

PRIME MINISTER
Number: 88/2007/QĐ-TTg

SOCIALIST REPUBLIC OF VIET NAM
Independence - Freedom - Happiness
Ha Noi, day 13 month 06 year 2007

DECISION

Approving the overall Strategy of Vietnam's tobacco industry up to 2010 and a vision towards 2020

THE PRIME MINISTER

Pursuant to the December 25, 2001 Law on Organization of the Government;

At the proposal of the Ministry of Industry in Document No. 1902/TTr-BCN of May 3, 2007, submitting to the Prime Minister for approval the overall strategy of Vietnam's tobacco industry up to 2010 and a vision towards 2020; and comments of relevant ministries and branches,

DECIDES:

Article 1.- To approve the overall strategy of Vietnam's tobacco industry up to 2010 and a vision towards 2020 with the following principal contents:

I. VIEWPOINTS

1. The State does not encourage tobacco product consumption, carries out measures to closely monitor, and impose quotas of, the tobacco output and import, adopts tax policies to limit tobacco consumption, and conducts propaganda to reduce tobacco use demand;
2. To reform the tobacco industry's management mechanism in accordance with WTO commitments, and step by step implement the Framework Convention on Tobacco Control (FCTC);
3. The State holds monopoly in tobacco product supply, including production and import. Only licensed state enterprises, and joint ventures between licensed enterprises and foreign partners in which the State holds a majority share, may produce tobacco products. To perform state management of tobacco product import;
4. Tobacco products are commodities subject to restricted trading. The State controls tobacco circulation and consumption on the market and strictly manages the wholesale and retail of tobacco products;
5. The tobacco product production capacity of each enterprise and the whole tobacco industry, determined as three shifts per day, is the capacity of machinery and equipment existing at the time of promulgation of the Government's Resolution No. 12/2000/NQ-CP of August 14, 2000, and announced by the Ministry of Industry;
6. The annual output of tobacco products supplied to the domestic market (including production

and import) by enterprises must not exceed the capacity specified in their tobacco product production permits. The Ministry of Industry shall specify enterprises' output of domestic- and foreign-branded tobacco products in each period;

7. Tobacco product production is a conditional investment domain. Not to invest in building anew and expanding establishments producing tobacco products for domestic consumption in excess of the aggregate tobacco product production capacity determined by competent authorities. To allow only intensive investment and renewal of tobacco production technologies and equipment for the purpose of product restructuring with a view to raising product value and quality, reducing harmful effects, and protecting the environment;

8. To carry out international cooperation with a view to conforming with common principles of international economic integration and Vietnam's international commitments, refrain from increasing the capacity of tobacco production for domestic consumption, improving product quality, and fighting fake and smuggled cigarettes;

9. The production of new foreign-branded tobacco products for sale in Vietnam must be within the licensed production capacity and approved by the Prime Minister;

10. Foreign investment in tobacco product production must be in the form of joint venture or cooperation with licensed tobacco production enterprises; fully satisfy the conditions for obtaining a production permit; conform with the tobacco industry's overall strategy; have the State held a majority share; and be approved by the Prime Minister;

11. Machinery, equipment, materials and paper for making cigarettes are commodities subject to line management and tight control of production, import and use;

12. Investment in tobacco growing areas aims to tap land and labor potentials and satisfy the market demand. To pay special attention to developing tobacco growing in mountainous, deep-lying and remote areas, making contribution to hunger eradication and poverty alleviation;

13. To boost scientific and technological research and application in the tobacco industry and raise its scientific and technological level to the regional one;

14. To continue reorganizing and rearranging tobacco production enterprises into big ones and to form the Vietnam Tobacco Group with multiple ownership and multiple business lines; to modernize equipment and technology to improve product quality, reduce harmful effects and protect the environment; to be highly profitable and competitive; the Vietnam National Tobacco Corporation plays a key role in this work.

II. OBJECTIVES

1. Organization of the tobacco industry's production up to 2020

a/ The Vietnam National Tobacco Corporation plays a key role in reorganizing inefficient small tobacco production enterprises into strong ones which are nationally and internationally

competitive.

b/ To form the Vietnam Tobacco Group doing multiple business lines on the basis of further rearranging and restructuring key enterprises controlling tobacco production and trading, which are the Vietnam National Tobacco Corporation, Saigon Industry Corporation (Ben Thanh Tobacco Company), Khanh Viet Corporation, and Dong Nai Food Industry Corporation (Dong Nai Tobacco Company).

2. Tobacco product production

a/ Total capacity of tobacco product production for domestic consumption

The tobacco product production capacity of each enterprise and the whole tobacco industry, determined as three shifts per day, is the capacity of machinery and equipment existing at the time of promulgation of the Government's Decree No. 12/2000/ND-CP of August 14, 2000, and determined and announced by the Ministry of Industry.

