

SEIKO IDEAS CORPORATION

TransPacificPartnership

Opportunities for Vietnam – Japan Agriculture Cooperation

Research & Consulting Department

30/01/2015

[The paper highlights the influences of Trans-Pacific Partnership (TPP) in two countries' agriculture sectors as well as opportunities for cooperation between Vietnam and Japan in the field; and recommend a number of cooperation models that are believed to work.]

Table of Contents

Abbreviations	2
The TPP’s negotiations relating to agriculture	3
Market Access	3
US – Japan Negotiations a Bellwether	3
Vietnam in the TPP’s agriculture negotiations.....	4
The TPP and effects on Vietnamese agriculture.....	8
“Makeover” opportunities for Vietnamese agriculture	8
Threats	9
Opportunities for Vietnam – Japan agriculture cooperation.....	11
Possibilities for Vietnam – Japan agriculture cooperation	11
Options for cooperation model	12
Author Contact Information	14

Abbreviations

BSE	Bovine spongiform encephalopathy (mad cow disease)
FTA	Free Trade Agreement
GDP	Gross Domestic Product
TBT	Technical Barriers to Trade
TPP	Trans-Pacific Partnership Agreement
SPS	Sanitary and Phytosanitary Measures
WTO	World Trade Organization

The TPP’s negotiations relating to agriculture

Negotiating the terms of agricultural trade liberalization within the context of what trade negotiators have billed as a high-standard trade agreement for the 21st century continues to be central to efforts to fashion an overall TPP agreement. Within this process, bilateral negotiations between the United States and Japan that seek to come to terms on market access for a handful of key agricultural commodities that Japan considers to be sensitive and in need of continued import protection have emerged as a key sticking point. While other agricultural issues remain on the table (discussed below), the market access issues with Japan appear to be a crucial stepping stone for substantially concluding the agricultural dimension of an agreement which, in turn, could help to clear the pathway for moving the broader TPP negotiations toward an end point.

Market Access

US agriculture has both offensive and defensive interests in the TPP negotiations. Many in the US agriculture and the agribusiness/food manufacturing sectors view positively the prospect of market openings in the three most commercially significant countries with which the United States does not yet have an FTA (i.e., Japan, Malaysia, and Vietnam). On the defensive side of the ledger, the US sugar industry is opposed to providing additional access to the US sugar market, while the US dairy industry has both offensive and defensive interests.

In negotiating expanded market access, the TPP countries have engaged in a process where offers are exchanged with each other and then responded to with requests to improve the offer. To date, USTR has engaged in a separate offer/request process with each of the five countries that the United States does not yet have a bilateral FTA—Brunei, Japan, Malaysia, New Zealand, and Vietnam. This process has not yet occurred with Canada on products not fully liberalized under the Canada-US FTA. As concerns other countries with which the United States has an FTA, the US position is that it will not engage in talks to reopen any existing market access provision.

US – Japan Negotiations a Bellwether

Japan - currently the fourth largest market for US agricultural exports - is generally considered to be the most promising market within the TPP group for US agriculture. But realizing this potential is contingent upon Japan either dismantling, or substantially rolling back, the high tariffs and restrictive quotas that surround its most sensitive commodities. These measures protect Japanese producers of pork, beef, rice, wheat, barley, dairy products, and sugar by discouraging imports. Of these, beef, pork and dairy appear to rank as the top priorities for the market-opening efforts of US negotiators.

The offers that Japan has tabled with respect to relaxing access to its market for these sensitive commodities have not been made public. But numerous Members of Congress, and some commodity groups, have expressed

Gist of U.S. Department of Agriculture’s estimates for 2025 under TPP scenario
The value of agricultural trade among TPP members is projected to increase \$8.5 billion.
The value of U.S. agricultural exports to TPP partners is estimated to rise by \$2.8 billion, accounting for 33 percent of the total expansion in intraregional agricultural exports.
The value of Japan’s agricultural imports from its TPP partners is expected to be \$5.8 billion higher, accounting for 70 percent of the expansion in intraregional agricultural imports.
The percentage increase in the value of Japan’s imports will be largest for rice, sugar and animal offals. In absolute value terms, the increase will be greatest for beef, mutton, processed foods, feeds and poultry meat.
The increased trade in meats will be supplied by Australia, the United States, Canada and New Zealand. About three-quarters of the increase in meat exports is destined for Japan.
Agricultural output is estimated to decline in Japan and Vietnam. The largest decline in Japan’s farm production will be seen in dairy products, wheat and beef.

concern that Japan's offers of concession to date have fallen well short of what would be required, in terms of cutting tariff rates and removing other restrictions on imported products, to gain congressional support for an agreement.

