Vietnam unlikely to meet December target for E5 ethanol mandate

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Vietnam is expected to miss its December target for requiring all gasoline sold in the country to contain 5% ethanol, due to limited access at fuel stations and a narrow gap between the E5 blend and 92 RON gasoline, market observers said this week.

A senior petroleum expert from Vietnam Petroleum Institute, a research arm of state-owned PetroVietnam, said the plan adopted in 2012 did not outline how the country would reach the target.

"The plan does not include specific measures for implementation -- that is one of the reasons why it could not be carried out successfully," he said.

The country began limited sales of E5 -- a blend of 5% ethanol and 95% 92 RON gasoline -- in five big cities and two provinces in December 2014.

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Deputy Prime Minister Hoang Trung Hai issued a directive to oil companies August 31 acknowledging that E5 demand remained low and urging them to increase access to the blend.

This signaled that the country would likely miss the December target. The government directed the oil companies to sell E5 in at least half of their stations in five big cities and three provinces by November 30. Analysts said the price difference between E5 price and 92 RON and 95 RON is not big enough to encourage customers to shift to using E5.

E5 is currently sold at Dong 16,840 ($0.74)/liter, Dong 490/liter lower than the retail price of 92 RON gasoline.

Vietnam Petroleum Association, a group of oil companies, has urged the government widen the price gap between E5 and 92 RON to Dong 700-Dong 1,000/liter.

Another obstacle to E5 adoption has been customers' concerns about the fuel's safety in their vehicles, the government said.

In response, the Ministry of Industry and Trade and other related ministries plan to launch a media campaign showing the benefits and safety of E5 use.

The government also asked the Ministry of Finance to study the possibility of granting tax and other incentives for ethanol and E5 production. PRESSURE MOUNTS ON LOCAL ETHANOL PRODUCERS

Weak E5 consumption has piled pressure on Vietnam's ethanol producers in recent months.

PetroVietnam could not finish construction at its Phu Tho ethanol plant, which it started in June 2009, due to a dispute regarding construction costs.

Its Binh Phuoc project, Orient Bio-Fuels, was completed in 2012 but might not be put into commercial operations until 2018, according to the VPI expert. Japan's Itochu had previously held 49% stake in the plant with PVOil holding 29% and local stakeholder Licogi 16 (22%). But Itochu has sold all of its stake in the project to Toyo Thai New Energy Pte. Ltd, a subsidiary of the Singapore-based Toyo Thai Power Holdings Pte. Ltd, according to the website of Central Bio-Fuels.

PetroVietnam's wholly owned Quang Ngai plant, Central Bio-Fuels, is struggling survive and is likely to shut soon due to high production costs and low prices, the VPI expert said.

In January-April, domestic oil companies produced 85,000 mt of E5 blend and sold 87,087 mt, according to a government statement in June.

The country started producing the blend in July 2014.

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