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## Vietnam

### Trade Policy Monitoring

### Annual

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**Approved by:**

Valerie Ralph  
U.S. Embassy

**Prepared by:**

Valerie Ralph, staff

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**Report Highlights:** Vietnam is one of the fastest growing economies in the world, with a growth rate of 8.5 percent in 2007, and a projected growth rate of 9 percent for 2008. This bodes well for U.S. agricultural, fish and forestry exports, which saw record growth in 2007 when total exports increased by 110 percent to \$624 million. U.S. exports, no doubt benefited from the sharp decline in tariff rates on an array of key products. In addition to a wide range of tariff reductions as a result of Vietnam's entry into WTO in January 2007, Vietnam further reduced tariffs on an array of products in August and November 2007 in response to rising inflation; some cuts went even beyond the bound rates promised under WTO. Vietnam now has a functional SPS notification and Enquiry Point and has begun notifying regulations and new measures to WTO. Biotech regulations reported to WTO contain elements that could impede trade. Policies to help with the rational economic development of Vietnam's agriculture, aquaculture and forestry sectors continue to be in the best interest of U.S. exports as do policies to streamline Vietnam's import procedures and make them more transparent. Also critical to increasing U.S. export market share are continued efforts to further reduce tariffs on key U.S. exports, particularly in the face of ever more favorable tariff preferences for China-ASEAN FTA participants.

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## SECTION I. EXECUTIVE SUMMARY

### Current Trade Situation

Agricultural fish and forestry trade between the United States and Vietnam has experienced rapid growth since normalization of relations in 1995. From a position of essentially no trade prior to normalization, U.S. agricultural exports to Vietnam climbed to \$623.5 million in 2007. Vietnam's agricultural exports to the United States experienced even more dramatic growth over this period, increasing to a total of \$1.4 billion for 2007. While Vietnam clearly has the advantage, the gap is narrowing; U.S. exports increased a record 109.5 percent in 2007 in contrast to Vietnam's growth of 17.6 percent. U.S. agricultural exports to Vietnam have increased almost ten-fold since 2000, and given the considerable reductions in tariffs and continuing improvements in the trade environment since Vietnam's accession to the WTO in 2007, the prospects are brighter than ever for U.S. agricultural exports to this dynamic and rapidly expanding economy.

Currently, U.S. agricultural exports to Vietnam tend to be commodities that Vietnam either does not produce or produces in limited quantity; namely, dairy products, grains, cotton, hides and skins, and wood. Production of these commodities in Vietnam are constrained by both a tropical climate and limited available arable land. Vietnam has one of the lowest per capita arable land area in Asia and less than one-fifth that of the United States. Even in the face of this reality, however, many in Vietnam's Ministry of Agriculture and Rural Development (MARD) hold that Vietnam could supply most if not all its needs in such key areas as dairy, beef, wood and feed grains, and could significantly increase local production of protein meal and cotton were it not for unfair competition and subsidized products from the developed world. Still, the government as a whole tends to be pragmatic and responds to economic realities. So, in the interest of developing domestic industries, Vietnam has reduced tariffs on certain import products like cotton, corn, wheat, barley, soybean meal and wood.

While much of Vietnam's agricultural exports are products not produced in the United States such as cashew, coffee, pepper and rubber some exports have been in direct competition with U.S. production. Vietnam's fish and seafood, most notably shrimp and basa (catfish), have competed with U.S. local production and drawn anti-dumping actions from the United States. As a result, there was a reduction in exports of these products by about 20 percent in 2005. Fish and seafood exports have since rebounded, though not quite to the record levels of previous years. Drug residues found in Vietnam's fish and seafood also affected export sales. Working with the U.S. Food and Drug Administration and the Ministry of Fisheries, the industry was able to make considerable progress in reducing residue levels in exports over the past year. Rice is another major export commodity for Vietnam, which is ranked as the second largest rice exporter in the world. Although not a significant export to the United States, it is nonetheless important as it puts Vietnam in direct competition with U.S. rice exports.

Vietnam is part of the China-ASEAN Free Trade Area (FTA), which offers substantial tariff reductions to participants. Several other countries in the region are in negotiation for ASEAN FTAs; namely, ASEAN-Australia, ASEAN-India, ASEAN-Japan and ASEAN-Korea.

