


# MASTER PLAN STUDY ON COASTAL SHIPPING REHABILITATION AND DEVELOPMENT PROJECT IN VIETNAM

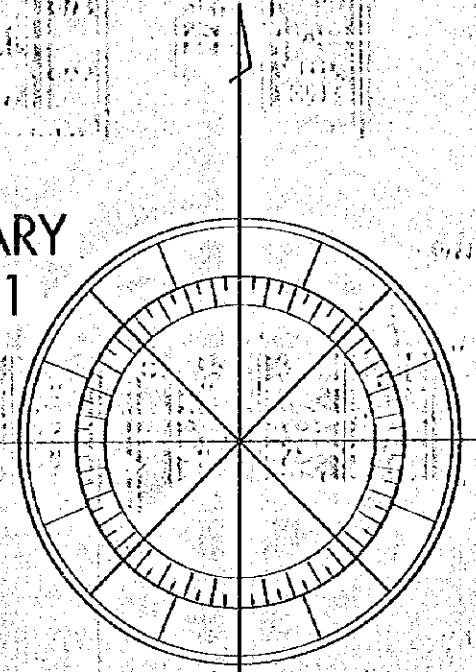
Final Report  
**SUPPLEMENTARY  
REPORTS Vol.1**

Maritime

JICA LIBRARY



J 1135247 (3)



March 1997

The Maritime International Cooperation Center of Japan (MICC)  
Overseas Shipbuilding Cooperation Centre (OSCC)  
ALMEC Corporation

SSF
JR
97-027(3/7)

The exchange rate used in the report is  
J. Yen 110 = US\$ 1 = Vietnam Dong 11,000  
J. Yen 1 = Vietnam Dong 100  
(average during FY 1995-1996)

**JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)  
MINISTRY OF TRANSPORT (MOT), VIETNAM**

**MASTER PLAN STUDY ON  
COASTAL SHIPPING REHABILITATION AND DEVELOPMENT PROJECT  
IN VIETNAM**

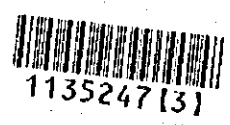
**FINAL REPORT  
SUPPLEMENTARY REPORTS Vol. 1  
Maritime Transport Industry**

**March 1997**

**THE MARITIME INTERNATIONAL COOPERATION CENTER OF JAPAN (MICC)  
OVERSEAS SHIPBUILDING COOPERATION CENTER (OSCC)  
ALMEC CORPORATION**

Very faint, illegible text at the top of the page, possibly a header or title.

#



Very faint, illegible text at the bottom of the page, possibly a footer or page number.

# SUPPLEMENTARY REPORTS VOLUME I

## TABLE OF CONTENTS

<b>Chapter 1</b>	<b>ANALYSIS OF PRESENT SITUATION</b>	<b>1-1</b>
1.1	The Maritime Administration	1-1
1.2	Operators	1-19
1.3	Performance of Coastal Shipping	1-30
<b>Chapter 2</b>	<b>GLOBAL TREND IN SHIPPING AND RELATION TO VIETNAMESE COASTAL SHIPPING</b>	<b>1-55</b>
2.1	The Role of Coastal Shipping	1-55
2.2	Operational Characteristics	1-57
2.3	Regulatory Environment	1-60
2.4	Developmental Measures	1-62
2.5	Implications for Trends in Coastal Shipping in Vietnam	1-63
<b>Chapter 3</b>	<b>PROPOSED IMPROVEMENTS</b>	<b>1-66</b>
3.1	Network Development Plan	1-66
3.2	Fleet Expansion and Modernisation	1-81
3.3	Management Modernisation	1-99
3.4	Regulatory Environment	1-118
<b>Chapter 4</b>	<b>SHORT TERM PRIORITY PROJECTS</b>	<b>1-124</b>
4.1	Introduction	1-124
4.2	Expansion of the Fleet	1-124
4.3	Introduction of Liner Services	1-132
<b>APPENDICES</b>		
1	Laws and Regulations Concerned with Maritime Transport Industry	1-142
2	Main Shipping Operators in Vietnam: their Organisations and Fleets	1-152
3	Shipping Operator Financial Statements	1-160
4	Charges for Inland Transport Services	1-162
5	International Experience in Coastal Shipping	1-172
6	Comparative Vessel Operating Costs	1-196
7	Alternative Fleet Development Programmes	1-207
8	Example Curricula for Training Courses	1-225

# SUPPLEMENTARY REPORTS VOLUME 1

## LIST OF TABLES

1.1.1	VINA MARINE Fleet Development Plan	1-11
1.2.1	Characteristics of Shipping Fleet by Type of Ownership	1-21
1.2.2	Profile of Major Shipping Companies in Vietnam	1-22
1.2.3	Member and Capacity of New Cargo Vessels Built between 1992-1995 by Type of Ownership in 1995	1-26
1.3.1	Summary of Domestic Seaborne Traffic in 1995	1-31
1.3.2	Domestic Cargo Loaded and Unloaded at Saigon Port	1-35
1.3.3	Domestic Cargo Loaded and Unloaded at Qui Nhon Port	1-36
1.3.4	Domestic Cargo Loaded and Unloaded in Qui Nhon Port Authority	1-37
1.3.5	Vietnamese Fleet Size Distribution by Type of Ship	1-40
1.3.6	Age Distribution of Vietnamese Fleet	1-41
1.3.7	Reported Range of Freight Rates for Bagged Cement, Haiphong-Saigon	1-43
1.3.8	Examples of Actual Average Coastal Shipping Rates (1995-96)	1-44
1.3.9	Comparable Transport Cost Analysis by Modes	1-48
2.11	Comparison of Role of Coastal Shipping in Asia	1-56
3.1.1	Future Port System for Development of Coastal Shipping	1-68
3.1.2	Vessel Assignment Plan	1-70
3.1.3	Medium-size Vessel Assignable Routes in Year 2010	1-74
3.1.4	Passenger Traffic Demand Forecast (2000/2010)	1-79
3.2.1	Characteristics of Cargo Carried by Coastal Shipping	1-83
3.2.2	Potential for Carrying Cargo on Various Ships	1-83
3.2.3	Estimated Operating Costs of Various Sizes of Cargo Vessels	1-88
3.2.4	Assumes Coastal Shipping Cargo Fleet Composition Excluding Tankers, 1995	1-89
3.2.5	Future Cargo Fleet Composition Alternatives (with Dung Quat Project)	1-90
3.2.6	Expected Cargo Ship Purchases - Alternative 3	1-92
3.2.7	Expected Passenger Ship Purchases	1-93
3.2.8	Expected Passenger Ship Purchases - Alternative 3	1-94
4.2.1	Expected Finance Required up to 2000 for Ship Acquisitions	1-126
4.2.2	Short Term Investment Requirements Allowing for Reassigning of International Ships and Chartering	1-128
4.3.1	Summary of Average Annual Costs and Revenue for Different Liner Vessels and Routes	1-137
4.3.2	Summary of Average Annual Costs and Revenue of a Liner Service with 3,000 DWT Vessel	1-139
A2.1	Shipping Fleets of Major Operators	1-153
A2.2	Vessels Owned by Major Shipping Companies (March 1996)	1-154
A3.1	Income Statements of Three Major Shipping Companies	1-161

A4.1	Inland Waterway Transport Charges	1-162
A4.2	Cargo Handling Charges of the Five IWB Ports	1-163
A4.3	Cargo Types for Inland Waterway Transport	1-164
A4.4	Unit Rates for Rail Transport	1-164
A4.5	Cargo Categories for Rail Transport	1-165
A4.6	Unit Rates for Wagon-Loaded Cargoes	1-165
A4.7	Unit Rates for Short Distance Wagon-Loaded Cargoes	1-166
A4.8	Trucking Charges for Container Transport	1-167
A4.9	Volume of Airfreight 1990-1993	1-168
A4.10	Bus Fare Levels, 1996	1-169
A4.11	Fare Table for S1 Type Trains, Effective April 1994	1-170
A4.12	Passenger Fare Table by Train Type (1994)	1-170
A4-13	Domestic One-Way Fares	1-171
A5.1	Trend in Cargo Traffic by Domestic Shipping	1-175
A5.2	Fleet Composition of Domestic Shipping (as of 1995)	1-176
A5.3	Summary of Joint Ownership Conditions	1-179
A5.4	Financing Conditions	1-180
A5.5	Traffic Demand Forecast	1-183
A5.6	Performance of Printis Shipping	1-186
A5.7	Results of Bidding Under Current Operation Method	1-187
A5.8	Pelni Printis Service	1-187
A5.9	Projection of Maritime Traffic Volume	1-189
A5.10	Average Size/Age of Domestic Fleet, 1989	1-192
A5.11	Route Configuration	1-193
A6.1	Summary of Financial Cost Assumptions for Each General Cargo Vessel Type	1-197
A6.2	Financial Operating Costs of General Cargo Ships of Various Size	1-198
A6.3	Summary of Economic Cost Assumptions for Each General Vessel Size	1-200
A6.4	Economic Operating Costs of General Cargo Ships of Various Size	1-201
A6.5	Summary of Financial Cost Assumptions for Each Liner Vessel Size	1-204
A6.6	Financial Cost Estimates for Various Sizes of Liner Vessels	1-205
A6.7	Annual Costs and Revenue for 3,000 DWT Liner Vessel	1-206
A7.1	Vietnamese Fleet	1-207
A7.2	Assumed Fleet Composition for Coastal Shipping in 1995	1-208
A7.3	Necessary Operation Days for One Trip by Ship Size in 1995	1-208
A7.4	Shipping Activity by Vessel Size in 1995	1-209
A7.5	Vessel Assignment Plan	1-210
A7.6	Traffic Carried by Each Vessel Type in 2000	1-212
A7.7	Traffic Carried by Each Vessel Type in 2010	1-213
A7.8	Fleet Development Plan - Alternative 1	1-214
A7.9	Fleet Development Plan - Alternative 2	1-215
A7.10	Fleet Development Plan - Alternative 3	1-216
A7.11	Expected Traffic Carried by Vessel Size (General Cargo/Bulk Vessels)	1-217
A7.12	Distribution of Age of General Cargo Vessels by Capacity	1-217
A7.13	General Cargo/Bulk Ship Development Programme - Alternative 1	1-218

A7.14	General Cargo/Bulk Ship Development Programme - Alternative 2	1-219
A7.15	General Cargo/Bulk Ship Development Programme - Alternative 3	1-220
A7.16	Prices of Vessels Acquired in Vietnam	1-221
A7.17	Potential Cargo Ship Purchases - Alternative 1	1-222
A7.18	Potential Cargo Ship Purchases - Alternative 2	1-223
A7.19	Potential Cargo Ship Purchases - Alternative 3	1-224



# SUPPLEMENTARY REPORTS VOLUME 1

## LIST OF FIGURES

1.1.1	Organization Chart of Ministry of Transport	1-2
1.1.2	Maritime Administration Framework	1-4
1.1.3	Organization Chart of Vinamarine	1-5
1.1.4	Organization Chart of Waterway Bureau	1-7
1.3.1	Zoning System	1-32
1.3.2	Desire Lines of Existing Coastal Shipping	1-34
1.3.3	Traffic Volume of Passenger Shipping by Zone	1-39
1.3.4	Financial Analysis of Current Coastal Shipping	1-45
3.1.1	Future Port System for Development of Coastal Shipping	1-69
3.1.2	Hinderlands of Major Seaports for Coastal Shipping	1-71
3.1.3	Traffic Volume of Passenger Shipping by Zone	1-72
3.1.4	Future Coastal Shipping Network in Conjunction with Major General Seaports (Year 2010)	1-73
3.1.5	Identified Coastal Shipping Routes for Medium-size Vessels Operation	1-75
3.1.6	Forecast Pattern of Coastal Shipping Oil Traffic	1-76
3.1.7	Forecast Pattern of Coastal Shipping Construction Materials and Mining Products (Between Specified Berths)	1-77
3.1.8	Forecast Pattern of Coastal Shipping Cement (in Specified Ships)	1-78
3.2.1	Illustration of Specialized Ships	1-85
3.3.1	Example Organization of a Shipping Company	1-106
4.3.1	Introducing a Scheduled Liner Service in Vietnam	1-141
A2.1	Organization of VINALINES	1-157
A2.2	Organization Charts of Major Shipping Operators	1-158
A3.1	Share of the Major Components of Transportation Expenses	1-161
A5.1	Domestic Shipping Ports and Nodes in Japan	1-174
A5.2	Trend in Structure of Domestic Seafares	1-176
A5.3	2005 SEA Transportation Network for Common Carriers	1-184
A5.4	Projected Cargo Traffic Flow on Major Routes in 2010	1-190
A5.5	Primary Routes and Regional Sea Areas	1-193



## GLOSSARY OF TERMS

ADB	Asian Development Bank
ARPA	Automated Rader Plotting Aid
ATN	Aids To Navigation
BOT	Building, Operation and Transfer
CCID	Cement Consulting, Investment & Development Corporation
CRS	Coastal Radio Station
DGPS	Differential Global Positioning System
DWT	Dead Weight Tonnage
EIA	Environmental Impact Assessment
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GMDSS	Global Maritime Distress and Safety System
GPC	Government Pricing Committee
GRT	Gross Registered Tonnage
GSO	General Statistics Office
HP	Horse Power
IEE	Initial Environmental Examination
IMO	International Maritime Organization
IWB	Inland Waterways Bureau
JICA	Japan International Cooperation Agency
JV	Joint Venture
LASH	Lighter Aboard Ship
MARPOL	International Convention for the Prevention of Pollution from Ships
MOSTE	Ministry of Science, Technology and Environment
MOT	Ministry of Transport
MPI	Ministry of Planning and Investment
MTTS	Maritime Technical and Training School
NTSR	National Transport Sector Review
OD	Origin - Destination
ODA	Official Development Assistance
OECD	Overseas Economic Cooperation Fund of Japan
OPRC	International Convention on Oil Pollution Preparedness, Response and Cooperation
OSRAP	Oil Spill Response Action Plan ASEAN
RCC	Rescue Coordination Center

<b>RO-RO</b>	<b>Roll-On Roll-Off ship</b>
<b>SAR</b>	<b>Search And Rescue</b>
<b>SOLAS</b>	<b>Safety Of Life At Sea</b>
<b>STCW</b>	<b>Standards for Training, Certification &amp; Watchkeeping</b>
<b>TEDI</b>	<b>Transport Engineering Design Incorporation</b>
<b>TESI</b>	<b>Transport Economic Scientific Institute</b>
<b>UNDP</b>	<b>United Nations Development Program</b>
<b>VIMARU</b>	<b>Vietnam Maritime University</b>
<b>VINALINES</b>	<b>Vietnam National Shipping Lines</b>
<b>VINAMARINE</b>	<b>Vietnam National Maritime Bureau</b>
<b>VINASHIN</b>	<b>Vietnam Shipping Industry Corporation</b>
<b>VIRES</b>	<b>Vietnam Register of Shipping</b>
<b>VISAL</b>	<b>Vietnam Salvage Corporation</b>
<b>VMS</b>	<b>Vietnam Maritime Safety Agency</b>
<b>VNR</b>	<b>Vietnam National Railways</b>
<b>VRA</b>	<b>Vietnam Road Administration Bureau</b>
<b>VISHIPEL</b>	<b>Vietnam Ship Communications and Electronic Company</b>
<b>VTS</b>	<b>Vessel Traffic Service</b>

## **Chapter 1 ANALYSIS OF PRESENT SITUATION**

### **1.1 The Maritime Administration**

#### **1.1.1 Government Organisation**

##### **(a) Overall Responsibility for Transport**

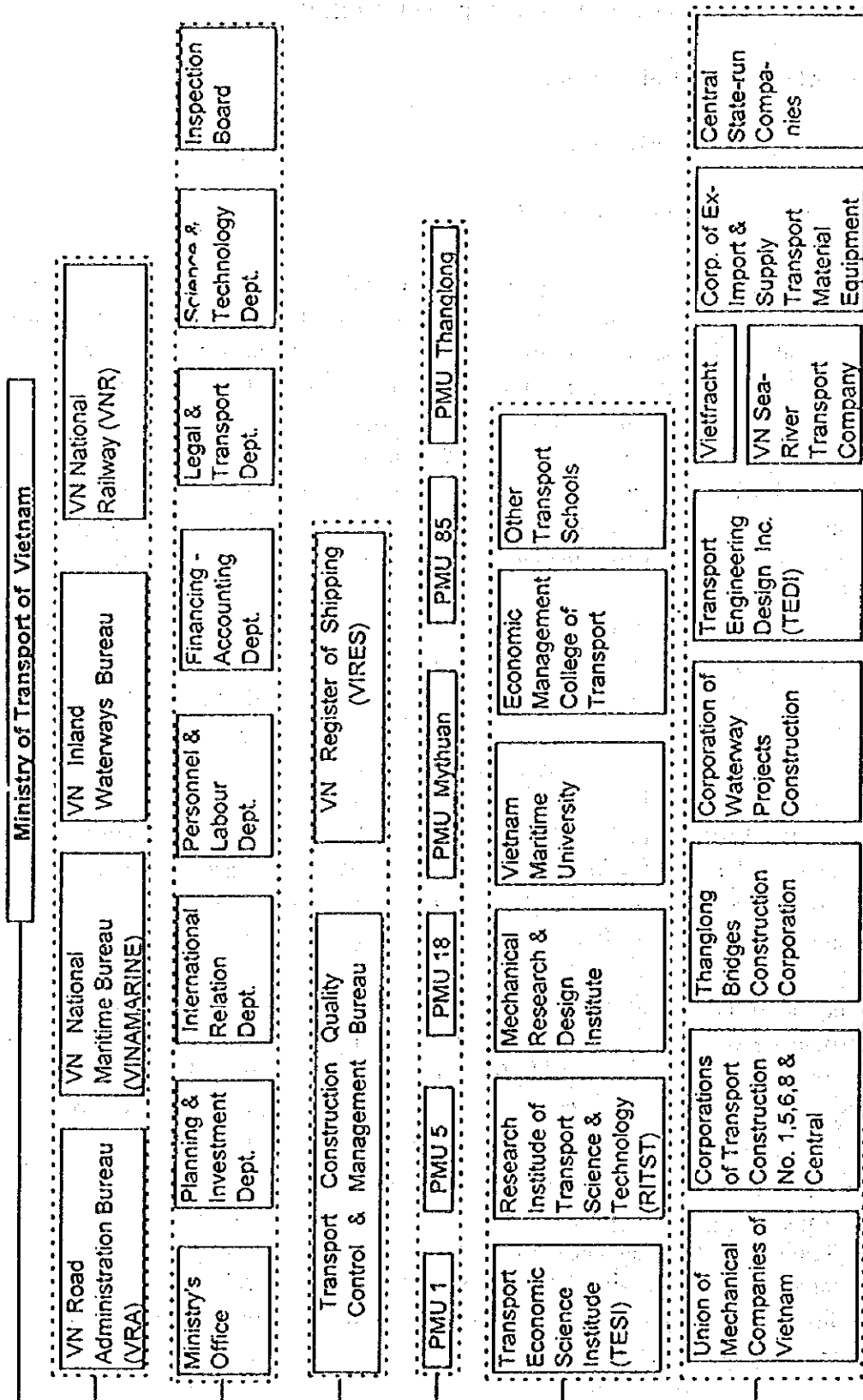
Overall responsibility for administering coastal shipping rests with the Ministry of Transport (MOT) which presently supervises all forms of transport through agencies responsible for specific modes, including the Vietnam National Maritime Bureau (VINAMARINE) for coastal and ocean-going shipping, and the Inland Waterways Bureau (IWB) for inland waterways. As shown in Figure 1.1.1, the MOT has several departments handling matters such as planning and investment, legislation, and setting and maintaining technical standards. In addition it has specialist support units responsible for particular functions such as the Vietnam Register of Shipping (VIREs) which classifies and issues technical certificates of sea-going vessels.

