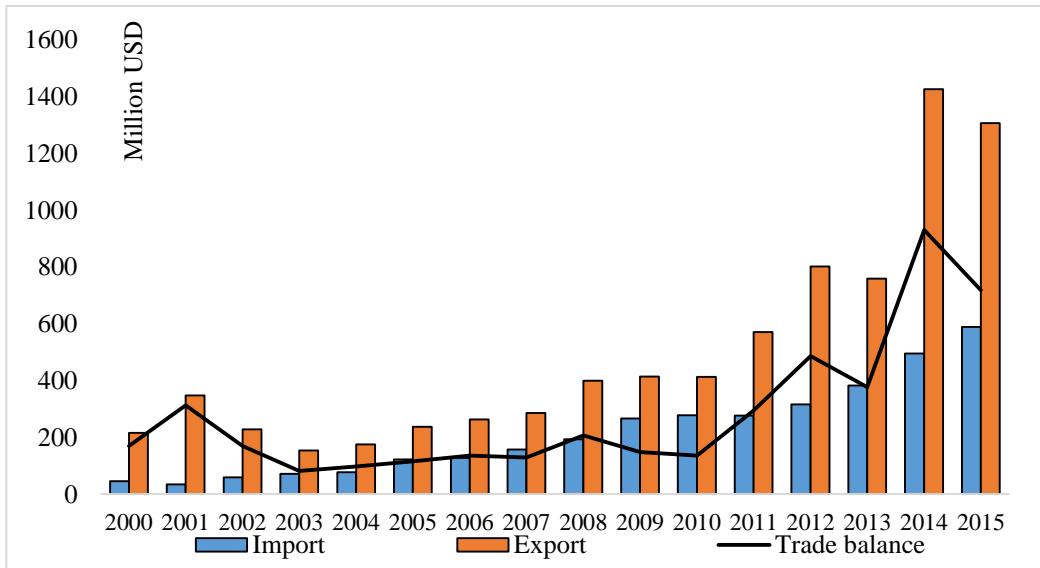


# Opportunities for Vietnam's Fruits and Vegetables Trade from Vietnam - EU Free Trade Agreement (EVFTA)

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## General overview of Vietnam's fruits and vegetables trade

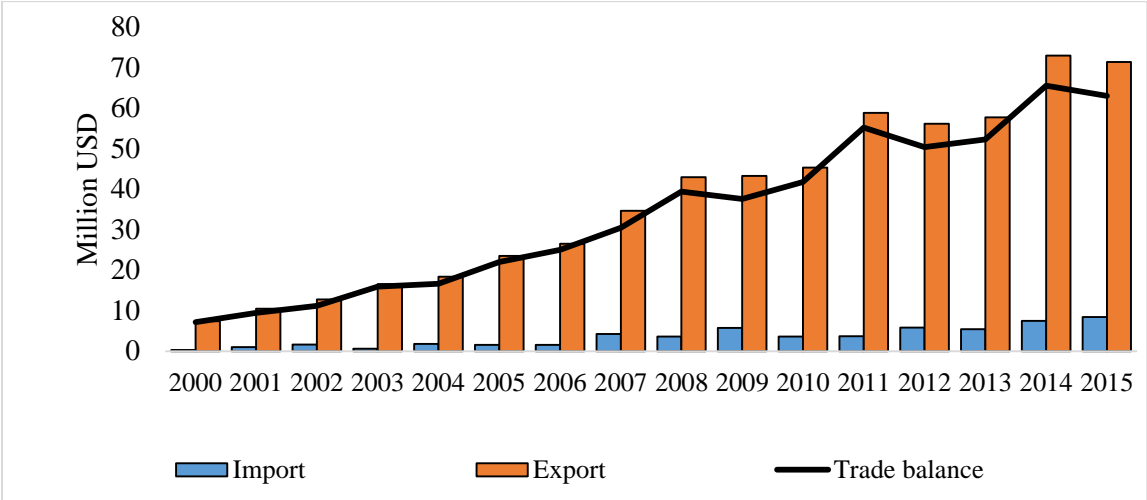
In recent years, Vietnamese fruits and vegetables sector has been continually expanding its export market. Vietnam's fruits and vegetables products have penetrated big markets such as USA, Australia, EU and Japan (VietTrade, 2016). In the period of 2000 - 2016, fruit and vegetable trade balance between Vietnam and the world has continuously gained the surplus with a tendency to increase along with the level of market opening between Vietnam and the world. According to the Ministry of Agriculture and Rural Development, Vietnam's fruit and vegetable export turnover in 2015 reached nearly \$US 1.9 billion. In 2016, Vietnam's fruits and vegetables export value increased rapidly to \$US2.45 billion, 5.5 times higher than in 2010 (about \$US 450 million), with a trade surplus of \$US 1.5 billion.



