

# Competition Distortions Dossier

June-August 2015

## A. TRADE POLICY

### 1. US to Face Chicken Leg Dumping Charges

Poultry farmers in the Southeast region and Dong Nai Province said they are considering to sue the US for dumping cheap chicken legs in the Vietnamese market.

On July 28, 2015 the livestock associations of Dong Nai Province and the Southeast region submitted documents to Prime Minister Nguyen Tan Dung, the Ministry of Industry and Trade and the Ministry of Agriculture and Rural Development, to call for an investigation into dumping, and an audit of quality and origin of chicken products imported from the US. The two associations have recently sent their representatives to the US to conduct research on chicken prices.

The price disparity has also raised doubts about the quality of the US-imported chicken products being sold in Vietnam. The two associations will also conduct research on the production costs of these products in the US and avail themselves of legal consultancy for suing the US side.

<http://www.vietnambreakingnews.com/2015/07/us-may-face-chicken-leg-dumping-charges/>



#### Food for Thought

*Under the principles of World Trade Organisation (WTO), dumping in general, is a situation of international price discrimination, where the price of a product when sold in the importing country is less than the price of that product in the market of the exporting country. Therefore, if Vietnam wants to assess whether the US chicken products are being dumped or not, it needs to gather sufficient legal information and conduct careful research on international trade policy.*

*According to the statistic of the General Customs Administration, in the current period, the quantity of imported chicken meats has increased suddenly. In 2014, Vietnam imported about 98,644 tonne of chicken. And in the first six months of 2015, the amount of imported chicken was 70,087 tonne, being equivalent to a turnover of US\$64mn, the US accounted for 60 percent among them.*

*Regarding the price, according to the information of the Poultry Husbandry Association of the Southeast region and Dong Nai Province, the price of chicken legs sold in the US was about \$80,000 VND per kg, while in Vietnam it was found to be only \$20,000 VND per Kg. Similarly, the price of whole chicken sold in the US was \$200,000 VND per kg, while in Vietnam it was only \$60,000 VND per Kg.*

*However, it is easy to see that in current period, Vietnam has participated and signed many free trade agreements. Therefore, tariffs are being reduced, which bring about more foreign agricultural products being imported into Vietnam. Vietnam does not have strength in husbandry when compared with other countries, which have the advantage of plant corns, soybeans, whose price of animal feed is also very low. Meanwhile, almost all animal feed in Vietnam need imported raw materials for processing leading to high costs. Further, when taxes are down to 0 percent, the quantity of foreign meats in Vietnam market will certainly increase. Along with the increasing of income, the demand of Vietnamese people is turning towards pork – traditional dish, into poultry and red meats – the strengths of foreign suppliers.*

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## B. SECTORAL POLICY

### 2. SBV Takes over Global Petrol Bank

The State Bank of Viet Nam (SBV) took over Global Petrol Bank (GP Bank) on July 07, 2015, after the latter failed to meet a deadline to have secured legal capital requirements.

As part of the takeover, the SBV acquired all equities of the joint-stock GP Bank at the price of zero VND per share, converting it into a one-member limited liability company



with a charter capital of more than \$3tn VND (equivalent to approximately US\$142.86mn).

The acquisition terminated all statuses, including the rights and interests of existing shareholders in GP Bank. But all legal rights and interests of existing depositors at the bank would be guaranteed. Major lender, the Vietnam Bank for Industry and Trade, or VietinBank is to take part in the future management of GP Bank.

<http://vietnamnews.vn/economy/272756/state-bank-takes-over-gp-bank.html>

#### Food for Thought

Over the past three years, the GP Bank had acquired leave by the SBV to look for investors, both domestic and foreign, and build a feasible restructuring plan. But GP Bank could not propose any plan while continuing to show its weaknesses, ending up in serious losses. As a result, GP Bank became the third bank in Vietnam after Ocean Bank and the Vietnam Bank for Construction, which were mandatorily bought at the price of \$0 VND and thus became 100 percent State-owned banks.

In January 2015, the SBV said it expected six to eight mergers and acquisitions in 2015 to strengthen a sector that was blighted by bad debts that had mounted up due to a real estate slump, risky lending and costly investments by State-run firms. Bad debts in Vietnamese banks by February 2015 accounted for 3.59 percent of their outstanding loans, up from 3.49 percent in the previous month. The government's aim is to get the ratio to under 3 percent by end-2015.

