

PETROLEUM BUSINESS IN VIETNAM

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■ Petroleum business situation in Vietnam

- Petroleum is regarded as the “blood” of any national economy, defense and security. It provides an essential source of fuel for the operation of machinery in different sectors including agriculture, industries, tourism, defense and security. Therefore, petroleum plays an important role in any country and the demand for it keeps increasing.

- Petroleum business came into existence in Vietnam since Shell, Caltex and Esso started their business in the country. Shell, the world’s biggest petroleum company, established a subsidiary in Vietnam in 1911 while Caltex and Esso entered the market in 1930. These companies set up the foundation for petroleum business in Vietnam, especially in terms of infrastructure including docks, piers, pipes, mechanical workshops and service establishments.

- Activities related to petroleum are put under Vietnamese government’s control by setting retail price and import tariff rate. Petroleum price in Vietnam are affected by import price and import tariff. Due to recently negative changes in the economy, petroleum retail price has been adjusted several times to meet the real situation. In the past, Vietnam National Petroleum Group, Petrolimex, was the only corporation responsible for distributing petroleum nationwide. Nevertheless, the Prime Minister’s Directive 396/CT in 1990 marks the turning point of petroleum business in the country as it allows the participation of other companies in the business. As a result, there are 14 companies currently running this business including Petrolimex accounting for 48% of the market, PetroVietnam Oil Corporation with 16.4%, Saigon Petro with 6.5%, Thanh Le General Import-Trading Corporation and Military Petroleum Corporation with 2.4% and Vietnam National Shipping Lines with 1.2%.

- During the past 3 years, petroleum business in Vietnam has been influenced by the international petroleum market because the country still relies on import for its petroleum supply. In addition, in order to stabilize petroleum market price, protect the rights and benefits of consumers, investors, petroleum companies and the State, petroleum business has been gradually adjusted to fit market mechanism regulated by the government following the enforcement of Decree 84/2009 in 2009. The implementation of the Decree shows that it still contains some drawbacks. The future amendment of the Decree may promise a better market mechanism for petroleum

business in Vietnam. The participation of companies from different economic sectors will make Vietnam's petroleum market become more and more competitive.

■ Petroleum demand in Vietnam

Table 1 – Vietnam's petroleum demand forecast until 2015

(Unit: 1000 tons)

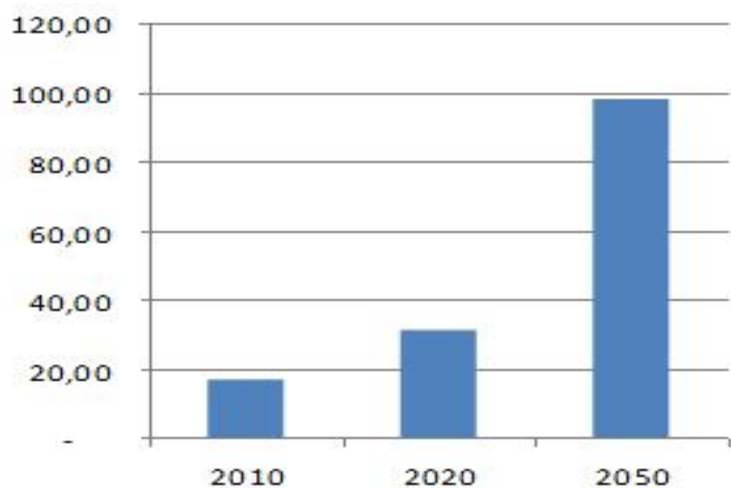
	2005	2010	2015
Petroleum for automobiles	2,830	5,589	9,337
Petroleum for planes	402	721	1,258
Kerosene	248	247	246
Diesel (DO)	4,420	7,169	11,400
Fuel oil (FO)	1,349	2,444	4,261
Total	9,248	16,170	26,503

Source: Ministry of Industry and Trade

- According to statistics, the current demand for petroleum in Vietnam is about 16.7-17.2 million tons/year. The number is forecasted to increase to 26,503 thousand tons by 2015, of which diesel accounts for 42-43%, petroleum for automobiles covers 35% and tends to increase, kerosene makes up small percentage of 0.6% and tends to decrease. The total demand will be 29-31.2 million tons/year by 2020 and reach 90-98 million tons/year by 2050.

Figure 1 – Total petroleum demand forecast for Vietnam by 2050

(Unit: million tons)



Source: Ministry of Industry and Trade

- The demands for petroleum in different sectors such as agriculture, industry and construction, and transportation are estimated to increase to meet the demand for economic development during the country's modernization process.

Table 2 – Vietnam's petroleum demand forecast by sector until 2015

(Unit: 1000 tons)

Sector	2005	2010	2015
Industry and construction	4,005	7,089	11,905
Agriculture	779	1,136	1,725
Transportation	1,633	3,091	5,184
Others	2,830	4,854	7,688
Total	9,248	16,170	26,503

Source: Ministry of Industry and Trade

■ Petroleum supply in Vietnam

- According to the development strategy of Vietnam's petroleum industry, the country will focus on building petroleum refining factories with the capacity of 32 million tons/year to supply about 22 million tons/year for domestic market. Petroleum supply in Vietnam currently comes from 2 sources, i.e. domestic production and import.

Table 3 – Vietnam's petroleum supply forecast by 2015

(Unit: million tons)

Index	2010	2015
Demand	16.17	26.50
Supply	16.70	26.50
- Domestic production	1.60	14.30
- Import	14.57	12.20

Source: Ministry of Industry and Trade

■ Some disadvantages of petroleum business in Vietnam

- The "market" factor should be paid more attention in Vietnam's petroleum business. Petroleum companies currently have to serve the domestic market even though they incur losses. Those companies face difficulties in petroleum retail business as they buy petroleum from certain sources while they must ensure continuous supply in order to stabilize the market and restrain inflation.

- As petroleum retail system has not been well-managed, it is difficult to meet petroleum safety and quality standards. In addition, price stabilization in remote areas faces many constraints.

- Dung Quat Petroleum Refining Factory started its operation from 2010. The crude oil used as input for this factory comes from Bach Ho mine and other sources. However, domestic crude oil reserve is declining while there have been fluctuations in international crude oil market due to political unrests in oil countries like Iran, Iraq and Nigeria. All of them adversely affect the supply of input for the operation of Dung Quat Petroleum Refining Factory as well as petroleum production output in Vietnam.

- There are delays in the implementation of projects to build petroleum refining factories such as Nghi Son, Long Son, Vung Ro, Can Tho, which affect Vietnam's petroleum supply.

- Vietnam's petroleum distribution system and warehouses do not meet the business's demand. Therefore, petroleum companies still face difficulties when there are big changes in international petroleum prices.

■ Recommendations

- Vietnamese government should create fair competition for companies participating in its petroleum market in order to increase their competitiveness and petroleum quality.

- Petroleum companies should be reformed in order to be able to compete with foreign companies due to free trade. Therefore, financial, technological and management capacity should be taken into consideration.

- It is necessary to upgrade petroleum distribution and warehouse system in Viet. Nam. Thus, it is important to have appropriate investment policies and legal framework to encourage companies to carry out investment projects that meet the national strategy.

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