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Report Name: European Union - Vietnam Free Trade Agreement Ratified

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Report Highlights:

Vietnam ratified the European Union (EU)-Vietnam Free Trade Agreement (EVFTA) and the Investment Protection Agreement (EVIPA) on June 8, 2020. This followed ratification by the European Parliament on February 12, 2020. Key aspects of the EVFTA are the tariff elimination and bilateral trade facilitation. The EVFTA will eliminate nearly all tariffs except for a few tariff lines that are subject to tariff rate quotas (TRQs). The EVFTA is expected to enter into force in August 2020. Vietnam's agricultural sector is predicted to be among the top beneficiaries of the EVFTA. There are also important details in the Sanitary and Phytosanitary Measures Chapter and details related to Geographic Indicators in the Intellectual Property Chapter.

Summary

The EVFTA is being considered as a new generation in trade agreements with Vietnam and the EU's 27 member states plus the United Kingdom¹ agreeing to broader commitments. Current trade between the EU and Vietnam is on WTO Most Favored Nation (MFN) terms - the trading rules applied to any two WTO member countries who do not have a preferential agreement- until the entry into force (EIF) of the EVFTA.

The EVFTA and the EVIPA were signed in Hanoi on June 30, 2019, ratified by the European Parliament on February 12, 2020, and by Vietnam on June 8, 2020, after eight years of negotiations. The EU has cited the EVFTA as the most comprehensive agreement the EU has ever concluded with a developing country. It is the second agreement between the bloc and a Southeast Asian nation after Singapore, and a further building block towards the EU's ultimate objective of an EU-ASEAN FTA.

Vietnam will liberalize 65 percent of EU exports to Vietnam at the EVFTA's EIF, with the remainder being gradually liberalized over a 10-year period. About 70 percent of EU imports from Vietnam will enter the EU duty-free immediately when the EVFTA takes effect and the remaining tariffs will be abolished over a 7-year period. Of note, the EVFTA will eliminate nearly all tariffs (over 99 percent), reduce regulatory and bureaucratic barriers, and list a number of Geographical Indications (GIs) for both the EU and Vietnam. From Vietnam's perspective, this is the highest level of commitment that a partner has given to Vietnam in its signed FTAs. The EVFTA is expected to bring a lot of opportunities to Vietnam's agricultural sector as it will help to boost agricultural exports, improve the sector's competitiveness, and deepen Vietnam's participation in global value chains. According to Vietnam's Prime Minister Phúc, the EVFTA and the EVIPA will be "a large-scale highway", helping to enhance the speed and scale of cooperation, trade, and investment between Vietnam and the EU. Vietnam's Industry and Trade Minister Trần Tuấn Anh described the EVFTA as "a lever for growth", opening up opportunities for Vietnam to penetrate into a market with a gross domestic product (GDP) of \$18 trillion. As per the research findings of Vietnam's Ministry of Planning and Investment, the two agreements will help Vietnam increase its GDP by 4.6 percent and its exports to the EU by 42.7 percent by 2025. Meanwhile, the European Commission has projected the EU's GDP to increase by \$29.5 billion and its exports to Vietnam to increase by 29 percent by 2035.

