



Price Policy for Petroleum Products in Vietnam

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Abstract

This paper analyzes the current state of the pricing policy for petroleum in Vietnam since 1991, when the petroleum industry began to switch to the market mechanism under the state management until now. On that basis, this study assesses limitations of the policies for petroleum and proposes recommendations to complete the pricing policy for petroleum in Vietnam to ensure the harmonization of interests of the State, benefits of petroleum trading companies and interests of consumers as well as ensure national energy safety, petroleum balance for the needs of the economy and social consumption.

Key words: policy, price, petroleum, Vietnam



1. Introduction

Petroleum is still the main fuel source for all activities of the economy. As the extremely important role of petroleum for the socioeconomic life and its characteristics, the government of many countries intervenes in the price of petroleum in many ways and executes different measures to regulate and control the petroleum price. Moreover, the price of petroleum is highly connected with the world. In the past, petroleum prices on international markets witnessed complex fluctuations and unpredictable, this resulted in unusual fluctuations in petroleum price in Vietnam. However, the adjustments to petroleum price in Vietnam often fell behind the international fluctuations, resulting in inadequacies in the operation of enterprises and causing annoyance for people. Therefore, it is necessary to improve the pricing policy for petroleum in Vietnam to help petroleum enterprises operate stably, ensure the state budget revenue and reduce consumers' frustration.

2. Pricing policy for petroleum in Vietnam

2.1. History of the pricing policy for petroleum in Vietnam

In the period of 1975 to the early 1990s, the petroleum industry in Vietnam operated under the centralized planning economy and subsidy period.

In 1991, the petroleum industry in Vietnam moved to operate under the market mechanism, in other words, moving from providing to trading under the management of the Government. The promulgation of the maximum price for petroleum was implemented since 1991 (and lasted until 2003) with the aim of protecting consumers' interests and encouraging enterprises to reduce business costs. In the early years of issuing the maximum price, the State announced two types of maximum selling prices: the maximum wholesale price and maximum retail price then shifted to apply the maximum retail price for each region (except for Mazut oil which applied maximum wholesale price), and unified the maximum retail price for the whole country. The Ministry of Finance was the agency managing and helping the government set the maximum price. The maximum price for each type of petrol was determined based on the actual import prices, import tax, foreign exchange rate and the price level accepted by consumers. This determination was not scientific and since the maximum price mechanism was promulgated, there has been most of the increased adjustments, only once to decreased adjustment with a negligible rate while the international prices of petroleum fluctuated in both directions.

In order to overcome the disadvantages of the maximum price as well as encourage the enterprises' autonomy in petroleum trading, the Prime Minister promulgated the Regulation on petroleum business management and Decision 187/200/QĐ-TTg on September 15th, 2003. This is the first legal document that covers all aspects of the petroleum business. According to this regulation, the petroleum selling prices are based on orientated prices. The orientated prices are determined based on the forecasted international prices, the retail prices in regional countries, the mechanism of stabilising petroleum import tax in the business year, and the impacts of petroleum prices on prices of goods, services and residential income. The orientation prices have to ensure that petroleum trading companies could afford business costs and get a reasonable profit for developing investment.

In the fourth quarter of each year, the Ministry of Finance coordinates with the Ministry of Industry and Trade and the Ministry of Planning and Investment to set orientated prices and a stable



tax rate for the following year, then announce them as a basis for enterprises to determine their specific retail prices. Companies are allowed to decide their own prices based on the orientated prices. The difference between the selling prices of companies and the State-oriented prices does not exceed 10% for gasoline and 5% for oil. Besides, petroleum companies which locate far from import ports are allowed to add a part of the transportation cost in their selling prices, but not exceeding 2% of the selling price near import ports (Prime Minister, 2003). This regulation has created a basis for petroleum companies to determine specific selling prices and also ensure that petroleum trading companies could afford business costs and get reasonable profit for developing investment. Therefore, they are more proactive in their business activities and must take responsibility for their business results. If this regulation was fully implemented, it would be a breakthrough, creating the fastest conditions to move the petroleum trading in Vietnam to a market mechanism. However, the reality at this stage was not as good as the good ideas when making this Decision. From 2003 to 2006, the international prices continuously increased and had negative impacts on domestic prices. Therefore, in reality, the State was still in charge of deciding the selling price of petroleum. The State made price decisions that were not close to the international prices with tax policies, subsidies for companies and subsidies on petroleum prices to share and reduce difficulties of production and life. That repeated inadequacies that had taken place many years earlier.