Although tariffs on many consumer-oriented food products, including meats, most dairy, temperate fruits, and potato products remains high, Vietnam has made significant tariff rate reductions on several key commodities in 2007. In addition to the wide range of tariff reductions that resulted from Vietnam's entry into WTO in January 2007, tariffs on a number of key commodities were further reduced in August and October 2007, and in some cases,

even beyond final bound rates. Further details on these reductions are available in GAIN Reports [VM7057](#) and [VM7082](#).

### General Trade Policy Strategy

U.S. agricultural trade policy in Vietnam should focus on three areas. First, U.S. agricultural trade policy needs to encourage the rational economic development of Vietnam's agriculture sector. This means pressuring for lower tariffs and greater access for commodities that the Vietnamese clearly have a comparative disadvantage in producing. Dairy is one such area where tariffs could be significantly reduced. Beyond this, looking at commodities where U.S. exports to Vietnam are currently modest but the potential is great; we need to work on greater access for meats of all types with a particular emphasis on beef, offal and dark-meat chicken cuts. Also important are processed potatoes, particularly frozen french fries, and fresh temperate fruits, including apples and grapes.

In order to increase Vietnam's willingness to grant greater access to U.S. products, the United States needs to pursue policies that support the development of agricultural production in areas where the Vietnamese clearly have a comparative advantage. Support for further development of tropical and aquaculture products seems appropriate, albeit with a recognition of the importance of environmental concerns and sustainability. These policies should also extend to improving U.S. market access for these products, including assistance addressing food safety and animal and plant safety concerns. Currently, the most pressing issues in this area are concerns over drug residues in Vietnamese aquaculture products and facilitating APHIS' import approval for Vietnamese tropical fruits.

The second major trade policy focus should be differential treatment under the China-ASEAN Free Trade Area. The tariff preferences given trade within the ASEAN FTA can be very large in some instances and often puts the United States at a significant disadvantage. The differentials are particularly important for meats, fresh fruits and most processed foods. Within the China-ASEAN FTA these pay a tariff of 0-5 percent whereas the MFN rate can be up to 40 percent or more. Apples and grapes are currently the greatest concern in this area due to competition from China. Currently these fruits receive a 5 percent tariff under the FTA and this is scheduled to drop to zero by 2009. The MFN rate for apples and grapes is now 20 and 22 percent, respectively, and will only drop to 10 percent within 4 years.

The final trade policy emphasis should be improving import procedures. Vietnam continues to restructure its public and private sectors from its centrally-planned past. The salary scale for customs and other officials remains low. This often results in excessively bureaucratic and corrupt import procedures. Working to streamline procedures and make them more transparent, both on an issue-by-issue basis as well as through well-targeted trade capacity development assistance would be in the interest of U.S. agricultural exports to Vietnam. Areas of particular focus should be import procedures to ensure food safety and eliminate threats to animal and plant health; labeling laws and regulations; and science-based biotech regulations.

## SECTION II: TRADE BARRIER CATALOG

## A. Trade Barrier Table

Product	Trade Barriers	Description of Problem	Status	Value of Trade Affected	FAS Contact
Beef	BSE	30-month age restriction for beef; no cattle imports even with OIE guidelines for U.S. controlled-risk status.	Unresolved	\$30 million	John Wade
Cotton, SBM, corn, feed, seeds, plants	Biotech	Draft regulations reported to WTO include labeling and registration restrictions that could limit trade.	Unresolved USG comments on the field trial regs already submitted; Comments on regs for food and feed imports pending. Post also working to effect changes.	\$150 million	Valerie Ralph, Bui Huong
Feed	Labeling	Requires quantity and ingredients on label.	Unresolved, but requirement not yet enforced.	\$30 million	Dao Truong
Poultry meat	SPS	Zero tolerance for salmonella on raw poultry meat.	Unresolved	\$40 million+	John Wade
Wine, Processed products	Registration, certificate of analysis	Costly, restrictive requirements deter and/or limit imports.	Unresolved	\$100 million	Dao Truong
All imports	Customs valuation	Reference pricing instead of invoice prices.	<b>Resolved</b> Generally accepts invoice prices now.	\$200 million	Dao Truong
Processed products (packaged foods)	Labeling restriction	Best if used by dates made de facto expiration date/last day of sale.	<b>Resolved</b> New regulations no longer see best if used by date as expiration date.	Millions; potential hundreds of million over time	John Wade
Red meat, offal	Registration, certificate of analysis	Burdensome, costly and no real food safety merit.	<b>Resolved</b> Ministry of Health letter affirming the regulations do not require registration given to importers and traders.	\$32 million	Valerie Ralph, Dao Truong
MBM	DNA tests, pre-certified ruminant-free	Shipments delayed pending results. No animal matter found for U.S.	<b>Resolved</b> DNA testing no longer needed pre-shipment or upon arrival.	\$5 million	John Wade, Bui Huong

