



**International Business Vietnam
Market Report 2007 / 2008**

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Key facts on Vietnam

Official name: Cong Hoa Xa Hoi Chu Nghia Viet Nam (Socialist Republic of Vietnam)

Form of government: Socialist republic with one legislative house (National Assembly)

Head of state: President

Head of government: Prime Minister

Capital: Hanoi

Official language: Vietnamese

Monetary unit: dong (VND)

Population estimate: (2006) 83,458,000

Total area (sq km): 329,315

Real GDP growth (2007) : 8.5 %

GDP per capita growth (Annual): 6.88 %

Human Development Index (UNDP): 105th

Land boundaries: Cambodia, China, Laos

In 2006 the total of import and export between Norway and Vietnam was 917 million NOK

Increase of 17 % from 2005 (the numbers from 2007 is not presented yet)

Norwegian export to Vietnam 169 million NOK, an increase of 52 % from 2005

Export from Vietnam to Norway 748 million NOK, an increase of 11 % from 2005

The main products of export: Fish - 70 million NOK

Chemicals - 39 million NOK

Engineering products – 29 million NOK

Main import from Vietnam to Norway:

Fish, vegetable, fruit and coffee 60 million NOK

Engineering products 79 million NOK

Furniture 72 million NOK

Clothes 107 million NOK

Shoes 312 million NOK



Preface

International Business is a unique student project that each year explores market opportunities for Norwegian companies in emerging markets. This year's project has focused on Vietnam; and in January 2008 we were fortunate to visit the country.

Our project focused on three main sectors that are significant prospect for growth and opportunities for Norwegian companies: oil and gas, marine and maritime. We hope that our research will give an in-depth analysis for the companies in Norway as well as increased knowledge about business in Vietnam.

We are privileged and grateful to be part of a recognized student project and are thankful for all the companies who have supported us throughout the project. A special thanks to Innovation Norway and the Bergen Chamber of Commerce and Industry for

making the International Business project a reality for Norwegian students and for their continuous support and encouragement since the start of IB. We will also like to thank all of the people and companies that helped us and met us in Vietnam. Furthermore, we send our deepest gratitude to all the companies who sponsored us, Innovation Norway in Vietnam and to the Royal Norwegian Embassy in Vietnam for providing us with strong networks and guidelines. Without the support, this year's project: "International Business in Vietnam 2007/08" would not have been possible and we hope to provide a study with research that will embark the Norwegian Enterprise to create success in the Vietnamese market.

International Business Vietnam 2007/2008
March 2008



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International Business - a unique student project

International Business (IB) was initiated in 1984, when the Norwegian Trade Council (now Innovation Norway) invited a group of students to explore market opportunities for Norwegian companies in other countries. Twelve new students have annually carried out the project, and the result is that International Business has covered the globe. From the conception in 1984, the individual projects have maintained an ever-increasing level of quality and recognition.

Developments and trends beyond our borders are deterrent for a small country like Norway. Globalization and increased business complexity increases the importance of such elements and pull foreign markets and the opportunities they offer closer to us. To take advantages of these opportunities and understanding the development, information and knowledge is vital. IB's primary goal is to provide information and insight into areas that are important to enterprises who plan on entering

or invest in foreign markets. IB also develops the participating students' international understanding, communication and information gathering skills, as well as enabling networks between students and the business sector. The information and conclusions of the report are based on extensive research prior to our stay abroad and our meetings with companies, institutions and key personnel in our focus sectors. The whole project is financed through collaboration with our sponsors and advertising in this report.

In addition to the paper-copy, the report is also available on our website (www.ib.no), together with reports from previous years.

International Business is an independent, voluntary, non-profit student organization, which is fully responsible for the content in this report.

PART ONE

EXPLORING BUSINESS OPPERTUNITIES

Marine



Maritime



Oil and Gas



Executive summary and recommendations

As an emerging economy, with a GDP growth of 8, 5 % in 2007 Vietnam is looked upon as a market with large opportunities by Norwegian companies. This report identifies these opportunities in the three sectors; oil and gas, marine and maritime.

The Vietnamese government has realized the needs for foreign cooperation and investment and is working towards better conditions for foreign companies to enter the market.

Marine sector

The opportunities for Norwegian companies lie in applying technology and knowledge transfer that would result in the improvement for the marine sector in Vietnam. This due to the fact that the fishery sector lacks the education and the management to meet the international standards that is required. The marine sector can acquire competence in quality, processing, skills-factor, efficiency and also management skills from the Norwegian sector.

Maritime

By 2015, Vietnam aims to become the 4th largest shipbuilder in the world. However, the lack of skilled labour and poor infrastructure makes this a challenge for the sector. The government has plans to invest in these areas to improve the quality and the potential that the maritime sectors have to further strengthen Vietnam's economy.

Shipbuilding depends on supporting industries. Activity in these industries is likely to accelerate when the government's aim to localize 60-70 % of the shipbuilding value chain from domestic production by 2010. Vietnam has a challenge with the lack of skilled labor and under developed infrastructure, but this is something the Government plans and invests much into.

From our studies we believe that there are large

opportunities for Norwegian companies created by the emerging ship building industry in Vietnam. With the technology and knowledge Norwegian companies have, it will be large opportunities in Vietnam.

Oil and Gas

Vietnam is today the 6th largest oil producer in Asia. The government is determent to increase the development of the Oil and Gas business, by increasing the investments in exploration and enhance the cooperation with foreign companies. To easier enable foreign involvement the Vietnamese Government are considering offering more beneficial tax incentives to foreign oil companies.

The main opportunities for Norwegian companies lie in the advanced technology and knowledge and experience of the industry. Vietnam has little expertise within oil refinery which might lead to opportunities for Norwegian companies. Today Vietnam is an exporter of crude oil and an importer of refined products. Oil refineries are under construction and the first of three refineries is expected to be ready in 2009. As developing the gas market is also a focus area, technology and knowledge from experienced companies are needed. Further there are opportunities within subsea, enhanced oil recovery (EOR), as well as HSE and project management.

“Vietnam is booming more than usual”

This phrase is from one of our first meetings in Vietnam, but it can also be used about our experience in the country. Vietnam has experienced a tremendous development the last decades and the country has opened more up for foreign investment and trade. This strategy has led to an economic growth in real GDP on over 8 %, and it is expected that growth will continue with about 8 % the years to come. In January 2007 Vietnam joined the World Trade Organisation (WTO) and this marked that the country is establishing in the global trade network.

To explore the market opportunities for Norwegian companies we have worked with the hypothesis: Norwegian companies in the marine, maritime and oil and gas sector have good business opportunities in Vietnam, although the Vietnamese market is a new market where companies must expect challenges when entering

We have focused on the sectors marine, maritime and oil and gas because these sectors are important sectors in both Vietnam and Norway. We think that it is also in these sectors there can be a mutual exchange of knowledge, technology and markets.

The report is based on interviews and meetings with Norwegian companies established in Vietnam, and companies in the process of establishing. We have also had useful meetings with representatives from the Vietnamese officials, universities and industry.

In the next sections we have analysed each sector and looked at the different strengths, weaknesses, opportunities and threats for Norwegian companies entering Vietnam.



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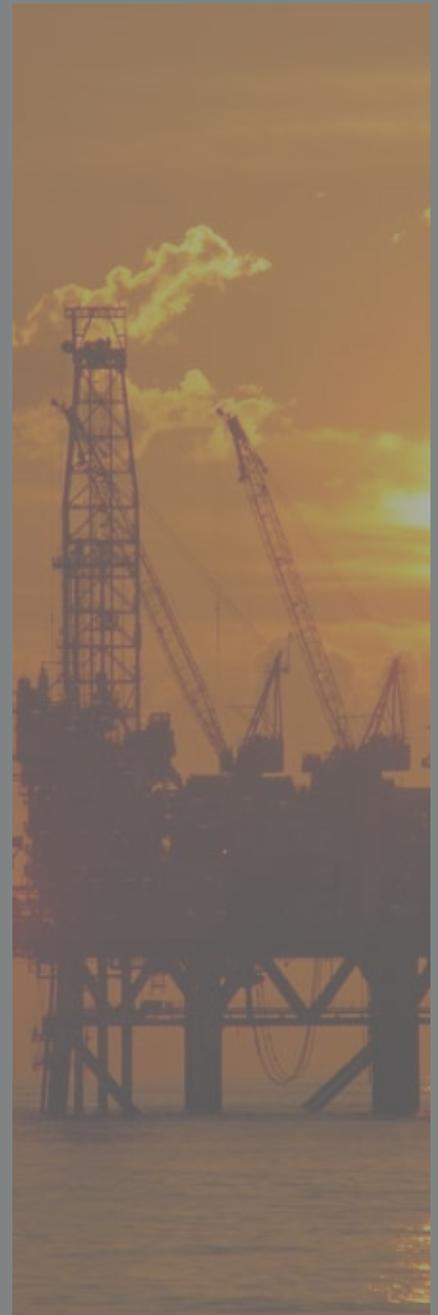
Marine



Maritime



Oil and Gas



Executive summary - Marine sector

The Vietnamese fishery sector is becoming increasingly important in the growing economy of Vietnam. Despite this, it is still a sector with small and medium scale companies, and it is facing several challenges in order to increase its competitive advantage. In cooperation with Norwegian companies we see that there are many opportunities for the Vietnamese fishery sector to increase production and to become more efficient. The main challenges are related to the lack of education, bad infrastructure, over-exploitation, lack of updated fishing technology and equipment. In summary, we consider the best opportunities for Norwegian companies to be export of technology. With Vietnam's huge resources and young and hard-working labor force and Norwegian marine technology, there are numerous possibilities. The Vietnamese fish exports meet strict quality requirements from the main markets; EU, the USA and Japan. However, there is continuously focus on improving the quality on processing facilities and hygiene, and with the excellent quality of Vietnamese fish, we expect the export to increase. Hence, the Vietnamese fishery sector is a very interesting business area for Norwegian companies, and the Vietnamese are very eager to engage in cooperation in order to strengthen Vietnam's fishery industry in the international market. Particularly we recommend Norwegian companies to focus on export of technology, knowledge, and modern equipment to be used in areas like on-board handling of the fish, the processing process, waste management and vaccination and quality measures.

Seafood exports in Jan-Oct 2007

Markets	Volume(MT)	Value (USD)
EU	230,900	749,876
US	82,416	594,876
Japan	96,261	605,467
South Korea	74,452	213,405
ASEAN	55,543	148,398
China and HK	38,283	127,696
Russia	43,270	92,773
Others	135,351	545,008

Export prod. categories Jan-Oct 2007

Markets	Volume	Value (USD)
Frozen shrimps	39 %	1226.464
Catfish	26 %	809.219
Tuna	4 %	124.197
Other Seafish	10 %	278.309
Cephalopods	8 %	231.606
Dried Seafood	4 %	123.730
Others	9 %	283.318
Total	100 %	3,076.843

General overview

Vietnam's coastline is over 3,400 km long, and the economic zone is more than 1 million square miles. The sea provides Vietnam with significant seafood resources, which makes a significant contribution to their GDP. Vietnam has a poor monitoring system, so their exact amount of resources is unknown. With sustainable catching, the fishery sector will continue to make a significant contribution to the GDP. Today, the sustainable catching is estimated to about 1.7 million tons.

There has been a significant growth the recent years in fish processing, and it is also becoming more internationally oriented. There is done much work on upgrading standards, and the number of processing factories that meet EU standards has increased. This is vital to the seafood sector as EU is the largest market for fish exports from Vietnam.