Source: UN Comtrade

Fig. 1. Trade of fruits and vegetables between Vietnam and the world

Two-way fruits and vegetables trade between Vietnam and the EU grew rapidly, with an average growth rate of 16.9% per annum in the 2000-2015 period. Vietnam always have a trade surplus and the fruit and vegetable trade balance between Vietnam and EU in 2105 was achieved \$US 63 million. This showed that Vietnamese vegetables and fruits have advantage and potential to expand their exports to the world and EU markets as EU's demand for tropical fruits and vegetables has been increasing continuously.



Source: UN Comtrade

Fig. 2. Trade of fruits and vegetables trade between Vietnam and EU

Currently, the proportion of Vietnam’s fruits and vegetables import from EU is small, only accounting for 1.4% of Vietnam’s fruits and vegetables import turnover. The main imported products are processed potatoes (accounting for 41% total fruits and vegetables import value from Europe), other potatoes (13%), jam/fruit jams (from fruit, mango, pineapple, strawberries and other types - accounting for 6%) and olive products (5%). Therefore, Vietnam continues to be a potential market for EU to boost the export of these fruits and vegetables.

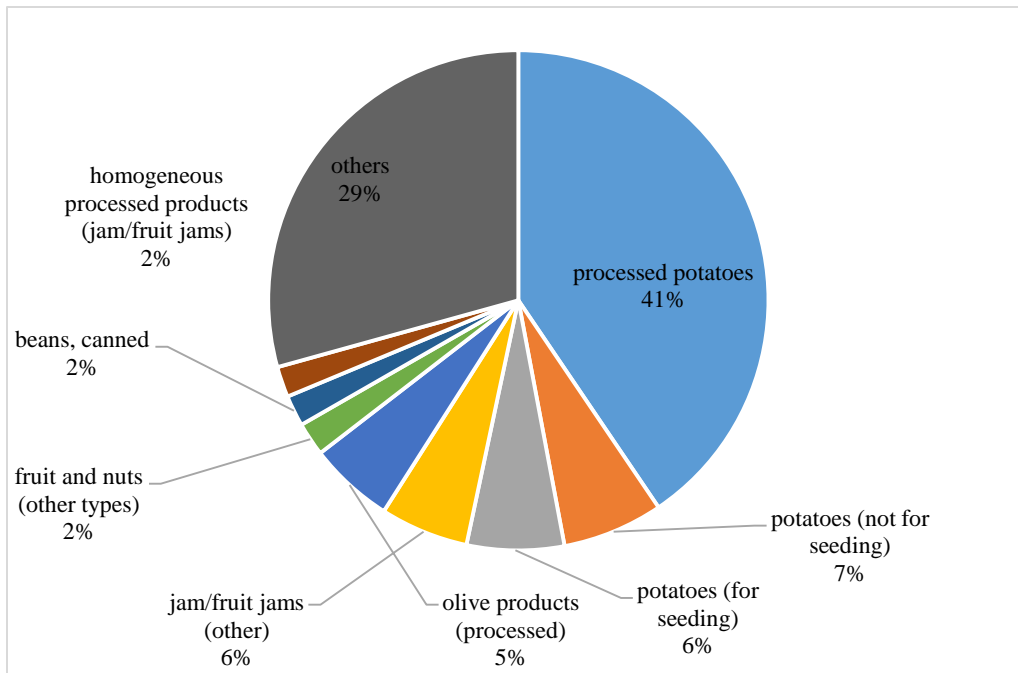


Fig. 3. Vietnam's fruits and vegetables import from EU in 2015

Source : Calculation form UNComtrade

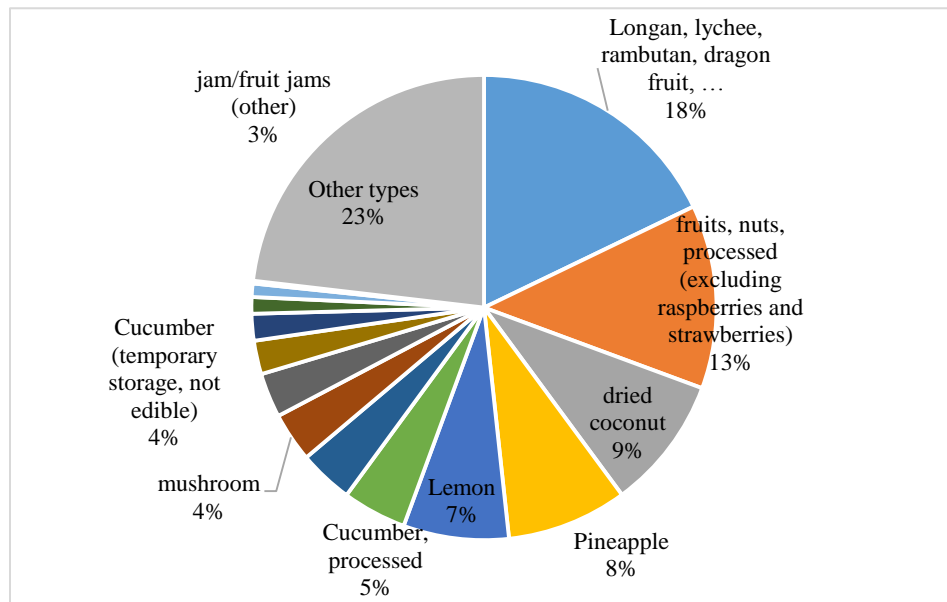


Fig. 4. Vietnam's fruit and vegetable export to EU in 2015

Source : Calculation form UNComtrade

Major products exported to EU include longan, lychee, rambutan and dragon fruit, accounting for 18% of the total fruits and vegetables export turnover of Vietnam to this market, followed by processed fruits and nuts (13%), dried coconut (9%), pineapple (8%) and lemon (7%) (calculated data 2015 from UN Comtrade source).

With export turnover to EU market only accounting for 5% of Vietnam's total export turnover for vegetables and fruits, and together with the huge demand of EU market, Vietnam totally has the capability and scope to further expand and exploit this market.

### **Opportunities for fruits and vegetables exports from trade commitments in EVFTA**

Vietnam-EU Free Trade Agreement (EVFTA) is expected to bring more opportunities for Vietnamese enterprises (both export and import) to expand their export markets and seek out new potential to import products for domestic market. This also brings many benefits to domestic consumers. In reality, vegetables and fruits products from Vietnam and those from EU countries are mutually complementary and do not directly compete with each other; therefore, the implementation of EVFTA will foster the growth in fruits and vegetables trade between the two sides.

### **Opportunities for boosting vegetables and fruits exports by reducing tariffs**

When EVFTA comes into effect, EU will immediately remove 94% of 547 tariff lines for fruits, vegetables and their products, 24 tariff lines (representing 4.4%) are subject to "entry price"<sup>1</sup> tariffs. Eight remaining commodities are subject to quotas and only one tariff line is allowed to maintain import tariffs. Tax scope for these commodities are still very large, most of the tariff lines committed to be eliminated immediately are still above 10%. EVFTA agreement will ensure Vietnam's sustainable access to the EU market in line with EU's tariff reduction schedule (see the appendix attached). EVFTA will create more advantages for Vietnamese enterprises than other less developed countries<sup>2</sup> in the ASEAN.

