(5) Small Government-Owned Enterprises

Many of the local authority coastal shipping enterprises are small and not very suitable for conversion into joint stock companies. In these cases consideration could be given to auctioning the company, in whole or in part, to the highest bidder. This option is particularly attractive with those provincial enterprises that do not actively manage their ships but rely on another operator to staff and operate them. The alternative option of selling the vessels at book value to existing operators is not recommended because it would probably allow the new owners to acquire the vessels at below their true value (thus reducing proceeds to government) and not allow equal opportunity to all operators, including potential new operators, to acquire the vessels. Considerable experience has been gained in other former centrally planned economies in auctioning small scale enterprises, and ODA assistance could be utilised in making this experience available to the Vietnamese government.

(6) Industrial Own-Account Carriers

Many coastal shipping vessels are owned by state-owned industrial enterprises for carriage of their own cargoes rather than those of others. During the reorganisation process of these industries consideration could be given to establishing the transport units as independent companies. This could potentially allow more operators to compete in the general carrier business. However in many cases there may be little potential for this and greater benefits obtained from leaving the transport units as own-account carriers which handle only the cargoes of the industrial company.

3.3.3 Improvement of Existing Operations Management

This section considers ways in which general management improvements can be made in coastal shipping operating enterprises. Later sections deal with improvements required for specific types of operation such as for liner services, specialised bulk ships, small scale operators or for ancillary services. The present section therefore focuses on ways to increase efficiency and level of service of existing tramper services.

Improvements are required in two areas identified in Chapter 1, namely

- weak organisational structure, especially regarding marketing and customer relations, and
- lack of management knowledge in modern business and ship operating methods.

There are a number of aspects in which management improvements can be made. However when proposing changes it is important to take into account current constraints in Vietnam. In particular

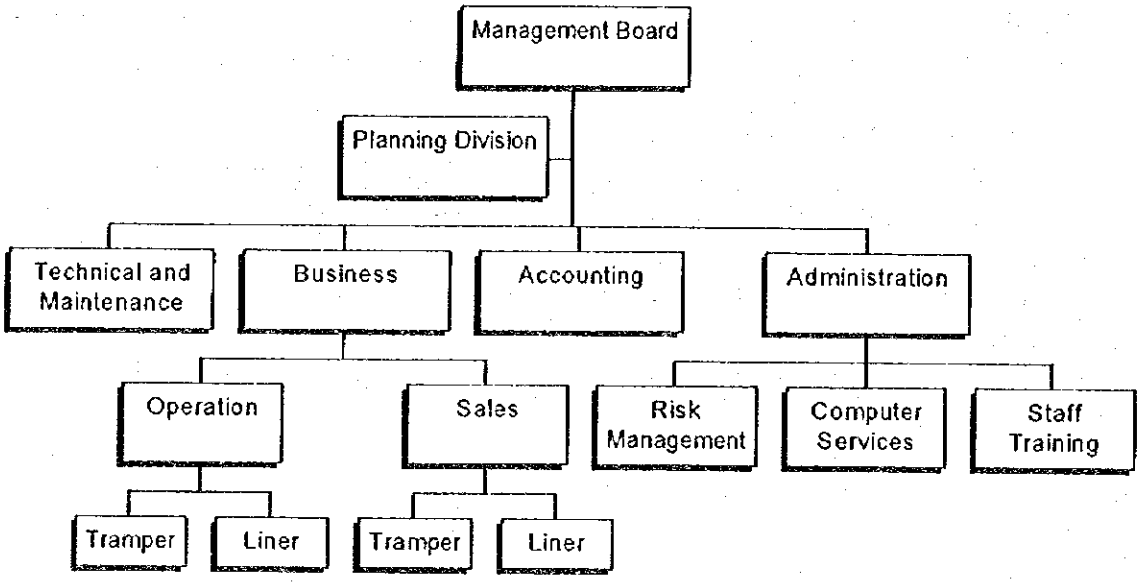
- the uncertain business environment which makes long term planning difficult,
- the limited finance available for making improvements, and
- the lack of time, money and resources available in Vietnam for management or administrative staff training.

Taking account of these constraints, the following aspects are important areas where improvements can be made in many existing shipping enterprises over the next few years.

(a) Strengthening Marketing

In most operators there is considerable scope for establishing or strengthening marketing divisions. Such units are a vital part of the business department of any shipping operator for performing cargo canvassing and maintaining good customer relationships. The typical position of the marketing or sales division is indicated in Figure 3.3.1.

Figure 3.3.1
EXAMPLE ORGANISATION OF A SHIPPING COMPANY



Like all divisions of an organisation, the responsibilities of the marketing division must be clearly defined. The basis for remuneration must also be defined - probably with incentives for revenue earned. Ideally incentives should be related to net revenue (after costs have been subtracted) so that the staff are motivated to seek ways to reduce costs.

The marketing division needs to be staffed with strongly motivated personnel who receive appropriate training (as proposed later in this chapter). Larger operators should employ managers that specialise in particular markets - particular customers or commodities, which may in turn be related to particular forms of services such as liner, tramper, domestic or international. Many existing operators would need to increase the number and quality of staff currently deployed in marketing. More attractive employment terms may have to be offered to recruit good sales managers.

Particular aspects of marketing which are important to strengthen are

- effective procedures for the speedy settlement of customer claims for delays or damage to cargo are important to maintain good customer relations,

- business strategy, especially towards volume contracts which relieve the customer of the task of dealing with several ship operators, and allow longer term planning of shipping operations,
- methods of assessing effects of carrying various traffics on profitability, which take account of effects of cargo density on revenue potential and which require detailed knowledge of (1) short-run and long-run marginal costs and (2) the required contribution of net revenue to fixed costs each year.

(b) Strengthening Service Planning

Planning is another function which is very weakly represented in most operators in Vietnam. An appropriate position for the service planning division is indicated in Figure 3.3.1. Defining planning responsibilities in precise terms is more difficult than for many other divisions who produce concrete outputs such as revenue or tons. Also the remuneration for planners can rarely be related to quantity or quality of output. Nevertheless a clear scope of responsibilities, defined in more detail in annual work plans, in terms of reports and information to be produced by certain dates, is important to establish priorities in the work of the planning division and ensure the right information is available to management at the right time.

Important aspects which require particular attention include:
- traffic forecasting,
- market research,
- vessel scheduling and allocation methods,
- vessel acquisition planning, including when to charter rather than purchase and identifying the most appropriate finance,
- strategy for cost control, for example to reduce fuel costs for particular cost-sensitive cargoes by slow steaming, or to negotiate reduced port charges

(c) Computerisation

As management data requirements become greater the need for computer data systems will become more important. This too could require a specialised division, as shown in Figure 3.3.1. Features of computing needs include
- a wide range of data handled, including traffic, ship and customer statistics and accounts, and
- possibilities for useful exchange of data with customers, port operators and customs.

(d) Internal Communication

Improvement could be made in communication of ideas and information within division, branches and the organisation as a whole. In particular management can benefit from ideas generated throughout the organisation for cost and level of service improvements and for restructuring suggestions.

(e) Risk Management

To some extent risks can be avoided by adoption of appropriate strategies. However there will always be unavoidable risks, eventually in the uncertain environment of Vietnam. To minimise risks of loss and damage insurance of miscellaneous equipment could be considered, in addition to that commonly held for the ship hull. However the insurance business is not particularly well developed in Vietnam and foreign insurance companies would be expensive, so this may not be financially feasible.

(f) Diversification

Continued diversification by shipping operators into ancillary services such as chartering, brokering, manning agency is possible as a strategy to reduce business risks and add value.

3.3.4 Introduction of New Services

The main type of new service which could be introduced during the master plan is the scheduled liner service. The potential for Ro-Ro is much less because of the high cost involved, although there is a probable need for this kind of vessel for distribution of locally manufactured road vehicles. The potential for a liner service is considerable on the main north-south route. Even intermediate ports could be served. Operation to and from Hanoi is a possibility if the river channel is adequate for sea-going vessels (the Red River used to be used for this purpose except at certain times of year for some ships). Otherwise Haiphong port would have to serve the northern delta region.

The liner service can offer a high quality, fast and reliable service which is particularly attractive to high value general cargo. The potential revenue of such services is high because the only competing mode, road, has much higher costs. In order to realise this potential, however, expert management is required to guarantee reliable customer service. Liner services offer an opportunity for coastal shipping to carry containerised and other unitised traffic. However the degree to which container traffic develops depends to a large extent on the availability of suitable handling facilities at the ports. Container transport offers possibilities for transport companies to offer door-to-door transport. Although this offers opportunities to operators to provide high value-added services, the high cost may deter customers in the short term.

Particular know-how is required by management intending to operate scheduled liner services, covering the following areas:

- marketing, especially identifying and canvassing potential customers and gaining their interest in using modern cargo handling methods on scheduled services,
- scheduling services to achieve efficient utilisation of vessels and other equipment,
- planning acquisition of ships and other equipment (including obtaining appropriate finance),
- inventory management methods for containers,
- setting tariffs for containers, and

- establishing suitable control methods for scheduled services to minimise delays and to give customers information about their cargoes.