Vietnam's competitive advantage in the fishery industry is Vietnam's hard-working and young labor force. There is also being focused more on education within the fishery sector, and with a more educated work force the fishery sector will make a larger contribution to the growing economy and strengthen its position among its main importers. As of today the labor force is cheap, but this is expected to increase as it has done in China.

Vietnam is ranked as the 13th largest catching nation in the world, but nonetheless, the nation is relying

on old equipment and old-fashion technology. The infrastructure is a problem; harbor facilities, preservation systems, improvements in hygiene, and waste treatment systems are all areas where improvements and investments are needed in order for the industry to experience further growth.

Trends in the fishery sector

For the Vietnamese government, the goal is to turn the fishery sector into a competitive industry. This will partly be done by reducing the number of fishing boats, at the same time as both vessels and equipment shall be modernized. Among other things, this will contribute to less fish waste and increase the percentage of the caught fish that can be used.

In general, focus on sustainability is now an emerging trend in Vietnam, and the Government seems to realize that it is of vital importance for further development of fisheries.

Another trend is more attention on biotechnology. The government wants to attract foreign investors to this particular area.



Market opportunities in the fishery sector

Marine resources

In the marine fishery sub sectors, the resources potential has been estimated to be at 4.2 million tons of which the annual allowable catch is 1.7 million tonnes, including 850.000 tons of demersal fish; 700.000 tons of small pelagic; and 120.000 tons of oceanic pelagic fish.

There are 2000 species of fish existing in Vietnam, but only 130 are of commercial importance. The most important and popular commercial fishes are: tuna, sea bream, snappers, groupers and small pelagic. Furthermore, Vietnam catches about 1600 species of crustacean, squids, 2500 species of shellfish and sufficient amount of seaweeds.

Aquaculture

In the aquaculture sub-sector, there is a strong support from the Government in terms of macroeconomic policies to turn the sector into one of the main sectors of economical importance. Numbers show that the growth has been 10-12 % per year in the past five years (mainly freshwater and brackish aquaculture), making up for 42 % of the total fishery production. There is also close cooperation with seafood processing enterprises and fish farmers, modern farming technologies are gradually applied in order to improve production and quality.

Processing

For the processing sub-sector, the presence in the international market is strong, and the demand is high in countries such as the US, EU and Japan. Vietnamese seafood products are sold in 108 countries worldwide. The international markets are in demand for quality, safety and hygiene, and 209 out of 439 processing plants meet the requirements for the standards for the EU-region.

Companies such as; Marine Farms, Tracetracker and Pharmaq have observed the possibilities and strengths that exists in the Vietnamese fishery sector. They have brought with them the necessary education, knowledge, technology, quality and efficiency to improve that the fishery sector in Vietnam. With new technology, the industry will develop to better meet the requirements of high standards and quality for the international business market



The labor force

Other facts which are relevant to mention as strength for the marine sector, is the strong labor force. It also important to mention that the fishery industry is a privatized sector, which means that it can develop in a faster pace compared to other sectors that are more influenced by the government. According to Vietnamese association of seafood exporters and processors (VASEP) the economy can go faster when it's not state dependent. This can be seen in relation to the state bureaucracy that is considered to be inefficient and where decision-making is time-consuming. On the other side, a negative consequence is the low level of planning.

Quote: "Nobody knows what the other part is doing"
– Dr. Nguyen Huu Dzung Associate Professor at VASEP.

Focus for Norwegian companies

The opportunities for Norwegian companies that we consider as especially promising are the export of different forms of technology, and in cooperation's with Vietnamese fishery sector one are able to take advantages of each countries comparative advantages. Vietnam's huge natural resources and their labor force combined with Norwegian technology may be a winning combination. There are unexplored opportunities in areas such as fish waste usage, better onboard handling of fish, fish vaccines, fishing equipment and in the processing sector. Another thing that can be "exported" from Norway to Vietnam is good management and business skills.

Bi-products

There are unexplored opportunities in the bi-product area of the fishery sector. The equipment, knowledge and technology that the Vietnamese fishery sector possesses in this area are often poor compared to the international standard. There has been some development, but mainly the fish files are the only part of the fish that is utilized. To some extent discards are sold to fish feed companies, but most of it is treated as waste. Norwegian companies are innovative in this area and with the increasing focus on environment and efficiency in Vietnam; we believe that the demand for technology in waste management will grow.

Also the onboard handling of fish is often inadequate due the consisting equipment that is applied. The typical Vietnamese fishing boat is small and has insufficient preservations systems. Often as much as 30 % of the fish has to be disposed due to poor condition, thus new equipment and technology is needed.

Demanding importing countries

The demand from Vietnam's importing countries is increasing, and at the same time the fishery sector is facing difficulties when it comes to hygiene requirements. There are thus big unexplored opportunities in areas like fish vaccines and quality measures. Tracetracker has taken advantages of this growing demand and has now established an office in Ho Chi Minh City.

Vietnam is also facing serious issues concerning an increasing environmental problem in the fishery sector. They are aware of this threat and are willing to challenge the problem before it expands. Norwegian technology on this field will be highly desirable.

VASEP mentioned that the Vietnamese processing companies has a great potential in selling cheap manufacturing skills to Norwegian companies in need for more cost efficient processing of their fish. Hence, business projects involving processing of Norwegian fish in Vietnam can be of great interest in the future. This is due to the large, hardworking and cheap labor force. Also according to VASEP many of the processing plants are operating 50 %below capacity due to shortage of raw material. Therefore Vietnamese seafood processors will probably be interested in a mutual agreement, as they will be able to use their idle capacity.

Challenges in the Vietnamese fishery sector

Despite significant growth the recent years, this sector is still mainly containing small and medium scale companies. Its main weaknesses are the lack of updated fishing technologies and necessary knowledge for the development of a sustainable fishery sector. It is also an urgent need for development of a deep sea fishing fleet and better on-board handling of the fish that has been caught. Today, up to 30 % of the total catch is destroyed before the vessel comes back to shore. With better equipment, there are large potential for efficiency gains in this area.

There are also several efficiency drawbacks when it comes to the harbor facilities. With improvements of the harbors, there can be given better support to handling the fish when it comes to the harbor, and it can be shipped to the processing facilities faster. This will also result in a better use of the fishery resources and less waste.

Another weakness in the Vietnamese fishery sector is the lack of information on the existing fishery resources due to inadequate mapping of the resources. Because of this there has been a problem with overexploitation and little focus on sustainable use of the resources. For the fishery sector to further strengthen its position within the Vietnamese economy, focus on sustainable fishing is crucial.



Educational challenges

Many of these points may be said to come from one problem, and that is the lack of education within the fishery sector. The overall unskilled labor force is to a large degree unable without the necessary technological and updated equipment to make any significant improvements on these main problems. However, there is today increased focus on the necessity of more high-skilled labor in the sector.

Challenges in aqua culture

We also looked into the aquaculture sub sector. Also here, problems as bad planning of fish farming and bad waste management are big problems. In the processing sub sector, which is also an important focus area for Norwegian companies, a main weakness is hygiene. Because of stricter regulations from main importers like Japan, the EU and the US will result in export problems for Vietnam. Better education is also a solution to this, and development and import of equipment, technology and information will reduce weaknesses in the fishery sector.

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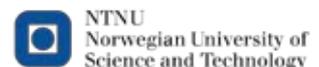
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Regulatory weaknesses

A weakness mentioned by VASEP is that there is no link between technological development and what is carried out in practice. According to VASEP, without improvements in technological standards, the fishery sector cannot go far and compete with other Asian fish exporters. VASEP means that Norwegian government can help Vietnamese government in the development of a more sustainable planning of the sector, this can for example help the prevention of transfer of disease.

A weakness in the Vietnamese system in general which is also present in the fishery sector is the regulatory framework in Vietnam. The understanding of the regulatory system is difficult, and for a foreigner it might seem quite confusing. According to Chrystel Monthean Vietnamese law depends on how you read it. Often, there are quite large differences between the written laws and what you will experience in reality. However, after the WTO membership, there will most likely be a change in the regulatory system. This will make the Vietnamese fishery sector more attractive to foreign investors.

Threats to Vietnamese fishery sector

Environmental pollution is a major concern. The aquaculture production faces setbacks due to the pollution. The need for the fishery sector to handle the pollution issues is to have the right technology and knowledge to reduce the pollution and danger for the environment. This matter is important for the quality and furthermore for future business success in Vietnam.

One important environmental issue is the handling of waste water. There is today a big problem of polluted water being transferred back into the sea.

The qualities of the products are momentous for the international markets, so the food control is a major concern for the countries importing food from Vietnam. As already mentioned, technology supported by firms such as Marine Farms, Tracetracker and Pharmaq can help to improve these issues. However, the government is not proactive when it comes to this matter and things take time when bills and other regulations has to come through in Vietnam

Inefficiency is a challenge that not only the fishery sector has to deal with, but Vietnam needs to improve on this area to identify the problems sooner and handle them faster to be able to compete in time with other markets. This has been stated by some of the companies we met, and for the moment one needs to be patient with the Vietnamese business culture as things do take time. This has nothing to do with the culture or the way to do business in the country, but simply in fact Vietnam is still in its learning face to grow as a nation and as a emerging economy. In the future one can hope that these threats and challenges would be easier to overcome as the fishery sector has a standard and quality that can be matched with other top industries worldwide.

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EXPLORING BUSINESS OPPORTUNITIES

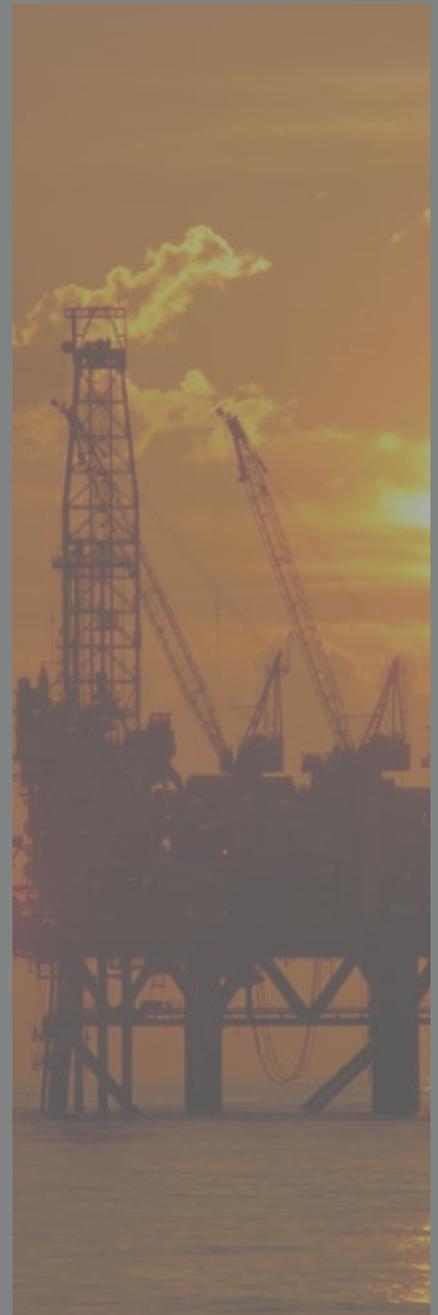
Marine



Maritime



Oil and Gas



Executive summary - Maritime sector

The shipbuilding industry is one of the main priority sectors in Vietnam. The reason for this is the Government's strategy to develop the country's long coastal line. Within 2015, the Government aims for the nation's shipbuilding industry to be the world's 4th largest.

