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[Domains vital to brand protection](#)

IN THIS ISSUE

[Highlights](#)

Facts and figures: Free Trade Agreement between EU and Vietnam **12**

[Economy](#)

[Signs of heightened Japanese M&A activity](#)

2

[Banking & Finance](#)

Concerns about rapid credit growth

3

SBV warns of rise in card fraud

5

[Investment](#)

Office-tel: “strange” investing trends

6

[Enterprises](#)

Toyota encourages children's
craftsmanship, innovation in Dream Car

7

Art contest

SSI plans unlimited ownership ratio for
foreign investors

8

[Market & Prices](#)

Retail goods increased sharply most in 4
years

9

MARD proposes sugar import quota

10

[Legal Updates](#)

To replace the list of Vietnam's exports
and imports and the Rules of
classification of goods

11

The new guidance on electronic tax
registration and tax declaration,
payment

11

Signs of heightened Japanese M&A activity

Despite being one of the most conservative foreign investors in Vietnam, Japan is currently emerging as a major partner through a series of mergers and acquisitions (M&A). M&A-focused consultancy RECOF Corporation said Japanese investors are increasing their presence in Vietnam's M&A market. A range of Japanese investors have bought stakes in projects such as Aeon, Daibiru, Hankyu Realty and the Nishi-Nippon Railroad.



Analysts from the Japan External Trade Organisation (JETRO) also noted that Vietnam had witnessed a surge in Japanese direct and indirect inflow into real estate in the past few years. Property has become a growing attraction among Japanese investors. Aside from the increased capital, the number of projects has also grown substantially. The trend of investment is changing as Japanese investors form partnerships with local developers or acquire domestic projects rather than developing on their own.

M&A cases from Japan have been mostly focused on Hanoi and Ho Chi Minh City. In the months and years ahead, there will be more medium and small sized companies from Japan participating in M&A activities in Vietnam. These future M&As would likely extend to other cities, such as Danang and Haiphong. Moreover, the focus will not be centred on retail and property as was previously the case, but would encompass other

sectors such as restaurants, consumer finance, tourism, electronic trading and logistics.

In 2014, according to a report published by Stoxplus, Japan still ranked sixth on the list of countries conducting M&As in Vietnam, while focusing mainly on the production of goods and services. Stoxplus also showed that there is a new wave of Japanese investment in other sectors such as construction, real estate, transportation and financial investment.

Vietnam has become an attractive destination for foreign investment through its stable policies and economic environment and especially through a range of revised legal barriers such as the laws on Enterprises, Investment, Housing and Real Estate Business. In the eyes of Japanese firms, Vietnam is the second leading M&A market in Southeast Asia, lagging just behind Thailand.

[vir]

Concerns about Rapid Credit Growth

As many as 18 commercial banks have been newly approved by the State Bank of Vietnam (SBV) to increase their credit by 36 percent this year. This news has raised a variety of opinions.

Rapid growth in some banks

Banks are expecting to loose credit because this is an opportunity to increase credits for enterprises who have more demands for credit at the end of the year. The banks were assigned to keep their credit low at the beginning of the year and many of them have given their full allowed credit. The credit retains a large share of total profits of the banks so it is clear that the adjustment of credit growth puts lower

pressure on business results at the end of the year.

All the banks are in race of keeping their customers, even in time of very low credit growth. But the bad debt is still a major obstacle to banks pouring capital into new investment projects because they do not dare to lower credit standards, which may cause increasing bad debts so the high quality customers are always more welcomed. The competition among commercial banks, particularly in retail banking and consumption loans segments, has increased. However, according to analysis of experts, the national income of Vietnam is low while the domestic market is not large so if the banks are in race of increasing

credit, the capital flows are likely to flow into the stock and real estate as in the past. General director of a commercial bank said that a credit growth might be a risk that may not happen immediately, but right after the end of the next few years, it will happen as it did in 2009.