This knowledge is available mainly from foreign managers who have considerable experience with operating such services. Also training programmes can introduce the basic principles and enable potential operations to be planned and evaluated. To gain foreign expertise Vietnamese operators could enter into joint venture agreements or make management contracts. However present legislation restricts the extent to which foreign partners can become involved in domestic coastal shipping. Therefore there is a serious danger that development of liner services would be constrained by regulation.

3.3.5 Specialised Vessel Operation

As described earlier in the report there is scope for operating specialised cement and oil vessels on a limited number of high traffic volume coastal shipping routes. The service can either be carried out by a general carrier, on a tramper basis, or by an industrial organisation on an own-account basis (carrying its own goods).

Specialised vessels, if fully utilised, can carry cargoes at lower costs than general cargo vessels. However they require high capital investment for specialised ships and port equipment. Because of the limited availability of capital and the high risks, it is not certain that specialised cement carriers would be introduced soon. Much would depend on whether a major cement company wanted to use such a vessel - it could provide both the capital and the traffic guarantees to make such an investment feasible. The same considerations apply to oil except that specialised oil tankers are already in common use - mainly on an own-account basis by the oil distribution companies. Tankers are also operated by general carriers under sub-contract to the transport units of oil distribution organisations.

Since operators of specialised vessels would either be working as a transport unit of an industrial company, or as a general carrier on the expectation of a long term contract with such a customer, marketing considerations are not as crucial as for other types of ship operations. Nevertheless management has to develop expertise in the following areas.

(a) Acquiring Vessels and related Equipment

The specialised nature of the vessel and cargo handling equipment means that particular care has to be exercised in acquiring this. Co-operation may also be required from port operators to provide the facilities required. Management requires expertise in purchasing the equipment and experience in implementing such operations to ensure that the optimum equipment is acquired. In many cases it may be preferable to charter specialised vessels, especially in the initial stages of developing a new service. In this case experience in chartering such vessels from overseas is required.

(b) Operations

Management needs specialist knowledge in the cargo handling techniques involved with specialised vessels. Special training is required for seafarers (see the Supplementary Report on Maritime Safety and Human Resource Development) and for port staff.

(c) Environmental Protection

The risk of oil spills and air pollution during loading and unloading of cement requires that special measures are taken to prevent pollution. In addition insurance against environmental pollution is necessary to ensure that adequate compensation can be made for those affected by accidents.

These particular management requirements make it difficult for existing Vietnamese ship operators to develop specialised ship operations without assistance such as training programmes and foreign partnerships. The latter is especially useful in imparting essential practical experience.

Unfortunately the restrictions on foreign participation in coastal shipping make it very difficult for Vietnamese operators to develop specialised vessel operation. This reduces the likelihood of general carrier operators developing specialised vessels still further, and reinforces the conclusion that the most likely ways that such vessels will be introduced is through chartering or, perhaps, direct ownership by industrial organisations for own-account purposes.

3.3.6 Fostering of Small- and Medium-Scale Operators

Many of the above proposals made for improving management do not apply to small scale operators who do not have complicated organisation structures and specialised functions. However such operators play an important role in coastal shipping and this section looks at the particular obstacles that prevent small- and medium-scale operators playing their role.

Small-scale operators experience difficulties obtaining finance because they have little collateral and are perceived as being a high credit risk. Some of these operators, particularly in the local government sector, do not have the necessary business experience and rely on other operators to manage operations. Others, including most private operators, have plenty of business acumen but have limited knowledge in specific areas of shipping such as use of modern vessels and ways to finance vessel acquisitions. Many private operators encounter regulatory constraints, especially regarding access to international services, which limit flexibility and vessel utilisation.

Because of the wide variability between operators it is not possible to generalise about detailed ways to support them. Even if training needs could be identified it is doubtful if the management could attend training courses because they are likely to be extremely busy managing their day-to-day business. However they all need to have

- the opportunity to develop their businesses freely without unnecessary regulatory obstacles,
- access to credit on the same basis as their competitors,
- access to business information, including modern shipping practices, changes in government policy and regulations (both international and domestic), and
- a means for having their views represented at government level so that these can be taken account of in policy making.

Taking account of these needs, support can be given in the following areas.

(a) Simplification of Regulations

Many operators are confused about the rules of business because these have not been clearly defined in regulations, or because they have changed from time to time. Potential new entrants to the business, in particular, need clear information. Government can assist by making clear the rules for operators to engage in international shipping. Such rules should be expressed in understandable, everyday language rather than the language used by lawyers and be readily available for reference in VINAMARINE offices.

(b) Avoiding Discriminatory Finance or Assistance in favour of State Operators

Assisting state operators undermines the competitiveness of private operators who constitute most of the future small-scale operators. As mentioned earlier, this requires careful targeting of assistance for developing the international fleet of VINALINES. If concessionary finance is to be given to operators, perhaps through ODA financed schemes, it should ideally be made available to all operators on the same basis.

(c) Shipping Information

Other information could be made available to shipping operators through VINAMARINE offices. If a library were to be established which specialised in maritime transport, with foreign trade magazines and other sources containing information about shipping developments in Vietnam and abroad, consideration should be given to allowing access to registered operators. Particular items of information of potential interest to operators include

- descriptions of modern shipping practice,
- availability of different vessel types in the world market (for new and second-hand vessels),
- world-wide ship charter rates,
- sample documents from other countries of potential application in Vietnam (such as sample contracts for carriage of particular cargoes), and
- names and addresses of organisations that could be potential sources of information or finance, or business partners (especially operator associations in other countries).

(d) Promotion of Voluntary Shipping Associations

The government can encourage shipping operators to form associations by creating a forum for the interchange of views between government and industry. This is important for government in order to base policy on the actual problems experienced by the operators. The formation of voluntary associations of operators would improve the flow of information to government and provide an effective means of dissemination of information back to the industry. By offering information and advice, such associations could also assist operators in securing credit on a self-help basis with minimum help from government.

3.3.7 Development of Ancillary Service Industries

Coastal shipping forms only part of the overall transport system of Vietnam, offering an efficient and low cost form of transport for long hauls. However to play its full role requires complementary development of secondary forms of transport which act as feeder and distributor modes to and from coastal shipping ports. These secondary modes are examined in the report on Ports and Waterways.

In addition, development of ancillary services in freight forwarding and ports has a direct impact on the way that coastal shipping links to the other modes. Important aspects relevant to the maritime transport industry are outlined below.

(a) Freight Forwarding

As new modern industries are being established in Vietnam there is a need for a modern distribution system relying on logistics techniques that provide manufacturing inputs as and when they are required, and also deliver finished products promptly and cheaply. Transport therefore becomes intrinsically part of industrial production. Coastal shipping can become part of this distribution system for long haul movements of domestic containerised and other general cargo only if freight forwarding activities become much more developed. In other countries this takes place either through development of specialist freight forwarders or through development of freight forwarding activities within manufacturing and service industries.

Existing freight forwarders, who concentrate on international traffic, have virtually no experience of modern distribution systems. However foreign manufacturing companies establishing factories in Vietnam will bring such expertise to the country at an early stage in order to ensure efficient production and marketing of their products. Many of these companies, for example car and motorcycle manufacturers, plan to start production using imported components, but have made obligations to government to increase greatly the local content of their products within five years. Such companies will seek to develop local component and parts suppliers, linked through their own logistics systems.

In order for specialist freight forwarders to play their full role in domestic distribution systems, these organisations must acquire rapidly the expertise to provide efficient multimodal transport services using road, rail, air and coastal shipping services. The most

effective way of acquiring this expertise is through foreign partnerships. However the government does not encourage this in freight forwarding: as in the case of other transport fields the extent of foreign participation is strictly limited and operators with a significant foreign partnership are prevented from setting up domestic transport businesses. There is a danger that this will

- limit the development of the Vietnamese freight forwarding industry,
- encourage manufacturers to develop in-house freight forwarding activities rather than using specialist freight forwarders, and
- even limit the scope of foreign investment in manufacturing products intended for the domestic market.

To reduce these dangers the government can support the industry in the following ways.

(1) Encouraging Foreign Participation in Freight Forwarding

Because freight forwarding is an intrinsic part of manufacturing, it would be logical for government to treat it in the same way when considering proposals for foreign investments. This would allow majority foreign-owned freight forwarders to establish businesses in the country. This could be achieved without changing overall government policy towards encouraging Vietnamese transport operators by making exceptions to the normal rules which could apply for a specified period (say five years) following new business start-ups. Such a period would allow Vietnamese partners to acquire the necessary expertise and to develop their own independent businesses.

(2) Increasing Transparency of Regulations

Planning multimodal transport involves knowledge of a multitude of rules and regulations applying to each mode. Even the rules for granting licences to freight forwarders by the Ministry of Trade are not clear. Poorly defined rules make it particularly difficult to offer multimodal services. Although the government has made substantial progress in developing transport law in recent years, more remains to be done to specify precise rules which can be applied with minimum discretion by enforcement agencies.

