

Review of the Petroleum Price Stabilization Fund in Vietnam

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Phase II: Developing a Roadmap for Fossil Fuel Fiscal Policy Reform

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Submitted to the UNDP

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I. Introduction

As a net importer of oil products, Vietnam remains to be considered as a price-taker in international markets of petroleum products as escalating international oil price has threatened stability of oil price in the Vietnam's domestic market. In its effort to achieve the domestic petroleum price stabilization, the Vietnamese government has established the petroleum price stabilization fund. It is considered as a financial tool to avoid sudden increase in prices of petroleum products so as to ensure inflation control and macro-economy stability.

Since its first operation in the end of 2009, the fund has served an important role in valorising petroleum prices in some sensitive periods with a moderate level. The disclosure of quarterly statistics related the balance and use of the PSF which was first made in July 2013 also proves that the fund is on its movement toward transparency improvement. It is, however, suggested that there are still many issues and solutions to be considered toward a more transparent and effective stabilization fund.

The paper examines aims and operations of the petroleum price stabilization fund of Vietnam with a comparative study of international experiences. It then assess the fund's effectiveness in terms of price stabilization, inflationary pressure limitation and in term of helping low income consumers to access petroleum products as well. The next section will recommend solutions to improve the fund's effectiveness and propose supporting alternatives to be considered to better achieve price stabilization in the long term.

II. The petroleum price stabilization fund: Aims, Funding and Operation mechanism

Necessity of stabilizing petroleum products in Vietnam and aims of the fund

Petroleum products (including gasoline, diesel, kerosene oil and mazut) have been considered as strategic commodities which play an important role for socio-economic development in every country. Prices of petroleum products, however, are relatively sensitive resulting from impacts of economic, political and social fluctuation in the world. In addition to economic growth and geopolitical risks, those changes are determined by the worldwide demand for and supply of petroleum, particularly crude oil. The price fluctuation of petroleum products then directly impacts on prices of other commodities, which may affect on the economy as a whole as well as different sectors such as petroleum trading enterprises, or enterprises using petroleum as an input, and consumers. This explains why petroleum price stabilization is always a priority of many countries, including Vietnam.

Along with its rapid economic growth, industrialization, and export market expansion, Vietnam's domestic energy consumption has been significantly increasing. Vietnam is a net exporter of crude oil but it is also a net importer of oil products. With oil consumption

doubling from 176,000 barrels per day in 2000 to 388,000 barrels per day in 2012 (EIA, 2013)¹, Vietnam must import a majority of refined products to satisfy its domestic demand. Despite the fact that Vietnam exported USD 8.2 billion of crude oil in 2012, a lack of domestic refining capacity also means that Vietnam remains a price-taker in international markets for petroleum products. It explains why fluctuation of oil price in the international market trends to threaten stability of oil price in the Vietnam's domestic market.

During the last years, Vietnam has maintained wholesale and retail petroleum prices (particularly oil price) lower than the international market prices to sustain a growing economy, keep inflation from rising, and protect consumers. This effort has been done by the government through supported tools such as import duty reduction, the Petroleum Price Stabilization Fund (PSF) and pre-tax profit norm adjustment, of which, the PSF is most frequently used by the government to achieve price stabilization of petroleum products.

The petroleum price stabilization fund was established in 2009 based on the two legal documents as follows: (i) Decree No. 84/2009/ND-CP dated October 25, 2009 by the Government on petroleum trading; (ii) Circular No. 234/2009/TT-BTC dated December 9, 2009 by the Ministry of Finance on guiding the mechanism to form, manage and use the fund for stabilizing price of petroleum products. Accordingly, the fund aims to stabilize the domestic prices of petroleum products so that price volatility in the international markets will not altogether translate into the Vietnam's domestic prices². The Pricing Ordinance also mentions that the fund will be used to stabilise the market if sudden price fluctuations occur.

It is clear that the purpose above is the same as many other countries' purpose when establishing the price stabilization fund (excluding Russia)³. In addition to price stabilization function, the fund aims to ensure social securities through subsidies in some countries such as: subsidies in pension, minimum salary, financing the poor and farmers, or stabilize agricultural products' prices (China, Thailand, Philippines, Chile, Mexico)⁴.

Funding Mechanism

The petroleum price stabilization fund is formed from a specific and fixed amount in the prime price (calculated based on the level to set aside and the actually sold petroleum product volume of enterprises) and is determined as an expense item in the prime price of principal traders. According to the Decree 84/2009/ND-CP (Article 3, Chapter 1), the prime price to form retail gasoline and oil prices includes the following elements: (CIF price + import

¹EIA (2013), "Vietnam - Country Analysis Note", updated by August, 2013

² In Vietnam, given the fact that oil products are not only used as final consumer goods but also used as inputs for many economic activities, an increase in oil products' price can be passing through to the prices of other products which can result in a rise in the inflation.

³In Thailand, the oil price stabilization fund aims to fix price of a certain products at certain times, against a general policy of liberalized prices. In Peru, the authorities established a price stabilization fund called the Fondo de Estabilizacion de Precios de Combustibles (FEPC) in 2004 to prevent the full transmission of international price volatility to the domestic gasoline and oil prices. Meanwhile, Chile introduced the Fuel Prices Stabilization Fund (FEPC) in 2005 as a temporary measure to respond to the spike of prices resulting from the disruption of supply following hurricane Katrina.

Sources: IMF (2013a), APEC (2012)

⁴Thailand has two stabilization funds with two separated objectives: (i) one fund aims to support the petroleum trading enterprises; (ii) the other fund aims to support social securities such as subsidies for pension, minimum salary or wages when oil prices in the world market rise up or volatilize.