After the credit growth is accelerated, the local banking system's bad debt exists and the banks take a lot of efforts and money for a risk management fund. According to the figures from the Supervision Office of the SBV, by the end of 2014, the credit system processed a total of VND311 trillion of bad debts, equivalent to 67 percent of the bad debt that has been determined by September, 2012. Thus, the bad debt is under control and the NPL ratio until the end of 2014 is VND145.2 trillion, equivalent to 3.25 percent of total loans. According to the statistics of the SBV, the bad debts are estimated at VND214.9 trillion, equivalent to 4.83 percent of total loans. The credit growth has been revised up by 36 percent in some cases; in theory, the rapid credit



growth certainly has risks as what happened in previous years. Lesson about the risks of the previous period is still there, but the hot growth with pressures of profitability may lead to ignorance of the banks.

Credit quality control

To open credit room for 18 banks and branches, including 12 domestic commercial banks, the SBV is applying credit for each unit. However, the different point is that most of 12 banks that are allowed to loose their credit growth have very small market share. The four largest banks that account for over 50 percent of the national credit market are not allowed loose their credit. Thus, despite

loosened credit, the increase of total loans of the whole system will not be too big. However, the credit growth will be a sign for tougher competition among banks to attract their customers, causing an obstacle to reduce interest rate and preventing the banks from reaching borrowing rates of 1-1.5 percent as targeted in this year. In recent time, the deposit rates have been pushed up.

In 2015, the SBV has set a targeted credit growth of 13-15 percent to support economic growth and the rate can be revised up by 17 percent. The governor of SBV stated that to limit the credit, the banks should not only aim at increasing the credit, but also

grow well services. Most recently, the SBV issued Directive 05/CT-NHNN on enhancing control of risks in the process of granting credit for projects of BOT and BT. This is one of solutions of the mangers to respond to the fact that there are more money poured into infrastructure projects with higher risks. Indeed, the credit line of the SBV has been targeted to a number of priority areas, but the credit quality is important if the banks do not want to leave a slide into bad debt and pay the hefty price of restructuring process as recently.

[Bao Chau]



SBV warns of rise in card fraud

According to the Ministry of Public Security's High-Tech Crime Control Police Department, international and local criminals are using sophisticated methods to hack into and steal money from credit cards. Since 2010 the department has discovered 1,400 crimes and arrested 978 people. Criminals hack into online shopping portals to steal information about credit cards and then use it to buy expensive items like computers and digital cameras. Foreign criminals, mostly from mainland China, Taiwan, Malaysia, and Africa, enter Viet Nam and use high-tech equipment to make fake credit cards, establish contact with some merchants to steal huge sums of up to several hundred billion dong (millions of dollars). It is exacerbated by merchants abetting these international and local criminals.

Early last month police in the central province of Khanh Hoa arrested Yang Qing, 43, an American national, for stealing money using fake credit cards. He went to a restaurant and used a fake credit card to carry out 42 transactions and steal

over VND1.5 billion (\$70,000) while the restaurant got a cut of over VND700 million (\$33,000) for abetting him. Also in July the Ha Noi police arrested Chinese national Zeng Xiao Tian and Dinh Van Chinh, director of Ninh Cat Limited Company, for setting up four companies and stealing money from many credit cards. The companies had carried out 333 transactions at Ocean Bank to steal over VND1.1 billion (\$45,000).

Another trick is for a group of individual customers to open accounts in various banks, get ATM cards and give them to accomplices to withdraw money, and complain to banks their money was stolen. Many banks, fearing for their reputation, agree to compensate them.

So, The State Bank of Viet Nam has warned all banks about the increasing credit card-related crimes and exhorted them to improve oversight and look out for suspicious transactions. It urged them to carefully check the financial capabilities and set a daily limit for merchants accepting their cards.

The central bank has also asked the Credit Cards Association to set up a system to provide information about incidents of card fraud for member banks and merchants. If banks tighten their supervision system, it is hard for criminals to steal money from credit cards. The best measure is for banks to carefully check if shops and companies do business and if their credit transactions are commensurate with their size. Card owners should also be more vigilant and ask merchants to swipe the credit cards in their presence.