(3) Dissemination of Information

The government can identify ways to support the development of Vietnamese freight forwarders by establishing a forum for the exchange of views between government and operators or their representatives (such as the Vietnam Freight Forwarders Association). Even though freight forwarders are licensed by the Ministry of Trade, this forum could be instituted by the MOT as part of a broader approach to create improved contacts with the transport industry. One possible way of supporting freight forwarders, especially new potential entrants into the business, is to encourage ODA support in training and supply of information needed by freight forwarders about modern transport and distribution methods, which could be obtained from foreign sources.

(b) Port Services

Existing port services often fail to meet the requirements of shipping operators and their customers because of poor port management, restrictive range of services, poor infrastructure and equipment and perceived excessive charges. These problems are analysed in detail in the Supplementary Report on Ports and Waterways.

From the shipping operator's point of view, however, many of these problems stem from the lack of a service orientation by port operators who face little or no competition from other operators. Giving ship operators increased choice of port services is one key objective for port development.

In accordance with this objective, improvements can be made in the following areas.

(1) Subcontracting Port Services

In the first place a range of port services such as stevedores and warehousing can be supplied not by the port operator directly, but by several competing service organisations. Each organisation should be free to recruit staff of its choice.

(2) Managing by Contract

In order to increase management incentives, consideration should be given to appointing port management under contracts that give greater rewards for achievement of defined performance targets such as profitability, ship waiting and service times and equipment utilisation rates. Initially contracts can be made with existing management under their existing employment status. Later the management can be appointed as external private companies who, in principle, could face competition in the awarding of contracts (the contract being awarded to the management able to offer the best cost/level of service combination).

(3) Clarifying Responsibilities for Port Administration

One of the first steps towards introducing performance contracts is to review the present pattern of responsibilities for port administration. Present responsibilities for managing general sea ports are divided between VINALINES (for Saigon and Haiphong Ports), VINAMARINE (for five other main ports) and local authorities. Although the present arrangement does not appear to have arisen from any overall plan it encourages a certain amount of competition in port provision (for example in the HCMC area where VINALINES and the local authority administer ports). It is therefore assumed that the tradition of development and administration of local authority ports remains unchanged and that centrally administered ports remain under central control.

However continued direct administration of port management by VINAMARINE is not desirable because this organisation must be free from commercial interests if it is to fulfil its important independent regulatory role for all ports. Equally the commercial freedom of port

management must not be constrained by links to the regulatory organisation. Options for reassigning responsibilities include

- assigning the five VINAMARINE ports to VINALINES,
- assigning these five ports to a new commercial corporation (financially autonomous but responsible ultimately to MOT) for management of the ports, and
- assigning the five VINAMARINE ports and the two VINALINES ports to the new ports corporation.

The first two options leave the two main ports under VINALINES control which seems undesirable given that this organisation is principally a shipping operator. Its influence over the ports could lead to discriminatory practices against other operators. Therefore the preferred option would be the establishment of a new port corporation.

(4) Leasing of Port Facilities

Where alternative port operators are interested in offering services, consideration should be given to leasing the port facilities that they require. The scope for leasing is greatest at the main ports where container terminals could be operated by other operators.

(5) Setting Port Charges

To the ship operator it is not clear how the present system of setting port charges reflects the costs of providing the infrastructure and other services. Some operators feel that they are charged for services that they do not use or need. It is possible that this arises because the charges approved by government understate certain actual costs and so port operators are forced to compensate with additional charges where they feel able.

To relate charges more closely to costs incurred it seems that most charges should be set separately for each port, based on recorded costs and required revenue, subdivided into several profit centres for the various activities performed by the port. This implies that each port operator should present their proposed charging structure along with their expenditure and revenue plans, separately for each profit centre, for annual approval by government. These plans would provide a basis for the performance contracts proposed above.

It might be appropriate for central government to continue to give approval for charges set by the main ports used by international shipping. However for local ports used only by coastal shipping, approval might be more appropriately given by local authorities, in accordance with guidelines given by central government. These guidelines would ensure that revenue required for specific services provided by central government organisations, such as VMS, are collected and remitted to the appropriate account. A study is proposed in Section 3.4.2 to establish the framework of the charges paid by coastal shipping.

3.3.8 Management and Administrative Staff Training

Human resource development is a vital component of development of coastal shipping which is dealt with in detail for seafarers in the report on Maritime Safety and Maritime Human

Resource Development. This section describes the specific training needs for management and administrative staff in the maritime transport industry.

The above analysis reveals that two types of training are required:

- general training for management in various aspects of business methods,
- specific training for a range of personnel involved in marketing, computer services, technical and financing activities.

Only formal training aspects are included in this list. The list does not include training needs for introducing specific new types of services (which are described in Chapter 4). As pointed out earlier, in addition there is a need for improved sources of information within the industry, especially about foreign management practice in general, and about foreign shipping practice in particular.

(a) General Management Training

The areas in which general management training is required include

- financial planning, especially how to assess potential management strategies in coastal shipping and how to secure advantageous finance,
- operational planning, especially how to assess the effect of alternative ship operating strategies on costs and revenues,
- staffing, especially how to assess staffing needs and to motivate staff,
- legal matters, covering future legal obligations arising from international agreements,
- risk management, covering identification of development strategies that avoid certain risks and ways to insure against unavoidable risks, and
- English language training.

Although formal lecture courses and guided reading have an important role to play in meeting these training needs, practical on-the-job training is vital in most of these areas. Many larger shipping operators would be able to set up formal training programmes which used invited specialists from external (often foreign) organisations. However the required practical training experience would be more difficult to acquire without the co-operation of a foreign shipping company - through allowing on-the-job training for particular staff within a foreign organisation.

(b) Specific Training

To strengthen the sales department as proposed in this chapter, marketing staff require training in

- practical forecasting techniques (applicable under the uncertain conditions of Vietnam) based on commodity or passenger flow analysis and information from particular customers,
- pricing, especially the principles of pricing in a market economy based on competitive conditions and marginal cost analysis, and
- assessing the factors that affect profitability of different vessel types.

Computing staff require a range of knowledge covering

- basic hardware and software knowledge (obtainable from computer or software companies),
- computer skills required to use computer applications effectively,
- programming and maintenance of computer systems to develop and maintain specialist applications required by the company, and
- data control to ensure the integrity and security of the data used by the company.

Larger companies would need to be able to link computer across the country for speedy data exchange and processing.

Technical staff would need highly specific knowledge about modern ship specifications and maintenance systems. These aspects are examined in the Supplementary Report on Fleet Control.

Finance staff need training in

- basic accounting methods recognised in other countries,
- financial aspects of law,
- new forms of taxation such as VAT being introduced in Vietnam, and
- financial management techniques.

The training needs of management and administrative staff in Vietnamese coastal shipping organisations are vast. In practice priorities have to be established to ensure that emphasis is given to those areas where training resources can be most effectively used. Because of the general weakness of marketing in Vietnamese organisations it is appropriate to give high priority to marketing training. However practical management training in business methods appropriate in the market economy are equally vital.

Unfortunately it is difficult to see how even the priority training needs can be achieved without a great deal of co-operation from foreign shipping organisations. Although such co-operation could be forthcoming from foreign shipping organisations engaged in partnership arrangements, this option would not be available to most operators in coastal shipping.

For this reason there is a strong case for government to seek assistance from ODA sources for training in coastal shipping. The emphasis should be on marketing and management methods in a marketing economy, and on the introduction of new forms of operation (as discussed further in the following chapter). Emphasis should also be given to training the trainer, so that knowledge obtained from foreign training programmes gets filtered down as broadly as possible. Supported training opportunities should be available to all operators on the same basis.

3.4 Regulatory Environment

3.4.1 Objectives

As described at the beginning of this chapter, government action is required in four areas in order to encourage shipping operators to develop existing and new shipping services in accordance with demand by minimising obstacles and ensuring that the market mechanism works effectively. The first of these is concerned with provision of infrastructure where the private sector is less able to provide this themselves. The other three are concerned with regulation:

- ensuring that prices reflect social costs in the maritime transport industry,
- establishing a "level playing field" in the industry that is free and fair, and
- put in place safety and environmental controls where justifiable.

These aspects are discussed below, and proposals are made to develop the regulatory environment.

3.4.2 Pricing Options

The Vietnamese government, as in all market economies, intervenes in pricing in three main ways:

- through indirect taxes on fuel and other inputs to transport,
- setting general taxes on profits and incomes inside and outside the transport industry, and
- levying specific charges for transport users, for example for infrastructure such as ports, or for the transport service itself.

The general aim of such intervention is to ensure that transport users pay the full social costs of transport - not only those incurred by users themselves but also those incurred by non-users. In coastal shipping, environmental pollution is a major potential external cost which should, if possible, be internalised through taxation (by making users pay for the necessary environmental protection and compensation measures). Infrastructure costs attributable to coastal shipping should also be internalised through user charges.

The Vietnamese taxation system is still being developed and major changes are planned which would affect the impact of taxation on the maritime transport industry. These include

- introduction of a unified income and profits tax scheme with a broad base to replace the present complicated system which targets narrow groups, and
- introduction of a value added tax to replace the turnover tax,

The present tax and charging system gives advantages to coastal shipping in various ways because

- general tax rates are often lower, both for profits or income taxes, compared to other inland transport industries such as road, and
- infrastructure charges for ports are often set by government at much lower levels for domestic rather than international shipping services, and charges for Vietnamese

carriers are often less than that for foreign carriers, which implies that port charges for coastal shipping may not cover their full costs but are cross-subsidised by international shipping.