Moreover, SBV mentioned that it would facilitate to accelerate mergers and acquisitions based on both voluntariness and enforcement. Therein, the role of State commercial banks will be essential and all the weak banks, which offer no prospect of recovery will be thoroughly handled.

*In general, the picture of the banking system in the first six months of 2015 has many highlights, with a common thread that is the government's determination to carry out a tightened monetary policy and to restructure the country's banking system. Acquisitions and mergers were drastic measures to affirm the determination of the Government and the SBV in the restructuring of weak banks, and at the same time, to underline the responsibilities of shareholders, especially major ones, in the management, administration and monitoring of bank operations. Therefore, in the few remaining months of 2015, the banking system in Vietnam is expected to undergo more remarkable changes.*

### 3. Information Security Agency to Stop SMS Spammers

It is very important that limits should be set for local mobile phone users and those who cross the lines without permission will have their service suspended by the network carriers, the Agency for Information Security stated in a draft decree on how to detect and stop text message (SMS) spammers.

The agency suggested that each subscriber should be allowed to send a maximum of five text messages in five minutes, and should not be permitted to send more than 20 SMSs in an hour, or over 50 text messages a day.

These caps will be set by the Ministry of Information and Communications, which might adjust them in different periods to 'suit the reality'.

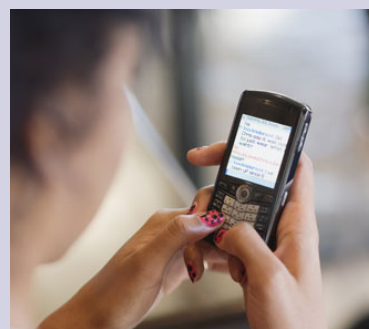
Subscribers who want to text more than the limits must register with their mobile carriers, and those who break the ceilings without doing so will have their service suspended, according to the draft decree.

<http://tuoitrenews.vn/business/28703/vietnam-agency-mulls-50-mobile-text-message-cap-to-fight-spam>

#### Food for Thought

SMS, in fact is still a significant source of revenue for mobile network at carriers presently. This is evident through the constant launching of promotional packages as well as value-added entertaining programmes. The application of the SMS limits to fight against spam messages undoubtedly affecting the customers. In addition, the proposed regulation prescribing 'if subscribers want to exceed the message limit, they have to register' is also troublesome.

In Vietnam, obtaining a subscriber identity module (SIM) card is extremely easy and there are many ways to distribute spam messages. It is difficult to terminate spam messages if the competent agencies do not have any remedy. But is limiting mobile phone users to 50 messages a day for each subscriber an effective solution? Or some will surely find the





way to wriggle, such as buying a lot of SIM cards or changing to new subscribers. Moreover, this could be a golden opportunity for free messaging Smartphone applications to develop and compete with traditional service providers.

Telecom enterprises and relevant State agencies should have thought out proactive solutions, combined with technical measures (for example, by syntax, frequency, etc.), and focussed on those subscribers using SIM box, sending a large amount of advertising messages at one time, instead of adopting a blanket prohibition as in this case, which would only show regulatory weaknesses and failures, while the consumers remain unprotected.

## C. CONSUMER PROTECTION

### 4. High Power Bills Shock Hanoian Residents

Many residents in Hanoi have complained about unusually high electricity bills in May and June 2015. Most of them claim they used the same electric devices for about the same amount of time as in previous months.



In response to complaints, the Hanoi Electricity Corporation has blamed the recent heat wave with record-breaking temperatures of more than 40 degree Celsius. It claimed that this had led to greater use of cooling equipments.

The average level of electricity consumption in northern Vietnam was reported to have increased by 17 percent. In Hanoi, the percentage was 28 percent.

The Hanoi Electricity Corporation indicated that it had supplied more than 1,000 cameras to electricity units to assure the accuracy of recording and calculation of power usage at every household.

<http://vietnamnews.vn/society/272213/high-power-bills-shock-hanoians.html>

#### Food for Thought

This is not the first time electricity consumers in Hanoi have jumped out of their skin. Around this time, the previous year, consumers received shocking electricity bills and asked if there was any miscalculation. Faced with complaints about the unexpected bill hike past summer, the Hanoi Electricity Corporation (EVN Hanoi) explained that heat waves in May and June pushed up the city's use of electricity. Furthermore, the same explanation is also being used this time.

