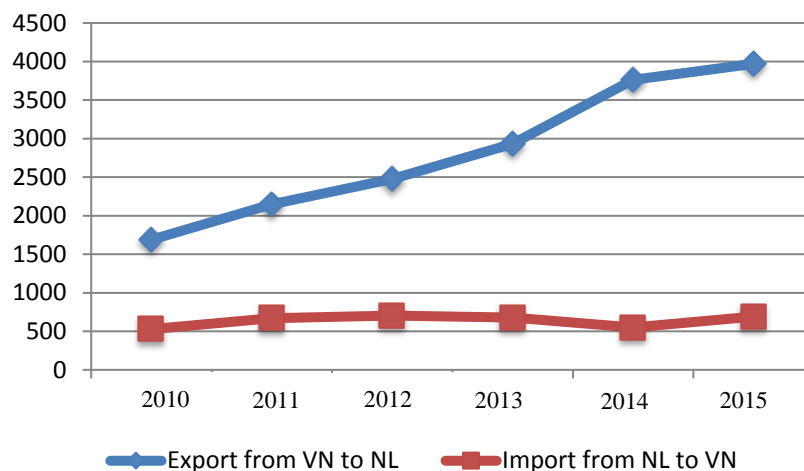


Briefing on potential impacts of EVFTA on Dutch Businesses in Vietnam

Trade relations between Vietnam and the Netherlands

There is an obvious upward trend for both import and export between Vietnam and the Netherlands during the past five years. In 2015 only, the export of goods and products from Vietnam to Netherland has doubled its 2010 value, and accounting for 3% of total exports in Vietnam and nearly 15% export to EU. The import value also increased by 76% during the same period from 2010-2015. Within EU, the Netherlands is listed in top 5 biggest markets for Vietnam, both in export and import.

Table 1. Export-Import between Vietnam and the Netherlands during 2010-2015 (Unit: million US dollar)



Source: Consultation from GDVC, GSO

The following section lists the most imported and exported goods and services from Vietnam to NL and vice versa.

Table 2. Top ten export from Vietnam to the Netherlands in 2015 (Unit: million US dollar)

#	Main exports	Value	% of total export to NL
1	Computers, electrical products, spare-parts and components	1143	24%
2	Telephones, mobile phones	801	17%
3	Footwears	534	11%
4	Textiles and garments	514	11%
5	Cashew nut	308	6%
6	Machine, equipment, tools and instruments	219	5%
7	Handbags, purses, suit-cases, headgear and umbrellas	214	4%
8	Fishery products	167	4%
9	Plastic products	126	3%
10	Other means of transportation	112	2%

Source: GDVC

It is noted that although top ten exports from VN includes computer & electrical products and telephone & mobile phones, which accounting to 41% of total Vietnam export to the Netherland, those products are out-sourcing products manufactured in Vietnam by global firms such as Samsung, Intel, etc. Most of locally originated and processed products for exports to the Netherlands are traditional products in Vietnam, i.e. textiles and garments, footwear products, agricultural products and seafood, etc. Meanwhile the imports from the Netherlands are machinery & parts of moto vehicles, chemical products and milk products, which are also in the list of most imported products to Vietnam.

Table 3. Top five imports to Vietnam from the Netherlands in 2015 (Unit: million US dollar)

#	Main imports	Value	% of total import from NL
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1	Machine, equipment, tools and instruments	205	30%
2	Parts and accessories of motor vehicles	52	8%
3	Chemical products	41	6%
4	Milk and milk products	37	5%
5	Iron and steel products	35	5%

Source: GDVC

What are the implications from EVFTA?

FTAs are expected to facilitate trade (especially export and import) to its partner countries. There many models calculating the potential benefits of FTAs to Vietnam. One suggested that by 2030 EVFTA is anticipated to increase Vietnamese incomes as much as nearly 4%. Eurocham made a prediction that the EU's export value to Vietnam would increase by 11.8% and 11.5% for import value (accumulatively) by 2030 and the country's GDP will reach 7-8% growth by 2025.

