

PORTS AND SHIPPING POSITION PAPER

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I. EXECUTIVE SUMMARY

The Ports' and Shipping Sub Group of the Vietnam Business Forum wishes to emphasize again the importance of creating a domestic and international transshipment hub in Cai Mep, that will not only contribute to solving the excessive demand / supply container terminal imbalance in South Vietnam, it will also, as a direct consequence, create the necessary scale to operate the required deep sea terminal for Vietnam and for all of her importers and exporters.

Whilst it is recognized that the drive towards this ambition is well known within the Ministry of Transport and the Ministry of Planning and Investment, this position paper draws the support from a number of previous reports and recommendations together current information, sourced from Government Departments as well as the Port and the Shipping Industries themselves.

This Position Paper aims to bring together the recommendations of these different government departments, organizations and business communities in order to demonstrate that the overall aims of such groups are in fact the same. This would indicate that with such common support, there lies a golden opportunity for the Vietnamese Government to make a small number of decisions, in order to create significant positive impact for Vietnamese importers and exporters.

With the advent of the Trans Pacific Partnership and the European Free Trade Agreement, the need to create such a terminal has never been so great as now. The resultant increase in trade (and therefore container traffic in and out of Vietnam) is now expected to far exceed the previously expected growth of 7% to 8% from now until 2020. In order to maximize the potential that both the TPP and European FTA will bring to Vietnam, it is essential that an efficient deep sea container terminal exists to cater for such a demand. The current reliance on the HCMC City Terminals is not sustainable both from an operational and a commercial point of view.

In order to create this scale, it is essential first to create a competitive environment in which to operate the container terminal. As described on a number of occasions before, the first and critical steps in this regard are as follows:

- i) A reduction in port dues for certain sized vessels. Note that in reducing the port dues per vessel, a greater number of vessels will call in Vietnam, with the resultant increase in overall income for the Country.
- ii) A relaxation of the Cabotage Regulation. Whilst it is understood that there is a reluctance to carry out a relaxation, the current local services on offer are not of the required standard and they are currently prohibitively priced, which on both counts, are blocking the progress. It is of course only a requirement to relax such a regulation in and out of Cai Mep. In this way, a more competitive environment will be created as Vietnam aims to take market share away from other hubs such as Hong Kong and Singapore.
- iii) In line with the changes of Customs' processes and regulations that are taking place, the Ports' and Shipping Sub Group focuses on the key areas of the required customs' reform. This focus and action is fundamental, if Vietnam is to remain competitive with other Asean Countries.

Potential Financial Gain For Vietnam:

- For every Feeder Vessel that is no longer required to transport Vietnamese cargo to/from existing Hubs such as Singapore and Hong Kong, there is a saving of transport costs of at least USD 7 million per year.
- For each Mainliner call that would berth in Vietnam if the above 3 items are resolved, there would be an additional income to Vietnam (through Port Dues) of around USD 1 million per year.
- Initial estimations of 2 feeders to be reduced and 10 mainline calls to be added, implies a saving on feeder costs of USD 14 million and an additional income to Vietnam of USD 10 million per annum through Port Dues.

II. BRIEF REPORTS FROM RELEVANT STAKEHOLDERS

The following organizations, presentations and reports have been consulted and they have all, within the past 2 years, advocated the creation of a hub of sufficient scale in South Vietnam. In order to achieve this, the solving of the three issues above is deemed essential for progress.

- Report to Deputy Prime Minister Hai 6th August 2013
 - + The Value of the Hub
- The Transport and Logistics' Sector Committee of the European Chamber of Commerce
 - + Within the Whitebooks of 2014 and 2015
- "Efficient Logistics" Report written by The World Bank, published 2014
 - + Efficient Logistics, The Key to Vietnam's Competitiveness
- The Vietnam Trade Facilitation Alliance (American Chamber of Commerce and Vietnam Chamber of Commerce and Industry)
 - + Discussed with them in the American Chamber of Commerce April 2015
 - + Particular emphasis on Customs' Reform
- Transport and Logistics Partners Quarterly Meeting (TLPQM)
 - + A group conceived in February 2014 comprising of the Department of Transport and Industry Leaders.
- Current Input from Ports' and Shipping Sub Group – March 2015
 - + From Shipping Lines: Maersk Line, CMA CGM, MSC, APL
 - + From Container Terminals CMIT, SSIT

