



## **Trade Liberalization Countermeasures in Agricultural Sector of Vietnam**

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**Key words: trade liberalization, Vietnam, countermeasures**

### **INTRODUCTION**

International economic integration is the key element in the renovation process of Vietnam. For agriculture, economic integration has created many opportunities and positive results. Agriculture has become an export-oriented sector, which now plays an important role in ensuring food security in the country and in the region. The image of Vietnam has also been raised when Vietnamese agricultural products larded it over in many markets around the world. Besides the above advantages, the implementation of commitments to open the domestic market has led to greater competitive pressure on agriculture, requiring a system of trade liberalization countermeasures, which must be consistent with international rules. This helps Vietnam to really benefit from FTAs.

This article reviews the trade liberalization countermeasures in the agricultural sector in Vietnam and proposes the following tasks of trade liberalization countermeasures in order to facilitate the trade and sustainable development of Vietnamese agriculture.

### **TRADE LIBERALIZATION COUNTERMEASURES IN THE AGRICULTURAL SECTOR OF VIETNAM**

#### **1. Agricultural trade liberalization in Vietnam**

Vietnam's integration with the international economy has increased significantly over the past decade. The current trade policy is rooted in the Renovation policy (1986) which has transformed Vietnamese economy from centrally planned towards a socialist-oriented market economy. As an important part in the Renovation economy, trade liberalization in agriculture has been pushed up with the movement of most of mandatory quotas, administrated prices for goods,

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land and enterprise reform. Especially, land reforms after the Directive “Contract 10” has created incentives to farmers to increase productivity. Other reforms in fiscal regime, monetary policy, law making, and administrative decentralization also facilitate the trade liberalization process in Vietnam’s agricultural sector. Thanks to these policies, Vietnam ranks on the top of exporters of rice, Robusta coffee, cashew nut, pepper, etc. The high agricultural growth over the last decade has allowed big progress in poverty reduction in the rural areas.

Vietnam has pursued a path towards international integration through bilateral and multilateral agreements, including the agreement between Vietnam and United States of America on trade relations in 2001 (Vietnam –US BTA); agreements under the CEPT/AFTA liberalization scheme (ASEAN FTA). Vietnam has also been actively participating in the Asia-Pacific Economic Cooperation (APEC), the largest economic trade cooperation group in the Asia Pacific region since 1998. The country is also one of the founding members of the Asia-Europe Meeting (ASEM) which was established in 1996. Since, the trade relationships between Vietnam and EU have seen remarkable progress, we focus on the FTAs between Vietnam and EU.

In addition to these major agreements, Vietnam has participated in 8 regional agreements of free trade including AFTA/ATIGA, ACFTA (ASEAN-China), AKFTA (ASEAN- South Korea), ASEAN-Australia, New Zealand, ASEAN- India, ASEAN- Japan, VJEPA (Vietnam- Japan), Vietnam- Chile. Vietnam is in the process of negotiating six FTAs. These are: TPP,-EU FTA, Vietnam Agreement and 4 European countries including Iceland, Lichten, Norway and Switzerland, the Agreement on Vietnam-Korea Agreement FTA between Vietnam and the Customs Union of Russia, Belarus, Kazhastan, partnership Agreement comprehensive Economic area (RCEP) between ASEAN and the six partner countries (South Korea, Japan, China, Australia, New Zealand, India).

Trade cooperation in the agricultural sector have been established deeply with several nations and territories. Vietnam has signed more than 150 cooperation agreements, and trade agreements with other countries and regions, multilateral organizations to strengthen cooperation to promote trade as well as sustainable agriculture, forestry, fisheries and rural development. Trade liberalization commitments in most of bilateral and multilateral free trade agreements create opportunities for agricultural trade. The export turnover of agricultural products has increased more than 2.5 times in the period of 2006-2013.

On the other hand, trade liberalization also poses many difficulties and challenges for this sector since the fact that the competitiveness of agricultural products consist mostly in price while the added value is low due to its limited application of science and technology.

## **2. Change of trade liberalization countermeasures in the agricultural sector of Vietnam**

According to WTO (2013)<sup>2</sup>, in the process of economic restructuring and comprehensive international integration, the Vietnamese Government is strongly committed to the multilateral trading system and considers its main focus of Vietnam's economic integration policies. Since its adhesion to WTO, Vietnam has continued to complete its trade policies and engage with trading partners to recognize the country as a market economy. In early 2013, nearly 40 countries have recognized Vietnam's market economic status.

As part of the objectives of this report, the research team reviews the trade policies of Vietnam according to four main groups including (i) export and import management which influences the export and import of input and output of agricultural production; (ii) export subsidies and export promotion and marketing assistance, which shall enhance export of agricultural products; (iii) Customs reform and border trade policy which affects the transparency and efficiency of agricultural trade with foreign partner; (iv) price management policy which regulates a list of agricultural products under the price stabilization schemes.

**a) Measures directly affecting imports:**

Import procedure and requirement

Customs clearance documentation and procedures for imports and exports generally have been, in essence, unchanged since 2009 and implemented on the basis of circulars of the Ministry of Finance. The action has been taken to streamline the process of establishing a business and goods import into Vietnam.

