



STUDY ON

Vietnamese Fruits overcome barriers to accessing EU market, takes advantage of opportunities brought under the EVFTA



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EXECUTIVE SUMMARY

This study investigates the non-tariff measures of the European Union (EU) applied on Vietnamese fruit exports. The purpose of this research is to investigate how Vietnam can possess an advantage in producing a wide variety of fruits, while still having only limited export values to the EU market. From that, this study makes recommendations for the Vietnamese government and fruit businesses on how to increase access for Vietnamese fruits to the EU market. To achieve this, the study applies various methods, from analyzing statistics and data to reviewing legal documents and exploring case studies. The two chief information sources for analysis are the United Nations Comtrade Database (UN Comtrade) and the European Commission's Trade Helpdesk website.

This study finds that Vietnam is one of only a few countries in the world to have large production volumes for a wide range of tropical fruits. However, up to 85-90% of fruit production is for domestic consumption. Though fruit export has increased significantly in recent years, the annual export value was still less than USD\$1 billion, which is incommensurate with the sector's true potential. The main export market for Vietnamese fruits is China, which accounted for up to 75% of total fruit export value in 2015. To reduce over-reliance on the Chinese market, Vietnamese fruit exporters are now attempting to access other markets, especially developed and high-income markets that have a more stable demand and better prices than China.

This report finds that the EU is a potential export market for Vietnamese fruits. The EU was the world's largest fruit importer in 2015, and demand for tropical fruits (both fresh and processed) has been increasing considerably over the past 15 years. In 2015, many of the EU's top imported tropical fruits were also the top produced and exported fruits of Vietnam. Of these, 9 fruit commodities (both fresh and processed) have been identified as possessing the highest potential for export to the EU market. Although these 9 fruits currently face strong competition from other exporters in the EU market, they are going to receive an advantage of tariff elimination under the new Free Trade Agreement between the EU and Vietnam (EVFTA), which is expected to come into effect in 2019.

However, rather than the EU's tariffs, it is the non-tariff measures that currently inhibit Vietnamese fruits exports to this market. Non-tariff measures (NTMs), according to the

definition by the United Nations Conference on Trade and Development (2012), are measures other than customs tariffs that can have an economic effect on trade in goods among countries. Globally, NTMs are replacing tariffs to become the most significant barriers to trade in goods. The EU is one of the most frequent users of NTMs, particularly in the agricultural sector. Currently, it applies 34 NTMs on fruits imported from Vietnam, including 26 Sanitary and Phytosanitary (SPS) measures and 8 Technical Barriers to Trade (TBT) measures. Of these, this study focuses mainly on the most stringent measures that the EU imposes on the 9 potential fruit exports of Vietnam.

The EU's SPS measures that have the biggest impact on Vietnam's 9 potential fruit exports are related to food hygiene requirements, pesticide residue and contaminant rules, plant health control, and conformity assessment. The EU's food hygiene regulations are applied to processed fruits, requiring food operators to implement food safety management procedures that are based on the Hazard Analysis and Critical Control Point (HACCP) principles. Meanwhile, for fresh fruits, EU importers frequently require Global Good Agricultural Practices (GLOBALG.A.P) and other private food safety certifications. Both fresh and processed fruits are subject to the EU's rules on pesticide residues and contaminants, which are generally stricter than those of the Codex and other countries. Adding to the difficulty of adhering to these standards, they are frequently updated by the EU. Fresh fruits that are plant products are also subject to the EU's plant health controls. Fresh fruits imported into the EU, and even their wooden packing materials, must be free from harmful organisms. Unlike some other developed countries, the EU does not require an import permit for fresh fruits. Instead, it required importers to be included in an official register of an EU member. Some fruit imports also need to be accompanied by a phytosanitary certificate. Four of the 9 potential fruit exports of Vietnam are subject to this requirement. Finally, to ensure fruit imports comply with all of the above requirements, the EU applies very strict conformity assessment and penalty measures that are based on its "precautionary principle". Products found to be in violation of EU's regulations are subject to increased checks, special conditions, or import suspension – which can include suspension of all such imports from the exporting country.