For fruit jam products, tax scope above 20% will also be eliminated right in the first year EVFTA takes effect. Many other products such as lychee, longan, rambutan, dragon fruit, pineapple, cucumber, coconut, etc. are products EU imports from the world and partly from Vietnam, and EU commits itself to remove existing tariffs on these products from Vietnam. Fresh and chilled cucumber is still levied on entry prices; tariffs on fresh and chilled baby cucumber will be removed in the first year from its current 12.8%. For cucumber that have been temporarily preserved (but not edible), tariffs will be removed immediately from its current 12%, tariffs on processed cucumber will also be removed from its current 17.6%.

For coconut and nut products, current tariff rate is 0%. Tariff rate on pineapple will be cut immediately from "7.6% -25.6% + quota tariff of 25 EUR/ton" to 0%. For lemon, currently EU is imposing tariffs on entry prices by time frame. Tariffs on longan, lychee, rambutan, dragon fruit and some other fruits will be cut from 8.8% to 0% in the first year.

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<sup>1</sup> Taxes on registered amount at the time of transaction, only applied for a certain period, depending on the market and the value of the contract for goods imported into EU.

<sup>2</sup> These undeveloped countries now enjoy full tax exemption for their exports to EU under "Every-thing but Arms" mechanism, while Vietnam does not enjoy this mechanism.

## **Prioritizing the internal trade between Vietnam and EU business**

To benefit the tariff preference under the trade agreement between Vietnam and the EU, all imported/exported vegetables and fruits must comply with the rules of origin. Specifically, these agreements require that the raw materials for production and processing must be wholly obtained and that the sugar content used for processing in the final products must not exceed 20%. Basically this rule was introduced to promote and prioritize trade between Vietnam and the EU when there is no custom union between EU and Vietnam. Fruits and vegetables products produced and processed in both Vietnam and the EU will easily meet these agreements to utilize tariff preferences within EVFTA.

## **Commitments on customs and trade facilitation**

The EVFTA requires both parties to strengthen customs cooperation with the aim of ensuring both customs control and trade facilitation, reducing relative costs for importing/exporting enterprises. Specifically, the two parties pledged not to discriminate, attempt to simplify procedures and standardize documents, set up an effective dialogue channel among the business community, and advance the determination of tax classification, value and origin of imports, transits and cross-border transfers, enhance customs control on the basis of risk management, etc.