Ordinary customs duties:

In Vietnam, the customs tariff is generally issued annually in the form of a decision or circular from the Ministry of Finance (Decision No. 39/2006/QĐ-BTC; Decision No. 106/2007/QĐ-BTC; Decision No. 123/2008/QĐ-BTC; Circular No. 216/2009/TT-BTC; Circular No. 184/2010/TT-BTC, Circular No. 157/2011/TT-BTC, Circular No. 193/2012/TT-BTC; Decision No. 1474/QĐ-BTC).

Exemption from import duty: From the date 07th Feb, 2014, production materials and supplies imported for agricultural farming, forestry, fisheries, salt, artificial seed production, crop varieties and breeds new livestock in investment projects in the field of special investment incentives (Section A - Annex 1 of the Decree No 108/2006/ND-CP) will be exempted from import duties under the Circular No. 02/VBHN- BCT dated 23<sup>rd</sup> January, 2014 of the Ministry of Industry and Trade).

Progress of tariff reduction commitments has been made either in accordance with the schedule or in some cases, faster than the schedule. For agricultural products, the tariff reductions had to be made from 22.4% to 20.9%. For seafood, approximately 75% of the total number of applied tariffs are lower than the WTO commitments. The remaining tariff lines are at equivalent levels of commitments. The system of import and export duties policies on agricultural products traded with the bordering country is also further reformed in accordance with international commitments. The duty-free and reduction of import duties and other taxes for border residents have been adjusted to appropriate living conditions, production of border residents. The process

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<sup>2</sup> WTO (2013). Report by the WTO secretariat on trade policy of Vietnam. Summary version. WT/TPR/S/287

of tax collection procedures, deductions, exemptions, tax refund, taxpayer rights are established more clearly. The difference between bound and currently applied MFN rates leave some scope for flexibility in Vietnam's tariff policy.

However, in some cases, Vietnam has implemented tariff reductions ahead of the commitment timetable, even when the domestic production is not ready to compete with import products. (the list of tariff of some typical farm products and fertilizer are enumerated in the Annex).

#### Tariff quotas and tariff exemption

In Vietnam, tariff quotas are applicable for eggs, refined and raw sugar, tobacco materials and salts. The size of the annual import quotas is fixed by the Ministry of Industry and trade, whereas the tariff rate for out-of-quota imports are determined by the Ministry of Finance.

Legal documents on tariff quotas include Decision No. 35/2006/QD-BTM dated 8th Dec, 2006 on volume of 2007 tariff quota for imports, Decision No. 77/2006/QD-BTC dated 28th Dec, 2007 on Volumes of tariff quota in 2008, Circular No. 16/2008/TT-BTC, Circular No.37/2009/TT-BCT dated 15th December, 2009, Circular No.188/2009/TT-BTC, Circular No. 188/2009/TT-BTC dated 29th September, 2008, Circular No.02 /2012/TT-BCT dated July 4, 2012; Circular No. 04/2013/TT-BCT dated 8th February, 2013; Circular No.02/2013/TT-BTC dated 18th January , 2013.

With respect to tariff exemptions, Vietnam exempts various goods from customs duties pursuant to the Law on Import Tax and Export Tax (Law No.45/2005/QH11 of 14th June, 2005).

Vietnam has also opened tariff-rate quotas for preferential import of rice and dried tobacco leaves from Cambodia and Lao PDR. According to the Circular No. 09/2014/TT-BCT, two groups of goods originating from Cambodia including rice of all kinds; dry tobacco leaves will be applied import tariff quotas in 2014 and 2015 at an import duty of 0%. Tariff quotas for rice in 2014 and 2015 is 300,000 tons/year and for tobacco in 2014 and 2015 is 3,000 tons/year. Imported goods must have the certificate of origin form S (C/O Form S) issued by the Ministry of Commerce of the Kingdom of Cambodia. Goods will be imported through the border gates that the Ministry of Industry and Trade of Vietnam stipulated in the Appendix 2 attached to Circular No. 09/2014/TT-BCT. All Vietnamese companies have right to imported rice in accordance with these above regulations. For dry tobacco leaves, only businesses listed by the Ministry of Industry and Trade of Vietnam in the Circular No. 04/2006/TT-BTM (April 6, 2006) and the Circular No. 04/2014/TT-BCT (January 27, 2014) will be allowed to import.

In addition to humanitarian and non-refundable aids, goods in transit and goods imported to free zones, Article 16 of the Law No.45/2005/QH11 enumerates other import duty exemptions, including for movable assets, goods imported temporarily for re-export, fixed assets imported for projects entitled to investment incentives, specially encouraged or funded through official development assistance programs. Tax exemption for investment projects extends to equipment and machinery.

While the tariff quotas has been maintained for years, there are not notable and official effectiveness evaluation of current tariff quota for agricultural products, both in terms of domestic production support and domestic market stabilization. It is advised to review the

effectiveness evaluation of maintaining quotas for agricultural commodities and to combine quotas with technical barriers in order to restrict imports of commodities (e.g. eggs).

