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# 20315

## R E P O R T

ON THE IMPLEMENTATION OF CONTRACT No. 93/011P  
REGARDING TO PROJECT DP/VIE/91/010 BETWEEN  
VIETRANIMEX AND UNITED NATIONS INDUSTRIAL  
DEVELOPMENT ORGANIZATION.

Based on the contract No.93/011P (annexA) signed between Vietranimex and UNIDO concerning UNIDO's financial support for the working visit of Vietranimex mission to Italy, with the aim to have site-survey at Piaggio 3 wheeled manufacturing plant in Italy in order to complete the feasibility study on the proposed joint-venture for assembly and production of 3 wheeled vehicles to be consumed in Vietnam market.

In order to implement this contract, Vietranimex proposed to detail a mission composed of the following members :

1. Nguyen Quang Nam, Vice general director, head of delegation
2. Tong Ba Hung, Joint-venture Dept. manager
3. Le Tuan Dung. Trade Dept. Deputy Manager

The purposes of this working mission are to investigate techniques, and to discuss with Piaggio the issues relating to the carrying out of feasibility study, and to exchange views on the outline of joint-venture contract for assembly and production three wheeled if the circumstance is permitted.

During the visit from 26<sup>th</sup> April to 30<sup>th</sup> April, 93 (annexB) Vietranimex mission has worked with the counter part of Piaggio, with participation of Mr. Tran Dong Phong, representing UNIDO based at Milan. Here under are the matters emerged during the discussions and negotiations :

- To investigate production line, equipments technology on assembly and production of three wheeled vehicles in order to obtain necessary data to complete the Feasibility study. After having studies in details all kinds of three wheeled vehicles manufactured by Piaggio plant. The two parties agreed : to select the model to be assembled and produced for the supply to the market in Vietnam. We have from the study result of Piaggio firms's proposal and we have decided to select model Type P 601 because the chassi of this type is suitable to the building of trucks and passenger buses.

Based on the adopted model the two concerned parties have therefore decided to select manufacturing technology, equipment and facilities provided for the manufacturing chairs such as : welding, painting, assembly shops and other related facilities suitable to serve the purpose of assembling and manufacturing vehicle model P 601 on the basis of assembly parts or sub assembly ready made by and transferred from the original Piaggio to Vietnam for the final assembly in the initial stage of three wheeled vehicle manufacture, the other parts like car body upholstered seats, and batteries will be manufactured at Vietnam.

The products to be consumed during the first year are about 1000 units per year, then gradually increased to 3000 units per year, finally to 5000 vehicles per year at the demand of the market.

The two parties have discussed about content of the setting up of a Joint-venture enterprise for assembly and production three wheeled vehicles, and about :

- concrete requirement in investment capital
- Concrete capital contribution by different parties
- Labour forces need in production
- Labour forces expenditures and others relative matter to deploy the project.

The total estimated capital in investment for project is USD 3.701.000

In which : The Piaggio Italy firm : 63,47 PCT

Vietnam Vietranimex : 36,53 PCT  
(concrete capital contribution by different parties is  
wrote in the Feasibility study)

The matter on land rent whoes is regarded as a part of contribution of Vietranimex is still unsettled as Piaggio wants to pay the rent annual. Although, Vietranimex have explained that : The way Piaggio proposed to pay land rent shall subject to the rent inflation annually and the refusal made by Piaggio towards the proposed contribution by land rent to the J.V means that Piaggio does not facility the capital contribution shared by Vietranimex. This is the remaining problem disagreeable which needs further discussion. Besides, in order to put the J.V effectively in operation, It was agreed that : The Piaggio vehicles must be shipped into Vietnamese market as soon as possible for which 100 units model P.601 in the form of CKD or CBU along with necessary equipment and facilities to serve the complete assembly of those vehicles in Vietnam, and the related technical training have been agreed to be provided. Vietranimex will provided buildings and covered space, electricity and water and the technical labour force to carry out the overall assembly of vehicles so as to sell them to the Vietnamse market. Two parties will calculate cost price, Vietranimex will set.up a network of dealers services for the sale proposed and study the market.(Annex C)

On June 11<sup>th</sup> 1993, at the office of Vietranimex at Hanoi Piaggio has announced that it has no capability to supply the P 601 vehicles model as previously agreed at Italya but instead of this, replacing by APE TM 703 type under CBU form to be assembled and painted completely (except wheels and some accessories notassembled for favourising shipping conditions with a price as CIF HP at which Piaggio is able to supply equalling to USD 3178/unit. The shipping costs from Piaggio to Haiphong is 2,500 USD per 20'' container. The material costs for welding, painting lubricating and assembling including labour costs for one vehicle from CKD 2 form in to a finished Piaggio vehicles are 200 USD per vehicles. Piaggio have calculated CIF Haiphong price of vehicle type under CKD2 form USD 2800/unit.

Taking into account above costs ~~th~~ plus the assembly costs and circulation costs~~q~~ , the selling price acceptable to the Vietnamese market shall : 4,099.6 USD per truck and 4,288.36USD per passengers bus.

At the present, however the Vietnam consumers have not yet used the Piaggio products but only firstly been introduced thereby they can not accept the above price.

So, through discussion with Piaggio, we have proposed that : For the project feasibility, the Piaggio vehicles must be shipped into Vietnamese as soon as possible for consumers acquaintance in practice. In the first time, the Piaggio vehicles should be sold at a loss price for offering, then their credibility will be increased and the sale price could be raised in conforming with the demand, supply and cost price.

