

# Road Map for Changes in Cement Price

by MEcon. MAI ANH TÀI

## I. NECESSITY TO BUILD A ROAD MAP FOR CHANGES IN CEMENT PRICE

The process of global economic integration is an inevitable trend. This will cause both opportunities and challenges to a lot of countries, especially developing ones. In such a situation, production and exchange of goods are internationalized. The road map for price changes of a product does not depend on the intention of any policy maker, but on production costs and the rule of demand and supply. Vietnam is required to build this road map due to the following reasons:

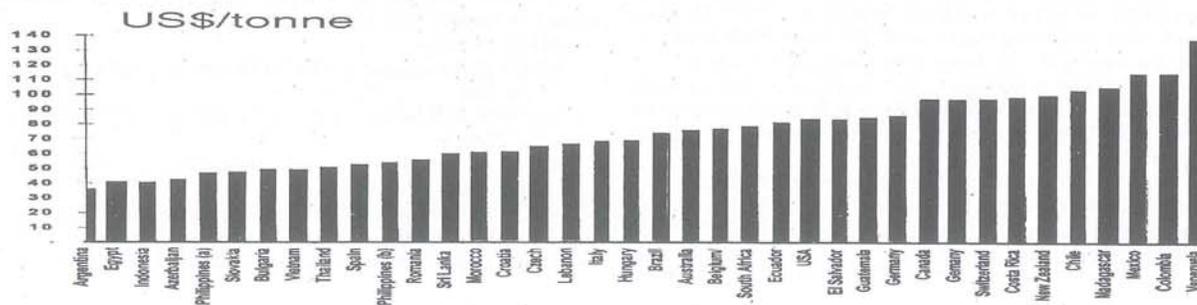
### 1. The selling price of cement has been almost unchanged over the past years.

The selling price of cement in the local market has been almost unchanged over the past seven years, ranging from VND940,000 to VND970,000/tonne, although the exchange rate between US dollar and Vietnamese đồng increased continuously, up by 33%. Meanwhile, Vietnam cement price stood at US\$50/tonne, one among ten cheapest prices in the world and the second cheapest one in regional countries (behind Indonesia). This has pushed cement manufacturers to difficulties in reinvestment.

Figure 1: Retail prices of Hà Tiên 1 cement in HCMC (VND/tonne)



Figure 2: Cement prices in selected countries



Source: E&Y Company

Table 1: Change in USD/VND exchange rate in HCMC

| Year | USD/VND | Against 1997(%) |
|------|---------|-----------------|
| 1997 | 11,819  |                 |
| 1998 | 13,453  | 13.83           |
| 1999 | 13,955  | 18.07           |
| 2000 | 14,232  | 20.42           |
| 2001 | 14,810  | 25.31           |
| 2002 | 15,286  | 29.33           |
| 2003 | 15,525  | 31.36           |
| 2004 | 15,770  | 33.43           |



### 2. Input costs increase sharply

Clinker is a major material to produce cement for most of businesses in southern provinces. Clinker cost accounts for 80% of production cost and the price of imported clinker has steadily risen in the past years (see Table 2)

The prices of other inputs also saw a sharp rise as follows:

- Steel price rose 8%; therefore prices of materials made from steel also went up.
- Paper price went up, so the price of package rose 36% year-on-year.
- Increasing price of petroleum, traffic control, and limited load made transport cost soar more than 78% compared to the same period last year...

**3. The prices of input materials are forecast to increase sharply in the coming years**

Thailand's cement corporations have confirmed their plans to increase clinker prices to US\$26-28/tonne in the first quarter of 2005 and US\$30 by the second one and steadily rise in the year to come.

The FOB prices of clinker in some Asian countries are as follows:

- Indonesia: US\$27/tonne in 2004 and US\$30/tonne in 2005 but supply is uncertain;

- Philippines: US\$26/tonne in 2004 and US\$29/tonne in 2005 but supply is uncertain;

- Malaysia: US\$26/tonne in 2004 and US\$30/tonne in 2005.

- Taiwan: US\$25/tonne in 2004 and US\$26/tonne in 2005 but supply is uncertain; and

- China: US\$24/tonne in 2004 and US\$25/tonne in 2005 but supply is uncertain.

In addition, domestic prices of petroleum and oil go up and push up the transport cost or input cost.

**II. SUGGESTION TO PLAN CHANGES IN CEMENT PRICE**

**1. Road map**

To build an appropriate road map for changes in cement prices will help stabilize the cement market. This road map must comply with the following principles:

- Securing reasonable profits for cement manufacturers so that they can maintain production and reinvest for expansion in accordance with the industry's master plan which has been approved.

