



# WHITEBOOK 2016

**TRADE/INVESTMENT ISSUES  
& RECOMMENDATIONS**

**8<sup>th</sup> edition**

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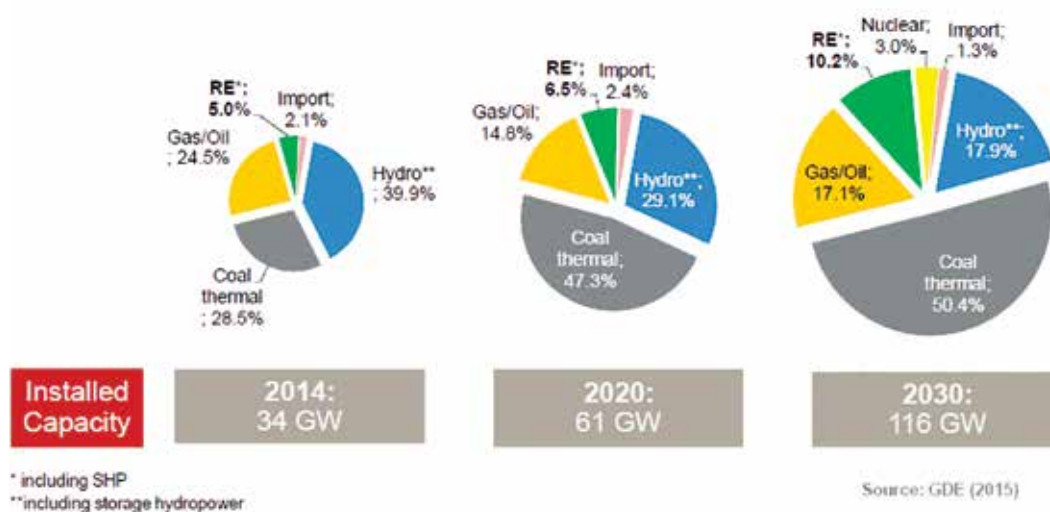
## CHAPTER 2 ENERGY AND ELECTRICITY

### OVERVIEW

Reliable and affordable energy and electricity are key pillars of Vietnam's development and sustainable economic growth. In this context, we congratulate the Government of Vietnam for ensuring adequate power supply in 2015, amid record droughts in Southern Vietnam and prolonged heat waves during the summer in northern Vietnam.

EuroCham members however, do raise concerns about the uncertain outlook of power supply as Vietnam is becoming a net energy importer with estimated 31%<sup>1</sup> of its energy resources imported as of 2020 as a result of increased demand, especially for electricity.

Figure 5: Growth of sector – revised PDP VII



Source: GDE (2015)<sup>2</sup>

In the past few years, energy demand has been growing by 15% per year.<sup>3</sup> In 2014, it increased again by more than 10% per year.<sup>4</sup> To meet such an increase in demand, Vietnam currently still prioritises low-cost sources of power generation, including coal fired power plants and hydropower. However, these power sources take nearly a decade to plan, construct and operate. This is in a context where Vietnam has an excellent potential for development of renewable energy generation.

<sup>1</sup> 'Opening remarks', MOIT Vice Minister Hoang Quoc Vuong at Inception Workshop EU Support to the Development of Sustainable Energy in Viet Nam, 15/04/15. Available at <[http://eeas.europa.eu/delegations/vietnam/documents/press\\_corner/2015/20150415\\_energy\\_seminar\\_en.pdf](http://eeas.europa.eu/delegations/vietnam/documents/press_corner/2015/20150415_energy_seminar_en.pdf)>

<sup>2</sup> Frick, A, 'Design features for an effective wind energy policy for Viet Nam', in an Expert Workshop organised by the German Embassy in Vietnam, 14-15/05/15. Available at <[http://www.renewableenergy.org.vn/index.php?mact=Uploads,mb58be,getFile,1&mb58beupload\\_id=412&mb58bereturnid=102&page=102](http://www.renewableenergy.org.vn/index.php?mact=Uploads,mb58be,getFile,1&mb58beupload_id=412&mb58bereturnid=102&page=102)>

<sup>3</sup> 'Vietnam Hydro Project to Help Meet Growing Energy Demand While Avoiding 1 Million Tonnes of CO2 Emissions', The World Bank, 26/04/11. Available at <<http://www.worldbank.org/en/news/press-release/2011/04/26/vietnam-hydro-project-help-meet-growing-energy-demand-avoiding-1-million-tonnes-co2-emissions>>

<sup>4</sup> 'Nuclear power plans delayed as electricity demand lower than predicted', VietNamNet, 02/03/15. Available at <<http://english.vietnamnet.vn/fms/science-it/124198/nuclear-power-plans-delayed-as-electricity-demand-lower-than-predicted.html>>

In this Whitebook contribution, EuroCham aims to make tangible recommendations for practical implementations of energy-related policies that are essential to meet the energy demand in the future. While at the same time maintaining energy access for all at an affordable price, reducing carbon emissions and the sector's environmental impact and in the long run, maintain a sustainable growth for Vietnam.