1. Value of a Hub: Report to Deputy Prime Minister Hai – 6th August 2013

On the 6th August 2013, a report was written to the Deputy Prime Minister Hai. The report summarized the value of creating a Hub in Cai Mep. Since then, the Operating Cooperation Contract has been signed between CMIT and Saigon Newport and this is a good step forward as the Hub concept is developed. Whilst some of the figures in the report are now out of date, it was clear even then that the reduction of port dues and the relaxing of the cabotage regulations are two vital ingredients if the Hub creation is to materialize.

2. Whitebooks (European Chamber of Commerce) – 2014 and 2015

In relation to separate reports written by the European Chamber of Commerce, through its Whitebooks of 2014 and 2015, it has been made clear that the reduction of Port Charges and the relaxing of the Cabotage Law (Section 2.8.2 Whitebook 2014) and similar recommendations in the 2015 Whitebook (Section 2.9.2), are necessary actions if the Hub is to be created.

3. Efficient Logistics: The World Bank - 2014

Published in 2014, the World Bank presented the extensive report entitled "Efficient Logistics – A Key to Vietnam's Competitiveness". In that report (Chapter 3, pages 71 and

79) it was recommended that Vietnam needs to relax its Cabotage regulations. In addition, also in Chapter 3, pages 80 to 82, there are a number of recommendations in relation to the need to improve the Customs' Regulations. Both aspects have the direct link to the development of the Hub in Cai Mep.

4. Vietnam Trade Facilitation Alliance (VTFA) - 2014

In conjunction with the American Chamber of Commerce, the Vietnam Trade Facilitation Alliance is organized to provide advisory support to the General Department of Vietnam Customs and other agencies of the Government of Vietnam whose regulatory requirements are enforced by the GDVC with imports and exports.

By definition, the VTFA therefore is particularly keen that the Customs' Procedures are in line with the target of creating the Hub Port.

See the Press release as announced on 12th December 2014:

Ho Chi Minh City, December 12, 2014----- The U.S. Agency for International Development (USAID) today joined the American Chamber of Commerce in Vietnam and the Vietnam Chamber of Commerce and Industry to formally establish a new Vietnam Trade Facilitation Alliance (VTFA) through a memorandum of understanding. The private sector-led alliance will provide policy and technical assistance to the General Department of Vietnam Customs and relevant trade facilitation agencies and authorities in Vietnam to advance Vietnam's competitiveness.

"Trade facilitation is a powerful tool for integrating small and medium enterprises (SMEs) into domestic and global value chains, which makes growth more inclusive," said USAID's Acting Assistant Administrator for Asia Anne Aarnes. "The VTFA will be an important voice for these SMEs that too often are not well-represented in policy processes."

A number of USAID programs, including the Provincial Competitiveness Index (PCI), highlight the importance of SMEs, including women-led enterprises, to Vietnam's growth and the value of involving business in policymaking.

With today's launch, the VTFA will support the implementation of the Trade Facilitation Agreement (TFA) in Vietnam, as well as next generation free trade agreements such as the Trans-Pacific Partnership (TPP). The Alliance also aims to improve competitiveness of Vietnam's domestic and foreign companies through a more predictable and transparent business enabling environment. There will be special emphasis on helping Vietnam achieve the target it established in Resolution No. 19/NQ-CP to improve its performance trading across borders by significantly reducing the time and cost of importing and exporting to regional averages.

Through its multi-stakeholder networks, the VTFA will improve information sharing on trade facilitation including participation in the annual Traders Satisfaction Survey, implemented by Vietnam Chamber of Commerce and Industry in partnership with General Department of Vietnam Customs, and the sharing of private sector generated data on customs performance.

USAID has been working closely with the Vietnamese government and business groups to develop and implement effective trade facilitation assistance to enable Vietnam to meet the commitments in the TFA and prepare Vietnam for the implementation of the

TPP. USAID support for the VTFA will enable Vietnam to build a sustainable and open public-private partnership to facilitate trade, thereby reducing poverty and promoting inclusive growth. The VTFA is a pioneering effort for USAID under its global trade facilitation programming.