- Avoiding price shocks in the market.

- Lower than prices of the same kind in local and regional markets and compatible with the AFTA integration in 2006.

- Implementing antimonopoly law and observing other regulations.

- Not being too long (only from 2 to 3 years) and being adjusted annually in accordance with market changes.

**2. Building the road map**

- The market is divided into four zones: Zone I from Ninh Binh to upper northern provinces, Zone II from Thanh Hoá to Quảng Ngãi, Zone III from Binh Định to Long An, and Zone IV from Tiền Giang to Cà Mau.

- The typical trademark of cement is priced in each zone: Hoàng Thạch cement in Zone I; Bim Sơn cement in Zone II; Hà Tiên 1 cement in Zone III; and Hà Tiên 2 cement in Zone IV.

- Reasonable factory cost prices of each kind are determined (PCB40 quality), for example:

+ Hoàng Thạch cement: US\$48 ≈ VND756,000/tonne ≈ VND832,000 (including VAT).

**Table 2: The price of imported clinker over years**

|  | 1998    | 1999    | 2000    | 2001    | 2002    | 2003    | Early 2004 |
|--|---------|---------|---------|---------|---------|---------|------------|
| Thailand's FOB price (US\$/tonne)                  | 17.0    | 17.0    | 15.1    | 14.7    | 17.1    | 19.1    | 21         |
| Import duty  | 10%     | 10%     | 30%     | 40%     | 40%     | 20%     | 20%        |
| Surtax   | 0       | 0       | 10%     | 10%     | 5%      | 0       | 0          |
| Product price at the plant's warehouse (VND/tonne) | 480,000 | 480,000 | 565,000 | 570,000 | 610,000 | 569,458 | 634,277    |

**Table 3: Prices of some materials in 2003-2004 (VND)**

| Materials           | Price     |           | Change     |        |
|---------------------|-----------|-----------|------------|--------|
|                     | 2003 (*)  | 2004 (**) | (**) - (*) | %      |
| Clinker (tonne)     | 569,458   | 634,277   | 64,819     | 11.38% |
| Gypsum (tonne)      | 275,190   | 311,797   | 36,607     | 13.30% |
| Kraft paper (tonne) | 7,935,000 | 9,777,000 | 1,842,000  | 23.21% |
| Diesel oil (liter)  | 3,900     | 4,190     | 290        | 7.43%  |
| Petroleum (liter)   | 5,270     | 5,524     | 254        | 4.82%  |
| Lubricant (liter)   | 9,660     | 12,500    | 2,840      | 29.40% |
| Grinding ball       | 11,101    | 11,989    | 888        | 7.99%  |

**Table 4: Production cost and selling price of Hà Tiên 1 cement (VND/tonne)**

| Indicator              | Cost     |                             | Change     |     |
|------------------------|----------|-----------------------------|------------|-----|
|                        | 2003 (*) | Fourth quarter of 2004 (**) | (**) - (*) | (%) |
| 1.Clinker              | 455,566  | 589,703                     | 134,137    | 29  |
| 2.Direct cost          | 112,393  | 127,053                     | 14,660     | 13  |
| 3.Overhead cost        | 101,342  | 98,292                      | -3,050     | -3  |
| Production cost        | 669,301  | 815,048                     | 145,747    | 22  |
| 4.Sales cost           | 30,565   | 29,579                      | -986       | -3  |
| Total cost             | 699,866  | 844,627                     | 144,761    | 21  |
| Selling price          | 795,455  | 795,455                     | 0          | 0   |
| Profit (+) or loss (-) | -95,589  | -49,172                     | -144,761   |     |

+ Bim Sơn cement: US\$50 ≈ VND787,500/tonne ≈ VND866,000/tonne (including VAT).

+ Hà Tiên 1 cement: US\$58 ≈ VND913,500/tonne ≈ VND1,000,000/tonne (including VAT).

+ Hà Tiên 2: US\$54 ≈ VND850,000/tonne ≈ VND935,000d/tonne (including VAT).

