

THE PETROLEUM SECTOR'S PERFORMANCE IN 2001 AND PROBLEMS TO BE SOLVED

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The petroleum industry is an important and conditional business which is so far under close control by the Government. In 2001, the Vietnam's petroleum sector remained its growth rate although it was strongly affected by the supply-demand and upheavals in the world market oil.

I. GENERAL FACTS

According to the Ministry of Trade's plan, the petroleum import demand for local consumption was some 8.145 million tonnes and re-export 800,000 tonnes for 2001. The import volume is estimated at 9.1 million tonnes and total import value of US\$1.871 billion by Dec. 31, 2001 including 8.3 million tonnes worth US\$1.7 billion for local use. The demand increased 4% and import volume 3.7%, but the spending dropped 9% as compared with 2000.

Table 1: Petroleum import in 2001 (by Nov. 30, 2001)

Products	In the first 11 months of 2001		In the first 11 months of 2000	
	Volume (tonne)	Value (US\$ thousand)	Volume (tonne)	Value (US\$ thousand)
Petrol of various kinds			1,305,152	357,422
DO	3,812,513	834,130	3,793,366	942,942
FO	2,167,233	319,835	2,145,967	365,430
Kerosene	495,555	120,714	351,771	99,093
Flying fuel	222,043	56,971	212,719	60,540
Others	123,220	31,231	179,358	47,273
Total	8,260,233	1,711,092	7,988,333	1,872,700

Source: Ministry of Trade

The State income from the petroleum sector reached VND10,000 billion, representing over 12% of the total revenue, and rose by VND3,000 billion and over 40%. The revenue from the petroleum sector is important to the State budget. It is also easily controlled because most of payment came from major state importing businesses.

The petroleum prices plunged by VND35/liter from 2000 on average (see Table 2)

Table 2 State-fixed ceiling prices of petroleum (VND/liter)

Date	92 petrol	83 petrol	DO	Kerosene	FO
Jan.1, 2000	4,600	4,300	3,600	3,700	1,800
Jan.1, 2001	5,100	5,100	4,000	3,800	2,500
Dec.31, 2001	4,900	4,900	4,000	3,800	2,500

Regarding the macro-management policy, in 2001 the Government devised policies to regulate income of petroleum enterprises by flexibly adjusting import duty in line with the world market price and fixing the ceiling retail price. As a result, the Government has changed import tax thirteen times in 2001.

(see Table 3)

Table 3 Changes in import tax

Year	1997	1998	1999	2000	2001
Changes (times)	4	6	6	5	13

II. ACHIEVEMENTS

The petroleum sector has recorded significant achievements as follows:

First, the supply and demand is rather stable and there were no great changes in petroleum prices in spite

of serious upheavals in the world market. The world prices, for example, fluctuated within a range of 10% in April and September 2001 as compared with previous months, but the domestic prices almost saw no changes.

Second, state enterprises still played a leading role and were able to dominate the market in accordance with the Government's macro-management requirements. As a result, state enterprises had to import petroleum items including DO and FO and sold at prices lower than import cost because of serving domestic production such as electricity, manufacturing, transport, etc. The local petroleum market would have certainly experienced big upheavals had Vietnam Government applied the laissez-faire system, especially after the Sep. 11 event.

Third, the petroleum facilities including depots, ports developed fast in strategic areas such as Hải Phòng, Cần Thơ, Đồng Nai, HCMC, Vũng Tàu. In addition, domestic enterprises paid more attention to the expansion of retail networks, particularly in provinces, cities and im-

portant roads with the aim to sharpen their competitive edges before foreign rivals when the Vietnam petroleum market is open.



Fourth, the ban on import and use of lead-mixed petrol was a proper decision of the Government with a view to reducing environmental pollution, especially in big cities with heavy traffic like HCMC, Hà Nội...

III. PROBLEMS TO BE SOLVED

Besides the above-mentioned achievements, the Vietnam petroleum sector is facing difficulties, restrictions and other problems in 2002 and the following years, especially in the trend of integration.

First, the price-ceiling policy remains many shortcomings because according to experience from South Korea, India, Indonesia...which used to set the ceiling prices, the practice must be done together with forming the price stabilization fund to ease impacts by the world price upheavals. Moreover, the current application of ceiling prices does not mean the overcoming of monopoly because there are different petroleum importers now. It is aimed at limiting the price hike in the local market. Therefore, the price stabilization fund is badly needed. The price-ceiling mechanism currently causes a lot of risks to petroleum importers and distorts prices and cost factors of different industries in the economy. It also transfers profits from the petroleum sector to others unreasonably, for example, to the industries of electricity, transport...Although its loss is offset by the State due to price-ceiling application, but if this mechanism is prolonged, many major petroleum businesses are not able to produce enough profit for development. Their workers' income will face no opportunity to rise. The business reputation will deteriorate, even in a certain



case; the business is rated as ineffective one.

Second, there remain defects in the policy on collecting import tax. It is casually made and violates rules and the process of legal document promulgation. In 2001, the Ministry of Finance adjusted petroleum import tax rate thirteen times. In some case, an issued document was effective in only one to two days after signing! The tax rectification did not keep pace with the price fluctuation in the market. Sometimes the Government raised tax rates just at the time of increasing petroleum import prices while the ceiling prices were not changed. This practice has led to many negative acts because (1) it caused many risks to enterprises, their loss or profit making depended on state decision like facing force

majeure; (2) it resulted in market turmoil, affecting seriously supply-demand relation and prices; (3) it was very likely that some information was disclosed, making favorable conditions for organizations and individuals to gain profits (because these documents are effective right after signing); and (4) costs of petroleum import and distribution rose because local businesses had to hastily import petroleum at higher prices and suffered higher freight cost due to lacking careful calculations.