On July 30, 2014, 140 Members of the House of Representatives signed a letter to President Obama expressing "deep concern over Japan's current market access offer" in the TPP negotiations. The letter characterizes Japan's effort to exempt numerous tariff lines from complete elimination as "objectionable," adding that it "falls far short of acceptability." It goes on to assert that if accepted Japan's offer could compromise the US negotiating position with future TPP members and undermine congressional support for any such agreement. Among the signatories to the letter were the respective Chairmen of the Ways and Means Committee, Representative Dave Camp, and of the Agriculture Committee, Representative Frank D. Lucas.

Similarly, in early September 2014 the National Pork Producers Council, along with trade organizations representing hog producers in Australia, Chile, and Mexico issued an open letter to TPP negotiators wherein they referenced Japanese restrictions on trade in pork and called for an agreement "in which full tariff elimination is achieved for virtually all products, including pork." The letter cites "Reports that Japan has made unacceptable tariff offers in each of the agricultural sectors it considers sensitive, including pork." It concludes that if Japan will not fully open these markets, then Japan should withdraw from the negotiations.

Japan's largest agricultural lobby, which exercises considerable political influence, has called on its government to reject efforts to open its sensitive agricultural commodities to any additional imports. Some close observers of Japanese politics have asserted that Prime Minister Shinzo Abe is not likely to make substantial concessions on these sensitive agricultural commodities until after important local and regional elections take place in April 2015 at the earliest.

The near-term prospects for the United States and Japan to come to terms over market access in agricultural trade appeared to be more uncertain than ever following two days of talks on Sept. 23-24, 2014 between USTR Michael Froman and Japan's chief TPP negotiator Akira Amari.

Upon conclusion of the talks, both sides cited a lack of progress toward resolving outstanding differences over trade in agricultural products. A further bilateral meeting between US and Japanese negotiators ending October 15, reportedly made progress, but negotiators highlighted the difficulty of the issues they continue to face.

Vietnam in the TPP's agriculture negotiations

In the TPP's negotiations of agriculture, Vietnam will make efforts to remain the list of products under WTO's protection. Under the TPP's scenario, some other contents relating to environment, food safety have their own mechanisms to boost members' cooperation.

Regarding SPS agreement, this is an important agreement, directly relating to the export and import of agricultural products, foods, forestry products and processed woods from Vietnam to other members' market.

As for the SPS chapter of the TPP agreement, 7 out of 9 countries have had their own drafts. Based on these drafts, Vietnam composed its final "consolidate text" table in order to harmonize interests.

From many aspects, the SPS chapter in the TPP has reached many advances compared with Vietnam's previous agreements. Even as for countries which Vietnam has FTAs with such as Australia and New Zealand, the SPS

chapter's commitments are more open with mechanisms for equivalence and mutual recognition, mechanisms to recognize disease-free zones in order to promote trade among countries. The parties have developed mechanisms for the implementation of SPS based on the risk principle.