Table 4. Some expected implications of different FTAs in Vietnam by 2030

Expected results by	Income gain (% GDP)	Vietnam Export Increase	Vietnam Import Increase
TPP	8.1%	30.1%	29.5%
EVFTA	3.6%	11.8%	11.5%
ASEAN++ (RCEP)	5.1%	12.5%	10-11%

Source: Calculation by World Bank, Petri & Phuc (2015), Eurocham

There are several impacts of EVFTA on Dutch companies through tariff elimination, GOV's commitment to open market for EU investors, reduction of SOEs, state disputes and public procurement.

Tariffs reduction

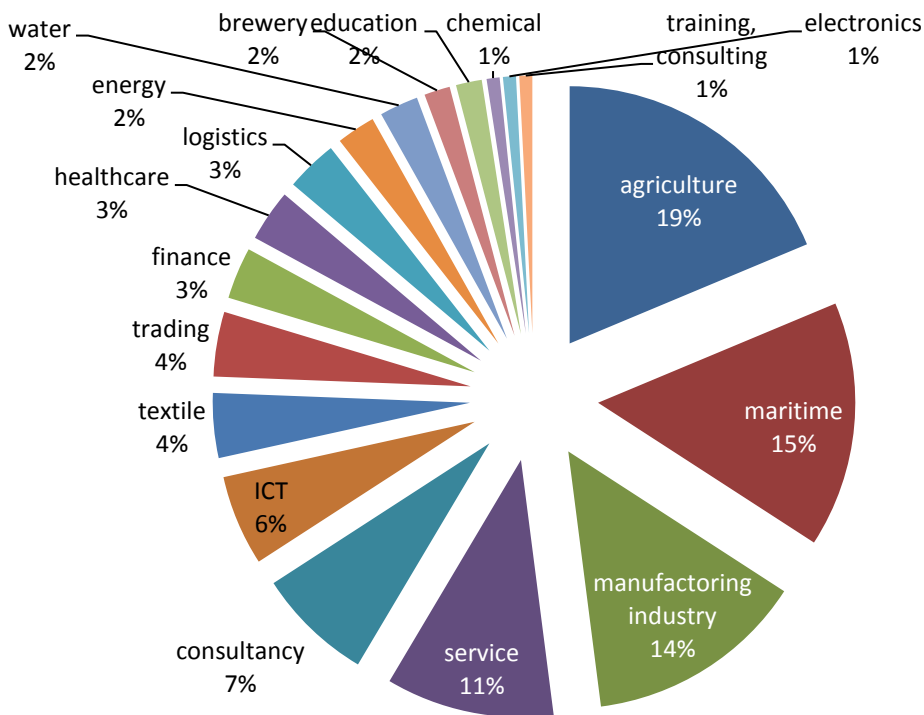
By signing the EVFTA, Vietnam and EU partners have committed to liberalize up to 99% of their tariffs for goods and products. Tariffs will be totally eliminated after 7 years for EU market, and 10 years for Vietnam. The tariffs elimination schedule will be 3-7 years; however some tariffs will be eliminated immediately after the FTA is effective. For example, Vietnam will liberalize 65% of import duties on EU exports to Vietnam at entry into force, with the remainder of duties being gradually eliminated over a 10 year period. Almost all its export duties will be also removed.

The tariff reduction will benefit both Dutch companies exporting to Vietnam and companies active in Vietnam i.e. increase savings from tariff elimination. In recent years, the export value from Vietnam is mainly contributed by FDI companies, making up to two-third of the total export value in the country. Additionally, the Netherlands ranked 14 out of 88 countries invested to Vietnam and ranked 1st within EU in investment to the country. Therefore, when the EVFTA takes effect, Dutch companies in Vietnam would be one of the most benefited participants in the trade deal.

Current active sectors by Dutch companies in Vietnam

Currently, there are over 120 Dutch companies operating in Vietnam and specialised in a wide range of sectors. The key sectors by these companies include Agrifood, Energy, Water Treatment and Management, Transportation, Services, Chemical, etc.

Figure 1. Dutch companies in Vietnam by sectors



Source: Database on active Dutch companies in Vietnam

Key sectors

Key products imported from the Netherlands to Vietnam will enjoy import duties elimination after 5 years, and even right after the effective date of EVFTA for chemicals products and majority of machine & equipment.