On the other hand the road transport industry is given an advantage through the low fuel tax on diesel (which under latest changes is 20% of CIF import price). This tax is also paid by coastal shipping operators on the same basis. According to an estimate in the World Bank report "Vietnam Transport Sector", 8 August 1994, fuel tax should be about 90% of CIF price in order to cover road provision costs for trucks (the main users of diesel fuel in Vietnam). Railways are also given a considerable advantage through operating subsidies.

The overall effect of these subsidies on relative competitiveness of coastal shipping and other modes is difficult to assess. The presence of such subsidies could indicate that users of most forms of transport in Vietnam do not pay fully for the external costs that they incur. This is not an unusual situation in developing countries where there is a perceived need to minimise transport costs in order to promote development. However it is likely that such subsidies will be reduced as the taxation system is developed because (a) increased competition in port services will make it very difficult to maintain cross-subsidies between different users, and (b) failure to set high enough user charges would constrain development of infrastructure and increase transport costs.

Perhaps the main danger to coastal shipping customers and operators is that sudden changes in taxation and infrastructure charges would make it difficult for operators to adapt quickly. Clear policy statements by government would minimise this risk. However it is not clear to what extent provision of coastal shipping infrastructure, including ports, navigation channels and seaways, is paid for through existing port charges (the current channel fees only appear to cover minimum maintenance needs). This issue needs resolving in order to base coastal shipping policy firmly on the "user pays" principle set out in general government policy statements.

It is therefore recommended that a study is carried out to determine the appropriate form and level of port, waterway and safety-related charges paid by coastal shipping operators, both to reflect differences in costs incurred by different users and to provide a means of financing infrastructure. The study should take account of the potential extent of competition in port services and the need, if any, for regulatory control of port tariffs. In practice, the scope of the study would have to embrace international shipping and inland waterways because of the overlap between these and coastal shipping.

One important aspect of such a study would be to determine the consequences of possible changes in general taxation. If the diesel fuel tax is raised to recover the costs of truck use in Vietnam this could have a particularly serious effect on coastal shipping unless compensating measures are introduced. Possibilities include

- to refund fuel tax paid by shipping companies against proof of purchase and use (such as bills of lading and operating records),
- annual refunds based on average expected utilisation.

With any system there are practical difficulties in preventing fraud so it may not be possible to recompense operators fully in this way. Annual refunds based on average utilisation would be particularly prone to fraud. Refunds based on strictly verifiable consumption would encourage operators to keep proper business records and audited accounts (helping tax collection generally) and appears to be the preferred option.

As argued earlier there is no economic case for regulation of shipping tariffs and fares provided that, as now, there is free entry into the business. There is now plenty of competition in coastal shipping and the only restriction on freight tariffs (on movement for government of rice and other strategic foodstuffs) is ineffective anyway, so this should be abolished as soon as possible. Present passenger tariffs are largely set by government and may not take account fully of total operating costs, including asset replacement, cost of capital and profit. To minimise this risk, operators should be free to set their own fares.

If government wishes to limit fares in certain cases, for example on routes to and from remote islands, then it should consider ways to obtain such services as cheaply as possible. One widely favoured approach is to award contracts through competitive tendering - by inviting several operators to estimate their costs for performing the service and choosing the one able to provide the required level of service at least cost. The period and terms of the contract are important factors in successful financing of maritime transport services - if new investment in ships is required then the contract should be several years to allow operators to recoup their capital outlays. On the other hand strict monitoring should be carried out to ensure performance of planned services. To ensure value for money, such transport service subsidies should be funded and controlled at the lowest possible administrative level.

3.4.3 Terms of Competition

The government's policy towards regulation of coastal shipping, as defined in the Maritime Law and implementing decrees and decisions, encourages competition by allowing most Vietnamese operators to enter into the business provided they satisfy minimum business requirements (defined in registration conditions concerning capital and qualifications of management and staff) and use ships which satisfy minimum safety and environmental standards (defined in ship inspection and registration rules). Operators are almost entirely free to negotiate terms and conditions with customers: the main exception is control of the price of government agricultural shipments which was introduced in the early days of reform when competitive markets had not become established. This has little effect in practice and should be scrapped because the market mechanism now keeps prices well below the ceiling level and, in future, such controls could inhibit profitability and investment in coastal shipping.

However current legislation does not fully achieve the "level playing field" objective because of unclear rules and regulations in many areas, which sometimes leads to discrimination between operators. In some cases discrimination originates from regulation itself. One example of this, described earlier, is the preferential credit terms available to state-owned shipping enterprises. Those undergoing equitisation can reduce their tax liabilities

considerably, thereby enhancing their competitive position still further compared to other operators.

In addition to being discriminatory, regulations may impose restrictions on foreign participation - this does not encourage the much needed foreign investment and modernisation of coastal shipping management. Restrictive regulations may distort the industry by encouraging (foreign) own-account shipping in certain cases.

The underlying cause for this situation is that the necessary rules and regulations required to implement the Maritime Law have not been fully defined or are unduly restrictive. The areas in which further implementation could take place include

(1) Conditions for participation of Vietnamese ship operators in international shipping, which need to be made more transparent. Currently government-owned operators are free to carry international traffic whereas few private operators are permitted to do so.

(2) Conditions for shipping operators, with part foreign ownership, to establish shipping businesses in Vietnam. It is not clear to what extent this is encouraged by the government. (This problem was referred to earlier in connection with attracting foreign investment).

(3) Conditions for Vietnamese operators, with part foreign ownership, to carry cargo on domestic coastal shipping services. Vietnamese operators with a significant foreign ownership are excluded at present from this market except under very limited conditions. (Again this was mentioned in connection with attracting foreign investment).

(4) Conditions for Vietnamese operators to use foreign registered ships in domestic coastal shipping. At present they must be registered under a bareboat charter or hire-purchase agreement whereas there may be circumstances, for example when operators want to introduce innovative services, when time charter arrangements which use foreign crews, at least in part, are appropriate. Time charters may be the only way for new Vietnamese operators to enter the business and so the government can stimulate their development by minimising entry barriers. Consideration should be given to allowing foreign registered ships to operate under some kind of dual flag arrangement.

(5) Maximum age of ship imports which is currently 15 years. For engines and other equipment the maximum age limit is 10 years. There is no economic basis for these regulations. Vietnamese ship operators would not buy ships that could not be operated competitively in the market so if they consider that the best way to compete is through using a particular vessel aged over 15 years they should reasonably be allowed to do so provided that they meet the same safety standards of existing operators (many of whom use vessels considerably older than 15 years). Again, such regulations constitute entry barriers to new Vietnamese operators who may only be able to afford to purchase old vessels.

Consideration could even be given to allowing greater freedom to foreign ship operators to compete in Vietnam's domestic shipping market. However although this would provide

benefits to Vietnamese users of shipping services it would handicap Vietnamese ship operators unless they too are allowed to compete in the domestic markets of other countries. Because of the risks to the Vietnamese shipping industry, which is not in a strong competitive position after years of adverse policies, it is not recommended that free access is given to foreign ships in the domestic market. However because of the potential advantages to Vietnamese shipping operators of developing businesses in other neighbouring countries it is recommended that the government considers seriously any future proposals to make bilateral or multilateral agreements with south east Asian countries which would allow reciprocal access to domestic shipping markets.

3.4.4 Safety and Environmental Controls

The tendency, mentioned above, for governments in developing countries to allow transport users to avoid paying the full social costs of transport because high priority is given to minimising transport costs has an important implication for developing safety and environmental controls. For the same reason, governments are likely to be wary of introducing controls which greatly increase the cost of transport.

It is clear that, in practice, current safety and environmental standards of coastal shipping in Vietnam are lower than that in developed countries. This is to be expected because the much lower incomes of Vietnamese result in lower valuation of many accident costs (especially those associated with the value of human life and subjective aspects such as environmental appearance).

It follows that approaches to increasing safety and environmental standards must be sensitive to the economic priorities of the Vietnamese, and take account of the degree to which people are willing to pay for higher standards.

In practical terms, preventing use of unsafe vessels is easier if there are alternative vessels which can substitute for them. This means that the measures proposed earlier to increase investment and competition are vital to allow safety standards to be raised.

The measures necessary to develop safety and environmental standards are considered in more detail in the Supplementary Report on Maritime Safety. These take account not only of the economic priorities of Vietnam but also the international obligations of the country to meet world-wide standards in shipping. Clearly many of these affect the standards that must apply in domestic coastal shipping in addition to international shipping. However where different standards can apply, for example for the use of ships which are purely used for domestic traffic and do not enter international sea lanes, consideration should be given to finding the right standards appropriate to Vietnamese conditions.