Category	Negotiation Contents / Viewpoints	Effects on Vietnam
1 Market open	<p>Countries tend to protect their own agricultural products, limiting as much as possible the tariff cut or stretching the process of tariff cut) and ask partners to open market</p>	<p>Cut-throat competition in local market.</p> <p>TPP include partners which have big advantages in agricultural exports in the world (such as Hong Kong, Australia, New Zealand). These countries possess strong competitive competence and high agricultural subsidies.</p> <p>Meanwhile, Vietnam's competitive competence and agricultural production scale are critically small compared to partners.</p>
2 Foreign market access	<p>Barriers to agricultural product exports</p> <ul style="list-style-type: none"> ➤ SPS <p>Negotiation contents do not mention limiting import nations' rights to issue SPS standards.</p> <ul style="list-style-type: none"> ➤ Trade remedies (anti-dumping, countervailing, safeguard measures) <p>Negotiations do not intervene into conditions and inspections of import nations.</p>	<p>Barriers to agricultural product exports</p> <ul style="list-style-type: none"> ➤ SPS <p>SPS measures can stop Vietnamese agricultural product exports.</p> <ul style="list-style-type: none"> ➤ Trade remedies (anti-dumping, countervailing, safeguard measures) <p>Additional tariff with punishment purposes may make Vietnam lose competitive competence on export market.</p>
3 Production expenses	<ul style="list-style-type: none"> ➤ Expenses for agrochemicals <p>The US required to increase protection level and time of patents relating to pesticides, veterinary drugs, fertilizers and other agricultural chemicals.</p> <ul style="list-style-type: none"> ➤ Geographic Indications <p>The US required to protect geographic indications as trade labels in which possessing rights belong to whom registers at first.</p>	<ul style="list-style-type: none"> ➤ Expenses for agrochemicals <p>The higher the protection level is, the more expensive the copyright fees are. As a result, these products' prices will dramatically rise.</p> <ul style="list-style-type: none"> ➤ Geographic Indications <p>If farmers do not pay attention to registration, they will have to pay to use geographic indications for their own local specialties.</p>

Vietnam's new Law on Food Safety has now changed to control food safety not through the final phase because it is believed that the product quality doesn't depend on the testing phase but on the whole process including raw materials, fertilizers, harvesting, etc.

In this agreement, all risks in the production process are under control and measureable, even in export. Enterprises are capable of proving that their production processes are safe and they don't need certificates. This content is also included in the SPS chapter. As a result, enterprises' expenses will reduce much as currently, all of Vietnamese enterprises which export aquatic and agricultural products must have certificates such as phytosanitary certificate, food safety certificate, etc. These kinds of certificates do take time and expenses. That's why the changes in

mechanisms for food safety control and management will be relevant and help to reduce disadvantages for enterprises.

One of the important issues is to establish cooperation mechanism and a committee. SPS will also have its own committee, named "SPS Committee". The committee is responsible for monitoring the implementation of SPS conditions and considering trade issues relating to SPS that arise among countries. Until now, a mechanism that hasn't been approved by the US was to set up a technical committee. The US promised to consider this issue in the next session. If approved, this mechanism will bring Vietnam some benefits. When dealing problems in export, especially export to the US, countries can propose to set up a technical committee and solve more quickly through this committee than now.

For example, regarding bee, the US said that they had scientific proof to prove that there's residue of prohibited substance meanwhile it's not regulated in the Vietnamese laws. Therefore, it's very difficult to apply non-international measures in such cases.

Regarding mutual recognition, negotiations are on their ways with concern about developing countries' aspects. Vietnam proposed some contents, asking for support from the US, Australia and New Zealand to expand the market.

For example, when Vietnam wants to expand the export market of a product to the US meanwhile the US's technical barriers are too high for Vietnam to meet, what does Vietnam need to do to strengthen labor capacity, equipment and testing? Vietnam can compose a plan, submit to the Committee and then ask the US as well as other countries to support Vietnam to expand the market.

Above were some main contents in the negotiations. The most important point is about mutual recognition in the SPS agreement. However, in fact, countries don't want to accept mutual recognition because as regulated in the SPS agreement, when a SPS measure of an export country assure safety and protect the suitability of an import country, the import country must regard as equivalence in spite of different measures.

For example, in Vietnam and India, cow milk is squeezed by hands. If the squeezing process can ensure sanitary requirements and risky factors infecting micro-organisms in milk, this method is considered to be equivalent to the US's method to squeeze cow milk by machine. In case Vietnam needs to upgrade, Vietnam can build up the process and can ask for the US's technical support to improve such technical processes.

Importantly, these contents must be raised by firms, not by the Government agencies. For instance, recently, Vietnam imported 1,500 live cows from Australia. However, Vietnam's conditions for slaughter can't meet those of Australia because Vietnam uses hammer meanwhile the method in Australia is electric shock. That's why Vietnam's regarded as animal rights violations. Australia, then, sent a delegation to Vietnam with the purpose of strengthening firms' capacities in slaughter, ensuring animal rights and not hurting them the slaughter process. It's one of the contents that firms need to propose directly to the Government agencies, contributing to ensure the SPS's requirements of the import market.

