

Competition Distortions Dossier

July-September 2016

1. FedEx Acquisition of TNT Made Official

The US\$4.8bn acquisition of Netherlands-based TNT Express-NV, a provider of mail and courier services and the fourth largest global parcel operator, by transportation and logistics services provider FedEx was made official on May 25, 2016.

In November 2015, FedEx said that the networks of TNT Express and FedEx are largely complementary, given that FedEx's strength is providing US domestic and extra-European international services, while TNT Express's focus is on providing intra-European services while also noting that the combination would allow the parties to sell a more competitive e-commerce offering in the market, which should benefit consumers and small and medium-sized enterprises (SMEs) in Europe and beyond.

TNT and FedEx said that the European regional headquarters of the combined companies would be in Amsterdam/Hoofddorp, and that the TNT Express hub in Liege would be maintained as a significant operation of the group.

http://www.logisticsmgmt.com/article/fedex_acquisition_of_tnt_is_made_official



Food for Thought

FedEx is a US multinational courier delivery service company founded 45 years ago. The company provides their worldwide customers a multiform catalogue of transportation services, e-commerce and businesses. With annual revenues of US\$45bn, FedEx launches integrated business applications through companies under common competitive strategies and be managed in a spirit of partnership under the brand FedEx. Meanwhile, TNT Express is one of the largest transportation companies of the Netherlands, appeared on the market 70 years ago. TNT Express daily delivers nearly 1 million documents, parcels and pieces of freight. The main road and air-deliveries are in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. In 2015, the company recorded sales of €6.9bn.

Considering all aspects, FedEx is much bigger than TNT Express. In Europe, the scale of FedEx's air-deliveries is quite large, but the scale of road-deliveries is smaller and less competitive than UPS courier service as well as less overlap with current business activities of TNT. Therefore, this acquisition is expected to help TNT Express to change 'the game' by utilising the road-network (more than 40 European countries) to save both their time and money to avoid rebuilding. FedEx expects that this merger will help them to create a stable power to confront UPS and DHL – two huge 'players' in global express market.

Earlier, FedEx also made a series of smaller-scale acquisitions, such as in January 2015, FedEx spent US\$1.4bn to buy Genco Distribution Systems – reverse logistics software and returns processing services provider. In December 2014, they bought Bongo International – a huge provider of global e-commerce technologies, enabling international transactions for online merchants and consumers.

Both FedEx and TNT Express are 'main global players' in the field of courier service so this deal will lead to a shortage of competitive 'playground' when there are only two other big courier companies – UPS and DHL. After the merger, there would be only three big companies left in the courier market – UPS, DHL and FedEx – creating a steady 'tripod' situation, so that it is hard to have other M&A of this type in this market.

The European Commission, after a six-month-long review, approved the deal without conditions in January 2016. This was seen as an unexpectedly easy pass from Europe's antitrust police, who had blocked a similar deal between UPS and TNT in 2013. FedEx is still awaiting approvals from several countries, most notably China and Brazil, while US regulators approved the deal last year. Notably, both FedEx and TNT have physical presence in Vietnam, and significant market positions for that matter, as well as in other countries of

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the Association of South-East Asian Nations (ASEAN). However, no competition regulator in the region has indicated their intention to investigate the implications of this international merger on the competitive landscape and consumer welfare in their respective domestic markets so far.

2. Hanoi Tackles Telecom Service Monopoly

The Hanoi People's Committee has issued a regulation to deal with the monopolistic situation in providing telecommunication services at many local apartment buildings. Currently, households at many apartment buildings in Hanoi can only use one telecom service provider selected by the building management board for Internet or cable television. It means that there is no way



for other providers to install their equipment in the buildings.

Tenants thus have no choice in terms of telecom services. In some cases, the service providers were said to have failed to provide full information to households in apartment buildings about applicable rates and promotional programmes. Under the new regulation issued by the Hanoi People's Committee, owners of inner-city apartment buildings have to develop infrastructure that can handle the roll-out of high-speed internet services provided by at least two companies, offering a fairer playing field for telecom services.

<https://m.talkvietnam.com/2016/06/hanoi-tackles-telecom-service-monopoly-at-apartment-buildings/>

Food for Thought

Monopoly in providing telecommunication services at many apartment buildings have become a common practice in big cities in Vietnam years ago. The lack of competition in those 'localised' segments of the markets not only deprived people living in these apartment buildings of choice, but also resulted in inefficient allocation of resources. The service providers were also notorious for low-quality services, frequent disruptions and withdrawal of relevant information about pricing plans and promotions, which should have been made transparent to customers.