Some transport construction organisations report to the MOT. In addition several project implementation units (PMUs) have been established in recent years to handle the administration of major World Bank and ADB funded highway projects.

A number of institutes are responsible to the MOT, including the Transport Economic Science Institute (TESI) which conducts traffic forecasts and other studies, the Transport Engineering Design Institute (TEDI) and the Research Institute of Transport Science and Technology (RITST) which both have expertise in many technical aspects of maritime transport, and the Vietnam Maritime University (VIMARU) which conducts training in seafaring.

The interests of the Ministry of Transport at regional level are served through Provincial or District Transport Authorities (PTAs). These are under the People's Committees and are responsible for implementing the national annual plan as it affects their particular province. They refer to the MOT both over matters concerning legal transport standards and over administration of public sector transport organisations delegated to them by the MOT (including many inland waterway and coastal shipping transport companies and provincial ports). For many day-to-day matters concerning operations and maintenance of transport infrastructure they report to the People's Committee in the province. These committees are not local authorities in the traditional sense, with tax raising powers and rights to own property. They are financially controlled by central government.

Figure 1.1.1  
**ORGANIZATION CHART OF MINISTRY OF TRANSPORT**



Note : PMU = Planning Management Unit  
 Source : Ministry of Transport (MOT)

Other ministries have responsibilities in transport, especially the Ministry of Planning and Investment (MPI) and the Ministry of Finance (MOF). The former has responsibility for most major capital investments by government in transport (including infrastructure such as ports and waterways) whereas the latter controls other aspects of expenditure. The Prime Minister's Office itself administers certain transport operational units such as Vietnam National Shipping Lines (VINALINES) which is the general corporation administering state operators in the maritime sector, and the Vietnam Shipbuilding Industry Corporation (VINASHIN), see Figure 1.1.2. Other operational units in shipping are administered by VINAMARINE (see below), by the Ministry of Industry (dedicated sea and river coal ports), the Ministry of Construction (river ports for cement factories), the Ministry of Trade (all oil berths and most oil tanker operations) the Ministry of Agriculture and Rural Development (river ports) and the Ministry of Defence (ports and shipping).

#### (b) Role of VINAMARINE

Until 1 January 1996, VINAMARINE was responsible not only for regulatory functions in the maritime sector but also for many ship, port and shipyard operational management functions. It had a staff of 30,000 working at its head office in Haiphong (now transferred to Hanoi) and at subsidiary companies and enterprises. VINAMARINE acted as co-ordinator of maritime enterprises and assumed governmental responsibility for managing Vietnamese shipping activities including seaports, merchant fleets, shipyards, ship servicing companies and registration of ships. Now almost all these commercial functions have been transferred to VINALINES (ship and port management) or VINASHIN (a similar organisation in shipyard management), leaving VINAMARINE mainly to concentrate on its important regulatory function (no organisation chart has yet been produced to describe the new organisation of VINAMARINE). This is performed through its head office, three branch offices, 17 port authorities and other agencies such as the Vietnam Maritime Safety Agency (VMS) directly under its control (see Figure 1.1.3).

The port authorities are delegated to monitor enforcement of maritime rules and regulations, including those covering maritime safety, environmental pollution and maritime sanitation in all Vietnamese seaways and seaports. VMS is an implementation agency responsible for providing Aids to Navigation (ATN) services along the coast and along rivers connecting inland ports designated by MOT as sea ports. Remaining non-regulatory functions of VINAMARINE include operations management of

- the ports of Qang Ninh, Nghe Tinh, Danang, Quy Nhon, Nha Trang and Can Tho, and
- the Vietnam Maritime Commercial Stock Bank (Maritime Bank).

It is understood that it is the government's intention, eventually, to divest these operational functions.

**Figure 1.1.2**  
**MARITIME ADMINISTRATION FRAMEWORK**  
 (as of February, 1996)

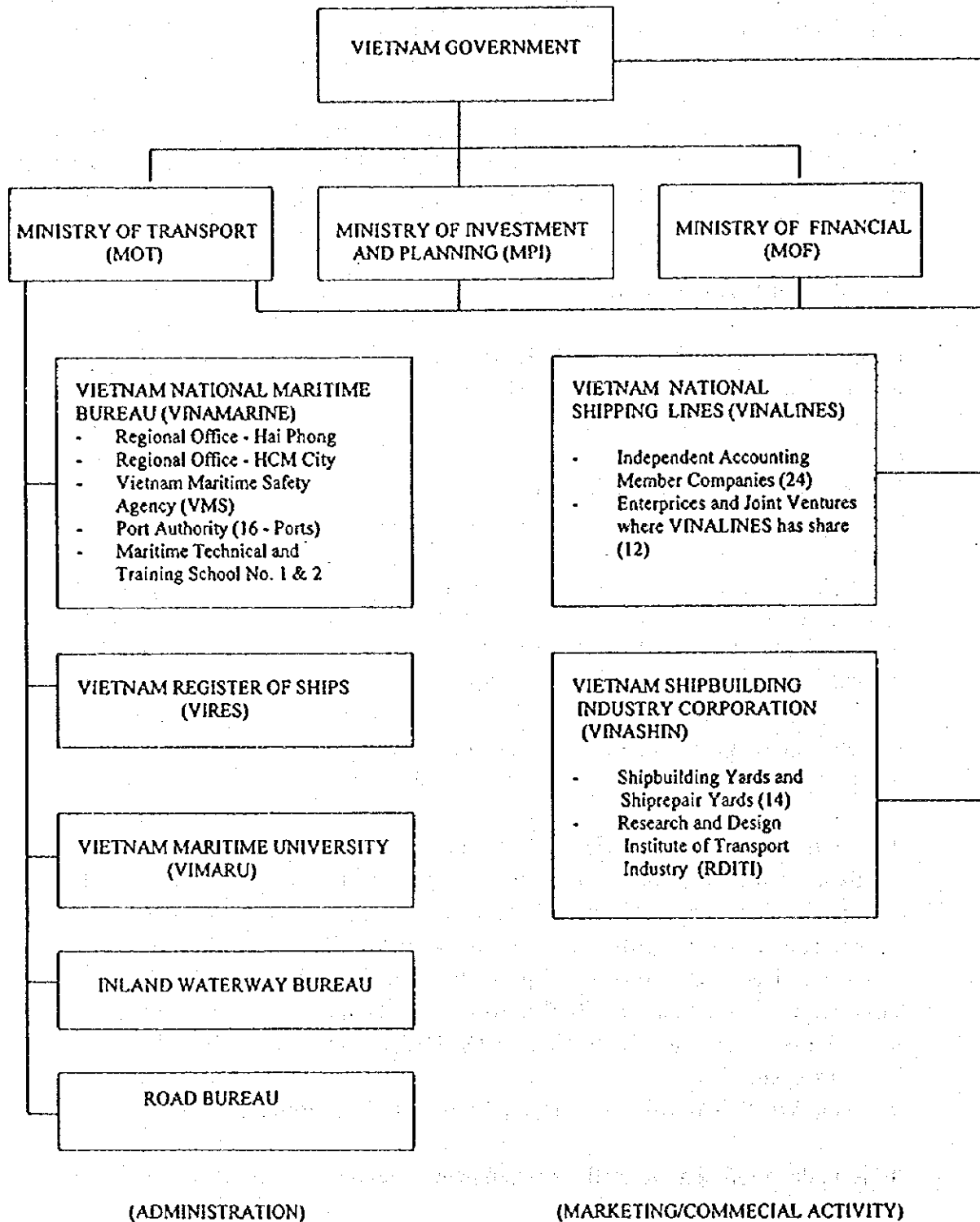
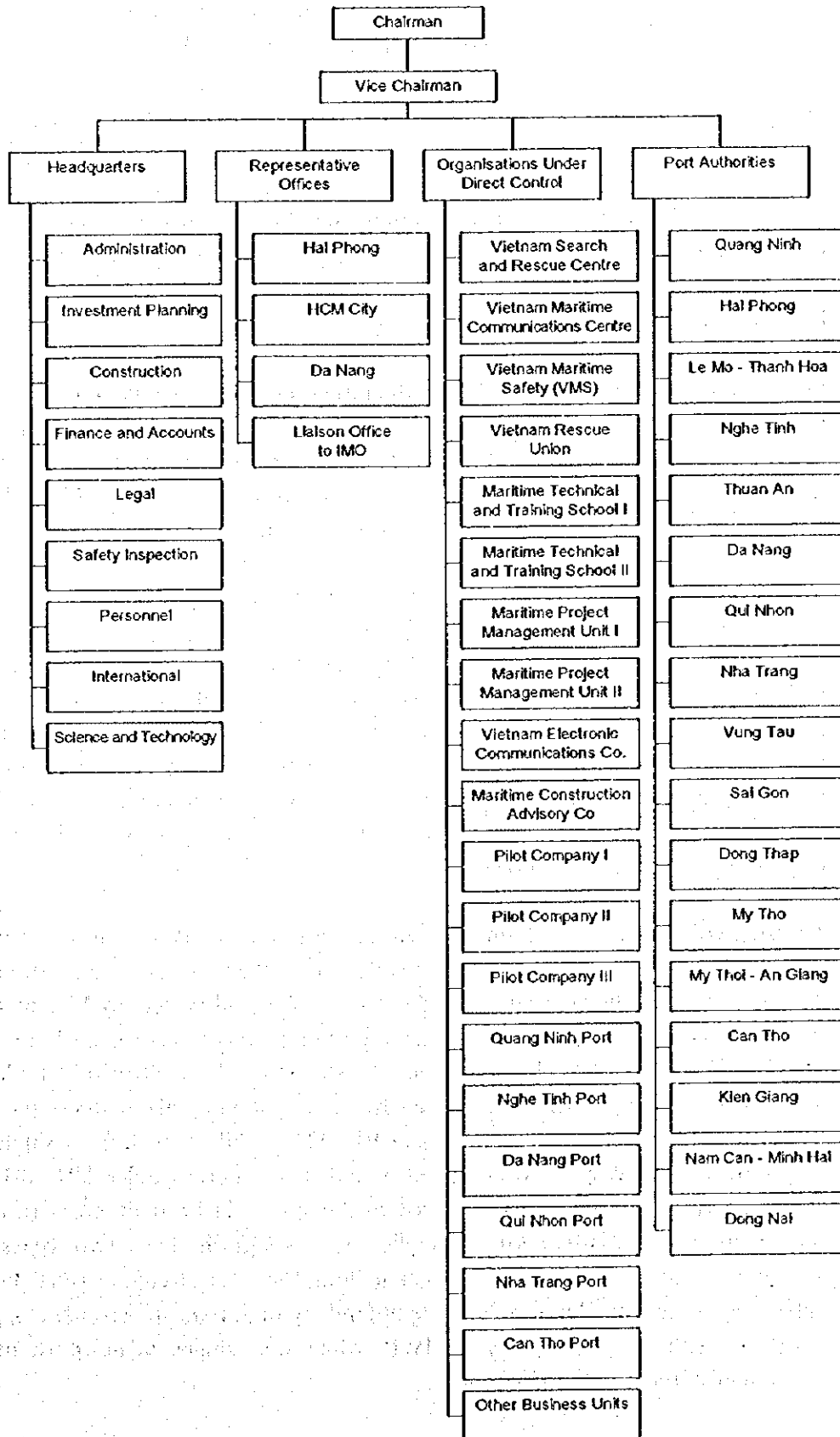




Figure 1.1.3  
**ORGANISATION CHART OF VINAMARINE**



VINAMARINE is currently not well equipped to perform its role because certain departments have not yet been systematically organised and staffed with people with the necessary skills. Following transfer of management and staff to VINALINES there are particular weaknesses in the Investment Planning, Legal and Safety Inspection Departments. The following two examples indicate this problem.

(1) The Maritime Safety Inspectorate (VMSI) in the Maritime Safety Inspection Department is responsible for safety inspections of all sea-going ships in Vietnamese waters) and is supposed to have inspectors in the head office and three regional offices, but although it has three staff members in the Hanoi head office and has assigned a Central Marine Safety Chief Officer to the Haiphong regional office, no one is currently assigned to Ho Chi Minh and Danang. Administrative procedures for VMSI have still to be set up.

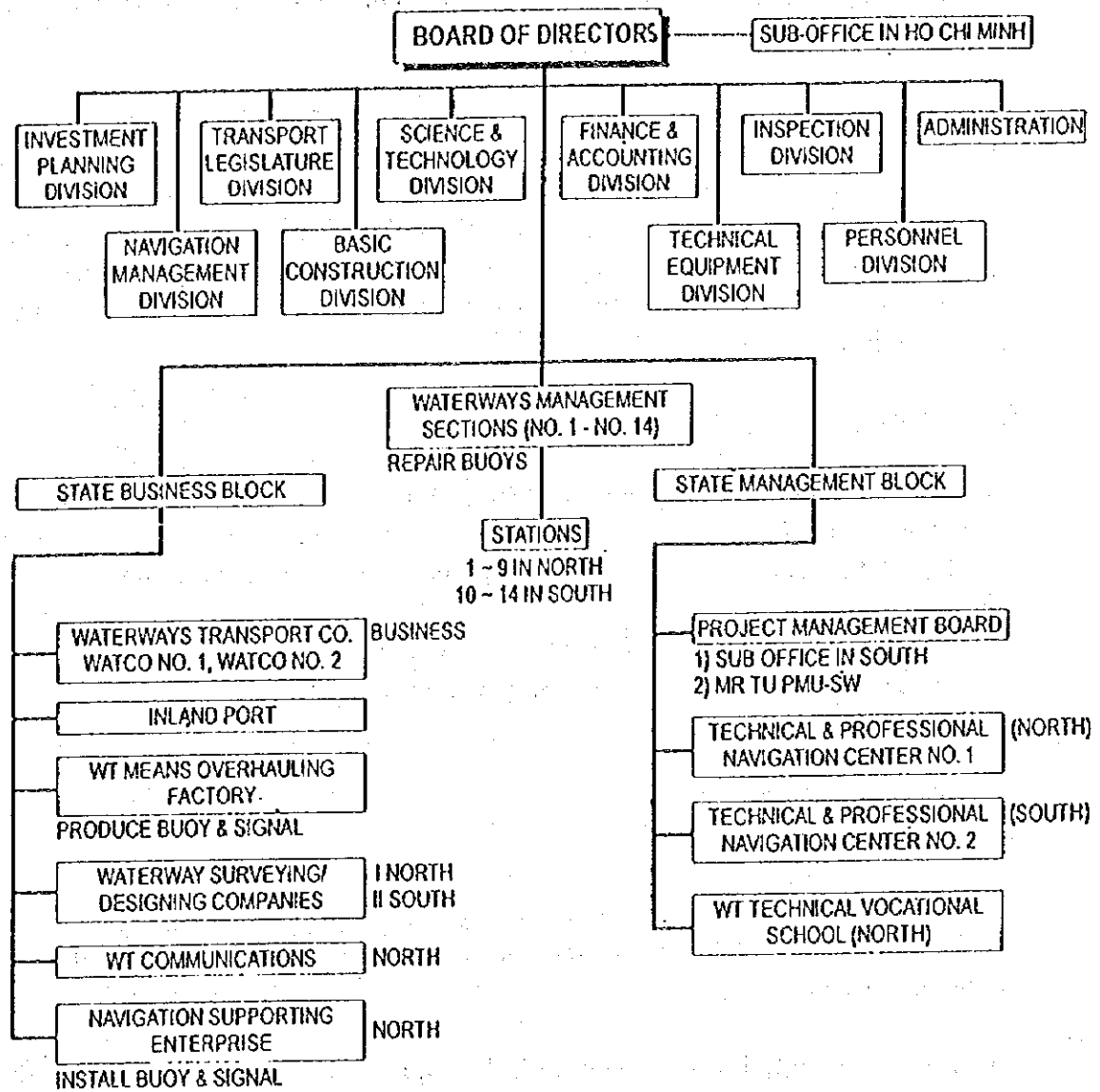
(2) Vietnam has agreed in the Memorandum of Understanding on Port State Control in the Asia-Pacific Region, signed on 1 December 1993, to increase ship inspection activities in its territory, so that sub-standard ships can be prevented from operating in the region. However the inspectors who are to enforce this undertaking in Vietnam have not been properly prepared to carry out this task.

