

FTA Trade Perspectives

EU-Vietnam Trade Negotiations

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Editorial



Dear readers,

Welcome to the latest issue of FTA's Trade Perspectives, our quarterly newsletter sharing insight into the latest policy topics impacting the world of trade and commerce, as well as updating you on FTA's recent activities.

With the advent of a free trade agreement in principle between the EU and Vietnam, as well as the Transpacific Partnership (TPP) uniting 12 Pacific Rim nations in their resolve to improve market access, an exciting era heralds great potential for global trade.

However, to realise the advantages of these agreements for European businesses, several barriers remain to be overcome, as outlined in our top story. Bracketing this is an interview with Mauro Petriccione, Deputy Director General for Trade in the European Commission who, as Chief Negotiator, outlines the benefits of the EU-Vietnam trade agreement and potential complications which may have to be dealt with. In addition, we provide a series of statistics underlining recent main import/export figures between the EU and Vietnam.

I hope you enjoy reading about these developments. Visit the [FTA website](#) for regular updates on these and other pressing trade issues. Meanwhile, we invite you to learn more about the work of FTA and its members towards free trade and sustainable supply chains by registering for the [BSCI Annual Conference on "The Power of Collaboration"](#), which welcomes stakeholders on 26 November 2015 in Brussels.

Best regards,

Christian Ewert
FTA Director General

Top Story: Vietnam, the EU and TPP: A Tango for Three?



Two recent and unexpected headlines have attracted major attention in the trade policy community. At the start of August, the EU and Vietnam announced an agreement in principle for an ambitious and modern free trade agreement. Following this, in early October, 12 Pacific Rim countries including the US, Japan and Vietnam sealed a deal to create the world's largest free trade zone, the Trans-Pacific Partnership (TPP). These two landmark agreements offer an unprecedented opportunity for Vietnamese manufactured goods to gain easy and quick access to a gigantic market corresponding to approximately 65% of the world economy.

While the outlook is promising, it might be premature to declare victory. Two caveats must be expressed. Firstly, the anticipated benefits will only materialise once the agreements enter into force. From experience it is highly likely that a lot of water will flow under the bridge before the many involved domestic constituencies will have ratified the two respective deals. A heated discussion about putting the US stamp on TPP is in full swing and critical observers do not expect a coming into force within this decade.

Meanwhile, the slow approval procedure in the EU is notorious – few people would bet on seeing a final decision before the end of 2017. To further complicate matters, both the EU-Vietnam agreement and TPP impose long transition phases for sensitive products of up to 10 years. In other words, many economic operators, for example European shoe importers, will have to wait years before being able to take advantage of the deal.

Secondly, there is a discrepancy between theory and practice. On paper, nearly all tariffs will be eliminated over time. In reality, the effect will prove to be far less significant as the rules of origin schemes – determining the nationality of a product – do not match with today's business reality of global value chains. Taking the example of a shirt, preferential market access to the EU will in nearly all cases only be provided if the fabrics originate from Vietnam. The US even requires a triple transformation where yarn and fabrics would be manufactured in the TPP area. This means that a country like Vietnam, which relies today on imports of materials and components, will have to build up its own national production chain – a regression from today's globalised supply chain where products are often the complex sum of components sourced diversely from a global marketplace.

The potential consequences of these developments are that:

- The EU will need to hurry so that the deal is applicable before TPP enters into force to allow European businesses to profit from a first mover advantage
- The EU institutions should do their ratification homework as soon as possible
- Vietnam will have to develop a full supply chain at domestic level, from yarn to ready-to-wear clothing and textiles
- Vietnam's limited production capacities risk a run on production that may impact prices

With the end of negotiations the first step has been taken, but a second and third one must follow swiftly to realise the full potential of these promising trade agreements. As tango dancers know: the first step is easy, the second and third steps truly are the greater challenge.

By Pierre Gröning, Head of International Trade Policy (ITP), (pierre.groning@fta-intl.org)

FTA Meets... EU-Vietnam FTA Chief Negotiator Mauro Petriccione, Deputy Director General for Trade in the European Commission

*In this top story, FTA speaks with **EU-Vietnam FTA Chief Negotiator Mauro Petriccione, Deputy Director General for Trade in the European Commission** who was key to the successful development of the EU-Vietnam agreement in principle which was reached. Here, we ask him about the wider picture for EU-Vietnam trade in the light of Vietnam's booming economy, the potential benefits in trade and commerce for European companies sourcing from Vietnam as well as the potential obstacles for EU businesses to benefit from these developments.*

FTA: In early August, the EU and Vietnam reached an agreement in principle for a free trade deal, but the negotiating teams still have to settle some remaining technical issues. When can we expect negotiations to be finalised and when will the final text be available for stakeholders?