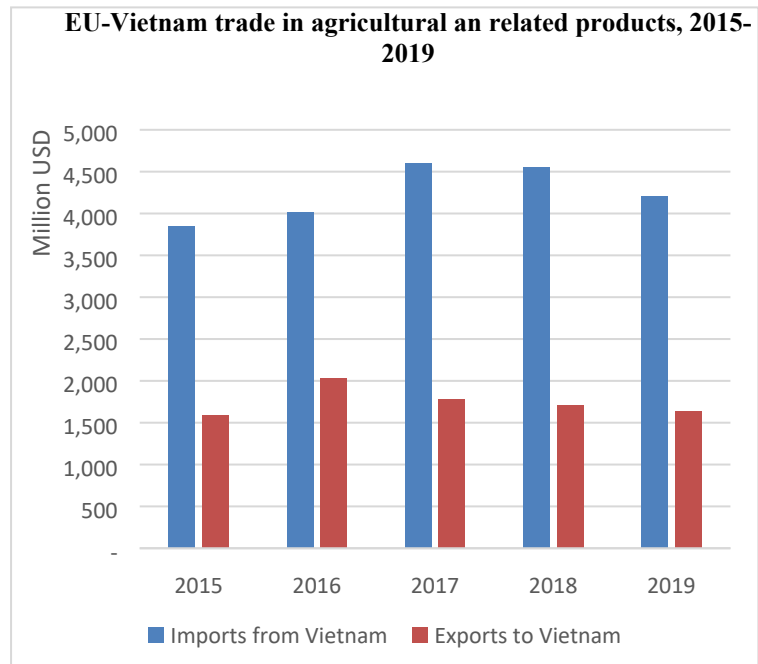
¹ Following its departure from the EU ("Brexit") on January 31, 2020, the United Kingdom (UK) has entered a transition period starting on February 1, 2020 and ending on December 31, 2020. Brexit is predicted to have an impact on the outcomes of the EVFTA as the UK is Vietnam's strategic partner and the 3rd largest EU trading partner. The EVFTA will apply for the UK until the year-end and can be extended once, by up to one to two years as per the joint decision by the EU and the UK made before July 1, 2020.

Background

To date, Vietnam has signed a total of 13 bilateral and multilateral FTAs with foreign partners.



Source: Vietnam Government's E-Portal



Source: Trade Data Monitor (TDM)

The EU is currently the second largest export market for Vietnamese agricultural and related products after China (the United States is the third largest). TDM data shows that in 2019, Vietnam exported about \$4.2 billion worth of agricultural and related products to the EU (accounting for over 16 percent of Vietnam's total agricultural exports) and imported more than \$1.6 billion of agricultural and related products from the EU. Vietnam is the 14th largest exporter of agricultural and related products to the EU (the United States is the largest exporter). The EU is the seventh largest supplier of agricultural and related products to Vietnam (the United States is the second largest supplier after China).

EVFTA Outcomes for Agricultural Products

Tariff liberalization

Under the EVFTA, 21.3 percent of Vietnam's tariff lines for agricultural products will be abolished on the EVFTA's EIF. 520 out of 556 tariff lines of vegetables and fruits, 85.6 percent of the tariff lines of processed vegetables and fruits, and 93 percent of the tariff lines of coffee and pepper will be duty free on the EVFTA's EIF. The EU will eliminate tariffs on rice products in 3-7 years. As per the research findings of Vietnam's Ministry of Planning and Investment, export growth of some of Vietnam's agricultural products is projected to increase significantly by 2025 as a result of the tariff liberalization

under the EVFTA, such as rice (an additional increase of 65 percent in 2025), sugar (8 percent), pork (4 percent), forestry products (3 percent), meat and poultry (4 percent), beverages, and tobacco (5 percent), and seafood (2 percent in the 2020-2030 period).

Highlights of tariff elimination committed by Vietnam

- Currently the EU’s livestock products exported to Vietnam are subject to tariffs of 10 - 40 percent. Tariffs on beef will be eliminated after 3 years and on frozen pork after 7 years. Tariffs on poultry meat will be progressively reduced to zero over the next 10 years.
- Dairy: all tariffs will be abolished in a maximum of 5 years, with quicker reductions on most cheeses, milk powder and liquid milk (3 years).
- Food preparations: all tariffs will be abolished after a maximum of 7 years.
- Alcoholic beverages: all tariffs will be eliminated after 7 years, except for beer (10 years).

A Decree on Vietnam's preferential export tariff and special preferential import tariff to implement its commitments under the EVFTA is being drafted by Vietnam’s Ministry of Finance and is expected to be issued sometime in August 2020.

Sector	Product	Base rate ² (percent)	Time frame for tariff elimination
Dairy	Skimmed milk powder and whole milk powder: HS codes 0402.10.41, 0402.10.49, 0402.21.20, 0402.21.90	3	B3
	Skimmed milk powder and whole milk powder: HS codes 0402.10.91; 0402.10.99, 0402.29.20, 0402.29.90	5	B5
	Skimmed milk powder and whole milk powder: HS code 0402.91.00	10	B5
	Skimmed milk powder and whole milk powder: HS code 0402.99.00	20	B5
	Cheese and curd: HS codes 0406.10.10, 0406.10.20, 0406.20.10, 0406.20.90, 0406.30.00, 0406.40.00	10	B5
	Cheese (other): HS code 0406.90.00	10	B3
	Milk Albumin: HS code 3502.20.00	10	B5
	Peptones: HS code 3504.00.00	5	B3

² The base rates of customs duty set out in the schedule reflect Vietnam’s MFN tariff rates in 2012 and will not be affected by the July 10, 2020 updates to Vietnam’s MFN tariff rates.