The oriented price policy in Decision 187 was changed after a period of promulgation but was not put into practice and replaced by Decree 55/2007/ND-CP on petroleum trading, issued on April 6th, 2007. Decree 55/2007/ND-CP stated that it will apply the principle of petroleum selling prices under the market mechanism and the state management. The selling price is decided by import companies after paying taxes and fees according to current law provisions. This Decree also provides a specific implementation schedule as follows: (1) companies decide the selling prices on the basis of import prices, taxes and fees as prescribed and reasonable profits for reinvestment, under the market mechanism; (2) reducing of price subsidies for oils; (3) implementing selling price based on the market mechanism for mazut oil in 2007, diesel and kerosene in 2008.

However, in order to achieve the goal of curbing inflation, the state continued to strictly control the petroleum prices, instead of allowing petroleum companies to increase selling prices based on the international market signals, the state implement an import tax rate of 0% to keep prices stable or not too high. In fact, the key traders are only proactive in registering for price adjustment, and the price adjustment is dependent on the decision of the Ministry of Finance and Industry and Trade. Thus, companies are still passive in trading, and the permission, the introduction of price increases in advance will cause instability and confuse the market, creating psychological insecurity for people. When the international prices fluctuate too strongly, the state cannot allow companies to adjust prices by themselves because they will cause social instability, affect economic stability. The state needs to cover companies' losses or use other forms of financing - administrative interventions. However, in fact, the state still implements the policy of price compensation, the state budget to offset losses increased from 1,000 billion dong in 2000 to 22,000 billion dong in 2008. The state's price-compensating measures, although helped to stabilize petroleum prices, resulted in a separation between the domestic and international prices for a long time, which affected budget balances and companies' losses as well as negative reaction of consumers who were not fully informed about prices adjustment. When the state compensates losses, if the international price drops, the domestic price does not decrease but increases the import tax rate, even arranges for companies to paying off the budget losses. When the international price



goes up, the domestic price increases too little, causing the state to cut its revenue and even compensating for companies' losses.