Another important point is to recognize disease-free zone. This point, if approved, will bring Vietnam as well as other developed countries a lot of advantages. Vietnam has diversified climates and as a result, epidemics are also very varied. When an exported Vietnamese product is defined to be derived from an epidemic zone in Vietnam, similar

products from other areas in Vietnam will also be prohibited. This measure can be applied in the emergency case, which means that countries can make judgments immediately but can re-consider and change them later if Vietnam can prove that only products from a specific area are infected and ones from other areas are safe for export.

Another example was the US's BSE epidemic, also known as mad cow disease. In fact, there were only a few infected cows but the US made the statements to other countries even before their official inspection and assessments. As a result, other countries declared to stop importing beef from the US. However, after that, the US made another statement that this case only happened in a farm and the reason was that cows were too old and suffering from a brain tumor. Finally, beef from the US's other areas was still able to export.

The issue of mutual recognition used to be dismissed by countries, especially Japan, Australia and Japan when Vietnam proposed it before in other FTAs' negotiations.

The TPP and effects on Vietnamese agriculture

“Makeover” opportunities for Vietnamese agriculture

One of the most important issues in the processing of entering TPP is to prepare infrastructure, technology and management capability in agriculture.

Turnover in Vietnam – US trade relation grew rapidly over the past decade, rising from \$2.0 billion to \$26 billion in 2012. Also in that year, two-way agricultural trade between the US and 10 other TPP countries hit \$94 billion, accounting for 39% of the total export of the US agriculture to the world.

Among these, the US’s agricultural export to 10 TPP countries reached over \$45 billion, equivalent to 32% of the total US’s export worldwide. Besides, the TPP partners are also important supplies of agricultural products imported to the US. The export turnover of these 10 countries accounted for 47% of the US imports.

One of the most important issues in the processing of entering TPP is to prepare infrastructure, technology and management capability in agriculture. Besides, cut-throat competition when joining TPP also forces Vietnam to have positive changes in order for Vietnamese agricultural products to exist. Those improvements derive from supply phase, including improving manufacturing methods, technology, preservation, quality enhancement and export phase, including promotion methods, quality assurance methods, new product developments, etc.

Thus, taking part in a “game” with high-quality players such as TPP with the US, Japan, RoK will be a big opportunity for Vietnam to improve agriculture. Simultaneously, Vietnamese agricultural products also have chance to access high-quality market segment of the world market, helping Vietnamese agriculture get rid of the image of “cheap agriculture”.

In addition, that Japan prepares to join TPP is also a good news for Vietnam. “That Japan enter TPP and boost agricultural investment in the Mekong Delta is a great opportunity that Vietnam must catch so that the agriculture sector can absorb a big amount of capital, technology and expand the market”, said PhD Le Dang Doanh.

According to PhD Le Dang Doanh’s analysis, once entering TPP, Japan must open their agriculture sector. As a result, Japanese agricultural products will have to compete in prices with other countries’ agricultural products. Therefore, Japan arrives to a decision to boost investment into Vietnamese agriculture as Vietnam is a member of TPP with big potential in this sector. When exporting to Japan, the tax rate will be 0%. At the same time, this can meet the condition that export products must have 70% of the intra-TPP.

The reason why Doanh emphasized the agriculture sector was that after years of rapid development, the agriculture sector, the mainstay of the Vietnamese economy, was coping with difficulties with growth rate at 2.6%.

This means precarious livings for farmers, excess production, decline in direct investment into agriculture and unuseful agricultural credit. A number of farmers who earned their living by cattle breeding went bankrupt recently.

On the other hand, currently farmers in 22 out of 63 nationwide provinces abandon farming. The main reason is too low income from agriculture, even below VND50,000 per day.

Meanwhile, China made statements that their manufacturing can’t meet local food supplies, thus they rented land in Ukraine, Australia, Africa, etc and took their famers there for farming, then transferred back to their country.

Therefore, if Vietnam do not catch the opportunity to restructure the agriculture sector, it's highly possible that China will come to Vietnam, renting land and taking their farmers to Vietnam. In that case, the national agriculture sector is considered to be in danger. It's also valuable to note that in 2015, Vietnam have to implement the process to cut 90 tariffs under ASEAN – China Free Trade Agreement.

Threats

Generally, the TPP brings its members a big opportunity to deeply integrate into the world's economy and enhance the competitive competence of the local enterprises; increase exports as well as improve GDP.