For this purpose the J.V should do it by themselves, accepting loss. In the first stage for gaining profits in following steps And other hand, in the event Piaggio wants to bring their vehicles into Vietnamese market prior to the J.V establishment, they have to accept initially to sell them at a loss price for offering, the Vietranimex will be a co-ordinator helping Piaggio to bring vehicles in to Vietnamese market by commercial way in APE TM 703 type under perfect form without rear body, at the CIF Haiphong price USD 1800/unit (some accessories not assembled for favourising shipping condition) Vietranimex side will assembly perfectly and intended sell at a price USD 2789,81 per small truck and USD 3,028.15 passengers bus.

If the selling price is higher than the above said price, the two parties, after deducting the incident expenditures, shall share the profits therein (detailed calculations for each kind of vehicles are given in the feasibility study).

We have discussed above mentioned matters with Piaggio delegation at Hanoi. because the proposed CIF for box car at Hanoi as said to be 1800 USD per unit was not accepted by Piaggio. Therefore this matter can't go further.

During the stay in Italy, thanks to the support and favourable conditions created by Piaggio, especially those from Mr. Mario and Mr. Anbert and the office of UNIDO based in Milan, our mission were able to carry out its survey and obtain necessary documents to perfect the feasibility study of the Joint-venture on Piaggio made-three wheeled vehicles in Vietnam(annèxD). Although those remained some unsettled problems onthe way to the establishment of the joint-venture


In order to clear off the uncertain feeling from Piaggio side over the Vietnamese market, we accepted Piaggio's proposal in which a batch of 100 cars, before the formal establishment of the Joint-venture, shall be brought into Vietnam for assembling and for sale to be performed by Vietranimex under the fully technical assistance and price impensation to be performed by Piaggio. Later on, the Piaggio delegation had come to Hanoi to work with Vietranimex with a change in their opinion in which another model of vehicles was offered and vehicles in CBU form was proposed to bring into Vietnam, instead of the previous agreed discussions. Anyhow, we even accepted for the sale of their interest. But the problem is their offered quotation. This matters shall be further considered by the two parties.

We appreciate with sincerely to the assistance and support of UNIDO headquarter and its office based in Milan for the favourable conditionsextended to Vietranimex delegation in its successful completion of the set-targets during its stay in Italia.

It is expected that with the UNIDO's assistance and Piaggio's good-willing, a joint-venture for assembling and producing Piaggio three wheeled vehicles in Vietnam will be soon established and

effectively operating to meet the transport demand, particularly in the process of Vietnam economy growth towards a market economy.

P.S. : Piaggio side expected that : Vietranimex side will send the feasibility study to them. If UNIDO agree, Vietranimex side will send the feasibility to Piaggio side. We looking forwards to receiving your reply,

  
H. Quang

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

VIENNA INTERNATIONAL CENTRE  
P.O. Box 300, A 1400 Vienna, Austria  
Telephone: 211310 Telex: 135612 Fax: 2308272

CONTRACT No. 93/011P  
Project No. DP/VIE/91,010  
between the  
UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION (UNIDO)  
and  
VIETRANIMEX  
201 Ming Khai Street, Hanoi, Viet Nam

Based on the UNIDO General Conditions of Contract attached hereto as Annex A, VIETRANIMEX (referred to as the "Contractor"), Vietnam, agrees to provide UNIDO all the services and facilities mentioned in the attached Terms of Reference dated 12 January 1993 (Annex B) and as per the Contractor's proposal dated 24 November 1992 and fax of the UNDP Office in Hanoi (Annex C).

at the total all-inclusive cost of ..... US\$ 7,907

payable as follows:

- a) upon UNIDO Vienna's receipt of acceptance of award of the Contract ..... US\$ 6,907
- b) upon UNIDO Vienna's acceptance of the Final Report, in English, in 3 copies, in order to be received by UNIDO Vienna not later than four (4) weeks after completion of the mission, and at the condition of UNIDO Vienna's receipt of the signed Contract ..... US\$ 1,000

IN WITNESS WHEREOF, the Parties hereto have executed this Contract.

VIETRANIMEX

By: \_\_\_\_\_

201 Ming Khai Str.  
Hai Ba Trung Distr.  
Hanoi  
Viet Nam

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

M. Kchonen, Chief  
Contracts Section  
General Services Division  
P.O. Box 300  
A-1400 Vienna  
Austria

Date: \_\_\_\_\_

Date: \_\_\_\_\_

Enclosures:

- Annex A - UNIDO General Conditions of Contract
- Annex B - Terms of Reference dated 12 January 1993 and
- Annex C - Fax dated 12 November 1992 from the Office of UNDP in Hanoi



WORKING PROGRAMME SCHEDULE  
BETWEEN VIETRANIMEX'S AND PIAGGIO VESPA LTD

1. Monday, April 26, 1993 :

- Morning : Transferred from Rome to Pisa
- Afternoon : Certifying working program and discussion started.

2. Tuesday, April 27, 1993 :

- Morning : Visited on the site production process on welding, painting and assembling three wheeler and scooter.
- Afternoon : Piaggio's presentation of the potential possibility of a joint-venture capable of assembly and production of 1,000 vehicles/year and 5,000 vehicles/year, required land, space, building workshop, warehouse, electricity and other power resources, welding, painting and assembly equipments, partial estimated amount of contribution and total value.  
Continuation of said above discussion, determination of availability of the Partners' contribution to the joint-venture.

3. Wednesday April 28, 1993 : The Partner proceeded discussion on the undecided details concerned.

4. Thursday, April 29, 1993 :

Morning : After the mutual determination of the chosen type of vehicle which is most suitable for marketing into Vietnam and clarifying form of assembly. Vietranimex was guided by Piaggio to the factory studying pressing workshop, frame and body welding and building up workshop and the whole assemble process of three wheeler model P601.

Afternoon : Discussion on market situation and explanation of feasible alternative as for launching Piaggio's products into Vietnam for assembly and distribution in local area before the establishment of the joint-

venture.