See more of USAID's work on trade and other issues on www.usaid.gov/vietnam.

5. Transport and Logistics Partners Quarterly Meeting

In conjunction with the World Bank, the Ministry of Transport has established the Transport and Logistics Partners Quarterly Meeting (TLPQM).

The main purpose of the TLPQM is to facilitate an effective interaction between the Ministry of Transport and the transport/logistics stakeholders. This will assist all TLPQM participants to better understand the common issues that relate to Government policies. Therefore it will pave the way to pragmatic and workable solutions to any concerns that may exist with the Logistics' Industries of Vietnam.

Central to the aims of the TLPQM is the creation of a Hub in South Vietnam and this will require the customs procedures to be made more efficient, cabotage regulations to be relaxed and port dues to be reduced.

6. Input from the Ports' and Shipping Sub Group

The comments that are made below have been made and brought to the attention of the Ports' and Logistics Sub Group of the VBF. All comments have been made from Shipping Lines and Port Operators.

▪ Benefits to Vietnam through the creation of a Hub:

- a) There will be less pollution for Ho Chi Minh City by diverting the truck flow within HCMC into Cai Mep
- b) There will be less traffic and less risk of port congestion, since there is a far greater port capacity in the Cai Mep region. The consequence of having less inner-city traffic will be an improvement in safety and less risk of cargo delay. Reducing the risk of cargo delays, improves the overseas buyers' satisfaction through the reliability of Vietnamese export cargo which, in turn, leads to an increase in purchasing orders.
- c) There will be less river traffic due to fewer barges and vessel traffic. The river could be deployed for tourism purposes with river tours and river activities thus attracting greater revenue for Vietnam; a similar approach to that successfully adopted in Bangkok.
- d) The considerable risk associated with not making the change quickly enough is quite simple: there will be insufficient capacity to cater for the growth of the TPP and European FTA. Through the TPP, Vietnam's economy has been identified to have potential growth of up to 35% by 2020. Exports are a major factor when influencing this growth. The exports with the US have been growing between 10-11% in the past years and the TPP will open up even more growth. It is essential that Vietnam capitalizes on this opportunity immediately after the TPP has been signed. Failing to capitalize runs a significant risk of damaging the direct foreign investment that is already underway and indeed any further potential direct foreign investment.
- e) As long as Vietnam continues to rely on river ports, cargo will rather find its way on feeders to connect over other established hubs in the region, such as Singapore and HKG. This adds cost, increases inefficiency and reduces the competitiveness of Vietnam.
- f) Consolidation provides the critical mass to cater for larger services; thus saving cost and making it more worthwhile for direct call services

- g) For as long as river ports remain an option for the Intra-Asia businesses, carriers will find it difficult to run a more optimal “panama size” service (larger vessels) into Cai Mep, given the concerns with shipper/consignee acceptance.

Attached below (via YouTube) explains the scale of change at the Port of Shanghai. It is clear and evident that one of the central pillars of China’s growth in exports is the establishment of a Port with sufficient scale. This video summarizes how it was achieved.
https://www.youtube.com/watch?v=MLQmMTp_T0M

- **Cost Savings from the reduction of feeder services to/from existing hubs in Singapore and Hong Kong**
 - a) The weekly cost of running an 1100 TEU sized vessel is around USD 136,000, implying an annual cost of around USD 7 million
 - b) The weekly cost of running a 1700 TEU vessel is around USD 208,000, implying an annual cost of around USD 10 million.

Weekly cost FIO/1100 teu	usd 136,324
Weekly cost FIO/1700 teu	usd 208,444
- **Additional income to Vietnam if Cai Mep can attract additional mainline calls:**

If Port Dues’ charges are set at USD 20,000 per call, additional income to Vietnam per year per additional mainline call is USD 1 million. Potentially, through the creation of a hub and the resolution of the 3 recommendations above, at least 10 mainline calls can be attracted, generating a further USD 10 million per year.