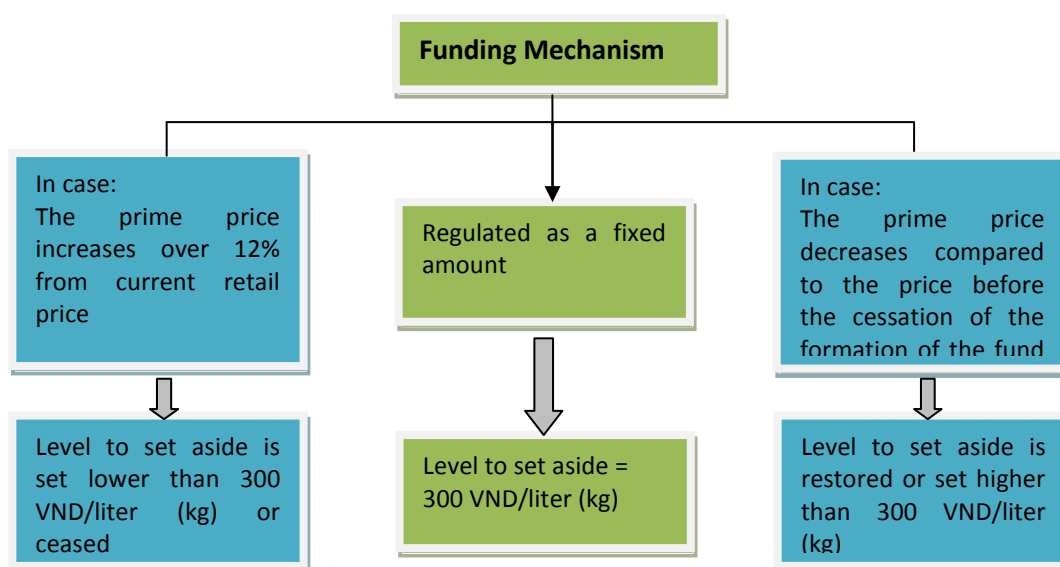
In Chile, the Fuel Prices Stabilization Fund has an additional function which aims to support the poor and farmers (Van & Minh, 2012)

duty + excise tax) x exchange rate + business expense norm + **petroleum price stabilization fund's contribution** + pre-tax profit norm + VAT tax + petroleum charges + other payable taxes, charges and other payments.

It can be easily noticed from the formula that the source of the PSF has been considered as an expense item in the prime price of principal traders which results in an additional payment of the petroleum consumers (included in the retail prices). As stated in the Circular 234/2009/TT-BTC (Article 4), the level of fund set aside is a fixed amount in prime price which is 300 VND/litre (kg) of the actually sold petroleum volume. However, the Ministry of Finance may adjust the level and the time so as to well fit with market price fluctuations (as noted in the Circular 234/2009/TT-BTC).

The Ministry of Finance and the Ministry of Industry and Trade has set up a joint-ministerial (Finance-Industry and Trade) team for petroleum price control. Accordingly, the time and the level to set aside are regulated by the team. *In the first case*, the level to set aside for the PSF is set lower or ceased when changes in constituents elements' prices cause the prime price to increase over 12% from current retail prices or when an increase in petroleum prices adversely impacts on socio-economic development. *In the second case*, the fund set aside for price stabilization is restored when changes in constituents elements' prices cause the prime price to decrease compared to the price before the cessation of the formation of the fund for price valorization or cause a decrease in the fund contribution. (Figure 1)

Figure 1. Funding mechanism of the PSF in Vietnam



Source: Author's compilation from Decree 84/2009/ND-CP and Circular 234/2009/TT-BTC

Operation and management mechanism of the fund

International practices show that most of petroleum price stabilization funds are supervised and monitored by ministry of finance. In several countries, the PSF's accounts are opened at the State Treasuries or at enterprises but still under the supervision of the ministry of finance⁵. In Vietnam, the Ministry of Finance and the Ministry of Industry and Trade are the key management agencies for petroleum prices' management. Depending on the situation in

⁵Cases of Thailand, Chile, Mexico, Russia and Philippines.

the world and at home, the two ministries will flexibly adopt price stabilization measures and other financial tools to keep petroleum prices stable and thus contribute to macroeconomic stabilization and inflation restraint. While the Ministry of Finance plays a dominant role in guiding mechanisms to set up, manage and use the price stabilization fund, the Ministry of Industry and Trade is dominantly responsible for supervising the overall petroleum market and guaranteeing supply-demand so that petroleum trading can be carried out normally and soundly.

The PSF may be used by the principal traders to stabilize the petroleum prices in different cases, depending on changes of differences between prime prices and current retail prices. The principal traders are permitted to adopt a relevant adjustment of the retail prices to new suitable levels based on three scenarios of the difference changes as follows: (i) prime price to increase below 7% compared to current retail price ($< 7\%$); (ii) prime price to increase between over 7 percent ($> 7\%$) and 12 percent ($\leq 12\%$) from current retail price; (iii) prime price to increase over 12 percent ($> 12\%$) from current retail price⁶.

In the first case, principal traders are permitted to increase the current retail prices to relevant levels. *In the second case*, principal traders are permitted to adjust retail prices up to 7 percent ($\leq 7\%$) plus (+) 60% of the prime price's actual increase in excess of 7 percent ($> 7\%$) within the increase limit between over 7 percent and 12 percent ($7\% < \text{limit} \leq 12\%$). The remaining 40 percent will be offset by the price stabilization fund.

In the third case, principal traders are permitted to adjust retail prices as the first case. The remaining difference will be offset under guidance of the Ministry of Finance and the Ministry of Industry and Trade. Accordingly, the Ministry of Finance shall preside over and coordinate with the Ministry of Industry and Trade to apply price stabilization measures⁷ such as tax policy administration, formation and use of price stabilization funds and other economic-administrative measures under current law.

As regulated in the Official Letter No. 14239/BTC-QLG dated October 22, 2013 issued by the Ministry of Finance, the level of fund set aside has been kept stable at the current amount of 300 VND/litre for gasoline and diesel. The usage level of the fund is, however, adjusted differently for various petroleum products. Accordingly, the usage level of the fund is adjusted to 200 VND/litre (lower than the previous level of 300 VND/litre) for gasoline, to 700 VND/litre (lower than the previous level of 800 VND/litre) for kerosene oil, but is kept stable at 300 VND/litre for diesel. These levels of set aside and use of the PSF are continuously keep unchanged in the Official Letter No. 16363/BTC-QLG dated Nov 26, 2013 (*See Annex 1 for Use of the petroleum price stabilization fund during the period 2010-2013*).