5. Friday, April 30, 1993 :

Morning : Further discussion on possible supply of model P601 to Vietnam so as to assembly locally, exchange price level and condition, necessary equipment supplied by Piaggio, from of distribution and sale, term of payment and summary of market concerned.

Aftenoon : Settlement of discrepancies, highlight of further consideration for final agreement.

Signing of agreement.

6. Saturday, may 1, 1993 :

Stayed in rome and leaved for Vietnam.



PIAGGIO

Annex C

30 Aprile 1993

AGREEMENT

After a visit and close evaluation of Piaggio production lines, the 2 parties have discussed and mutually agreed on a joint-co-operation for marketing Piaggio three wheelers in IKD form into Vietnam.

The 2 sides concluded that they have to further study the market conditions in Vietnam and, before evaluating and identifying the form of co-operation, they agreed to send no. 100 units of vehicle type "APE P601" in CKD or CBU form.

Piaggio will provide technical/technological assistance together with available specific equipment for assembly, welding and painting c/o Vietranimex, to be consequently sold and distributed in the entire Vietnamese territory.



Piaggio ensures to provide some of the necessary equipment and tools, in order to have the vehicles welded, assembled and painted locally, making use also of some processing tools available c/o VIETRANIMEX. PIAGGIO will assist the local activities with technical and specialized staff, so as to complete and finalize production and consequent supervision. Training on process by expert personnel to local workers will be also effected by Piaggio.

VIETRANIMEX will have to provide buildings and covered space for the assembly process, as well as workers and skilled technicians. VIETRANIMEX will arrange cargo receipt and set up a distribution network of sales and after sales service. VIETRANIMEX will collect data/figures to prepare a market survey to be evaluated and studied together with Piaggio.

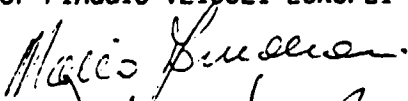
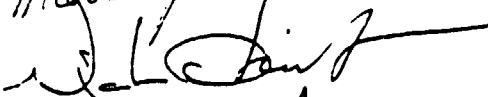
Payment to Piaggio from Vietranimex will be effected by irrevocable differed L/C:  
L/C details and credit time will be mutually agreed upon getting final cost and retail price indication.

The two parties will do their best effort to achieve target market study and will show their common good-will to mutually identify the suitable form of investment, also taking into consideration the form of Joint-Venture.

for VIETRANIMEX

for PIAGGIO VEICOLI EUROPEI

  
  
Franco Bechi

Project : N°DP / VIE/91/610

# FEASIBILITY STUDY

ON JOINT VENTURE  
FOR ASSEMBLY AND PRODUCTION  
OF THREE WHEELED VEHICLES  
BETWEEN VIETRANIMEX  
AND PIAGGIO ITALY

# 1. BASIS FOR BUILDING FEASIBILITY STUDY ON ASSEMBLY AND PRODUCTION OF THREE WHEELED VEHICLES IN VIETNAM

## 1.1. Legal basis

a. The Law on foreign investments in Vietnam adopted on December 29<sup>th</sup> 1987 at the second session of the eighth national Assembly of the Socialist Republic of Vietnam and the law on Amendment and supplement to the law on foreign Investment in Vietnam adopted on June 30<sup>th</sup> 1990 by the national assembly of Socialist Republic of Vietnam and Decree No. 18 of April 16, 1993 by SRV Government providing details for the implementation of the Law.

b. The June 3<sup>rd</sup>, 1992 minutes of agreement between VITRANIMEX and PIAGGIO firm on joint venture for assembly and production of three wheeled vehicles to be cosumed in Vietnam market. When market conditions are available, the vehicles will be exported to other countries of Southeast Asia.

## 1.2. Basis of transportation need by light means of transportation in Vietnam.

a. Together with a thriving economy, the need in transportation of passangers and goods in cities, districts and villages of Vietnam becomes ever greater. To count only districts with an average use of 10 vehicles a year per district, the annual volume of vehicles could have been 5000 units. If the need of peasant households is included as they have to bring their products for sale in cities and markets, the annual volume of vehicles would increase considerably.

b. In the South, three wheeled vehicles have been for years a common means of goods and passengers transportation, but all of them are now old without spare parts are available for replacement or repair, so little of them remains. In the North, MTZ motors from the Soviet Union and JAWA motors from Czechoslovakia are recently used to make three wheeled vehicles, but their capacity shows that defects exits and the quality is not as good.

## 2. THE CHOICE OF JOINT ENTERPRISE.

PIAGGIO firm proves to be a world famous one in production of three wheeled vehicles with guaranteed quality and technique suitable for use in Vietnam. Through a number of sample vehicles introduced for test in Vietnam, most of clients prefer the use 217.9 cm<sup>3</sup> PIAGGIO vehicles because they are much superior to all existing ones. Also, through our study of model vehicles, we found that many parts of this vehicle could be manufactured in Vietnam. Therefore, the setting up of a joint

enterprise for assembly and production of PIAGGIO firm vehicles in IKD form for use in Vietnam is totally a feasible matter.

The setting up of a joint venture enterprise for assembly and production of three wheeled vehicles in Vietnam is a pressing need for both sides, with an estimated joint enterprise capital of 3,704,000 USD, in which the legal capital is 3,704,000 USD.

The PIAGGIO Italy firm : 63,47 CPT  
Vietnam VIETRANIMEX : 36,53 PCT

This combination is created by each party's attraction as brings positive mutual assistance to the joint enterprise.