Banking experts said, card holders should register with their banks for security, referring to services like SMS and internet banking. Money stolen using credit cards could be identified by the unusual times of day transactions carried out and amounts that were disproportionate with business size. For example, if a restaurant does a transaction of several hundred million dong for a party or at 2 a.m when it is already closed, the transaction should be verified.

[following VNS]

Office-tel: "strange" Investing Trends

With this model, Borrowers can use to stay fit by doing office work, or business or sublet. This is maybe an attractive opportunity for investors in the current real estate market and also become product which is difficult to ignore for small and medium-sized enterprises or start-up company, or representative offices of foreign companies.

"Hunting" office in the center city

Model office-tel (office and hotel) is very popular in developed countries like South Korea, Singapore, ... those are usually office-tel compact area of 30 - 50m2 as Studio apartments for single people, located in the central area (CBD) in big cities.

In Vietnam, the model office-tel is not common in the center of real estate projects by real estate investors are usually interested recently developed the office or rental luxury apartment. For example, in the city, the cost for renting the real estate in the downtown is often very high. A medium-sized companies and small will be very difficult to find office space to borrow in the modern building in the downtown of HCMC.

The owner of a small garment enterprises were worried not only about the cost of renting premises

in the city center are excessively high prices, but also other costs such as rent, electricity, water, sanitation, protection ... In addition, if borrowing at outside, address of the company is also very difficult for partners and customers to find. Therefore, many business owners are "hunting" Office-tel as an economic solution and more convenient for office problem. In Vietnam today, Office-tel is trading in the market, almost the projects of the Group Novaland, in a central location as Rivergate - District 4, a few hundred meters from Ben Thanh market or Orchard Garden - Phu Nhuan District, adjacent to the park and the adjacent Gia Dinh Tan Son Nhat airport. The Office-tel is launched by Novaland with many diverse area, from 25m2 - 50m2, with reasonable prices just 1 billion.

Price for rent from 10 million VND/ month

With the advantage of its central location, Office-tel has also being targeted of the investors because the potential rental by property type is very large. After Novaland leased 10 million VND/ month for 18 months for the project Office-tel at Orchard Garden.

It can be seen, the real estate investment channels has been active, appears more and more attractive

opportunities for customers and investors. However, to choose the type of profitable real estate investing is not easy if the investors are not alert.

[R&C Dept., following Cafef



Toyota encourages children's craftsmanship, innovation in Dream Car Art contest

The winners of the 2015 Dream Car Art contest, Toyota's flagship creativity contest for children, will be announced and awarded on August 26 in Japan.

According to the organiser, 93 pieces of best artwork in the final round will be showcased on the campaign site (www.dreamcar-collection.com) with a focus not just on pure artistry, but the actual essence of the idea behind the art.

New content will be uploaded everyday onto the site until August 25, including many inspiring artworks such as "Handicap-friendly Cleaning Car," "the Toyota Arctic Car" and much more. Some of the videos were actually created after the elements of the art were 3D printed. The printed artwork was then used to create a showcase video. The infographics, artwork and video content will be uploaded to the campaign's Instagram, Facebook and Twitter pages for sharing.

This year, the contest saw the participation of contestants from 81 countries. The first round of the contest was scheduled from September 2014 to March 2015. Sri Lanka and Thailand, each has the largest number of artworks (three) getting into the final round. Vietnam has one final contestant, whose artwork is set to be showcased on August 17. 30 world winners plus their parents or guardians will receive a trip to Japan to participate in an awards ceremony.

Toyota Motor Corporation has been hosting the Toyota Dream Car Art Contest since 2004. The initiative invites children under the age of 15 from all cultures to share ideas about the future of mobility by submitting drawings of their dream cars. In this contest, children can use any standard drawing medium they like such as colouring pencils, crayons, watercolours or markers. The contest encourages children to tap into their creativity and depicts their car ideas based on societal, environmental, political, local and global issues affecting their lives and submit it to Toyota.