The reason for this monopolistic situation is because when designing and constructing the buildings, to reduce investment costs, project owners often cooperated with a specialized telecommunications service provider to install cables into their buildings. As a result, they would have pre-commitments to prioritise this one service provider over the other latecomers. With this tacit consent, building

managements created 'oasis' monopolies in the otherwise highly competitive telecommunication industry.

Some years ago, Ho Chi Minh City had stipulated that apartment buildings must have at least two Internet and telecommunication infrastructure providers, but in fact, only some buildings complied with this regulation due to the cost of infrastructure investment. In Hanoi, this is now a new mandatory regulation for construction projects in preparatory stages. For those buildings, which are already under construction or for which a construction permit has already been approved before this new regulation comes into effect, State agencies encourage investors to apply and add diversified telecommunication systems to meet the demands of people living in their buildings.

The promulgation of this regulation is to ensure that people living in apartment buildings are free to choose amongst different providers of telecommunication services and therefore promote competition in the development of networks as well as provision of services amongst different companies in the buildings. As for the buildings, which have already been put at use, the management and operation boards need to facilitate telecommunication providers to upgrade and supplement the existing telecom cable systems.

3. Inspectorate to Investigate MobiFone Stake Purchase in AVG

Vietnam's State Inspectorate will conduct a comprehensive inspection of MobiFone Telecommunications Corporation's business transaction in which it acquired a 95 percent stake in Audio Visual Global JSC (AVG). Under the Directive No. 1344/TTg-V.I issued by the Government office on July 22, 2016, Prime Minister Nguyễn Xuân Phúc asked the inspectors to inspect the deal in coordination with relevant agencies.

If violations are found, the case will be transferred to an investigation agency and the firm will be strictly punished in accordance with provisions of the law.

In 2016, MobiFone, the second largest mobile network operator in Vietnam, said its investment in digital



television was part of its 2016-2020 business strategy to meet the increasing demands of customers. Other key areas in which the firm will invest in 2016 are mobile, retail sales and multimedia. MobiFone did not disclose the value of the deal as well as the volume of the stake it has bought in AVG.

<http://vietnamnews.vn/economy/300534/inspectorate-to-investigate-mobifone-stake-purchase-in-avg.html#CqOfDc7HSdFCfwBg.97>

Food for Thought

In recent years, more and more big 'players' have entered into the pay television sector, making AVG – a pay television service provider launched by 2011 end – increasingly lag behind with regards to investment capital, brand name as well as the number of subscribers. Even AVG's plan to become a public holding company has been postponed many times since 2011. Meanwhile Mobifone Telecommunications Corporation is one of the most successful State-owned enterprises in Vietnam, operating directly under the supervision and management of the Ministry of Information and Communications.

On January 08, 2016, Mobifone issued an official press release about buying shares of AVG to cater for television business – one of four strategic fields of Mobifone – with mobile telephony services, retail and media. However, the value of this deal was not mentioned in the press release, causing a lot of public concerns, due to the lack of transparency.

Mobifone is a State-owned enterprise, therefore it is subject to the Decree No.81/2015/ND-CP of the Government on publishing information about State-owned enterprises. Precisely, Mobifone have to periodically publish their annual and five-year development strategies, production and investment plans, operational and financial reports in the mass media and other relevant information portal/website, etc.

Besides, Mobifone is a prestigious telecommunication services enterprise, which always ranks amongst the top 10 brands in Vietnam. Their business information, from the development of new subscribers, total number of subscribers, to revenue, profit, etc. have always been openly published. Therefore, if full information about this sensitive M&A is not timely declassified, the reputation of Mobifone will be eroded.

Currently, Mobifone aims to develop 1 million new registered subscribers of television services by end of 2016 and is expected to launch its initial public offering (IPO) soon. By 2020, Mobifone is expected to become one of the three biggest providers of pay television services in Vietnam. The AVG purchase before the launching of the IPO shows the strategic orientation of this State-owned enterprise. However, there is no clear and comprehensive official information about this M&A till date.

Therefore, it is difficult to conclude how this acquisition will affect the equitisation progress and whether or not Mobifone should launch its IPO after the inspection is completed with official conclusion from State agencies.

4. Consumers Cautioned to Use Credit Cleverly

Customers must be cautious when seeking consumer loans, Vietnam Competition Authority (VCA) officials said during a meeting in Ha Noi on July 13, 2016. It was reported in the meeting that complaints related to consumer credit account for more than 80 percent of all complaints that the Ministry of Industry and Trade's consumer protection authority recorded so far in the domestic banking and finance sector.