## B. Background

**BSE Beef Restriction:** Vietnam currently accepts imports of U.S. beef from cattle less than 30 months old in accordance with former World Organization for Animal Health (OIE) guidelines. In May 2007, OIE gave new guidance, with the United States now classified as having a “controlled” risk status. In accordance with this new status, live cattle and beef from cattle older than 30 months are eligible for trade. Though Vietnam purports to adhere to OIE guidelines in such matters, it has been slow to change the status quo in this instance. Reportedly, the Department of Animal Health (DAH) in the Ministry of Agriculture and Rural Development (MARD) has this issue under consideration and is currently conducting risk assessments of U.S. beef from cattle older than 30 months.

**Biotech Regulations:** The Ministry of Agriculture and Rural Development (MARD) and the Vietnam Food Administration (VFA) have both reported their biotech regulations to the WTO. MARD’s biotech regulations cover field trials and biosafety management of biotech crops, while VFA’s biotech regulations cover the import, export and distribution of foods derived from biotech products. USG has already submitted its comments on the MARD regulations and is preparing comments on the VFA regulations to meet the March 28 deadline. Both sets of regulations have elements that are troubling to USG and raise concerns about the possible negative impact on trade. Requirements for labeling and registration, among others, appear to contribute no real food safety protection and may well present obstacles to trade. USG is pursuing efforts to ensure that any precautionary measures in the regulations that are ultimately adopted are based on sound science.

**Zero salmonella tolerance:** Vietnam is now enforcing a policy of zero tolerance for salmonella on raw poultry meat. Poultry meat importers, new to the market, have had their shipments detained at Port in Ho Chi Minh City as a result of this policy. The official remedy for such shipments is irradiation of the entire shipment; a costly measure. Repeated efforts by Post to have DAH relax the zero tolerance policy have been fruitless, notwithstanding U.S. - Vietnam equivalence agreement on poultry and meat products. (see p. 10) DAH insists on maintaining the zero tolerance standard, absent an FSIS numerical measure of tolerance. Post continues to work with FSIS and other USG agencies to resolve this.

## SECTION III: AGREEMENT COMPLIANCE

### A. Market Access

Vietnam became the 150<sup>th</sup> member of WTO on January 11, 2007. In keeping with commitments of technical assistance made during WTO negotiations, FAS and other USG agencies have been helping Vietnam in this period of transition by providing expert professionals to assist with training and regulatory work. Vietnam’s SPS Notification and Enquiry Point has been a major beneficiary of such training and technical assistance, and in January 2008, it began notifying regulations to WTO. Biosafety regulations for field trials of biotech crops from the Ministry of Agriculture and Rural Development (MARD) were among the first items notified. The Vietnam Food Administration (VFA) has also notified its biotech regulations, which covers the import, export and sale of biotech foods in Vietnam. Both sets of regulations contain elements of concern to USG. The comment period for the MARD regulations expired in early March and USG has already submitted its comments. The deadline for comments on the VFA regulations is March 28, 2008; USG comments are pending.

Elements of particular concern in the regulations are requirements for labeling (MARD and VFA regs.) and registration (VFA). USG is pursuing efforts to ensure that final approved regulations do not unduly disrupt or hamper trade. A reasonable biotech policy in a major trading country like Vietnam will help promote the adoption of a sound science-based approach to biotech worldwide, which would redound to the benefit of U.S. agricultural exports. (see [VM8003](#) and [VM 8005](#) for English translations of both regs.)

## Tariffs

Vietnam's tariff regime changed significantly with WTO accession in January 2007. Prior to accession, Vietnam's average applied tariff on agricultural products was 27 percent. Upon accession, tariff rates for more than three-fourths of U.S. agricultural exports to Vietnam were reduced to bound rates of 15 percent or less. Starting in August 2007, Vietnam either speeded up WTO tariff reductions or went beyond final promised cuts on an array of food and feed items. These cuts were termed 'temporary' in response to high inflation, but no time limit was placed on them and most analysts view a reversal as unlikely. Current Vietnam tariff rates for several key U.S. exports follow.