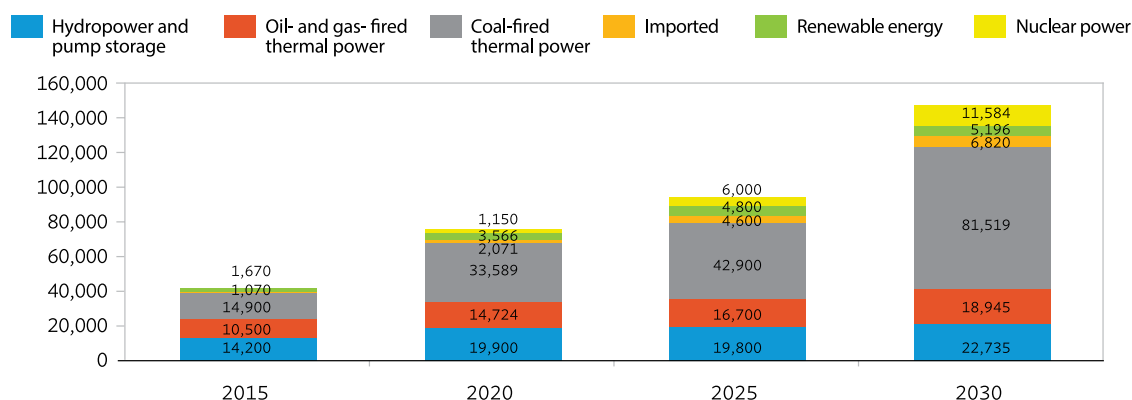
## I. DEVELOPMENT OF RENEWABLE ENERGY

Relevant Ministries: Ministry of Industry and Trade (MOIT), Ministry of Planning and Investment (MPI), Ministry of Finance (MOF), Office of the Government

### Issue description

Vietnam has an excellent potential for renewable energy generation, but at the same time one of the lowest adoption of these technologies in the region. Apart from clean energy supply using abundant Vietnamese resources, the decentralised nature of renewable energy generation typically also has a beneficial effect on job creation and infrastructure development in the region where the plant is located. Major foreign direct investment projects are waiting to be implemented all over the Southeast Asian region but, despite its huge potential, most renewable energy generation resources are still untapped in Vietnam.

**Figure 6: Development Plan for Electricity Generation (MW)**



MW = megawatt.

Sources: Prime Minister. 2011. 7th National Power Development Master Plan, 2011–2020, and General Directorate of Energy (2014b).

Source: *Assessment of Power Sector Reforms in Vietnam*, Asian Development Bank, 2015.<sup>5</sup>

Primary barriers preventing renewable energy from developing in Vietnam:

- There is currently no 'renewable energy law' that regulates the development of the sector. There is also no specific plan for the development of renewable energy, apart from the targets in the overall Power Master Plan.<sup>6</sup>
- Individual support policies have been issued for wind, hydropower, biomass and waste-to-energy. Recently the government has issued Circular No. 32/2015/TT-BCT, dated 8 October 2015 guiding the implementation of waste-to-energy projects. We also eagerly await a similar circular for biomass energy projects under decisions

<sup>5</sup> 'Assessment of Power Sector Reforms in Vietnam, Country Report', Asian Development Bank, 2015. Available at <<http://www.adb.org/sites/default/files/institutional-document/173769/vie-power-sector-reforms.pdf>>

<sup>6</sup> Decision No. 1208/QĐ-TTg of July 21, 2011, approving the national master plan for power development in the 2011–2020 period, with considerations to 2030.

No. 31<sup>7</sup>, so that currently pending projects can be implemented. Apart from the circulars, we also encourage further guidance to support other incentives, such as taxation. At the moment, project developers cannot take full advantage of such tax incentives as customs and tax authorities have no guidelines on how to accommodate them.

