

PORT & SHIPPING SUB-WORKING GROUP POSITION PAPER

*Prepared by
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Vietnam Business Forum*

EXECUTIVE SUMMARY

General

The Ports' and Shipping Sub Group of the Vietnam Business Forum wishes to emphasize again the importance of developing 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 re-emphasizes the need to consolidate the existing deep sea terminals in the Cai Mep region so as to create the necessary hub and scale, required of the ever increasing sized ships.

With the advent of the Trans Pacific Partnership and the Europe Vietnam Free Trade Agreement, the need to create such a hub has never been so great as now. The resultant increase in trade (and therefore container traffic in and out of Vietnam) is expected to far exceed the previously predicted growth of 7% to 8% from now until 2020. In order to maximize the potential that both the TPP and EV-FTA will bring to Vietnam, it is essential that an efficient deep sea container hub should exist to cater for such a demand. The current reliance on the HCMC City Terminals and their continued feeding operations to the hubs of Singapore, Malaysia and Hong Kong, 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. The first two steps in this regard are now as follows:

1. 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.
2. The maintenance dredge within the approach channel of the Cai Mep River, needs to be carried out to at least a depth of 14 metres (at low tide).

Whilst the above two issues are critical and a requirement in the immediate term, there are two additional requirements that must be addressed if Vietnam is to maximize its potential in the longer term:

1. It is strongly recommended that Central Government review its current Port Policy so that the investments in Ports (both Private and Public monies) are made for the benefit of the Nation and not for any specific Province or Region. Specifically, there needs to be a review of:
 - a. How Central Government can support importers and exporters in South Vietnam, as the migration of feeding (from the inner city terminals of HCMC to Singapore and Malaysia) moves to the deep sea terminals of Cai Mep.
 - b. How Central Government can support importers and exporters in North Vietnam to link their goods within the supply chain to the Hub created in Cai Mep
2. It is also strongly recommended that Central Government ensures that the Ministries of Transport and Defence work with a common National Agenda to the benefit of all

importers and exporters. To this end, The Ports' and Shipping Sub Group recommends the resurrection of the MoT's initiative that was instigated in February 2014:

The Transport and Logistics Partners Quarterly Meeting

In conjunction with the World Bank, the Ministry of Transport had established in February 2014 the Transport and Logistics Partners Quarterly Meeting (TLPQM).

The main purpose of the TLPQM was to facilitate an effective interaction between the Ministry of Transport and the transport/logistics stakeholders. This would have assisted all TLPQM participants to better understand the common issues that relate to Government policies. Therefore it would have paved 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 was the creation of a Hub in South Vietnam and this will in the first instance, require the appropriate dredging to be carried out and port dues to be reduced as described before.

Specifics

1. Potential Financial Gain For Vietnam, when the Hub is created and the Feeder is reduced

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 overall transport costs of at least USD 7 million per year.

For each Mainliner call (deep sea) that would berth directly into Vietnam if the above 2 items are resolved and undertaken, there would be an additional income to Vietnam (through Port Dues alone) 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.

2. Opportunity lost if dredge is delayed

It is critical that the above mentioned dredge takes place, to allow the deep drafted vessels to berth on arrival in Cai Mep at the pilot station and to depart as soon as the terminal has finished loading the export containers.

If there is a delay in either of the above, this will create a competitive disadvantage compared to the likes of Singapore, Malaysia or Hong Kong

3. Overall benefits to Vietnam through the creation of the required Hub

- a. There will be less pollution within Ho Chi Minh City, through the diverting of trucks from HCMC to Cai Mep
- b. There will be less traffic and less risk of port congestion in the HCMC terminals, 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 Vietnam 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% and 11% in the past years; 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 Hong Kong. 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 effective "panama size" service (larger vessels) into Cai Mep, given the concerns with shipper/consignee acceptance.

4. 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.
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|--------------------------|-------------|
| Weekly cost FIO/1100 teu | USD 136,324 |
| Weekly cost FIO/1700 teu | USD 208,444 |

5. 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.

6. Dredging Requirements

Recognising also that there are limited funds for dredging, it is critical that the resources are deployed at the right locations. There is an ***immediate requirement*** to dredge the Cai Mep River so that deep sea vessels en route to, or sailing directly from the USA or Europe, have sufficient water depth below their arrival and departure drafts. This means dredging to a depth of at least 14 metres when the tide is at its lowest point of the day.

As exports continue to rise and imports continue to increase, the need to dredge to at least 15 metres at low water increases correspondingly.