### Specific products:

- **Grains:** tariff on corn is now reduced to 0%; tariff on wheat remains at 5%.
- **Soybean products:** tariff on soybeans is now 2%; and on soybean meal it is 0%. Tariff on soybean flour is now 20% and will be further reduced to 8% over 5 years. Tariff on soybean oil is now 20%.
- **Cotton/hides and skins/wood, logs, lumber, veneers:** tariffs on these products have been bound at zero.
- **Beef:** tariff on beef muscle meat is now 12%. Tariff on U.S. beef offal is now reduced to 10% and will be phased down to 8% over 4 years.
- **Pork:** tariff on frozen pork muscle meat is now 20% and will be reduced to 15% over five years. Pork offal is now 10 percent and will be reduced to 8 percent over 5 years.
- **Poultry:** tariff on poultry meat is now 12%.
- **Dairy:** Tariff on cheese fell from 20% to 10% upon WTO accession. Tariff on whey is now reduced to 10% (and 15%). Tariff on milk powder is now 5% (and 15%).
- **Fruits:** The tariff on apples is now 20%; for grapes and pears it is now 22%; all will be reduced to 10% over five years. Tariff on raisins is now 22%, with further reductions to 13% over five years.
- **Nuts:** Tariff on shelled almonds and in-shell walnuts is now 34% and 30%, respectively, and will be reduced to 10% over five years. Tariff on pistachios is now 35%, and on in-shell almonds it is 34%. Tariffs will be reduced to 15% after three years for pistachio and after five years for in-shell almonds.
- **Wine:** Tariff is now reduced to 62% and will be further reduced to 50% over 5 years.
- **Processed foods:** Tariffs on the majority of U.S. processed food exports was cut by 50% upon WTO accession. Below are some examples:
  - Potato chips and tomato paste: tariff reduced to 35% and 36%, respectively, with additional cuts down to 18% over five years.
  - Chocolates: tariff reduced to 18%; will go down to 13% over five years.
  - French fries: tariff reduced to 31%, with additional cuts to 13% over six years.

Post will continue to work to reduce tariffs in key areas. Wine remains a focus, but lower tariffs for poultry meats, dairy products (milk powder), dried peas, french fries, grapes and apples are also priorities.

## Tariff-Rate Quotas (TRQs)

Vietnam currently has tariff-rate quotas (TRQs) for tobacco, eggs, salt and sugar imports. Although in 2004 Vietnam considered adding a number of new TRQs, the sugar TRQ is the only recent addition. The tobacco TRQ is largely as a health measure since it is only applied to tobacco for domestic consumption. As much as half the tobacco leaf entering Vietnam is bonded for processing and re-export. No TRQ in Vietnam is a significant trade policy issue.

### **SPS and TBT Commitments**

Vietnam is relatively reasonable on sanitary and phytosanitary issues when compared to most of its Asian neighbors. After banning imports of all beef products because of BSE in late December 2003, Vietnam re-opened to boneless beef in October 2004. Upon signing the WTO accession bilateral agreement with the United States in 2006, Vietnam removed most restrictions from U.S. beef and currently allows imports of U.S. bone-in beef as well as offal; with the only restriction being that it must come from cattle less than 30 months old. More recently, in August 2007, APHIS petitioned the Vietnam government to bring its import requirements for U.S. beef in compliance with current World Organization for Animal Health (OIE) guidelines of a "controlled" risk status, so that live cattle and beef from cattle older than 30 months may be imported. The 30-months restriction has not yet been lifted, however.

In November 2006, Vietnam instituted measures in reaction to news from Indonesia of ruminant matter found in MBM from Spain. Initially, Vietnam sought to immediately have shipments DNA-tested, both prior to export and upon arrival in Vietnam. Shipments were also to possess health inspection certificates guaranteeing that they were free of ruminant matter. After protests from the United States and other embassies, Vietnam allowed a grace period until June 2007 before the health certificates guaranteeing the absence of ruminant matter would take effect. DNA testing continued, but after six months of testing found no evidence of ruminant matter in U.S. shipments of animal protein meal, Vietnam repealed the requirement for U.S. shipments in August 2007. Vietnam reserves the right, however, to do random testing.