[vir]



SSI plans unlimited ownership ratio for foreign investors

Saigon Securities Inc (SSI) is collecting opinions of shareholders on an unlimited ownership rate of foreign investors in the company. The deadline for shareholders' letters on the amendment of the company charter is September 7. SSI would then reach a conclusion on the opinions by September 18.

In an earlier report, SSI said it would issue 42.7 million shares, equal to VND427 billion (US\$19.5 million) to pay the remaining dividends of 2014 at the rate of 10 per cent to its shareholders. SSI's charter capital after issuance is expected to reach VND4.7 trillion (\$215.2 million).

A government decree issued on June 26 this year allowed companies in non-conditional business

fields to make independent decisions about the foreign ownership rate in their companies. This takes effect in September. So, perhaps the unlimited room for foreign investors would enhance the company's independence and supervision via a diverse group of shareholders.

The DWS Vietnam Fund Limited, a closed-end fund incorporated in the Cayman Islands with a target of seeking long-term capital appreciation of its assets, has increased its exposure to broker stock SSI. The Fund, which invests in securities such as equity and debt instruments of entities that do some or all of their business in Viet Nam, said in a recent report that the new foreign ownership limit had positive potential for the stock.

[vir]



Retail goods increased sharply most in 4 years

Total retail sales for goods and services of consumers are the most crucial part of final consumption (over 90%), the final consumption is occupying the largest proportion (over 70%) of GDP. Therefore, the total retail sales is one of motivation of production and is a precondition for improving the living standards of consumers.

Statistical indicators show that the growth rate of total retail sales in the first seven months, 2015 compared with the same period last year with seven notable highlights as following:

Firstly, the growth rate was high again. If excluding the average consumer price increasing (up 0.86%), the total retail sales of the first 7 months of this year rose nearly 9%, as compared to an average growth rate of the same period in 4 years before.

Second, the higher up the momentum of the total retail sales in the first 7 months, plus the impact factor in the nearly future are positive signs for the growth rate of total retail sales (after price) to exceed 9.5%, more than half the average annual growth rate in the period 2011-2014, in whole year.

Third, the ratio between the growth rate of total retail

sales/growth of GDP has been growing over the years (from 0.74 times in 2011, 0.82 times to 1.05 times in 2012 and in 2014- 2013 2011-2014 average of 0.91 times to 1.5 times in the first 7 months of 2015).

Fourth, according to the type of economy, there was notable economic conversion. Total retail sales of non-state sector have occupied the largest ratio in total of retail sales (85.6%) and increased significantly. The public sector accounted for 11.1% of total retail sales and the highest increase (14.1%). Regional foreign investment, though it was still low proportion of total retail sales (3.3%), but has good speed and tend to continue rising over the next time, when Vietnam got the new generation of the free trade agreement FTA.

Fifth, according to the trade structure, service has certain economic conversion. Retail sector of Goods (commercial pure) decided the general rate as the highest increase (10.6%) and the highest proportion of total retail sales (75.9%). Sector of Lodging, meals outside... has had a proportion higher before (11.7%), but still increased lowly (7.2%).

Other services have had a better proportion (11.5%) and increased with high-speed (9.8%), due to middle incomes parts who have greater solvency has increased in residential, not just "eat" but also "play", with some "game" than "eat". This is the general trend of countries which has transition from low-income countries to higher income countries.

Sixth, total retail sales increased by increasing of a total final consumption and the proportion of consumers through market purchases. Growth rate of final consumption first 6 months of 2015 to 8.7%, contributing 7.74 percentage points to the growth in GDP, accounting for 77.5% of total accrued and end consumers. With the growth of total final consumption is much higher than the GDP growth rate, the proportion of consumers through market purchases on the rise.