Much of the government's efforts to develop a ship building industry are directed into the state owned enterprise Vinashin. This industrial group currently own 60 shipyards and ship repair facilities. Currently they represent 70-80% of the ship building capacity in Vietnam and their order book until 2012 includes 160 ships, with a total value of over 6 billion USD.

From our studies we believe that there are two kinds of opportunities for Norwegian enterprises in the maritime industry. The first is to export products to the rapidly growing base of shipyard and ship repair facilities in Vietnam. The other kind of possibilities is to move production to Vietnam to benefit from cheap labor and an investor friendly climate.

One of the potential challenges to keep in mind is that Vinashin, as mentioned currently representing 70-80% of the industry capacity, has a strategy to get 60-70% of the ships value from Vinashin subsidiaries.

Marine Fleet

	2001-2010	2020-2020
Cargo Ship	229	229
Container Ship	28	58
Oil Tankers	37	43

Marine Fleet in DWT

	2000	2010
Ocean – going fleet	1 513 000	3 550 000
Coastal fleet	353 000	847 000
Total	1 866 000	4 397 000

General overview

Maritime sector, with shipbuilding as the main activity, is one of the main sectors the government of Vietnam is focusing on. The shipbuilding industry covers ship and rig building and the supplier industry as well. Our goal is to explore which part of this industry that is worth entering.

The maritime sector is developing rapidly and has attracted several foreign companies, including Norwegian companies like Aker Yards, DNV, TTS and ODIM. With the shipbuilding industry many other industries follows, like steel, mechanical, welding, paint, manufacturing etc. One of the government's goals with prioritizing the shipbuilding industry is to build up the whole country and not just the major cities. One goal The Government has stated is to become the 4th largest shipbuilding nation before 2015. The Government have stated:

The government has as a symbol of priority put over 70 million USD into the shipbuilding industry in 2007/2008. As an example the government has approved STX Shipbuilding Co. Ltd of South Korean, to build a 500 million USD shipyard in Van Phond Economic Zone in the North of Vietnam. The yard will have a capacity between 900,000 and 2.5 million DWT after completing second phase of construction. Only formalities are left before the project can start.

Shipbuilding depends on supporting industries. Activities in these industries are likely to accelerate given the government's aim to localize 60-70 % of the shipbuilding value chain from domestic production by 2010. Vietnamese mechanical factories are capable of producing most tooling machines like welding, sawing, cutting, bending, lathe machines etc.

“Vietnam aims to become a shipbuilding hub and the 4th largest shipbuilder in the world before 2015”,



To avoid some of the bureaucracy Vietnam has, they have established some industrial zones. In these areas it is possible to apply for land to a local committee. Then the local committee decides if they will rent the land to the applier or not, all depending on what kind of industry they need in the area and if it will complement the existing industry. Aker Yard and ODIM are to examples of companies that have applied and get the permission to build up their industry in an industrial zone. Please see part two in this report for more about industrial zones, their purpose, roles and applying process.



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The Shipbuilding market in Vietnam

Vietnam started to develop shipbuilding industry in 2004. They saw a great potential when shipbuilding companies and ships owners were starting demand ships build cheap in Asia. The current building contracts are approximately 160 ships until 2012, including very large and more complex ships for domestic and foreign ship-owners – with a value worth over 6 billion USD.

Vietnam's shipbuilding industry is growing rapidly, creating good opportunities for exports and materials, maritime products and services. The tables in the executive shows a forecast for additional capacity

and vessels build in Vietnam from 2000 to 2010.

The market in Vietnam has great potential when it comes to technology transfer. It is obvious that demand for materials and equipment for industrial shipbuilding will increase in the ten coming years.

There is strong competition in the market, especially from the regional suppliers like Japan, Singapore, South Korea and China who have been traditional partners to Vietnam. In additional to this, Poland, Denmark and Finland have also been quite active in the market.

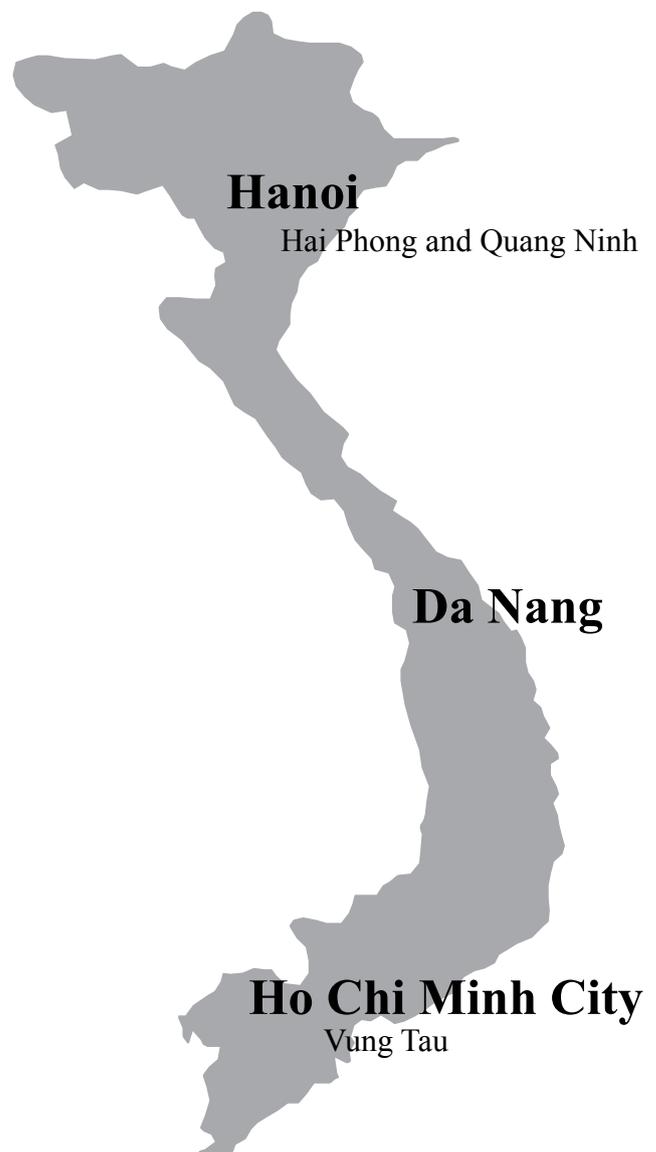


ARNE BLYSTAD AS
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Location of the shipyards

Vietnam has more than 60 shipbuilding and ship repair yards owned by the Ministries of Defense, Fisheries and Transport. The umbrella organization is called Vietnam Shipbuilding Industry Corporation (Vinashin). Geographically the shipbuilders are divided into three regions. Hai Phong and Quang Ninh centre in the North, Da Nang in the central and Vung Tau with Ho Chi Minh City in the South. The yard located close to Danang is the biggest, they will be capable to handle ships on 300 000 DWT when the yard and the ports are finished in 2008.

Vietnam is located in the middle of Asia with direct access to the ocean. With China as a close neighbor and as one of the world's largest export nations – opens up big opportunities for country. Most of the transport is provided with ships and the route is close to the coast line of Vietnam. This provides Vietnamese shipyards with a lot of maintenance and repair of ships along the coast line. Along with cheap labor gives Vietnam a competitive advantage compared with nations in Europe and other nations in Asia.



The Government and Vinashin Industry Shipbuilding Group

Shipbuilding is as mentioned one of the main priority sectors in the Vietnamese government's strategy to develop the country's long coastal line. This implies strong political backing for the shipyard industry in Vietnam. Government plans for development includes improvement of the country's ports, and also the development of supporting industries related to the yard industry. Among the projects is a steel mill in Cai Lon (Quang Minh province) and also a factory for diesel engines in An Hai (Hai Phong).

To help Vietnam reach its goals for the maritime sector substantial funds are directed into the state owned industrial group Vietnam Industry Shipbuilding Group (Vinashin). Vinashin is the largest ship builder in Vietnam by capacity, and accounts for 70-80% of the total domestic capacity. Currently Vinashin has 60 shipyards, and are expected to employ 65,000 workers in their facilities by 2010. Many of the Vinashin yards are recently built or heavy upgraded to prepare for projects of more challenging technologies and size.

As of today, Vinashin's current ship building and ship repair activity is mostly concentrated around the construction and repair of bulk carriers, container ships, oil tankers, car carriers and other custom made-to-order ships.

The government's investments into Vinashin stimulate growth and increases yard activity. This again generates large opportunities for companies in related industries, for instance the production of deck machinery and ship design. Until 2012 Vinashin has a total of 160 ships in their order book representing firm order book of >3.4 BUSD and an option order book of >7.1 BUSD.

Some people we talked to also pointed out that Vinashin run the risk of running into challenged on the management side because of their rapid growth rate. This might in turn lead to problems for Vinashin, but one can also imagine that co-operation between Vinashin and partners will be harder.

Chinese and Korean products are on average a bit cheaper than products imported from Europe. We are told that because of this there seems to be a preference for these cheaper products. This is also confirmed by Goltens, a leading provider of specialized repair and maintenance for shipping and offshore marine installations. The company has not yet sold Norwegian equipment to any of the Vietnamese yards. Norwegian products are associated with high cost and high quality in Vietnam. We are told that the biggest opportunities for sale of these products might be ships operating in the oil and gas industry. The highest requirements for quality and also the highest purchasing power are found in this part of the industry.



Why local production?

The government has a target to make sure 60% of the value of the ships produced in Vietnam come from domestic producers. This might be a major competitive disadvantage to companies trying to export into the Vietnamese market.

Vinashin has a strategy of expansion that will place as much as 60 - 70% of the value from the finished ship from suppliers within the group. Considering that they currently represent 70-80% of the shipbuilding industry in Vietnam this is something to take into account. With substantial political backing and governmental financing Vinashin is a dominant player and their plans of expansion are believed to be credible by most of the people we talked to.

Vinashin's plans for expansion are mostly to reduce

reliance on foreign imported marine equipment and accessories. Among the products they are planning to produce internally are: steel (plates, profiles), welding material, main engines, generator sets, boiler and other engine room equipment, cranes, hatch covers, interior material, air conditioning system and electronic equipment.

Vinashin's strategy to enter related industries imposes both risk and possibilities to foreign companies. It might be reasonable to assume that competing with Vinashin subsidiaries for delivery to Vinashin yards will be difficult given the group's strategy for internal sourcing. This might indicate that the potential for downstream suppliers lies in the niches not covered by Vinashin. These niches may be found in products



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which require much technologic know-how and the group consequently cannot quickly catch up with and displace foreign expertise. We were told by many of the companies we met that a possible strategy to enter the ship building market in Vietnam would be to make a strategic alliance with Vinashin. Vinashin has, among others, already formed joint ventures with companies from Poland, Japan, Holland, Denmark, Germany, Australia and Korea.



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Cheap Labor

The wages for unskilled labor in Vietnam is very low, and although labor costs typically account for only 15-20% of the total costs associated with the construction of a new ship this is a major competitive advantage for yards operating from Vietnam. The consultancy company Mekong Economics also point out that Vietnam in contradiction to China still has a big base of rural farmers willing to move for employment in the new industry. This might work as a buffer preventing a dramatic rise in wages following industrial growth in the country.

From our meetings with companies already present in Vietnam we was left with the impression that recruiting key personal for top- and middle-management as well as engineers is a problem for companies in the maritime industry. We are also told that the ways of teaching in the Vietnamese education system is by many characterized as old fashioned, and it is pointed out that an engineer with a Vietnamese education quite likely will require more on-job training than an engineer with a foreign education to become fully operational in their job.



LEIF HÖEGH & CO

Maritime Clusters

Vinashin has as part of their strategy to establish three regional clusters for maritime industry. One is located in the north, one located in the center of the country and one in the middle of the country. It might be reasonable to assume that the establishment of maritime clusters in different parts of the country will create cluster effects for the industry the same way that we have experienced in Norway.