The weakness of VINAMARINE and other agencies is a major problem which prevents the desired safety and environmental standards being set and enforced. Institutional strengthening of these agencies deserves high priority (as discussed in more detail in the Supplementary Report on Maritime Safety). Specific measures which could be taken, based on the problems discussed in the present report, include

(1) Divest VINAMARINE's remaining commercial operating units in ports and finance to independent agencies so that VINAMARINE can concentrate on its core safety functions.

(2) Review the organisational structure and division of responsibilities, and define more clearly the duties and administrative procedures which are required for VINAMARINE to play its role efficiently.

(3) Review the classification of sea and river ports and waterways, and the division of responsibilities between IWB and VINAMARINE to ensure effective administration of rivers used by sea-going vessels.

(4) Where necessary, introduce further legislation to define the respective responsibilities of VINAMARINE, IWB, VMS and other related agencies for regulation of coastal shipping.

(5) Allocate the resources necessary to enable VINAMARINE and other related agency staff to perform their duties. If current restrictions on pay and conditions for government staff prevent adequate improvements being offered then consideration should be given to

- divesting more of VINAMARINE's regulatory activities to agencies which are free from such constraints, and
- financing ship inspections and other vital regulatory activities from user fees (this can be considered as part of the proposed study into user fees).

(6) The government should invite ODA assistance in training staff in new procedures for ship inspection and other vital activities which support the maritime transport industry. Institutional strengthening Technical Assistance projects would also be worthwhile.

Chapter 4 SHORT TERM PRIORITY PROJECTS

4.1 Introduction

This chapter describes plans for important measures which can be taken in the short term to implement improvements to the maritime transport industry proposed in the master plan.

Each section analyses a priority project, or planned set of measures, and describes a plan which could be followed to implement the improvements. Where possible the financial viability of the plan is indicated.

Recommended actions to implement the project are then given. These actions include training programmes and policy measures required by government.

4.2 Expansion of the Fleet

4.2.1 Project Definition

Demand for coastal shipping services is expected to rise sharply by 2000. The existing fleet is old and obsolete and cannot meet existing demand efficiently, let alone meet increased demand. However there are extremely limited sources of finance, and management lacks information about ways to acquire vessels. The business climate in Vietnam is rather unpredictable and not conducive to investment. Vague Government policy in coastal shipping exacerbates this uncertainty. Certain regulations are either unclear or discourage investment in coastal shipping, particularly regarding foreign investment and encouragement of new entrants into the business.

A combination of a number of policy measures and possible financial assistance must be considered to assist the maritime transport industry in expanding capacity to meet the anticipated demand.

The main financial requirement of maritime transport operators is funds for purchasing new or second-hand vessels. In particular funds are required for

- primary cargo routes, which serve the main ports along the north-south axis and are suitable for vessels between about 3,000 and 5,000 dwt, and
- secondary cargo routes, which serve shorter distance or low traffic density movements using vessels less than 1,000 dwt.

Because of the shortage of modern, efficient vessels able to transport goods on the primary cargo routes, it is proposed that priority should be given in the short term to acquiring vessels of between 3,000 and 5,000 dwt, which can be used on the main north-south corridor.

4.2.2 Vessel Requirements for Primary and Secondary Services

The possible number of ships expected to be acquired, and their costs, are estimated in Table 3.2.8 for the period up to 2000 and from 2001 to 2010 (allowing for chartering of some vessels). The potential acquisitions for each year from 1997 to 2000 are estimated in Table 4.2.1, assuming that acquisitions in 1996 enable the 1995 fleet size and age profile to be maintained. That means that the average annual financial requirement, over the four year period from 1997 to 2000 inclusive, to expand the fleet capacity to the anticipated 2000 level is 25% of the amount estimated in Table 3.2.8 for the period from 1995 up to 2000.

On the main north-south corridor, 21 vessels of 3,000 dwt or 15 vessels of 5,000 dwt are estimated to be required (excluding cement carriers). This represents most of the large vessels included in Table 4.2.1. In addition about 11 vessels of 3,000 dwt are estimated to be needed on other main routes connecting Cua Lo, Danang, Qui Nhon and Nha Trang with the main corridor.

The actual number of acquired vessels depends on a number of factors such as

- the extent to which vessels are chartered rather than purchased (as indicated in Table 4.2.1),
- the age at which vessels used on coastal shipping routes are retired (it is assumed in Table 4.2.1 that all vessels are retired at 20 years of age), and
- the extent to which vessels are transferred from international to coastal shipping routes.

The following section examines the financial implications of the fleet acquisition plan and considers alternative means of financing the plan.

4.2.3 Financial Requirements

a) Potential Requirements

Estimated finance of US$ 226 million could be required for ship acquisition up to 2000 assuming implementation of the Dung Quat project, retirement of vessels at 20 years of age, and replacement with new or second-hand purchases without any reassignments from international routes. The annual amount increases from about US$ 37 to 95 million between 1997 and 2000.

Without the Dung Quat project, only US$ 204 million is required, increasing from US$ 37 to 67 million annually.

Table 4.2.1

EXPECTED FINANCE REQUIRED UP TO 2000 FOR SHIP ACQUISITIONS

Ship Type	Number of Ships Acquired		Price per ship	Required Capital (US$ mil)					
			($ mil)	1997	1998	1999	2000	Total	
General Cargo/Bulk									
- 300 dwt	41	(41)	0.6	6.0	6.0	6.0	6.6	24.6	(24.6)
- 1,000 dwt	0	(0)	2.3	0.0	0.0	0.0	0.0	0.0	(0.0)
- 3,000 dwt	19	(15)	4.0	16.0	16.0	20.0	24.0	76.0	(60.0)
- 5,000 dwt	10	(5)	2.8	5.6	5.6	8.4	8.4	28.0	(14.0)
- 10,000 dwt	2	(0)	4.8	0.0	0.0	4.8	4.8	9.6	(0.0)
Cement Carrier									
- 5,000 dwt	4	(2)	3.4	0.0	3.4	3.4	6.8	13.6	(6.8)
- 7,000 dwt	0	(0)	4.0	0.0	0.0	0.0	0.0	0.0	(0.0)
Semi-Container Ship									
- 2,000 dwt	2	(2)	7.0	7.0	7.0	0.0	0.0	14.0	(14.0)
Ro-Ro Ship									
- 5,000 dwt	0	(0)	4.8	0.0	0.0	0.0	0.0	0.0	(0.0)
Oil Tanker (a) with Dung Quat									
- 2,300 dwt	2	(2)	6.4	0.0	0.0	6.4	6.4	12.8	(12.8)
- 20,000 dwt	3	(2)	7.3	0.0	0.0	0.0	21.9	21.9	(14.6)
- 80,000 dwt	1	(0)	11.2	0.0	0.0	0.0	11.2	11.2	(0.0)
Oil Tanker (b) without									
- 1,000 dwt	2	(1)	4.0	0.0	4.0	0.0	4.0	8.0	(4.0)
- 3,000 dwt	2	(1)	8.0	0.0	8.0	0.0	8.0	16.0	(8.0)
Passenger Ship									
- 490 grt 140 seat	2	(2)	0.6	0.0	0.0	0.6	0.6	1.2	(1.2)
- 95 grt 200 seat	1	(1)	3.0	0.0	0.0	3.0	0.0	3.0	(3.0)
- 60 grt 90 seat	5	(5)	2.0	2.0	2.0	2.0	4.0	10.0	(10.0)
TOTAL									
(a) With Dung Quat	92	(77)		36.6	40.0	54.6	94.7	225.9	(161.0)
(b) Without	90	(75)		36.6	52.0	48.2	67.2	204.0	(145.6)

NOTE: (1) The costs in brackets assume that some vessels are chartered rather than purchased.
(2) For Alternative 3 vessel acquisition alternative.

SOURCE: JICA Study Team

b) Actual Requirements

In practice the investment needs of coastal shipping could be much less, as indicated in Table 4.2.2. For example, according to VINALINES plans, about 20 old ships (aged about 20 years or more) of total capacity 100,000 dwt, currently engaged in international shipping are to be reallocated to coastal shipping routes in the short term (requiring only minor modifications to make them suitable for coastal shipping, although operating and maintenance costs would be high because of their obsolete designs and potential unseaworthiness). Such a reallocation could meet most of the short term needs of coastal shipping on the main routes, leaving a requirement only for several small general cargo vessels, about ten 3,000 dwt general cargo vessels, and several cement carriers, semi-container ships, oil tankers, and passenger ships. This would amount in total to US$ 130-152 million, which is only two-thirds of the figure estimated for all coastal shipping.

In addition some of the required vessels could be chartered. Based on VINALINES and other operators' plans this could reduce by between 20 and 50% the number of large ships purchased before 2000 (but have little impact on acquisitions of smaller ships). Based on this assumption, and assuming no reassignment of international vessels, only US$ 161 million would be required for ship acquisition up to 2000 assuming implementation of the Dung Quat project (US$ 146 without).

The combined impact of reassignment of international vessels and chartering is estimated to reduce the investment requirement to US$ 104-119 million, which is only half the figure estimated in Table 4.2.1. However even such reduced investment levels are far higher than historic figures which raises the question of whether even the minimum investment level is feasible with present sources of finance.