Seventh, the increase of total retail sales has an impact on three sides. On one hand, contribute to improve the living standard of consumers. On the other hand, contribute to the reduction of products, goods

inventory, increased consumption and production growth, economic growth. Others is increasing the market characteristics of consumers, the actors in the market, and the overall economy. While total retail sales increased again, but due to the

scale consumers are in the process of developing from small to large, so total demand still remains weak. Total demand was weak negative impacted on production, business. 'Cause why in the first 6 months of this year, CPI increased low.

Therefore, in addition to promoting investment, increasing exports, it should increase income to increase liquidity for domestic consumption for total demand, contribute to the objective of restoring economic growth...

[R&C Dept, following CafeF]

MARD proposes sugar import quota

The Ministry of Agriculture and Rural Development (MARD) has proposed to the Ministry of Industry and Trade that while allocating sugar import quotas, priority should be accorded to factories which imported raw sugar for refining amid an anticipated excess supply. The import quota partition assigned to local sugar firms are set to begin this month since the sugarcane harvest season has ended.

This year, Viet Nam has to import 81,000 tonnes of sugar following its commitment made to the World Trade Organisation, plus a 50,000 tonne import commitment to Laos. Because Viet Nam can import raw sugar and refined sugar to fulfil the quotas, MARD said the import of raw sugar for refining would lead to creation of jobs locally besides helping struggling domestic refineries to become viable, and operate at full capacity.

The agriculture ministry said raw sugar import for refining would also help monitor and control sugar supply and therefore lead to stabilisation of domestic sugar prices. Prioritising raw sugar and refinery production is also possible now as domestic refineries are able to meet the requirements, both in

terms of quality and quantity, of factories that consume sugar.

As of mid-June, all 41 domestic sugar plants had ceased production, recording a total output of nearly 1.417 million tonnes, a yearly drop of 173,490 tonnes. Combined with the import quotas and a stockpile of 200,000 tonnes from the previous crop, the total sugar supply in the domestic market this year was estimated to be 1.751 million tonnes while domestic demand was estimated at 1.5 million tonnes, leaving with an excess supply of 251,000 tonnes.

In the first half of this year, sugar sales reached more than 1.025 million tonnes, mostly for domestic consumption. The MARD also urged for a clamp down on rampant sugar smuggling, which continues unabated in provinces bordering Laos and Cambodia. The domestic sugar industry has been in difficulty during recent years due to massive inventories, plunging prices and the headache of smuggling, urging the industry to enhance competitiveness to survive and develop the sector amid rapid integration.

[VNS]

To replace the List of Vietnam's exports and imports and the Rules of classification of goods

Circular No. 103/2015/TT-BTC dated July 17, 2015 of the Ministry of Finance on promulgating list of Vietnam's exports and imports

- Appendix I: List of Vietnam's exports and imports;
- Appendix II: Six (6) general rules explaining the classification of goods according to the List of Vietnam's imports and exports based on the Harmonized Commodity Description and Coding System (HS) of World Customs Organization

The List of Vietnam's imports and exports shall be used as the basis for introducing export and import tariffs; compiling Lists of goods to serve the purpose of state management in accordance with Government regulations; preparing the statistical report of the State on exports and imports; serving the purpose of state management of product exportation, importation and other sectors.

Different from the provisions provided in Circular

This Circular is to replace the List of Vietnam's exports and imports applicable from August 15th, 2015, including these two Appendixes:

No. 156/2011/TT-BTC, the Six (06) general rules explaining the classification of goods issued together with this Circular are bilingual (Vietnamese – English) rather than Vietnamese only as previously. However, this Circular annuls Appendix III: Supplementary Explanatory Notes (SEN) of the ASEAN Harmonized Tariff Nomenclature (AHTN).

This Circular takes effect after 45 days of its signing To annul Circular No. 156/2011/TT-BTC dated November 14th, 2011; Decision No. 2914/QD-BTC dated November 14th, 2012.