Compared to corporate credit, consumer credit is characterised as smaller loans given to a larger number of customers, with higher service costs and more risks. With lending to businesses facing many hurdles, banks and financial companies are focussing on consumer loans, or credit provided to retail borrowers to buy items like vehicles and home appliances without collateral.

<http://bizhub.vn/news/17314/consumers-cautioned-to-use-credit-cleverly.html>

Food for Thought

Consumer lending procedures were much more flexible and simpler than normal banking procedures. This fact, coupled with the rising demand for consumer credit, has fuelled the recent boom in Vietnam. The development of consumer lending could bring a lot of benefits not only to the consumers but also to the economy. Consumer lending would promote purchase and consumption, stimulate production and growth, and policy-making must be based on that approach.

However, the downside is that the number of reports and complaints is increasing, seriously and negatively affecting the integrity and health of consumers, in addition to loss of assets, due to lack of financial knowledge. Vietnam currently has only six financial companies specialised in consumer financial services, with several banks, which provide this kind



of services still failing to meet the demand. Therefore, it is not difficult to find advertising leaflets everywhere touting low interest-rate loans without collaterals or guarantee. But when borrowing money, the borrowers are not provided with sufficiently information about the applicable interest rate, monthly payment, fine and penalty if they provide erroneous information or if consumers are late in payment.

This is partly because there is no specific regulation for consumer loans, so all issues related to consumer loans are only handled on the basis of the generic provisions of the Law on Credit Institutions. Meanwhile, the regulations related to loan limits, lending procedures for banks and finance firms are now too outdated to be applicable in the case of consumer loans. Neither does the Law on Consumer Protection 2010 speak anything about protecting a consumer in the position of a borrower or debtor.

Vietnam is an emerging market and has great potential for consumer credits. However, the legal system of Vietnam is still incomplete. Although there were legal provisions about

interest rate ceiling, in fact, consumers still suffer from unreasonably high interest rates. It shows that having regulations is not sufficient, the most important thing is how to apply these regulations in practice. Besides, consumers are not aware of their rights, so they easily fall into the 'raps' set by unethical lenders. Financial consumer education is thus the need of the hour.

5. Ambulance Scandal Shines Light on Transport Monopoly at Vietnam's Hospitals

Monopoly on transport services at Vietnamese hospitals has come under fire after an outsourced ambulance carrying a dying child was denied passage at a central hospital in Hanoi in July 2016.



The incident has caused public outrage, with many sharing their own experiences and denouncing the situation at hospitals around the country in terms of transport services, ambulances and taxis alike. As ambulances from other service providers were not allowed to pick up patients inside the hospital, many others had no choice but to use their overpriced service. Meanwhile, taxi service is also monopolised at the hospitals, with passengers having to walk outside the hospitals to hail any taxi company other than the one exclusive to the hospital.

<http://tuoitrenews.vn/society/35805/ambulance-scandal-shines-light-on-transport-monopoly-at-vietnams-hospitals>

Food for Thought

Suspicion, that there are illicit deals between security guards and ambulance service providers at public hospitals, has been mounting while patients complained about high prices of ambulance services recently. Security guards of many hospitals, such as Bach Mai, 103, National Burn Hospital are said to have blocked ambulance cars of other provinces from entering their compound. Or the drivers had to pay money to the guards to be able to pick up patients. Several months ago, the media also reported that there were fake ambulance cars publicly going in and out and rudely charging exorbitant prices in Thai Binh General Hospital. As for taxis, the monopoly has led to a situation where drivers had to pick up and drop off customers outside the hospital gates, which results in traffic jam at the gate.

Patients are very concerned that if these issues happen whenever they go to the hospitals, poor people will not have enough money to hire ambulance services because of high

prices. The public therefore have been questioning the managements of these hospitals, expecting them to radically solve all these issues. Hospitals need to check and remove immediately their internal regulations, which are restricting patients from coming out of hospitals without having to select transport services.

If the patients need medical assistances, hospital staffs should explain to them to be transported by ambulance cars of hospitals or 115 ambulances. And if patients want to choose the transportation means by themselves, the hospitals and the patients could sign a commitment to ensure their safety. Besides, training and improving communication skills skills is required for hospital employees as well as security guards. Hospitals should clearly define these issues in the contracts with security service providers to ensure the implementation of polite behavior with patients and their relatives.

6. VBL becomes Heineken Vietnam Brewery

The Vietnam Brewery Limited Company (VBL) officially changed its name to Heineken Vietnam Brewery Limited Company (Heineken Vietnam Brewery) and released a new logo on August 01, 2016.