### Right to import

Vietnam has committed to grant full import trading rights on par with Vietnamese traders to foreign individuals and FIEs from 1 January, 2007 except for some products for which full import trading rights were to be granted 1<sup>st</sup> January, 2008 and other would remain under permanent exception (including plant protection products which are banned in Vietnam, logs, lumber of timber from natural forests in Vietnam; animals, wild plants and rare breeds, rare plant belonging to the groups IA-IB under the Decree No. 32/2006/ND-CP 2006; rare aquatic species; livestock breeds and plant varieties on the list of rare animal breeds and plant varieties rare export ban regulated by the Ministry of Agriculture and Rural Development in the Ordinance on Livestock Breeds and the Ordinance of Seeds in 2004.

Legal documents on trading right include Decree No.23/2007/NĐ-CP implementing the Commercial Laws regarding trading and distribution activities by FIEs in Vietnam; Decision No.10/2007/QĐ-BTM publicizing roadmaps for goods trading and directly related activities; Circular No. 09/2007/TT-BTM providing guidance on the Decree No.23/2007/ND-CP; the Circular No.06/2008/TT-BTC amending and supplementing the Circular No.09/2007; Decree No.90/2007/NĐ-CP ; Circular No.08/2013/TT-BTC providing guidelines on the import, export and distribution of goods by foreign-invested enterprises (FIEs) in Vietnam.

The requirements to becoming a registered exporter are essentially the same as the requirements to becoming a registered importer.

### Standards, technical requirements and conformity assessment

In general, Vietnam has built the valid technical barriers and conformity assessment in accordance with international commitments. With respect to technical barriers to trade, Vietnam undertook to comply with the obligations of the TBT agreements from the date of its adhesion to WTO.

#### TBTs:

Since WTO's accession, Vietnam has sent the 33 TBT notifications of regular measures covering a variety of products to the WTO. At the end of 2012, Vietnam had 6800 Vietnamese standards (TCVNs) in effect, of which 40% were harmonized with international, regional and foreign standards (up from 25% in 2005).

#### SPS:

The Sanitary and Phytosanitary Measures (SPS) is enhancing the ability to control the quality, hygiene and food safety for agricultural imports. Vietnam's Sanitary and Phytosanitary Notification Authority and Enquiry Point (Vietnam SPS for short) was established under Decision No. Vietnam SPS is a unit of the Ministry of Agriculture and Rural Development, has the legal person status and its own seal, is entitled to open accounts at the State Bank and the State Treasury according to the provision of law. Its functions are (i) To notify sanitary and phytosanitary contents and regulations and answer questions thereon; (ii) To request WTO members to provide information on measures and procedures for risk assessment, on inspection,

examination and other relevant sanitary and phytosanitary matters. Regarding sanitary and phytosanitary measures, Vietnam respects requirements of the SPS Agreement. The country has made more than 40 regular notifications to the SPS Committee in the WTO; included the Law on Food Safety (Law No 55/2010/QH12) and the Law on Plant Protection and Quarantine.

However the implementation and issuance of legal documents on technical barriers in trade of Vietnam has been limited due to the starting point of the economy at a low level.

In addition, the relevant authorities are still puzzled because the majority of the legal documents is complex, the policy accessibility of the corporate policy is limited. For example, the list of animals and plants that meet national requirements shall be published on the website of the Quality Assurance Department of Vietnam's Agriculture and Forestry and Fishery. Meanwhile, the access path to the log in page load provides a very long list, is hard to remember, and not convenient for lookup.

Lack of consistency in the legal documents: E.g. according to the Food Safety Act, foods, food additives, processing aids food, tools, packaging materials, food containers have to be registered at the State authorized agency before importing. However, according to Article 3 of the Decree No. 38/2012/ND-CP of the Government dated 25th April, 2012, detailing the implementation of some articles of the Law on Food Safety, the import registration must be published before being circulated in the market.

#### Rule of origin:

Firstly, Vietnam implements the ASEAN preferential rules of origin. Importers are required to submit certificates of origin (form D) either satisfying the fully obtained criterion or proving minimum of 40% of the ASEAN cumulative origin for goods imported into Vietnam under the AFTA. ASEAN free trade agreements with other partners such as China, Korea, Japan (ASEAN +3), Australia/New Zealand and India are also based on the fully obtained criterion or substantial transformation involving a change in tariff heading and allowing for regional cumulative origin.

#### Anti-dumping, countervailing duty and safeguarded regimes:

Regarding anti-dumping, the Ordinance No.20/2004/PL-UBTVQH11 sets out the framework for the filing of complaints, the initiation and conduct of an anti-dumping investigation, consultation with the parties, confidentiality, preliminary and final determinations, the application of anti-dumping measures review, complaints, then the handling of violations. The detailed provisions to the Ordinance No.20 were contained in the Decree No.90/2005/ND-CP of the Government.

Countervailing measures are regulated in this above Ordinance on Anti-subsidy for imports into Vietnam. Detailed provisions including the establishment of an Anti-subsidy commission and the conduct of investigations are laid down in the Decree No.89/2005/ND-CP of the Government.

Safeguards in the Import of foreign goods into Vietnam are contained in the Ordinance No. 42/2002/PL-UBTVQH10 in 2002 then the Decree. No. 150/2003/ND-CP provides detailed regulations for the implementation of the ordinance.