- The above prices will be compared with current prices to specify adjustments, for example:

+Hoàng Thạch:

VND832,000/tonne - 680,000/tonne = 152,000/tonne

+Bim Sơn:

VND866,000/tonne - 620,000/tonne = 246,000/tonne

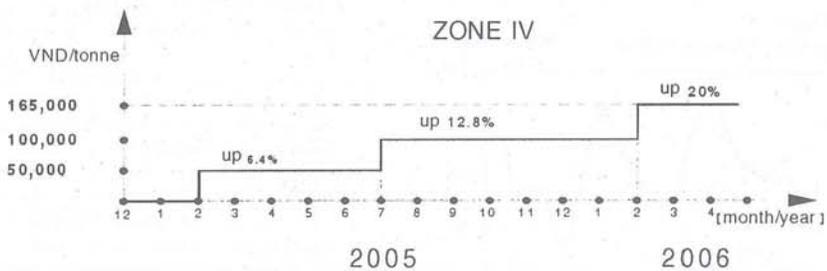
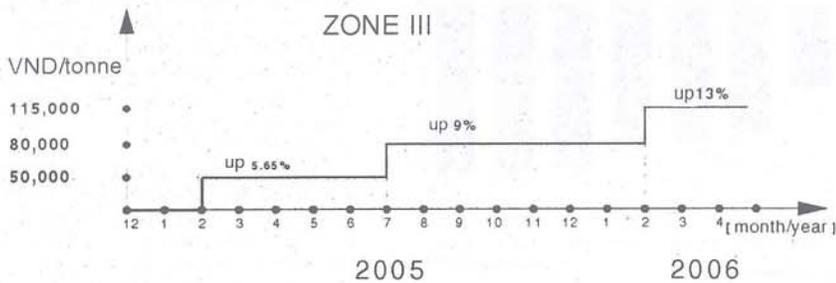
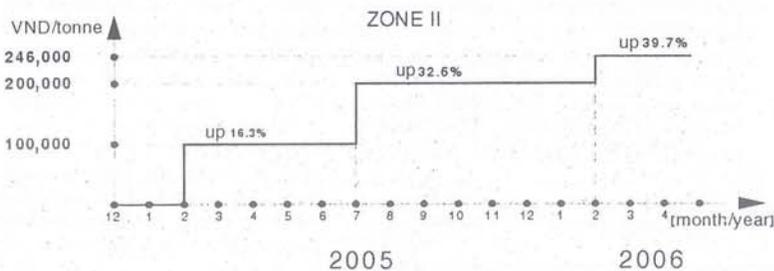
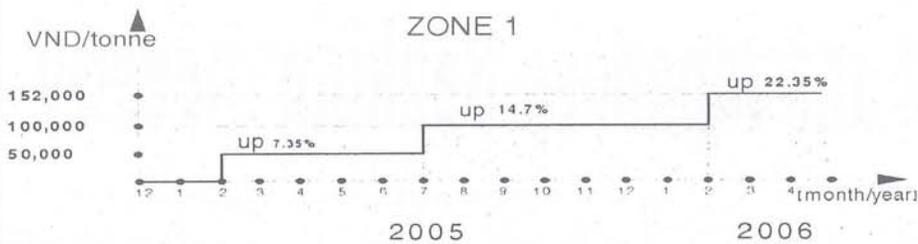
+Hà Tiên 1:

VND1,000,000/tonne - 885,000/tonne= 115,000/tonne

+Hà Tiên 2:

VND935,000/tonne - 780,000/tonne = 155,000/tonne

The road map for changes in cement price is built for each zone until 2006 as indicated in the following figures:



Notes: Figures on the road map are only illustration and should be adjusted according to each company in a zone. The time to begin increasing price following the road map is late February 2005.

### 3. Mechanism to monitor and implement

At present, the capacity of Vietnamese cement manufacturers is as follows:

- Vietnam Cement Corporation: accounting for 47% total production.
- Foreign invested companies: accounting for 28% total production.
- Others: accounting for 25% total production.

Vietnam Cement Corporation takes charge of stabilizing the cement market. As a result, there should be close cooperation between the corporation with Vietnam Cement Association. To ensure healthy competition and implement the Government's targets, the Ministry of Construction, in combination with the Price Control Department of the Ministry of Finance, Vietnam Cement Association, and Vietnam Cement Corporation, monitors the above road map and take proper measures to prevent speculation, price manipulation, and dumping. The principles of inspection system have to abide by the Trade Law and Antitrust Law.

In addition, the Government should also allow Vietnam Cement Corporation to change its selling price after it has established proper selling prices if input costs increase 10%. The change must comply with the following principles: the new price must not exceed 80% of the increase in production cost and the time of price adjustment is three months later than the time when production costs begin rising; and the business must overcome the 20% change by improving management and stockpiling goods. ■