There are no changes to the shareholding structure between the two stakeholders in the joint venture. The Saigon Trading Group (Satra) continues to hold 40 percent while Heineken Asia Pacific partner still holds 60 percent. The company would preserve its business and production models as well as the property rights on its all brands, which include Heineken, Tiger, Larue, BGI, Bivina, Desperados, Affligem and Strongbow Cider.

<http://vneconomictimes.com/article/business/vbl-becomes-heineken-vietnam-brewery>

Food for Thought

Vietnam Brewery Limited Company (VBL) was established in 1991 as a joint-venture company between Heineken Asia Pacific Pte. Ltd. Company (HAP), which is headquartered in Singapore and Saigon Trading Group (SATRA). According to the data of Euromonitor, more than 80 percent market shares of Vietnam's beer market belong to three big enterprises, namely Sabeco, Habeco and VBL (now Heineken). While Sabeco is the king of the medium-priced products, VBL is still leading in the premium segmentation. Given VBL's annual huge profit of 4.1tn and payment of 12.6 trillion to national budget every year, is it true that the foreign partner in this joint venture wants to acquire the shares of SATRA as their



first step in eliminating Vietnamese beer brands? Previously, this company has also completed the acquisition of Carlsberg's factory located in Ba Ria-Vung Tau province.

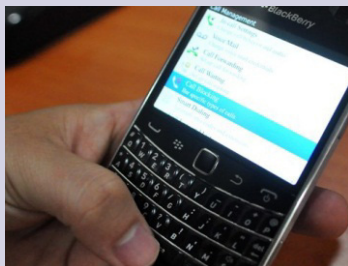
After only seven years, Vietnam has come to lead the ASEAN region in terms of beer consumption and ranked 3rd in Asia from being No. 8 in 2008. Besides, Vietnam's market is less dominated by domestic brewers. While in other Asian countries, such as Thailand and Japan, domestic brewers hold 90 percent market shares, Vietnamese brewers account for only 63 percent of market shares in 2015.

Moreover, the habit of drinking beer is growing with the young population and increasingly so with the growth of the middle class. Vietnam therefore has become an attractive destination to many brewers in the world, such as Heineken, Thai Beverage and Asahi. Besides, the plan to withdraw all State capitals of Vietnam Government from two big enterprises in the beer industry is also another huge attraction to foreign investors. These are the reasons for Heineken to determine that Vietnam is their second important market as well as conducting M&A in this market.

7. Vietnamese Mobile Phone Users 'Pickpocketed' by Networks

The Ministry of Industry and Trade has recently warned Vietnamese citizens about their being overcharged by mobile network providers.

The warning follows complaints by mobile subscribers who say they have to pay up to a million VND1mn per month for add-on mobile services the network operators provided without their consent and knowledge.



Duc from Ho Chi Minh City, who has four numbers from a key mobile network carrier, said that for years, he has been paying about VND900,000 (US\$40) per month for 10 services that he has not registered for.

Few days ago, he also received a message mentioning that he had successfully installed another service. Though Duc followed instructions about how to cancel the service,

it took a long time before he was successful. This problem is facing existing and new mobile subscribers.

Management agencies under the Ministry of Information and Communications said that they have received many similar complaints from Vietnamese mobile users. Network operators, in response, denied responsibility as the services were provided by third parties.

<http://e.vnexpress.net/news/business/vietnamese-mobile-phone-users-pickpocketed-by-networks-3476212.html>

Food for Thought

If voice and text message were mainly used before, value-added services which are "auspicious grounds", are being increasingly exploited now by telecoms service providers. Value-added services bring additional benefits but also create a lot of troubles for consumers. One of the problems that consumers always encounter when using mobile communication services is that the network providers do not provide sufficient information to consumers. When purchasing a prepaid SIM card or registering postpaid at nationwide SIM agents, consumers are not provided with clear and full information related to the value-added services pre-installed on the SIM. Even when consumers regularly checked and canceled unused value-added services, the network providers can still automatically send messages and register consumers into subscribing for their other value-added services.

According to the Vietnam Competition Authority (Ministry of Industry and Trade), customers can definitely claim for compensations, and return their money through multiple ways. However, they need to have evidence to prove that they have been charged by telecom service providers without their consent and knowledge. In addition, customers need to actively learn, update information to effectively exploit these services in daily life, while avoiding the infringement of their rights. Receiving regular messages with similar content from a certain mobile subscriber number; and unusual increases in monthly mobile costs, etc. are signs that they are using value-added services. If consumers realise one of these abnormal signs or have doubts about value-added services being automatically installed/activated in their mobile device, they should contact with the switchboards of the service providers to check the list of value-added applications, which are registered on their subscriber numbers.

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