*From the PIAGGIO firm side :*

- \* Investment
- \* Prestige
- \* Technical level of mechanic manufacture
- \* Expanded development and product research

From VIETRANIMEX side

- \* Understanding of client and market
- \* Vision
- \* Right of land and workshop utilization in Vietnam
- \* Assistance in application for different licenses

### 3. INTRODUCTION OF JOINT ENTERPRISE PARTICIPANTS

#### 3.1. Vietranimex

##### 3.1.1. History

The predecessor of VIETRANIMEX was the Department of material pertaining to the Ministry of Communication and Transport, established in 1961. Through different periods depending on the task, it bears different names. Since 1990, it is called Corporation for Import Export Production and Supplying of Transport, Communication material (VIETRANIMEX). It is an economic unit with juridical person, independent business accounting, having direct exportation right and benefiting prestige among home and foreign clients (Japan, Hongkong, Singapore, Thailand, Malaysia, Korea, Taiwan, China, Russia, Germany, Czech etc.) Its annual production and business turnover amounts to over 200 billion VND.

##### 3.1.2. main scope of business

Import-Export, production, domestic trade of goods serving road and bridge construction like asphalt, bridge support steel, different machineries for bridge and road construction, loading and unloading transportation means and other spare parts, car truck tyres and tubes construction materials etc.

Joint venture with domestic and foreign units for production of export goods, means of transport and equipments for communication service consumer goods at home. Maritime and road transportation at clients' request, servicing transfer and transit.

### 3.1.3. Organization structure

VIETRANIMEX has its member units in cities and ports like : Haiphong Vietranimex Company, Danang Vietranimex, Saigon Vietranimex. In Hanoi, it has central enterprise, import-export production and business enterprise. In each company, the enterprise possesses warehouses and ground for goods deposit, shops, loading and transportation means.

Joint companies : Joint enterprise for production of export tin, joint enterprise for repair and renewal of equipments, joint enterprise for production of oil paper>

## 3.2. The PIAGGIO firm

### 3.2.1. History

PIAGGIO started production since 1884, through different periods of development, at present PIAGGIO lies third in the world ranking.

### 3.2.2. Main scope of business

PIAGGIO operates through a network of 12,500 sales and service points in Europe. The PIAGGIO group is also represented in numerous foreign countries, both in and outside Europe by & subsidiary and associated companies, 14 licensee companies and some 70 distributors, worldwide.

PIAGGIO is represented in the international market by the following trademarks : PIAGGIO (Scooters, Mopeds and light transport vehicles), GILERA (Motorbikes and mopeds), PUCH (mopeds), MOTOVESPA (mopeds and scooters) and LML (scooters).

### 3.2.3. Organization structure

PIAGGIO and C.SpA is the holding Company with registered

offices in PISA that controls the PIAGGIO group Companies. The group consists of about 50 companies employing some 9,500 people. PIAGGIO & S.SpA is the holding company of a group that takes in the following subholding companies :

*PIAGGIO Veicoli Europei SpA* : Vehicles under the PIAGGIO (Scooters, mopeds and 3/4 wheel light transport vehicles). GILERA (motorcycles and mopeds) and PUCH (mopeds) trademarks. Based in Pontedera (PISA). Through its subsidiary company PIAGGIO Vespa BV of Amsterdam, this sector also includes Moto Vespa S.A of Madrid (manufacture and marketing of mopeds and scooters) and the sales companies Vespa GmbH of Augsburg, Germany and Vespa Diffusion SA of Paris. PIAGGIO V.E is also represented in India by LML Ltd. of Kanpur.

*FIV E. Bianchi SpA* : Bicycles under the Bianchi, legnano, NTH and Puch trademarks. Based in treviglio (Bergamo).

*Columbus SpA* : development, manufacture and marketing of components for two-wheel vehicles. based in Pisa.

*PIAGGIO Pro-Ind SpA* : automotive components, products and services for the chemicals, textiles, engineering, powder metallurgy, automation and industrial components plant sectors. based in Turin.

*Finmotor SpA*: a finance company offering leasing, factoring consumer credit, venture capital service. Based in Turin.

#### 4. DESCRIPTION OF ASSEMBLY AND PRODUCTION PROCESS AND OPERATION CONTENT OF JOINT ENTERPRISE

##### 4.1. Assembly and production of PIAGGIO firm three wheeled vehicles of 217.9 cm<sup>3</sup> type

In the first year, assembly of vehicles by pieces, parts and material of PIAGGIO firm manufactured abroad and introduced to Vietnam. At the same time, gradually to produce pieces and parts in Vietnam so that two years later all basic details could be produced in Vietnam.

4.2. The joint venture enterprise can organize guarantee points and sale branches in localities using most of vehicles assembled and produced by the joint enterprise.

4.3. In the process of assembly and production of three wheeled vehicles (after obtaining license) the joint enterprise will consider the expansion of its activities to assembly and production of production of trucks and passenger cars of small size conforming to the need of transportation in Vietnam to be



submitted to the State Committee for cooperation, and investment for license to expand its production and business.

4.4. The reconversion of foreign currency for payment, assuring the maintenance and development of production and business :

- Foreign currency transfer through bank organizations
- Purchase of foreign currency on the market
- Cooperation with forest and agricultural products and aquaproducts units for exportation to reconvert foreign currency.
- Sale of goods for foreign currency with preferential price
- Assistance through Vietranimex in foreign currency reconversion for payment.

## 5. INTRODUCTION OF PRODUCTS

5.1. The PIAGGIO firm three wheeled vehicle is of small size, varied in form and serving different ways of transportation. They are convenient with open or covered trunks. Those trunk vehicles if transformed and added with benches could be appropriate to passengers both in the cities and countryside of Vietnam. In conditions of the economy still to develop and switching to market economy, each peasant household would need a vehicle which can at the same time transport people and goods for sale.