The new guidance on electronic tax registration and tax declaration, payment

Circular No. 110/2015/TT-BTC dated July 28, 2015 of the Ministry of Finance on electronic tax transactions

This Circular provides the guidance on making tax-related administrative procedures by the method of electronic transaction, including: tax registration, tax declaration, tax payment, tax refund; except for electronic tax transactions for goods during export and import stage at customs authorities

Under the provisions of this Circular, if a taxpayer carries out the electronic tax registration, other transactions such as tax payment, tax refund must

be also carried out in the form of electronic transactions

However, this Circular allows the taxpayer registering various digital certificates for one or various tax-related administrative procedures; registering various banking accounts to carry out the electronic tax payment

This Circular takes effect from September 10th, 2015. To replace Circular No. 180/2010/TT-BTC dated October 10th, 2010 and Circular No. 35/2013/TT-BTC dated April 01st, 2013.

Facts and figures: Free Trade Agreement between EU and Vietnam

EU Trade Commissioner Cecilia **Malmström** and Vietnamese Minister of Industry and Trade Vu Huy **Hoang** agreed in principle on a comprehensive and ambitious trade and investment agreement. The final legal texts will have to be ironed out by negotiators after the summer break, but the substance of the deal has been agreed. This Free Trade Agreement (FTA), for which negotiations started in October 2012, is the most ambitious and comprehensive FTA that the EU has ever concluded with a developing country, the second in the ASEAN region after Singapore, and a further building block towards the EU's ultimate objective of an ambitious and comprehensive region-to-region EU-ASEAN FTA. This agreement will allow EU exporters and investors to access a fast-growing market of 90 million people and to consolidate their presence in one of the most dynamic regions in the world.

What the EU-Vietnam FTA is about

1 – Eliminating customs duties

The EU-Vietnam FTA will eliminate nearly all tariffs (over 99%), except for a small number of tariff lines for which the EU and Vietnam agreed on partial liberalisation through zero-duty Tariff Rate Quotas (TRQs):

- Vietnam will liberalise 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.

- EU duties will be eliminated over a 7-year period.

This is a far-reaching, fully symmetrical tariff elimination that has never before been achieved with a developing country, but with adequate transition periods to allow Vietnam to adapt.

A few concrete examples:

- Almost all EU exports of machinery and appliances will be fully liberalised at entry into force and the rest after 5 years.
- Motorcycles with engines larger than 150 cc will be liberalised after 7 years and cars after 10 years, except those with large engines (>3000cc for petrol, > 2500cc for diesel) which will be liberalised one year earlier.
- Car parts will be duty free after 7 years. Roughly half of EU pharmaceuticals exports will be duty free at entry into force and the rest after 7 years.
- The totality of EU textile fabric exports will be liberalised at entry into force.
- Close to 70% of EU chemicals export will be duty free at entry into force and the rest after 3, 5 and 7 years.

Vietnam will also open its market for most EU food

products, both primary and processed, allowing EU high quality exports to reach its growing middle class consumers.

- Wines and spirits will be liberalised after 7 years.
- Frozen pork meat will be duty free after 7 years, beef after 3 years, dairy products after a maximum of 5 years and food preparations after a maximum of 7 years.
- Chicken will be fully liberalised after 10 years.

The EU will also eliminate duties with longer staging periods (up to 7 years) for some sensitive products, especially in the textile apparel and footwear sectors.

The elimination of duties, however, will not be an open door for Chinese products to flood the EU market: to benefit from the preferential access, the strict rules of origin for garments will require the use of fabrics produced in Vietnam, with the only exception being of fabrics produced in South Korea, another FTA partner of the EU.

Only some sensitive agricultural products will not be fully liberalised, but the EU has offered access to Vietnamese exports via tariff rate quotas (TRQs): rice, sweet corn, garlic, mushrooms, sugar and high-sugar-containing products, manioc starch, surimi and canned tuna.

Besides eliminating tariffs, Vietnam will also remove almost all its export duties in its bilateral trade with the EU, and has agreed not to increase a few that will exceptionally remain in force.

