

PART II

FREIGHT TRANSPORT

1 INTRODUCTION

Freight transport is usually described from the viewpoints of traffic demand, infrastructure and facilities, and transport industry. This report highlights freight services provided by carriers and forwarding/warehousing agents to meet consignors' demand. For that purpose, consignors' current and future demand is carefully estimated to direct transport planning works toward the desired freight transport development.

The Study Team believes that the shipper is a key player in economic development. He bridges two major activities: trading and transport. The correlation between these activities and their impact on economic development are demonstrated at international and regional levels. It is shown that transport is at the heart of competitiveness in trade. However, it is quite likely that a freight rate structure by service option, which the transport industry finds highly justifiable, may find little favor from the user. A government, responsible for overall national performance, may even impose freight transport policies with little or no consultation with the user.

The objective of this technical report is to formulate a freight transport policy for Vietnam. Subsequent chapters deal with different topics as follows:

- Chapter 2 : describes available freight services in Vietnam and assesses them from the user's viewpoint;
- Chapter 3 : analyzes the role of Vietnam's freight transport in the course of economic development;
- Chapter 4 : studies the adequate modal split on the North-South national trunk corridor and identifies transport services by mode;
- Chapter 5 : studies the opportunity for multimodal transport operation on the East-West subregional transport corridors and identifies necessary institutional environments; and,
- Chapter 6 : summarizes the analyses brought forth in the previous chapters and recommends freight transport policies including the organization and management of a Vietnam Shippers' Council

2 EVALUATION ON VIETNAM'S LOGISTICS SYSTEM

2.1 Necessary Documentation Procedures

Imported Goods

Customs requires the following papers:

- 1) import license (issued by the Ministry of Trade, who monitors adherence to quotas),
- 2) bill of lading,
- 3) invoice and packing list,
- 4) any special permit from authorities (agriculture, quarantine, security, etc.) required for particular goods, and
- 5) Certificate of Origin where required (issued by the Chamber of Commerce, a nongovernment organization modeled on the British and US Chambers of Commerce)

Both the Customs and Trade Ministry check the valuation of goods. Goods must be cleared within 30 days, or may be sold, returned, or exported after an importer pays a fine. Customs clearance typically takes one to three days. Since the customs authority is allowed to levy import tax in goods during customs clearance only, it sometimes take lengthy inspection and valuation by customs officers.

Upon completion, the consignee presents documents at the Customs office. In principle, examination and valuation of goods can be done at the port/airport or at any inland point. There is no provision for inland cargo bonding prior to inspection and valuation, nor is customs escort normally required, hence no budgetary allocation for such service.

Exported Goods

In the case of container shipment, a Customs representative will be present when the container is being loaded with goods and will approve it for sealing after reviewing the:

- Packing list;
- Sales contract; and
- Export license or permit.

In past practice export permits were only available to certain state enterprises. This practice has gradually changed. The present policy encourages participation of private entities capable to export directly, thereby reducing the middleman.

Transit Goods

All transit goods are handled under bilateral agreements. Vietnam has such agreements with Lao PDR, China and Cambodia, relating to the issuance of a transit permit or authorization for each shipment. The information on the permit from the Trade Ministry is transcribed by Vietnamese Customs to produce a transit document in four copies. One copy is kept at the entry point. At the exit point the remaining three copies are endorsed. One is provided to the shipper, another is kept by the exit Customs Post and the third is returned to the Customs Post at the entry point.

There is a modest service fee on transit cargo levied by Customs, but no bond is posted.

2.2 Identified Issues on Freight Services

Viewpoint of Shippers and Consignees

The Study Team observed distinct characteristics between Vietnamese and foreign shippers and consignees doing business in Vietnam. The Vietnamese are concerned with market control rather than market access provided that markets are always stable and open to their products. Conversely, foreigners are keen on market needs since they presume that markets are changeable and the optimum market access itself earns profits. Therefore, the Vietnamese are cost-sensitive in goods transport while foreigners pay more attention to the quality of transport services such as on-time or quick delivery and safety of valuable goods. The Vietnamese often cope with such transportation cost internally, acquiring transportation means by themselves and assigning some superfluous staff on this duty. On the other hand, foreigners prefer outside professional service on a contractual basis.

During the period of transformation into a market economy, however, even Vietnamese shippers and consignees will share increasing concerns on how to obtain competent transport services based on the following business opportunities:

- Promotion of mass production supported by mass procurement, mass sale and mass haulage
- Increase in selling and procurement channels so as to access to long-distance markets including overseas
- Facilitation of swift and on-time cargo flow (procurement – production – distribution) to shorten unnecessary waiting and storage time.

Since cost is always important in every business aspect, goods transport should support the above-mentioned business trend within users' bearable cost. In-house transport services are generally inefficient, less responsive and incapable of meeting future needs. Hence, professional forwarders and warehousing agents will occupy a significant role in future.