### 5.2. Main characteristics of the vehicle :

Loading capacity : 700 kg  
Fuel consumption level : 31/100 km  
Maximum speed 62 km/h  
Gear mechanism : 4 forward and 1 backward  
Motor capacity : 7,5 kw

### 5.3. Production position :

Included in state priority list because its being small size means of transportation serving both public and private needs.

If PIAGGIO three wheeled is introduced to Vietnam, it will help solving the need of light transportation in cities, townships and the countryside of Vietnam, especially in townships and the countryside in the future.

## 6. Market problems :

### 6.1. Different reasons for market with the product.

a. The basic merit of PIAGGIO made three wheeled vehicle is its small and convenient loading capacity and low level of fuel consumption. It is appropriate for plane roads in cities, the plain and midland regions for transportation of passengers and the commodities.

b. For the time being, three vehicles in use are from Soviet Union MTZ motors or Czech JAWA motors which consume a high quantity of fuel and operate on chain system. Infact, only MTZ)) vehicles are still produced with a limited quantity because of the lack of motors and their quantity, technique and aesthetic form have a lot to be desired. Old Lambro vehicles are mostly damaged and have no spare parts, tricycles are too limited in loading, even those Tuc-Tuc vehicles from Thailand and Chang Cheng from China (very limited quantity) can not compete with those of PIAGGIO firm.

c. In term of cost, if vehicles are assembled under CKD, SKD or IKD forms, not only import tax will be low, but labour employment will also be cheap and when some spare parts can be produced in Vietnam, the cost will be even lower. That will also prevent competition possibility from other imported vehicles.

## 6.2. Defining the annual output

a. In the immediate, products are to be consumed mainly at home, then offered for sale in Laos, Cambodia and Southern provinces of China.

b. Products to be consumed during the first years are about 1000 units, per year, then gradually increased to 3000 units per year, finally to 5000 vehicles per year at the demand of the market.

## 6.3. Market solution

a. Sales can be returned in cash, foreign currency or through exchange of commodities. Sales are to be made at the joint enterprise, in branch offices, existing bases of Vietranimex, in province agencies.

b. To organize guarantee network during the first period and sell spare parts at the demand of clients (including imported and home made spare parts).

c. To organize publicity through the media and exhibition for introduction of products.

## 7. POSSIBILITY OF ASSURING "INPUT" ELEMENTS FOR PRODUCTION

### 7.1. "input" supply source and mode.

#### a. The PIAGGIO firm side ensures the supply of :

All the spare parts, supplementary pieces and material of three wheeled vehicle by PIAGGIO firm, equipments, assembly means for production.

Technical experts for the guidance of workers in assembly and manufactural of vehicle spare parts.

#### b. The Vietranimex side ensures the supply of :

- Land, workshop, working office for the joint enterprise
- Technical labour and experts in economic technical management as well as management cadres for the joint enterprise.
- Information related to market.

### 7.2. Mode of assuring stable supply "input" elements for production

Right after obtained license from the SR of Vietnam state committee for cooperation and investment, all sides have the responsibility of contributing their capital part to the joint enterprise. Contribution from all sides can be made in USD or through economic contract in the purchase of material, spare parts, equipments, land rent, workshop... by the General Director of the joint enterprise with participants in the joint business.

The executive board has the responsibility of deploying appropriate product consumption plan to assure a continuous production.

For more initiative in production, there will be a rapid increase of home produced parts to replace those imported.

## 8. TO DEFINE SCALE AND PRODUCTION PROGRAM.

### 8.1. First stage of joint enterprise

a. The scale of joint enterprise is mainly assembly and production of a number of vehicle details while relating to other engineering enterprise inside or outside the branch for manufacture of other details and spare parts of vehicles.

b. Production chain, technological equipments, assembly and production of three wheeled vehicles for universal transportation

c. Organizing guarantee, supply of spare parts to clients

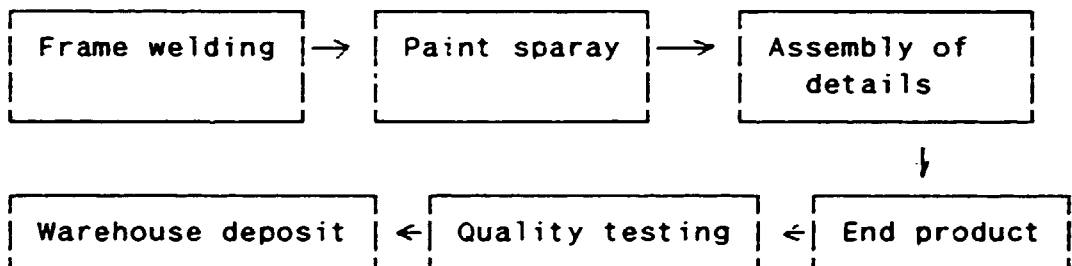
8.2. Further deployment of assembly and production of three wheeled vehicles for specific use. To study the organization of four wheeled vehicles assembly line at the request of market.

## 9. TECHNOLOGY AND EQUIPMENTS

### 9.1. Chosen technology

From spare parts, supplementary pieces, manufactured by PIAGGIO firm to be sent for assembly in Vietnam during the first stage, then the other parts like cover, upholstered seats, tyres and tubes, accumulators... will depend on existing capabilities of engineering plans pertaining to the Ministry of communication and transport to produce and supply them to the joint enterprise for comprehensive assembly.

### 9.2. Diagram of main working stages :



### 9.3. Equipments for the joint enterprise

#### a. Workshops equipments

- Welding workshop equipments : USD 943,000
- Painting workshop equipments : USD 424,000
- Assembly workshop equipment : USD 202,000

#### b. Service equipments

- Transformer station and power system  
1000 KVA. 380V. 50Hz : USD 250,000
- Compressed air station and system  
550 m<sup>3</sup>/h 5atm : USD 65,000
- Water supply system : USD 10,000
- Maintenance equipment station : USD 40,000
- Internal shifting means (2 cars) : USD 60,000
- Three cars : USD 50,000
- Office equipments : USD 25,000
- Total : USD 2,069,000

c. The whole of office equipments will be purchased in Vietnam.

d. Equipments for production of spare parts will be defined after balancing possibility of coordinating engineering exploitation capacity of Vietnam branch of communication and transport.