#### **b) Measures directly affecting exports:**

### Export procedures and requirements

The requirements to be a registered exporter are essentially the same as the requirements to be a registered importer, i.e. domestic investors need a valid business registration certificate whereas a foreign investor must hold a valid investment certificate. The export rights of foreign-invested enterprises in Vietnam are regulated in the Decree No. 23/2007/ND-CP while the rights of foreign traders without a physical presence in Vietnam are regulated in accordance with the Decree No. 90/2007/ND-CP.

Recently, in order to enhance the competitiveness and bargaining power of Vietnamese rice exporters in comparison to foreign partners and competitors, the Government has added the regulation on rice exporting rights. According to Decision No. 109/2010/NĐ-CP, rice exporters have to meet the following conditions: (i) At least one specialized store with minimum capacity of 5,000 (five thousand) tons of paddy, in accordance with common standards issued by the Ministry of Agriculture and rural development. (ii) At least one grinding grain, rice factory with minimum capacity of 10 tons of paddy per hour, in accordance with common standards issued by the Ministry of Agriculture and rural development.

### Export taxes, fee, charges for services rendered and internal taxes on exports

While removed export duties on most of exported products, Vietnam's export duties on certain products include raw hides and skin and wood products, in accordance with the Law on Export and Import Duties, in effect since 1<sup>st</sup> January, 2006.

### Export subsidies

Vietnam has abolished all kinds of export subsidies for agricultural products. However, in accordance with the Agreement of Agriculture, Vietnam is still able to reserve two forms of exports subsidies permitted by WTO to developing countries to reduce costs of marketing agricultural exports and the costs of international transport and freight.

The Vietnam Development bank (VDB) provides export credits, investment credit guarantees and export project performance securities. But no export guarantee schemes are operated by the Government. Export credits guaranteed by banks, are governed by Circular No. 28/2012/TT-NHNN of 3<sup>rd</sup> October, 2012. No preferential treatment is accorded to export credit guarantee activities.

### **c) Other trade liberalizations countervailing measures:**

#### Customs reform and border trade policy:

The Government adopted in 2001 the “ Strategy for Customs development through 2020” which sets the overall objectives for Vietnam Customs to become a modern customs administrations, that meet standards equivalent to those of customs administration of the developed countries by the year 2020.

Vietnam was in full compliance with the WTO rules on customs charges, the principles for determining the customs value under the Customs Valuation Agreement of the WTO; simplify and harmonize customs procedures to facilitate chemical trade, including agricultural trade.

As a large amount of agricultural products are exported and imported through border trade between Vietnam and China, Laos and Cambodia, the modernization of customs procedures in border trade has also been pushed up in recent years.

However, in the management of border trade export and import goods, implementation of several regulations are unfeasible. Specifically, according to the Decree No. 32/2005/ND-CP dated 14th March, 2005 on border trade regulations and the Decision No. 254/2006/QĐ-TTg dated 7 November 2006 on regulations of management of border trade with bordering, the sub-gate was open for people, vehicles and goods of Vietnam and its bordering countries only in border areas and cross national borders. However, the Circular No.01/2008/TTLT-BCT-BTC-BGTVT-BNN PTNNT - BYT - NHNN expanded this right to goods outside the border area, with the allowance of the People Committee of bordering provinces and the MOIT. Then, the co-existence of several guidelines of the Government and ministries related to export and import of goods through the border gate have made the border trade management more difficult and overlapping.

Meanwhile, the Government and competent government agencies should review, amend and supplement a number of inappropriate legal documents on border trade, mostly which ones are related to trade through the sub-border gate between Vietnam and its bordering countries.

### **Price management:**

#### *Price stabilization:*

The price management mechanism has been gradually improved in a way consistent with the movement of the market economy.

Until nearly 2013, the basic principles of price management in Vietnam were laid down in the Ordinance on Price, in effect since 1st July, 2012 and the Decree No. 170/2003/ND-CP, as amended in 2008. Then the Ordinance on Price was replaced by the Law on Price No. 11/2012/QH12 in effect since 1<sup>st</sup> January, 2013.

On 14<sup>th</sup> November, 2013, the Government adopted the Decree No. 177/2013 ND-CP detailing and guiding the implementation of some articles of the Law on price, accordingly, a number of agricultural products and agricultural materials are added to the list of price stabilization including Urea, NPK, medicines and plant protection (pesticides, fungicides, herbicides); disease vaccines for cattle, poultry, salt, paddy, ordinary rice. All ministries set prices for some goods and services related to the field of each ministry. MARD, cooperated with MOF, stabilize goods and services on the list under Law on Price, The Ministry of Agriculture and Rural Development in coordination with the Ministry of Finance guides the stabilization of commodity prices of fertilizers, plant protection drugs, vaccines disease prevention for livestock, poultry, paddy, ordinary rice, suitable for each certain period.

The promulgation of the Decree No. 75/2008/ND-CP of the Government which details the implementation of the Ordinance on Prices clearly reflected the changes in the price management in the areas of price evaluation, stabilization, registration and declaration where the Government has gradually granted the price valuation rights to enterprises.