The tobacco production capacity of each enterprise and the whole tobacco industry is the basis for managing special-use equipment investment as well as enterprises' tobacco product output.

b/ Annual tobacco product output

Tobacco is a commodity whose consumption is not encouraged, but whose domestic production must be maintained to satisfy the market demand and at the same time limit the smuggling of tobacco products.

The tobacco industry's aggregate annual output of tobacco products for supply to the domestic market (including production and import) must not exceed the actual production capacity determined and announced by the Ministry of Industry on August 14, 2000. Each enterprise's output may not exceed the production capacity specified in its tobacco production permit.

The Ministry of Industry shall specify enterprises' output of domestic- and foreign-branded tobacco products in each period to meet the domestic market demand with a view to gradually reducing the demand for tobacco product use.

c/ Product structure

To restructure products with a view to raising the ratio of medium- and high-grade cigarettes and gradually reducing low-grade ones.

Ratio (%)			
2010	2015	2020	
High-grade cigarettes	27.0	32.0	35.0

Medium-grade cigarettes	10.5	23.0	30.0
Low-grade cigarettes	62.5	45.0	35.0
Total	100.0	100.0	100.0

By 2010:

100% of the tobacco output will be filter cigarettes. The output of medium- and high-grade cigarettes will increase gradually and account for 37.5% of the total output for domestic consumption. The material localization rate will reach 64%.

By 2020:

Medium- and high-grade filter cigarettes will be the majority, accounting for 65% of the total output. The material localization rate will reach 70%.

d/ Roadmap for tar and nicotine reduction

In implementation of the Government's Resolution No. 12/2000/NQ-CP of August 14, 2000, on the national policy on tobacco harm prevention and control in the 2000-2010 period, Vietnam has acceded to the Framework Convention on Tobacco Control and ratified the roadmap for reduction of tar and nicotine amounts in cigarettes up to 2010 and visions towards 2020, prescribed as follows:

Particulars	2005-2010	2010-2015	2015-2020
Tar (mg/cigarette)	£ 16	£ 12	£ 10
Nicotine (mg/cigarette)	£ 1.4	£ 1.0	£ 1.0

e/ Material production

- Agricultural production:

By 2010:

The tobacco growing area will reach around 39,200 hectares, the average yield will reach 2 tons/hectare, the annual output will reach 78,400 tons.

By 2020:

The tobacco growing area will stay at 40,300 hectares, the average yield will reach 2.2 tons/hectare, the annual output will reach 88,660 tons. The level of farming techniques will be

raised to world standards to produce a majority of materials for medium- and high-grade cigarettes.

- Material processing:

By 2010, 80% of processed materials will be used and over 30% of domestic materials will replace imported materials for the production of high-grade cigarettes. From 2015 onward, all tobacco production units will use 100% of processed tobacco materials.

e/ Supplementary material production

The production of tobacco supplementary materials such as filter tips, wax paper of all kinds, cigarette paper, aluminum paper, packages of all kinds (label, carton) fully meets the domestic and export production demand.

f/ International cooperation

To continue cooperation with major international tobacco groups as strategic partners in producing cigarettes of international brands in the forms of joint venture, export processing and licensing, to raise the tobacco industry's competitiveness and reduce smuggled cigarettes without increasing the output for domestic consumption; to step by step boost the export of branded cigarettes of high value.

Investment cooperation and joint ventures with foreign partners in tobacco product production and trading must comply with common principles of international economic integration as well as Vietnam's international commitments and must satisfy the following conditions:

- Intensive investment, and technology and equipment renewal aim to raise product quality and value without increasing the tobacco production capacity for domestic consumption.
- Foreign investment in tobacco product production must be in the form of joint venture or cooperation with licensed tobacco product producers; conform with the tobacco industry's overall strategy; have the State held a majority share; be approved by the Prime Minister; and fully satisfy the conditions for obtaining a production permit.
- To reduce harmful effects, protect the environment and community health, and observe the Framework Convention on Tobacco Control and regulations on management of tobacco product production.
- To encourage investment in tobacco product production associated with investment in raw material zones and use of domestic supplementary materials.

g/ Investment

- Intensive investment

To renovate and upgrade existing cigarette plants with a view to modernizing production chains and technologies and supplementing automated high-capacity machinery and equipment without raising the production capacity. To liquidate and destroy obsolete, outdated and polluting equipment. By 2015, modern equipment will account for 40% of the tobacco industry's production capacity and for 55% by 2020.

- Relocation of several plants under planning

To relocate a number of plants out of city centers under planning, including the Saigon Tobacco Company, Thang Long Tobacco Company and Ben Thanh Tobacco Company.