- Implementing solar based energy solutions, such as solar water heaters and solar panels, allow commercial building owners and industrial users to save more than 60% of energy.<sup>8</sup> However, high investment costs have so far held back substantial adoption of these technologies.
- A transparent and robust support mechanism, such as tax incentives during purchase or operation of solar energy solutions, is expected to greatly benefit the sector. One suggested tax incentive is to allow the full cost of solar power and thermal installations to be claimed against taxable profits in the year of installation of the power equipment.
- Capital investment costs are currently claimed against taxes by way of depreciation over the lifetime of the asset, on a schedule determined by the government depending on the asset type (typically 10 to 20 years for solar power equipment). Accelerating the tax benefit to the first year of operation would provide corporate power users with an incentive to switch to their own generation of power, reducing the pressure on the grid system and helping balance energy demand against available supply.
- This would also further increase the attractiveness of Vietnam to manufacturing and service industries, and remove one of the significant risks identified by foreign investors<sup>9</sup>, which is the reliability of future energy supply and the potential for significant increases in unit power costs from the grid supply.
- At the moment, it is impossible for a power producer to sell directly to an offtaker. Power has to be sold to the only wholesale power buyer in Vietnam, Electricity of Vietnam (EVN). Allowing and regulating decentralised energy supply, such as the ability of energy producers to sell directly to off-takers or concepts such as Energy Service Companies (ESCOs), are additional measures that can support the development of renewable energy in locations where it is most needed.<sup>10</sup>
- ESCO models may also help to avoid environmental impacts (e.g. locally available biomass resources for energy generation). Regulations to protect ESCOs, including on the risk of non-payment by off-takers and on the ownership of ESCO's equipment installed in the facilities of the end-user, can help attract more investment in these models. We do not consider the establishment of a proper decentralised energy supply due to Decision No. 8266/QĐ-BTC issued on 10 August 2015 where 5 regional power buying corporations, to be established to be within the legal structure of EVN.

To address these constraints, we have prepared a number of recommendations which are further elaborated in the sections below.

### Potential gains/concerns for Vietnam

From the perspective of socio-economic development and the perspective of Vietnam as a country on the trajectory from a developing country towards an industrialised economy, great benefits can be achieved from a prospering sustainable energy sector, which go beyond energy generation alone.

With a clear policy framework, the wind power sector in Vietnam will be able to attract substantial private investments, from both foreign as well as domestic capital – investments that the public sector does not have to make. At the same time, if capacities and skills are built up at all levels, there will first a great number of jobs created by the renewable energy industry. In the beginning, this will certainly involve construction, as well as operation and maintenance but once the market has been established, it will also move up to the step of building up manufacturing capacities.

<sup>7</sup> *Ibid.*

<sup>8</sup> 'SolarBK officially announced its '60% energy saving' pledge for commercial water heater systems', *SolarBK*, 19/10/13. Available at <<http://bit.ly/1igBpEc>>

<sup>9</sup> '2013 Global Manufacturing Competitiveness Index', *Deloitte*, 2012. Available at <<http://www2.deloitte.com/us/en/pages/manufacturing/articles/2013-global-manufacturing-competitiveness-index.html>>

<sup>10</sup> 'One-to-one deal touted for renewables', *Vietnam Investment Review*, 16/06/14. Available at <<http://www.vir.com.vn/one-to-one-deal-touted-for-renewables.html>>



## Recommendations

- A number of specific recommendations are stated below, which will allow for a comprehensive application of renewable energy in Vietnam.
- Tariff reform and power purchase agreement for wind and solar power;
- Effective implementation of detailed regulations for all renewable energy sources, spearheaded by biomass power;
- Information to investors and consumers about the long-term future price of retail power which means the predictability and re-establishment of a power price roadmap; and
- A guarantee to support EVN's liabilities in the power purchase agreement to a developer of renewable energy projects.

Below we elaborate these recommendations in more detail:

### 1. Tariff reform and power purchase agreement (PPA) for wind and solar

Decision No. 37/2011/QĐ-TTg dated 29 June 2011 on the promulgation of support mechanisms for the development of wind power projects in Vietnam has been issued but has so far failed to incentivise the market for wind power. Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) has been working with MOIT on this and has first recommended a revision of the policy in 2010.<sup>11</sup>

We therefore recommend the approval by the Government of Vietnam and implementation by MOIT of GIZ's recommendations of as described in the June 2014 Revised Plan for Wind Power with:

- An increased FIT of 11.5 cents or more (sufficient to meet the 1000 MW target).
- Revision of the structure of the PPA.

### 2. Effective implementation of detailed regulations for biomass power;

The Government of Vietnam has in recent years released a set of support mechanisms for biomass power and waste-to-energy as contemplated in last year's decisions issued by Prime Minister Nguyễn Tấn Dũng, namely Decision No. 24/2014/QĐ-TTg dated 24 March 2014 (Decision 24) and Decision No. 31/2014/QĐ-TTg dated 5 May 2014 (Decision 31).<sup>12</sup> The support mechanisms contain an encouraging set of measures to promote investment in power generation from these resources and are a positive start.