Since 1<sup>st</sup> January, 2013, the Ordinance on Prices has been replaced by the Law on Price 2012, since the scope and circumstances for application of price registration and declaration have



significantly been narrowed down. Respecting the market mechanism and the right of business to determine prices, the State may exercise price regulation to stabilize prices or to protect the legitimate interest of business entities, and consumers or the national interest.

While the price stabilization scheme has been governed by the Government for years, there have not been sustainable resources for maintaining it (e.g. financial support for foods providers in order to stabilize foods price).

In some periods, the rigid price stabilization based on the inexact prediction of market trend has distorted the supply-demand balance and caused difficulties to the import and export of agricultural products, e.g. refined sugar, rice.

Other limitations should be considered as follows:

- Costly for local budget (tax concession and interest rate subsidies)
- Low impact on price stabilization
- Creating two-price system.
- Ineffectiveness for the poor.
- Supermarkets account for small share of total domestic trade (less than 15%)
- Supermarkets concentrate in big cities
- Customers mainly are the middle class
- Increase in food price reduces the welfare of low - middle income group in urban areas.

In order to create better input for the price stabilization scheme, the Government should invest more on the market analysis and supply-demand prediction. The price stabilization should be more transparent in order to avoid the influence of “group interest” in price management. New policy to create sustainable resources for the stabilization instead of relying on the budget of central state should be also considered, mostly in the current context of tightened fiscal policy in Vietnam.

#### Price support measures

In order to ensure a decent income from rice production for farmers, the Official document No. 430/TTg-KTN on 12<sup>th</sup> March, 2010 was introduced. Accordingly, Ministry of Finance (MOF) and Ministry of Agriculture and Rural Development (MARD) cooperate to present the pricing method, and then provincial People’s Committees determine and proclaim rice floor prices (minimum purchase prices or floor price policy) at which enterprises buy rice from farmers.

Initially, floor price policy is issued with the expectation that it will bring a profitable price paid to farmers. The floor price changes over time. According to Resolution No. 63/NQ-CP (23<sup>rd</sup> December, 2009) on food security, to encourage farmers to keep paddy land, the government has to ensure the farm-gate price which helps paddy growers earn a profit of more than 30% over production costs. This means that the floor price paid to farmers are at least 30% higher than production cost. However, the Resolution No. 63/NQ-CP does not show the detailed mechanism for determining the production cost.

The Decree No. 109/2010/ND-CP issued on 4<sup>th</sup> Nov, 2010 can be seen as a good supplement for Resolution No. 63. According to the Decree No. 109/2010/ND-CP on export management, the floor price is modified and called directed paddy price. The directed paddy price is determined

by the MOF based on the production cost from provincial People's Committees, consultation from the MARD. As pointed in the Decree No. 109/2010/ND-CP when the market price of commodity rice is equal to or higher than the directed price of paddy, the government makes no interventions. When the market price is lower than the directed price, the MARD will be assumed of the prime responsibility and coordinate with the MOF, the MOIT, SBV and the Vietnam Food Association (VFA) in proposing to the Prime Minister to take specific measures to keep the market price of commodity rice not lower than the directed paddy price while ensuring efficient rice export.

Aiming at the same objective, MOF introduced Circular No. 89/2011/TT-BTC on 17<sup>th</sup> June, 2011, which determines floor prices of export rice. It guides rice-exporting enterprises to calculate production costs and export prices of rice to gain a reasonable profit margin. VFA plays a key role in this circular. Specifically, rice-exporting enterprises determine their floor prices based on guidance by MOF and then reports it to VFA. Afterwards, VFA relies on the submitted floor prices of enterprises to determine the average floor prices of export rice.

The Decision No. 311/2013/QĐ-TTg and the Circular No. 50/2013/TT-BTC Providing 100% of interest on enterprises' loans for rice procurement for storage with the maximum period being 3 months, from 20<sup>th</sup> Feb, 2013 to 20<sup>th</sup> May, 2013.

These policies tend to ensure a certain amount of profits for farmers; mitigating price squeeze in bumper crops and to support enterprises engaged in rice procurement to ensure a profit of at least 30% for rice farmers.

However, in practice, the support could not spread because the floor price is paid by enterprises. However, enterprises often do not buy rice directly from farmers. They usually buy from traders or assemblers. For example, only 30% of rice/paddy of rice exporters in An Giang province was procured directly from farmers in 2012<sup>3</sup>. That is why exporters do not care about the price paid to farmers. It is difficult to ensure 30% margin for farmers in accordance with the Decree No. 63/NQ-CP because:

- ✓ The way to calculate rice production costs may not take into account all components such as household labor cost, land lease fees and loan interest. This may not be accepted by farmers in different provinces, so if enterprises base on that production cost to determine procurement price, it may face disagreement from farmers.
- ✓ It is unfair to apply the same production costs for an entire ecological region as there are many differences among provinces in the same region, leading to big differences in production costs.
- ✓ The floor purchasing price must be given at the beginning of each crop under the regulation but in fact MOF which is responsible for determining and circulating the price, is always late in doing so.
- ✓ The purchasing price under the Decree should be farm-gate price but in practice, farmers have to pay additional transportation fee for delivering paddy to exporters' storage and production costs, of course, do not take the transportation fee into account.