III. An assessment of the fund's effectiveness

Price stabilization has been achieved, which, to some extent, helps the consumers to access the petroleum at a more stable or lower price

⁶ The analysis is based on Article 27, Decree 84/2009/ND-CP and Article 5, Circular 234/2009/TT-BTC.

However, according to the Draft Decree on amendment of and additions to a number of articles of Decree 84/2009/ND-CP, Article 27 may be revised as three scenarios as follows: (i) prime price to increase below 5% compared to current retail prices ($< 5\%$); (ii) prime price to increase between over 5 percent (5%) and 10 percent ($\leq 10\%$) from current retail prices; (iii) prime price to increase over 10 percent ($> 10\%$) from current retail prices.

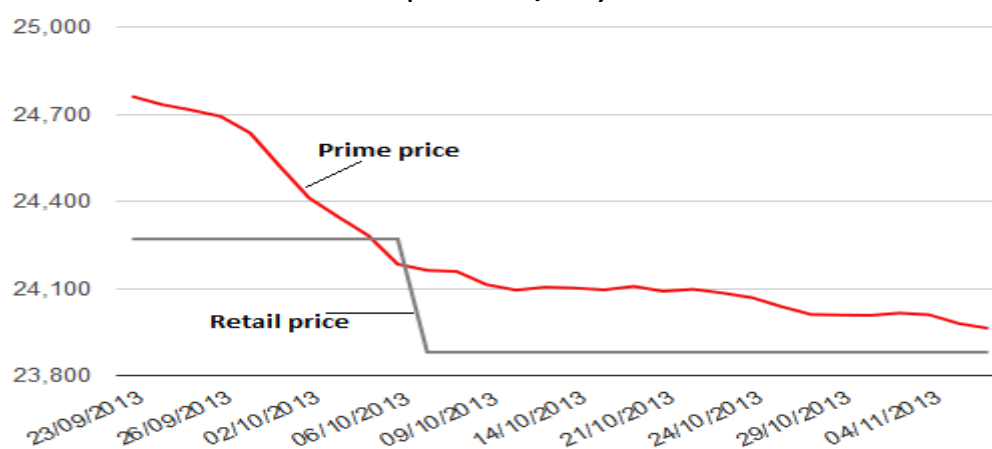
⁷ The Ministry of Finance may consider the following measures: (i) reducing import duty of petroleum products, (ii) raising retail prices of petroleum products, or (iii) increasing levels of using the stabilization fund in case higher input costs cause significant loss for key petroleum enterprises or vice versa.

With the tool of petroleum price stabilization fund, the Vietnamese government has tried to maintain lower prices for consumers and uses this measure as a last resort to reverse distributors' revenue losses. Since the fund first operated in the end of 2009, it has served an important role in valorising petroleum prices in some sensitive periods with a moderate level. If the Fund did not exist, prices would be changed more frequently and the increased amount would be larger during the period of 2010-2013.

In fact, with the volatility of the international prices between Oct 2010 and Feb 2011, the petroleum prices in the Vietnamese market could not have been kept stable during the same period. A research on Vietnam's petroleum prices in 2011 conducted by the MOF shows two different impacts on petroleum prices and inflation at the two basic scenarios including: (i) with the petroleum price stabilization fund; and (ii) without the petroleum price stabilization fund. It concluded that the petroleum prices would have been adjusted to increase at least 4 times with a rising amount of 500 – 700 VND/litre, depending on various petroleum products⁸ if the government had not used the fund (together with tax policy). Moreover, without the fund, the amount of increasing petroleum prices would have been up to 3,510 – 5,850 VND/litre, instead of increasing level of 2,110 – 3,550 VND/litre at the end of Feb, 2011. As a result, if the fund had not been used, price of some other related commodities would have increased by 1 percent to 6 percent, which would have resulted in an increase of the CPI by 0.33-0.49 percent during the same period.

A comparison between prime price and retail price of gasoline RON 92 in Vietnam shows that the retail price of gasoline RON 92 has been stable and kept lower than the trend of prime price between September and November 2013. To some extent, this means the effectiveness of the fund in its effort to stabilize the retail prices, which helps the consumers to access the petroleum at a more stable price (*Figure 2 and 3*). In comparison with other countries, it can be learned from the *Figure 4* that the retail gasoline price in Vietnam is lower than the same product price in many Asian countries such as Philippines, Thailand, India, Laos, China and Singapore, etc. By October 2013, the retail gasoline price averaged at 1.23 USD/litre in Vietnam while it averaged at 1.24 USD/litre in Philippines and Thailand, 1.28 USD/litre in India, 1.64 USD/litre in Laos, 1.72 USD/litre in China and 1.79 USD/litre in Singapore.