Beneficial effects from the cluster localization might be the development of a labor force with good skills, knowledge spillovers, pooling of infrastructure and an innovative environment for marine equipment with mutual benefit for companies present in the cluster.

Upstream suppliers tend to gather around these maritime clusters. One example is a Norwegian wholesale dealer who considers establishing a facility in Vung Tau. This dealer will support, among others, Aker Yards and the Odim factory under construction there. The clustering of related business renders possible the establishment of this kind of companies. This is of mutual benefit to both suppliers and the customers.

Contracts; the Vietnamese way

To ensure that products are delivered according to their specifications, it is recommended to be present during the construction period. Höegh Autoliners have at least one person present at the production facility at all time. When you are entering into a contract in Norway you expect the product to be delivered as the standards listed in the contract. In Vietnam however, the contract is more like a working document and it is important to be present during the period when the construction takes place. If you are not present you will risk that the specifications will not be as planned. Personal relationships are of high value in Vietnam. It is normal to pay great attention to your partners. The main reasons for this due to Vietnamese people do not want to make business with people they do not know.

Companies entering the Vietnamese market have to be aware of the culture and language challenges. As mentioned personal relationships is important for Vietnamese business men, a cultural different from many companies usually operating in Europe. Many will also find the language challenging when meeting with the management in Vietnamese companies. Since the CEO and top managers usually are in the 50s or early 60s they do not speak very well English. It is normal that employees from other places in the organization join the meeting to translate for the top management. We experienced some challenges with the language during our stay in Vietnam, and it is a good idea to bring or make shore there will be a translator participating in the meeting. However, the English skills are improving in the country. This is not just a challenge in the maritime sector, but since the working language in this segment usually is English it is important to be aware of this challenge.

Ports in Vietnam

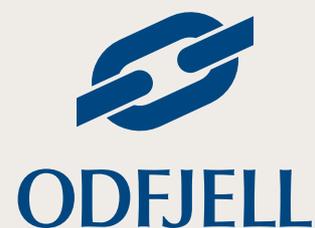
The government has a plan and are invested over 1 billion USD in upgrading and building new ports. Along with a new port in Ho Chi Minh City deep water ports is also a priority for the government. This will make the country capable to handle the biggest and most advanced ships. This may lead to a greater demand for better and more advanced ships. The technology is a challenge Vinashin has and this may open new possibilities for both the shipbuilding industry and the supplier industry. Norwegian companies have the technology the shipbuilding

industry in Vietnam will be demanding.

A difficulty has been the standard and quality of the ports in Vietnam. The biggest port in Vietnam is located in the Saigon River, and close to Ho Chi Minh City. A problem is the Saigon River; it is shallow and cannot handle the biggest ships. As a consequence cargo most reload in Singapore and take the last bit on smaller ships. New opportunities will open up as the ports and rivers will be capable to handle bigger ship in the future.



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Owner structure in the Maritime sector

A well used gateway to the Vietnamese Shipbuilding industry has been to form a Joint Venture (JV) with a Vietnamese company. This has normally been done with an owner structure of 49 % on the foreign partner and 51 % on the domestic one. Aker Yards have on the other side form a JV with a Singaporean company that has years of experience of doing business in Vietnam.

When the investment is at a relatively small scale, it is recommended to form a 100 % own investment. Then the company has the decision authority for the whole project and do not need to convince the partner first. But on the other side, a local partner have the advantage of providing you company with local knowledge about the market and the country. After some years it is normal that one partner in the JV bay the other one out, and leaves the company as just one partner company.

A challenge in the shipbuilding industry may be to raise finance on future new build. Meanwhile, local economists expressed their worries about the economy's ability to absorb the flow of capital, an increasing trade deficit and escalating prices – factors that would diminish economic growth. If the economy grows to fast it may be a problem to handle, and as a worst case scenario the growth will led to inflation out of control. On threat that can be fatal in the future is how to finance projects. If the stock market does not function as it should. It will not be an arena for raising capital as we know it from Norway. But we cannot say that it do not work as it should. It is some kind of uncertainty in the market today.



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Innovation Norway

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EXPLORING BUSINESS OPPORTUNITIES

Marine



Maritime



Oil and Gas



Vietnam is today the 6th largest oil producer in Asia. The government is determined to increase the development of the Oil and Gas industry, by increasing the investments in exploration and enhance the cooperation with foreign companies. Petrovietnam is the national petroleum company and is the only company to conduct petroleum operations in Vietnam; therefore it is necessary to cooperate with them when entering the Vietnamese market.

In summary we consider the best opportunities for Norwegian companies are within the possession of advanced technology as well as extended knowledge and experience about the oil and gas sector.

The Government's 20 year plan include develop the domestic gas market, develop the processing industry and modernize the industry. This leads to opportunities within subsea, enhanced oil recovery (EOR), refinery equipment and technology to develop the gas market.

There are also needs to enhance skills within health, security and environment (HSE) and project management. If the conflicts with China regarding the deep sea territories will be solved there is expected to be great opportunities within deep sea oil and gas exploration and production.

Production and Potential

Potential oil resources: 8.5 billion barrels

Potential gas resources: 100 TCF

Oil reserves: ~ 4 billion barrels

Gas reserves: ~ 23 TCF

Oil production : ~ 400.000 bod

Gas production : 600 MM cfd

Facts

Vietnam is the 3rd largest oil producer in South East Asia after Malaysia and Indonesia and the 6th largest oil producer in Asia

14 fields currently under exploration or exploitation

9 fields with production activity, where the largest are White Tiger and LanTay-Lan Do. They have no refinery capacity (expected 2009), so they export crude oil and import refined products

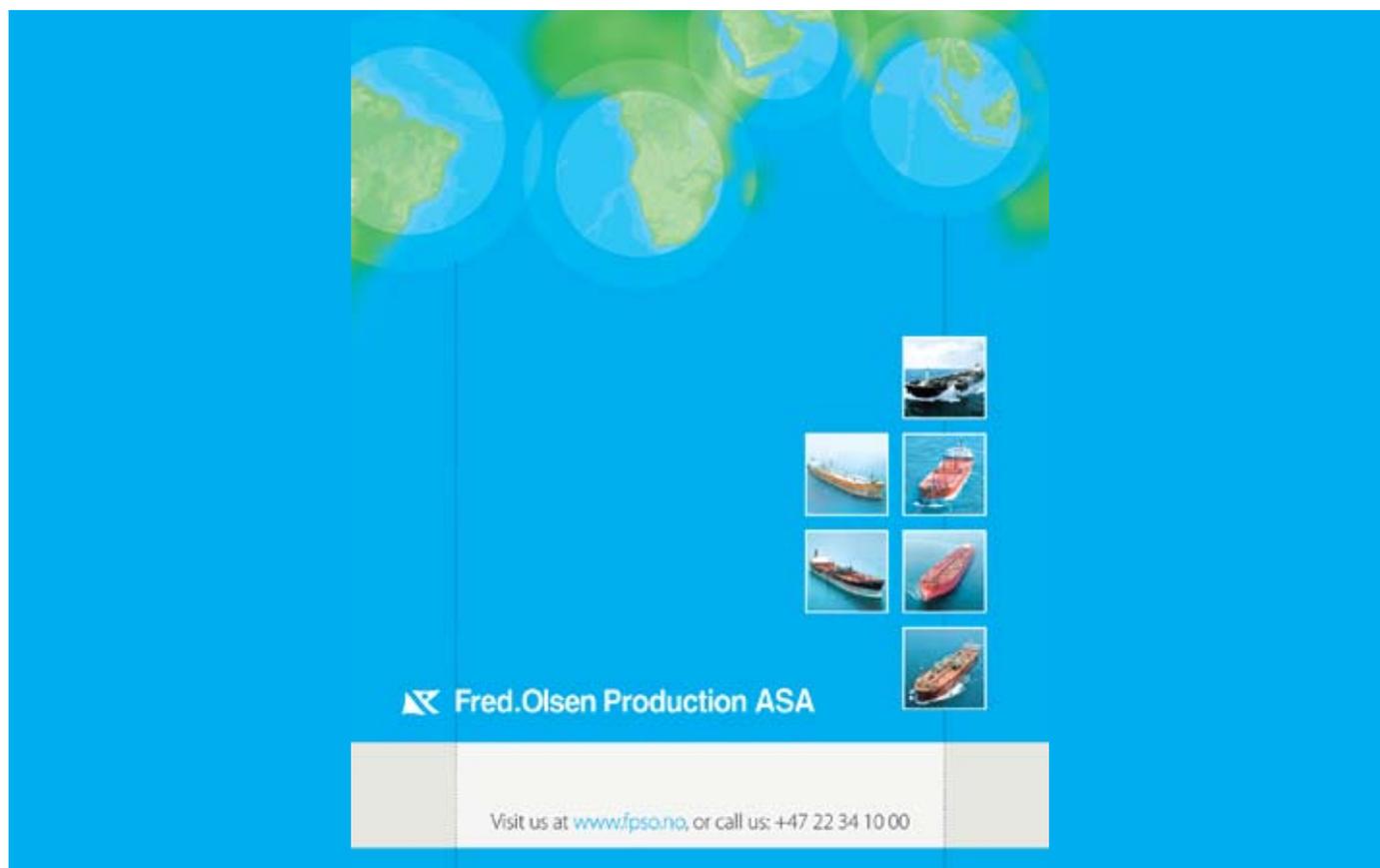
General Overview

The beginning of Vietnam's exploration activities found place in the Song Hong delta in the early 1960s. Today Vietnam is the 6th largest oil producer in Asia and the 3rd largest in South East Asia, offering several attractive attributes for foreign investors; Strong underlying economic growth, a rapid growth in population and growing product demand.

Deficit product markets and the possibility for low operating costs enable an attractive business environment for foreign investors. The Vietnamese Government has realized the importance of foreign capital and is considering offering more beneficial tax incentives to foreign oil companies. The Vietnamese regulatory framework is another area the government

is improving. This is to increase the incentive for foreign companies to invest in the Vietnamese market, and join the more than 30 foreign companies that already operate in Vietnam. These include firms from the US, Korea, Japan and Europe.

Petrovietnam who holds the role as the National Oil and Gas Corporation of Vietnam has worked out a strategy and development plan for the oil and gas industry. The plan was approved by the government in 2005 and has a 20 year horizon. In short the plan includes increasing investments in exploration, more cooperation with foreign companies, develop the domestic gas market, develop the processing industry and modernize the industry.



The image shows a promotional graphic for Fred. Olsen Production ASA. It features a blue background with a stylized map of the world in the upper half. Below the map, there is a grid of seven small images showing various oil and gas vessels, including tankers and offshore supply ships. At the bottom, the company name 'Fred. Olsen Production ASA' is displayed in white text, accompanied by a logo. Below the name, a white box contains the contact information: 'Visit us at www.fpsa.no, or call us: +47 22 34 10 00'.

Actors in the Vietnamese Petroleum Market

Petrovietnam is the national petroleum company, their revenue contributing to a large fraction of the state budget. As Petrovietnam are aligned to implement government plans and is the only company to conduct petroleum operations in Vietnam, it is necessary to cooperate with them when entering the Vietnamese market. The Petrovietnam group consists of 27 subsidiaries that compete against each other. In addition Petrovietnam is involved in more than 20 different joint ventures. They operate in all areas of the petroleum sector such as exploration, production, storage, transport, processing, crude oil export and import and are described as an effective provider of a range of upstream services, being strong financially, technically and commercially.