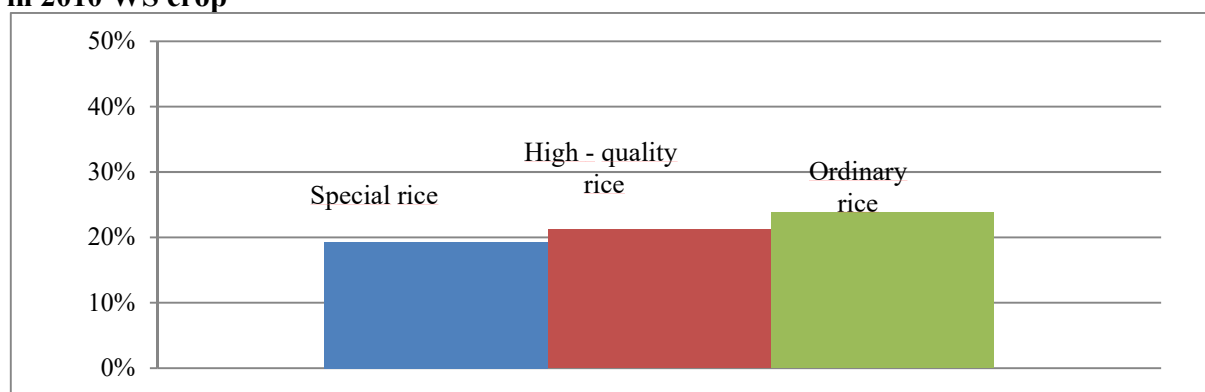
These problems can be illustrated by profit gained by farmers in Winter-Spring (WS) crop with the floor price of 4000 VND/kg for the Mekong River Delta (MRD) in 2010. At this price, all

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<sup>3</sup> Field survey in 2012 by IPSARD (2012)

kinds of farmers (including those growing special rice, high quality rice and even ordinary rice) could not get a profit of 30% of production cost.

**Figure 1: Profits as percentage of production cost at 4.000 VND/kg floor price in MRD in 2010 WS crop**



Source: Department of Crop Production, MARD (2010)

This is the figure for MRD as a whole but there are big differences in labor costs, land preparation costs among provinces in the region.

Similarly, the production costs announced by MOF for Summer-Autumn (SA) crop in 2012 for provinces in the MRD are not accepted by farmers. Most farmers reported that their actual costs were higher than the MOF's. In addition, costs by MOF were quite fluctuated among provinces.

**Table 1: Production costs by MOF for SA crop in 2012 ('000 VND/kg)**

No	Province	Paddy production cost in SA season in 2011	Paddy production cost in SA season 2012 (= cost in 2011*110%)
1	An Giang	3279	3607
2	Bac Lieu	3375	3713
3	Ben Tre	3629	3992
4	Ca Mau	3585	3944
5	Can Tho	3651	4016
6	Dong Thap	3932	4325
7	Hau Giang	3970	4367
8	Kien Giang	3204	3524
9	Long An	3960	4356
10	Soc Trang	3388	3727
11	Tien Giang	4127	4540
12	Tra Vinh	3329	3662
13	Vinh Long	3761	4137

Source: IPSARD (2013)

### **3. CONCLUSION**

In the future, trade and investment liberalization shall continue to be key to improve competitiveness and the export-led growth of agriculture.

Vietnam should further integrate, especially in the area of trade agreements in ASEAN and ASEAN +; as well as other FTAs that have been signed. However, it is necessary to make sure that the participation is consistent with the integration capacity of the agricultural sector, the level of development and the competitiveness of Vietnamese agriculture, farmers and enterprises. The Government needs more efforts to achieve the commercially global improvement both in the domestic and international markets. Administrative barriers should be removed and replaced by other trade liberalization countermeasures. It is important to diversify measures to support domestic production in accordance with international commitments. In addition to the improvement of legislation on technical barriers, there should be a reasonable investment policy on infrastructure, equipment and personnel for functioning technical barriers to ensure the practical effects.

Trade reforms should continue to be linked with the reform of enterprises restructuring in the agricultural sector, mostly the SoEs. Agricultural SoEs equitization should be pushed in parallel with the mobilization of the private sector.

Trade liberalization should be carried out simultaneous with enhancement of competitiveness of less advantaged sectors to ensure the livelihoods of poor farmers, the population which is vulnerable to the process of economic integration. It is necessary to strengthen the link between trade and agricultural production policy. Instead of maintaining the direct payments to farmers, and neglect the ability to meet demand and requirements from markets, the government should gradually reduce the level of market price support and enhance competitiveness of the supply chain for agricultural products of Vietnam.