Because of the above-mentioned reasons, on October 15th, 2009, the Government issued Decree No. 84/2009/ND-CP replacing Decree 55, creating a legal corridor for companies to have more autonomy in setting prices. Decree 84 has clearer regulations on price adjustment mechanism compared to the previous Decree 55, for example, regulation on the maximum and minimum time between two increases/decreases. This Decree also clarifies the increase level that allows companies to increase up to the maximum price, the increase level that allows companies to set up a price stabilization fund and the fund deduction mechanism. According to the provisions of Decree No. 84/2009/ND-CP, retail prices are formed on the basis of a base price which is calculated by a certain formula. If constituent factors fluctuate, causing the base price to increase by less than 7% compared to the current retail price, the companies have the right to raise prices and report later; increase within seven to 12%, the companies are allowed to increase the retail prices by 7%, plus 60% of the increase within 7% - 12%, and use the price stabilization fund to compensate the remaining 40% under guidances of the Ministry of Finance. If the international price increases by more than 12%, the domestic petroleum price is completely decided by the state. When constituent factors fluctuate, causing the base price to decrease by 12% compared to the current retail price, the companies must reduce the retail prices after the competent authority applies financial regulatory solutions as prescribed by law without time limit between two (02) times of reduction and without the number of times of discounts. However, the pricing policy stipulated in Decree 84 when put into practice has revealed some limitations. The 30-day base price rule is unreasonable, hindering the domestic price adjustment. This is a key factor for companies to delay the retail price reduction of petroleum when the international prices go down. And with the base price calculated according to the 30-day average, it is difficult to adjust petroleum prices (both up and down). The 30-day average base price hinders the adjustment of domestic retail prices because it is no longer in line with the international price movements - a cycle of fluctuation in international petroleum prices is from 7 to 10 days. The state does not stabilize import tax, but uses tax as a tool to adjust retail prices so that domestic petroleum prices do not operate under the market mechanism, the revenue from petroleum is unstable. Moreover, in reality, the state did not fully implement the pricing rights of companies under Article 27 of this Decree. From the effective date of the Decree on December 15th, 2009 to August 9th, 2010, companies are only allowed to decide on prices six times. And from February 24th, 2011, the domestic selling price is set by the Ministry of Finance. Decree 84 also allows the establishment and use of the price stabilization fund. In order to guide the mechanism of formation, management and use of the fund, on December 9th, 2009, the Ministry of Finance issued Circular No. 234/2009/TT-BTC to guide the mechanism of formation, management and use of the fund under the provisions of Decree No. 84. First of all, companies can take advantage by using capital without having to borrow or pay interest, the state has more tools to regulate petroleum prices and control inflation, stabilize social security. However, the management of formalisation and using the petroleum price stabilization fund is still inadequate. Through the adjustments of increase and decrease, it showed that the price management was not in line with the market movements in the two years from 2009 to 2010, the period when the base price was 10-14% higher than the retail price, making companies suffer losses but still had to deduct from the price stabilization fund at a fixed level of 300 dong/liter (kg). Such regulations create a virtual fund because if companies deduct a price stabilization fund, it means that they must take capital to set up the fund. This increases costs and base price, causing more losses for companies because when the selling price is lower than the base price, there is no fund. In addition, the price



stabilization fund could not separate profit due to unused fund balance and is lack of transparency because it is easy to be abused by other objectives.

On June 20th, 2012, the National Assembly promulgated the Law on Price No. 11/2012/QH13 and took effect from January 1st, 2013, in which petroleum products are on the list of goods to stabilise the price .

And because of the limitations of Decree 84, on September 3rd, 2014, the Government issued Decree No. 83/2014/ND-CP on petroleum trading to replace Decree 84. In addition, with the aim of detailing and guiding the implementation of petroleum price management, on October 29th, 2014, Ministry of Industry and Trade and Ministry of Finance issued Joint Circular No. 39/2014 / TTLT-BCT-BTC regulating on the method of calculating the base price; the mechanism of formation, management and use of the price stabilization fund and the management of petroleum prices comply with Decree No. 83/2014/ND-CP. On June 24th, 2016, the Ministry of Finance and the Ministry of Industry and Trade again issued Joint Circular No. 90/2016/TTLT-BTC-BCT amending and supplementing a number of articles of Joint Circular No. 39/2014/TTLT-BCT-BTC.

As mentioned above are legal documents in the field of petroleum trading in general and the pricing policy for petroleum in particular.

2.2. The purport of pricing policy for petroleum in Vietnam

Currently, the pricing policy for petroleum products in Vietnam is regulated in Decree No. 83/2014/ND-CP issued on September 3rd, 2014 for petroleum trading; Joint Circular No. 39/2014/TTLT-BCT-BTC issued on October 29th, 2014 by the Ministry of Industry and Trade and the Ministry of Finance; Joint Circular No. 90/2016/ TLT-BTC-BCT issued on June 24th, 2016 by the Ministry of Finance and the Ministry of Industry and Trade amending and supplementing a number of articles of Joint Circular No. 39/2014/TTLT- BCT-BTC.

According to the provisions of Decree No. 83/2014/ND-CP, Joint Circular No. 39/2014/TTLT-BCT-BTC and Joint Circular No. 90/2016/TTLT-BTC-BCT, the price of petroleum is implemented under the market mechanism and the state management. The state management is expressed in many terms and various forms, including provisions on the calculation of base prices, price management principles, adjustments of increasing/decreasing prices, publicity and transparency in price management, appropriation and use of price stabilisation fund. Specifically:

The base price is the basis for the state management agency to regulate the domestic retail price of petroleum.