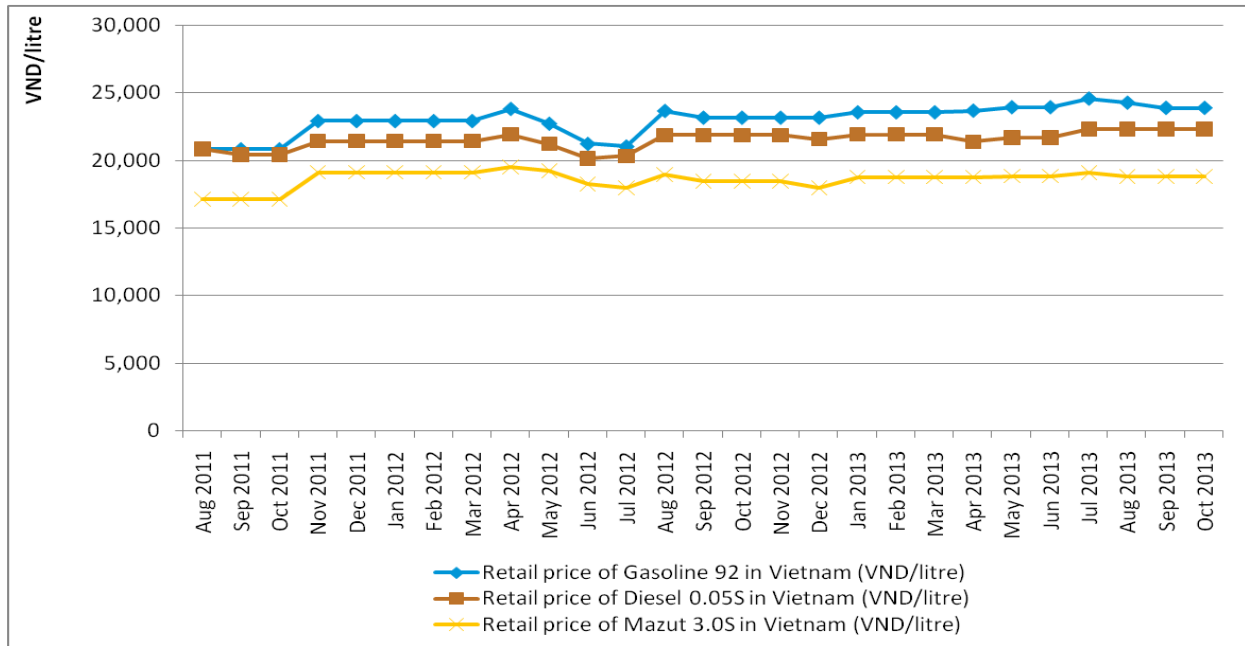
Figure 2. A comparison between prime price and retail price of Gasoline RON 92 in Vietnam (Unit: VND/litre)



Sources: Vietnam Petroleum Association– VINPA, 2013

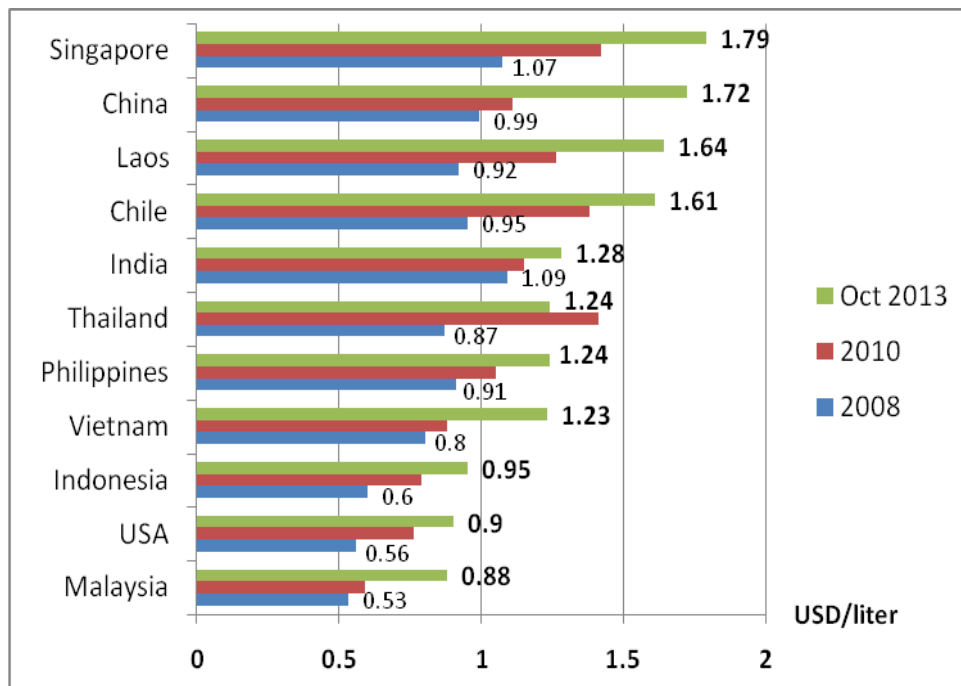
⁸Report of the government No 211/BC-CP dated May 29, 2013 on management and usage of the price petroleum stabilization fund.

Figure 3. Retail prices of Gasoline, Diesel and Mazut in Vietnam, 2011-2013



Source: Author's compilation from Petrolimex and Vietnam Petroleum Association

Figure 4. A comparison of gasoline retail prices between Vietnam and other countries



Sources: Author's compilation from GIZ (2011) and Mytravelcost

On the movement toward transparency

The Ministry of Finance has recently decided to publicize the data on the PSF every quarter in its effort to improve transparency of the fund. Accordingly, the MOF has affirmed the validity of quarterly disclosure of the deduction, management and use of the PSF at the specific time. The deduction, balance and use of the PSF were first disclosed on July 9, 2013 and continued to be implemented on October 9, 2013 for the third quarter data.

Since 2009, the fund balance has never been in the red and it reached a highest level of VND 1,800 billion (\$84.6 million) in 2010. However, the balance of the fund gradually fell to VND 1,500 billion (\$70.5 million) in 2011, VND740 billion (\$34.8 million) in 2012 and VND 55.4 billion at the end of June 2013 (coming close to being in the red). The latest publication of the Ministry of Finance shows that the balance of the fund has been slightly up to VND 58.601 billion at the end of September 2013, which is VND 3.2 billion higher than the second quarter's number. This resulted from difference between the total deduction (set aside for the fund) amount of VND 1,043.765 billion and the total amount of VND1,040.629 billion for using the fund in the third quarter⁹.

The movement toward transparency improvement of the PSF will facilitate businesses and people in inspection, management and use of the fund as well as reviewing the control process of petroleum price in line with market mechanism which the Government and other ministries, sectors continue to implement. **However**, a more serious issue which should be considered is that the current mechanism permit the fund kept at enterprises. By this way, the enterprises can use the fund for different purposes which the Government cannot control. This sets requirement to improve management mechanism of the fund toward more transparent and effective ways.