Petrovietnam is structured as a diversified group

who aims to have a large share of their production internationally. Their future plans include developing technological and managerial abilities to be able to adapt to the development of the petroleum industry in both domestic and international business environments.

In addition to expanding their exploration and production domestically they also want to increase production overseas and are therefore seeking partnerships with international companies. Petrovietnam have been conducting exploration and production in areas such as Malaysia, Indonesia, Algeria and Iraq, but are looking to increase their activity abroad. They also intend to attract more foreign investment.



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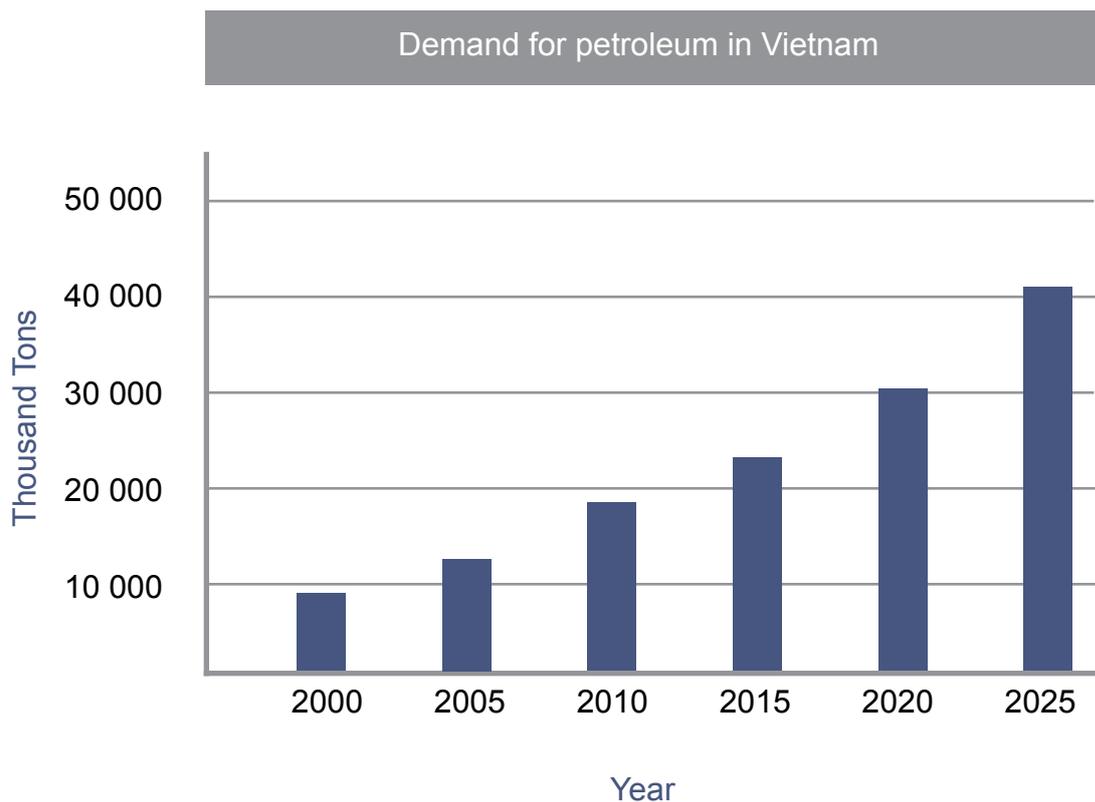
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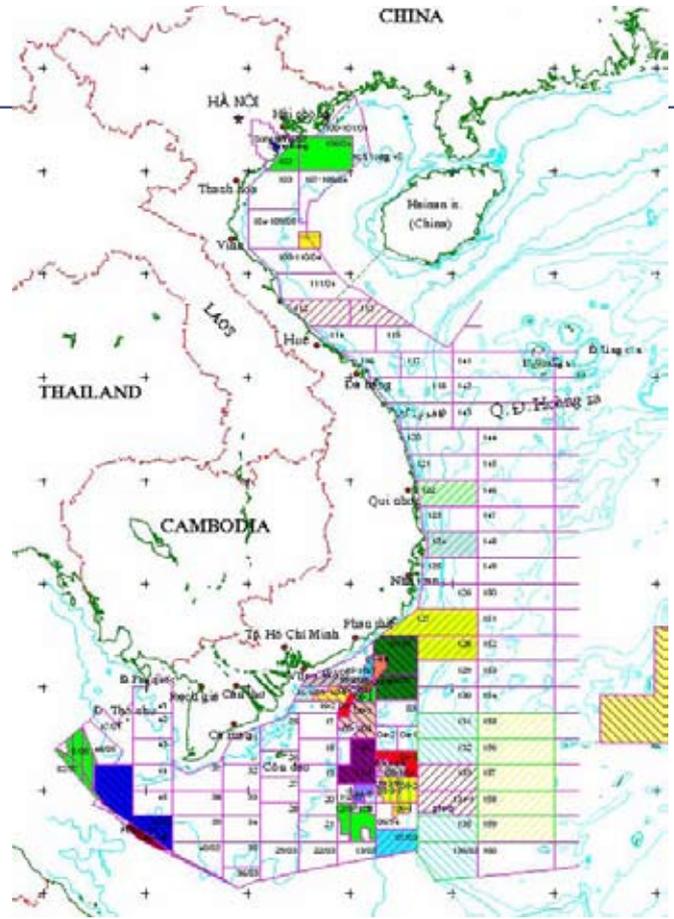
In addition to PetroVietnam and its subsidiaries there are more than 30 international oil companies operating in Vietnam's shell continental waters. Some of these are of the biggest actors in the oil and gas market such as BP, Chevron, Shell, Petronas, KNOC and Conoco-Philip. Vietsopetro, PetroVietnam's Russian joint venture, provides around 90 % of the country's oil production through the White Tiger field.



Source: Petrovietnam (Nov. 2007): *Progress Updates of Refinery Projects & Plans.*

Entering Vietnam

There is no doubt that the Vietnamese Oil and Gas industry welcomes Norwegian companies to contribute to the expanding oil and gas market and the growing demand for petroleum products. To meet the needs in their expanding market the Government in Vietnam is encouraging foreign investors to invest in the Vietnamese oil and gas industry. Petrovietnam aims to have a large share of their activities internationally and are interested in cooperating with foreign companies on international, as well as on domestic projects within Vietnam. They have also shown interest in swapping oil blocks with foreign companies as a step in diversifying risk. Fifty years have past since Vietnam first started their exploration activities and can now offer foreign companies competency within exploration and production in the shallow water areas outside the coast of Vietnam.





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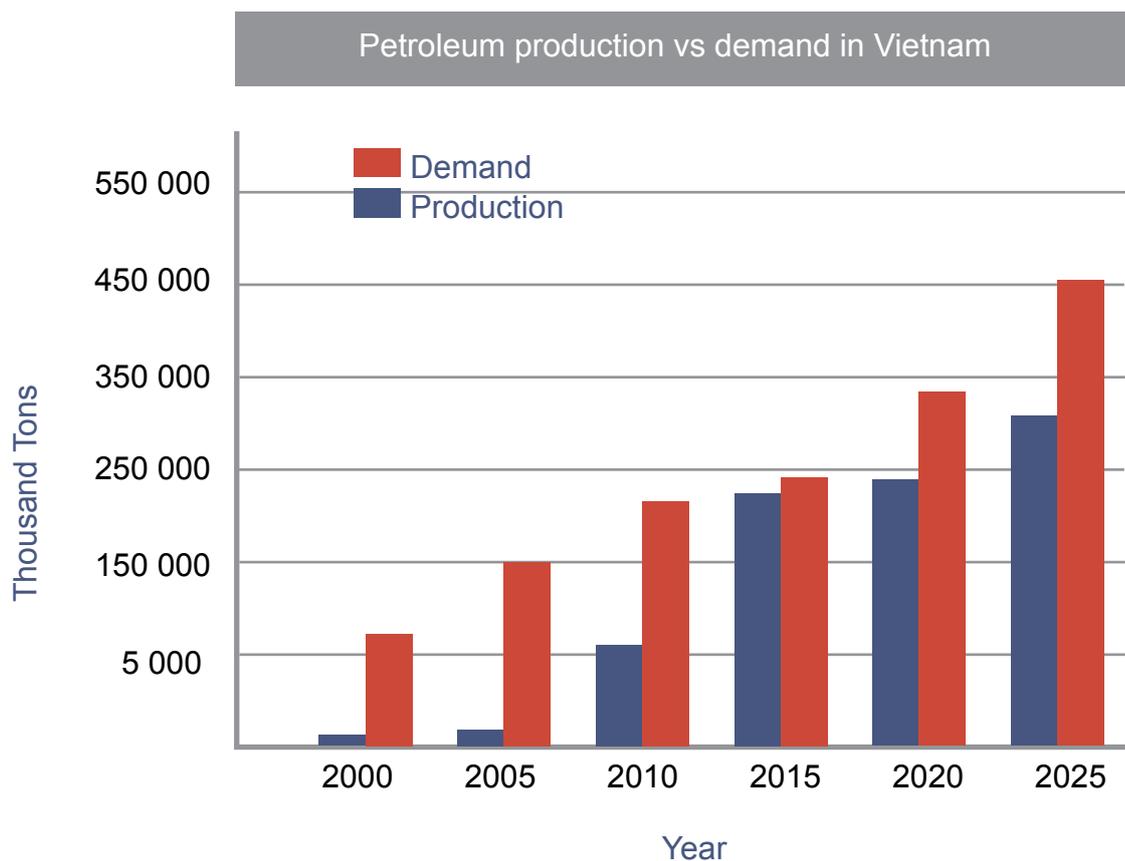
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Challenges in the industry

In Vietnam there is a critical shortage of skilled and semi skilled labor and the petroleum sector is no exception. The economy has developed so fast that there are not enough people with adequate training and education to cover the huge demand. Short term there is no clear solution, there are few schools for higher education and the facilities are poor, further more the educational methodology and literature is outdated. Since there also is a lack of skilled labor in other countries, talented Vietnamese are often head-hunted by foreign companies from areas such as Saudi Arabia and the Middle East who offer better

terms and conditions than Vietnamese companies. Many companies are also having problems getting enough semi-skilled middle managers. Lack of project management skills stand out as challenging.

Having experience from Vietnam is a huge advantage when entering the Vietnamese market. Much of this is due to the importance of having a network, arriving without a one and especially without intention and a plan how to acquire a network might be fatale for a project. Building a relationship and earning trust is a time consuming activity.



Source: Petrovietnam (Nov. 2007): Progress Updates of Refinery Projects & Plans.

“If you already have experience in South East Asia there is a great potential in Vietnam, if not there are better places to go.”

Hugh Sykes, Salamander Energy

Foreign companies who want to enter the oil and gas market in Vietnam have to cooperate with Petrovietnam and be prepared for long term involvement. The Vietnamese authorities are not interested in companies that are present for only short- periods of time. Most projects involve lengthy feasibility studies, financial issues and a government approval process. Another issue is that handling the Vietnamese bureaucracy is time consuming. Vietnam has a fairly complex licensing system. All oil and gas contracts need to be approved by the Government, and signed by the prime minister before being returned to the company.

If deep-sea fields are “opened” there is a great potential for new oil discoveries, but disagreements with the Chinese regarding territories has so far put a stop to exploration in these areas. Therefore the oil and gas potential is unexplored and the potential is to a certain degree unknown. However the area is expected to have a large potential and if exploration and production is executed, Vietnam will need deep sea expertise.