For example, in 1994 and 1995 only 11,272 and 5,060 dwt of new vessels were purchased, mainly small ships of about 300 dwt from Vietnamese shipyards (at a cost of about US$ 700 per dwt). The total annual capital expenditure on these vessels would be between about US$ 3.5 and 8.0 million. Allowing for acquisition of larger second-hand foreign vessels, the total capital expenditure could be as high as between US$ 7.0 and 20.0 million. Only part of this investment would have been used for coastal shipping: since about 19% of the total shipping capacity in Vietnam is estimated to be used in coastal shipping, if investment takes place in proportion to asset size, coastal shipping investment could be between only US$ 1.0 and 4.0 million. Most of this capital expenditure would have been either from accumulated profits or from family sources.

Table 4.2.2

SHORT TERM INVESTMENT REQUIREMENTS ALLOWING FOR REASSIGNING OF INTERNATIONAL SHIPS AND CHARTERING

Type of Ship	Reassignment of 20 International General Cargo Ships	Chartering 20-50% of larger ships	Reassignment of 20 International Ships and Chartering
General Cargo			
(a) 300 dwt	24.6	24.6	24.6
(b) 3,000 dwt	40.0	74.0	32.0
Cement Carrier	13.6	6.8	6.8
Semi-container	14.0	14.0	14.0
Oil Tanker			
(a) With Dung Quat	45.9	27.4	27.4
(b) Without	24.0	12.0	12.0
Passenger	14.2	14.2	14.2
TOTAL			
(a) With Dung Quat	152.3	161.0	119.0
(b) Without	130.4	145.6	103.6

SOURCE: JICA Study Team

c) Possible Sources of Finance

For most coastal shipping operators, domestic finance is potentially available from

- bank credit,
- reinvestment of accumulated capital, and
- in future, the Vietnamese stock market.

In addition, foreign credit is available from

- direct foreign investment from particular foreign organisations or individuals,
- ODA investments, and
- leasing arrangements (either financial leasing or operational leasing).

Reinvestment of accumulated capital is probably the main source of domestic finance at the present time because banks rarely give loans to the shipping sector and the stock market is not yet established. Although the supply of bank credit could be improved, through continued good macro-economic management by government, making the rules for giving credit more transparent, and making hire-purchase facilities more widely available, this will always be an expensive way to borrow money (except for state operators given credit on concessionary terms) and many new operators will be unable to qualify for loans because they do not have an established track record of business operations. The stock market offers a cheaper alternative supply of capital for larger operators but it will take several years to be established. Therefore, although accumulated capital (especially from other businesses because the coastal shipping business is becoming increasingly competitive and the opportunities for accumulating profits are becoming more and more limited within the business) and bank credit could remain the principal domestic sources of finance, they will never be sufficient for all coastal shipping needs.

Direct foreign investment by banks, companies and even individuals could be the most significant source of finance for coastal shipping in the short term. However there are major policy and regulatory obstacles to tapping this source of funds. For example,

- the forms of foreign ownership are rather restrictive at present,
- government policy does not encourage foreign investment in coastal shipping, and
- there are over-restrictive regulations on involvement in coastal shipping of companies which have a foreign partner or use foreign-registered ships.

The use of ODA funds for acquiring vessels is limited by the developmental conditions usually attached to such finance. In addition it takes time to establish such lines of credit which have to be channelled through local banks which are not yet well equipped to handle such on-lending responsibilities. There is even a risk that inefficient on-lending makes this credit unattractive to borrowers.

Financial leasing (or hire-purchase) of ships is potentially an important means for financing ship acquisition because it allows ship operators to use the acquired vessel as

collateral. Operational leasing, in which the leasing company purchases the vessel and then rents it to the operator for limited periods of time, can also play an important role for operators with little capital or property to act as insurance against loss or damage to the ship. However there are no leasing companies in Vietnam at present who could offer such services to coastal shipping in the short term, although it is understood that some foreign companies are considering leasing foreign vessels which are surplus to requirements on international routes. Even here the scope for use of leased ships is deterred by over-restrictive conditions on use of foreign registered ships.

Although direct foreign investment and leasing could offer a vital source of finance for ship acquisitions, policy actions are required in the short term to establish favourable economic conditions for investment (from both domestic and foreign sources), and to minimise the cost of acquisitions. These are described below.

4.2.4 Recommendations

a) Fleet Development Measures

Like other Vietnam business sectors, several basic policy measures such as providing a favourable business environment with stable prices, low interest rates and transparent regulations and tax system are required in the coastal shipping business if it is to supply the quantity and quality of services anticipated in the short term by the forecasts of the master plan, especially on the main north-south corridor. An efficient banking system is also required to supply domestic credit.

To meet the short term financial requirements of the coastal shipping industry requires a coordinated set of measures in the short term which

- minimises investment needs, and
- encourages the supply of funds from potentially important sources.

In accordance with these objectives the following approach is suggested.

1) The 20 existing medium sized vessels used mainly on international routes at present by VINALINES be reassigned to coastal shipping over the short term.
2) Direct foreign investment be encouraged, especially in new services.
3) Leasing facilities for foreign ships should be encouraged.

Reassigning the VINALINES ships would substantially reduce the short term investment needed for medium/large ships, used mainly in the main north-south corridor, from about US$ 114 to 40 million. Reassigning these ships in conjunction with improved leasing facilities and use of chartering could reduce the overall short term investment need by about 50%, making it more feasible for improved supply of domestic credit and foreign direct investment to meet the remaining needs.

b) Implementation

The following policy measures, targeted specifically at the vessel acquisition programme, are recommended to implement this approach. They assume that policy and regulatory reform continues, more broadly, as recommended earlier in the Master Plan.

1) The government should clarify its policy of encouraging foreign investment in coastal shipping and consider relaxing the rules concerning involvement in domestic shipping of Vietnamese organisations that have a foreign participation greater than 50%. This could achieve the following aims.
   - To enable Vietnamese ship operators and freight forwarders to enter the business with foreign partners in order to accumulate capital and expertise which could eventually be used to establish wholly Vietnamese-owned companies.
   - To develop new types of services using foreign expertise and capital which Vietnamese operators would otherwise find to be impossible Examples of these include liner services, use of specialised vessels and multimodal transport services.
   - To allow the full development of the Vietnamese general cargo fleet without distortions caused by concessions being given to foreign own-account vessels.

   This could, for example, include start-up concessions (similar to those available for manufacturing investors who are required to increase, gradually, the local content of products) that allowed majority foreign-owned Vietnamese companies to offer domestic transport services for a period after entering the business. Such concessions could also be given to operators that introduced modern vessels suitable for innovative services such as liner services which are particularly important for industrial development.
2) The current restriction on use of foreign registered ships on domestic shipping services should be relaxed (for example through a twin flag arrangement) to encourage leasing of ships by Vietnamese operators.
3) The government should encourage ODA funds from OECF and other sources to be channelled into the sector. Such assistance could be targeted towards reforming state-owned operators so that the industry becomes more competitive, and introducing innovations which help coastal shipping play its full role in domestic transport through new types of service such as liner services.
4) To minimise the cost of ship acquisition and allow Vietnamese operators to obtain the particular vessels which they need, the government should desist from any policy aimed at restricting choice - for example, through restrictions on imports of small vessels in order to support local ship building businesses or limitations on imports of vessels above a certain age.
5) To reduce the monopoly power of VINALINES, increase customer choice, allow more equal competition and reduce government investment needs, consideration should be given to auctioning to any operator paying the highest price, the 20 vessels reassigned to coastal shipping.
6) To minimise the risk of accidents from extending the life of these and other large vessels, more strict ship inspections should be introduced.

7) To encourage investment, the equitisation policy for state-owned shipping companies should be finalised to remove further uncertainty about the role of these enterprises and the possible extent of government intervention in coastal shipping.
8) To increase the attractiveness of equitised shipping enterprises to foreign investors and safeguard the interests of the state, improved accounting systems that meet international standards should be introduced into the larger state-owned enterprises.

In each of these areas government should seek ODA assistance to obtain advice on regulatory reform and restructuring coastal shipping companies to enable them to play effective future roles.

4.3 Introduction of Liner Services

4.3.1 Project Definition

The demand for long distance domestic transport of general cargo is expected to rise strongly in the short term because of the need to distribute the new consumer products which are anticipated to be manufactured in Vietnam. In particular, cars, motorbikes, drinks, electronics goods such as televisions, white goods such as refrigerators, shampoos and other cosmetics are expected to be transported in the near future between the north and south.

To meet this demand, liner services are needed which can provide high quality, advertised, scheduled services between general ports. Such as service would be marketed at a broad range of customers with a common basic tariff (which offered incentives to regular or high volume customers, and for the transport of containers and other unitised cargoes which could be efficiently handled in the ports). In addition to consumer goods, other commodities such as rice and cement could also be carried.

Although the main potential for such a service would be on the main north-south route, even intermediate ports could be served. Operation to and from Hanoi is a possibility if the river channel is adequate for appropriately designed sea-going vessels (the Red River used to be used for this purpose except at certain times of year for some ships). Otherwise Haiphong port would have to serve the northern delta region.