Contributions to equipments and machineries will be agreed by all parties according to value of international market at time of capital contribution.

#### 10. NEED IN SPARE PARTS SUPPLY

The PIAGGIO firm side assures the monthly permanent spare parts supply according to joint enterprise capacity design. The monthly spare parts supply depends on contract signed between the joint enterprise and PIAGGIO firm. The amount of vehicles under CKD and IKD from in the first stage corresponds to value of capital contribution value of PIAGGIO side without being subjected to import tax.

The supply of comprehensive spare parts must assure the initial capacity of 1000 vehicles per year, after that amount to 5000 vehicles per year and PIAGGIO side has to assure the supply of spare parts for sale to users at the value of USD 1.000.000 after the output has reached 5000 vehicles per year.

Spare parts, supplementary pieces and material received from 20 feet container in Haiphong must be under conditions of comprehensive lots.

#### 11. Localities of projects at the service of joint enterprise.

11.1 The place for building joint enterprise of assembly and production of three wheeled vehicles is at 201 Minh Khai street, Hai Ba Trung district, Hanoi.

##### 11.2. Need in utilized surface area

- Workshops, material and spare parts warehouse, en-products warehouse and working place for workshop :	4000 m <sup>2</sup>
- Road and ground system	2000 m <sup>2</sup>
- Need in land	6000 m <sup>2</sup>
- Office	50 m <sup>2</sup>

##### 11.3. Power, water supply system, information and liaison..

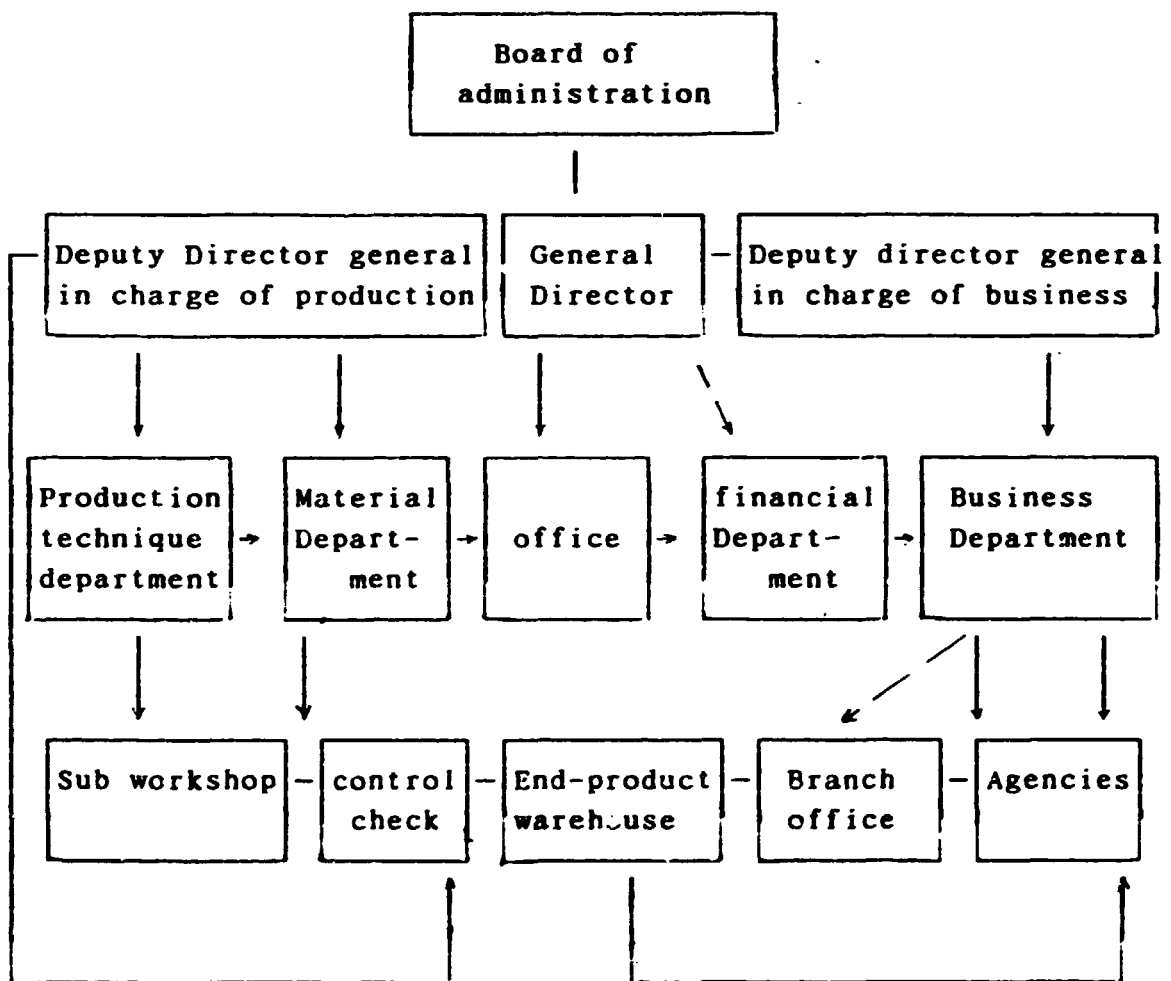
- Building of a 1000 KVA 50Hz 380V power station

- Building of a pumping station at 10 m<sup>3</sup>/hour

The joint venture enterprise will sign direct contract with the Hanoi departments of power, post and water supply.

