

## **Access of Vietnam's Agro-Forestry Products to EU and US markets Status, Opportunities and Challenges**

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### **I. Overview**

Agro-Forestry products of Vietnam over the past 10 years have achieved positive progress in exports, with average increase from 18 – 25%. Statistics of 2007 showed an export turnover of US\$8,650 m.

Some major export products are Wood furniture (US\$2,350m), Rubber (US\$1,425m) Coffee (US\$1,720m) and tea (US\$129m. Agro products to the US reached US\$600m (Coffee, Rubber, cashew.). Since 2000 large increases in export value included coffee, rubber and especially wood furniture with 11 times higher than that of the year 2000 (US\$219m).

Wood furniture to US, in particular, accounted for over 50% of the total export turnover of wood furniture exports. Fruit and vegetables to EU accounted for 25% and to China is around 56%.

Above is the background for our study to focus on two main markets: US and EU.

Besides positive export figures, there are some outstanding issues that need to be considered:

- Export turnover of fruit and vegetables increased from US\$56.1m to US\$305m USD during 1995-2001 and from then on has been relatively constraint at US\$305-350m.
- Some Agro-forestry products have declined significantly, for example the “bee” industry. In 2002, Vietnam ranked second in the world for export of honey. This declined to number 6<sup>th</sup> and then 7<sup>th</sup> in 2007 with 14,000 tons of export volume (value of around US\$25m), a decrease of 2,000 to 3,000 tons compared to the previous years. Recently the EU temporarily stopped imports of honey from Vietnam as the product failed to meet hygiene and food safety requirements. Cashews have faced serious difficulties with the price of raw materials for cashew increasing, poor processing facilities, lack of labour, high price of output products, and low profit. Contracts undelivered from previous years have been over 3000 containers (52,500 tons, May 2008).
- Main causes for slow growth or decline of some products are poor facilities, warehouse storage and professional transport, and un-hygienic conditions.
- Even dragon fruit, the major export fruit of Binh Thuan, many export companies have still do not fully understand the standards and requirements for hygiene and safety as well as quarantine requirements. Management bodies have not yet been equipped with facilities and man-power to manage this issue (in the whole region, there's only one Thanh Long Ham Minh Co-operative is granted with EU standard certificate for one small area).

Is it right that Vietnam still lacks some Centers for Marketing and Trading of agro-forestry products? Competitiveness of some export enterprises is still low?

Export of wood furniture has grown quickly but then faced with threats of being sued by US companies for dumping (85% of wood material is imported for processing). Some environmental organizations from Britain and Indonesia criticized some Vietnamese enterprises for purchasing logs from illegal logging activities.

The above situation urges us to carefully evaluate the actual status of export of agro-forestry products and clarify the opportunities and challenges. More attention should be paid to special markets like EU and US in order to establish competitive solutions and ensure sustainable export.

## **II. Outlines about EU and US markets**

### ***1. EU Market***

This is a big market including 25 members (May 2004) with total population of 450 million and a GDP which is bigger than US or Japan. EU is the biggest trading region in the world, accounting for nearly 50% of export and import volume in the world, importing US\$13.6b of fruit and vegetables in the year 2003.

The most typical features of this market are:

- a. A diversified and difficult market, requiring many different way for access.
- b. Fierce competition, thus goods need to have high quality and attractive packaging.
- c. Attention is paid to health, safety and environment.
- d. Goods, once entering one member's market, will be circulated in the whole EU by EURO currency.
- e. To apply the GSP system (Generalized systems of Preferences) in order to support export from developing countries or under-developed countries, an import tax rate of 0% is applied to agro-forestry products. Wood furniture with an Environmentally Friendly Certificate receives a reduction of 15-35% of import tax rate.
- f. Major fruit and vegetables imported by EU include: Banana, apple, grapes, and fresh vegetables. These products are imported directly to Netherlands, France and Belgium, then preserved and circulated to other EU countries through EU distributors.  
Calculation of import tax is based on reference prices: import price which is higher or lower than that of reference will be considered for applying different tax rates.
- g. Additionally, EU applied CAP (Common Authentication Policy) for all fresh products (quality, packing, and brand). If products meet all three criteria a CAP certificate will be granted and the product is allowed to enter the EU.
- h. Concerning hygiene and safety, it is required to comply with minimal chemical residues (pesticide, veterinary medicine.) in order to enter the EU market.
- i. Concerning SPS Agreement (Sanitary and Phytosanitary Measures Agreement): main content of SPS is to set up basic rules to hygiene and safety of animals and plants , to be tailored for each nation and agreed with SPS International under WTO framework. This agreement took effective from 1/1/1995.