+ The base price of petroleum (except for E5 and E10 petrol) includes many elements and is determined by (=) {CIF price plus (+) Import tax plus (+) Special consumption tax} multiply (x) Foreign exchange rate plus (+) Value added tax plus (+) Standard operating expenses plus (+) deduction of price stabilization fund plus (+) Standard profit plus (+) Environmental Tax plus (+) Other taxes, fees and deductions according to current law.

+ E5, E10 base price includes many elements and is determined by (=) {percentage of unleaded gasoline volume (%) multiplies (x) (CIF price of unleaded gasoline plus (+) import tax multiplies by (x) foreign exchange rate plus (+) percentage volume of fuel ethanol (%)multiply (x) fuel ethanol price} plus (+) Special consumption tax plus (+)Value added tax plus (+) Standard



operating expenses plus (+) deduction of price stabilization fund plus (+) Standard profit plus (+) Environmental tax plus (+) Other taxes, fees and deductions according to current law.

Adjustment of decreasing petroleum retail prices

When the constituent factors fluctuate, making the base price decrease in comparison to the previous base price, the key traders must reduce the minimum retail price corresponding to the base price at the time of price adjustment; at the same time, send documents on price declaration and price adjustment decision to state management and take responsibility for the adjusted prices; there is no limitation of the number of discounts, the period between two (02) times of reduction and the number of times of discounts.

Adjustment of increasing petroleum retail prices

+ When the constituent factors fluctuate, making the base price increase within three percent ($\leq 03\%$) in comparison to the previous base price, the key traders are allowed to increase retail prices corresponding to the base price at the time of price adjustment; at the same time, send documents on price declaration and price adjustment decision to state management and take responsibility for the adjusted prices.

+ When the constituent factors fluctuate, making the base price increase within three percent ($> 03\%$) to seven percent ($\leq 07\%$) in comparison to the previous base price, the key traders send documents on price declaration and price adjustment decision to state management.

Within three (03) working days from the receipt of the price declaration document and expected price adjustment level of the key traders, the state management agency must reply in writing to the traders on price adjustment and the use of price stabilization fund (if any).

Over the time limit of three (03) working days, if the state management agency does not give a written reply, the key traders are allowed to adjust the maximum retail price corresponding to the base price at the time of price adjustment but must not exceed seven percent (07%) in comparison to the previous base price.

+ When the constituent factors fluctuate, making the base price increase over seven percent ($> 07\%$) in comparison to the previous base price or the increase in price affects socioeconomic development and life, inter-Ministry of Industry and Trade - Finance report to the Prime Minister for consideration and comment on specific executive measures.

The time between two (02) consecutive times of price adjustment is at least fifteen (15) days in cases of price increase, maximum of fifteen (15) days in cases of price discount.

Price information

+ The Ministry of Industry and Trade is responsible for publishing on its website about: current international prices, base prices, petroleum retail prices; time of use, the amount of appropriation and use, the balance of the price stabilization fund each quarter; other executive measures.

+ The key traders are responsible for publishing on their websites or mass media about: the current retail prices; the amount of appropriation and use, the balance of the price stabilization fund each month and before each adjustment of domestic petroleum price; the deduction level and the use of the price stabilization fund; financial statements in the audited fiscal year.

Price stabilization



The key traders are obliged to set up a price stabilization fund to participate in stabilizing petroleum prices. Principles for setting, using and managing the price stabilization fund:

- + The key traders set up a price stabilization fund and only use this fund for market stabilization and petroleum price stabilization under the provisions of law. The price stabilization fund is separately accounted and monitored by a deposit account at a commercial bank in Vietnam. If a key trader has a price stabilization fund balance of 300 billion dong or more, the trader must account and monitor the fund at a deposit account opened at another commercial bank. The key traders are account holders, carry out relevant procedures to open accounts, set up and perform revenue and expenditure operations from deposit accounts of the price stabilization fund; at the same time, they are responsible for notifying the name, address and contact information of the commercial bank where they open the price stabilization fund account to the Ministry of Finance and Ministry of Industry and Trade.