The general rule is that the more people consume a product, the less they need to pay for it. But in Vietnam, electricity bills rise in tandem with consumption volume. In fact, the power sector is pushing difficulty at the shoulders of enterprises and consumers. For enterprises, especially steel and cement industries, they are bearing high power prices, which reduce their comparative competitiveness with other countries when Vietnam is in the integration process. In the meantime, consumers are suffering because of progressive tariff.

Currently, there are many countries, which are applying this method of calculation like Vietnam. However, the different point is that they apply reasonable power pricing and there are many choices for customers. Meanwhile, in Vietnam, there is only one supplier. The power sector is playing 'two roles', both as manufacturer, trader, direct distributor and owner of almost all power factories and all entropot and distribution systems.

It can be seen that the competitiveness of the Vietnam power industry is very low. Almost all thermo-electricity enterprises have entered into long-term contracts with EVN on power supplying because they need at least 10 years to build and develop a thermo-electricity factory. Such a long time for capital recoupment means many enterprises would want to have these contracts to ensure long-term and reliable efficiency. As a result, only a small number of enterprises take part in power auctions, resulting in high prices, because of low level of competition.

Hence, the biggest obstacle to developing a competitive power market is the knot on mechanisms, institutions, and intractable conflict of interest. Without changing those, especially the functions of EVN, it is difficult to solve to the every roots of power problem and not possible to reduce power price.

### 5. Banks Charging Slew of Fees from ATM Card Holders

Vietnamese banks are currently charging ATM cardholders a slew of fees to withdraw funds and maintain their accounts. It is estimated that every client bears 20-25 basic kinds of fee.

Commercial banks stated that they have to charge money for the services they provide, and that the money



collected is used to cover huge expenses they have to pay to maintain the system. Automated Teller Machines (ATMs) help banks mobilise huge capital from the public.

Banks set fees based on international calculations, which are unreasonable because Vietnamese income is much lower than the income of people in developed countries.

The Vietnamese average income per capita is approximately \$2,000 VND per annum, while one card holder bears 1mn, or nearly \$50 VND in fee. Any kind of fee over \$3,000 VND would be high as compared to VND with the monthly VND2-3mn income of many Vietnamese people.

<http://saigoneer.com/vietnam-news/4885-vietnamese-banks-charging-atm-card-holders-30-kinds-of-fees> &

<http://english.vietnamnet.vn/fms/business/136219/atm-card-holders-bear-30-kinds-of-fees.html>

### **Food for Thought**

*In advanced economies, there are just some basic ATM fees, such as annual maintenance fee, fee when customers want to change password or issue a statement. And customers could get access to information without fees, so they rarely complain. On the contrary, in Vietnam, many customers are complaining that banks only inform unilaterally when they want to charge, and then they conduct charge, abuse charging right and apply high charges. Meanwhile, the quality of ATM service has many problems, such as ATMs being out of money, congestion, etc. But ATM fees are being continuously increased and customers have to accept because there are not many alternatives.*

*Faced with public protests about ATM fees, and interest rates of Master Card and Visa Card which the banks are to collect all, the SBV has sent an official dispatch to ask banks to promptly self-check their fees and charges, which are being applied to Visa Card, ATM and Master Card to ensure that they comply with the Circular No. 35/2014/TT-NHNN. Therefore, banks have to apply fees and charges as per their tariffs of card services; and publicly provide clear information about the same. Besides, banks have to provide updated information to the customers in advance, consult them and provide clear feedbacks/responses.*

*Currently, bank charges vary between different ATM services and it is difficult to define which of the services is bank service or State service. Therefore, the State has to create a safe and healthy competitive environment in order to reduce ATM fees. Only then, the banks will be forced to reduce fees and charges, including the ATM fees.*

## **D. COMPETITION POLICY**

### **6. Supermarket Branding Take a Foothold**

It is increasingly common to find products labelled, under super-market brands, offering lower prices on the shelves of supermarkets in major cities. Private-label products found in supermarkets include beverages and foods, as well as daily necessities, such as paper tissue, toothpaste, shower cream and washing powder.



Currently, private-label products account for a modest percentage of store products, which often comprise several hundred product categories, as well as fast-moving consumer products. The potential of developing private labels is large in Vietnam, given the improved attitudes of consumers towards retailers' private labels.

