“OPPORTUNITIES AND CHALLENGES IN VIET NAM’S ENERGY SECTOR”

DRAFT Summary of Proceedings

The following is a summary of the EWG Business Network’s (EBN) Business Forum, held on 15 March 2005, in Hanoi, Viet Nam.

The overall objective of the Forum was to understand Viet Nam’s objectives for energy development, share the experiences of energy companies working in Viet Nam, and consider challenges to energy investment and discuss practical solutions to them.

OPENING REMARKS

Mr Andy Lloyd, EBN Chair

Mr Andy Lloyd welcomed participants to the EBN Business Forum. He spoke of Viet Nam’s solid growth experienced over recent years and noted that next year, 2006, would be Viet Nam’s APEC year. Mr Lloyd thanked EBN Members and Viet Nam’s Ministry of Industry for organising and hosting the Business Forum.

SESSION ONE: Energy Challenges in Viet Nam

HE Dr Do Huu Hao, Ministry of Industry (Vietnam)

Investment in the Energy Sector in Viet Nam – Opportunities and Challenges

Dr Do Huu Hao outlined Viet Nam’s energy endowments including, coal reserves (37 billion tons/3.88 billion tons proven), oil (2.3 billion tons/615-967 million tons proven), gas (1,300 billion m3/600 billion m3 proven), and hydro (300 billion kWh/50-70 billion kWh technical-economical potential).

Dr Hao emphasised that, with GDP growth of 8% in recent years and forecast growth at 7%, Viet Nam’s, demand for energy will be continue to grow rapidly. Final energy consumption in Viet Nam was 17.8 million TOE in 2004, which represents an annual average growth rate of 10.8% since 1991. Viet Nam is expected to achieve an annual average growth rate of 7.0-7.5% from now to 2010 and about 7.0% over the period 2011-2020. Viet Nam exports coal and crude oil and imports petroleum products.

Future energy policy considerations in Viet Nam include, social economic development, security and defence, energy independency, regional energy cooperation, safety and efficiency, environmental pollution, a open and competitive energy market, investment incentives, energy for rural and mountainous areas, and science and technology development. In addition, the Government is also formulating investment policies and incentives for energy development and seeks to diversify investments in using tools such as BOT, BTO, JV, IPP to mobilize various capital sources at home and abroad.

SESSION TWO: Financing Energy Infrastructure in Viet Nam

In introducing session two, Mr Lloyd outlined the APEC EWG “10 Priorities for Investment in Energy Infrastructure”. These priorities are designed to help guide APEC Economies as
they face the significant challenge of mobilising private capital and international financial resources to fund the energy infrastructure required over the next 20 years.

Bill Magennis, Phillips Fox
A Case Study on Phu My 3 gas-fired BOT power project

Mr Magennis suggested that Viet Nam was a good model for energy investment, with several examples of good investment. Mr Magennis shared his experiences with the Phu My 3 Power Project, a successfully financed international project. He suggested that the ‘Keys to Success’ were: a well structured Build Own Transfer (BOT) Contract with a long-term Power Purchase Agreement; government guarantees; and high quality international sponsors.

Mr Magennis applauded the Vietnamese government who, on the advice of investors, amended the Law on Foreign Investment (2000). The amendment allows the Government to be more flexible in their negotiations with foreign investors. It serves as a basis for provision of government guarantees for state owned entities and for agreements on issues such as currency and legal stability. Less than a year after the amendment was passed, Phu My 3 was funded and licensed.

In conclusion, Mr Magennis affirmed that, although the law in Viet Nam is still being developed, the willingness of Viet Nam’s Government to listen to and act on the concerns of foreign investors was a sign of strong support.

Mr Philip Grey, World Bank
MLA Perspectives

Mr Grey from the finance section of the World Bank provided input from the perspective of a development institution. In introducing the World Bank he emphasised that unlike a commercial lender, World Bank investments were not based on profit but aimed at fostering development through various instruments and providing advice. To that end, energy is viewed by the World Bank as a crucial factor in economic development.

Mr Grey listed security of supply, affordability, availability, economic sustainability, efficiency, and environmental impacts the main issues affecting energy development. He stated that both the Government and private sector should play a crucial role in influencing energy infrastructure development.

Mr Vikas Batra, ANZ Investment Bank
Commercial Lenders’ Perspectives

Mr Batra acknowledged Viet Nam’s unique position in attracting investment. Viet Nam was able to continue growing while other Economies were suffering from the Asian financial crisis of the late 1990s, because it had sound fundamentals. Since then, the recovery of these Economies has resulted in increased competition for investment.

Mr Batra highlighted that most economies are introducing policies to attract investment in energy and recognise the role of the private sector in bringing new technologies into the economy. Despite increasing competition, Viet Nam remains an attractive place for investors due to its proven track record, prudent policies, and projected economic and energy demand growth.

He suggested however, that further progress would make Viet Nam even more attractive to investors, for example, adjusting the legislative framework to incorporate current realities in the investment climate. The role of the Government (as facilitator, co-investor or partner)
and the private sector (as provider of financial resources, or technology) need to be revisited. Concluding, Mr Batra suggested that, ultimately, the market would be the best test of a conducive investment environment.