- + The price stabilization fund is set up by a specific amount of money calculated on the actual consumption of petroleum and is determined to be a type of cost in the price structure of the key traders.

- + The deduction of the price stabilization fund is implemented regularly and continuously. In case of necessity, the Ministry of Industry and Trade and the Ministry of Finance consider adjusting the appropriation level to suit market fluctuations.

- + The use of the price stabilization fund is implemented when the base price is higher than the current retail price or the price increase affecting socio-economic development and life.

In brief, companies are only allowed to decide the price within a certain range, when the constituent factors fluctuate, making the base price increase by more than seven percent ($> 07\%$) in comparison to the previous base price or the price increase affecting socioeconomic development and life, the Ministry of Industry and Trade and Finance report to the Prime Minister for consideration and comment on specific administrative measures.

3. Recommendations to complete the pricing policy for petroleum in Vietnam

3.1. Completing the provisions of Decree 83/2014/ND-CP, Joint Circular No. 39/2014/TTLT-BCT-BTC and Joint Circular No. 90/2016/TTLT-BTC-BCT

Completing the regulation on base prices

Eliminating standard profit from the base prices. The inclusion of standard profit in the base prices formula may cause misunderstanding and lacking of transparency in determining profit - loss of petroleum companies. It is necessary to eliminate standard profit from the base price to make it more transparent when comparing the base prices with the retail prices and announcing information without an ambiguity of profit and loss.

Setting up the absolute value of import tax to stabilize the budget revenue and create good conditions for companies in pro-actively doing business. The import tax should not be adjusted along with the fluctuations of international prices, but stable for a certain period of time. Currently, the import tax fluctuates based on the international prices. When there is a rapid increase in international prices, the State will exempt or reduce import tax to ensure that the prices do not increase or increase at a reasonable level avoiding the big disturbance. In the case of a sharp fall in international prices, the import tax rate will be raised to compensate for the amount used when



prices rise. However, the experiences of other countries show that they mostly apply stable and relatively low tax rates. The stable tax rate contributes to stabilise the state revenue and to encourage companies to be more proactive in deciding the petroleum selling prices. At the same time, stabilising tax rates longer in the context of market fluctuations will improve the state's and companies' forecasts. Previously, the Government decided to intervene directly and immediately to stabilize the market, now it forces the Government to research and forecast the market to make tax rates effective in a period of time and still ensure a well-functioning market. At the same time, petroleum companies must be more flexible, not just relying on the state's protection. In addition, changing the import tax rate too quickly will also be detrimental to companies because they cannot be proactive in planning business strategies as well as making it difficult for state management agencies in collecting taxes and implementing management procedures when importing petroleum.

Removing price stabilisation fund

The deduction of the fund is based on the selling data of companies each period, therefore, it is difficult to control the actual selling data at a time to calculate the amount of the deduction. Moreover, the price stabilisation fund will be unnecessary when the petroleum companies are allowed to decide prices and the consumers accept those prices according to the market mechanism. Removing this fund will reduce factors constituting the base price and make retail prices more transparent.

3.2. Long-term solutions

Empowering petroleum companies to decide prices

The State only intervenes in petroleum prices when the international prices significantly fluctuate. The basic solution to the pricing policy of petroleum is that petroleum companies decide their own prices whereby these companies could be active in petroleum trading activities, renovating their management and reducing costs to ensure business efficiency. Moreover, this will ensure competition among companies in the petroleum market. The State is responsible for announcing prices, especially the average selling prices on the mass media so that consumers could have appropriate decisions in choosing petroleum companies. The public announcement of the average selling prices also guides companies to offer competitive prices to attract customers. If petroleum companies took advantage of the increased international prices to raise their prices in an unusual way infringing upon the interests of the state and consumers, government agencies have to investigate price constituents and strictly handle violations in accordance with the Law on Price.

Completing the legal system of petroleum trading

Currently, petroleum trading activities are based on main regulations of the executive agency (government and related ministries). Sometimes policies are changed because there may be a "group interest" in regulating these regulations. In order to create a foundation of comprehensive and stable legal regulations, the promulgation of the Petroleum Law is necessary.

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