#	Main imports from NL to VN	Current tariff	Tariff reductions by EVFTA
1	Machine, equipment, tools and instruments	0-30%	About 61% of EU exports of machinery and appliances will be fully liberalized at entry into force and the rest after 5 years
2	Parts and accessories of motor vehicles	0-25%	Motorcycles with engines larger than 150 cc will be liberalized after 7 years and cars after 10 years, except those with large engines (>3000cc for petrol, > 2500cc for diesel) which will be liberalized one year earlier
3	Chemical products	0-20%	Around 71% of EU chemicals export will be duty free at entry into force and the rest after 3, 5 and 7 years.
4	Milk and milk products	5-30%	Dairy products will be liberalized after 5 years
5	Iron and steel products	0-4%	Iron and steel products will be duty free at entry into force

It is noted that the pharmaceutical sector would be a highly potential in coming year as GoV has set priority for health care and there is a huge domestically demand on high-quality medicines in Vietnam. In recent strategy, the GoV also targets to turn Vietnam into regional hub for innovative pharmaceutical manufacturing.

Agricultural products

One chapter in EVFTA addresses Sanitary and Phytosanitary measures (SPS), specifically aimed at facilitating trade in plant and animal products. The two sides have agreed to mutual recognize the SPS methods used by others to reduce the time and barriers for SPS testing between Vietnam and EU. These provisions will facilitate access for EU companies producing a large variety of products such as food and drinks, agricultural products, seafood products to the Vietnamese market.

With around 20% of Dutch companies in Vietnam are active in agro-business and processing industry, the EVFTA will have strong effects for Dutch business community. Within the main agri-food products, some of the key commodities will have opportunity to export to EU, including:

Commodity	Current tariff	Tariff elimination	Chance
Milk and dairy products	5-30%	100% tariffs reduced after 5 years	Open market to EU, FDI into process industry
Fruits and Vegetables	0-20%	100% tariffs reduced right after EVFTA takes effect	Open market to EU
Coffee	0-11.5%	100% tariffs reduced right after EVFTA takes effect	Open the export markets, FDI into process industry
Cashew	0%	100% tariffs reduced right after EVFTA takes effect	Open the export markets, FDI into process industry
Fishery (i.e. frozen shrimp, fish fillets)	0-26%	50% tariffs reduced to 0% after EVFTA takes effect; remaining for 3-7 years	Open markets to EU, Japan, US, Mexico, etc.)
Livestock	0-10%	100% tariffs reduced after 3-7 years	Utilize SPS, TBT measures

With the above commodities, there are huge chances for Dutch companies to doing business in Vietnam, especially involving in the agro-process industry since most of the key agro products will enjoy 0% of taxes after EVFTA takes effect. Food processing industry will be subjected to develop for coffee, cashew, dairy products and seafood. Some notable case for successfully Dutch companies specialized in agro- businesses include Friesland Campina for milk and dairy products, NedCoffee B.V for coffee trading and processing, Nedspice Processing Vietnam for manufacturing agricultural products, Anova Food B.V for trading seafood, etc.

Since the food safety and hygiene has becoming an increasing issues in Vietnam, the EVFTA will create chance for Dutch companies to penetrate in the market with its high-quality food products, including fruits & vegetables, beverage and meats. Accordingly, Vietnam will open its market for EU food products, both primary and processed, allowing EU high quality exports to reach its growing middle class consumers. Some of key products are: wines and spirits (to be liberalized after 7 years); beef (after 3 years); frozen pork meat (after 7 years). De Heus LLC Vietnam is active in Vietnam as Dutch companies providing clean pork meat. Heineken gains its reputation as one of the largest foreign companies working in beverage industry in Vietnam.