There is a lack of certain technology in the oil and gas sector in Vietnam. Oil production has been declining the recent years leading to a demand for EOR technology and experience. In addition competency within subsea and gas is needed. Vietnam is improving the downstream activity and their first refinery is expected to be completed within 2009. The refinery capacity is forecasted to be 60 % of the domestic market.

Activities in the oil and gas market in Vietnam have so far been upstream; having experience and technology related to downstream activities might be a potential business area for Norwegian companies.

“There is a lot of potential in the gas market in Vietnam”

Hugh Sykes, Salamander Energy



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Unsettlement within the deep sea areas

The industry is getting more aware of the importance of HSE management in general and requirements and certification are being implemented in Vietnamese companies. Many of these lack experience in HSE management and would like to cooperate with companies that possess this knowledge. Pollution is something Vietnamese authorities have started to take more seriously and they strive to fulfil western standards.

The Vietnamese politic is getting more liberal regarding the legislation towards full or partial Vietnamese ownership in the companies that are operating in Vietnam. In other business areas there is now possible for a full foreign ownership, except in the maritime and oil and gas sector. Today a normal distribution is 49/51.

As presented, there are many opportunities for Norwegian oil and gas companies in Vietnam. Having a reputation of being experienced and in possession of needed technology; Vietnamese companies are very interested in establishing cooperating with Norwegian companies.

The main challenge within the deep-sea sector is that China claims possession of these territories. For instance when conducting seismic survey in these areas Chinese vessels have been known to sabotage the work by ruining the seismic equipment. This makes it impossible to explore the potential of the deep waters and utilize the expected resources. Therefore there are today no activities within these territories and there will not be any before the dispute has been settled. When the conflict with China will be solved is uncertain, although Vietnam claims to have back up from international laws.

“Investors in Petrovietnam refinery and petrochemical projects are warmly welcome”

Petrovietnam

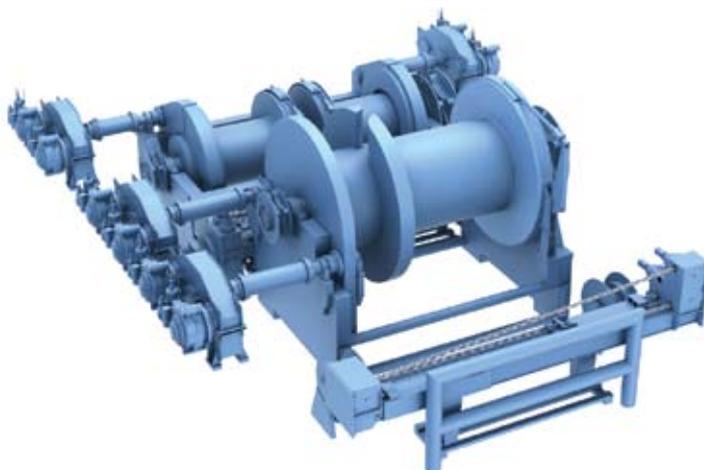
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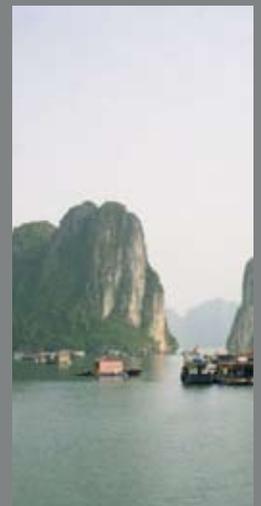
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PART TWO

DOING BUSINESS IN VIETNAM



Prospect for Vietnam- the road ahead

Our analysis have shown that there are good opportunities for Norwegian investment in both the marine-, maritime- and oil and gas sector in Vietnam. From the previous section we can also conclude that there can be even better investment opportunities in the future if Vietnam develops in the right direction. We have shown several examples that the Vietnamese government is adapting to a more investment friendly politics and that state owned companies in both the maritime and oil and gas sector are expanding. We think that there will be a great potential in these markets for Norwegian technology and knowledge in the future.

The implementation of the WTO will also provide better and more stabile business environment in Vietnam in the years to come. It is our impression that the Vietnamese government is eager to fulfil the demands set by the WTO, and that this will provide Norwegian companies with better options when doing business in Vietnam.

There is stabile political power in Vietnam, which is expected to continue. Despite this the government need to implement reforms on several areas such as; macro-economic management, the education system, infrastructure and fight against corruption. These are

important topics which have to be granted attention such that Vietnam can continue its growth.

One of the largest challenges for doing business in our main sectors is infrastructure. This is a huge bottleneck today both in communication, transportation and in power supply. Reducing the bottlenecks is necessary for further development in Vietnam.

Vietnam have a young population and still have a demographical advantage; there will be new generations coming in to the labour force every year, and this is likely to catalyse for sustained high growth in GDP over the coming years . The average age in Vietnam is 26 years and this is six years behind the average age in China, this gives Vietnam an advantage to China in the years to come. Despite this demographical advantage, Vietnam lack skilled workers. This problem can only be solved through better education institutions.

In the next section we have taken a closer look on these issues and how to do business in Vietnam.



Vietnam is governed by a communist party that controls the economy through the banking system and large state-owned enterprises. Although they have been gradually reforming and privatizing, approaching a more market – oriented economy. This was the intention of the DoiMoi Policy which was implemented in 1986, where developed countries encouraged Vietnam to privatize to be able to participate in the global economy. During our visit in Vietnam it was pointed out that the one party system might have led to a more stable and predictable political situation than what neighbouring countries experience.

Corruption

One of Vietnam's main challenges is corruption; corruption is widely spread and especially in institutions and firms controlled by the government. The 2007 International Corruption Perception, published by Transparency International in October ranked Vietnam 111th out of 163 countries. Personnel that are employed by the government usually have a low salary and corruption is therefore used as an extra income. However the amount the bribe consists of is usually fairly low. It is well known that many contracts are signed because there has been an extra commission. Even people applying for jobs may be forced to pay a fee to enable a job offer.

Recent scandals of corruption within government bodies have caused much public resentment and this is seen as a serious risk to the popularity and legitimacy of the regime. As local efforts are being made to improve the situation, foreign companies should put in an effort to help eliminate the problem. Foreigner companies in Vietnam should use experienced advisers, be sure that CSR is thoroughly implemented in the company policy and have 100 % control over procurement processes.

Norconsult



Infrastructure

The governmental involvement can be seen in many parts of the society, for instance the way they control the power supply. There is a power shortage in Vietnam, so both controlled and uncontrolled power shut-downs are common. In some parts of the country the power is turned off for a couple of hours during the day or they are only given power a certain number of days throughout the week.

Infrastructure is a huge problem in Vietnam and so far there is no evident solution. Improvement is needed as the growing economy has led to a booming number of cars contributing to already overstressed roads. In large cities such as Ho Chi Minh and Hanoi efforts such as only allowing trucks into the city center at specific hours is implemented. Also Vietnam's ports have problems handling the increased traffic.

WTO membership have opened up the markets Vietnam became a WTO member in January 2007. This has led to many opportunities for Vietnam. As the table shows; heavy industry and real estate have attracted the most from foreign investors in 2007.

This is a product of government priorities and WTO membership.

The WTO membership will lead to a more opened country, and the government will have to do something about the high import tariffs etc. If Vietnam has the potential to produce a product themselves, your company will have to pay import tax on the product if it is not bought domestically.

Foreign experts said WTO membership has helped Vietnam become prominent on the world investment map, but it was only another landmark in the country's economic reform process that began 20 years ago. The foreign direct investment (FDI) had grown rapidly the last years. As shown in table the FDI has grown with over 50 % the last years.

FDI in Vietnam 2007 (by segments)	US\$ mill	
Industry	8 062,71	45,2 %
New Apartments and Building	4 721,04	26,4 %
Hotels and Tourism projects	1 872,80	10,5 %
Construction	979,60	5,5 %
Transport, Post, Telecommunication	571,25	3,2 %
New Urban Development	400,00	2,2 %
Service	376,78	2,1 %
Industrial zone Development	333,50	1,9 %
Fishery	282,47	1,6 %
Education, Health and Cultural Projects	235,73	1,3 %
Finance and Banking	20,00	0,1 %
Total	17855,88	100 %



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- International Summer Programme

Vietnam is now the third on the list of FDI in Asia after China and India.

WTO membership will give Vietnam increased access to foreign markets and the opportunity to take trade grievances to a neutral arbiter, strengthening its hand against nations that accuse Vietnam of illegally dumping goods on their markets. In return, the country will be required to drop its high tariffs on foreign imports and eliminate subsidies for state-owned companies. This was also pointed out to be important in the meeting we had with the government; to attract more foreign companies and capital the tariffs on imported product has to drop.

With the WTO membership follows a set of international standards. Like the stock market and accounting standards. If both the government and Vietnamese companies wants foreign investors to the country, they will have to adapt international standards like IFRS. The stock market is also growing fast; the total value was nearly 16.9 million USD in 2000. By the end of 2006, Vietnam had 193 companies either listed or registered for transactions in the stock market with a total value of nearly 13.8 billion USD.

As consequents of the WTO membership more state owned companies will be listed at the stock exchange market in the years to follow.

Fishing areas near shore will most likely be restricted in the coming years, this due to overfishing for many years. As consequents the fishing fleet has to be upgraded or rebuild to handle deeper water. This will only happen if the government and ship owners manage to raise capital to finance the changes; one opportunity is through the stock market.

Vietnam has a strong relationship to USA; in 2001 they sign a bilateral trade agreement. This makes it easier for Vietnamese product to enter the American market and opened many door for trading with Vietnam, both for American companies and other foreign companies like Jotun and Dell. Dell is planning an investment on almost 1 billion USD in the years to follow. It was discussed in one out our meeting the plan for Vietnam to become a member of the Association of Southeast Asian Nations(ASEAN). This is a trade union in Asia more or less like the European Union we know from Europe.

FDI in Vietnam				
Year	1990	2000	2006	2007
Projects	107	391	987	1 445
US\$ mill	735	2 800	12 000	18 000

NORPLAN

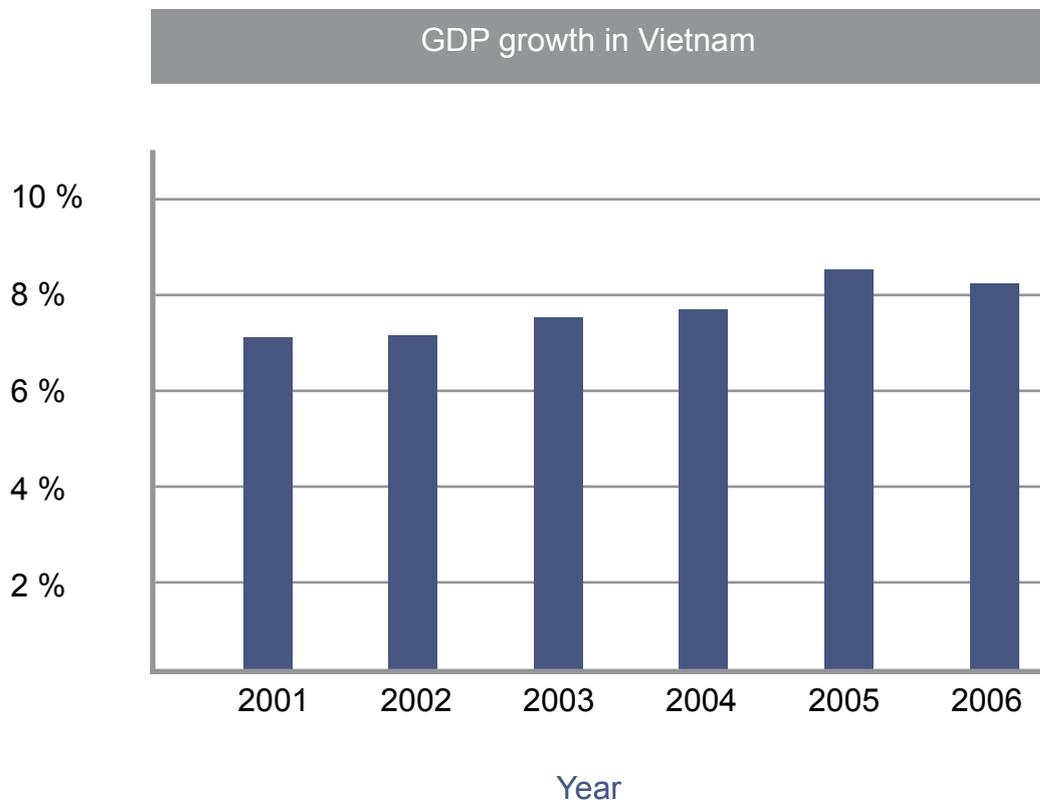
Consulting Engineers and Planners

Vietnam's troubled past has had a large impact on the economy, especially in the northern region. Even today the southern provinces are wealthier and more modernized compared to the north. Reaching peace in 1975 Vietnam has experienced rapid growth, especially the last 15 years. Although they did experience some slowdown during the Asian financial crisis in the late 1990 they were not as affected as some of the other countries in the region.