Mauro Petriccione (MP): On 4 August, Vietnamese and EU negotiators reached an “agreement in principle” for a Free Trade Agreement (FTA). Agreement in principle means that the two sides have agreed on all issues of substance. One part which requires a bit more work is on investment protection and an investment dispute resolution mechanism as a result of a new EU approach which is currently subject to discussions with EU member states and the European Parliament.

Both sides are currently finalising the legal texts of the agreement. They aim to finish in the autumn with a view to announcing the final conclusion of the agreement by the end of this year. As was done for Canada, Singapore and Ecuador, we will put the text online on a provisional basis as soon as it is complete and factually correct, without waiting for the legal revision which will give us the definitive text to be ratified. Stakeholders will thus be able to scrutinise the agreement online in the autumn.

“The most tangible effects for EU companies will be the almost full elimination of tariffs on imports of Vietnamese goods”

FTA: Vietnam has a booming economy and consumption indicators are all positive. What are the most relevant benefits for European companies sourcing from Vietnam? Will the European service industry, and more particularly the retail sector, gain better market access?

MP: Vietnam is a country of 90 million people, with a growing middle class, and a young and dynamic workforce. Unlike other emerging countries in Southeast Asia, Vietnam has a strategy of opening up its economy and the benefits are visible to all. Since its accession to the WTO in 2007, Vietnam's economy has grown by an average of 5.9%. GDP growth rates for Vietnam are projected to be around 5.3% until 2050. Last year, it attracted \$13 billion of foreign direct investment.

The most tangible effects for European companies will be the almost full elimination of tariffs on imports of Vietnamese goods. Both parties will dismantle their tariffs for over 99% of goods. The EU will eliminate duties on 84% of all tariff lines already on day one and over 90% after 3 years. The rest is staged at 5 and 7 years, while Vietnam will phase out almost 50% of all duties on day one and over 92% after 7 years and the rest over 10 years owing to its developing country status. The agreement will facilitate trade through simplified and more business-oriented customs procedures.

“Since its accession to the WTO in 2007, Vietnam’s economy has grown by an average of 5.9%. Last year, it attracted \$13 billion of foreign direct investment.”

The European service industry will also get better access to the retail sector. Vietnam will remove the economic needs test on outlets for retail services five years after the FTA comes into effect. In the meantime, no economic needs test will be required for outlets which are less than 500 square metres, apart from for the first one.

FTA: Several EU free trade agreements are under critical observation and face headwinds. Do you expect difficult discussions before ratification? When should the agreement come into force?

MP: The proposed FTA between the EU and Vietnam is a very good one. It is balanced and comprehensive. It sets a model for trade policy in developing countries. It will also be a good benchmark and an important milestone for the other negotiations in the ASEAN region. Together with the Singapore FTA it will be a building block towards the EU's ultimate objective of a region-to-region FTA with ASEAN as a whole.

Throughout the negotiating process the European Commission has kept the EU's member states and the European Parliament abreast of developments. Preliminary reactions on the results achieved are positive. While I would not expect any major stumbling blocks during the ratification process, there are certain sensitivities that are more topical for some constituencies than for others. Having said that, I am convinced that we have delivered a good package and I trust that both the Council and the EP will approve the deal. We expect the agreement to enter into force at the beginning of 2018.

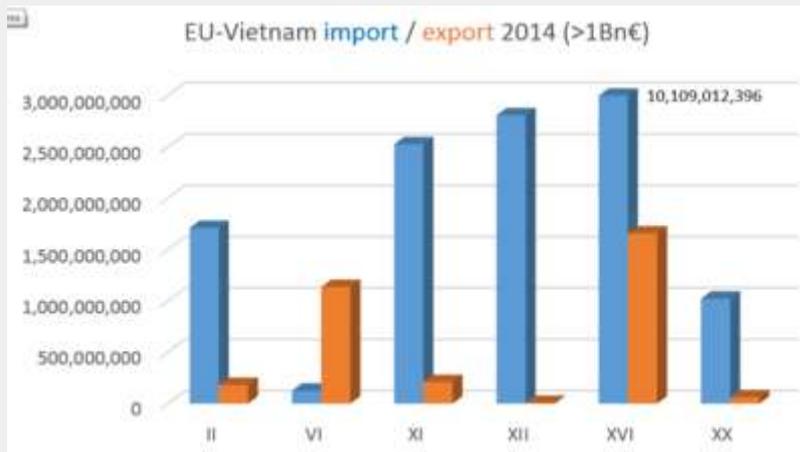


About Mauro Petriccione, Deputy-Director General, DG Trade

Mauro Petriccione was born in Italy, in 1957. He joined the European Commission in 1987. His work in trade policy covers wide-ranging topics and areas: from trade defence to standards, investment, competition, WTO, dispute settlement, relations with Member States and the other European Institutions. From 2004 to 2014, he was Director in DG Trade in charge, among others, of bilateral trade relations with the Americas, Asia, Australia and New Zealand, and trade in services and investment. As from September 2014, he is Deputy-Director General of DG Trade.