## 2. *US Market*

USA is huge market. Population is 288mil; GDP per capita is over US\$36,000. Annual import of Agro-forestry product reached over US\$70b (2007), in which fresh vegetables and fruits in 2003 was US\$8.19b and wood furniture was US\$15b (2004). The US has a big potential for agro-forestry products from Vietnam.

### a. *Features of US market*

- A diversified and abundant market.
- Care about quality more than brand
- Need to well understand US laws, especially the Trade law of each state for the business.
- Need to well understand about US-Vietnam bilateral Agreement.

### b. *US-Vietnam Bilateral Agreement*

This Agreement was signed on 14<sup>th</sup> July 2000 and took effective from December 2001. The agreement consists of 4 issues:

- Services
- Goods
- Intellectual property
- Investment relations.

Through this Agreement, export products from Vietnam to this market will enjoy MFN (Most Favoured Nation Treatment).

Tax imposed on Vietnamese goods will reduce from 40% to 0-5% (excluding those are levied with anti-dumping tax rates).

Because of this Agreement, Vietnam has quickly increased exports to US and received many new technologies (in 2007, US imports exceed exports by over US\$8b).

### c. *Commercial policy*

- Same as EU in applying GSP
- MFN
- Commercial policy on agro-forestry products based on “Agriculture adjustment” which allows US to apply import quotas to agro-forestry products if they hurt the internal programme and to control 12 essential agro products imported to US. Major US imports from Vietnam include pepper, “da tron” fish, canned cucumber, natural rubber, coffee, cashew.

### d. *Market channels and trading clues*

US companies import agro-forestry products under three forms:

- + Buy raw materials (coffee, tea, pepper) then process, package and consume.
- + Act as intermediary to import processed food through large distribution groups.
- + Establish subsidiary companies in Vietnam and other countries, buy material, process and then export to US.

### e. *Some ways to penetrate to agro-forestry market of US:*

E1: Organize channels, set up brands and trademarks to export with consumption through some branches in US

Requirements: Companies should have reputation -> Need time to advertise and market -> should understand US laws and regulations, otherwise will suffer failure.

E2: Use names of US companies to process products, then pack in containers and export to US.

E3: Deliver goods to specifically for Vietnamese American population (over 1 mil), then develop and serve for American and Asia-origin persons through supermarkets of Vietnamese American. This is the most effective way.

### **III. Challenges and Opportunities for Vietnam's agro-forestry products to EU and US markets.**

#### ***1. Opportunities:***

- a. Potentials for Vietnam's agro-forestry to EU and US are high, even for wood furniture.
- b. European and US companies are moving to Vietnam to invest after Vietnam entries WTO because Vietnamese market is considered to have stable political environment with high growth rate. In the near future, US may become the number one investor in Vietnam.
- c. Vietnam's agro-forestry products have a high portion of tropical products (peppers, coffee, and dragon food) and will therefore establish a high position in temperate countries. They account for 0.2% of EU's import market share and 0.5% of US.
- d. Vietnam has an abundant labour force to produce agro-forestry products, with a low labour cost.
- e. Export enterprises of Vietnam have gained much experience from successes and failures in export during the last years. Many specialized and scientific bodies in Institutes, Universities have made big efforts to help enterprises in creating valuable seedlings and varieties. For example, pepper productivity of some households in Vietnam is the highest in the world (15 tons per ha). Preservation, processing and packaging of agro-forestry products have made progress with higher quality, helping enterprises to compete in regional and international markets.
- f. The Vietnamese Government will have special prioritized investment policy for agro-forestry sector to ensure these products increase in both quality and quantity aspects.

#### ***2. Challenges***

- a. Vietnamese agro-forestry products are not well diversified and quality is still low. Many Vietnamese companies compete amongst themselves to sell and buy, and competitiveness is low. Vietnam's fruit and vegetables like tomato, pineapple, banana, have lower productivity and high prices. Some fruits like longan and durian have lower quality than those from Thailand.
- b. The production regions for agro-forestry products are not concentrated. Many materials and additives for processing are imported. Quality of seedlings and varieties are not uniform of as high as other countries.