The economy faces higher inflationary pressure when petroleum products' prices keeps rising in the international markets

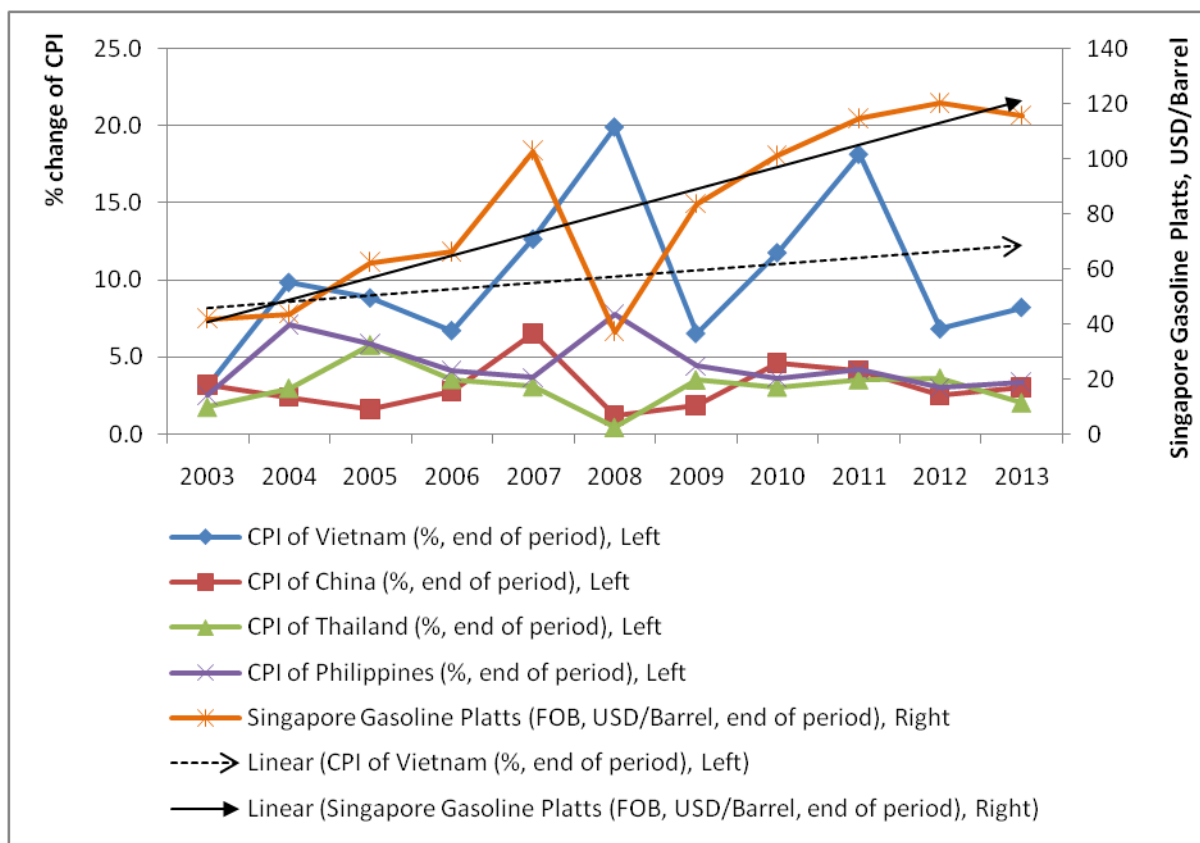
Despite the deceleration in inflation since 2012, Vietnam has suffered from higher and more volatile inflation compared to most Asian countries in the long term. Moreover, the volatility of petroleum products' prices in the world market has become an important element which contributed to the inflationary pressure in Vietnam since the country is a large fuel importer. Despite establishment of the petroleum price stabilization fund since 2009, inflation still kept on high pressure in Vietnam during the later years.

A comparison between Vietnam and some Asian countries applying the petroleum price stabilization fund (China, Thailand, Philippines) shows that Vietnam's headline inflation was always on a higher level than the three other countries in the period of 2003-2013(*Figure 5*). Vietnam twice witnessed the high inflation rates in August, including the 19.9 percent increase in 2008 and 18.1 percent in 2011. Inflation in Vietnam rose 5.92 percent in October 2013(compared to the same period of previous year) as a result of the government's measures to control prices and the government aims to keep inflation at 6.5-7 percent this year. However, the WB (2013) and the IMF (2013) forecasted inflation to rise 8.2 percent during the same year while the Asian Development Bank (ADB) estimated that the Vietnam's inflation rate would be over 7.5percent in 2013. HSBC (2013) also warned that a hard pressure has been put on the inflation, following the price increases in the petroleum, electricity and education service fees.

⁹Sources: MOF (2013), "Announcement on the deduction, use and balance of the petroleum price stabilization fund in the third quarter 2013", Oct 7, 2013.

Vietnam still has to rely largely on fuel imports, as its sole Dung Quat oil refinery can only meet thirty percent of the local demand¹⁰. It explains why the country's headline inflation was relatively sensitive with volatility of petroleum products' prices in the international market. *Figure 5* shows the fact that Vietnam's higher inflationary pressure moved as the same rising trend as the Singapore gasoline price during the last ten years.

Figure 5
Vietnam faces higher inflation pressure when Singapore's gasoline price (Platts) keeps rising



Sources: Author's compilation from Databases of Reuters (by Dec 4, 2013) & IMF (2013b).

Low income consumers still meet difficulties in access the petroleum products

The operating mechanism of the Fund intensely carries direct administrative intervention which tends to contradict global market trends and distort market prices in the time of its funding. Moreover, raising funds from gasoline and diesel prices is not always good to customers. The consumers have to buy gasoline and diesel at more expensive prices when the Fund accumulates finances and in turn enjoy cheaper gasoline when the Fund spends on stabilization. To some extent, they tend to be at a disadvantageous case more than an advantageous one as they give interest-free loans for petroleum traders. It means that the petroleum traders' benefits are guaranteed better than the consumers, especially the poor. It

¹⁰ Dung Quat Refinery operated since 2009 with a capacity of 6.5 million tons of crude oil annually which can only meet thirty percent of the local demand. However, under the strategic development plan of the oil and gas sector, there will be other five projects of refineries (oil, petrochemical, etc.) to be operated by 2020 including: Nghi Son Petrochemical Refinery, Long Son Oil Refinery, Vung Ro Refinery, Nam Van Phong Refinery and Nhon Hoi Petrochemical Refinery. The total six refineries are projected to reach a total capacity of 70 million tons of oil annually by 2020, which will definitely meet all the local demand in the long term.

also explains why low income consumers still meet difficulties or fail to access the petroleum products.