2 – Reducing non-tariff barriers to European exports

The EU and Vietnam have agreed to strengthen the disciplines of the WTO Technical Barriers to Trade (TBT) agreement. In particular, Vietnam has committed to increasing the use of international standards in drafting its regulations. The agreement also contains a chapter addressing Sanitary and Phytosanitary measures (SPS), specifically aimed at facilitating trade in plant and animal products, where the parties agreed on some important principles such as regionalization and the recognition of the EU as a single entity. These provisions will facilitate access for EU companies producing a large variety of products, including electrical appliances, IT, and food and drinks to the Vietnamese market.

The agreement will also contain a specific annex with far-reaching provisions to address non-tariff barriers in the automotive sector, including, five years after its entry into force, the recognition of the EU vehicle whole certificate of conformity.

Also for the first time in an FTA, Vietnam accepted the marking of origin "**Made in EU**" for non-agricultural goods, with the exception of pharmaceuticals (which are still to a great extent subject to national approvals in the EU). Member State-specific markings of origin will continue to be accepted as well. This provision will allow manufacturers to reflect the increasing EU market integration.

All these provisions, together with others addressing,

for example, import and export licensing, customs procedures, trade in plant and animal products, will facilitate access of European goods to the Vietnamese market and boost their competitiveness vis-à-vis other suppliers.

3 - Protecting European Geographical Indications

Farmers and small businesses producing food with traditional methods will benefit from the recognition and protection on the Vietnamese market – at a comparable level to that of EU legislation – of **169 European food and drink products** from a specific geographical origin. This means that the use of Geographical indications (GIs) such as Champagne, Parmigiano Reggiano cheese, Rioja wine, Roquefort cheese or Scotch Whisky will be reserved in Vietnam for products imported from the European regions where they traditionally come from.

Vietnamese GIs too will be recognised as such in the EU, providing the adequate framework for further promoting imports of quality products such as Mộc Châu tea or Buôn Ma Thuột coffee.

The agreement will allow new GIs to be added in the future.

4 – Allowing EU companies to bid for Vietnamese public contracts

With this agreement EU companies will be able to bid for public contracts with:

- Vietnamese ministries, including for infrastructure such as roads and ports

- important state-owned enterprises such as the power distribution company and the nationwide railway operator
- 34 public hospitals
- the two biggest Vietnamese cities, Hanoi and Ho Chi Min City

The EU and Vietnam have also agreed on disciplines fully in line with Government Procurement Agreement (GPA) rules, achieving a degree of transparency and procedural fairness comparable to other EU FTAs with developed countries and more advanced developing countries. EU businesses will be the first foreign companies to get such a level of access to Vietnamese procurement markets.

5 – Creating a level playing field for EU companies and innovative products

With the disciplines agreed on **State Owned Enterprises** (SOEs) and subsidies, the EU-Vietnam FTA will level the playing field between SOEs and private enterprises when SOEs are engaged in commercial activities. There will also be rules on transparency and consultations on domestic subsidies. These are the most ambitious disciplines that Vietnam has ever agreed to.

On **Intellectual Property Rights**, Vietnam has committed to a high level of protection, going beyond the standards of WTO TRIPs agreement. With this agreement, EU innovations, artworks and brands will be better protected against being unlawfully copied, including through stronger enforcement provisions.

Among others, the EU pharmaceutical sector will benefit from improved data protection and of the possibility to get an extension of the patent up to two years if there are delays in the marketing authorization. In a specific annex on pharmaceutical products, the Parties have agreed to a set of other provisions facilitating trade in these products, which are of great importance in the EU-Vietnam trade (second export item, amounting to about 9% of total EU exports to Vietnam). Vietnam has also taken commitments concerning procurement of pharmaceutical products and has allowed foreign-invested companies to import and sell medicines to distributors and wholesalers within the country.

5 – Opening the Vietnamese market for EU services operators

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

- business services
- environmental services
- postal and courier services
- banking
- insurance
- maritime transport

It has also accepted a set of regulatory disciplines in key sectors such as financial services, telecommunications, maritime transport and postal services. The result of this chapter 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.