	Preparations suitable for infants or young children put up for retail sale HS codes 1901.10.20, 1901.90.91	10	B5
	Preparations suitable for infants or young children put up for retail sale: HS codes 1901.10.91, 1901.90.11	10	B7
Livestock	Meat of swine, fresh or chilled; other: HS code 020319.00	25	B9
	Meat of swine, frozen: HS codes 0203.21.00; 0203.22.00; 0203.29.00	15	B7
	Chilled and frozen beef HS codes 0201.10.00, 0201.20.00, 0201.30.00, 0202.10.00, 0202.20.00, 0202.30.00	14-30	B3
	Chicken cuts and offal, frozen: HS code 020714	20	B10

(Note that the above tariff reduction table for select agricultural products was compiled by FAS-Vietnam for ease of reference)

Notes:

- B3 tariffs will be removed in four equal annual stages beginning on the date of EIF.
- B5 tariff will be removed in six equal annual stages beginning on the date of EIF.
- B7 tariffs will be removed in eight equal annual stages beginning on the date of EIF.
- B10 tariffs will be removed in 11 equal annual stages beginning on the date of EIF.

Highlights of tariff elimination committed by the EU

- Horticultural products: Coffee, fresh fruit and vegetables, and cashew nuts will be liberalized upon EIF.
- Rice: applicable quota of 80,000 tons per year eligible for the zero percent tariff.
- Seafood: 50 percent of the tariff lines (except for canned tuna and fish balls) will be eliminated upon EIF and the remainder will be eliminated in 3-7 years. Tariffs on Siluriformes will be phased out over a 3-year period (down from the current rate of 6.8 percent).
- Forestry products: Elimination on EIF of 88 percent of the tariff lines. The remainder will be eliminated in 3-5 years.
- Livestock products: Elimination on EIF of 60 percent of the tariff lines. Live cattle, fresh/chilled or frozen beef and pork are mostly fully liberalized; Fresh, chilled or frozen poultry meat will follow a 7-year tariff elimination schedule.

For sensitive agricultural products, the EU will not open its market up to Vietnamese imports completely. Quotas will limit the quantity that can enter the EU duty-free. This includes rice, sweet corn, garlic, mushrooms, eggs, sugar and high-sugar-containing products, manioc starch, other modified starches, ethanol, surimi, and canned tuna.

SPS Chapter

Vietnam has committed to increasing the use of international standards in developing its regulations. Under the SPS chapter, both parties have agreed to follow a systems approach, equivalence, and regionalization for animal diseases. Vietnam has agreed to the recognition of the EU as a single entity. Vietnam will not require individual establishment applications or inspections for facility registration of livestock or seafood establishments. Vietnam will also apply the same import requirements to like products coming from all EU Member States.

Geographic Indicators

169 EU GIs for food and drink specialties such as Feta cheese, Rioja wine, Parmigiano Reggiano, Cognac, and 39 Vietnam GIs have been recognized and protected under the EVFTA, with the possibility to add others later. Specific exceptions are made for prior users in Vietnam of the names Champagne, Asiago, Feta, Fontina, and Gorgonzola to address possible coexistence with prior registered trademarks or uses in Vietnam. As all of 39 Vietnamese GIs are related to agricultural products and food, these products are expected to have great chances of brand development in the EU market.

To view the full text of the EVFTA and its annexes, please click [here](#) and choose “Tiếng Anh” for English. The SPS Chapter is contained in Chapter 6. Chapter 12, Sub-Section 3 has further details related to GIs.

The EU’s Guide to the EU-Vietnam Trade and Investment Agreements has a summary of the SPS measures and Intellectual Property Rights:

https://trade.ec.europa.eu/doclib/docs/2016/june/tradoc_154622.pdf

Attachments:

No Attachments.