EuroCham's understanding is that new projects in these sectors will not be able to proceed without a Standard Power Purchasing Agreement (SPPA) as defined in article 2.9 of Decision 24 and article 2.8 of Decision 31 respectively and Articles 11.2 of Decisions 24 and Decision 31.

Unfortunately, investors are still facing legal uncertainty, as required SPPAs have not been issued yet. We also understand that the draft versions of these documents presented at the GIZ-MOIT Consultation workshop on 27 May 2015 in Hanoi could not be used in the meantime. We therefore humbly recommend MOIT to promulgate as soon as possible the required templates of such SPPAs according to Article 16.1(c) of Decision 24 and Article 15.1(c) of Decision 31. EuroCham would be pleased to assist with drafting such SPPAs and/or to meet relevant MOIT's persons in charge to discuss the topic.

Additional pieces of legislation were passed this year, including a steady progress towards a competitive power market<sup>13</sup>, which could further strengthen the framework for development of renewable energy but the current issues with the Decision 8266/QĐ-BCT of the Ministry of Industry and Trade dated 10 August 2015 have to be addressed separately further below.

<sup>11</sup> Cattelaens, P; 'Up-scaling of Wind Power in Vietnam', GIZ, 30/06/15. Available at < <https://www.giz.de/fachexpertise/downloads/peter-cattelaens-giz-iv-windenergie.pdf> >

<sup>12</sup> Decision No. 31/2014/QĐ-TTg dated May 5 2014 and issued by the Prime Minister and Decision No. 24/ 2014/QĐ-TTg dated 24 March 2014 issued by the Prime Minister

<sup>13</sup> Decision 8266/QĐ-BCT of the Ministry of Industry and Trade dated 10 August 2015

We encourage the government of Vietnam to continue the development of detailed guidance for implementing agencies and investors of renewable energy projects. Clear guidelines for securing incentives such as those for land, tax and (pre)power purchase agreements are additional keys to secure the financing and development of those projects.

## II. THE COMPETITIVE ELECTRICITY WHOLESALE MARKET

Relevant Ministries: Ministry of Industry and Trade (MOIT), Ministry of Planning and Investment (MPI), Ministry of Finance (MOF)

### Issue description

EuroCham welcomes the decision approving a detailed design for the competitive electricity wholesale market (CWM) by Decision 8266/QĐ-BCT of the Ministry of Industry and Trade dated 10 August 2015. Nevertheless, the full implementation determination to be 2019 indicated that the CWM is neither an urgent priority nor targeted to meet the required private investments in the energy market until then.

In addition, EVN remains the monopoly buyer of power, whose creditworthiness is not guaranteed. 'Direct' power purchase agreements, a tool which has enabled e.g. Mexico to increase its share of renewable energy substantially in a very short period of time, have not been foreseen. The same goes for all renewable energy resources that are simply and – in our view – without a good ground excluded from the CWM.

### Potential gains/concerns for Vietnam

An essential element of a functioning open market for power is that the key players operate independently of each other and their relationships are governed by commercial contracts that are transparent. This would not only attract substantial foreign direct investments (FDI) into the energy market in Vietnam, but would also fulfill Vietnam's WTO and EVFTA commitments. It would furthermore provide the country with the benefits of best practice example for functioning market economy which also fully respect the socio-economic development goals.

Consequently, a proper deregulation of the electricity market in Vietnam would stimulate economic growth, enable sustainable energy supply and attract a great number of FDI to Vietnam. Vietnam's socio-economic development goals would be achieved; electricity prices forecasted and kept lower than in the case of importing resources like coal (as sources for renewable energy are completely indigenous resources) and would contribute to a resource efficient, low carbon economy and a sustainable development of the country.

### Recommendations

With the publication of the Decision 8266/QĐ-BCT, EuroCham also recommends that the MOIT consider the following enhancements:

- Acceleration of the implementation of the CWM to 2017 to urgently accelerate the introduction of private investment to the energy market;
- Reconsider the exclusion of renewable energy projects (especially solar and wind power projects) from the CWM. Including renewable energies into the CWM would encourage private investors to invest in the wind power market which has so far developed in an ineffective and costly manner increasing the cost of energy to power consumers;
- Provide urgently definitions of the 'requirements' that a big power user must fulfil to enter the CWM as a buyer of power; and
- For CWM to be successful, it is necessary to have a fully independent Energy Regulator that would support ERAV in becoming an entity independent of the Ministry of Industry and Trade.