Regarding TBT measures, the EU's labeling rules and marketing standards are the most relevant to the 9 potential fruit exports of Vietnam. The EU's labeling regulations are

complex and detailed. Both fresh fruits that are stored in cartons and processed fruits that are packed in packages need to adhere to a list of standards for labeling. Of these, the cartons used to pack fresh fruits must display the product's lot number for the purpose of food traceability, and packaging for processed fruits is required to cover all mandatory information in the format (font, color, and size) as regulated. Although fresh fruits are subject to fewer labeling requirements than processed fruits, unlike processed fruits they must adhere to the EU's marketing standards. The EU has two kinds of marketing standards for fresh fruits: specific marketing standards (SMS) and general marketing standards (GMS). Both SMS and GMS products must meet the EU's minimum quality and maturity standards, which are basically in line with the Codex standards. However, the SMS products must be accompanied with a certificate of conformity. Among Vietnam's 9 potential fresh fruits exports, only one product is covered by SMS, while the others are subject to GMS.

The above SPS and TBT measures of the EU create many challenges for Vietnamese fruit producers seeking to increase their export value to this market. First, there is a lack of information and guidance on the EU's regulations while these regulations are changed frequently. Second, most Vietnamese fruit operators operate at a small scale, with limited human and financial resources, and thus find it difficult to comply with the EU's demanding requirements for the quality and food safety of fruits. Finally, there currently exists inadequate infrastructure in Vietnam, such as transportation, technology and testing laboratories, to facilitate the export of Vietnamese fruits to the EU market.

After discussing these challenges, this study then makes some recommendations for the Vietnamese government and fruit businesses on how to overcome EU's NTMs. This study recommends that the Vietnamese government increase its dissemination of information and guidance on the EU's regulations, either through its own portals or by utilizing business and farmers' associations. The government should also invest more in fruit export-related infrastructure and production technology to support fruit operators increase the quality and food safety of fruit exports. In addition, the government can exploit some advantageous SPS commitments by the EU under the new EVTFTA to facilitate Vietnamese fruit exports to this market. For Vietnamese businesses seeking to comply with the EU's regulations, this study recommends that a

thorough knowledge and understanding of these regulations is, first and foremost, critical. Fruit producing and exporting businesses then need to improve the quality and food safety for their products to meet the EU's high requirements. This improvement can be achieved by investing in quality management systems such as HACCP and GLOBALG.A.P. In order to effectively implement these systems, it is crucial to have close cooperation with other participants in the fruit supply chain; especially with fruit growers and EU importers.

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
INTRODUCTION	10
I. OVERVIEW OF VIETNAM'S FRUIT SECTOR AND EXPORT POTENTIAL TO THE EU	12
1. Vietnam's fruit production and export.....	12
1.1. Production	12
1.2. Export.....	15
1.3. Reasons for the low export value of Vietnamese fruits	17
2. Vietnam's fruit export potential to the EU.....	21
2.1. The EU's demand for tropical fruit imports.....	21
2.2. EU imports of Vietnamese fruits	25
2.3. Vietnamese fruits with high export potential and current competition in the EU.....	27
2.4. Opportunities from the EU-Vietnam Free Trade Agreement	29
II. THE EU'S NON-TARIFF MEASURES ON VIETNAMESE FRUITS	32
1. Overview of Non-Tariff Measures.....	32
1.1. Definition and classification of non-tariff measures.....	32
1.2. Trends and impacts of NTMs.....	33
2. The EU's application of NTMs	35
2.1. The EU's application of NTMs on imports in general.....	35
2.2. The EU's application of NTMs on Vietnamese fruits	36
3. The EU's major SPS measures on Vietnam's potential fruit exports	38
3.1. Hygienic requirements	39
3.2. Regulations on pesticide residues and contaminants	41
3.3. Plant health controls	47
3.4. Conformity assessment and penalty measures.....	50
4. The EU's major TBT measures on Vietnam's potential export fruits	54
4.1. Labelling rules.....	54
4.2. Marketing standards	57

III. CHALLENGES POSED BY THE EU’S NON-TARIFF MEASURES AND RECOMMENDATIONS FOR THE VIETNAMESE GOVERNMENT AND FRUIT EXPORTERS	60
1. Challenges for Vietnamese fruits in meeting the EU’s non-tariff measures .	60
1.1. Lack of information and guidance on EU regulations	60
1.2. Constraints in capacity and resources to follow the EU’s high standards	62
1.3. Inadequate infrastructure to facilitate exports to the EU market	63
2. Recommendations for Vietnamese government and businesses	64
2.1. Recommendations for the Vietnamese government	64
2.2. Recommendations for Vietnamese fruit businesses.....	67
CONCLUSION	71
REFERENCES	72