<http://vietnamnews.vn/economy/272956/supermarket-branding-take-a-foothold.html>

### **Food for Thought**

*Supermarkets selling their own brands is a popular trend in the world at present and has appeared a long time ago. Appearing in the Vietnam market from 2007-2008, till present, private labels have become a competitive strength of the retailers. Almost all the supermarkets, both domestic and foreign, such as Metro, VinMart, Co.op Mart, Big C, Lotte Mart, etc. have their private labels. With private labels, product prices are reduced much as compared to similar ones because supermarkets have the advantage of distribution systems, they do not have to pay any cost of advertising, marketing, management, or any fee for intermediaries. Consumers therefore could enjoy the resulting benefits of lower prices.*

*Outburst of private labels is a postulate of the market not only in Vietnam. Private labels will help supermarkets to be more active in price competition. From a competition perspective, this competition will be beneficial for consumers because they will have more choices. Moreover, some enterprises/suppliers might be facing new difficulties. Supermarkets are also enterprises, who would undoubtedly favour their own products over others'. In the meantime, there is not yet any specific law dealing with intra-brand competition and abusive conducts of enterprises in an upstream market.*

*Besides, as the direct users, consumers should pay more attention to quality of products and private labels because supermarket can wriggle. The private-label products are always displayed at upfront position, with eye-catching billboards, priced 20-30-percentage cheaper and vigorously promoted, so that consumers are easily attracted. However, some private labels of supermarkets had been inspected by relevant State authorities who detected unclear labels and expiry dates.*



## 7. Vietnam in Transition – CAMS 2014

The Vietnam Chamber of Commerce and Industry (VCCI) and the World Bank (WB) unveiled a report on July 23 entitled ‘Vietnam in Transition – Changing Attitudes to the Market and the State (CAMS) – Perception of a number of Vietnamese people in 2014’.



More than 1,600 people participated in the survey. About 89 percent of the respondents said that they support the market economy model, while 71 percent voiced support of private sector ownership in the national economy. About 94 percent underscored the need for transparency in the policy implementation process in Vietnam. Nearly 99 percent agreed with the state policies on transferring some public services to the private sector.

<http://english.vov.vn/Economy/Trade/WB-VCCI-release-CAMS-2014-report/297175.vov>

### Food for Thought

The over-one-thousand respondents of the survey have been drawn from various part of the Vietnamese society including the central government, provincial governments or city administrations, the Communist Party’s Central Committee, the Nation Assembly, and a wide range of enterprises, civil society organisations, the media and international organisations.

The survey showed strong support to the market economy model (89 percent), private ownership in the economy (71 percent) and transparency in the process of making and implementing policies in Vietnam (94 percent), a slight increase compared with the CAMS 2011 results (87 percent, 69 percent and 92 percent, respectively).

The 2014 survey found that people who participated in the survey praised the quality of some public services provided by the private sector (health, education, notaries, public transportation). At the same time, the policy to transfer some public services to the private sector was warmly supported by the overwhelming majority of the survey respondents (99 percent).

However, Vietnamese people’s assessment of the actual conversion to the market economy also showed no significant and clear differences, especially in people’s assessment of the nature of the state or the market of the economy. For every five persons who said that Vietnam’s economy is actually a market economy, four others believe that Vietnam is basically

a State-led economy. This result shows that in Vietnam, the State and market economies are still operating in parallel.

Regarding the speed of economic reforms, only 29 percent of the respondents said the speed of transition to the market economy in Vietnam in the past five years was fast, while 36 percent said it was slow. Obviously, the process of shifting to the market economy is undergoing but the pace is under expectations.

Most of the supporters of the market economy still wanted to have the State’s interventions to stabilise the prices of essential commodities. Perhaps the operation of the market economy in Vietnam has not really built confidence and brought about positive effects for the society, such as creating competition and promoting price reduction and improving product and service quality, so people expect the interventions of the State.

Almost half of the survey participants stated that the prices of essential commodities were determined by the market, while the rest said prices of majority commodity groups are governed by the State.

Only 19 percent of respondents appreciated the contribution of large State-owned enterprises (SOEs) in the economy as positive/very positive, while the negative rating was 29 percent.

Only one-fifth of respondents were satisfied with the current economic situation of the country. Also a large number of people (47 percent) expressed concern at the increasing gap between the rich and the poor in Vietnam. Further, 63 percent of participants believed that the future generations will have a better life.