However, the TPP also put countries into threats. Tariff cuts will lead to the quick increase of import from TPP countries into Vietnam.

As a result, enterprises have to cope with intense competition. Vietnamese products' market share will be dwindles, even lost. This threat is especially dangerous for agricultural products which engage farmers, the vulnerable in integration.

Agricultural products on the local market

Vietnam have to open its market, which means that 100% tariffs of agricultural products imported will be cut meanwhile technical barriers are too low. This is disadvantage of Vietnamese agricultural products on the local market.

As for Vietnam, a country with big agriculture sector, the need to ask other countries to open their market is urgent. However, the problem is almost TPP countries tend to keep their protections of their local agricultural products.

TBT and SPS issues are very important to Vietnamese agricultural products' competence to access foreign markets. The reason is that although import tariffs are cut, TBT and SPS barriers are still obstacles for Vietnam to export these products.

Agricultural products on the export market

The current TPP negotiations relating to this issue almost didn't solve Vietnam's concerns as negotiations do not mention limiting the import countries' rights to issue new SPS, TBT standards. In fact, negotiation is mostly about how to handle complaints, not about inspection conditions.

Also regarding agricultural products, but from the production aspect, some commitments in the TPP seem to be extraneous. But without drastic negotiations, these can directly affect production and prospects of the agriculture sectors.

For example, in the Draft of the Labor Chapter, if the term of blocking and returning all exports with child labor taking part in manufacturing processes at the border is not eliminated, Vietnamese craft villages which their products are made in the scale of families with child labor taking part in manufacturing processes will be the first group to suffer.

Besides, stamina and adaptability will be two important factors when Vietnam joins the TPP.

In addition to importing high-quality technology, the remarkable thing to the import of the huge amount of

goods from partners. The US agriculture is the agriculture with ability to “fast attack” thanks to powerful corporate force and preeminent qualities of products. Together with high technical barriers, the US is completely able to remain and protects their national agriculture sector, coping with threats of imports. Lessons from anti-dumping, import embargo cases are worth to remember to avoid losses for farmers. Lessons from Japan also should be noted. According to the Ministry of Agriculture, Forestry and Fisheries and the Liberal Democratic Party (Japan), the Japanese Government have been considering methods to compensate for their farmers when Japan joins the TPP. Production deficits in the agriculture sector which have been protected by the high tariff before will be huge, because the TPP will eliminate tariffs for agricultural products imported.

Opportunities for Vietnam – Japan agriculture cooperation

Possibilities for Vietnam – Japan agriculture cooperation

Japan's protection level of agricultural products holds top ranks in the community of developed countries. The Japanese Government also seems to be very conservative in the negotiations relating to the process of tariff cuts.

Therefore, that Japan joins the TPP's negotiations make this country's agriculture sector deal with high pressure from regional competition due to its small, inefficient and costly features. Taking part in the TPP will make the Japanese agriculture one of the most vulnerable sectors.

Until now there have been no signals that Japan are ready to get rid of conservatory in this field. It means that it's pretty impossible that this country will "surrender" their agriculture, especially rice.

In "another world", Vietnam has been coping with the trouble "abundant rice, shortage of money" due to Vietnamese rice's quality and brand.

Japan: in need of a relevant and reliable partner

In previous FTAs, the Japanese Government always excluded a lot of items in the agriculture sector from tariff cut. Efforts to reform locally have not showed any significant improvement.

The Japanese agriculture still remains small-scale household producers with low productivity and critical dependence of subsidies. Japan takes part in the TPP when this country's agriculture has not been well prepared to remain and exist in pressure from regional competition.

In other words, the TPP requires Japan to find out short-term solutions to its agriculture's matters and keep reforming agriculture for higher productivity at the same time.

One of the proposed solutions is to seek big food export partners through forms of bilateral economic cooperation. This is regarded as a potential solution in order to stabilize and diversify food imports parallel with the liberalization of multilateral trade.

The target to improve the ability to self-supply foods will be better assured through stable and long-term relationships with export countries. This helps to avoid taking part in the less stable regions on the international market.

On the other hands, diversifying the supplies from many countries will alleviate the risk of shocks on the market in the event of changes in the weather, natural disasters. Long-term commitments will also help to reduce risk of unstable prices.