(c) Co-ordination between Coastal Shipping and Inland Waterways

The Inland Waterway Bureau (IWB) was established on 30th January 1993 and is responsible for administration of inland waterways transport in Vietnam. IWB is mandated mainly to supervise waterborne transport along rivers, lakes and river ports. In the past it was also mandated directly to manage inland waterway transport and river port services. However it is expected that these functions will be divested to allow the IWB to concentrate on its regulatory function. Figure 1.1.4 shows the overall organisational chart of the IWB.

VINAMARINE used to administer part of the rivers but IWB is now responsible for provision of infrastructure for all river waters after the issuance of Government Decree No. 08-CP, dated 30 January 1993. The Union of Inland Waterway Management is the agency responsible to IWB for ATN and dredging along rivers (6,787 km of which are classified as navigable). However since VMS, under the control of VINAMARINE, still manages ATN and dredging along five rivers serving inland sea ports, the future physical demarcation between IWB and VINAMARINE is unclear. A similar problem arises over ports which are classified as either sea ports (under VINAMARINE as defined through MOT decisions listed in Appendix 1) or river ports (under IWB). There are no consistent criteria applied to distinguish these two types of ports, resulting in both types of ports coexisting along the same stretch of river. Furthermore inland ports such as Hanoi, which are potentially important for coastal shipping in the north, are still administered by the IWB, while most similar inland ports in the south are administered by VINAMARINE.

Figure 1.1.4  
**ORGANIZATION CHART OF INLAND WATERWAY BUREAU**



Source: IWW SUB DEP/HCMC, 3 Feb 1996

Responsibility for regulating vessels is generally clear - with VINAMARINE being responsible for larger or sea-going vessels (see next section for the precise definition). However small inland waterway vessels regulated by IWB are permitted to operate in coastal waters within 12 miles of the coast, and this results in most coastal passenger services being regulated by the IWB even though these are of particular safety concern.

It is clear that since sea-going and inland water vessels often use the same waterways and ports, either along rivers or along coastal waters, monitoring and enforcement functions could involve unnecessary duplication of effort by the IWB and VINAMARINE, and there is a danger that, through lack of coordination, monitoring and control is ineffective. For the same reasons, there is a danger of inadequate planning of infrastructure and maintenance resulting from poor coordination between the two bodies.

#### (d) Role of Other Agencies

The Vietnam Register of Shipping (VIRES) was founded in 1964. The head office is located in Haiphong and 22 offices are distributed countrywide. VIRES has 380 technical staff, including 200 sea-going ship surveyors, and they are assigned to the following departments:

- Sea-going Ship Registration and Classification Department,
- Inland Ship Registration and Classification Department,
- Offshore Department,
- Rule Department,
- Training Department, and
- Another five supporting departments.

In addition to the above, VIRES has newly established two more departments in January 1996 - the Ship Safety Management Department and the Internal Quality Audit Department.

Vietnam has recently had to comply with the requirements of the new Chapter IX of SOLAS as embodied in the International Safety Management (ISM) Code. Accordingly, VIRES is designated as a ship registration body with responsibilities that include technical supervision, classification, tonnage measurement and issuance of ship certificates. VIRES is required to inspect ships and issue technical certificates in compliance with the international conventions in which the Vietnamese Government participated. This means that VIRES functions not only as a governmental body but also as an internationally recognised authorised classification society in Vietnam.

Implementing these new responsibilities places institutional demands on VIRES that are difficult to meet because of the lack of trained personnel. At the same time there is a need to implement new registration procedures. The existing ones were prepared based on an internal regulation in 1964 based on the former USSR Register of

Shipping, but this has become outdated and now needs to be amended. VIRES recently started the revision work.

### **1.1.2 Policy to Strengthen the Maritime Transport Industry**

Since 1986 far-reaching economic reforms have been introduced into the country including rationalising the system of prices, reducing government expenditure and subsidies, overhauling the tax system, liberalising domestic and foreign trade, extending land occupancy and development rights, rationalising the legal framework in accordance with the needs of a market economy and opening up the banking sector.

In the Maritime Transport Industry, fuel subsidies were removed early on in this reform process and government-owned shipping enterprises are, in theory, given autonomy to carry out their business - seeking work from any customer and agreeing charges and conditions of carriage by mutual agreement. Private operators are now free to enter the domestic shipping business subject to their meeting the same basic safety standards as existing operators.

No clear policy has yet been defined for maritime transport, nor for coastal shipping in particular. However in 1995 transport policy was outlined by the Minister of Transport in "Transport Development till the Year 2000 in order to meet the Changing Economy towards Industrialisation and Modernisation". It emphasises the following themes.

- The long-term development of the country depends critically on an efficient transport system — one in which capital, labour, equipment and materials are used in the most economically productive way,
- development of transport infrastructure is a key to overall economic development,
- Vietnam's geographical location offers favourable conditions for offering international transport services such as transit and transshipment,
- low investment in the transport system in the past has been an impediment to economic development

The vital role of the state in providing this infrastructure is spelled out for each mode. It is further recognised that the private sector will play a dominant role in providing transport services within many sub-sectors and that

- infrastructure needs must be based on economic and other scientific principles to avoid waste of resources,
- regulations and laws must be developed which encourage investment and allow the costs of infrastructure to be recovered from user charges,
- the key to achieving efficiency lies in the incentives associated with competitive markets, which reduce costs and improve standards to the benefit of transport users,
- although an increasing role for the private sector is anticipated, a role will remain for certain large state-owned transport enterprises in the shipping and other sub-

sectors, but these must operate within a disciplined environment which promotes efficiency,

- in the short term, the majority of investment resources for transport infrastructure and certain operational assets such as ships are likely to come from foreign sources, although increasingly domestic sources will be used, and
- priority should be accorded to personnel development through training and retraining to keep pace with technological development.

Government policy towards coastal shipping is not yet clear, not only because overall transport policy has not yet been finalised in detail, but also because there is not always a clear distinction between the three forms of water-based transport used in Vietnam:

- international shipping (by either coastal services to and from neighbouring countries or by ocean-going routes),
- domestic sea-going, or coastal, shipping (which is the subject of this study), and
- inland waterway.

All three types of transport may use the same ports and coastal or inland waterways. The same vessel may perform more than one of these forms of transport either in succession or even simultaneously. The government has so far given priority to developing policy for international shipping, and has proposed major fleet, port and shipyard development plans.

In order to serve the increasing cargo demand and to compete in the international market, the Prime Minister has approved a fleet development plan prepared by VINALINES (see Prime Minister Decision No. 159/TB dated 15 March 1996) which includes container ships, specialised tankers, and bulk ships. This plan is divided into two stages as discussed below.

(1) Stage I (up to 2000): This stage aims to transport 35% of the volume of imports and exports between Vietnam and Asian countries, particularly those involving ASEAN countries and regional transshipment centres such as Hong Kong, Kaoshiung (transshipment to USA and Australia), and Singapore (transshipment to Europe, Africa and the Middle East). The main routes for the operation of container ships are shown below while the fleet development plan is shown in Table 1.1.5.

- Haiphong - Saigon/Singapore - Malaysia,
- Saigon - Danang/Taiwan - Hong Kong - Korea - Japan,
- Haiphong/Hong Kong - Taiwan - Korea - Japan,
- coastal routes between Cailan/ Haiphong/ Danang/ Quinhon/ Nhatrang/ Vungtau/ Cantho and ports of Cambodia and Southern China

**Table 1.1.1  
VINALINES FLEET DEVELOPMENT PLAN**

Ship Type/Year	1996	1997	1998	1999	2000	Total
<b>a. Container Ship</b>						
- No. of ships/TEU	4x600+ 2x350	4x600	3x850+ 1x350	1x850+ 1x3,000	-	16
- TEU/DWT	3,100/ 45,000	2,400/ 40,000	2,900/ 40,000	3,850/ 54,000	-	12,250/ 179,000
- Bank loan (mill. US\$)	68	85	88	92	-	333
- Annual debt payment	16.5	28.2	39.6	51.2	48.5	
- Balance with business result	-0.8	-0.15	-	+2.5	+5.2	
<b>b. Tanker</b>						
- No. of ships/DWT	-	1/90,000	-	1/90,000	-	2/180,000
- Bank loan (mill. US\$)	-	45	-	45	-	90
- Annual debt payment	-	7.35	7.05	14.1	13.5	
- Balance with business result	+0.5	-1.75	-0.9	-2.9	-2.3	
<b>c. Bulk Ship</b>						
- No. of ships/DWT	1/35,000	1/35,000	1/35,000	1/35,000	-	4/140,000
- Bank loan (mill. US\$)	15	25	25	25	-	90
- Annual debt payment	3.7	7.5	10.5	14.5	13.0	
- Balance with business result	-0.15	-1.28	-2.66	-3.84	-3.07	
<b>Total Fleet</b>						
- No. of ships/DWT	7/80,000	6/165,000	5/75,000	4/179,000	-	22/499,000
- Total Capital (million US\$)	83	155	113	162	-	
- Annual debt payment	20.3	43.05	57.15	79.8	75.0	
- Balance with business result of the fleet	-0.15	-3.18	-3.56	-4.24	-0.17	
- Revenue tax	1.8	3.5	5.1	6.0	6.7	23.10

Source: VINALINES Fleet Development Plan, December, 1995

(2) Stage II (2000 to 2010): The main target of this period is the procurement of large-size container ships (above 3,000 TEU) for overseas service on the following routes: Vietnam - Southeast Asia - Europe, and Vietnam - Northeast Asia - USA.

The VINALINES development plan relies on preferential credit and loan guarantees, administered through a VINALINES Finance Company to be established in 1996, plus tax concessions to ease debt repayments.

The port development plan (also partly to be financed through this finance company) involves the construction or upgrading of seven sea ports at a cost of US\$ 1.5 billion up to 2010. These would allow access, to all major ports presently used by coastal shipping, by vessels with up to 20,000 DWT. Specialised ports are also planned at Cua Ong, Hon Gai, Hoc Ac (relocated oil facility), Van Phong and Nghi Son Bay (cement), Mui Ron or Vung Ang (iron ore), Thi Vai or Cam Ranh (Bauxite), and Dung Quat (sand and similar commodities). Additional local ports are anticipated to be needed for freight and passenger traffic. An extensive range of improvement of inland waterways is planned involving widening, deepening and lengthening of major channels, and equipping them with navigational aids. This would allow coastal shipping access to new inland centres.

The ship building industry is planned to be developed to allow construction of vessels with up to 10,000 DWT, and repair of 50,000 DWT vessels.

### **1.1.3 Rules and Regulations**

#### **(a) General**

The legal basis for regulating maritime shipping activities, including coastal shipping, is defined in State Council Decree No. 42-LCT/HDNN8 dated 12 July 1990, and is referred to as the Maritime Code. The code is mainly intended to cover activities of Vietnamese ships (excluding those used exclusively for military purposes), but also includes certain provisions for foreign ships (Article 3 of Chapter I).

The role and functions of VINAMARINE in implementing the Maritime Code are defined in Council of Ministers Decision No. 239/HDBT dated 29 June 1992 (which defines the organisation as a state-owned juridical body responsible to MOT), and Prime Minister Decision No. 31/TTg dated 2 February 1993 which further defines VINAMARINES' responsibilities as

- developing plans for the maritime industry and acting as owner of state maritime infrastructure,
- develop maritime law,
- propose policy on international maritime relations and manage international maritime projects and control operations of foreign maritime organisations,
- undertake activities to ensure maritime safety,



- administration of sea-going vessels and operations, sea ports and navigational aids through developing plans, issuing licences, managing infrastructure in accordance with government instructions, and providing search and rescue services.

A list of laws and implementing regulations in maritime transport is given in Appendix 1.

#### (b) Ship Registration

Chapter II of the Maritime Code deals with aspects concerned with sea-going vessels. Article 8 defines a Vietnamese ship as one permitted to be registered in Vietnam, and may be owned by the State, a Vietnamese organisation having its principal place of business in Vietnam, a Vietnamese citizen resident in Vietnam, or owned by a foreign citizen. All such vessels are required to fly the Vietnamese flag and register in the Vietnam registry of ships.

In Article 9, Vietnamese ships are given priority in the carriage of cargo and passengers between Vietnamese sea ports. Foreign sea-going ships may be permitted to perform this carriage only if approved by the Minister of Transport and Communications.

The government can determine, through Article 9, the scope of activities of Vietnamese vessels owned by individuals and, through Article 12, when Vietnamese-owned sea-going vessels are permitted to enter a foreign country. In practice this means that any private operator wishing to carry foreign traffic to or from Vietnam has to obtain permission from the Prime Minister. By contrast government-owned operators are apparently free to carry international traffic. Only three private operators are reported by VINAMARINE to have obtained this permission so far. There are no clear conditions defined for giving permission for operators to carry foreign traffic and so there is a risk of unequal treatment between operators.

The precise principles of registering sea-going vessels (and crew) in Vietnam and permitting Vietnamese sea-going vessels to enter foreign countries are given in Prime Minister Decree No. 14/CP dated 25 February 1994. For this purpose sea-going vessels are defined as

- sea-going vessels with engines of power ratings over 75CV,
- non-propelled vessels over 50 GRT or 100 DWT or 20m in length, and
- sea-going vessels smaller than defined above which operate more than 12 miles from the coast or in international sea lanes.

Ships used exclusively for military or fishing purposes are excluded from these provisions.

Overall responsibility for registering vessels and crew is given in the decree to the Central Registrar of Vietnamese Ships and Crews within VINAMARINE. The registering of ships was to be done through setting up and managing the Vietnam National Registry Book of Ships as defined in Prime Minister Decision No. 31/Ttg dated 2 February 1993. Registration can only be performed once the ship has a technical certificate issued by VIRES or equivalent foreign organisation. The powers and duties of VIRES are defined in Prime Minister Decision No. 203/Ttg. This decision defines the general areas of rights and responsibilities of VIRES at central and regional level, and defines in broad terms the qualifications of the officers employed. Decree No 14/CP defines the procedures by which the Regional or Local Registrar of Ships and Crews of VINAMARINE would support the Central Registrar by carrying out inspections and performing administrative procedures at the local level, leaving the Central Registrar to co-ordinate the registration process through setting standards and maintaining central records.

According to Article 10 of this decree the conditions for registration of a sea-going vessel are:

- that the ship should not have any other registration,
- that it should have been issued with a certificate confirming its technical specifications by VIRES or its foreign equivalent and, if imported second-hand, should not be more than 15 years old (although separate import regulations complicate matters by restricting import of major components such as engines over 10 years),
- that the owner should have a long term address or registered place of business in Vietnam, and able to satisfy the business requirements specified under Vietnamese Law, and
- that the owner submits an application for registration in the required form and undertakes not to use the vessel contrary to the law or the interests or prestige of the state.

The business registration procedures and conditions are as follows. The private business applicant must obtain both a business licence and a domestic shipping licence from their local government office. The applicant must be able to demonstrate that he or she will employ staff with the necessary qualifications and experience of shipping and a viable business plan. A high level of paid up capital is required (one potential new operator reported that it was required to have US\$ 91,000, including the value of any already purchased vessel). According to the Law on Companies dated 21 December 1990 (amended on 22 June 1994) and the Law on Private Enterprises dated 21 December 1990 (amended on 22 June 1994), the owners of such companies must all be Vietnamese. In accordance with these laws, establishing companies or enterprises in sea transport is subject to authorisation by the Prime Minister. The purchase of imported ships is subject to approval by the Ministry of Trade.

According to the Law on Foreign Investment in Vietnam dated 29 December 1987 (amended on 30 June 1990 and 23 December 1992), foreign investment can take place through three forms:

- contractual business co-operation,
- joint ventures, and
- enterprises with 100% foreign owned capital

In all cases the applicant must apply, with the relevant contracts and business plan to MPI who may issue the investment licence. In practice applications for shipping ventures appear to be handled by VINAMARINE, and MPI merely approves recommendations made by VINAMARINE. However according to current policies, the Government only encourages foreign investment in sectors which contribute to major economic programmes such as export-oriented production or import substitution, introduce new technology, exploit labour intensive methods, build infrastructure or earn foreign currency. Since domestic shipping is not necessarily considered to promote these objectives it is not certain that applicants would be accepted.