Other potential sectors

Incentives for export will be created for some other products/ sector in Vietnam such as:

Industry	Current tariff	Tariff reductions by EVFTA
Textile	8-12%	Nearly half of textile products will enjoy duty free at entry into force and the rest after 3-7 years
Footwear	3.5-17%	37% of footwear will be duty free at entry into force and the rest after 3-7 years
Woods and Wooden products	0-10%	83% will enjoy duty free at entry into force and the rest after 5 years
Computer, electronic products and components	0-14%	74% will enjoy duty free at entry into force and the rest after 3- 5 years

In EVFTA, Vietnam has committed to open up to investments in manufacturing in a number of key sectors:

- fertilizers and nitrogen composites □
- tyres and tubes □
- gloves and plastic products □
- ceramics □
- **construction materials**

Market openness for services

Vietnam has committed to substantially improve access for EU companies to a broad range of services sectors, including:

- telecommunications and postal services
- business services □
- **environmental services** □
- postal and courier services □
- banking and financial services
- insurance □
- **maritime transport**

There are some sectors with great opportunities for Dutch companies such as maritime transport, environment services, construction material manufacturing.

The commitment in market openness in EVFTA goes largely beyond both WTO commitments and any other FTA that Vietnam has concluded, thereby giving EU companies the best possible access to the Vietnamese market. Moreover, the agreement will contain a clause allowing the best results of FTAs being negotiated at the moment to be incorporated in the EU - Vietnam FTA. This means European visitors, including Dutch companies, will receive equal treatment with other investors from other FTA partners in Vietnam.

In addition, Vietnam has signed a number of FTAs with different countries and regions. Currently, 17 FTAs have been signed or are being negotiated by the GOV. As such, the country has been a long-term partner for many key economies (i.e. China, Japan, Korea, India, ASEAN, etc.) in the world, and the number of partner markets extended to nearly 200 countries. This means Dutch companies actively operated in Vietnam can export their products to wider market with many benefits under such agreements

Table 5. Vietnam's integration to global market through FTAs

#	FTA	Partner country	Year of Signatory	Year of Effectiveness
1	AFTA	ASEAN countries	1996	1999
2	ACFTA	ASEAN and China	2002	2005
3	WTO	162 countries	2006	2007
4	AKFTA	ASEAN – Korea	2006	2007
5	AJCEP	ASEAN – Japan	2008	2008
6	VJEPA	Vietnam – Japan	2008	2009
7	AANZFTA	ASEAN – Australia – New Zealand	2009	2009
8	AIFTA	ASEAN – INDIA	2009	2010
9	VCFTA	Vietnam – Chile	2011	2014
10	VKFTA	Vietnam - Korea	2015	2016
11	VCUFTA	Vietnam – Eurasian Economic Union (EAEU) (Russia, Belarus, Kazakhstan, Armenia, Kyrgyzstan)	2015	2016
12	AEC	ASEAN countries	2015	2015
13	EVFTA	Vietnam – member states of the European Free Trade Association	2015	2018*
14	TPP	12 countries	2016	Highly likely to be collapsed (after Donald Trump takes his office this January)
15	RCEP	Regional Comprehensive Economic Partnership between ASEAN and six other countries (Australia, China, India, Japan, South Korea and New Zealand)	On-going negotiation	

#	FTA	Partner country	Year of Signatory	Year of Effectiveness
16	VEFTA	Vietnam – EFTA Union (Switzerland, Norway, Iceland, Liechtenstein)		
17	VIFTA	Israel		

Source: Author's consultation from WTO center, MOIT

Public procurement

GOV has pledged to increase the transparency for Government procurement process. This will level -playing field for all investors, especially committed to non-discrimination and commercial considerations. In fact, the European Commission is already promoting the new deal by noting that EU companies will be able to bid for public contracts with Vietnamese ministries, including for infrastructure such as roads and ports, power distribution companies, railways, and 34 public hospitals. For example, British investors have involved in the metro rail project for Ho Chi Minh City and massive pavement projects throughout the country. EU mining companies will look to invest in Vietnam's largely undeveloped mineral resources, especially bauxite (a key raw material necessary for the production of aluminum).

SOE privatization

In addition, the Government makes a strong effort to reduce the number of state-owned enterprises. During the past 20 years, the equitisation of State-owned enterprises (SOE) made a significant process but capitalization was limited. Recently, a plan to privatization of SOEs has been made by the GOV with focus on re-examining which enterprises will continue to own 100 per cent, 65 per cent, and 50 per cent of State capital and which enterprises will divest. Accordingly, the firms with 100 per cent of State capital will be reduced. This action shows a good opportunity for EU companies, including Dutch companies, to involve in large-scale privatizations of Vietnamese State-owned enterprises, i.e. have wider door to invest in big firms in Vietnam. Especially, some key industries will be excluded from the list of conditional sectors, such as urban sewage treatment, urban lighting, maritime and railway transportation.