Depending on the particular market served, liner service vessels could be general cargo ships, container or semi-container ships, or even Ro-Ro (in the case of motor vehicles). New management skills are required in marketing liner services, scheduling vessels, container operation (inventory control and maintenance) and other areas. Planning considerations include how to ensure timely service in ports, with adequate equipment and facilities required for handling cargoes efficiently.

Developing local expertise in new types of services requires training and transfer of know-how from foreign managers. The government can assist by encouraging foreign participation in coastal shipping and by being ready to remove regulatory and institutional obstacles identified in the service development and implementation phases.

This section describes the planning and management needs for developing liner services and recommends training and policy measures which would assist Vietnamese liner service operators. The potential costs and revenues of liner services in Vietnam are estimated to confirm the financial viability of the proposed developments.

4.3.2 Planning and Management Considerations

a) Marketing

It is important for liner service operators to identify potential customers and gain their interest in using coastal shipping. Marketing research has to be carried out which allows marketing strategies to be developed, which identify the key competitive advantages of coastal shipping for various types of customers. The trade-off between price and level of service is particularly vital to assess, to offer attractive contracts (with appropriate compensation clauses). Canvassing skills then have to be used to present to customers the advantages of coastal shipping compared to other modes and find out special requirements which have to be served if possible.

This requires the marketing divisions of Vietnamese shipping companies to be considerably strengthened and staffed with strongly motivated people. The staff must be able to assess the effect on profitability of adjustments to price and level of service, and to be able to take responsibility (and gain rewards) for winning profitable business. Procedures have to be developed to maintain good customer service, especially in offering convenient bills of lading, monitoring cargo movements, predicting arrival times, offering consolidated account arrangements for important customers, offering attractive cargo insurance deals where required, and settling claims for delays or damage to cargo.

b) Definition of Route

Two main possibilities exist in the short term: operating between

- Saigon/Dong Nai and Haiphong, and
- Saigon/Dong Nai and Hanoi.

Consideration could also be given to serving main intermediate ports such as Danang.

The feasibility of operating to Hanoi depends on the extent of navigation improvements to the Red River. At the present time there is insufficient information to be able to assess the possibilities, but it seems likely that with some dredging work and provision of navigational aids, it would be possible for vessels of about 2,000 dwt to reach Hanoi from the coast, at least for three months each year when the water level is highest.

c) Vessel Acquisition

A variety of vessel designs and capacities can be considered, depending on level and type of expected traffic and choice of route. Because of uncertainties about future traffic levels and extent of containerisation, a semi-container ship seems the most likely choice for most purposes although specialised Ro-Ro ships could also be considered for motor vehicle traffic. Between Saigon/Dong Nai and Haiphong, vessels of between 3,000 dwt and 5,000 dwt would be appropriate (given the cost assessments in Appendix 6). On routes serving Hanoi, smaller vessels would have to be used. See Section 4.3.3 below for an example financial assessment which suggests that 3,000 dwt vessels are probably preferable on the Haiphong route, but that 2,000 dwt vessels operating at least part of the year to Hanoi could be the most competitive option in the north-south corridor.

Consideration could be given to purchasing (probably second-hand) or chartering vessels. While there are many advantages with chartering in Vietnam, such as minimising capital requirements and investment risks, there may not be suitable vessels available in the charter market. The use of old Vietnamese vessels used on international routes is another possibility, but because these have obsolete designs with high operating costs and poor cargo handling efficiency, and possibly too high capacity, this is unlikely to be an option for liner services. Similar considerations apply to acquiring containers which have to be purchased or leased.

d) Port Services

Liner services require guaranteed access to berths at particular times, special storage areas for containers and possibly special lifting equipment in order to load and unload ships efficiently within the scheduled times. This could be provided on low frequency services (as would be expected in Vietnam in the short term) by the port manager giving berth allocation priority to the liner service (possibly in return for higher port charges to compensate for the additional port capacity utilised).

Operators of frequent services may feel it is justified to develop their own specialised berths to which they have preferential access. Whatever arrangement is made, good coordination is required between ship and port operator to ensure efficient operation of the scheduled service.

e) Scheduling

Expertise is required in calculating schedules which make efficient use of vessels while offering a reasonably small probability of delay given problems caused by difficulties caused by variations in demand, weather, port congestion, breakdowns and other factors.

Account also has to be taken of the potential use of measures to recover from delays, such as steaming at higher speeds, deploying extra cargo-handling staff (perhaps at

nighttime) and missing intermediate stops. In addition the schedules must take account of the liabilities to customers in terms of compensation payments for delays.

f) Assessing Profitability

Expertise is required here in assessing

- the degree to which costs are marginal, varying with service offered, and
- the price-sensitiveness of particular markets.

Conventional accounting systems used in Vietnam do not give this kind of detailed cost information and there is little experience of charging "what the market will bear" rather than charging in accordance with allocated costs.

The overall profitability of liner services is assessed in Section 4.3.3 below for a number of assumptions concerning the possible tariffs for various cargoes and the likely overall shipping costs. Particularly high tariffs are assumed for high value cargoes. It is also assumed that customers of liner service will pay a premium over that charged for competing tramper services carrying other types of cargo such as agricultural goods. In practice such assumptions would have to be confirmed by practical experience.

g) Other Aspects

Other management aspects which would be important in developing liner services include implementing inventory control systems for containers and developing in-town office facilities for the convenience of customers. Some of these may not be crucial to establish new quality services and therefore experienced judgement is required to avoid unnecessary costs.

4.3.3 Financial Evaluation

Two evaluations have been performed:

- a comparison of average annual costs and revenues for operating different sizes of liner vessels on different routes, and
- an annual cash flow analysis from 1997 to 2000 for a 3,000 dwt liner vessel between Saigon/Dong Nai and Haiphong, for two possible, alternative financing cost assumptions (one using local finance, the other using ODA assistance)

The cost and revenue assumptions are described in Appendix 6. Costs include not only voyage costs but also loading/unloading, management/administration, overhead and tax costs. Allowance is made for efficiency improvements that would be made when operating liner services compared to tramper services (such as shorter dwell times in ports and higher performance vessels). Revenue is based on potential charges that could be charged for specific cargoes allowing for charges on competing modes and cargo characteristics.

According to these assumptions, most revenue is derived from carrying containers, which would imply that about 10% of general cargo in the main north-south corridor would be containerised by about 2000 (assuming that about two liner vessels were sharing the traffic by then). The liner services would also carry small proportions of rice and cement, offering selected customers high levels of service at higher prices than competing tramper services.

a) Comparison of Vessel Sizes and Routes

The financial operating costs and revenues of coastal shipping vessels on liner services on the main north - south corridor have been estimated for the following:

a) a 1,000 dwt vessel operating between Saigon and Hanoi,
b) a 2,000 dwt vessel operating between Saigon and Hanoi for three months per year and between Saigon and Haiphong for the remaining nine months,
c) a 3,000 dwt vessel operating between Saigon and Haiphong, and
d) a 5,000 dwt vessel operating between Saigon and Haiphong.

These alternatives represent real options that could be chosen by shipping operators in the short term. However the effectiveness of the first two options would depend on the extent to which improvements are made to the Hanoi river, which currently lacks navigational aids and requires dredging work. It is therefore not certain if all-year access would be available for large vessels in the short term.

The costs and revenues of each alternative are summarised in Table 4.3.1 (supporting details are given in Appendix 6).

Operating a 2,000 dwt vessel to Hanoi, for at least part of the year, appears to be the most financially viable option. If all-year access to Hanoi were possible (especially with larger vessels), then the viability of this route would increase still further. The annual profit of VND 1,837 million represents an approximate return of 17% on average asset value (for a ship purchased second-hand for VND 22 billion and scrapped after eight years). The equivalent returns for 1,000 and 3,000 dwt ships are about 5% and 7%, which may not be attractive to investors considering the risks involved. However there are possibilities for efficient operators to increase load factors above the 60% assumed in this example. This could increase returns significantly, making the Saigon - Haiphong route also attractive to investors. Concessionary financing could also make these options more attractive as demonstrated below.

Table 4.3.1

SUMMARY OF AVERAGE ANNUAL COSTS AND REVENUES FOR DIFFERENT LINER VESSELS AND ROUTES

(VND million per Year per Vessel)

dwt	1,000	2,000	3,000	5,000
Route	Saigon/ Hanoi	Saigon/ Hanoi and Haiphong	Saigon/ Haiphong	Saigon/ Haiphong
Revenue	9,356	14,974	16,570	19,213
Total Operating Costs	2,123	3,511	4,023	4,937
Total Fixed Costs	6,723	9,014	11,120	15,141
Total Costs	8,846	12,525	15,143	20,078
Pre tax Income	510	2,449	1,427	-865
Tax	127	612	357	0
Net Profit	383	1,837	1,070	-865

SOURCE: JICA Study Team

b) Annual Cash Flow Analysis

As noted above, the financial viability of liner services would increase if loads could be increased. This raises the possibility of the 3,000 dwt vessel operating between Saigon and Haiphong becoming financially viable, especially if concessionary finance is available. However the capital requirements of acquiring such a large vessel are substantial. Therefore to explore the financing problems of starting a liner service, the annual cash flow analysis has been performed for the 3,000 dwt option. Future costs were estimated assuming annual inflation of 7%.