EU-Vietnam Import/Export Statistics 2014

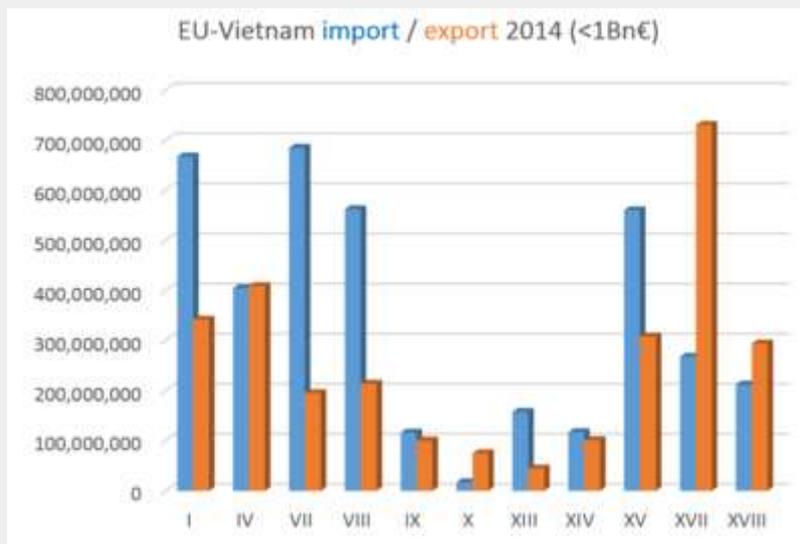
As the two graphs presented below show, there is a marked difference between the import and export flow between the EU and Vietnam with the EU importing far more than it exports; €22Bn to €6Bn. Based on experience from the EU-Korean free trade agreement, we can however expect that the now concluded agreement will help to gradually narrow the gap between imports and exports.



Key: *II: Vegetable products, VI: Chemical products, XI: Textiles and textile articles, XII: Footwear, headgear, umbrellas, etc., XVI: Machinery and mechanical appliances; electrical equipment, XX: Miscellaneous manufactured articles.*

Mobile phones are by far the largest import totalling €7Bn followed by footwear (€2.8Bn), clothing (€2.2Bn), computers (€2Bn) and coffee (€1.27Bn).

The main export consists predominantly of industrial machinery (€1Bn), followed by pharmaceuticals (€533m), aircraft (€477m), cars and parts (€160m), fertilisers and insecticides/fungicides (€147m) and various organic chemicals (€115m).



Key: I: Live animals and animal products, **IV:** Prepared foodstuffs; beverages, spirits and vinegar, **VII:** Plastics and rubber, **VIII:** Raw hides and skins, leather, fur skins and articles thereof; saddlery, handbags, etc., **IX:** Wood, cork, straw and articles thereof, basket ware and wickerwork, **X:** Pulp of wood; paper and paperboard and articles thereof, **XIII:** Articles of stone, plaster, cement, asbestos, mica etc.; ceramic products; glass and glassware, **XIV:** Natural or cultured pearls, precious or semi-precious stones, precious metals, articles thereof; imitation jewellery, **XV:** Base metals and articles of base metal, **XVII:** Vehicles, aircraft, vessels and associated transport equipment, **XVIII:** Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; clocks and watches; musical instruments; parts and accessories thereof.

FTA Activities

Position Paper on Greater Transparency in Anti-Dumping Investigations (13 July 2015)

Building on several years of campaigning for greater transparency in EU anti-dumping/subsidy investigations, FTA has released a [position paper](#) which outlines the urgent need for reform. Access to information collected by the EU Commission – on the basis of which, decisions to impose anti-dumping/subsidy measures are taken – is severely restricted.

Contribution to European Commission Flagship Initiative on Sustainable Garment Supply Chains (15 August 2015)

The European Commission is currently preparing an EU flagship initiative on responsible management of supply chains in the garment sector. At the moment, the scope of the initiative and the issues to be addressed are still under discussion and involve the participation of external stakeholders. Since the EU initiative is close to the core values and work of FTA, it is fully endorsed. The process involved a consultation to which FTA submitted a written contribution. The preparation process should be concluded by the end of 2015.