Article 11 of Decree No 14/CP states that vessels owned by Vietnamese/foreign joint ventures or by Vietnamese enterprises with 100% foreign capital can only carry domestic cargo in accordance with the conditions defined by the head of VINAMARINE, following approval by the Prime Minister. Article 12 allows vessels owned by citizens of foreign countries to be registered in Vietnam under the same conditions described above except that the ship owner must agree not to claim rights to carry domestic cargo or passengers, or to carry cargo imported or exported to or from Vietnam. However foreign-owned vessels may be free from these restrictions if registered under a bareboat charter party or a hire purchase agreement with a Vietnamese charterer or purchaser.

The conditions mentioned above for foreign participation in domestic shipping are very restrictive (allowing movements only in emergencies or if domestic carriers cannot meet the demand and requiring applications in writing which describe traffic to be moved) and are defined in Ministry of Transport Decision No. 2788/QD-PC dated 17 May 1995. Vietnamese registered ships owned by joint ventures with more than 50% of legal capital owned by Vietnamese appear to be exempt from the restrictions on domestic shipping. However any shipping company jointly owned by a Vietnamese and foreign partner would be regarded as having 100% foreign invested capital according to the Law of Foreign Investment and would be unable to carry domestic traffic even if the proportion of legal capital owned by Vietnamese was over 50%. This particular obstacle could be resolved under forthcoming changes to the foreign investment law which may allow more flexible foreign participation. However there are proposals by VINAMARINE to tighten the restrictions on use of foreign vessels in coastal shipping still further, which could counter this.

**(c) Ship Inspections**

Article 17 and following articles of the Maritime Code require all sea-going vessels to be employed in accordance with the safety and environmental requirements laid down by the Minister of Transport and Communications. The Vietnam Registrar of Shipping is empowered to ensure that these requirements are met by requiring them to be inspected for sea-worthiness, by the Vietnamese Marine Safety Inspectorate (VMSI) or similar organisation. By allowing international treaties to apply where these do not conflict with the Maritime Code, the Code enables the safety standards to be based on international practice.

As mentioned earlier, the powers and responsibilities of the Vietnam Register of Shipping (VIRES) are defined in Prime Minister Decision No. 203/Ttg dated 28 December 1992. This decision defines the general areas of the rights and responsibilities of VIRES (to MOT) at central and regional level, and defines in broad terms the qualifications of the officers employed.

The equivalent powers and responsibilities of the Vietnamese Marine Safety Inspectorate (VMSI) in VINAMARINE are defined in Prime Minister Decision No. 204/Ttg dated 28 December 1992. This decision gives VMSI powers to

- monitor implementation of all maritime regulations and international conventions affecting Vietnamese and foreign ships which conduct activities in Vietnam,
- inspect sea-going ships, their loads and equipment, port facilities, marine navigation and other related equipment,
- order port authorities to investigate causes of accidents,
- propose to VINAMARINE measures to ensure maritime safety and environmental protection,
- monitor safety standards of port authority activities, pilot and search and rescue services,
- promote dissemination of knowledge concerning maritime safety and environmental protection.

The decision also defines the areas in which the inspectors have jurisdiction: not only physical condition of ship but also qualifications and safety knowledge of crew, ship documentation and safety procedures. The inspectors may recommend the VINAMARINE to stop, temporarily, activities of sea-going vessels if safety is endangered. Levels of fines are defined in accordance with seriousness of violations of the regulations. The decision also defines in general terms the qualifications of the VMSI, allowing lower ranked officers to operate with specialist knowledge in only certain fields.

(d) Other Aspects

Chapter III defines responsibilities of the ship crew (under which the crew registration procedures described in Prime Minister Decree No. 14/CP are defined), while Chapter IV defines the powers of sea port authorities. For this purpose a sea port is defined as any port opened for sea going vessel navigation and operation. The opening of sea ports are subject to the discretion of the government, the Ministry of Transport may issue regulations on maritime shipping activities in sea port waters and, after consultation with local representatives, may appoint port authorities to undertake administration of the ports. These authorities may grant permits for vessels or personnel working within the areas under the control of the port authority, to revoke such permits on safety considerations, to impose fines for violations of the regulations, and to organise search and rescue of vessels or people in distress in the areas under the control of the port authority.

Chapters V and VI define the general conditions of carriage of cargo and passenger respectively and, although these are rather detailed, allow adequate freedom for shippers and customers to enter into contracts freely. The government may determine the extent of liabilities for loss of life or personal injury. Chapter VII defines equivalent conditions for charter parties.

Chapters VIII to XI define responsibilities of agents, brokers, and other service providers, while Chapters XII to XIV define conditions for recovery of property from the sea and assigning responsibilities for collisions. Chapter XV defines the civil liability of ship owners, which may be limited in accordance with international conventions, while Chapter XVI defines insurance provisions. These later chapters provide a detailed framework for these important aspects of the shipping business, without apparently imposing undue restrictions on operators or customers.

(e) International Conventions

Although Vietnam has been regarded as the 126th member of the International Maritime Organisation (IMO) for about 12 years, Vietnam has officially participated in only 6 out of 78 effective IMO conventions. The Vietnam Register of Shipping (VIRES) and Vietnam Maritime University (VIMARU) are two organisations that made some important contributions during the conventions and in the application of agreements in Vietnam. All these 6 conventions are in the field of maritime safety as follows:

(1) International Convention for the Safety of Life at Sea (1960, 1974, Protocol 1978, with amendments in 1981-1983, 1994).

SOLAS 60	:	26 May 1965
SOLAS 74	:	18 March 1991
SOLAS Protocol 78	:	12 January 1993

The convention has specific regulations on technical safety conditions related to ship structure, equipment and operations. It also stipulates the responsibilities of the countries, whose flag the ship carries, for issuing technical safety certificates in accordance with IMO specimens, and guaranteeing the convention member-country's right to mutual inspection of ships.

2) International Convention for the Prevention of Pollution from Ships 1973 as Modified by Protocol, 1978.

MARPOL 1973/1978, 29 August 1991

The convention stipulates standards for ship structure, equipment for preventing pollution from oil and other toxic chemicals, and from ship waste. The convention aims to limit pollution in the marine ecosystem. It includes five (5) appendices. Only the first and second appendices on oil-spill prevention and on pollution control from the transport of toxic liquid, respectively, have been approved by the Vietnam government.

3) International Convention on Load Lines of Ships, 1966

LOAD LINES 1966, 18 March 1991

The purpose of the convention is to define a uniform international standard of limitations on cargo loads in terms of season and the area of operation in order to guarantee the safety of life and property.

4) International Convention on Tonnage Measurement of Ships, 1969.

TONNAGE 1969, 18 March 1991

The convention stipulates methods to define tonnage measurement of ships and principles for issuing the related certificates.

5) International Convention on Standards of Training, Certification and Watchkeeping for Seafarers, 1978.

STCW 1978, 18 December 1991

This defines standards of training (issuing certificates for seafarers who work on different types of ships), to increase safety for people, equipment and property in maritime operations.

6) International Regulations for Preventing Collisions at Sea, 1972.

COLREG 1972, 18 December 1990

The convention agrees regulations for preventing collisions at sea and the surrounding area, stipulating equipment for safety of transportation, such as horn, light, and signalling system. This convention used to be part of SOLAS (but is now separate). It

is the first international convention that Vietnam has applied in practice by reforming Vietnamese law and making it effective nation-wide under two decisions of the MOT (Decision No. 771/QD-PC dated 8 April 1988 and Decision No. 1533/QD-PC dated 6 August 1991).

Besides the IMO conventions, Vietnam has only engaged in one multilateral convention related to the maritime sector. That is the United Nations Laws of Sea 1982 (UNLOS/1982).

#### (f) Regulation of Tariffs

In most cases shipping operators are able to negotiate charges with their customers freely. However foodstuffs transported by the Ministry of Agriculture from south to north of the country are subject to price ceilings, both for sea and rail transport (from Ho Chi Minh to Haiphong the maximum rates are VND 180,000 / tonne and 330,000 / tonne respectively).

Price ceilings are also set for sea port charges by the Government Pricing Committee (GPC), separately for import/export and domestic traffic. The latest prices are given in GPC Decision No. 58/VGCP-CNTDDV dated 7 November 1994 and GPC Decision No. 60/VGCP-CNTDDV dated 7 November 1994 respectively. The charges for imports/exports are loosely based on costs and, in some cases, are varied between three main regions. However Vietnamese vessels carrying imports/exports enjoy 50% lower rates for the tonnage, maritime safety, pilotage and handling charges. Consequently there is a significant cross-subsidy between foreign and Vietnamese ships.

The port charges for domestic shipping determined by GPC Decision No. 60 apply to all sea ports and refer only to tonnage, maritime safety, pilotage and formality charges. Cargo handling charges are determined by separate decisions for each port. These charges are also supposed to be based on costs. However they are generally only 50% or less of the charges set for imports/exports (at an exchange rate of US\$ 1 = VND 11,000). Therefore there is a possibility that the charges for domestic traffic are less than the costs incurred.

## 1.2 Operators

### 1.2.1 Introduction

There were 674 ships registered under the Vietnamese flag by VIRES and other associations during 1994-95 of which 463 were general cargo, refrigerated or oil tanker vessels mainly used for commercial transport and the balance are mainly tugs, unpropelled barges, fishing and service vehicles not normally used for transport. These 463 merchant vessels were owned by 175 organisations shown in Table 1.2.1, the

majority of which were primarily engaged in the merchant shipping business as owner-operators.

Five cargo vessels flying other flags are owned by VITRANSCHART and are not included in the above statistics. Also not included are the only four passenger vessels registered under the Vietnamese flag which provide coastal shipping services.

It is difficult to estimate the number of owners and ships engaged in coastal shipping because many ships are used for both ocean-going and coastal shipping purposes - often on the same journey. The ships used mainly for coastal shipping are assumed to be those which are owned by local government, co-operative or private organisations (indicated in Table 1.2.1). Local government owners are defined as those government-owned organisations which are mainly responsible to a local government authority even though their assets may be owned by central government. However it is not always clear which owners this definition applies to. Many of these organisations are involved in inland water transport rather than coastal shipping but have developed coastal shipping services in recent years following relaxation of government restrictions on domestic trade and transport. Some local government owners employ other shipping companies such as VIETFRACHT to operate their vessels. It is not uncommon for these and other local government owners (and some private operators) to operate on international routes.

Furthermore, in practice many state (or central government) and joint venture owners use their vessels partly for coastal shipping - for example there are three large state-owned operators, VOSCO, VITRANSCHART and VINASHIP which own, in terms of carrying capacity, about half of all central government-owned or joint venture ships. These companies estimate that coastal shipping constitutes about 20% of their business: implying that they play a dominant role in coastal shipping.

Because of a shortage of suitable ships owned by Vietnamese operators it is not uncommon for foreign ships to be deployed in coastal shipping, especially by the government on rice shipments from the south to the north of the country. Because of the important role played by foreign, state-owned and joint venture operators in coastal shipping, and as confirmed from traffic data analysed later in this chapter, the local government and private operators which specialise in coastal shipping carry less than 20% of coastal shipping traffic. Therefore in overall terms the capacity devoted to coastal shipping is higher than that indicated in Table 1.2.1.



Table 1.2.1  
**CHARACTERISTICS OF SHIPPING FLEET BY TYPE OF OWNERSHIP**

Owner Type	Number of Owners	Number of Cargo Ships by DWT								Total DWT	Average DWT
		<200 499	200- 499	500- 999	1000- 1999	2000- 4999	5000- 9999	>10000	All		
<b>Mainly Ocean-going or Foreign Sea-going Shipping</b>											
State	67	26	64	19	44	12	11	16	192	445,295	2,319
Joint Venture	12	2	3	2	1	7	3	4	22	278,216	12,646
Foreign	2				1	1			2	4,792	2,396
<b>Total</b>	<b>81</b>	<b>28</b>	<b>67</b>	<b>21</b>	<b>46</b>	<b>20</b>	<b>14</b>	<b>20</b>	<b>216</b>	<b>728,303</b>	<b>3,372</b>
<b>Mainly Coastal Shipping</b>											
Local Government	60	29	83	11	26	11	3	1	164	141,678	864
Co-operative	6	5	13	0	0	0	0	0	18	3,480	193
Private	28	9	46	7	1	1	1	0	65	29,582	455
<b>Total</b>	<b>94</b>	<b>43</b>	<b>142</b>	<b>18</b>	<b>27</b>	<b>12</b>	<b>4</b>	<b>1</b>	<b>247</b>	<b>174,740</b>	<b>707</b>
<b>All</b>	<b>175</b>	<b>71</b>	<b>209</b>	<b>39</b>	<b>73</b>	<b>32</b>	<b>18</b>	<b>21</b>	<b>463</b>	<b>903,043</b>	<b>1,950</b>

- NOTE (1) Includes vessels in Ships Register classified as general cargo, refrigerated or tanker (including one tanker owned by the joint venture Vietsovetro with 155,505 dwt).
- (2) Includes all owners of such vessels (not only those used in commercial shipping but also several central or local government ports, military, safety and training institutions). VINAMARINE estimates that there were 93 owners of ships engaged in commercial shipping, 18 of which were central government, 6 were joint ventures and 28 were provincial owners.

SOURCE: Ships Register 1994-1995 (representing fleet characteristics in 1995)

## 1.2.2 State-Owned and Joint Venture Shipping Operators

### (a) Fleet Characteristics

Included in the 67 state owned ship owners in Table 1.2.1 are 18 owners with 120 ships, including five ships registered under foreign flags, with total DWT of about 506,000 or 66% of the total Vietnamese shipping capacity. VINALINES estimated in "Project for VINALINES Ship Development up to the Year 2000" that this proportion was 80%, but this could not be confirmed from the available statistics shown in Table 1 of Appendix 2. Included in these 18 are several industrial carriers which carry cargo such as oil for state-owned organisations under their respective ministry and the three large general carriers mentioned above which had 40 vessels (including the five registered outside Vietnam) with 411,902 dwt (see Table 1 in Appendix 2). The remaining owners are ports, military organisations and training institutions, having mainly small ships.

According to figures obtained in early 1996 (Table 1.2.2 below and Table 2 of Appendix 2) obtained from the three large shipping operators, their fleet has reduced slightly in the last year or so to 39 ships and only 389,000 dwt (of which 34 ships with 327,081 dwt are registered in Vietnam). However both VOSCO and VITRANSCHART are purchasing two more ships during 1996. VINALINES itself has purchased two container ships for services provided by its member organisations.

Table 1.2.2  
PROFILE OF MAJOR SHIPPING COMPANIES IN VIETNAM

Name	Head Office	Year Established	No. of Employees	Branches/ Rep. Office	No. of Vessels	DWT
VOSCO	Haiphong	1970	2,000 (including 1,500 seafarers)	Hanoi HCMC Danang Nha Trang Quang Ninh	20	209,098
VITRANSCHART	HCMC	1976	1,250 (1,000 seafarers)	Haiphong Hanoi Danang	9 <sup>(1)</sup>	87,315 <sup>(1)</sup>
VINASHIP	Haiphong	1984	980 (900 seafarers)	HCMC Danang	5	30,668
SAIGON SHIPPING	HCMC	1981	580 (470 seafarers)	Haiphong  Cantho Vungtau	6	12,634
DAMATCOSCO	Danang	1978	220 (188 seafarers)	HCMC Haiphong	5	6,105

Note: (1) Excluding five foreign flag ships with 61,919 dwt

Source: JICA Study Team

(b) Role and Organisation

Vietnam National Shipping Lines (VINALINES) is a state-owned corporation established, organised and operated under Prime Minister's Decision No. 250/Ttg dated 29 April 1995 and Government Decree No. 79/CP dated 22 January 1995. VINALINES started its operation on 1st January 1996. It is one of about 20 such general corporations that were established in all sectors of the economy to assume responsibility for the state-owned enterprises formerly responsible to various ministries. These corporations are required to be profit making but may receive capital on advantageous terms in accordance with government policy.

Appendix 2 shows the organisational chart of VINALINES. It may undertake the following activities:

- shipping, port operation, ship repair, shipping agency, ship brokerage, maritime services, and other maritime related businesses,
- export/import of specialised materials, equipment and labour deployment, and
- participation in shipping joint-ventures, business corporations with foreign and domestic partners and carrying out other businesses provided by laws and tasks assigned by the government.

VOSCO, VITRANSCHART and VINASHIP, together with other VINALINES organisations (such as FALCON and MAPETRANSCO shipping companies, Haiphong Port, Saigon Port, shipping and other service agencies) each have, in theory, financial autonomy, although they are responsible ultimately to VINALINES. As such it could be said that VINALINES functions as a form of holding company.

The current role of the VINALINES organisations is primarily providing international shipping services. However they also make important contributions to coastal shipping services because they have almost all of the larger ships required for much of the coastal shipping traffic. Industrial carriers also carry a mixture of domestic and international traffic. Although VINALINES has developed an approved development plan for coastal shipping described in Table 1.1.5, there are no clear plans yet about the future role of VINALINES and its member companies in coastal shipping.

