oil from Vietnam wasn't

Table 2: Value of export vegetable oil in 1991-1999

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999
Export value (US\$)	5,690,469	7,008,536	2,573,718	5,120,524	2,494,539	3,105,757	5,423,520	10,634,918	22,340,000

Source: Ministry of Industry

ing techniques are improved incessantly in these countries.

II. MEASURES TO DEVELOP THE VEGETABLE OIL INDUSTRY IN VIETNAM

1. Developing sources of raw materials

At present, the vegetable oil industry control no source of raw materials except for some state-run farms with moderate output. Vegetable oil factories have to buy raw materials from the free market competing against private traders who want to export them unprocessed, while these factories want to process them before export to ensure the national interests. For this purpose, the industry authorities should zone new areas for growing oil crops and introduce intensive farming techniques to existing specialized farming areas (new specialized farming areas could be developed in barren land or hills), import and develop new strains of oil plants, apply reasonable policies on investment; purchasing prices, land allocation and tax to encourage farmers to growth oil crops, and provide farmers with information; technical assistance; new strains and other necessary materials.

2. Innovating processing techniques

The network of vegetable oil factories all over the country should be upgraded by installing new machinery and production lines. After the product quality is enhanced, design and package of products should be improved with a view to making them more competitive in foreign markets. The ISO9001 standards should be applied to all vegetable oil factories.

3. Extending foreign markets for vegetable oil

The vegetable oil industry authorities, besides controlling the domestic market, have to find ways to enter foreign ones by carrying out market researches, opening rep offices in traditional markets and taking part in international trade fairs to market products and look for new buyers. The industry authorities should promote advertising campaigns in traditional markets, re-enter former markets of Russia and East European bloc (the system of barter could be applied here because these markets meet with shortage of hard currency), and search for new trading partners in West Asia and Africa.

4. Tapping possible sources of finance

Capital needed for intensive investment could come from long-term loans, foreign investment, private investment, retained profits or advances from customers. These sources of capital should be supplied only to companies with feasible plans and ability to employ it effectively. The industry authorities can consider merging certain companies and factories with a view to concentrating available resources and enhancing their competitiveness.

III. SUGGESTIONS

To promote export of vegetable oil, besides efforts by companies and factories in this industry, help from other governmental bodies is also needed because it is a complex and difficult task. The following are our suggestions about this problem.

- The central bank supplies soft loans needed for replacing old assets of vegetable oil factories and making intensive investment with a view to helping them meet requirements in both foreign and domestic markets.

- Giving tax incentives and financial support to farmers who grow oil crops, and making the development of oil crop growing areas part of the national development strategy.

- As for such traditional markets as Ukraine, Russia and East European countries, and some new markets as West Asia and Africa, the Government should take measures to deal with difficulties in settlement mechanism and insurance in order to help vegetable oil companies to promote their exports.

The vegetable oil industry could produce a wide range of products and have a bright future in the world market, but these products from Vietnam couldn't compete against their counterparts from other ASEAN countries and couldn't find firm footholds in foreign markets. Reasons for this situation, in short, are: lack of researches on foreign markets, poor product lines, low quality and high production cost. It's difficult for the vegetable oil industry to deal with all these shortcomings within a short period. That is why the government intervention become necessary and urgent. ■