Third, the price-ceiling management does not ensure fairness among consumers, enterprises and the Government. In 2000, the Government implemented the motto "Co-sharing" among consumers, businesses and the Government. It increased the ceiling price partly (affecting con-

sumers' spending), enterprises reduced distribution costs by 10% and sell at the product cost (affecting enterprises' income) and the Government cut tax and used part of income from crude oil sales to offset losses from importing companies (affecting State budget). The State raised the average petroleum prices by VND550/liter in 2000; Petrolimex and Petec (under the Ministry of Trade) had to slash distribution cost by 10% and suffered losses of VND1.2 billion (this amount has been compensated by the State). However, when the world prices dropped in 2001, the Government only increased tax but it did not reduce the ceiling prices (see Table 4). Consumers in Hà Nội, HCMC...still incur losses because the retail prices were equivalent to the ceiling prices although these enterprises sold petroleum at prices lower than the ceiling one due to competition in other areas.

oil industrialization and modernization.

Fifth, the control on import quotas does not ensure fairness in terms of rights and obligations. The ceiling prices of oil products are determined by the State based on the general balance of different items. However, when already granting quotas, the Government takes no measures to force enterprises to fulfill their obligations fairly. Most of quota-granted enterprises only import and trade in profitable products including petrol, kerosene...and leave non-profitable items to the two state corporations of Petrolimex and Petec because these companies are responsible for providing unfavorable items including FO, so they have to suffer persistent losses. Another paradox is the Government has already granted import quotas to certain manufacturing enterprises (including foreign-invested ones), they only make direct petroleum import when seeing benefits but not when the world prices are

Seventh, the fixing of ceiling prices of some oil products is causing a lot of waste in consumption and having bad effects on the environment. The Government sets the price of kerosene much lower than the import price due to its social policy for remote areas. The CIF price of imported kerosene is 5-10% higher than that of petrol, and also higher than that of DO while the local selling price is only equal to 80% of 83RON petrol price and 90% of DO price. As a result, many retail petrol stations mix kerosene with gasoline (up to 30%) in order to acquire illegal profits or reduce price to compete with other stations.

Finally, investment in the petroleum industry is scattered, causing much waste to the national resources. An important characteristic of the petroleum sector is the economies of scale but this factor has been not tapped. At present, those which want to become petroleum-trading businesses must have depots and ports in accordance with regulations. Consequently, many enterprises have invested in construction of their own depots and ports dispersedly. These building sites have high costs of import and exploitation because their port capacity is not compatible with the depot size, thus causing losses to the economy on the whole. If the import of appropriate shipments (25,000-30,000 tonne tankers) is undertaken, Vietnam may save tens of millions of dollars per year.

Table 4: The world and domestic petroleum prices in 2000 and 2001

Products	92 petrol	83 petrol	DO	KO	FO
Platt's prices in 2000 (US\$/barrel)	31	30 *	32	34	158
Average retail ceiling price (VND/liter)	5,130	4,725	3,830	3,800	2,175
Platt's prices in 2000 (US\$/barrel)	25.5	25 *	27	27	134
Average retail ceiling price (VND/liter)	5,300	4,900	4,000	4,000	2,500

Notes: * based on Naphtha prices for comparison

Fourth, the management of authorized importing businesses did not respect regulations on conditional business. As mentioned, petroleum is a conditionally traded item; one of preconditions is that the enterprise has to obtain necessary technical base. It has to own depots and ports for petroleum trading. Nevertheless, in recent years, the Government has allowed businesses which did not meet necessary conditions to import and trade in oil. These enterprises pumped petroleum from foreign tankers to their ships, then sold as soon as possible because they had no port, depot and other facilities. This practice is beneficial to them but it should be stopped because it may cause oil slick, thus polluting the environment and leading to fire and explosion. It also does not meet the requirements for business stock, ensure the national energy security when the oil market faces upheavals and is finally opposite to the national

high. This forces Petrolimex and Petec to provide oil at ceiling prices lower than the import price and suffer losses.

Sixth, the competition between authorized petroleum importers is not controlled. At present, there are ten state petroleum importers. However, they are facing fierce competition in the market, leading to selling prices lower than the product cost. This results to profits transferred from wholesale area (mainly state companies) to retail businesses (mostly private ones); unreasonably from the petroleum sector to others. Large oil corporations' profits will be eroded and they are not viable for reinvestment and business expansion. While the country is prepared for integration and opening step by step the local oil market, domestic businesses have to build potentials to compete against the multinational oil conglomerates, so these above deficiencies must be soon removed.

IV. SUGGESTIONS

We would like to suggest the Government to take following measures to help the petroleum sector with sustainable development:

- To review the determination of ceiling prices, form the stabilization fund and impose a certain tax if need be;
- To make tax policy transparent; avoid fast changes in tax which cause risks to enterprises; and secure fairness in benefits among the Government, enterprises and consumers;
- To restructure state oil corporations into oil conglomerates for international integration;
- To plan the system of oil depots and ports for effectively tapped resources and the sector industrialization and modernization; and
- To apply separate policies for remote areas instead of price reduction as at present. ■