One joint venture partner of VINALINES, GEMADEPT, has been equitised in accordance with Government Decree No. 28/CP dated 7 May 1996. Another similar organisation, SALFES, is also applying for transformation. Plans for converting other member organisations have not yet been made. However consideration is being given by the government to encouraging each member of VINALINES to specialise:

- VOSCO in international liner trade,
- VINASHIP in domestic service,
- VITRANSCHART in bulk shipping (tramper), and
- FALCON in crude oil.

Given the autonomy now given to these organisations it is questionable whether the future role of these organisations can be predicted with any certainty. Most shipping companies give priority to operating international routes which are considered more profitable than domestic ones. Therefore it is particularly difficult to predict which if any of these shipping companies would engage in coastal shipping in future years.

A continued role played by industrial carriers is also to be expected, both for international and domestic traffic, because of the specialised nature of some aspects of the distribution business. In a recent development the Morning Star cement company is considering operating foreign registered bulk carriers from its new cement plants in Vietnam. It is understood that use of such foreign vessels is allowed for domestic transport within Vietnam on the condition that they are used solely for transporting their own cargo from their producing plants, and not for carrying cargo for third parties.

The main joint venture organisations carrying out shipping operations in Vietnam involve foreign partners from the former Soviet Union (although sometimes formed after the collapse of the Union). By far the largest in terms of carrying capacity is VIETSOVPETRO which operated one large Vietnamese oil tanker, one large oil tanker barge (which is not included in the merchant shipping fleet statistics in Table 1.2.1) and 24 related vessels in 1995 with a total dwt of 336,265 (see Table 2 of Appendix 2). Other joint ventures with more than one large vessel over about 5,000 dwt are BASCO, Eastern Dragon Shipping Company, SALFES Shipping Company, VIFRASAL Company and VIETSOVLIGHTER. These operate almost entirely international services, some with specialised vessels (including LASH barges by VIETSOVLIGHTER). Some such as BASCO have only a minority Vietnamese stake and are not allowed to undertake domestic shipping services unless special permission is obtained. Others such as Eastern Dragon Shipping Company are majority Vietnamese owned and engage occasionally in domestic shipping. Overall these operators play little role in coastal shipping except for occasional shipments of rice.

### **1.2.3 Provincial Shipping Companies**

Many provincial shipping companies have developed from the former co-operatives established in earlier years to provide local inland waterway services. Soon after the economic reform programme commenced these co-operatives were given the freedom to participate in domestic trade between any province. Several provincial organisations responded by establishing coastal shipping or, even, international shipping fleets (often though with old out-of-date vessels).

The main provincial government owners of ships include DAMATCOSCO, Saigon Shipping Company and HAMATCO which operate general cargo ships over 2,000 dwt (see Appendix 2). Other owners solely operate general cargo vessels below 1,000 dwt (up to about six ships). Even operators with only small ships below 1,000 dwt operate

on international routes. The larger operators provide both domestic and international services.

Many of the provincial shipping organisations are finding it increasingly difficult to compete in coastal shipping and some, like the central government-owned South Water Transport Company which provides both river and sea transport services, are planning to withdraw from coastal shipping to concentrate on their core activities in inland waterway transport. Even if profitable, as certain provincial operators on international services are reported to be, there has been little investment by these operators in new ships since 1990. Some have reduced their fleets and others are planning to do so in the near future, especially those providing coastal shipping services. Although these operators currently play a significant role in coastal shipping, continued decline seems possible.

#### **1.2.4 Private and Other Shipping Operators**

There were 28 private owners of ships in 1995 and six co-operatives. Before economic reforms were introduced, private ship owners could only operate within co-operatives. Many of the private operators have developed from parts of these co-operatives which they left in order to attain greater autonomy. Consequently the role of the co-operatives has declined. Other private companies have been newly established, sometimes with capital derived from related trading activities. Private and co-operative coastal shipping operators sometimes also offer inland waterway services. In the south, inland water transport is dominated by private operators.

Most private operators still operate on a small scale, the main exceptions being Tan Tien Tanker Company, Seagull Shipping Company, Mekong Shipping Company and Hoang Ngan Company (now dissolved) which each had one vessel over 1,000 dwt. Only a further five had fleets of more than three vessels of about 500 dwt. Despite the limited capacity of most privately owned vessels they compete even on the longer coastal shipping routes, despite the higher costs per tonne which they would inevitably incur compared with large ships. Freight brokers report that despite higher charges in some cases, the private operators often offer a better service, for example through better supervision of cargo loading and unloading.

Investment in new ships is increasingly concentrated in this sector as shown in Table 1.2.3. So far most new ships have been of small capacity (as described in more detail in the Supplementary Report on shipping fleet development), reflecting the uncertain market conditions in coastal shipping, restrictions on entry by private operators into international shipping and the difficulties obtaining capital. This also reflects the fact that larger vessels are usually acquired second-hand.

Table 1.2.3  
**NUMBER AND CAPACITY OF NEW CARGO VESSELS BUILT BETWEEN 1992 - 1995  
 BY TYPE OF OWNERSHIP IN 1995**

	1992		1993		1994		1995	
	Ships	DWT	Ships	DWT	Ships	DWT	Ships	DWT
<b>Mainly Ocean-going Shipping</b>								
State Government	5	2,400	4	3,614	11	4,694	1	250
Joint Venture	0	0	0	0	0	0	0	0
Total	5	2,400	4	3,614	11	4,694	1	250
(% of fleet)	(0.4)		(0.6)		(0.7)		(0.0)	
<b>Mainly Coastal Shipping</b>								
Local Government	1	450	2	500	2	400	1	600
Co-operative	0	0	5	980	0	0	1	300
Private	2	600	5	1,250	21	6,178	11	3,910
Total	3	1,050	12	2,730	23	6,578	13	4,810
(% of fleet)	(0.8)		(2.0)		(4.7)		(3.5)	

- NOTE (1) Includes vessels in Ships Register classified as general cargo, refrigerated or tanker.  
 (2) Includes all owners of such vessels (including several state ports, military, safety and training institutions)

SOURCE: Ships Register 1994-1995 (representing fleet characteristics at end of 1995)

There are investment proposals by new private operators which would utilise foreign investment funds to introduce new coastal shipping services using (second-hand) larger vessels. This confirms that the role of the private sector in coastal shipping will probably grow in future years.

### 1.2.5 Other Maritime Service Industries

#### (a) Freight Forwarding

Following the abolition of the state monopoly in freight forwarding in 1984, many new organisations have been established both in the public and private sectors. However the main interest of these organisations so far has been to offer services related to foreign trade. Some joint ventures have been proposed or are being established such as the Vietnam Freight Forwarding Corporation's venture with the Sumitomo Corporation. However joint ventures are not encouraged through regulations which

- are unclear (the conditions for entering the business and for receiving foreign investment approval are not clearly defined),
- prevent majority foreign-owned ventures being established, and
- do not allow bonded warehouses to be operated by ventures with foreign participation.

VIETRANS (under VINALINES) and some smaller private organisations offer intermodal services for imports and exports but there is currently limited interest among freight forwarders in offering such services in the domestic market despite the market opportunities that exist. However some companies are offering cargo consolidation services to maximise capacity utilisation of ships. In addition freight brokers are used to take care of coastal shipping transport requirements on a contractual basis for major customers such as cement producers. Probably the main reason for the lack of interest in domestic freight forwarding is the limited role played traditionally by coastal shipping in general cargo transport in Vietnam because of the lack of trade in consumer goods between north and south.

However the production of goods in either north or south which are intended for domestic consumption is expected to rise very strongly in the short term. There is considerable interest within industry in obtaining appropriate low cost transport services, because failure to secure such transport is likely to mean that imported goods are consumed instead. Therefore the role of freight forwarders in domestic distribution can be expected to increase.

Other services such as ships agent, bunkering, chandler and watering are performed in Vietnam by many ship operators, in addition to specialist agencies such as VOSA. Ship agency services provide a useful additional source of revenue and profit to many operators and are used by small and big operators alike. Various services to foreign ship operators are a valuable business to many Vietnamese operators. However according to Article 1(3) of Prime Minister Decree No. 159/TB dated 15 March 1996

it is government's intention to reduce the freedom of state enterprises offering such services, and establish VINALINES as the dominant organisation offering agency services. This will undermine the independence of state operators and make it more difficult for them to compete on the same terms as other operators.

(b) Port Services

Although there are several ports in the delta areas of Vietnam which are independently managed and located in close proximity and which offer alternative services to ship operators, there are usually no such choices available elsewhere. Within large ports such as Saigon Port, shipping companies are offered a choice of two or more stevedore organisations (established by dividing the former stevedore organisations into independent units) but there is limited differentiation of port services because these are still provided by traditional organisations using traditional methods. There is rarely any choice at all over port services in the other ports used by coastal shipping.

Cargo handling is undertaken mainly by state-owned cargo handling companies at both major and minor seaports. There have been few reforms introduced in recent years although increased autonomy has been given to port management, and responsibility for two ports, Saigon and Haiphong, has been transferred from VINAMARINE to VINALINES. Administrative, management and operational shortcomings have so far prevented port services being adapted effectively towards the new market requirements. The result is a lack of productivity and efficiency.

There is a general lack of storage and cargo shed capacity in Vietnamese ports. Limited finance has constrained the introduction of mechanised cargo handling methods (using forklifts and cranes) and provision of efficient interfaces with road transport. Poor lighting has limited cargo handling to daylight hours causing considerable delays to ships and cargoes.

Although there is considerable scope for licensing and contracting private cargo handling operators who can offer better and more efficient service, little improvement has so far been made. No competitive bidding for cargo handling contracts lasting for given periods of time have been offered so there has been little opportunity for new cargo handling organisations to enter the business.

Development of alternative ports has occurred due to local initiatives in the delta areas and increasingly this is involving the private sector, often in conjunction with international shipping company interests. Therefore despite the lack of improvements in existing ports, the trend in the delta areas is towards an increasingly competitive situation which should promote use of improved technology and increased efficiency. Elsewhere ports tend to be under local authority or VINAMARINE management and there is no indication of how management incentives will be introduced to improve port services to shipping operators in these areas of the country.



### (c) Ancillary Transport Services

The road system has suffered from years of neglect and, with rapidly rising traffic, has barely adequate infrastructure, including numerous weak or narrow bridges along key routes to and from ports. Recent reform of the size and weight limits on vehicles now allow, effectively for the first time, container transport on roads. However there are limits on loads carried on many old bridges and there are no clear rules for moving special loads that exceed the present maximum gross vehicle weight (which varies with number and configuration of axles) and this can hinder the transport of heavy loads such as imported factory equipment. Although a major road rehabilitation programme is underway and new legal size and weight limits are planned to be introduced as and when bridge and pavement designs become adequate, it will be some years before this strain is alleviated.

Another weakness in support services is in the maintenance and development of inland waterways. The average age of the dredgers is 25 years and they have limited effectiveness. In 1992 the dredging companies only met 30% of the planned dredging requirement and, due to lack of funds, only 50% of the current dredging fleet capacity was utilised. To allow coastal shipping to play its full role, on an expanded sea-cum-riverway network, funds must be allocated for the major waterways used by coastal shipping to prevent siltation and allow navigation by appropriate vessels.

However it is not clear to what extent charges levied for use of ports are based on the costs of providing and maintaining the infrastructure - not only for the ports themselves but also for dredging the navigation channels, maintaining navigational aids and providing safety services. A variety of revenue sources are available for financing waterways, including port and channel charges, fuel taxes, vessel registration fees, taxes on freight charges and other general taxes. Careful balancing of these charges is required to minimise distortions and establish a fair charging system related to costs incurred by each user. For example fuel taxes by themselves are not suitable because large vessels that depend most on dredging would pay a disproportionately small share. Charges based on registration fees could require broadening the scope of registration even to the numerous small river craft. Many vessels do not use official ports and so this limits the scope for using port charges to finance waterways. Particular problems could arise to ensure that domestic and foreign vessels each pay their fair share. However such an analysis has not yet been performed and implemented.

Even after the definition of charge levels the problem remains about how to collect the revenue and transfer it to the accounts used for providing and maintaining inland waterways. The situation is made more complicated by the division of responsibility for waterborne transport between IWB and VINAMARINE. Taxes levied on ship registration and channel and river port fees collected by provincial authorities are remitted to the Ministry of Finance. However only a small proportion is reportedly spent on maintenance of channels and navigational aids through the Union of Inland Waterways Management. Consequently maintenance activities are completely

inadequate. The situation is better regarding rivers serving sea ports because channel fees are mainly directed to VMS for maintenance. Even in this case however the revenue is insufficient to cover major maintenance or rehabilitation costs, let alone new construction.

One possibility would be to create a Port Fund into which an agreed amount of funds was channelled for use by each port or waterway authority. However there are several arguments against such funds (not least being the problem of how to match funds to expenditure needs) and many governments prefer to allocate such expenditure directly from the state budget.

### **1.3 Performance of Coastal Shipping**

#### **1.3.1 Traffic Carried by Operator Type**

##### **(a) Freight**

As examined in more detail in Supplementary Report No. 5 on Traffic Demand Analysis and Forecasts, coastal shipping carries about 2.7 million tonnes of domestic traffic per year. An additional 2.6 million tonnes is carried within the Red River Delta and Mekong River Delta areas on sea-cum-riverways as shown in Table 1.3.1. These two delta areas cover zone numbers 1 - 7 and 15 - 20 in Figure 1.3.1 and include most of the population and economic activity of the country. Since traffic wholly within the delta areas does not, by definition, use coastal shipping, it is not considered further in this report.

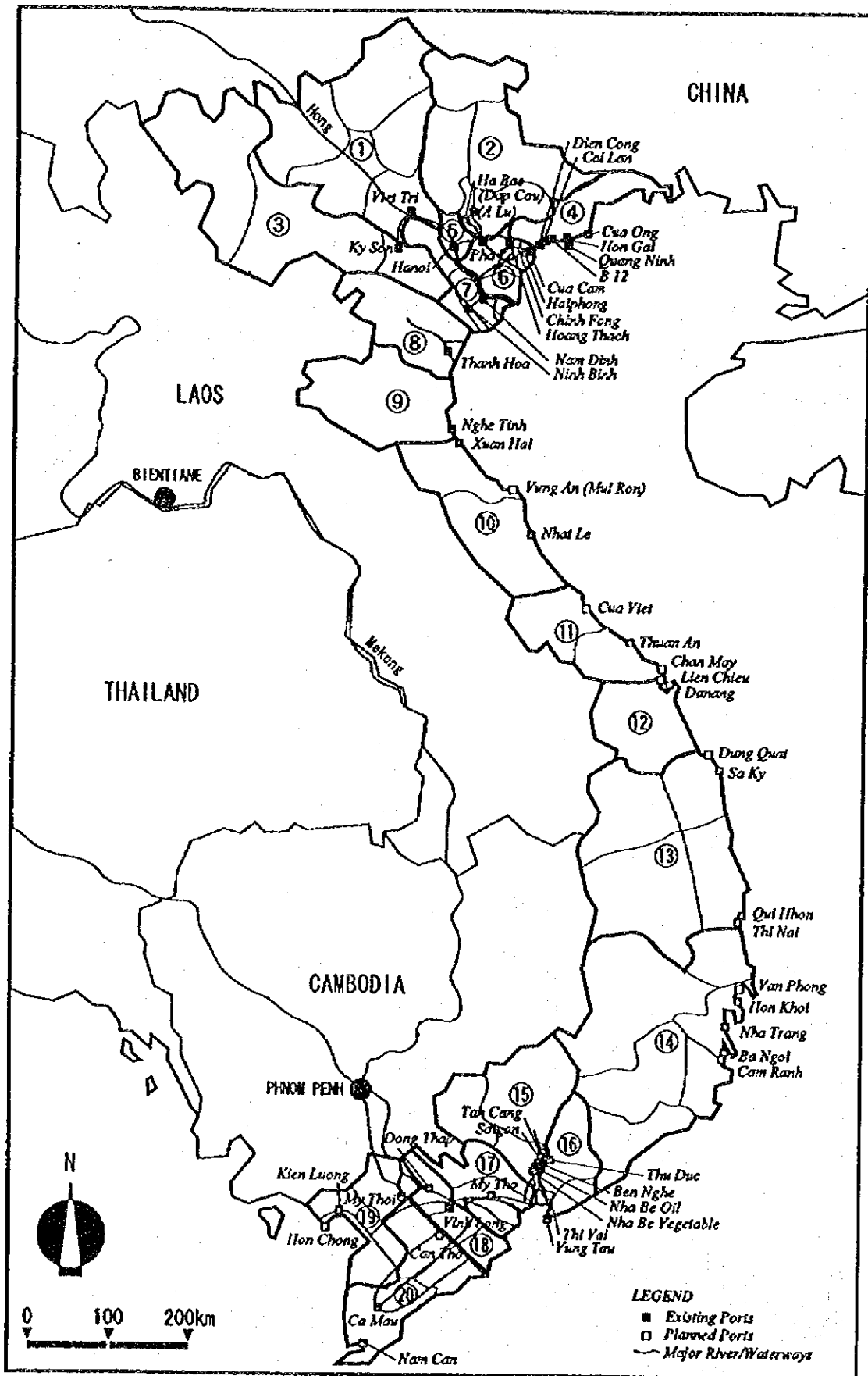
The flow of coastal shipping traffic is rather unbalanced. The main north to south flow involves the movement of cement, coal, steel and other bulk or bulky cargoes, while agricultural products (mainly rice) are mainly carried from the south to the north of the country. Other dry cargo is shipped out from both Haiphong and Saigon Ports to various destinations, while refined oil products are moved from Nha Be in the south to B12 in the north. The movement of rice takes place from time to time in large amounts in accordance with the food security requirements of government and requires the use of large ships. Demand for cement transport tends to be higher between October and February, outside of the rainy season. During the typhoon months of September and October navigation is particularly difficult, especially for smaller ships, requiring vessels to shelter for several days at a time.