11.4. If the joint enterprise is to develop and expand its surface area (lay-out) because of production need, VIETRANIMEX will respond to it (through economic contract or increase of VIETRANIMEX legal capital into the joint enterprise).

## 12. DIAGRAM OF JOINT ENTERPRISE ORGANIZATION



### 13. LABOUR POWER NEED IN PRODUCTION

13.1. When the production output of joint enterprise reaches 3000 vehicles per year, direct labour force is of 90 persons, indirect labour force, 10 persons.

13.2. The labour force will be provided by VIETRANIMEX through joint enterprise recruit contract towards labour collectives or individuals.

#### 13.3. Labour force expenditures

The average salary for each direct labour is USD 70/month. Wages are paid according to product and fulfilment capacity.

### 14. ORGANIZATION AND INVESTMENT PROGRESS

After obtainment of license from the Vietnam state committee for Corporation and investment, the joint enterprise will urgently deploy establishment and activities :

- \* In the first three months, the following matters should be carried out
  - Procedures for establishment of joint enterprise and activities.
  - Procedures for the importation of production equipments, spare parts, supplementary pieces and material for assembly and production.

- \* In the next six months :
  - Building of workshops
  - Installation of equipments
  - Test production and production

### 15. CONCRETE REQUIREMENT IN INVESTMENT CAPITAL

15.1. The total capital in investment for project is USD 3,701,000 in which :

- |                    |               |
|--------------------|---------------|
| - Fixed capital    | USD 3,101,000 |
| - Floating capital | USD 600,000   |

The whole of the above capital is contributed by VIETRANIMEX and PIAGGIO firm to make up the joint enterprise for assembly and production of three wheeled vehicles in Vietnam.

15.2. Concrete capital contribution by different parties is as follows :

- a. VIETRANIMEX : The part of capital contributed by

VIETRANIMEX is USD 1.352.000 standing for 36,53 % of total capital investment of the joint enterprise. Namely :

1. Land rent expenditures of 6000 m <sup>2</sup> land : (utilization time : years)	USD 432,000
2. Corrugated steel roofed workshops with surrounded wall 4000 m <sup>2</sup>	USD 600,000
3. 1000KVA-380-50Hz power station	USD 250,000
4. Drilled well water 10m <sup>3</sup> /h	USD 10,000
5. 2 old trucks of 10 T and 14 T	USD 60,000
Total :	USD 1,352,000

b. PIAGGIO firm : The part of capital contributed by PIAFFIO firm is USD2.349.000, standing for 63,47 % of total investment capital of the joint enterprise. Namely :

1. Welding equipment line	: USD 943,000
2. Painting equipment line	: USD 242,000
3. Assembly equipment line	: USD 202,000
4. Compressed air station and system 550 m <sup>3</sup> /h 5 atm	: USD 65,000
5. Maintenance equipment station	: USD 40,000
6. Office equipments	: USD 25,000
7. Three four-seats cars	: USD 50,000
8. Cash (or vehicles of CKD,IKD form)	: USD 600,000
Total :	: USD 2,349,000

\* The PIAGGIO side to contribute USD 2,349,000 either in cash or equipments, material serving the assembly and production, but agreed by all parties at the time capital contribution and at international market value.

\* The VIETRANIMEX side to contribute USD 1.352.000 by the utilization of 6000 m<sup>2</sup> land right, 4000 m<sup>2</sup> of house and workshop, transformer station, drilled well and trucks.

As far as land rent is concerned, the PIAGGIO side still disagrees with a part of the capital contribution of Vietnam side and PIAGGIO wants to pay the rent annually. That's the pending problem. It needs more discussion.

#### 16. ONCOST - PRICE OF THE APE TM 703 THREE WHEELER

On June 11<sup>th</sup> 1993, at the office of VIETRANIMEX, Hanoi, PIAGGIO has announced that it has no capability to supply the P.601 car model as previously agreed at Italia but instead of



this, replacing by AM TM 703 type under a CBU form to be assembled and painted completely (except wheels and some accessories not assembled for favourising shipping conditions) with a price as CIF Haiphong, at which PIAGGIO is able to supply equalling to USD 2.800/unit. For this type of three wheeler, each 20'' container may only contain 8 units, for which the shipping costs from PIAGGIO to Haiphong is 2,500 USD per 20'' container.

The material costs for welding, painting, lubricating and assembling including labour costs for one car from CKD2 form into a finished PIAGGIO car are 200 USD per car.

Basing upon these above data, it is possible to calculate the cost price of a APE TM 703 small truck full of accessories and spare-parts under CKD2 form, which has not yet painted and cabin - welded, delivered at Haiphong to be USD 2,412.5/car (under C KD2 form, each 20'' container may contain 20 cars).

Accordingly, the cost price and sale price of a APE TM 703 truck and a bus (by modifying the body for carrying passengers) assembled at Vietnam is expected to be as follows (unit for calculation = USD):

No	ITEM	TRUCK	BUS
1	Car under CKD2 form, price as CIF at HP	2,412.5	2,412.5
2	Shipping costs from Haiphong to Hanoi	10.5	10.5
3	Costs for car-body manufacturing	100.0	250.0
4	Costs for utilities and other material	160.0	160.0
5	Import tax 15%	361.87	361.87
6	Labour costs	150.	150
7	Insurance	15	15
8	Depreciation for 10 years	88.6	88.6
9	Management costs 10%	329.85	344.8
10	Ex-factory costs	3,628.	3,793.27
11	Advertisement costs 3%	108.8	113.79
12	Turn-over taxes 1%	36.28	37.93
13	Profits 9%	326.52	341.39
	Sale price	4,099.6	4,286.38

\* Profits expected to be obtained for joint-venture

- With an annual output 3000 car per year, of which 1000 truck and 2000 buses for passengers :

Small trucks	1000 x 326.5 = 326,500 USD
Passengers cars	2000 x 341.3 = 682,600 USD
Total	= 1,009,100 USD

- With an annual output 5000 car per year, of which 2000

small truck and 3000 buses for passengers :

Small trucks	2000 x 326.5 =	653.000 USD
Passengers cars	3000 x 341.3 =	1.023.900 USD
Total		= 1.676.900 USD

\* Period for capital return : for a 3000 car annual output the period for capital return will be 4.5 years, for a 5000 cars annual output the period for capital return will be 2.8 years.