**SESSION TWO DISCUSSION**

*Participants discussed a number of issues such as the attractiveness of the economy to investor sentiment, foreign investor limits, sources of investment funds, reducing the costs of financing, and possible short term actions for Viet Nam and similar Economies.*

**SESSION THREE: Building Local Capacity to Support Energy Infrastructure Development**

**Mr Tony Foster, Freshfields Bruckhaus Deringer**

Mr Foster spoke about Viet Nam’s legal capacity to undertake large scale private sector projects. He said that the private sector has expressed concern that, with the economy growing at 7-8 per cent a year, infrastructure may not be able to keep pace. He noted that in response to this concern, Viet Nam’s Government has established an Infrastructure Committee to facilitate private sector involvement in infrastructure development.

Mr Foster reiterated the need for a clear legal framework using the BOT framework as a model. There has been a move towards joint ventures rather than totally foreign owned projects, but there are some legal issues that need to be addressed. For example, instead of BOT regulations, joint ventures fall within the realm of foreign investment law. Also, lenders only obtain legal rights if they go through a BOT structure.

Mr Foster concluded by suggesting that projects should follow a model that maintains certainty, providing investors with the necessary confidence to invest.

**Mr Philip Grey, World Bank**

Mr Grey’s second presentation emphasised the importance of small to medium projects and innovation in local financing to respond to the current investment climate. He applauded Viet Nam’s Government for opening up to private investors sectors which have been previously funded by state owned banks, such as hydroelectricity.

Mr Grey stressed the importance of viewing energy investments in a more strategic light. Beyond ownership, investment enables the investor to provide host Economies with new experiences, expertise and technologies. Also important is that the rights of investors, particularly smaller investors, are solidified.

**Mr Nguyen Dang Lieu, PetroVietnam**

Mr Lieu outlined the achievements of PetroVietnam since it’s incorporation in 1975. Consistent with the Government’s policy of openness, PetroVietnam has overseen substantial investment in Vietnam’s petroleum sector, having signed 50 contacts with foreign oil companies, 27 of which are in force. Whilst maintaining domestic exploration activities, PetroVietnam intends to expand its petroleum operations internationally.

PetroVietnam has also identified gas as an efficient and reliable energy source and is gradually increasing its gas activities. Furthermore, PetroVietnam supplies one third of Vietnam’s domestic demand for fertilizer. Construction has commenced on Vietnam’s first refinery in Dung Quat, with a second refinery high on PetroVietnam’s agenda.
Mr Lieu concluded that, with a population of more than 80 million and an economy expected
to boom, there are many opportunities for foreign investors in Vietnam. He encouraged
companies to investigate projects in Vietnam, noting the special technologies and managerial
skills that foreign investors bring.

Mr Le Tri Hung, representing Mr Nguyen Duc Trang, VINACOAL

VINACOAL controls about 95% of Viet Nam’s coal production, most of which is anthracite,
and owns 6 opencast and 13 underground mines. Due to economic growth, Viet Nam’s
demand for coal is forecast to increase from 14.5Mt in 2005, to 28.5Mt in 2010, and 37.5 Mt
in 2020. VINACOAL has developed a strategy of growth, modernisation and international
collaboration to meet the growing demand.

By 2010, VINACOAL will have developed 6 coal-fired power plants with total net capacity of
930MW. In addition to increasing the number of new coal-fired thermal power plants,
VINACOAL has developed a strategy to meet future energy demand, including using larger
trucks and excavators, expanding and modernising a number of existing underground mines,
and actively encouraging coal-fired thermal power projects.

Recognising the capacity of foreign investment to supply equipment, technical assistance,
training and knowledge transfer, Mr Hung indicated that VINACOAL was keen to develop
cooperaive relationships with foreign investors.

Dr Vu Ngoc Thu, EVN

Dr Tu described the current structure of EVN and Viet Nam’s power sector as a whole. Over
the past decade, power generation and consumption has grown substantially. In 2004, total
generation was 46.86TWh, with total installed capacity at 11,360MW. In addition, there has
been huge investment in transmission and distribution, including the installation of a large
500KV wire stretching from the north to the south of Viet Nam. Attention is also being given
to the capacity of rural customers to access the grid. Over the next 5 years, EVN expects to
increase energy generation by 13% per year, with gas, hydro and coal the largest sources.

Development of human resources has been identified as a major requirement for future
electrification. Training is needed for the electricity market and for nuclear power, and
business management is needed in what is a competitive environment. To achieve this, EVN
has established a number of power colleges and engineering schools for its workforce.

Mr Gerald Doucet, World Bank, Concluding Remarks

Mr Doucet provided a brief summary of the major themes of the forum and some suggested
some issues for further consideration. He suggested that Asia is currently the hub of
economic demand and growth and for this reason investments will remain attractive. Viet
Nam has done well to keep all energy options open, and in building a strong domestic and
regional market with its neighbouring Economies. However, Government legislation will
need to keep pace with reality as competition for projects intensifies.

Mr Doucet outlined some issues for further consideration. Despite its huge demand for
power, the effect of subsidies on the viability of projects needs to be explored. Efficiency is
also an issue, with the need to move towards best practice for existing power plants. Also,
the introduction of clean technologies, such as carbon capture and storage, should be
considered, as well as renewable sources other than hydro. Mr Doucet concluded in saying
that if Viet Nam is to secure the investments required to meet growing energy demand, it will
need help from international financial institutions and other foreign investors.
In concluding the Forum, Mr Lloyd suggested that the Energy Working Group’s IFAT mechanism, whereby a host Economy invites relevant energy experts to visit and provide advice in the requested area, could assist Viet Nam in pursuing these goals.