Table 1.3.1  
**SUMMARY OF DOMESTIC SEABORNE TRAFFIC IN 1995 (TONS)**

	Commodity Group	Coastal Shipping		Red River Delta		Mekong River Delta		Domestic Total	
		Tons	%	Tons	%	Tons	%	Tons	%
1	Agricultural products	725,251	26.5%	0	0.0%	142,000	11.1%	867,251	16.3%
2	Construction materials & Mining products in bulk	398,159	14.6%	798,320	60.2%	676,168	52.9%	1,872,647	35.1%
3	Wet cargo	360,623	13.2%	18,000	1.4%	150,000	11.7%	528,623	9.9%
4	Bulk cargo	482,388	17.6%	162,500	12.3%	0	0.0%	644,888	12.1%
5	Cement	403,854	14.8%	187,200	14.1%	151,000	11.8%	742,054	13.9%
6	Other cargoes	363,454	13.3%	159,500	12.0%	158,053	12.4%	681,007	12.8%
	<b>Total</b>	<b>2,733,729</b>	<b>100.0%</b>	<b>1,325,520</b>	<b>100.0%</b>	<b>1,277,221</b>	<b>100.0%</b>	<b>5,336,470</b>	<b>100.0%</b>

Source: JICA Study Team

Figure 1.3.1  
ZONING SYSTEM



As shown in Figure 1.3.2, most coastal shipping traffic is between the coastal area of the Red River Delta (RRD, which consists of zones 5 - 7, and includes Hanoi) and the Eastern Nam Bo area (ENB, which consists of zones 15 - 16, and includes Ho Chi Minh City (HCMC)). This results in an average cargo transporting distance of 691 miles (673 miles for dry cargo).

The largest proportion of this traffic is carried by state-owned shipping operators - between 60 and 80% of the loaded and unloaded cargo at Saigon Port, Qui Nhon Port and other minor ports under Qui Nhon Port Authority (see Tables 1.3.2 to 1.3.4 which summarise data collected from these ports during 1995). The traffic handled at these ports represents about 35% of total coastal shipping traffic: Saigon data should be representative of the traffic on the main north-south routes while the Qui Nhon data should be fairly representative of the traffic on the minor routes.

Foreign and joint venture operators each carry 14% of traffic at Saigon Port, but these proportions are much lower at the Qui Nhon Ports so, overall, these types of operators each carry about 10% of the coastal shipping traffic. Local authority operators carry a similar proportion while private operators carry only about 5% (excluding a small proportion carried by co-operatives).

Average cargo loaded or unloaded by ships (excluding cases when no cargo was loaded or unloaded) reflects the various sizes of ship deployed by the different operators - 3,616 ton at Saigon Port (ranging from 1,420 ton for local authority operators to 4,197 ton for foreign operators). The average cargo handled at Qui Nhon ports is significantly lower because the traffic is less dominated by large rice shipments - only 1,051 ton at Qui Nhon Port and 795 ton at the minor ports. Local authority and private operators loaded or unloaded only between about 300 and 600 tons at the Qui Nhon ports.

These findings confirm that even though state-owned operators mainly carry out international shipping, they carry most of the coastal shipping traffic too. Since all state-owned operators are responsible to VINALINES this organisation tends to monopolise coastal shipping. Because of the lack of other Vietnamese operators with suitably large ships, foreign and joint venture ships together carry 20% of coastal shipping traffic.

Figure 1.3.2

DESIRE LINES OF EXISTING COASTAL SHIPPING

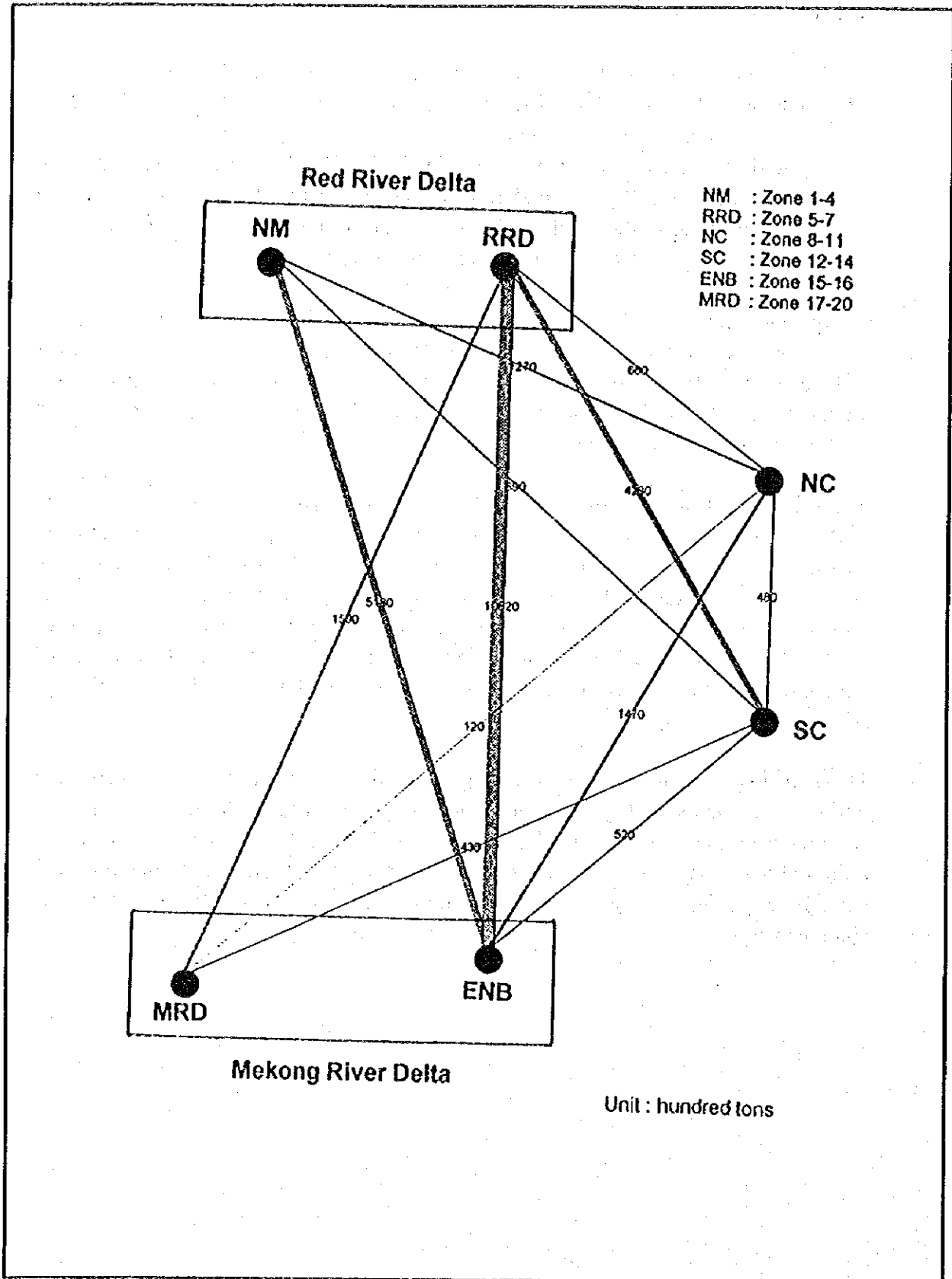


Table 1.3.2  
DOMESTIC CARGO LOADED AND UNLOADED AT SAIGON PORT

	Type of Operator						All Carriers
	State	Joint Venture	Local Government	Private	Foreign		
Traffic (ton)							
- Rice loaded	233,920 (65%)	49,604 (14%)	10,742 (3%)	12,648 (4%)	54,341 (15%)	361,255 (100%)	
- Other loaded	41,747 (54%)	11,990 (16%)	10,642 (14%)	6,406 (8%)	5,955 (8%)	76,740 (100%)	
- Cement unloaded	2,202 (17%)	8,004 (61%)	2,422 (18%)	506 (4%)	0 (0%)	13,134 (100%)	
- Other unloaded	40,834 (55%)	2,612 (4%)	15,958 (21%)	4,089 (5%)	11,060 (15%)	74,553 (100%)	
TOTAL	318,703 (61%)	72,210 (14%)	39,764 (8%)	23,649 (4%)	71,356 (14%)	525,682 (100%)	
Ship Loads	87 (53%)	20 (12%)	28 (17%)	12 (7%)	17 (10%)	164 (100%)	
Average load (ton)	3,663	3,610	1,420	1,970	4,197	3,205	
Average grt	4,008	4,309	1,534	2,346	5,116	3,616	

SOURCE: JICA Study Team (from four months records of Ship Calls, January - April 1996)

Table 1.3.3  
DOMESTIC CARGO LOADED AND UNLOADED AT QUI NHON PORT

	Type of Operator						All Carriers
	State	Joint Venture	Local Government	Private and Co-operative	Foreign		
Traffic (ton)							
- Wood loaded	10,236 (47%)	300 (1%)	9,005 (41%)	1,660 (8%)	573 (3%)	21,774 (100%)	
- Other loaded	3,977 (43%)	0 (0%)	4,410 (48%)	805 (9%)	0 (0%)	9,192 (100%)	
- Cement unloaded	36,218 (63%)	6,703 (12%)	13,002 (23%)	1,800 (3%)	0 (0%)	57,723 (100%)	
- Other unloaded	70,150 (72%)	0 (0%)	7,780 (8%)	3,316 (3%)	16,100 (17%)	97,346 (100%)	
TOTAL	120,581 (65%)	7,003 (4%)	34,197 (18%)	7,581 (4%)	16,673 (9%)	186,035 (100%)	
Ship Loads	95 (54%)	3 (2%)	55 (31%)	22 (12%)	2 (1%)	177 (100%)	
Average load (ton)	1,269	2,334	622	345	8,336	1,051	
Average grt	944	1,941	645	352	6,604	784	

SOURCE: JICA Study Team (from 12 months records of Ship Calls, 1995)



Table 1.3.4  
DOMESTIC CARGO LOADED AND UNLOADED AT OTHER PORTS IN QUI NHON PORT AUTHORITY

	Type of Operator						All Carriers
	State	Joint Venture	Local Government	Private and Co-operative	Foreign		
Traffic (ton)							
- Wood loaded	10,508 (49%)	0 (0%)	6,824 (32%)	3,280 (15%)	1,000 (5%)	21,612 (100%)	
- Other loaded	280 (25%)	0 (0%)	300 (25%)	631 (52%)	0 (0%)	1,211 (100%)	
- Cement unloaded	6,450 (72%)	0 (0%)	400 (4%)	2,108 (24%)	0 (0%)	8,958 (100%)	
- Other unloaded	55,296 (95%)	0 (0%)	2,600 (4%)	150 (0%)	0 (0%)	58,046 (100%)	
TOTAL	72,534 (81%)	0 (0%)	10,124 (11%)	6,169 (7%)	1,000 (1%)	89,827 (100%)	
Ship Loads	59 (52%)	0 (0%)	32 (28%)	21 (19%)	1 (1%)	113 (100%)	
Average load (ton)	1,229		316	294	1,000	795	
Average grt	839		391	341	1,056	622	

SOURCE: JICA Study Team (from 12 months records of Ship Calls at Cang Thi Nai and Cang dau, 1995)

(b) Passenger

Coastal shipping plays only a small role in passenger movement in Vietnam on

- interprovincial routes such as Haiphong - Quang Ninh and HCMC - Vung Tau (505 thousand passenger in 1995),
- routes to remote islands (of which Vietnam has 31) such as Ly Son, Phu Quy, Con Dao and Phu Quoc (85 thousand passenger in 1995), and
- tourist services, including inter-island routes, such as those based on Haiphong (about 400 thousand passengers)

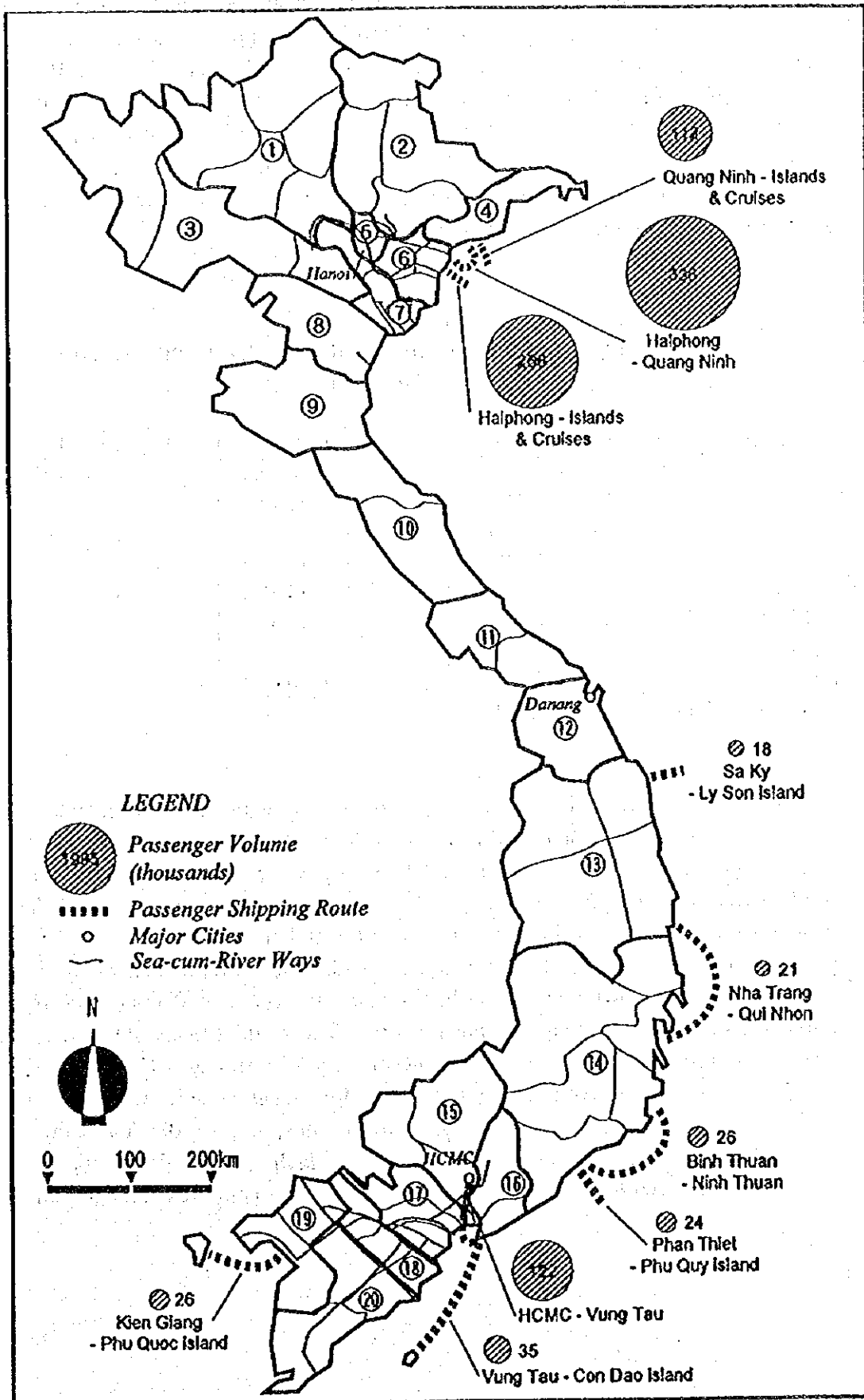
The pattern of services is shown in Figure 1.3.3. Many of the passenger vessels are licensed as inland waterway vessels because they are of limited capacity and remain close to the coastline. There are only four sea-going vessels registered with VIRES and all are small vessels below 200 grt, less than 40m in length, owned by local government organisations.

### 1.3.2 Fleet Productivity

As described in Table 1.2.1 a range of different sizes of ships engage in coastal shipping, owned by state, local government, joint-venture and private organisations. Estimating fleet productivity in coastal shipping is difficult because many vessels engage in both international and domestic trades, even on the same trip (typically a vessel on an international route with spare capacity will supplement its load with domestic cargo. In many cases, a single commodity is transported in one shipment: this can range from 3,000 to 5,000 tons in the case of the main route between Haiphong and Ho Chi Minh City (HCMC). Because most vessels are general purpose vessels a range of cargoes can be carried: for example 5,000 tons of coal or cement may be carried from Haiphong to HCMC before washing and cleaning the hold, after which it loads 3,000 tons of rice for Haiphong.

Because of the present pattern of traffic movement about 30% of domestic ship movements are empty. Allowing for the fact that on the remaining 70% of movements, ships are not completely full, it is estimated that the average load factor is about 50 - 60%.