- Other domains

To invest in raising the capacity of scientific and technological research to increase product quality and value and reduce harmful and polluting substances.

III. SOLUTIONS FOR STRATEGY IMPLEMENTATION

1. Tobacco industry restructuring solutions

a/ Rearrangement and merger

- To identify small, inefficient and domestically and internationally uncompetitive tobacco production enterprises.

- To merge these enterprises with other strong ones or consolidate them into strong ones doing diversified business lines.

b/ Formation of Vietnam Tobacco Group

- To retain the tobacco industry's four key tobacco production and trading enterprises which are the Vietnam National Tobacco Corporation, Saigon Industry Corporation, Khanh Viet Corporation and Dong Nai Food Industry Corporation.

- To form the Vietnam Tobacco Group doing diversified business lines on the basis of the key enterprises.

Solutions for restructuring the tobacco industry shall be adopted through discussions and agreements between concerned localities and enterprises in a voluntary manner.

2. Solutions on tobacco product sale organization

- To properly consolidate and reorganize the distribution network, control the wholesale market and gradually control the retail sale network, and build up a network of fixed retail dealers under supervision. To actively control and regulate the market prices in the direction of increasing budget revenues and reducing tobacco consumption.

- To actively seek to expand cigarette export markets and boost cooperation with, or export processing for, foreign partners.

- To increase inspection and supervision of smuggled cigarette transport and trading. To use state budget funds and tobacco producers' contributions to prevent and stop cigarette smuggling and increase equipment and personnel for anti-smuggling forces.

3. Investment and scientific research solutions

a/ Intensive investment, technology and equipment renewal

To focus investment in modernizing major equipment.

- Cigarette rolling and packing equipment: To replace with and supplement filter tip rolling chains with a capacity of 6,000-10,000 cigarettes/minute; packing chains with a capacity of 250-400 packs/minute.

- Tobacco shred chains: To continue upgrading and modernizing plants' shred workshops to advanced and modern levels.

- To invest in the development of raw material zones, improve raw material quality, invest in one raw material processing chain with an hourly capacity of three tons and a leaf tobacco production chain with an annual capacity of 5,000 tons.

- To equip a shred dilating chain, renew technologies in stem removal, raw material processing, shred processing, and use of flavorings and supplementary materials with a view to reducing harmful substances, meeting increasingly high requirements of consumers and international trends.

- To invest in infrastructure improvement and workshop modernization; to automate warehouse and transport systems to fit modern machinery and equipment.

- To modernize a number of supplementary material production units.

b/ Scientific research

- To boost research into and application of scientific and technological achievements, improve the technological level in the areas of raw material, cigarette, product quality control and supplementary material.

- To invest in building the Tobacco Economics and Technology Institute into the tobacco industry's research and development agency.

c/ Capital sources

To diversify forms of mobilizing capital from the investment fund for tobacco material growing

and processing, enterprises' development investment capital, commercial loans, capital mobilized through corporate bond issuance, and other legally mobilized capital under law.

4. Solutions on investment in tobacco raw material zone development

- To make focal investment in high-quality raw material zones such as Cao Bang, Bac Son (Lang Son province), Ninh Thuan, Tay Ninh, Gia Lai and Dak Lak.

- To research into and apply scientific and technological advances to the selection of tobacco varieties; processes for tobacco growing, preliminary processing and drying; and the classification of tobacco materials.

- Management of raw material production and trading: To generate capital from the investment fund for tobacco material growing and processing. To adopt reasonable pricing policies and suitable procurement modes. To develop the forms of farm construction, and joint venture or association, including foreign-invested joint venture, for tobacco material growing and processing.

5. International cooperation solutions

- To continue cooperation with BAT, Philip Morris, Imperial, and Japan Tobacco groups in producing cigarettes of international brands already licensed in the form of joint venture, cooperation or licensing. To cooperate in additionally producing cigarettes of some international brands to replace smuggled cigarettes.

- To develop joint ventures growing raw materials and processing shreds to satisfy the market demand.

- To cooperate with BAT, Sampoerna, Universal and Dimon groups in such programs as research and development, improvement of the domestic raw material quality, export of raw materials, and import- substituting materials.

- To study possibilities for setting up joint ventures in other businesses under the tobacco industry's strategy of diversifying business lines.

6. Human resources and training solutions

To diversify training forms, closely combine training with production practices. To rearrange laborers. To downsize the management apparatus, adopt mechanisms and policies to foster talents and encourage laborers' initiatives and creativity. To increase international cooperation in technology and skill transfer training.

7. Clean production and environmental protection solutions

- To timely relocate tobacco production units under planning and ensure efficient investment of new establishments.