Through the results, the survey shows that the reforms, which are being carried out are suited to the needs of the majority of people and businesses. The survey also shows remarkable aspects, such as the great expectations about the role of the State in controlling prices, the mixed economic system, and assessment of the effectiveness of the State-owned Enterprises (SoE) reform programme. Experts who attended the report launching workshop believed that the survey would be an important indicator for policy-making agencies and research institutions to promote research programmes and specific actions in order to push the Vietnamese economy in the right direction, and improve the quality of life for every citizen of Vietnam. However, the survey is just relative and drawn from some parts of the Vietnamese society, which are not representative for all Vietnamese people.

## 8. Ending State Monopoly on Electricity and Petrol Trading

The State would only hold monopoly over 16 categories of commodities and services, according to a decree drafted by the Ministry of Industry and Trade.

For the first time, electricity, petrol and oil would no longer be monopolised by the State, excluding the operation of the national power system, power transmission, multi-purpose hydropower plants and nuclear power plants.

As for other kinds of goods, the State would hold monopoly in the import and export of gold materials, gold bar production, lottery business, import of tobacco, and

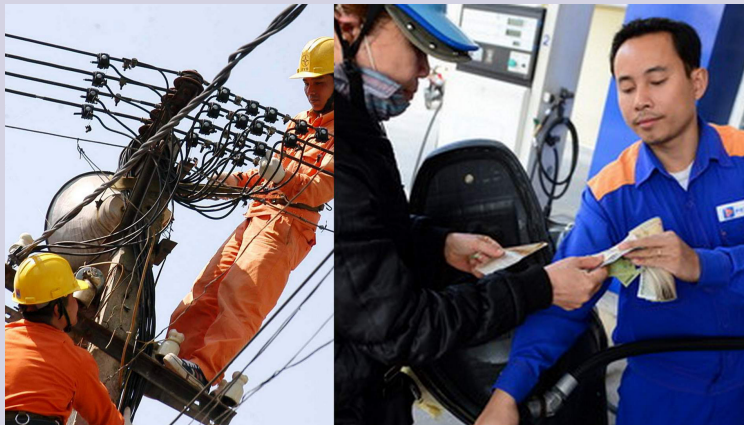
topographical and cartographical activities for national defence purpose. The State would retain its monopoly, over the services of maritime pilotage, maritime safety assurance, flight operation, money printing and coining, and management of the operation of the railway infrastructure system.

<http://vietnamlawmagazine.vn/state-monopoly-on-electricity-and-petrol-trading-to-be-ended-4906.html>

### **Food for Thought**

In the petrol sector, from 2009 till present, the Government's decree has allowed enterprises of all economic sectors to participate. By the end of 2012, there were 12 leading enterprises to join in exporting and importing petrol, both private enterprises and State-owned enterprises (in the majority) among them. The amount of leading enterprises has been increasing to 22, including eight State-owned enterprises and 14 enterprises of the private sectors till May 2015.

Petrol is a conditional commodity, enterprises can join in exporting and importing petrol if they satisfy the conditions stipulated in the Decree No. 83/2014/ND-CP, so that petrol business is no longer a State-run monopoly. Besides, a new regulation aimed at increasing competition in the petrol market is to supplement two new distribution methods, including franchising and definitive purchase besides general agents and agents.



As for the power sector, since 2015, the Vietnam power market will turn from a competitive power generation market into a competitive power wholesale market. Accordingly, the State only monopolises the operation of the national power system, power transmission, multi-purpose hydropower plants and nuclear power plants.

It is easy to see why the power and the petrol sectors were always in the State monopoly list for many years, which has caused considerable unfavourable opinions in the public.

Petrol and power are important inputs for almost all economic activities. The monopoly on essential commodities thus will lead to distortions of the market. When these sectors increase their prices, the production costs will increase, thereby affecting the consumption index and reducing the growth rate of economy.

Consequently, the abolishment of monopoly on power and petrol will benefit the consumers in many ways and offer them many choices. Meanwhile, the suppliers will have to compete with each others to gain market share and consumers' patronage. If the markets are competitive, enterprises could not increase price arbitrarily, while product quality ought to be constantly improved. However, one could not exclude the possibility that producers join hands with each other to increase price.

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Your views and comments are welcome at: [hanoi@cuts.org](mailto:hanoi@cuts.org)