6 – Promoting and protecting investment

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

- food products and beverages
- fertilisers and nitrogen composites
- tyres and tubes
- gloves and plastic products
- ceramics
- construction materials

On machinery, Vietnam removed restrictions on the assembly of marine engines and agricultural machinery, domestic appliances and on bicycles. It also improved the commitments for recycling.

On investment protection, both sides have already achieved a lot, including an agreement on key provisions on protection such as National Treatment and understandings on the main substantive investment protection rules.

Provisions on investment protection and dispute settlement are still being negotiated in light of the new EU approach on investment dispute settlement.

8 – Establishing an efficient mechanism to resolve future disagreements

The FTA creates a framework to resolve any future disagreements that may occur between EU and

Vietnam about the interpretation and implementation of the agreement. It applies to most areas of the agreement and it is faster and more efficient in many aspects than the dispute settlement mechanism in the WTO. The system is intended as a last resort should the Parties fail to find a solution by other means. It proceeds along a fixed set of procedures and time-frames. Should Parties fail to reach an agreement through formal consultations, they can request the establishment of a panel, made up of independent legal experts.

As an alternative to a formal dispute settlement mechanism, the EU and Vietnam also set rules that will allow for mediation to tackle measures that adversely affect bilateral trade and investment. This can be used on a voluntary basis, and reflect the preference of the EU and Vietnam for the fast, amicable solution of potential disputes whenever possible.

9 – Safeguarding social and environmental protection standards

The EU and Vietnam have agreed on a robust and comprehensive chapter on trade and sustainable development, with an extensive list of commitments including:

- Commitment to the effective implementation by each Party of the ILO core labour standards, ratified ILO Conventions (not only the fundamental ones) and ratified Multilateral Environmental Agreements and

to ratification of not yet ratified fundamental ILO Conventions.

- Obligations not to derogate from and to effectively enforce domestic labour and environmental laws to attract trade and investment – in other words prohibition of social and environmental dumping.
- Promotion of Corporate Social Responsibility, including references to international instruments in this regard.
- A dedicated article on climate change and commitments to the conservation and sustainable management of biodiversity (including wildlife), forestry (including illegal logging), and fisheries.
- Mechanisms for the involvement of civil society in the implementation of the chapter, both by each side domestically (consultation of "domestic advisory groups") and by the EU and Vietnam jointly (meetings of a "joint forum"), and several provisions enhancing transparency and accountability

10 – Promoting democracy and respect for human rights

In the preamble of the FTA the Parties reaffirm their commitment to the Charter of the United Nations signed in San Francisco on 26 June 1945 and have regard to the principles articulated in The Universal Declaration of Human Rights adopted by the General Assembly of the United Nations on 10 December 1948.

CONTACTS

The FTA will also contain a legally binding link with the EU-Vietnam Partnership and Cooperation Agreement (PCA), signed in June 2012, which includes a human rights clause and provisions on cooperation on human rights. The PCA provides that human rights, democracy, and the rule of law are 'essential elements' in the overall relationship between the EU and Vietnam. Therefore, the link between the FTA and the PCA is important to ensure that human rights are also part of the trade relationship between the Parties. This would include the right to take appropriate measures, also in relation to the FTA (including its suspension), in case of major violations of these essential elements. The agreement also includes a chapter on cooperation, as a means to contribute to the efficient

implementation of the FTA. Boosting sustainable development in all its dimensions is a key objective for such cooperation, for which areas of particular importance include labour and environmental matters, trade facilitation, and SMEs. This chapter is placed under the existing EU-Vietnam Framework Cooperation Agreement (FCA).

Future cooperation will build on the successful experience of the EU flagship cooperation programme with Vietnam (MUTRAP), which aims at supporting Vietnam in facilitating sustainable international trade and investment through improved capacity for policy making, policy consultation, and the negotiation and implementation of related commitments, particularly as regards the EU.

[European Commission]



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