However, there are also some risks for involving in the privatization of SOEs in Vietnam. It is a tough process where there are few SOEs in good development stage. Furthermore it is complicated process for privatization when information is limited and the plan for privatization schedule is not always available.

GIs

All parties in EVFTA agreed on some important principles such as regionalization and the recognition of the EU as a single entity. EVFTA also gives recognition and high level of protection of Geographical indications for food products. 169 food and drink products from EU GIs enjoy direct protection, compared with only 39 GIs for Vietnamese products. For example, Gouda Holland Cheese and Genièvre/Jenever/Genever Spirit are the two products made in the Netherlands which enjoy GI protection in Vietnam.

Investor and State dispute

BY signing EVFTA, GOV has no doubt supporting for investor-State arbitration as an effective mechanism to resolve disputes between an investor and a State. Therefore, Dutch investors in Vietnam can be assured of investment dispute settlement.

Other potential opportunities

To address the TBTs and non-TBTs commitments in EVFTA, Vietnam would need more support in increase the capability to follow compliance to quality standard (i.e. means to improve the quality of products made in Vietnam). This will open wider opportunities for Dutch companies for technology transfer to the country, including knowledge and equipment delivery.

Challenges

- Specialized management: is one of the obstacles for traders, especially importers in Vietnam. There is high rate of shipment subjected to Specialized Inspection (i.e. around 30%) and enormous list of goods subjected to Specialized Inspection and Management. And more important, the regulations for inspections are overlapped and not comprehensive, resulting in difficulties in understanding and application.
- Rules of origins: is the key requirement for the companies to benefit from tariff reduction. Vietnamese exporters have to obtain government certificates (Certificates of Origin) since self-certificate of Origins has not been deployed. The administrative procedures for get this licence is still causing problems for many companies. Additionally, this regulation will exert more challenges for companies in Vietnam since most of the sources for manufacturing industries (ex: textile and garments, electronic, car parts, etc.) are not locally originated in Vietnam.

What is the Rule of Origins?

The rules of origin (RoO) are the legal instrument used to link a product with a country to the effects of applying on the product a specific treatment. The preferential rules of origin define when a product can be considered as sufficiently transformed in a country in order to grant it a tariff preference as agreed in a FTA for as regulated in unilateral preferences.

Preferential RoO have become new trade policy instruments, used to enhance or to limit market access for preferential partners.

- RoO is a crucial condition for a product to receive a specific treatment, i.e. tariff reduction
- Only products originating in one of the parties can benefit from tariff preference granted under the EVFTA
- Typical conditions to be met for goods export from EU/VN:
 - ✓ “originate” in EU/Vietnam
 - ✓ Fulfil certain additional requirements
 - ✓ Accompanied by a certificate of origin

Product Specific Rules

To get the tariff incentives from EVFTA, the good must be “wholly obtained” from EU/VN or have to meet certain requirements in the event that the good is “not wholly obtained”. Some example is listed below:

Sector	Condition for RoO	Note
Livestock and agriculture (i.e. honey, vegetables and fruits, rices, etc.)	Wholly obtained	These goods must be sourced exclusively from within the FTA zone to qualify for tariff reductions
Drinks and beverages (wine and alcohol)	Wholly obtained for grapefruit and not exceed 20% for sugar as raw material	
Seafood	Wholly obtained	Products must be born or raised in the exporting countries
Textile	Flexible (with wholly obtained for raw material)	But EU and VN can import raw materials from countries signed FTA with both parties, e.g. Korean, Japan

- Smuggling: Some fear that China’s close position just north of Vietnam will create problems with illegally traded Chinese minerals and metals finding an easier passage into Europe via Vietnam. (link: <http://www.indmin.com/Article/3478078/EU-free-trade-deal-with-Vietnam-could-increase-Chinese-rare-earths-smuggling.html>)
- Corruption: Future investment claims stemming out of that sector may bring new waves of allegations involving fraud or corruption.