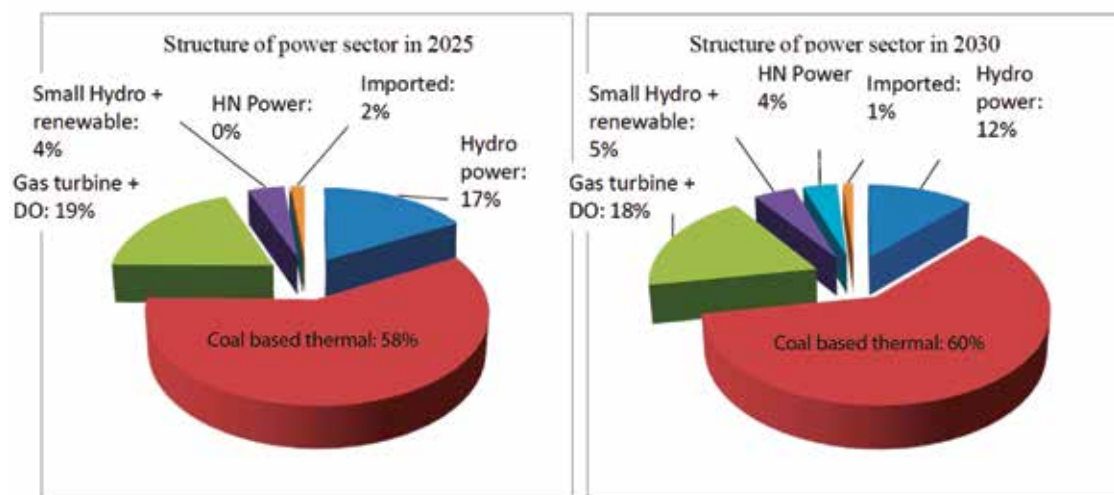


### III. DEVELOPMENT OF RENEWABLE ENERGY

Relevant Ministries: Ministry of Industry and Trade (MOIT), Ministry of Planning and Investment (MPI), Ministry of Finance (MOF), Office of the Government

According to the Power Development Plan 7 (2011-2030) (PDP7; Decision 1208/QĐ-TTg of 21 July 2011) and the circulated drafts of the revised Masterplan VII, Vietnam plans to increase its power production capacity seven-fold over the period 2011-2030 with 75,000 MW installed coal thermal power capacity by 2030. This counts for a 50% share of the total projected power generation capacity. The Power Development Plan is currently under revision as its targets are impossible to be met under the current conditions.

**Figure 7: Power share to 2030 of revised Power Master Plan VII**



Source: Vietnam Energy Policy, Ministry of Industry and Trade, 2015.<sup>14</sup>

Vietnam plans to import half of its 2030 coal consumption for power generation. The Government of Vietnam needs to acknowledge that the coal-fired power generation capacity that is being built and planned will lock-in air pollutants such as NO<sub>x</sub>, SO<sub>2</sub> and fine particulate matter and greenhouse gas (GHG) emissions for decades after 2030.

Such an option not only poses a tremendous risk to climate and public health but also builds up a vicious circle of challenges for the Government and the economy. The climate change accelerator, coal will continue to be the predominant source of energy until 2030.

Consequently, EuroCham Green Growth Sector Committee strongly advises the Government of Vietnam to alter the current 'climate change accelerator power development plans' towards more ambitious goals for energy efficiency and renewable energy, as well as a properly deregulated electricity market.

Based on the latest draft of the revised Masterplan, we note that the Masterplan fails to identify by name or location any of the renewable energy projects, either wind power plants, solar power plants, biomass power plants or small hydro power plants. This strongly suggests that finance, developers, sites and business licenses for these projects are not secured yet.

<sup>14</sup> 'Vietnam Energy Policy', Ministry of Industry and Trade, 08/15. Available at <Vietnam Energy Policy – General Directorate of Energy, Ministry of Industry and Trade, <https://eneken.iej.or.jp/data/6238.pdf>>



A strong commitment, long awaited energy market reforms and significant investments are essential to meet the electricity demand in the future, maintain energy access for all at affordable prices, provide a stable electricity supply for the growing economy and middle-class, but also reduce or at least stabilise carbon emissions and their environmental impact.

Given the current status, the World Bank is working on an Alternative Masterplan for Vietnam, which seems very much in line with our analysis and recommendations.

## **ACKNOWLEDGEMENTS**

EuroCham Green Growth Sector Committee