- c. Establishment of ISOs, brand, trademarks and packaging has been slowly and unevenly implemented. Advertisements to access the market have been restricted. Lack of market forecasts has caused losses from exports (cashew).
- d. Post-harvest technology: Preservation and processing of agro-forestry products are not well advanced. Factory location is often where raw material is short and vice versa. Lack of specialized transport vehicles concern farmers because mature fruits are not be able to be transported to the buyers. Losses through decayed products after harvest have accounted for over 20%.
- e. Hygiene and safety for food, fruits and vegetables have not been ensured, particularly contents of SPS and MRLS are not fully complied with by the export enterprises.  
EU refused to import Vietnamese honey for many reasons: false products, beekeeper mixed honey with sugar, medicine residue over the allowed level. This is a lesson which needs to learned by the whole agro-forestry export sector.
- f. Organization of distribution and export: the value chain of the products has been blocked somewhere. Agro-forestry export enterprises have not worked closely with farmers in production planting zones.  
Linkage from seedlings, input of services, production, and agro-forestry extension are not close and consistent. Network of harvesting, preservation, transport, keeping in the warehouse have not been smoothly run.  
Market approach and marketing are scattered which hinders the potential of the market.

#### **IV. Solutions and Recommendations**

With these above opportunities and challenges, we would like to propose some solutions and recommendations as follows:

##### ***1. Negotiation with US***

The Government should negotiate early with the US to reach the following agreements:

- a) US should early recognize Vietnam as a market economy in order for Vietnamese goods to be equally treated under US laws.
- b) US should apply GSP (generalized systems of preferences) to Vietnamese goods.
- c) Bilateral co-operation between customs of US and Vietnam will help Vietnam's customs to clear import and export goods to US early and enable easy penetration of Vietnam's goods to other markets.
- d) Two countries should early sign the Bilateral Investment Treatment to help US to become the first investor in Vietnam.

##### ***2. Establishment of regulations to fight against permanent barriers to EU and US***

These regulations include:

- a) Technical standards for exporting goods (quality, brand, packaging).
- b) Food hygiene and safety through applying SPS Treatment and Residue Control (MRLs).
- c) Through SPS and MRLs, "export control" (compulsory and voluntarily) should be applied to ensure quality and prestige of Vietnamese goods.

- d) Establishment of solutions to respond to anti-dumping cases and subsidy (diversifying market, master the commercial laws, be careful with customers).

**3. Set up sustainable relations among producers, processors and exporters).**

- a) Through the value chain, to create linkages to share profits between farmers and exporters with support from scientists and Institutes.

**4. Develop specialized and interposed material zones**

- a) Depending on agro-forestry items to focus on investment and establishment of specialized and interposed material zones, from studying to get good seedlings, materials and production process in order to have agro-forestry products matching the quality and productivity of other countries like Thailand, China, Singapore (scale of material zones should be at small and medium size).

**5. Enhance competitiveness of agro-forestry export enterprises**

- a) Agro-forestry export enterprises should quickly enhance competitiveness of leading experts, engineers and technical workers in order to produce high-quality products. They should understand the commercial laws and commitment of Vietnam about taxes after joining WTO.
- b) Should understand Agreements, GPS, CAP, MRLs, MFN., Functional bodies and international organizations, NGOs should help them to understand these papers through training, seminars and workshops.
- c) Enterprises should establish brand, ISO, open website, and use commercial trade.etc.
- d) Associations and sectors should co-operate with VCCI to open trading center, exhibitions, auction of agro-forestry products. VCCI should care for enterprises in all three regions of the country to approach international markets.
- e) It is necessary to early assign and complement commercial representatives of the sector to support enterprises in major export markets.
- f) Market forecast and information about product categories, quality and prices should be considered as the pioneer in export in order to get sustainable growth.

**Conclusion**

Agro-forestry products of Vietnam are diversified, plentiful and tropical. So far, Vietnam has been a country with good food security and stable political conditions. Nature has endeared Vietnam regions for developing material for agro-forestry products.

Agro-forestry export products of Vietnam have accounted for only 20-30% those produced domestically. Besides, we have around 12 mil ha forest but exploration of forest specialities has been low.

It is hoped that once we clearly recognize opportunities and challenges and well understand features of each market and competitors, we will have right solutions. Agro-forestry export will position firmly in international market.

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