Figure 1.3.3  
 TRAFFIC VOLUME OF PASSENGER SHIPPING BY ZONE



Productivity is limited by the type, condition and age of vessels. The percentage of specialised ships is very low in the sea-going vessel fleet, with only one specialised Ro-Ro ship, 17 small- and medium-size tankers, two multi-functional ships for carrying containers, 30 old refrigerating ships which are not suitable for carrying refrigerating containers. Even in the state-owned fleet, there is only one 12,000 DWT semi-container ship named Hau Giang 02 with 450 TEU carrying capacity, but this is already 16 years old. As shown in Table 1.3.5, the majority of general cargo, tanker and passenger ships (which make up almost all the commercial sea-going fleet) are less than 500 dwt (even though they make up less than 15% of total capacity). Such vessels use diesel engines and have high operating costs.

Table 1.3.5  
VIETNAMESE FLEET SIZE DISTRIBUTION BY TYPE OF SHIP  
(AS OF 1995)

Ship Size (dwt)	General Cargo Ship	Tanker	Passenger ship
below 500	268 (60.9%)	6 (26.1%)	4 (100%)
500 - 999	33 (7.5%)	5 (21.7%)	-
1,000 - 1,999	68 (15.5%)	5 (21.7%)	-
2,000 - 2,999	13 (3.0%)	3 (13.0%)	-
3,000 - 3,999	9 (2.0%)	1 (4.3%)	-
4,000 - 4,999	12 (2.7%)	1 (4.3%)	-
5,000 and above	37 (8.4%)	2 (8.7%)	-
Total	440 (100.0%)	23 (100.0%)	4

Source: Register of Ships 1994 - 1995, VIRES

The present standard of the fleet is very poor, having equipment and facilities which are outdated, with little use being made of modern automation and specialised control systems. This increases loading and unloading times (as described later) which reduces productivity. The operating efficiency of the main engines is low (using old technology from Eastern Europe), incurring high operating and maintenance costs. Difficulties getting spare parts can result in vessels being laid up for several weeks before repairs can be completed. Attempts at ad-hoc repairs are often ineffective and result in unreliable service. As shown in Table 1.3.6 the fleet includes many old vessels - 16% of general cargo ships and 39% of tankers are over 20 years age. The average age of the fleet is 11.3 years (but about twice this for larger vessels, which are usually acquired second-hand). The high degree of obsolescence of the Vietnamese fleet makes it impossible, at present, to reach the technical standards stipulated by international conventions and legal requirements of other countries in the region.

Table 1.3.6  
AGE DISTRIBUTION OF VIETNAMESE FLEET  
(as of 1995)

Ship Size (years)	General Cargo Ship	Tanker	Passenger Ship
Less than 5	79 (18.0%)	3 (13.0%)	-
5 - 10	175 (39.8%)	4 (17.4%)	2 (50.0%)
11 - 15	66 (15.0%)	1 (4.3%)	-
16 - 20	49 (11.1%)	6 (26.1%)	1 (25.0%)
21 - 25	57 (13.0%)	6 (26.1%)	1 (25.0%)
More than 25	14 (3.2%)	3 (13.0%)	-
Total	440 (100.0%)	23 (100.0%)	4(100.0%)

Note: (1) Age categories are defined in Table 12 of Appendix 7. General cargo ships include 18 refrigerated ships.

(2) The average age of general cargo and tanker ships is as follows

below 500 dwt	8.1 years
500 - 999 dwt	13.0 years
1,000 - 1,999 dwt	13.6 years
2,000 - 2,999 dwt	17.0 years
3,000 - 3,999 dwt	19.9 years
4,000 - 4,999 dwt	22.3 years
5,000 dwt and above	20.0 years

Source: Register of Ships 1994-1995, VIRES

Although there is often no distinction between ships engaged in domestic and international service, smaller and older vessels of large scale operators are usually used for domestic traffic. However as shown in Table 1.2.3 most new vessels acquired in the last four years are less than 500 dwt, and are mainly used for coastal shipping. Even these vessels, which are locally built, are not entirely new because in most cases second-hand bus engines and other imported equipment are used. These high speed engines are not designed for marine use and consume much fuel.

For short distance services, such as between nearby provinces, small ships of around 500 dwt owned by provincial or private companies are used. Such ships are also widely used for long trips too - many operators of small ships report average carriage distances of 600 miles. However speeds of small vessels are low and delays due to poor weather are frequent (and sometimes suspend vessel operation for several days). Reports of small coastal ships sinking during the typhoon season are unfortunately not uncommon.

Despite the difficulties using old vessels, most operators report that vessels are in use for about 300 days per year on average, with idle time equally attributable to maintenance/repairs and to lack of work.

### **1.3.3 Labour Productivity**

The number of seamen per ship varies from about 14 for small ships of about 500 dwt to about 24 for vessels of about 1,000 dwt. Operators interviewed by the consultants reported that only about one third of seamen are employed on a permanent basis so recorded staff numbers do not represent actual numbers employed at any particular time.

The above numbers of staff appear rather high in comparison with international practice (about double) but this is partly because of the relatively low cost of labour in Vietnam. Undoubtedly it is also because of the obsolete designs of ships which require larger labour forces. Such high numbers of staff can cause severe loss of productivity through ships having to make additional port calls in order to replenish water and food supplies; a problem which is reported to occur occasionally with some operators using smaller vessels which encounter delays due to adverse weather conditions.

Administrative staff varied from about one to 30 per ship, although most small operators with three or four vessels employed about eight. The high numbers of administrative staff were found in the larger operators and partly reflect the agency and other ancillary business activities of these organisations.

Comparisons between different operator types and service types are very difficult to make because of lack of reliable and comparable data. The high numbers of staff employed in large shipping companies could be partly attributable to inefficient employment practices which could be found in state-owned organisations more generally. Compared to the 24 or more staff employed on most large ships over about 1,000 dwt, the one private company interviewed using a large vessel, Tan Tien Tanker Company, reported that only 15 seamen are employed on its 1,800 dwt vessel. However the difference could be partly due to the different type of vessel used.

### **1.3.4 Cargo Handling Productivity**

Productivity of shipping is constrained by poor cargo handling methods. There is a general lack of modern port equipment such as forklifts, little cargo is handled using pallets and other unitised means, and poor lighting at ports restricts night-time operation. During the rainy season, the efficiency of vessel operation drops because of the risk of bagged cargo being damaged by water.

Typical handling rates for bagged goods such as cement, rice and fertiliser at Saigon Port vary from 600 ton/day for ships with less than 2,000 dwt to 1,000 ton/day for larger ships served by two gangs. Crane unloading rates for coal, cement clinker and apatite are about 600 ton/day/crane. Conveyor loading/unloading rates are typically between 1,500 and 4,000 ton/day. In all cases these rates are very low because of the restriction to daylight working only. Clearly much higher rates can be achieved with unitised cargo in conjunction with modern handling equipment.

### 1.3.5 Tariffs and Financial Situation

Coastal shipping operators are almost always free to negotiate freight rates with customers but passenger fares are in effect set by government (higher for services used by foreigners than for other services). The freight rates may vary with time of year, reflecting demand fluctuations. They also vary with operator characteristics such as private- or government-owned and size of vessel. For example typical reported cement rates between Haiphong and Saigon Ports are shown in Table 1.3.7.

Table 1.3.7  
REPORTED RANGE OF FREIGHT RATES FOR BAGGED CEMENT,  
HAIPHONG - SAIGON

Ship Size dwt	Range of Freight Rates (VND/ton)	
	Minimum	Maximum
about 300 - 400	100,000	140,000
about 500 - 600	95,000 - 100,000	120,000
about 800 - 1,000	85,000 - 90,000	105,000

Note: (1) Minimum rates apply between March and October, inclusive, when demand is low because of rainy weather

Source: Amserco, Haiphong (July 1996)

Private operators are often paid more than other operators using similar vessels because they provide better service, for example in arranging speedy and closely-supervised loading and unloading. Not included in the above rates are agent's fees: cement producers often make annual contracts with agents to arrange transport, both by coastal shipping and secondary transport, for 2,000 - 3,000 ton/month of cargo.

Although tariffs charged for movement of government-controlled items such as rice are in theory controlled, the legislated ceiling rates are higher (VND 180,000 /ton) than those actually charged in practice. Therefore the regulation has limited effect.

It has been impossible to ascertain precise profit levels in coastal shipping because shipping operators declined to supply financial statements with balance sheets and profit/loss account statements, from any shipping company visited by the Study Team. In Vietnam, organisations are not accustomed to disclosing these statements to the public and there is no requirement to publish them. Only summary figures were made available for three large operators under VINALINES (see Appendix 3).

Even if such data were made available it would still be difficult to determine profitability of coastal shipping activities alone because most shipping operators carry

out other activities such as international shipping, inland waterway services and agency services.

Conflicting opinions have been expressed to the Study Team concerning profits from coastal shipping. According to interviews with major companies, shipping activities as a whole are profitable as shown in the estimates given in Appendix 3. However these figures mask the contributions from international and coastal shipping and from agency services. The latter make a significant contribution to total profits and are responsible for the positive net profit after tax figures in Appendix 3 despite the low profits or even losses on transportation activities. This is confirmed by VINALINES, who (presumably based on transport costs and revenues only) estimate that most shipping companies were in the red, by a total of nearly US\$ 5 million in 1994. The circumstances of the ship operation business are getting severe due to strong competition among carriers and the increase in operating costs such as port charges, especially in international trade, and this has reduced profitability year by year. Most operators agree that coastal shipping is less profitable than international shipping so this analysis suggests that, for these larger operators, coastal shipping is certainly not profitable. This is confirmed by the lack of investment made in recent years in vessels intended for domestic shipping, and the absence of any plans for such investments in the future.

As an additional check on this assessment, actual operating costs for typical haulage of rice and coal by coastal shipping have been estimated from information collected by the Study Team. These are summarised in Figure 1.3.4 and may be compared with average rates actually charged over the past year shown in Table 1.3.8. The break-even freight rates, which just cover net voyage costs, range between US\$ 11.49 and 12.80 per ton or between US\$ 0.0074 and 0.0084 per ton-km, respectively. It is to be noted that net voyage cost does, in principle, make allowance for the capital replacement costs of the vessel, but does not cover any management costs on land.

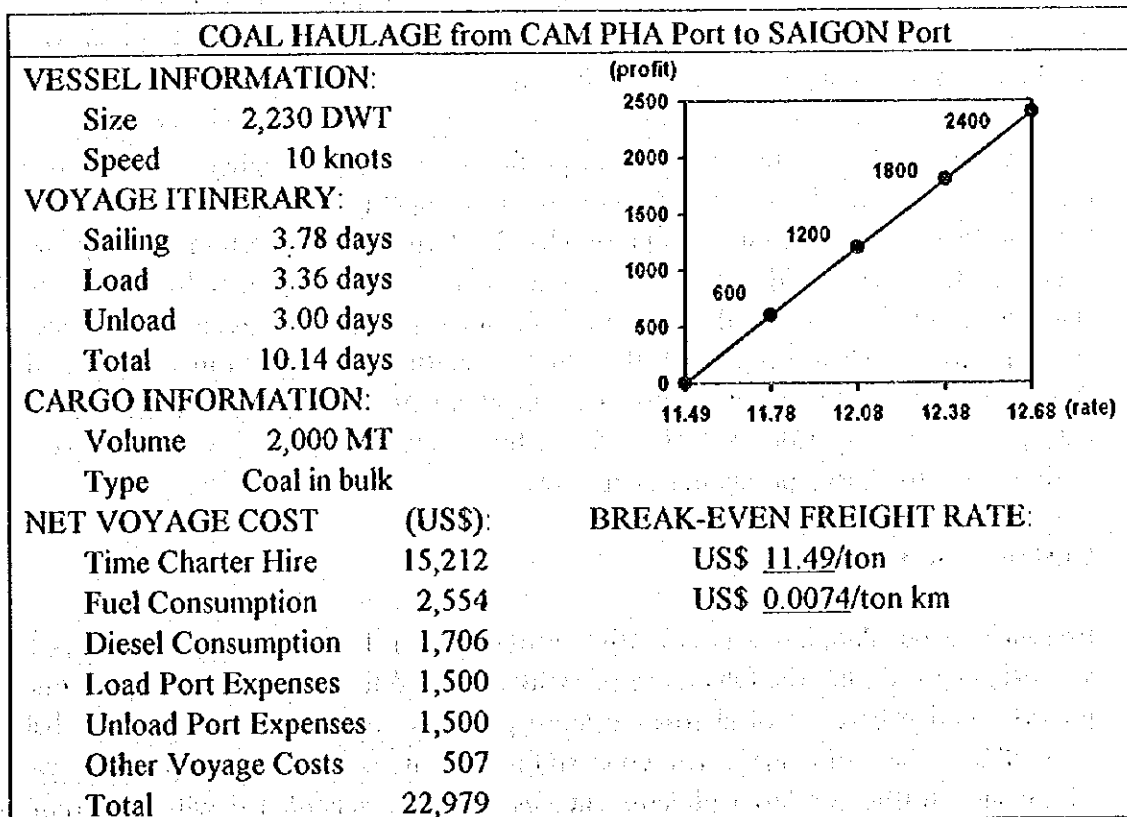
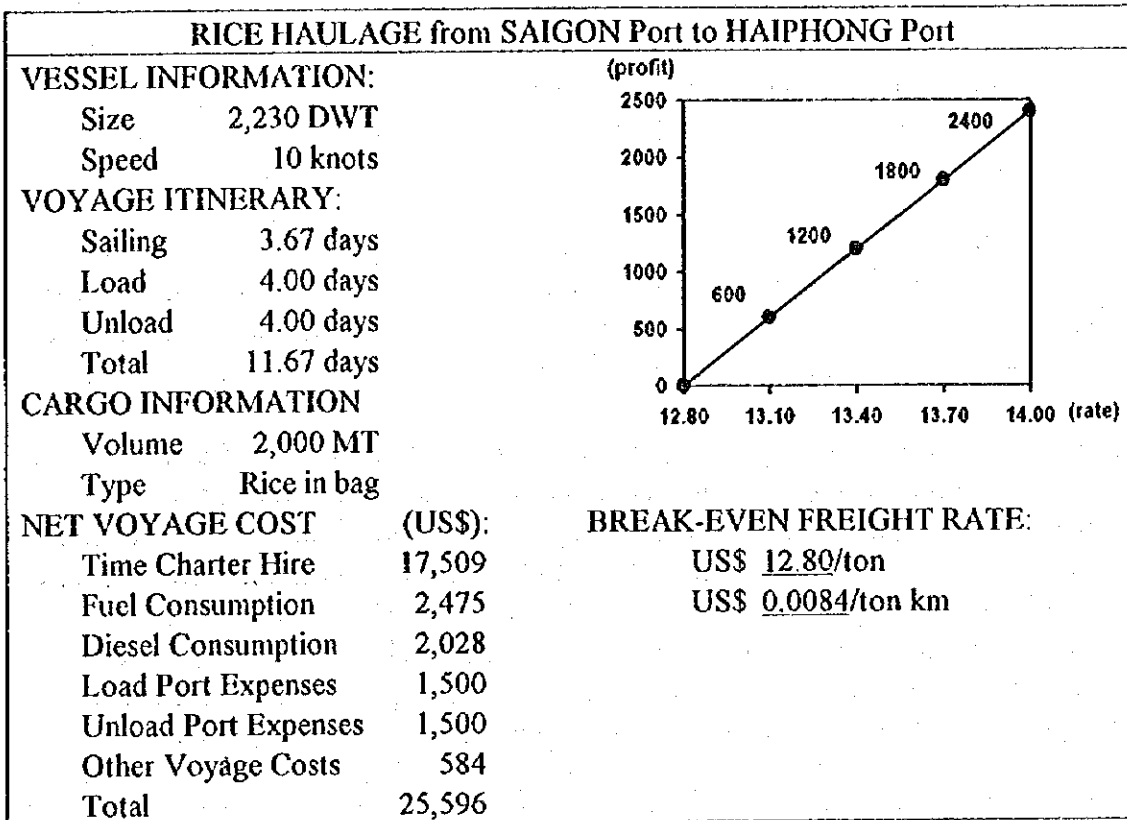
Table 1.3.8  
EXAMPLES OF ACTUAL AVERAGE COASTAL SHIPPING RATES (1995-96)

Route	Distance (kms)	VND/ton	VND/ton-km
Hanoi-Haiphong (inland waterway)	110	50,000	454
Haiphong - Danang	610	75,000	123
Haiphong - Nha Trang	1,100	85,000	77
Haiphong - Saigon	1,520	95,000	63

Source: JICA Study Team



**Figure 1.3.4  
FINANCIAL ANALYSIS OF CURRENT COASTAL SHIPPING**



The limited information given above suggests that:

- the government's ceiling tariff for foodstuff (VND 180,000 /ton) is higher than the Study Team's cost estimation, confirming that this allows ample margin for negotiation to allow for the use of small vessels, if required, and to compensate, if necessary, for empty return legs, and
- some actual rates are lower than the break-even rate estimated by the Study Team.

This finding tends to confirm the claim that operators may incur losses on some hauls when rates are depressed although the exact extent of the loss is difficult to determine because the time charter hire charge may not accurately reflect long-run vessel costs including full allowance for vessel replacement.

Even less information on profitability is available from provincial and private operators but most reports from provincial operators suggest that, like large operators, they find the coastal shipping business unattractive. Operators with smaller vessels, of about 500 dwt, appear to find it particularly difficult to find profitable business. Some, such as the South Water Transport Company, plan to sell their smaller vessels and use the capital to acquire additional inland waterway vessels. Provincial operators have made little if any investment in new vessels in recent years: the disposal of their sea-going vessels supports the contention that their coastal shipping activities are unprofitable.