Two alternative assumptions are made about financing terms:

- a nominal annual interest rate of 15% with a repayment period of four years, which is similar to the terms that are available to certain borrowers in Vietnam from domestic banks (provided adequate collateral/guarantees can be given), and
- a nominal annual interest rate of 12% with repayment over six years following a grace period of two years (from the time the loan is taken out, similar to what might be available if ODA financial support were to be given to the coastal shipping industry).

The results of the cost and revenue calculations are summarised in Table 4.3.2. Further details are given in Appendix 6.

Under the first assumption, net income is negative up to 1999 because of the high interest and capital repayments required. Profit after capital repayments and interest is only VND 396 million in 2000, even assuming that no provision is made for depreciation. If payments are made into a depreciation fund to build up capital to extend the business or reduce future borrowing, then nominal profits would be even less. This example demonstrates the difficulty for ship operators in financing a new liner service. Investors under these credit terms cannot expect to get a return on their capital for several years.

For the second assumption, no capital repayment is required until 1999. With the lower interest rate, profits are possible even in the first year. The better returns of this example indicate how ODA support could assist the Vietnamese shipping industry in the early years of investments.

Table 4.3.2

SUMMARY OF ANNUAL COSTS AND REVENUES OF A LINER SERVICE WITH 3,000 DWT VESSEL (VND MILLION PER VESSEL)

	1997	1998	1999	2000
Revenue	16,570	17,730	18,971	20,299
Operating Cost	4,023	4,305	4,606	4,928
Fixed Ship Cost	3,022	3,234	3,460	3,702
Container Cost	959	1,026	1,098	1,175
Administration	1,840	1,969	2,107	2,254
Depreciation	3,564	3,564	3,564	3,564
Interest (15% per year) (1)	3,600	2,700	1,800	900
Profit Before Tax	-438	932	2,336	3,776
Tax	0	233	584	944
Profit Before Capital Repayment	-438	699	1,752	2,832
Profit After Capital Repayment (1)	-2,874	-1,737	-684	396
Profit After Capital Repayment (With Concessionary Finance) (2)	3,776	4,128	866	1,631

NOTE (1) Assuming VND 24 billion is borrowed (80% of the value of the vessel when purchased), repayable over four years. Profit after capital repayment excludes depreciation provision.

(2) Assuming VND 24 billion is borrowed, repayable over six years following a grace period of two years, from the time the loan is taken out, with an interest rate of 12%.

4.3.4 Recommendations

Developing liner services into Vietnamese coastal shipping needs new specialised vessels and modern management ideas to be introduced. This requires new investment and a transfer of know-how from foreign sources.

Particular administrative difficulties may be experienced by operators who are trying to introduce new concepts into coastal shipping services. This requires prompt action by government to remove unnecessary obstacles (see Figure 4.3.1).

In order to encourage the provision of coastal shipping liner services, government action is required in the short term as follows.

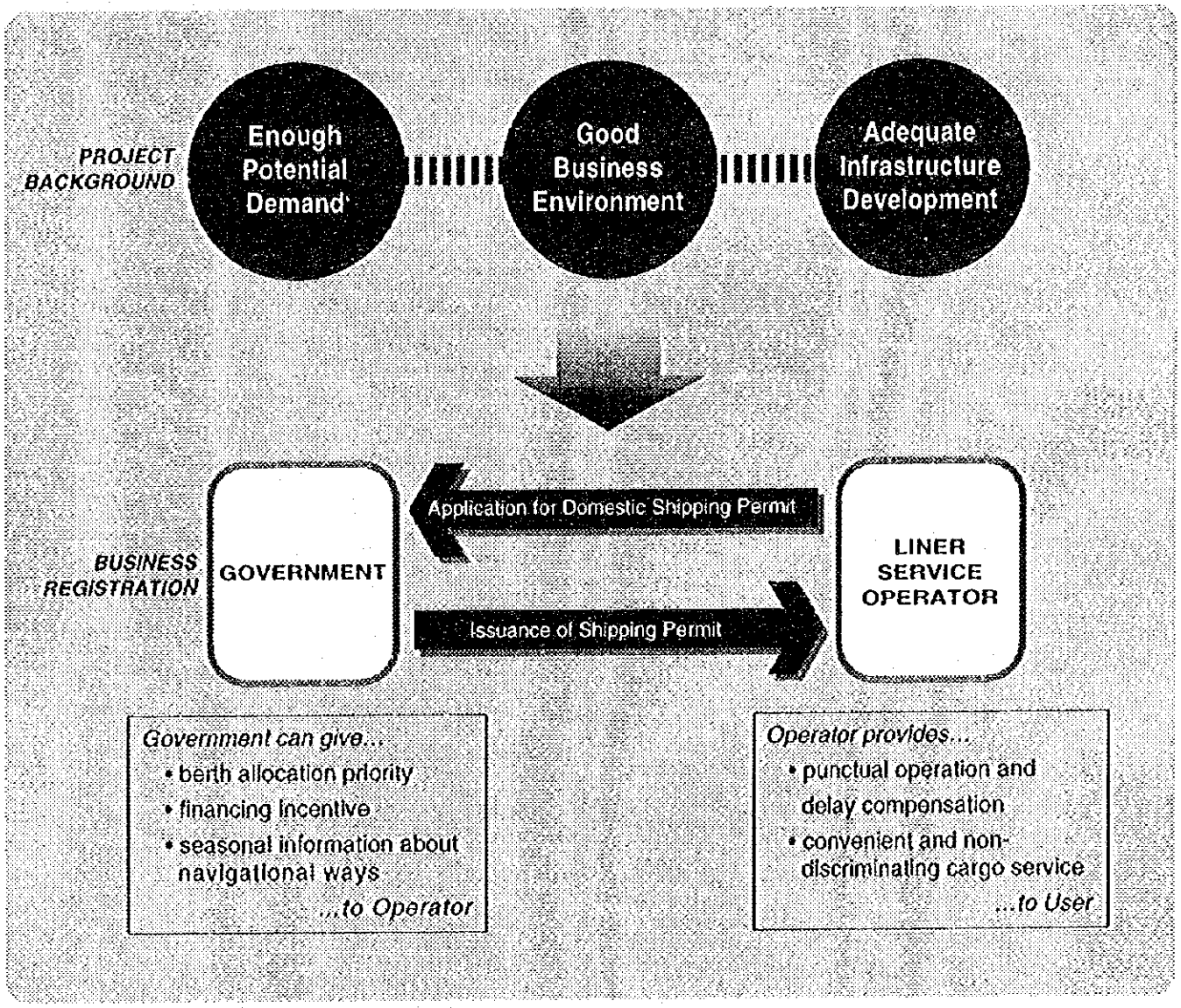
- The policy framework proposed in Section 4.2.4, to encourage investment and foreign participation, should be established by MOT and MPI.
- In particular, investment in new types of service such as liner service, which rely so much on foreign expertise, should be actively encouraged, through relaxation or even complete exemption from restrictions on foreign participation which apply to more general types of coastal shipping services.
- The regulatory framework proposed in the Master Plan, to establish a "level playing field" in the coastal shipping business, should also be developed by MOT, including the abolition of discriminatory practices between state and other operators over port charges and access to berths, and between international and coastal shipping over port charges (because the lower charges set for coastal shipping may encourage port managers to give priority access to international shipping rather than domestic liner services).
- VINAMARINE should monitor difficulties being experienced by operators wishing to establish improved or new types of services, and take action to remove any undesirable administrative obstacles. The immediate need is to improve the ports at Saigon, Dong Nai, Haiphong and Hanoi), give navigational information about sea-cum-riverways, and improve the sea-cum-riverway to Hanoi, to ensure efficient scheduled operation without port and other delays.

To enable Vietnamese shipping operators to translate the new operating concepts into practical improvements, both general and specialised training is needed in management and administration of liner services. This can be achieved through

- inviting foreign trainers to assist with internal training schemes of shipping operators,
- on-the-job training in foreign shipping companies or in joint-ventures between Vietnamese and foreign partners,
- training and retraining of management at VIMARU (retraining would be especially needed in liner service concepts, in addition to particular subjects such as English, computing, maritime law, marketing, economics, finance and insurance)

In addition to encouraging foreign participation in liner service development, the government can assist by encouraging ODA agencies to supply management training specialists to strengthen the VIMARU management training courses, so that they cover liner services in more depth. Furthermore ODA assistance could also be sought in providing short specialist training courses in liner services, aimed at trainers and other key personnel in the maritime transport industry. An example curriculum is given in Appendix 8.

Figure 4.3.1
INTRODUCING A SCHEDULED LINER SERVICE IN VIETNAM



Appendix 1

Laws and Regulations Concerned with Maritime Transport

This appendix lists the implementing decrees and decisions relevant to the Maritime Transport Law (Decree No. 42-LCT/HDNN8, dated 12 July 1990) as published in three volumes.

Collection of Maritime Law Documents, Volume I

Collection of Maritime Law Documents, Volume II

Collection of Maritime Law Documents, Volume III