Vietnam is today the fastest growing economy in South East Asia based on strong investment, consumption and exports. The previous year's GDP growth has been around 8 % annually and the growth is forecasted to continue. The GDP per capita in 2007 was slightly above 830 dollars and it is expected that Vietnam will in the next years be given status as a middle income country reaching a GDP per capita of 1000 dollars.

The main challenge for Vietnam's economy is the high inflation rate which reached 12.6 % this previous year. High inflation rate has arisen due to booming energy prices which have caused a rapid increase in price of non-oil materials, commodities and real estate. A factor that could add to Vietnam's inflation risk is that the weak US dollar leads to the effective exchange rate of the Vietnamese Dong depreciating. This is due to the Vietnamese Dong being closely linked to the US dollar. Improvement in the area of macroeconomic management is needed.

Due to factors such as increased focus on foreign investment and WTO membership, foreign trade and foreign direct investments have improved significantly. Last year export grew 20 % compared to the previous year. Vietnam's main exports include coffee, plastic and textiles.



Source: Vietnam Economic Times

Three million people died under the French War and later the American War, leaving Vietnam with a relatively young population where 60 % is under the age of 30. The population which is now about 86 million is increasing rapidly.

Due to the young population, Vietnam can offer a large labour force where the willingness to relocate is high, in addition wages are still relatively low compared to the countries around. The problem is the under educated population.

Lack of skilled personnel is a problem within all sectors in Vietnam. Although literacy among the population has improved and reached about 90 %, the education system is still poor where the Government has so far not been able to improve the situation. Most of the literature is outdated and the educational facilities are below standards that should be expected.

Vietnamese workers are described as hard working with high morals and a genuine interested to help you. When asked what the differences between the Vietnamese and Chinese are, Vietnamese are by foreigners characterized as less arrogant and friendlier than the Chinese. Vietnamese workers can also enjoy better work conditions than workers in China do.

Although Vietnamese has experienced hard times, social development has been a priority the last years improving the life of the Vietnamese people.

Although the DoiMoi Policy led to an increased focus on telecommunications, public Internet access was not available in Vietnam before 1997. The reason for its late arrival was the communist party's fear that the open access to information could harm the Governments position in society. Today Internet is relatively common especially in the larger cities and areas around, however there are still challenges related to increasing capacity and providing access to rural areas. Usage of mobile phones has also increased, due to factors such as lower phones charges and network providers offering services with higher quality.

There is a need for technology and technological competency throughout all sectors in the Vietnamese economy. Lack of skilled personnel and universities that do not have adequate resources to do significant research and development contribute to Vietnam being below international standards when it comes to research activities. Researches that are being carried out tend to be theoretical, supply-driven and not connected to the needs of the productive sector.



Foreign companies present in Vietnam are mainly subject to corporate income tax (CIT), value added tax (VAT) and special sales tax. Taxes are regulated by the law on corporate income tax, as stated in law no. 09/2003/HQ11. Implementing is covered by Decree no. 164/2003/ND/CP. The standard CIT rate in Vietnam is 28%. However, many companies are benefiting from preferential rates based on their sector of activity and geographical location. These regulations are listed in the Decree's exhibit under. The figure shows how the tax rates for a foreign enterprise might be.

Years in operation	Corp. Income Tax Production	Corp. Income Tax Services
1	0,0 %	0,0 %
2	0,0 %	0,0 %
3	0,0 %	10,0 %
4	0,0 %	10,0 %
5	7,5 %	10,0 %
6	7,5 %	10,0 %
7	7,5 %	10,0 %
8	7,5 %	10,0 %
9	7,5 %	20,0 %
10	7,5 %	20,0 %
11	15,0 %	28,0 %
12	15,0 %	28,0 %
13	28,0 %	28,0 %

Source: Decree no. 164/2003/ND/CP.

Taxable income in Vietnam is calculated the following way: Turnover – reasonable expenses + other taxable income. Reasonable expenses in Vietnam is defined to include such things as depreciation of fixed assets, cost of raw materials, wages, expenditures on research, costs from conducting education and costs related to healthcare.

As in many other tax systems losses incurred may be carried forward to the following year, and set against the profits in subsequent years for a maximum of five years.

Companies self declare their turnover, expenses, taxable income and amount of tax payable for the year. CIT are collected quarterly in accordance with such declarations.

The special sales tax is applicable to companies operating in certain specified industries. Few of these sectors are particularly relevant to Norwegian companies, but among them are the sale of cigarettes, spirits, imported cars and petrol products.

In Vietnam there are currently three rates of VAT applicable. These are 0%, 5% and 10%. There are also several products and services in the sectors of health, agriculture, education and arts that are not subject to VAT.

The laws for entities operating, but not being physically located in Vietnam are based upon the provisions of Circular No. 05/2005/TT/BCT. Foreign companies adapting the Vietnamese accounting system are subject to VAT and CIT according to the

standard tax regulations. For companies not adapting the Vietnamese accounting system must pay VAT based on the following formula: VAT payable = Value added x VAT rate, where the VAT rate is subject to which sectors the company is operating in. The CIT is determined as a percentage of taxable turnovers, and like for the VAT the tax rate is determined by the sector where the company operates.

The law on accounting in Vietnam (No. 03/2003/QH11) aims at establishing in Vietnam an accounting model based on international and modern basis. According to the law on enterprise, each company must provide books of accounts, accounting records and annual financial statements.

Industrial zones are geographically limited areas that can only be used for industrial production and industrial services. They are established through decisions from the Government or from the Prime minister.

The industrial zone can be created and operated by private enterprises, and the operator is authorized to sub-lease land in the zone to other companies.

On provincial level there are Management Committees which carry out management of the industrial zones. They are responsible for drafting the zones development plans, the internal regulation for the zone, supervising the construction of the zone and acting as an intermediary in disputes concerning the industrial zone. For the members of the industrial zone this is a benefit, as it reduces bureaucracy.

Enterprises located in industrial zones eligible to preferential corporate income tax rates. The particular terms depend upon the field of activity for the enterprise, but in general they give 1-3 years of tax exemption, 1-4 years of very low tax rates and then still subsidized rates for the rest of the projects life.

More about the regulations for industrial zones can be found in Decree No. 36/2997/ND-CP dated April 24, 1997.

Reference:

Doing business in Vietnam, Gide Loyrette Nouel, October 2006

The business culture in Vietnam has been formed due to the fact that the nation has had a communist government for several decades. The Vietnamese people are friendly and helpful. However, a quite significant drawback is that there is a lack of business understanding and thinking among the Vietnamese people, also to a large degree among those who work in the business sector/private sector. For instance, there is much less focus on efficiency than we are used to in Norway.

Furthermore one can say that there is also a clear hierarchical structure in Vietnamese business organizations. The degree of independence when working is lower than in Norway, and there is in general more reluctance to work without very clear guidelines and descriptions.

Typical characteristics of the Vietnamese people are that they are nice, humble and very polite. Polite conversations and small-talk is very important, and it is essential to project an attitude that is calm and nice. As a foreigner, one should also keep in mind that Vietnamese people do not like to say no. Therefore, in business meetings, one should avoid asking yes or no questions because it will most likely result them in answering yes. One should also be prepared for being asked questions that in our opinion are relatively personal. That might be questions about your age, your salary, and your marital status. This is because they are interested and simply want to get to know their business partners better. The Vietnamese put high level of importance on good personal relationships with their business partners.

When you are in Vietnam, you will quickly discover that time is a different concept than at home. One must be prepared that things take a long time to accomplish,

for example signing a business agreement. However, the Vietnamese business people are on average on time and accurate.

The Vietnamese people are in general quite formal, and this also goes for the business culture. Written correspondence is important, and it might take a significant amount of time between request and response. Hence, it is important for foreigners to adopt a formal style when it comes to business, and one must also be patient. When attending business meetings, it is essential to be well prepared. Prepare all brochures, materials and business cards. This will give your Vietnamese business partners the impression that this meeting is important to you, and will increase the chance of signing the deal you are negotiation on. You can also expect that there is one leader of the meeting. The rest of the attendants will not speak unless they are spoken to.

Despite the formal style, it is important to smile and be friendly at the same time. A good handshake is important, and so is eye contact. Also, Vietnamese like to be addressed formally; it is beneficial to use titles. Another point to remember is the business card. You must be aware of how you accept a business card and how you give away your own card. It should be obvious to your Vietnamese business partner that his business card is valuable to you. There is also an extensive gift culture in Vietnam, and it is impolite to not bring a gift when you are attending business meetings.

In summary, the Vietnamese culture is what you might call a high context culture. That means that the context, like the current situation, place, attitude, body language and gestures, is more important than the words that are actually spoken. As Vietnamese

people put high value on their culture, and a part of being polite is to adapt to local rules and practices.

Before entering Vietnam, there are several issues to consider in order to increasing the possibility of success. Thorough preparations and planning are key actions, and learning from others mistakes. According to Harald Nævdal from Innovation Norway, too few of the companies that want to establish themselves in Vietnam are adequately prepared. It is essential to have a clear understanding about the Vietnamese business culture, how to behave in meetings and knowledge about their business structure. It is also very important to be aware of the important cultural aspects like patience, courtesy level and the perception of respect.

Many of the Norwegian companies we talked to mentioned that having a solid network could be very rewarding. When one have obtained such a network its very essential to keep in regular contact to maintain this relationship.

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The logo for ProCorp, featuring the text "ProCorp" in a white serif font centered within a dark gray rectangular background.

Human Rights and Business: The Lessons of China

A Message to International Business Vietnam by John Kamm, The Dui Hua Foundation

In May 1990, I was a regional vice president of a large American multinational corporation, and concurrently Chairman of the American Chamber of Congress in Hong Kong. At a dinner in my honor held by a senior Chinese official, I intervened on behalf of a young political detainee. He was released within a few weeks of the intervention, and my second career was born. Since that evening, I have raised the names of more than a thousand such people with the Chinese government. Hundreds have been helped, mostly with early release but, equally important, with better treatment in prison.