Viewpoint of Forwarders

The Study Team interviewed around 10 forwarders engaged in domestic and foreign trade activities in the country. Since they are frequent transport users, they can comment precisely on actual transport operations and infrastructure conditions and compare available transport modes objectively. Their comments on goods transport by mode and customs clearance are summarized as follows:

Road Transport

- 1) Poor roads and bridges discourage nighttime driving. Many sections are inundated during rainy season. Wires loosely crisscrossing the roads are obstacles for large trucks and container trailers. These physical weaknesses hamper safe and fast driving and reliable services.
- 2) A fully loaded container trailer may not pass through particular roads due to vehicle weight limit except those holding special permit. Collecting penalty on overloaded trucks near bridges often hinders daily truck operation. The worst hindrance for trucks between Hanoi and HCM City is the roadside inspection point which numbers around 25. At each point, a trucker must show a route or area license, or a special permit to pass through.
- 3) The cost of trucking service is very low, i.e., US Cents 3 per ton km on the average. Although such tariff rates are offered under severe competition, it is hard to find these rates in other countries. Consignors usually prefer cheap over fast and punctual services. Many truck owners subcontract marketing to drivers who usually collect all revenue, pay owners for monthly use of the vehicle, pay for running expenses and keep the balance.
- 4) Chartered trucks are widely available but there are no scheduled trucks for small consignment. Since no public truck terminal is in operation even in large cities, truckers face difficulty in consolidating small consignment. When truckers receive cargo less than the truck's capacity, they usually pass through other areas or make a detour to fill their trucks. Otherwise, drivers must charge higher rates or refuse such cargo.

Rail Transport

- 1) Due to a small number of wagons and a single-track alignment, railway freight service cannot meet its potential demand. During harvest time, for instance, the supply of railway wagon space is insufficient. On the other hand, small consignments are not accepted or very expensive because the minimum space allotment is not actually small.

- 2) In the Hanoi-HCM City main line, the Vietnam Railway (VR) operates several freight trains without a fixed timetable. A shipper does not know when his train would leave because it must wait until the wagons are full. A consignee does not know when his train would arrive because scheduled passenger trains have priority to run on the single track and a freight train must give way and stay on a sidetrack.
- 3) Today, consignors can book cargo space by phone. However, VR never informs them where their cargoes are. Moreover, since VR does not provide door-to-door delivery service, consignors have to bear with lengthy and unscheduled freight trips and deliver or pick up cargoes by themselves.

Coastal Shipping

- 1) Despite increasing traffic volume, no serious capacity constraint is observed in coastal shipping, since operators also use vessels engaged in overseas shipping but which only receive less orders. Liner container operation for small consignments commenced in 1998 in HCM City, Haiphong and Danang.
- 2) Cheap tariff setting is attractive among shippers who ship out nonperishable goods in bulk. Shipping and port operation have not gained a good reputation due to occurrences of damaged cargo and pilferage. Only a few liner ships can assure punctual operation.
- 3) Interconnectivity of inland waterway and railway transport is not smooth enough. Therefore, shippers/consignees must rely on road transport to access ports. The concept of an inland container depot (ICD) intends to relieve them of this burden. However, the Hanoi ICD charges a higher land transport rate than if shippers/consignees directly hire trucks to pick up and deliver their containers.¹

Inland Waterway Transport (IWT): Inland waterway operators usually keep long-term contracts or has long-time relations with their shippers, e.g., state operators and large state enterprises or small private operators and local communities. Interviewed forwarders do not deal with inland waterway operators who are apt to damage cargo during tramper operation. Although IWT's attractiveness so far is the low fare, forwarders must provide reliable services such as scheduled delivery and high security.

Air Transport

- 1) Contrary to people's perception of air freight as charging high tariff, it is actually competitive with other modes, especially for small consignment less than one

¹ It is reported that Hanoi ICD offers US\$ 200 per container for the land transport to Haiphong Port (as of August 1999). Truckers usually offer US\$ 120-150 for the same service between Hanoi and Haiphong.

ton. For instance, the freight tariff between Hanoi and HCM City, around VND 3,000 per kg, is quite attractive. This attractiveness is partly due to the limited service availability for small consignments by other modes such as shipping, rail and road. They usually offer much higher prices to small consignors than ordinary bulk consignors. Ironically, the same reason hinders efficient access transport to airports.

- 2) Almost all domestic air cargo is carried by belly-hold aircraft. Air carriers have difficulty in confirming air freight schedule to customers, but Vietnam Airlines sends a cargo arrival notice to customers individually. Due to limited and fluctuating available cargo hull space, Vietnam's air transport cannot take advantage of this distinct edge over the slower transport modes.
- 3) Cargo handling space is not scarce at Noi Bai and Tan Son Nhat airports. There may even be enough space for future expansion. However, the TCS, sole ground-handling operator at Tan Son Nhat, are allowed to levy high service charges.

Overseas Shipping

- 1) Two Vietnamese gateway ports, Haiphong and Saigon, were developed at rivers whose navigational channels are shallow and vulnerable to silt sedimentation, hence inaccessible to large and modern vessels unless operators pay high demurrage costs.
- 2) Although cargo-handling services are available anytime at ports, handling equipment are insufficient and outdated with rare exceptions, such as those at the Vietnam International Container Terminal (VICT). Thus volume handled is generally low. At present, however, this serious problem is not glaring because traffic is still small. Unloading containers from an anchored ship to a barge by ship gear to save on port charges is also a common sight in Vietnam. Besides being inefficient, this method will likely cause damage to cargo. Foreign operators and forwarders in Vietnam reportedly do not use their new containers.
- 3) With limited demand for container transport, shipping operators have assigned small and old container ships² to serve minor feeder routes connecting with Singapore, Hongkong, Laem Chabang, Port Klang, and Kaohsiung. Vietnamese ports ship out many LCL containers, but since LCL/FCL (stuffing work from LCL to FCL) is done with other countries' cargo at the above transshipment ports. This results in higher container charges.

² Average container ship size assigned in Vietnamese ports in 1999: HCM City ports, 622 TEU; Haiphong, 312 TEU; Danang 250 TEU.