Vietnamese officials from the Ministry of Agriculture and Rural Development are responsive to appeals to follow OIE guidelines. Still, Vietnamese animal health officials are cognizant of their power and the tendency of other countries to go well beyond international guidelines like OIE. A continual challenge will be trying to make Vietnamese guidelines compliant with sound science as set down by recognized international organizations.

It is also worth noting that Vietnamese enforcement was very weak even during the BSE ban on U.S. bone-in beef and beef offal. According to U.S. trade statistics, there were large imports of U.S. bone-in beef and beef offal during the period of the ban. The great majority of it is thought to have eventually ended up in China, where the ban on all U.S. beef continues. This shows the degree to which corruption and lack of financial and human resources impair the Vietnamese food-safety system. Although this may result in some short-term gains for U.S. exports, long-term it is problematic and as already noted, U.S. assistance to establish an effective science-based system is in our best interest.

### **Health Registration of Products**

Post frequently receives complaints from traders about the Ministry of Health's registration process for imported products. Importers are required to register all processed foods packaged for retail sale and all foods with a shelf life of more than 10 days. The trade tells

post that this includes separate registrations for different sizes of the same product or even for a change in the label. Not only is it unnecessarily duplicative, but the process requires a certificate of analysis so detailed that some U.S. companies are unwilling to provide it because they feel it violates their confidentiality. The system is additionally cumbersome because importers are required to provide registrations each time they import a product. For mixed containers of processed products this can be both costly and burdensome. A policy aim should be to work with the Vietnamese to make the process of registration, itself less arduous with an ultimate aim of recognizing products freely sold in the United States as safe. Further, it is advisable to work to make the import procedures less cumbersome, replacing the current exhaustive presentation of documents with a less onerous surveillance system that still assures compliance. Improvements also would seem warranted for Vietnam's feed registration process, which requires a largely meaningless certification by an undefined government authority in the United States.

## **B. Export Subsidies**

The most important support the government gives to all its exports is a WTO-consistent rebate on the value added tax. For agricultural products the VAT generally runs 5-10 percent of export value.

## **C. Domestic Support**

Vietnam has guaranteed minimum prices at which state companies buy rice from farmers. For rice the floor of VND 1500 (\$.09) per kilo of paddy has not been above market at anytime except for a few months after its creation in 1997. Currently the paddy price is around VND 4,400 (\$.27) per kilo.

However, for cotton the purchase price, currently VND 9,000 (about 60 cents) per kilo of seed cotton, has been in recent years the effective price paid to farmers. The process is not transparent and exact figures are not available but purchasing at the support price means state companies incur a loss vis-à-vis purchasing imported cotton. This loss is at least in part covered by charges against imported cotton. The program has helped increase cotton production from about 1,000 MT in the early 1990's to as high as 14,000 MT in 2005. A continuing decline in production area since then has resulted in lower outputs, even with improving yields. The production estimate for 2007 was about 10,560 MT. Despite the price supports of the state companies, Vietnam's cotton production can at best only satisfy about 10 percent of local mills' consumption and only about half the government's target. Sources in the industry report that even though the purchase price has increased from VND 5,500/kg. to the current VND 9,000 farmer-interest has remained lukewarm. Given the government's limited financial resources and concerns that requiring the textile industry to shoulder the burden may hurt competitiveness, it is doubtful that this program can be increased further.

## **SECTION IV: OTHER BILATERAL COMMITMENTS AND AGREEMENTS WITH THE UNITED STATES**

Vietnam signed a bilateral trade agreement with the United States in 2001. During WTO negotiations all commitment aspects of the bilateral agreement were at least matched or bettered in the WTO agreement. So for all intents and purpose, the bilateral agreement is now dead.

The United States and Vietnam, in March 2007, agreed to begin negotiations for a Trade and Investment Framework Agreement. No agricultural elements have yet been identified.

**A. Agricultural Bilateral Agreements with Vietnam**

Vietnam has the following Exchanges of Letters with the United States:

[Agreement on Biotechnology 5/31/06](#)

[Agreement on Beef and BSE 5/31/06](#)

[Agreement on FSIS Equivalence for poultry and meat products 5/31/06](#)

[Agreement on Shelf Life 5/31/06](#)