In the case the Vietnamese Government gives a tax-exemption in the two first years and tax-reduction of 50% taxes on profits in the two subsequent years, the period for capital return may be sooner.

\* Interests for Vietnamese national economy (estimated for an output 3000 cars per years).

- Turn over taxes	112,400 USD
- Import duties	1,085,610 USD
- Taxes on profits	151,365 USD
- New jobs for 100 workers	

From the above estimations, these inferences may be drawn: Considering a car under the CKD2 form at a price 2412.5 USD, car with its body not assembled and the costs for welding, painting and assembling at PIAGGIO that may be higher than 200 USD and several accessories and supplies that can be made in Vietnam (like tyres and rubbers, accumulator, seats...), we can see that the cost price and the sale price at Vietnam may be reduced about 300 USD and subsequently the sale price for a APE TM 703 car under a small truck form may be reduced to 3700 USD.

When the consumers have been familiar with the PIAGGIO cars on their quality, beauty and comfort, these cars will have a competitiveness at the Vietnam market.

On the other hand, if the car-frame is also welded and mounted in Vietnam, the shipping costs from Italia to Vietnam for each car will be further reduced and the cost price will be lowered, this project may be more feasible.

At the present, however, the Vietnamese consumers have not yet used the PIAGGIO products but only firstly been introduced, thereby they can not accept the above price because at the Hanoi market, a three - wheeled car (from former USSR) using a T 200 engine, motion-transmitted by chain, with only its body and cabin manufactured in Vietnam, which has been completely assembled, could be sold at a previous price about 9.000.000 VND (252.27 USD) and at a current price about 16 millions VND (1.515.15 USD) (exchange rate 1 USD=10.560 VND).

Therefore, for the project feasibility, the PIAGGIO cars

must be shipped into Vietnamese as soon as possible for consumers acquaintance in practice.

In the first time, the PIAGGIO cars should be sold at a loss price for offering, then their credibility will be increased and the sale price could be raised in conformity with the demand, supply and cost price. For this purpose, the joint-venture should do it by themselves, accepting loss in the first stage for gaining profits in following steps.

In the event PIAGGIO wants to bring their cars into Vietnam markets prior to the Joint-venture establishment, they have to accept initially to sell them at a loss price for offering, the VIETRANIMEX will be a coordinator helping PIAGGIO to bring cars into Vietnam market by commercial way in APE TM 703 type under SKD perfect form (with wheels, body and some parts dismounted) with a price as CIF at Haiphong 1800 USD/car.

The VIETRANIMEX side will assembly perfectly and sell at a price 29,546,800 to 31,975,600 VND.

Detailed calculations are given below (unit of calculation USD)

No	Items	truck	passenger-car
1	SKD car. CIF at Haiphong	1800	1800
2	Costs for shipping Haiphong-hanoi	26.25	26.25
3	Costs for chassis for passenger-cars	0	0
4	Utilities and other materials	25	25
5	Import duties 32%	576	576
6	Labour costs	30	30
7	Insurance	3	3
8	Management costs 5%	123	133
	Ex-factory price	2,591.25	2,801.25
9	Advertisement costs 2%	51.82	58.82
10	Turn over taxes 6 %	155.74	168.08
	Sale price	2,798.81	3,028,15

## 17. CONCLUSIONS

According to results of the feasibility studies, this project will be feasible in Vietnam due to following reasons :

In conformity with rythm of Vietnam economy development, the demands for three-wheeled for transporting goods and passengers are every great, on the hand the requirements of individual peasant households and manual manufactures on means of transports are more and more increasing, and the PIAGGIO three-wheeled vehicles are of a high quality and widely diversified, which can meet the consumption demands in Vietnam.

In the next short-time, as the price has not yet enough competitiveness, but with the measures to be taken as bringing cars into the Vietnam market to make an access to consumers, then the demand will be increasing, the price will be able to be raised gradually to cope with the production costs and produce rentability.

Also as a result of these above investigations, the project feasibility in Vietnam will be only possible through a joint-venture form of assembly and production in Vietnam owing to lower import duties and labour costs, and favoured conditions created by Vietnamese Government in respect of encouraging stimulations along with tax-exemption and reduction preference in compliance with the foreign investment Law regulations.

If the PIAGGIO side considers that a market break through of three-wheeled cars into Vietnam is an urgent need and the VIETRANIMEX side thinks it as necessity for main small means of transport, then both sides must promote as soon as possible towards a joint-venture enterprise for bringing cars into Vietnam for marketing, this Joint-venture shall compensate by itself for losses and profits in the first stage, hoping for the feasibility and rentability of the Project in the future, the two partners shall bear together all initial possible risks and enjoy the consequent effectiveness after market-acceptance.

It is impossible to bring cars into Vietnam market by the commercial way because of the too high price that would be either unacceptable by the market or acceptable only for a too small amount of cars.

It is expected that with the UNIDO's assistance, a Joint-venture for assembling and producing PIAGGIO three-wheeled cars in Vietnam would be soon established and effectively operating to meet the transport demands in Vietnam, particularly in the process of Vietnam economy growth towards a market economy.

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