Given the vulnerable people's difficulties (especially in cases of petroleum prices's increase), the Vietnamese Government has adopted a number of supporting policies such as: (i) Supporting kerosene oil for the households of ethnic minorities, social policy beneficiary households, poor households (according to the Prime Minister's Decision 289/2008/QĐ-TTg dated March 18, 2008)¹¹; (ii) Supporting fuel costs for deep sea fishermen (according to the Prime Minister's Decision 480/2010/QĐ-TTg dated July 13, 2010 and the Prime Minister's Decision 39/2011/QĐ-TTg dated July 11, 2011)¹². However, more actions should be considered to help low income consumer to access the petroleum products.

IV. Towards a reform to better achieve price stabilization of petroleum products

International experiences and current socio-economic contexts of Vietnam suggest that the PSF should be maintained to stabilize prices of petroleum products. The most important issue is to improve the functions and effectiveness of the fund. Looking forward to the next 10 years, there are some alternatives that could be considered to better achieve the price stabilization.

Enhancing the PSF's price stabilization capacity by diversifying the funding sources

Given the fact that consumer contribution is the only source to form the fund, the price stabilization capacity of the fund is limited, especially when there is a shock of oil prices in the world market. International practices suggest that there are several main funding sources for the PSF which come from the following contribution: (i) a deduction from petroleum taxes, which are included in import-export duties or excises taxes (ie. Chile, Russia, Philippines, Mexico, China); (ii) supplementally financing from state budget (ie. Nigeria¹³); (iii) a deduction from retail prices through excise tax (ie. Thailand¹⁴, Chile); (iv) accruals achieved when retail prices rise higher than prime prices (ie. China, Mexico, Russia).

For Vietnam, given constraint budget and difficulties of the economy for the time being and the next years to come, price stabilization capacity of the PSF should be enhanced by considering the contribution from excise tax included in retail prices¹⁵. The second option for

¹¹ The households of ethnic minorities, social policy beneficiary households, poor households, in locations beyond the grid network was supported in cash equivalent to 5 litres of gasoline/per year; adjustment to medical insurance for the poor from VND 80,000/person/annum to VND price of the medical insurance card for family members in poor prone households in case of voluntary health insurance.

¹² Fishermen, whose vessels has capacity of 90CV - 150 CV, will be supported with VND 18 million/trip. For fishing vessels with engine capacity of 150 CV – 250 CV, the fishermen will be supported with VND 25 million/trip. For fishing vessels with engine capacity of 250 CV – 400 CV, the fishermen will be supported with VND 45 million/trip. For fishing vessels with engine capacity of 400 CV up, the fishermen will be supported with VND 60 million/trip.

¹³ In Nigeria, the Petroleum Support Fund is financed mainly from Federal, States and Local government's budgets. Another funding source comes from accruals realized during the period of over recovery (the period when the PPPRA recommended price is higher than the market determined price).

¹⁴ Since October 2006, the Thailand's government has increased petroleum tax from 2.5 baht/liter to 4 baht/liter in order to raise fund for the petroleum PSF. It aimed to enhance price stabilization capacity of the PSF in the context of oil prices sharply rising in the world market. (Van & Minh, 2012).

¹⁵ It should be learned from cases of Thailand and Chile that the government may consider excise tax hike applied on petroleum products to raise fund for the PSF.

raising the fund is contribution of petroleum traders through a part of their revenue/profit. Moreover, as a crude oil exporter, Vietnam may take a deduction from export duty of crude oil as learned from experiences of Russia, Philippines, Chile to support the fund.

Improving operation and management mechanism of the PSF

Despite the recent movement of the government to enhance the PSF's transparency, there should be further steps to be considered in order to further improve transparency, operation and management mechanism of the PSF.

Firstly, given the fact that some petroleum trading enterprises have incurred losses and unfair treatment due to mismanagement of the PSF, it is really necessary to concentrate the fund under management of one legal agency. The prime petroleum traders should be required to submit the fund monthly to the State Treasury of Vietnam in order to ensure right use of the fund and to gain the public's trust on operation mechanism of the fund¹⁶.

Secondly, further strengthening supervision and monitoring of different stakeholders (including the MOF, consumer associations and businesses) with regular auditing and making the audited results available to the public. The solution is expected to help the fund operate in completely transparent manner. Moreover, independent monitoring needs to also ensure that the data provided is reliable.

Thirdly, enhancing role of the Ministry of Finance in management of the PSF and the role of Ministry of Industry and Trade in monitoring the overall petroleum market. The Ministry of Finance should preside over and coordinate with the Ministry of Industry and Trade to conduct the close monitoring of petroleum traders on their management and use of the PSF to ensure that they are conforming the current legal regulation

Ensuring social securities and better supporting low income consumers

As our analysis in the previous section, the fund has a limited effectiveness on low income consumers (ie. pensioners, farmers, the poor or workers with only minimum salaries) as they still meet difficulties in accessing to the petroleum products. In coping with this challenge, it is recommended that some additional supporting policies should be considered to better support the low income consumers. It will help to ensure social security in context of escalating global and domestic petroleum prices. It is an useful lesson from international practices of Philippines¹⁷, Thailand, China Chile, Mexico, etc.

Alternative measures in the long term

A flexible tax adjustment mechanism

A flexible tax adjustment is a mechanism which allows a tax reduction in the context of escalating oil price to keep (gross) prices at a long-run equilibrium level. Indeed, instead of a stabilization fund, petroleum product tax reduction is one of the most commonly used methods of partially offsetting higher oil prices in the world market. Normally, this adjustment mechanism relies on excise taxes to smooth transmission of changes of

¹⁶ The public expressed concerns that the money they spent on fuel which contributed to the fund remained in the hands of petroleum traders.