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**ANNEX: TARIFF OF FARM PRODUCTS AND FERTILIZERS**

**Unit: (%/kg)**

**Products including, tea, pepper, rice, milk and dairy; fertilizer.**

**TEA**

HS	WTO	Tariff									VAT
		ATIGA	ACFTA	AKFTA	AJCEF		VJEPa		AANZFTA	AIFTA	
					12 - 13	13- 14	12 - 13	13- 14			
<b>0902</b>											
<b>0902.10</b>											
0902.10.10	40	5		15	28	25	30	27.5	20	37.5	10
0902.10.90	40	5		15	28	25	30	27.5	20	37.5	10
<b>0902.20</b>											
0902.20.10	40	5	10	15	28	25	30	27.5	20	37.5	*.5
0902.20.90	40	5	10	15	28	25	30	27.5	20	37.5	*.5
<b>0902.30</b>											
0902.30.10	40	5	10	15	28	25	30	27.5	20	37.5	10
0902.30.90	40	5	10	15	28	25	30	27.5	20	37.5	10
<b>0902.40</b>											
0902.40.10	40	5	10	15	28	25	30	27.5	20	37.5	10
0902.40.90	40	5	10	15	28	25	30	27.5	20	37.5	10

**PEPPER**

HS	WTO	Tariff									VAT
		ATIGA	ACFTA	AKFTA	AJCEF		VJEPA		AANZFTA	AIFTA	
					12 - 13	13- 14	12 - 13	13- 14			
0904.11											
0904.11.10	20	0	5	11	21	19	19	16	20	22	*.5
0904.11.20	20	0	5	12	21	19	19	16	20	22	*.5
0904.11.90	20	0	5	13	21	19	19	16	20	22	*.5
0904.12											
0904.12.10	20	0	5	15	21	19	19	16	20	22	10
0904.12.20	20	0	5	16	21	19	19	16	20	22	10
0904.12.90	20	0	5	17	21	19	19	16	20	22	10

**RICE**

HS	WTO	Tariff									VAT
		ATIGA	ACFTA	AKFTA	AJCEF		VJEPA		AANZFTA	AIFTA	
					12 - 13	13- 14	12 - 13	13- 14			
1006.10											
1006.10.10	0	5	0	0	0	0	0	0	0	0	*
1006.10.90	40	5	0	15	0	0	0	0	0	0	*.5
1006.20											
1006.20.10	40	5		15	28	25	30	27.5	20	30	*.5
1006.20.90	40	5		15	28	25	30	27.5	20	30	*.5
1006.30											
1006.30.30	40	5	5	15	28	25	30	27.5	20	30	*.5
1006.30.40	40	5	5	15	28	25	30	27.5	20	30	*.5

1006.30.91	40	5	10	15	34	31	37.5	34	20	35	*.5
1006.30.99	40	5	10	15	28	25	30	27.5	20	30	.*5
1006.40											
1006.40.10	40	5	0	15	28	25	30	27.5	20	30	*.5
1006.40.90	40	5	0	15	28	25	30	27.5	20	30	.*5

### FERTILIZERS

HS	WTO	Tariff									VAT
		ATIGA	ACFTA	AKFTA	AJCEF		VJEPA		AANZFTA	AIFTA	
					12 - 13	13- 14	12 - 13	13- 14			
<b>31.01</b>											
3101.00.11	<b>0</b>	0	0	0	0	0	0	0	0	0	5
3101.00.19	<b>0</b>	0	0	0	0	0	0	0	0	0	5
	<b>0</b>	0	0	0	0	0	0	0	0	0	5
3101.00.91	<b>0</b>	0	0	0	0	0	0	0	0	0	5
3101.00.99	<b>0</b>	0	0	0	0	0	0	0	0	0	5
<b>31.02</b>											
3102.10.00	<b>0</b>	0	0	0			5	5			5
3102.21.00	<b>0</b>	0	0	0	4	3	0	0		4	5
3102.29.00	<b>0</b>	0	0	0	4	3	4	3.5		4	5
3102.30.00	<b>0</b>	0	0	0	4	3	0	0		4	5
3102.40.00	<b>0</b>	0	0	0	4	3	4	3.5		4	5
3102.50.00	<b>0</b>	0	0	0	4	3	4	3.5		4	5
3102.60.00	<b>0</b>	0	0	0	4	3	4	3.5		4	5
3102.80.00	<b>0</b>	0	0	0	4	3	4	3.5		4	5

3102.90.00	0	0	0	0	4	3	4	3.5		4	5
	0	0	0	0							5
<b>31.03</b>											5
3103.10											
3103.10.10	6	5					4	3.5			5
3103.10.90	6	5					4	3.5			5
3103.90											
3103.90.10	6	5									5
3103.90.90	0	0	0	0	5	5	3	3		4	5
<b>31.04</b>											
3104.20.00	0	0	0	0	4	3	0	0		4	5
3104.30.00	0	0	0	0	4	3	0	0		4	5
3104.90.00	0	0	0	0	4	3	0	0		4	5
<b>31.05</b>											
3105.10.00											
3105.10.10	6	0	5		4	3	2	2			5
3105.10.20	6	0	5		4	3	2	2			5
3105.10.90	0	0	5		4	3	2	2			5
3105.20.90	6	3	0				2	2			5
3105.30.00	0	0		0			5	5			5
3105.40.00	0	0	0	0			5	5		4	5
3105.51.00	0	0	0	0			5	5		4	5
3105.59.00	0	0	0	0		4	3	0	0	4	5
3105.60.00	0	0	0	0		4	3	4	3.5	4	5
3105.90.00	0	0	0	0		4	3	4	3.5	4	5