By contrast, private operators tend to regard coastal shipping as profitable. In further contrast to the provincial operators they seem to prefer, under present circumstances, operating small ships of about 500 dwt rather than larger ships. The potential for profitable coastal shipping operation with such vessels is confirmed by the increasing investment in new ships, summarised in Table 1.2.3. Even in the case of private operators it could be argued that current profits from coastal shipping are fairly small - rates have fallen in the last twelve months as competition has intensified. There is thought to be a significant amount of illegal international operation (perhaps with contraband) which could constitute an important source of profits for some small shipping companies. Even these small companies pursue ship agency activities to augment profits. However despite their high operating costs (per ton mile) resulting from using small vessels it seems that their potential for profitable operation is enhanced by the superior level of service offered, which both attracts customers and enables them to charge premium freight rates.

### **1.3.6 Customer Service**

Present coastal shipping services often provide poor level of service. This is not surprising considering the reluctance of many state and local government operators to provide service because of alternative more profitable forms of business. It probably also reflects a lack of management concern for customer service caused partly by years of carrying traffic for large government customers in accordance with government commands.

This is especially noticeable for transport of general cargo rather than bulk or bulky cargoes. For example if a customer wants to transport a container of general cargo by coastal shipping at the present time the customer must book up to three months ahead and then make direct contact with the captain to finalise arrangements. Even then shipping times are not predictable and the cargo can be untraceable for several days.

Because of the labour intensive cargo handling methods and lack of container use, loss and damage of cargo would be expected to be excessive. However there are no data to confirm this.

### 1.3.7 Competition and Co-ordination with Other Modes

#### (a) Cargo Transport

Coastal shipping can offer attractive costs and level of service for

- many high volume bulk cargo shipments, and
- general cargo movements over long distances, especially if they avoid transshipment or long hauls by secondary transport such as inland waterways and roads.

Over long distances of about 600 km, coastal shipping offers substantial cost savings as shown in Table 1.3.8 (based on calculations in Appendix 4). In particular:

- for a typical medium distance route, from Haiphong to Danang, coastal shipping has the lowest transport distance of only 610 kms compared to 800 kms for trucking and 893 kms for rail transport. The overall coastal shipping rate per ton is equivalent to only 50-54% of the trucking rate and 68-72% of the rail transport rate,
- on the long distance route Hanoi-Ho Chi Minh City, coastal shipping still has the lowest overall transport cost, only 24% of the trucking rate and 52-56% of the rail transport rate.

Thus, coastal shipping in combination with other transport modes such as inland waterway and trucking for inland movement has the lowest overall transport charges for many medium to long distances. Despite the need for transshipment (whose costs are included in the above comparison), coastal shipping is likely to be preferred by many shippers with large cargo volumes or who use containers. If the consignment volume is made up of smaller transport volumes destined to different areas, road transport is likely to be preferred.

Table 1.3.9  
**COMPARABLE TRANSPORT COST ANALYSIS BY MODES**  
(In VND per ton)

CARGO/ Movement	COAL			RICE			CEMENT			FRUITS/ VEGETABLES		
	Rail	Trucking	Inland Waterway	Rail	Trucking	Inland Waterway	Rail	Trucking	Inland Waterway	Rail	Trucking	Inland Waterway
<b>1. Short-Distance (Hanoi- Hai Phong)</b>												
Distance (in kms.)	110	100	140	110	100	140	110	100	140	110	100	140
1.1 From origin - loading	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000
1.2 From origin by inland transport	25,000	-	25,000	25,000	-	25,000	25,000	-	25,000	25,000	-	25,000
1.3 Unloading-Loading	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000
1.4 Basic transport charge	20,900	120,000	28,350	23,650	120,000	31,080	23,650	120,000	34,020	23,650	120,000	31,080
1.5 Unloading-Loading	7,000	-	6,700	7,000	-	6,700	7,000	-	6,700	7,000	-	6,700
1.6 Inland transport to destination	25,000	-	25,000	25,000	-	25,000	25,000	-	25,000	25,000	-	25,000
1.7 Unloading	7,000	5,200	7,000	7,000	5,200	7,000	7,000	7,000	7,000	7,000	5,200	7,000
1.8 Other charges	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>98,900</b>	<b>139,200</b>	<b>106,050</b>	<b>101,650</b>	<b>139,200</b>	<b>108,750</b>	<b>101,650</b>	<b>141,000</b>	<b>111,720</b>	<b>101,650</b>	<b>139,200</b>	<b>108,750</b>
<b>2. Medium-Distance (Hai Phong-Da Nang)</b>												
Distance (in kms.)	892.7	800	610	892.7	800	610	892.7	800	610	892.7	800	610
1.1 From origin - loading	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000
1.2 From origin by inland transport	25,000	-	25,000	25,000	-	25,000	25,000	-	25,000	25,000	-	25,000
1.3 Unloading-Loading	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000
1.4 Basic transport charge	147,296	311,120	75,030	160,886	311,120	75,030	170,000	311,120	75,030	170,000	311,120	75,030
1.5 Unloading-Loading	7,000	-	11,570	7,000	-	14,340	7,000	-	18,850	7,000	-	14,340
1.6 Inland transport to destination	25,000	-	25,000	25,000	-	25,000	25,000	-	25,000	25,000	-	25,000
1.7 Unloading	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000
1.8 Other charges	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>225,296</b>	<b>325,120</b>	<b>162,170</b>	<b>238,686</b>	<b>325,120</b>	<b>167,710</b>	<b>248,000</b>	<b>325,120</b>	<b>176,730</b>	<b>248,000</b>	<b>325,120</b>	<b>167,710</b>
<b>3. Long-distance (Hanoi-Ho Chi Minh)</b>												
Distance (in kms.)	1,725.2	1,700	1,520	1,725.2	1,700	1,520	1,725.2	1,700	1,520	1,725.2	1,700	1,520
1.1 From origin - loading	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000
1.2 From origin by inland transport	25,000	-	31,080	25,000	-	31,080	25,000	-	31,080	25,000	-	31,080
1.3 Unloading-Loading	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000
1.4 Basic transport charge	258,780	778,600	95,760	284,658	778,600	95,760	284,658	778,600	95,760	284,658	778,600	95,760
1.5 Unloading-Loading	7,000	-	11,570	7,000	-	11,570	7,000	-	11,570	7,000	-	11,570
1.6 Inland transport to destination	25,000	-	25,000	25,000	-	25,000	25,000	-	25,000	25,000	-	25,000
1.7 Unloading	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000
1.8 Other charges	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>336,780</b>	<b>799,600</b>	<b>188,980</b>	<b>362,658</b>	<b>799,600</b>	<b>188,980</b>	<b>362,658</b>	<b>799,600</b>	<b>188,980</b>	<b>362,658</b>	<b>799,600</b>	<b>188,980</b>

Assumptions:

- Coal (cargo type 1), rice (cargo type 2), cement (cargo type 3) and fruits and vegetables (cargo type 2). These are based on inland waterway and rail tariff schedules.
- Handling charge from warehouse to truck at origin of 7.00 VND/ton based on current rates.
- Inland transport mode is trucking at current rate of 250,000 VND/10 tons/30 kms.
- Trucking charges per km, is based on current rate levels: 457.5 VND/ton-km. (Hanoi-HCM) and 388.9 VND/ton-km. (Haiphong- Da Nang).
- Shipping charge is 63 VND/ton-km. from Haiphong to HCM. (based on 1,520 kms. distance). Cargo from Hanoi is first barged to Haiphong to be transferred to the vessel going to HCM.

For bulk commodities such as coal, cement, clinker, ore, etc., coastal shipping has to compete with rail, inland waterways and, sometimes, even trucking. Rail and inland waterway currently offer similar charges and level of service and so become competing modes where routes overlap. Trucking is usually far too expensive for all but short hauls as summarised below.

<u>Mode</u>	<u>VND/ton-km.</u>
Inland Waterways	135-405
Rail	150-190
Coastal Shipping	60 - 130
Trucking	500-950

Ideally such comparisons should be made using economic, or social costs, which remove taxes, subsidies and other transfer payments and also take account of environmental and accident costs. Economic costs represent the overall costs to the Vietnam economy and are the appropriate basis for assessing the optimum role of coastal shipping for the country.

The current basis for taxation in coastal shipping is different from that for other inland modes and imposes lower profit and turnover taxes. Port charges for coastal shipping may also be cross-subsidised from international shipping. These factors make coastal shipping costs appear to be cheaper than they really are in economic terms. However the distortion is probably even greater for rail transport where charges are significantly below costs and so this mode would be even less favourable in economic terms. For roads too, fuel and other vehicle taxes are set at low levels in Vietnam so that costs of infrastructure, traffic congestion, noise, air pollution and accidents are not fully paid by road freight users. These effects should ideally be taken into account when developing transport policy (particularly regarding setting user charges for infrastructure).

In the near future, more competitive forms of coastal transport such as Ro-Ro and container ships may provide regular liner services on main routes, allowing this mode to play a much larger role in the transport of domestic cargo.

#### (b) Passenger Transport

Coastal shipping plays only a small role in passenger transport in Vietnam. The competitiveness of the different modes of transport depends on the fares and service levels offered. Air services have only a limited market, for high-income Vietnamese and foreigners who can afford domestic air travel. Bus transport offers relatively competitive fares along with convenient, frequent services with good connections, particularly for inter-provincial trips, and is the most common mode used by Vietnamese travellers. See Appendix 4 for further details of service characteristics.

A survey of passengers was conducted by the JICA Railway Study Team in June-July 1995 in order to determine the preferences and characteristics of long distance passengers in Vietnam. The major findings are as follows:

- 50% of air passengers are making government business or other "official" trips,
- 14% of HCMC-Hanoi railway passengers are on such "official" trips,
- 30-40% of all bus and rail trips are undertaken for personal business purposes,
- time savings is an important consideration for air passengers, rail passengers preferred safety and comfort, while bus passengers considered frequency of service and time savings as major factors, and
- more than 50% of passengers on all transport modes considered the fares to be reasonable except in the case of the Hanoi-HCMC rail service.

Railways have been losing passengers to bus transport in recent years due to the lack of attractive services, including convenient feeder services to and from stations. Furthermore, since free market reforms started, expenditure on road improvements has increased and a large number of privately-owned bus companies has been established who compete based on lower fares and improved services. As a result, passengers have made less use of rail services, despite lower fares on some routes.

Coastal shipping has apparently also been losing passengers to buses in recent years. For example the regular passenger service plying between Haiphong Port and Saigon Port has been withdrawn and minimal interprovincial services are provided between certain ports. It is likely that the inconvenient and slow shipping services are a major reason for this trend. To confirm this the Study conducted passenger shipping surveys on selected routes in the Haiphong and Quang Ninh area, and the HCMC and Vung Tau area. The results show that the passenger fares are much higher than bus fares - generally about 300 VND per passenger-km in Haiphong and Quang Ninh area, but higher on the HCMC - Vung Tau route due to the tourist market. The biggest problem which passengers perceive is doubtful seaworthiness.

While continued growth in island and tourist services can be expected, there appears to be limited scope for growth in interprovincial shipping services, although VINASHIP is contemplating restoring the Haiphong - Saigon service in future. However such services would only attract significant traffic if much lower fares or some other value added service such as car ferries is introduced.

### **1.3.8 Identified Issues and Problems**

#### **(a) Economic and Business Environment**

The problems facing the Maritime Transport Industry have to be seen in the context of the general economic and business circumstances in Vietnam. Economic reforms are underway and this is creating new problems and situations for transport customers, businesses and government. Uncertainty has been created by reforms and, as in any market economy, it is now difficult to forecast demand for transport services. However

an additional source of uncertainty is government policy itself; this is evolving rapidly to meet the needs of reform, and new laws and regulations are being continually developed. It is often difficult to know exactly what the business rules are, and this discourages business activity.

In the maritime sector, the lack of a clear government policy towards many aspects of coastal shipping is a major problem for the industry. This forces VINAMARINE and other agencies to interpret policy in ad-hoc ways and increases the danger of regulatory decisions being made which are inconsistent with the general policy directions of government. Particular areas in which uncertainty exists either now or in the near future include:

- the extent to which the government encourages foreign investment in the Vietnamese shipping fleet,
- conditions under which joint foreign/Vietnamese operators can provide domestic coastal shipping services freely,
- rules for Vietnamese shipping operators to engage in international shipping (which is so often closely related to domestic coastal shipping),
- the extent to which state-owned enterprises will remain in the maritime sector and subject to government support (especially operators responsible to VINALINES which tend to monopolise coastal shipping)
- future taxation rates for coastal shipping activities which could increase if uniform rates are introduced, and
- future policy towards import of small foreign vessels which could be built in Vietnam (but possibly at greater cost or with lower quality).

Some rules such as those giving Vietnamese operators preferential rates for port services and controlled rates for domestic rice shipments are inconsistent with market principles and will be unsustainable once competition in the maritime sector becomes more established. In the short term there is a risk that some shipping operators will cross-subsidise domestic operations from profits on international services, which reduces their competitive position on international routes. The longer term danger is that when distortions in port charges are removed, Vietnamese operators and their customers will be ill-prepared for the increases.

The lack of any clear plan to reorganise or privatise the numerous government-owned shipping operators, which currently dominate the coastal shipping industry, is a major source of uncertainty in the maritime industry. Although most government enterprises are, in theory, financially autonomous, it is not clear what action will be taken if and when such enterprises become bankrupt. The possibility of government intervention through subsidies is a business risk that deters investment by other operators (both in the state and private sectors). Clear policies to reorganise the state sector plus encouragement of state operators in financial difficulties to take appropriate early actions such as disposal of assets, would reduce these uncertainties and minimise the risks of reductions in active fleet caused by bankruptcy.

#### (b) Weak Regulatory Institutions

Development of VINAMARINE from a shipping management body into a regulatory agency is still far from complete. Many key staff were lost from VINAMARINE when VINALINES was established. At present this organisation does not have the human, technical, or financial resources required to perform its vital regulatory role: it is unable to enforce present safety standards, let alone take on new expected responsibilities in the near future (as expected from international agreements) which involve higher standards.

Effective administration of coastal shipping services requires a clear and logical division of responsibilities between VINAMARINE and IWB, and good co-ordination between these organisations both in planning and maintenance of riverways and in enforcing regulatory rules for ships, ports and waterways. Unfortunately current arrangements do not promote uniform regulatory standards and fail to supply adequate finance for provision of navigational aids and maintenance of riverways. This could reduce the expansion of coastal shipping services along many rivers, thus limiting the role of coastal shipping in linking regional industrial centres to the two major delta areas.

#### (c) Inadequate Management of Shipping and Port Operators

The rapid changes caused by economic reform are causing acute difficulties for existing management who have insufficient experience or expertise in the new ways of carrying out business. Like similar managers in other sectors, operators in government-owned enterprises have insufficient experience of marketing, providing customer service, financing investments in new vessels and other equipment, and accounting. In addition managers in maritime organisations have little or no experience of operating specialised vessels (container or semi-container, Ro-Ro and bulk ships), or developing scheduled liner services.

There are a growing number of private operators, not all of which may have experience in the industry, who lack the capital base and proven record to secure credit on reasonable terms. The lack of shipping experience and access to finance are major constraints on the development of the coastal shipping industry which can be expected to rely heavily on the private sector in future years to provide the necessary management and finance.

The lack of freight forwarders with experience of providing intermodal services is a further impediment to developing new door-to-door coastal shipping services, which are required if coastal shipping is to play its full role. Furthermore the general lack of adequately trained staff is a constraint on developing improved management methods and meeting international safety standards for shipping.



**(d) Equipment**

The maritime fleet is old, obsolete and in extremely poor condition. Many vessels are completely unsuitable to modern operating methods. Operating and maintenance costs are high because of the low level of technology used and because no use is made of efficiently operated specialised vessels.

Utilisation is constrained by the lack of even basic modern cargo handling equipment such as forklifts and pallets and the lack of competition among cargo handling organisations which have no experience of modern cargo handling methods. Poor lighting and navigational aids reduce available productive time of ships and increase costs and fleet requirements still further.

**(e) Infrastructure**

The poor condition of dredgers and lack of funds for maintenance has resulted in substantial sections of rivers becoming inaccessible to larger coastal shipping vessels. Other vessels have extreme difficulty using the rivers because of the lack of navigational aids. With growing demand, port capacity is certain to be exceeded soon unless productivity is improved and, in some cases, capacity increased.

**(f) Concluding Comments**

The above problems have severe consequences for the development of coastal shipping including:

- lack of adequate transport services for domestic distribution of manufactured goods between many areas of the country, including from the many new factories being established,
- inappropriate use of road transport over long distances between the north and south of the country which imposes a considerable strain on existing roads and inconvenience to other road users and the community as a whole,
- excessive costs on existing coastal shipping services due to continued use of obsolete equipment and inefficient operational methods, combined with poor level of service (cargo losses and delays due to weather etc.) and a high rate of accidents and risk of environmental pollution,
- a possible constraint on developing tourism and other important aspects of the island economies due to the lack of efficient passenger/cargo services, and
- low potential profitability, resulting in suppressed investment potential.

However despite these problems there are signs that, at least in the private sector, confidence in the coastal shipping sector is possibly growing. This has led to increased investment levels, although still far below the level required to meet the requirements of future traffic levels. The sector has become highly competitive and, provided the appropriate policy framework is in place to allow the development of the private sector, this should stimulate investment and use of new technology and operating methods.