¹⁷ In Philippines, the government applied mitigating measures for the poor during 2008 fuel price hike. Accordingly, the authorities were able to finance a package of mitigating measures with windfall VAT revenues from higher fuel prices. It was considered as a better targeted and a more desirable policy response than a reintroduction of fuel subsidies.

international prices to domestic prices. Accordingly, the petroleum taxes are reduced in the context of high oil prices but raised again when the oil prices go down. The tax adjustment for petroleum products is sometimes used in Vietnam¹⁸ but not very often as the PSF. Moreover, looking forward to achieve price stabilization in the long term, the tax adjustment mechanism should be more flexible.

Some countries (Brazil, Philippines, China, Chile) have been successful in applying the tax adjustment mechanism to achieve fuel price stabilization in the long term. In Chile, this mechanism was used to reduce excise taxes for fuel when international prices jump above a 10 percent band around a reference price and increase excise taxes when international prices fall below the band¹⁹.

Nevertheless, such a sterilization policy should be carefully evaluated since it may raise the need for the government to find different sources of tax revenues, or to correspondingly reduce public expenditures for offsetting the tax reduction for petroleum products. This is also the reason why the study suggests that the flexible tax adjustment mechanism should be considered as an alternative measure to be used more frequently in the long term, when the Vietnam's state budget become stronger and more sustainable.

Compensation schemes for increase of petroleum prices

In response to sharply increasing petroleum prices, some countries applies compensation schemes through targeted cash assistance directly to the poor, raising civil servant or minimum wages, and other means (cash assistance to public and good transport and fisheries).

For the first scheme (observed in China, Pakistan, Indonesia)²⁰, targeted cash assistance transfers increase income or reduce expenditures which then help provide immediate relief to the poor from the effects of higher petroleum prices²¹. However, implementation of this schemes require that the poor be identified and an effective cash delivery mechanism be established. Meanwhile, the second scheme has been experienced in Chile, Syria and Egypt in its response to offset the adverse effects of sharp petroleum price increases²².

¹⁸ For example, in response to escalating crude oil prices in 2010, the government reduced oil product import tariffs several times until early 2012 through duties cut on gasoline, jet fuel, and diesel to zero.

¹⁹ In 2011, Chile introduced the Consumer's Protection System for Fuel Excise Taxes (SIPCO) to perform this task

²⁰ In China, to protect the poor from rising petroleum prices, the Ministry of Finance directed local government to provide financial support to low-income families as well as to public institutions such as schools.

In Pakistan, to response to high oil and food costs after lifting its freeze on fuel prices, the government launched the Benazir Income Support Program in 2008, under which 3.5 million poor households would receive PRs 2,000 (USD 30) every month.

In Indonesia, the government carried out the largest scale cash transfer program to protect the poor and near-poor from higher in the period of 2005-2008. The total value of program reached Rp 14 trillion (USD 1.5 billion), which financed for 70 million of the country's poor and near-poor.

²¹ According to Masami Kojima (2009), increases of fuel and other price may dramatically reduce household income. An considerable income reduction may also force some previously non-poor households into poverty. Cash transfer programs provide assistance in the form of cash and other instruments to the poor and low income consumers.

²² In Syria, in response to increased gasoline and diesel prices by 33% and 240% respectively in May 2008, the government raised public sector salaries by 25% and issued coupons to all households, allowing each to purchase up to 1,000 liters of diesel at only LS 9/liter against the new diesel price of LS 25/liter. (IMF, 2009)

Shifting towards renewable energy sources to reduce reliance on petroleum products

Worries about escalating global prices of fossil fuels²³ and climate change 's impacts²⁴ have prompted several governments to set renewable energy targets since a diversified portfolio of energy sources can help to stabilise petroleum prices. Some liquid bio-fuels (such as ethanol from sugarcane, maize, and starch crops) have been considered to substitute for gasoline and diesel. Promoting these alternative fuels help these countries to reduce reliance on oil, especially in context of escalating global oil prices. Kojima and Klytchnikova (2008) cited that many governments see bio-fuels as a way of increasing the domestic fuel supply, creating jobs, fostering rural development, and shifting towards renewable energy sources.

²³ According to GSI & IISD (2013), the fossil-fuel subsidies are estimated at above 2 percent of GDP for most of biggest subsidizing countries in Southeast Asia in the last 5 years. It causes a significant fiscal burden for net energy-importing countries that set fixed petroleum prices.

²⁴ Van, Le Thi Thuy (2012) concludes that climate change puts rising pressure on ensuring sustainable development in East Asian economies and raises a lot of policy challenges for these countries' governments to face in the next years.

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Appendices

Appendix 1: Use of the petroleum price stabilization fund for the period 2010-2013