With this agreement, enterprises will easily access to information on policies, regulations, and reduce costs related to customs procedures. This stimulates enterprises to participate in import-export trade in all sectors in general and in the vegetables and fruits industry in particular.

In addition, the principles of antitrust, fair competition, non-discrimination, limited subsidies will be enhanced to help enterprises enter the market more equitably.

## **Commitments on reducing unreasonable technical barriers**

Vietnam and the EU must facilitate and enhance bilateral trade by preventing and minimizing unnecessary technical barriers to trade. Specifically, the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS) and technical barriers to trade (TBT), states that the two parties agreed not to create unnecessary regulations having significant influences on trade.

When introducing SPS and TBT measures for import/export products, the member countries must provide scientific evidence to prove the necessity and suitability, without creating unreasonable trade barriers. According to this rule, enterprises will be facilitated in trade with more convenient processes, procedures and time. The information and inquiries of enterprises will be provided and explained by committees and contact agents.

*In respect of equivalent recognition*, the importing party will recognize the SPS measures of the exporter as equivalently effective as its SPS measure when the exporter proves and obtains: (i) the level of protection is similar to the importing Party; or (ii) an objective as well as measures to that of the importing Party. The maximum time for the importing party to proceed with the accreditation process [(non)equivalent assessment] is up to 3 months.

## **Clarify the process of building trade defense measures**

EVFTA provides that as soon as Vietnam or the EU proceed with the implementation of temporary safeguards and before making a final decision, the parties must provide the information that has been used for assessing and decision-making. This information should be complete and meaningful which is provided in writing and should allow stakeholders sufficient time to comment. Relevant parties have the opportunity to be heard during the trade defense investigation.

This provision allows enterprises to grasp the trade defense measures that can be applied to their goods and respond promptly before the final decision. This helps enterprises protect their rights proactively. In addition, the proposal of safeguards is public and transparent according to general rules, so that enterprises of both parties can access this information in order to be able to prepare adaptation measures.

## **Institutional improvement**

According to agreements on investment, the state can be sued if it causes damage to investors. Implementing this agreement promotes the state to complete its policy framework related to investments and include the harmony benefits of both foreign and domestic investors.

According to the state-owned enterprises agreements, Vietnam and the EU must clarify information on domestic policies and on state-owned enterprises at the request of other countries. The role of government intervention is reduced, replaced by the role of supporting and facilitating the policy and institutional environment, creating conditions for fair competition in the market for enterprises. As a result, the state should improve the policy and institution to help domestic enterprises as well as foreign enterprises to be more confident in their investments in internal production and trade.

According to agreements relative to transparency in the development of SPS and TBT measures and the restriction of unnecessary barriers, the state will have to develop and adjust domestic policies in line with agreements. With regard to the promulgation and implementation of TBT measures on both sides, the transparency agreement in EVFTA requires member countries to allow other organizations and individuals coming from other party to participate in the technical standards development process and conformity assessment procedures of governmental agencies, provided that they are no less favorable than those of domestic organizations and individuals. Therefore, enterprises have the right to take part in the process of developing this regulation and help them to better understand TBT regulations.

Thus, this is certainly a good platform for enterprises to be confident in trade and production.

## **Opportunities in investments for enterprises**

EVFTA has additional effective mechanisms to promote Vietnam's exports to the EU such as SPS, TBT, customs clearance, geographical indication, technical and capacity building assistance and rules of origins. Domestic and foreign enterprises can expand investments on producing for export to EU's market.

In trade and investments, the two parties agree not to apply limitations related to: i) the number of enterprises allowed to enter the market; ii) the value of transaction; iii) the number of activities; iv) the foreign capital contributed; v) the forms of legal entity; vi) the number of

natural people employed. According to these agreements, enterprises can automatically connect and join the export/import markets from EU. Therefore, Vietnam's enterprises are entitled to access the export markets. However, enterprises have to pay attention to the requirements, standards and conditions of EU and Vietnam for export goods; procedures for export licences to EU.

### **Opportunities to renovate and improve the human resources**

According to the freedom of investments and trade, Vietnam enterprises can have access to the capital, ideas and advanced management from EU; and directly access to the technologies of production, preservation, process of EU when tariffs for these goods are reduced. This promotes the profession of producing, managing, enhancing the value chain of agricultural products, including vegetables and fruits.

Besides, due to the increase in competition, enterprises have to renovate in order to limit the chance of merger and acquisition when there is an increase in investments of foreign enterprises on agricultural products including fruits and vegetables. Domestic enterprises have to change the business and risk administration, analyze and assess investments, diversify services and goods to tailor to the domestic demand and raise the competitive competence.

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