Under the TPP scenario, Japan is completely able to look for a strategic partner among the TPP's members.

In fact, in front of risks of losing right at the home market, to reduce product expenses, Japanese companies started to seek ways to transfer parts of rice production to other countries.

This option allows companies to purchase two targets at the same time, including meeting Japan's production standards and meeting the local market's needs.

In this case, TPP members such as Vietnam will be preferred by these companies.

Vietnam: when Japan can “fill the gap” of technology

While Japan has been making efforts to look for a “friend” who has advantages and reliability for bilateral cooperation in order to reduce pressure on the agriculture, Vietnam is the country which needs Japan in another plan.

The situation “abundant rice, cheap price” makes several million tons of rice and the 2nd position in rice export of Vietnam meaningless when farmers’ livings haven’t been improved after so long.

Commenting on this, the former Deputy Prime Minister Nguyen Cong Tan said that Vietnam needed to renovate the mindset in agriculture. Technology only contributed about 30% to the agriculture’s added values, meanwhile this figure is 90% in the world.

Therefore, the biggest difficulty is technology. It’s important for Vietnam to know that only technology can help Vietnamese agriculture convert from quantity to quality to ensure profits from agriculture.

Thus, while Japan needs a “key” partner for agricultural development, Vietnam needs a relevant “padlock” to exchange technology. Luckily, both countries have these important factors.

Vietnam is potential with suitable resources for agriculture development. Generally, countries taking part in the TPP’s negotiations are different in development levels. But in the aspect of agriculture, Vietnam have many advantages over the TPP countries.

Besides, the political relationship between Japan and Vietnam, since its foundation 40 years ago, has reached positive development. ODA keeps rising since 1977.

Since 1995, Japan provided Vietnam with more support, especially financial support than any other countries.

So the premises of political, economic and social relationship between Japan and Vietnam pose a favorable environment for partnership between two countries, especially in such a vulnerable field as agriculture.

Options for cooperation model

Theoretically, there might be four options for cooperation models between Japan and Vietnam.

Firstly, it is “Payroll Outsourcing” model. Japanese firms, through outsourcing, will pay salaries for their farming employees in Vietnam. It means that they come to Vietnam as transnational companies, hiring local labors to implement their agricultural investment projects.

This is considered to be more and more popular when hired companies know importance of personnel consulting best, including recruitment, salary payment, relocation and performance assessment. Therefore, when using this service by personnel consulting firms, customer companies often feel assured.

Secondly, it is the appointing contracts model. Japanese firms offer a set of technical standards and rice quality in order competent companies in Vietnam to perform the commercial contracts.

This model does not put pressure on Japanese firms as they do not have to participate in the manufacturing process but they are heavily dependent on the supply quantity. If the supply quantity is not assured, both Japanese

food safety and business productivity are in danger.

Thirdly, it is to transfer technologies. Japanese firms will transfer the manufacturing processes, technologies and requirements to support Vietnamese companies in productions.

Accordingly, Vietnam will be trained and received the advanced agricultural production process. In return, Vietnam will export rice to Japan based on the above processes, creating win-win results.

Finally, it is offshore outsourcing. This is a type of outsourcing through moving parts of jobs of Japanese firms to developing countries as Vietnam to make use of cheap-labor advantage in order to create competitive advantage.

According, Japanese firms will transfer their farming production to Vietnam. In other words, Japanese rice firms will come to Vietnam to invest and hire Vietnamese farmers for their rice production.

Thus, the “key-padlock” mechanism of agriculture cooperation between Vietnam and Japan is a big opportunity not only for the Abe Government to implement their strategies but also for Vietnamese agriculture to improve.

Author Contact Information

SEIKO IDEAS - 9th Anniversary

Research & Consulting Department

Our services	Training (Languages & Soft skills) Investment Consulting Market Research – Business Matching Translation – Interpretation
Our clients	Terumo, FPT, Crossindex, Toshiba, Showadenko, Hello-G, AOTS, Chiba Prefecture
Address	Floor 5 th – A Chau Building No.24 Linh Lang Str., Ba Dinh Dist., Hanoi, Vietnam
Telephone	+84-4-6275-5246 ; +84-4-6273-6989
Fax	+84-4-6273-6988
Email	newsletter@seiko-ideas.com
URL	www.seiko-ideas.com