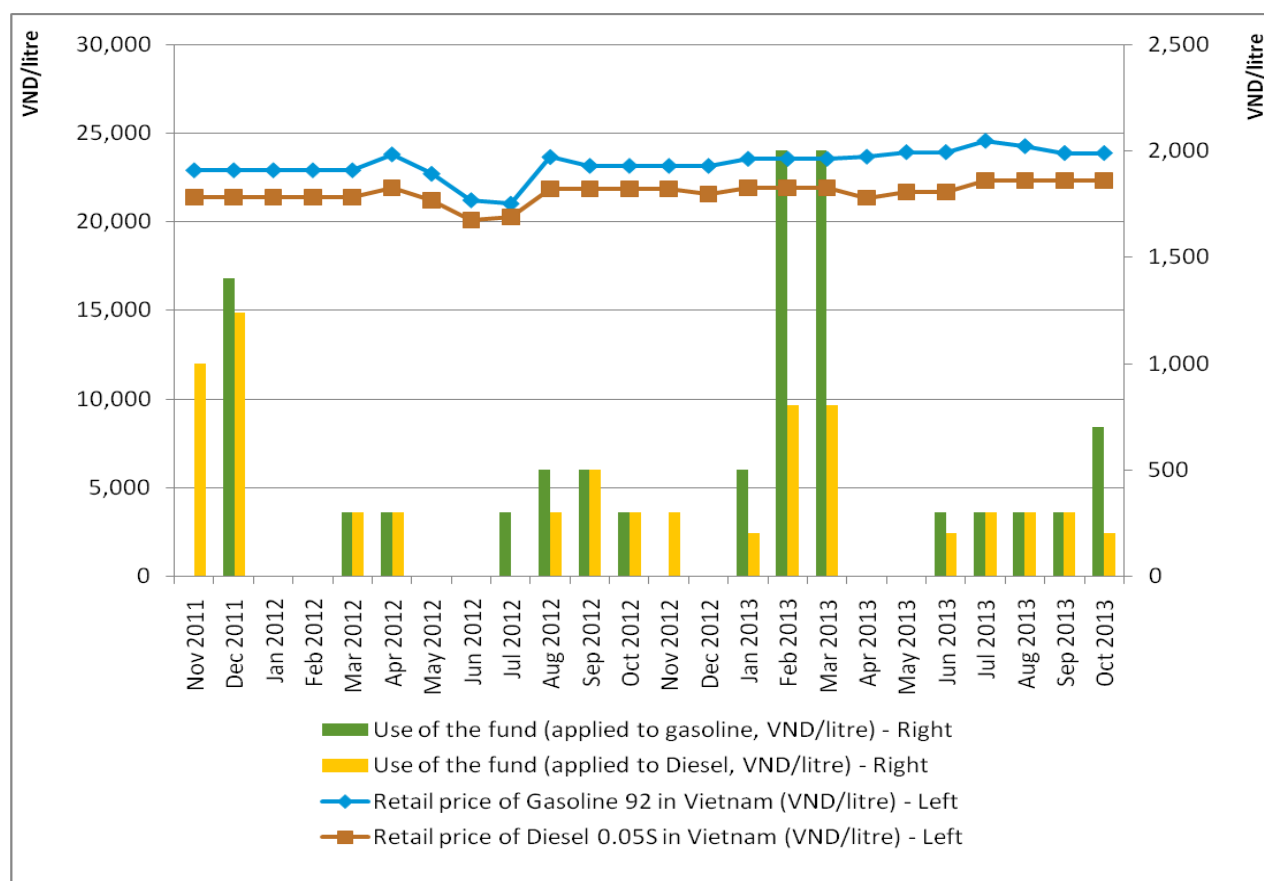
Unit: VND/litre, kg

No.	Period	Gasoline	Diesel	Kerosene Oil	Mazut	Notes
1	Apr 1, 2010 – May 27, 2010	500	400	400	-	The Official Letter No. 4214/BTC-QLG dated Apr 7, 2010 issued by the MOF
2	May 28, 2010 – Jun 8, 2010	200	400	400	-	The Official Letter No. 168/TB-BTC dated May 27, 2010 issued by the MOF
3	Oct 22, 2010 – Nov 12, 2010	550	550	700	250	The Official Letter No. 14173/BTC-QLG dated 21 Oct, 2010 issued by the MOF
4	Nov 13, 2010 – Jan 14, 2011	1,200	1,000	1,200	700	The Official Letter No. 15360/BTC-QLG dated Oct 12, 2010 issued by the MOF
5	Jan 15, 2011 – Feb 10, 2011	1,200	1,600	1,200	700	The Official Letter No. 606/BTC-QLG dated Jan 14, 2011 issued by the MOF
6	Feb 11, 2011 – Feb 24, 2011 (10 am)	1,650	2,300	2,150	1,400	The Official Letter No. 1786/BTC-QLG dated Feb 10, 2011 issued by the MOF
7	Nov 28, 2011 (12 am) – Dec 26, 2011 (3 pm)	-	1,000	950	900	The Official Letter No. 327/BTC-QLG dated Nov 28, 2011 issued by the MOF
8	Mar 7, 2012 (4 pm) – Apr 20, 2012 (8 pm)	300	300	300	300	The Official Letter No. 143/BTC-QLG dated Mar 7, 2012 issued by the MOF
9	Nov 6, 2012 (7 pm) – Nov 11, 2012 (6 pm)	-	300	500	-	The Official Letter No. 15448/BTC-QLG dated Nov 6, 2013 issued by the MOF
10	Jan 15, 2013 (3 pm) – Jan 28, 2013 (4 pm)	300	-	300	300	The Official Letter No. 807/BTC-QLG dated Jan 15, 2013 issued by the MOF
11	Feb 26, 2013 (9 pm) – Mar 28, 2013 (8 pm)	2,000	800	1,150	650	The Official Letter No. 2623/BTC-QLG dated Feb 26, 2013 issued by the MOF
12	Jun 28, 2013 (8 pm) – Jul 17, 2013 (8 pm)	300	200	200	100	The Official Letter No. 8363/BTC-QLG dated Jun 28, 2013 issued by the MOF
13	Jul 17, 2013 (8 pm) – Oct 7, 2013 (8 pm)	300	300	300	-	The Official Letter No. 9274/BTC-QLG dated Jul 17, 2013 issued by the MOF
14	Oct 7, 2013 (8 pm) – Oct 22, 2013 (8 pm)	300	300	800	-	The Official Letter No. 1341/BTC-QLG dated Oct 7, 2013 issued by the MOF
15	Oct 22, 2013 (8 pm) – Nov 11, 2013 (8 pm)	200	300	700	200	The Official Letter No. 14239/BTC-QLG dated Oct 22, 2013 issued by the MOF

16	Nov 11, 2013 (8 pm) – Nov 26, 2013 (5 pm)	200	300	700	200	The Official Letter No. 15442/BTC-QLG dated Nov 11, 2013 issued by the MOF
17	Nov 26, 2013 (5 pm) - present	200	300	700	-	The Official Letter No. 16363/BTC-QLG dated Nov 26, 2013 issued by the MOF

Source: Author's Compilation from Price Management Department, MOF, updated by Dec 5, 2013

Appendix 2. Use of the PSF and Retail prices of Gasoline 92 and Diesel 0.05S



Sources: Author's compilation from the MOF and Vietnam Petroleum Association, 2013