## COFFEE

HS	WTO	Tariff									VAT
		ATIGA	ACFTA	AKFTA	AJCEF		VJEPA		AANZFTA	AIFTA	
					12 -13	13-14	12 - 13	13-14			
0901											
0901.11											
0901.11.10	15	5	5	7	14	13	15	14	10	12.5	*.5
0901.11.90	15	5	5	7	14	13	15	14	10	12.5	*.5
0901.12					14						
0901.12.10	20	5	5	7	14	13	15	14	10	12.5	10
0901.12.90	20	5	5	7	14	13	15	14	10	12.5	10
0901.21											
0901.21.10	30	5	10	15	28	25	30	27.5	20	30	10
0901.21.20	30	5	10	15	28	25	30	27.5	20	30	10
0901.22											
0901.22.10	30	5	10	15	28	25	30	27.5	20	30	10
0901.22.20	30	5	10	15	28	25	30	27.5	20	30	10
0901.90											
0901.90.10	30	5	10	15	28	25	30	27.5	20	30	10
0901.90.20	30	5	10	15	28	25	30	27.5	20	30	10

## MILK and DAIRRY PRODUCTS (%/kg)

HS	WTO	Tariff									VAT
		ATIGA	ACFTA	AKFTA	AJCEF		VJEPa		AANZFTA	AIFTA	
					12-13	13-14	12-13	13-14			
04.01											
0401.10											
0401.10.10	15	5	0	7	14	13	15	14	10	15	10
0401.10.90	15	5	0	7	14	13	15	14	10	15	10
0401.20					14	13	15	14	10	15	10
0401.20.10	15	5	0	7	14	13	15	14	10	15	10
0401.20.90	15	5	0	7	14	13	15	14	10	15	10
0401.40	15	5	0	7	14	13	15	14	10	15	10
0401.40.10	15	5	0		14	13	15	14	10	15	10
0401.40.20	15	5	0	7	14	13	15	14	10	15	10
0401.40.90	15	5	0	7	14	13	15	14	10	15	10
0401.50	15	5	0	7	14	13	15	14	10	15	10
0401.50.10	15	5	0		14	13	15	14	10	15	10
0401.50.90	15	5	0	7	14	13	15	14	10	15	10
04.02											
0402.10											
0402.10.41	3	5	0	5	5	5	6	5.5	5	8	10
0402.10.49	3	5	0	5	5	5	6	5.5	5	8	10
0402.10.91	3	5	0	5	5	5	6	5.5	5	8	10
0402.10.99	3	5	0	5	5	5	6	5.5	5	8	10
	3	5	0	5	5	5	6	5.5	5	8	10
0402.21	3	5	0	5	5	5	6	5.5	5	8	10
0402.21.20	3	5	0	5	5	5	6	5.5	5	8	10
0402.21.90	3	5	0	5	5	5	6	5.5	5	8	10
0402.29	3	5	0	5	5	5	6	5.5	5	8	10
0402.29.20	5	5	0	10	21	19	22.5	21	20	22	10
0402.29.90	5	5	0	10	21	19	22.5	21	20	22	10
0402.91.00	10	5	0	5	8	7	9.5	8	10	13	
0402.99.00	20	5	0	10	30	30	30	20	22	10	

04.03											
04.03.10											
0403.10.20	7	5	0	10	21	19	22.5	21	20	22	10
0403.10.90	7	5	0	10	21	19	22.5	21	20	22	10
0403.90	7	5	0	10	21	19	22.5	21	20	22	10
0403.90.10	3	5	0	10	21	19	22.5	21	20	22	10
0403.90.90	7	5	0	10	21	19	22.5	21	20	22	10
04.04											
0404.10.00	0	5	0	7	14	13	15	14	10	12.5	10
0404.90.00	0	5	0	10	21	19	22.5	21	20	20	10
											5
04.05											
0405.10.00	14	5	0	7	14	13	15	14	10	15	10
0405.20.00	15	5	0	7	14	13	15	14	10	15	10
0405.90					14	13	15	14	10	15	10
0405.90.10	5	5	0	5	5	5	3	3	5	4	10
0405.90.20	5	5	0	5	5	5	3	3	5	4	10
0405.90.30	15	5	0	7	14	13	15	14	10	15	10
0405.90.90	15	5	0	7	14	13	15	14	10	15	10
04.06											
0406.10											
0406.10.10	10	5	0	5	5	5	6	5.5	5	5	10
0606.10.20	10	5	0	5	5	5	6	5.5	5	5	10
0406.20	10	5	0	5	5	5	6	5.5	5	5	10
0406.20.10	10	5	0	5	5	5	6	5.5	5	5	10
0406.20.90	10	5	0	5	5	5	6	5.5	5	5	10
0406.30.00	10	5	0	5	5	5	6	5.5	5	5	10
0406.40.00	10	5	0	5	5	5	6	5.5	5	5	10
0406.90.00	10	5	0	5	5	5	6	5.5	5	5	10

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