- To invest in renewing technologies, machinery and equipment, apply cleaner production technologies to improve product quality and address environmental pollution. To combine traditional technologies with modern ones to effectively treat waste gas, solid wastes, wastewater, harmful wastes discharged from the production process.

8. Business line diversification solutions

To diversify business lines, seek new investment opportunities, prepare schemes on investment in other trades to raise capital use efficiency, increase budget revenues, generate jobs and increase laborers' income.

a/ Production policies

- To invest in infrastructure in service of tobacco growing areas, including irrigation systems and roads; to provide tobacco farmers with loans in kind such as fertilizer, pesticide and coal for drying. To maintain the investment fund for tobacco material growing and processing, and impose sanctions when contract breaches or disputes occur.

- To provide state budget funds for research into and development of new products of high quality and value; adopt policies to assist the tobacco industry in dealing with job cuts in accordance with the State's roadmap for special consumption tax increase.

b/ Policies on line management

- For production:

+ The State holds monopoly in tobacco product supply, including production and import.

+ To manage the tobacco product production capacity of each enterprise and the whole tobacco industry, determined as three shifts/day, on the basis of the capacity of machinery and equipment existing at the time of promulgation of the Government's Resolution No. 12/2000/NQ-CP of August 14, 2000, and announced by the Ministry of Industry.

+ Output determination: The output of tobacco products annually supplied to the domestic market by enterprises (including production and import) must not exceed the production capacity specified in their tobacco product production permits. The Ministry of Industry shall determine enterprises' output of domestic- and foreign-branded tobacco products in each period (determining the output of international branded cigarettes in the forms of franchise, production cooperation and joint venture).

The cigarette stamp supply shall be managed according to quotas for production and import of tobacco products determined for enterprises in each period.

- For import:

+ For import of tobacco products

To include tobacco products in the list of commodities subject to line management and import management in the form of state trade combined with non-tariff measures.

The Vietnam National Tobacco Corporation is the sole importer of tobacco products. The volume of tobacco imports must ensure that total tobacco sales in Vietnam are not increased.

Imported tobacco products must satisfy the requirements of clearly stating the place of manufacture, and tar and nicotine amounts; being affixed with import stamps to distinguish them from domestically made cigarettes; and health warnings.

Apart from prescribed taxes, the tobacco import tax has a suitable roadmap (ad valorem tax, specific tax) to create a healthy competitive environment for the tobacco industry.

+ For leaf tobacco raw materials:

To maintain the tariff quota-based management measure according to WTO admission negotiation results.

+ For special-use equipment and machinery, tobacco shreds, cigarette paper:

Machinery and equipment, raw materials, and cigarette paper are goods subject to line management and tight control over production, import and use, ensuring not to raise the tobacco production capacity, to reduce tax-evading production of cigarettes, and production of cigarettes with fake brands and poor quality.

- Other policies:

+ Legal framework completion

To conduct studies on amendments and supplements to relevant legal provisions in compliance with WTO regulations and the FCTC in such domains as import-export and investment on the principle of "ensuring the competitiveness of Vietnam's tobacco industry, state control of the tobacco production and consumption, and realization of Vietnam's commitments to its international economic integration."

+ Combating cigarette smuggling and fake cigarette trading

To intensify the inspection and control of the trading of smuggled, fake and poor quality cigarettes; to allocate certain funds from the state budget and the tobacco industry's contributions to destroy smuggled cigarettes, support investment in communication equipment, vehicles and personnel for anti-smuggling forces; to pay attention to supporting, eradicating hunger, reducing poverty, generating jobs for inhabitants in border regions.

Article 2.- Organization of implementation

- The Ministry of Industry shall assume the prime responsibility for, and coordinate with relevant

ministries, branches and localities in, implementing this strategy.

- The Ministries of Planning and Investment; Finance; Agriculture and Rural Development; Construction; Trade; Labor, War Invalids and Social Affairs; Science and Technology; Natural Resources and Environment; Health; and Culture and Information, the State Bank of Vietnam, and the Vietnam Development Bank shall, according to their assigned functions and powers, coordinate with the Ministry of Industry in implementing this strategy.

- Provincial/municipal People's Committees shall coordinate with the Ministry of Industry and other ministries and branches in materializing this strategy in their provinces/cities in accordance with their local socio-economic development master plans; coordinate with the Ministry of Industry in arranging tobacco production enterprises under their management.

Article 2.- This Decision takes effect 15 days after its publication in "CONG BAO."

Article 3.- Ministers, heads of ministerial-level agencies, heads of government-attached agencies, presidents of municipal/provincial People's Committees, and relevant agencies shall implement this Decision.