FTA Strengthens Cooperation with China: Meeting with Chinese Ambassador to EU (17 September 2015)

FTA President Ferry den Hoed, FTA Director General Christian Ewert and FTA Head of Trade Policy Pierre Gröning met with H.E. Ambassador Yang Yanyi, Head of the Chinese Mission to the EU, and Jeff Wang, First Secretary, to discuss the current framework for trade between China and the EU focusing on a number of barriers that potentially hinder trade for FTA's members.

FTA Joins Call for Union Customs Code Updates that Support Business (17 September 2015)

Along with several European trade associations, FTA signed a [Joint Statement](#) to the European Institutions urging them to consider the impact of proposals to update the Union Customs Code Delegated Act on the competitiveness of European businesses and potentially consumers - in particular, the deletion of the first sale principle and expansion of the amount of royalties and customs fees.

FTA Contributes to EU Debate on Bangladesh's Sustainable Development (22 September 2015)

Building on FTA's long-term engagement in Bangladesh and the efforts of its members to improve the working conditions in the country's Ready Made Garment (RMG) sector, FTA was invited to take part in a meeting at the European Parliament to exchange views on the progress made by the country and to assess the implementation of the [Sustainability Compact](#).

FTA at the WTO Public Forum: Trade Rules Have to Keep Pace with Business Developments (2 October 2015)

On 2 October 2015, during the [WTO Public Forum](#) in Geneva, FTA and EuroCommerce jointly organised the panel “Continuing the success story: Which trade policy to make global value chains work?” The well-attended session gathered around 80 participants to explore the kind of political framework needed to maximise trading opportunities.

European Trade News

Trilateral Talks on EU-Ukraine Trade Area (7 - 8 July 2015)

EU, Russian and Ukrainian experts met in Brussels to discuss concerns by Russia on the EU-Ukraine Association Agreement/Free Trade Area – provisionally applicable as from 1 January 2016. Issues regarding technical regulations, sanitary and phytosanitary (SPS) issues and customs cooperation were discussed with some progress being made on proposals put by the EU. Further work will continue with a view to more progress and a ministerial meeting in early September.

WTO Information Technology Agreement Extended (24 July 2015)

WTO members agreed to remove customs duties on 201 high-tech products (such as medical equipment, video games and consoles, Blu-ray/DVR players, semi-conductors and GPS devices) covering €1 trillion of global trade and almost 90% of such products.

WTO Members Approve Terms for Kazakhstan’s Accession (27 July 2015)

After 20 years of negotiations, the WTO General Council approved the terms of accession for Kazakhstan. The 162nd member will apply WTO provisions without a transitional period except for the agreement on Trade Related Investment Measures (TRIMS).

Ukraine Insists Free Trade Agreement Will Enter into Force on 1 January 2016 (7 September 2015)

At a meeting on 7 September 2015, EU trade Commissioner Cecilia Malmström and ministers from Ukraine and Russia discussed provisions and practical details for the coming into force of the EU-Ukraine Free Trade Agreement (FTA) which is planned for 1 January 2016.

REACH Ruling to Increase Burden on Retail Sector

On 10 September, the European Court of Justice (ECJ) ruled that the concentration threshold of Substances of Very High Concern (SVHC) in complex products must be calculated at the component level, rather than at the final stage and applied to the finished product as a whole – as is the case at present.

Commission Strategy ‘Trade for All’ Sets Ambitious Targets: Many Reflecting FTA’s Wish List

On 14 October 2015, EU Trade Commissioner Malmström presented her [new trade strategy](#) which will serve as a compass for European trade policy until the end of the current 2014 - 2019 policy term. The document, entitled ‘Trade for All’ is notably proposing an effective trade policy tackling today’s business realities, a more transparent pattern of decision-making, the promotion of sustainability values, and an offensive negotiation programme.

Upcoming Events

- [French Regional Conference](#) (13 November 2015, Brussels)
- [C5 Customs Compliance Forum](#) (17 - 18 November 2015, Brussels)
- [FTA Round Table: Creating Transparency in the EU's Anti-Dumping System](#) (24 November 2015, Brussels) (Save the Date)
- [BSCI Annual Conference 2015: "The Power of Collaboration"](#) (26 November 2015, Brussels)
- FTA Board (FTA members only) (3 December 2015, Brussels)
- [WTO Ministerial Conference](#) (15 December 2015, Nairobi)

Contact

To share your feedback, contact info@fta-intl.org

The Foreign Trade Association (FTA) is the leading business association of European and international commerce that promotes the values of free trade and sustainable supply chains. FTA represents over 1,500 retailers, importers and brand manufacturers to promote and defend free trade and supports their international business by providing information and practical solutions towards sustainability in the international supply chain.

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