During this past 17 years or so, I have maintained a lively interest in business, and have done the occasional consulting job for European or American corporations on a contract basis even as I devote nearly all my time to the work of the Dui Hua Foundation. At no point has my human rights activism negatively affected my ability to do business in China, not now, not when I was the boss of a large manufacturing and trading business in the early 1990s. Done correctly, it is possible to promote human rights in countries like China and Vietnam – where the most basic freedoms of expression, association and faith are severely curtailed – without suffering adverse consequences. That's my first conclusion from doing this work all these years.

Based on my experience in China, I would like to propose three other conclusions about the relationship between business and human rights in rapidly developing countries that are emerging from decades of poverty and conflict, and where respect for human rights by the governments in charge is highly problematic:

1) Businesspeople, especially those involved in sales and marketing, have a unique set of skills for human rights advocacy. They understand the culture, know the language and are skilled in all aspects of successful salesmanship. They often have close personal ties to officials in positions of power. Those with managerial skills also bring important assets to the struggle: the business of human rights is first of all a question of allocating limited resources to the achievement of maximum good.

2) Respect for human rights is good for business, and it is therefore appropriate for business to lobby for better a better human rights environment in the countries where they operate. In China, most of the major market openings have been preceded by a government decision to respect, even if only partially, fundamental rights, whether in the area of domestic and foreign travel (where relaxation of rights over travel made possible the markets for aircraft and related systems) or expression (attendant to the explosive growth of telecommunications, wireless, and Internet).



Mr. John Kamm at July 2007 at AmCham Hong Kong

3) Despite these truths, businesses have been reluctant to lobby for human rights except in the narrowest of areas that affect their businesses (e.g. protection of intellectual property rights). It is sadly the fact that some companies have cooperated with the Chinese police in suppressing human rights, censoring Internet content, selling technology that helps the government build and maintain its “Great Firewall,” and helping police track down dissidents who send emails or post essays containing “subversive” content.

It is not possible to transfer the experiences of human rights work in China since the Tiananmen Square killings of June 1989 to present day Vietnam, but one striking similarity stands out. Both recognize the strategic importance of obtaining and holding onto access to the US and European markets on the most favorable terms possible, and both will make concessions to international opinion on human rights, if necessary for the attainment of specific goals (e.g. winning a trade privilege, staging a successful Olympics). Even though China today is far less willing to release high profile political prisoners than it was even two or three years ago, Beijing cannot escape the responsibility of addressing human rights concerns, now not only in China itself but in such states as Sudan, where the Darfur genocide continues as this is written. China has finally started to help put an end to the slaughter there, but the verdict will be that it has done too little too late.

It should be possible to intervene on behalf of political prisoners in Vietnam today, just as has been done with considerable success in China. The way has already been shown in this respect by the Rafto Foundation – a human rights organization led and supported by Norwegian businesspeople – in the Venerable Thich Quang Do case.

International Business Vietnam is the front lines of future commerce and human rights developments in Vietnam. As you engage the government and people of this ancient and beautiful country, keep in mind those who are in prison, sometimes a few hundred meters from your luxury hotel, for exercising the fundamental human rights that are vital for the economic success of both Vietnam and your business. Keep these prisoners in mind, and when you have a chance, ask about them. Thank you for inviting me to contribute to this Report.

Two different stories- Telenor and Ericsson

Case study Ericsson

IB was fortunate to be able to visit Knut Hellerud at Ericsson's headquarter in Hanoi. Here we were able to discuss why Ericsson is one of the most successful telecom companies in Vietnam. Ericsson has been located in Vietnam for over 15 years, and they opened their first office in Hanoi in 1993 with 10 employees. At that time the telecom market was very immature, and with Ericsson's technology and innovation they have contributed to the development of this sector.

One of the issues that Ericsson is facing in Vietnam is the lack of general agreements. According to Knut Hellerud this issue leads to inefficiency and is a consequence due to poor business understanding. They don't look at things in a big perspective, but every investment as a new one. This creates a harder working environment for Ericsson.

Furthermore Knut Hellerud think Ericsson has done right is to understand that Vietnam is a market that demands long-term commitment. To establish good contacts is crucial, and that is why Ericsson aims at having a low rotation of their work force. When you go to Vietnam you are supposed to stay there at least four years. Vietnamese often trust the person they are doing business with as much as they trust the company. Knut Hellerud means one of the biggest mistakes new companies do is to believe that they will be profitable in year two. Company needs to be patient, as Knut Hellerud said,

“time has a different meaning in Vietnam”

He also mentions the legal framework as one of the issues that many companies, including themselves, have problems with. It's quite unclear and thus it's important to have local legal expertise on this area. It's a gap between theory and practice, “what's written in the law is not always what you are allowed to do”.

Another issue that companies that are considering Vietnam have be aware of is that the decision process is long and there is an enormous need for skilled labor, especially in the field of leadership and management.

But Vietnam has a huge potential, we are looking at a new emerging market.

Case study Telenor

Telenor is the leading telecommunication company in Norway, which is one of the most advanced telecommunication markets in the world. It opened its representative office in Hanoi in 2005, with Mr. Ola Ree who is in charge of the business affairs in Vietnam.

The goal of Telenor's business in the Vietnam is to establish a joint venture with a local mobile operator in Vietnam. In 2004, the Government in Vietnam agreed to partly privatize their local mobile operators, and Telenor thought that this decision would take place in 2005. However, the planning of this motion is still in the process and Telenor is waiting to make its entrance in the market, even though they have done their market research and set up an office in Hanoi.

Mr. Ree has told us that doing business in Vietnam takes time and

“patience and persistence”

are important to keep in mind. Another factor is to have close ties with the locals and create a stable network with other business parties in Vietnam.

Telenor's vision in Vietnam is still hopeful and wants to place their services in a country that has a rapid economic growth. Due to political decisions, the future seems uncertain for Telenor. We have yet to see where the leading telecommunication company in Norway can bring Vietnam in the future.

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Acknowledgements

Vietnam is now the fastest growing economy in Asia after China. During the next 5 years the economy is expected to grow around 8, 5% annually. Since January 11, 2007 Vietnam has been a member of WTO. Contracted FDI is expected between 15-20 billion US\$ in 2007. Since 1993 poverty has been reduced from 70% to 17%. The Vietnamese workers are dedicated and hardworking, with a salary level around 2/3 of comparable Chinese salary.



Gunn Ovesen
CEO
Innovation Norway

Already 24 Norwegian companies are registered in Vietnam, and 8 of these registered in 2006/2007.

There are 3 main areas where we see a significant prospect for growth and opportunities for Norwegian companies:

- **Oil & Gas**
- **Maritime**
- **Marine**

The Oil & Gas sector produce around 400.000 b/d. 25% of the country's power is produced from gas power plants. Now the country is building 3 refineries to be in production between 2009 and 2012. EOR technologies will be needed since several oil fields have passed their production peak. Norwegian drilling and EOR know-how, sub sea equipment, oil spill protection, maintenance and logistics should have an attractive market in Vietnam in the years to come.

The Maritime sector is developing very fast, and the country has already more than 30 shipyards with international standard. Within 2015 Vietnam plans to be the 4th largest shipbuilder in the world. Hoegh has ordered advanced car carriers from Vietnam. Aker Yards is now building a shipyard in the country, and several Norwegian ships equipment producer are considering local establishment and production in Vietnam.

The Marine sector is growing rapidly. Cat Fish farming has already exceeded 800.000 tons annually. Marine Farms is already producing Cobia in Vietnam, and Pharmaq is developing vaccine for Cat Fish. Sintef Fisheries and Aquaculture has been in Vietnam for more than 10 years.

The Norwegian government is showing a strong interest in Vietnam related to good governess, education and industry development. During the last 30 years Norway has been a significant development partner for Vietnam through NORAD development aid. The aid has focused on the sectors of fisheries, hydropower development and oil & gas. Therefore, Norwegian competence and technology are well known and welcome in Vietnam.

International business has chosen a market with great potentials for their 2007 – 2008 project. Their project will contribute in spreading valuable information about the Vietnamese market to Norwegian exporters and investors. Thereby we hope International Business should contribute to develop our bilateral industrial co-operation and trade for the years to come.

Acknowledgements

Vietnam is now one of the countries in Asia with the highest economic growth, and offers new and interesting opportunities for Norwegian businesses. Norway already enjoys a many-faceted cooperation with Vietnam, and the Norwegian Government is seeking to further strengthen and broaden the ties between our countries. In this connection, I would like to introduce the annual student project International Business (IB), which launches a new project each year to increase knowledge of markets abroad and boost Norwegian business activity in other countries.



Kjell Storløykken
Ambassador, Royal
Norwegian Embassy
Hanoi

The project is made up of members from three leading academic institutions in Norway: the Norwegian University of Science and Technology (NTNU), the Norwegian School of Economics and Business Administration (NHH) and the Norwegian School of Management (BI). The students working on the project also cooperate closely with Innovation Norway (formerly the Norwegian Trade Council).

The 2008 project will focus on Vietnam. It will study the Vietnamese market and provide information to Norwegian companies. It will also seek to develop greater awareness of ethical and cultural issues that may be relevant.

If the project is to be a success, it will depend on the cooperation of Vietnamese companies, organisations and the authorities.

The Royal Norwegian Embassy in Hanoi considers IB to be an important initiative. All assistance rendered to the project members during their stay in Vietnam will be greatly appreciated.

Kjell Storløykken
Ambassador, Royal Norwegian Embassy, Hanoi

Acknowledgements

The Confederation of Norwegian Enterprise (NHO) welcomes the launch of the 2007/2008 International Business Vietnam project. NHO has for several years taken a keen interest in this important emerging market, and has been cooperating with our Vietnamese counterpart The Vietnam Chamber of Commerce and Industry (VCCI) since 2004. The main objective for this cooperation is to assist in the further development of VCCI as an employer organisation, and as a strong and independent participant in the Vietnamese economy.



Finn Bergesen jr.
CEO
The Confederation
of Norwegian
Enterprise (NHO)

Since the first cautious steps of the Doi Moi reform process started in 1986, the frame work conditions for business have greatly improved. Real GDP growth in 2007 is expected to reach or surpass 8 percent for the third year in a row. Vietnamese merchandise exports have more than doubled in five years, and have increased by thirty times since the late 1980s.

The economic success of the last years has encouraged boldness, and the National Assembly has urged the government to strive for a functioning market economy. The Vietnamese government also continues to urge for further reforms of the state owned enterprises. Norwegian business in Vietnam is mostly focused on a few key sectors such as the petroleum, telecommunication and maritime sectors, as well as fish and seafood, fertiliser and manufacturing. A number of Norwegian corporations are involved in various activities in Vietnam, including Yara, Jotun, Nera, Elkem and DNV.

International Business has thus chosen an emerging economy with great potential for their 2007/2008 edition, and NHO appreciates that the project will contribute in spreading valuable knowledge and insight about Vietnam to Norwegian investors and firms.

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Postscript

International Business has been an annual project every year from 1984. The next project about Malaysia will be the twenty-fifth report and thus IB will celebrate its 25th anniversary. We in the Vietnam group will like to thank for this opportunity to join the big International Business family but also for getting the opportunity to explore the interesting Vietnamese market.

This project has been a unique experience for us and we have not only learned about doing business in a foreign market but also about teamwork and project management. It is satisfying to see a project develop, and for us as students to see that theory can be put in to action.

Last but not least we would again like to thank all of you that help us and meet with us during our stay in Vietnam. We really appreciate the openness and the priority given to us when we visited companies during our stay in January 2008. This atmosphere gave us a chance to create constructive and good dialogs with representatives, which enthusiastically shared their first-hand experiences about doing business in Vietnam.

International Business Vietnam 07/08
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