



Vietnam - EU Trade Forum

“Accompanying the manufacturing industry under pressure of green & sustainable development”



EU & Vietnam



- **EUVFTA:** Signed in June 2019, entered into effect on 1 August 2020
 - 99% of tariffs eliminated within 7 years
 - Trade flow increase
 - Trade imbalances
 - Sustainability Chapter
 - EVIPA?
- **JETP**
- **COP28** Dubai, UAE

→ How to create **sustainable future value chains?**

- *Investments and finances*

- *Technology*

- *Implementation and operationalisation of standards and regulations*

EU Green transition and Sustainable Development Landscape



European Green Deal is for Europe to become the world's first climate-neutral continent, with a legally binding target of achieving net-zero greenhouse gas emissions by 2050.

Legislation into force :

- EU strategy for sustainable and circular textiles (March 2022).
- EU Regulation on deforestation-free products (December 2022).
- CBAM

Upcoming:

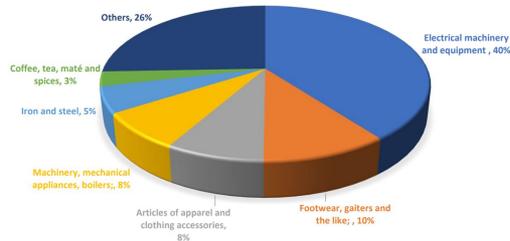
- EU Directive on corporate sustainability due diligence (2024).
- EU regulation to prohibit products made using forced labour, including child labour, on the EU internal market (2024).

Impact on Vietnam

Table 5: Vietnam's exports to the European Union (2021, value, thousand EUR).

Product code	Product label	Viet Nam's exports to European Union (EU 27)			
		Value in 2019	Value in 2020	Value in 2021	Total
'TOTAL	All products	31,918,086.00	30,731,024.00	33,857,625.00	100%
'85	Electrical machinery and equipment and parts thereof	13,201,979.00	12,963,027.00	13,433,675.00	40%
'64	Footwear, gaiters and the like; parts of such articles	4,109,614.00	3,465,482.00	3,538,461.00	10%
61 & 62	Articles of apparel and clothing accessories	3,129,017.00	2,697,929.00	2,760,750.00	8%
'84	Machinery, mechanical appliances, nuclear reactors, boilers;	2,323,800.00	2,686,054.00	2,594,785.00	8%
'72	Iron and steel	275,090.00	241,326.00	1,836,649.00	5%
'09	Coffee, tea, maté and spices	1,067,660.00	954,541.00	1,030,004.00	3%
	Others	7,810,918.00	7,722,704.00	8,663,348.00	26%

Graph 1: Bilateral trade between Vietnam and the EU (2021, value).

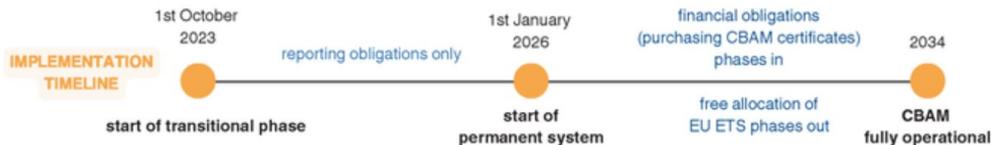


Source: Author, from ITC trade map. <https://www.trademap.org/>

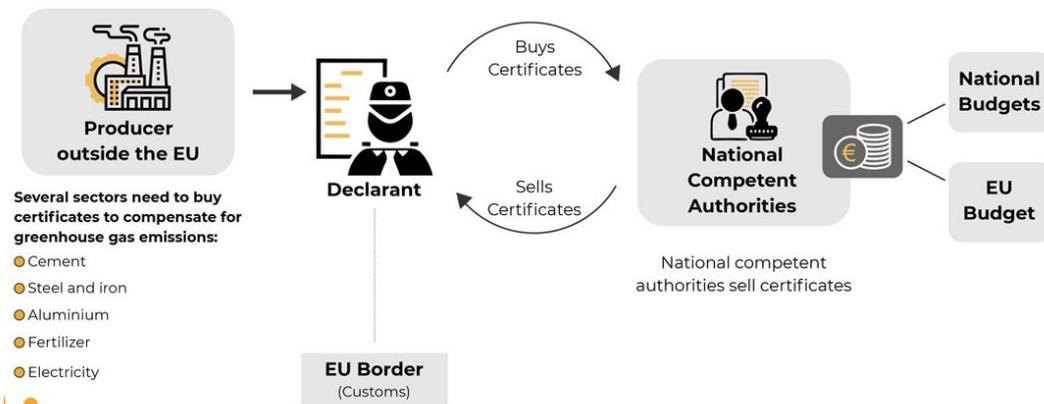
- New regulations & standards on climate/environment and sustainable development will impact both EU firms doing business with Vietnam as well as domestic manufacturers involved in EU **supply chains**.
- Given Vietnam's sector exports to the EU, the **iron and steel** sector will be impacted by **CBAM**.
- According to [Institute for European Environmental Policy \(June 2023\)](#) report, Sectors as **Electrical & Electronic Equipment; Footwear; Apparel & clothing; Coffee & Wood/timber** are expected to be impacted by the **Corporate Due Diligence regulation**.

Carbon Border Adjustment Mechanism (CBAM)

Timeline



How does it work?



- The Carbon Border Adjustment Mechanism (CBAM), started to be implemented by the EU on 1 October 2023.
- **Iron and steel** are the most affected items, followed by **aluminum** based on Vietnam's export volume to the EU market.
- Vietnam's overall exports to the EU will not suffer as severely in the short term as those of other developing countries such as India. This is because Vietnamese items subjected to the CBT account for only a **small proportion** of Vietnam's total exports to Europe.

Corporate Sustainability Due Diligence Directive

High level timelines and legislative process

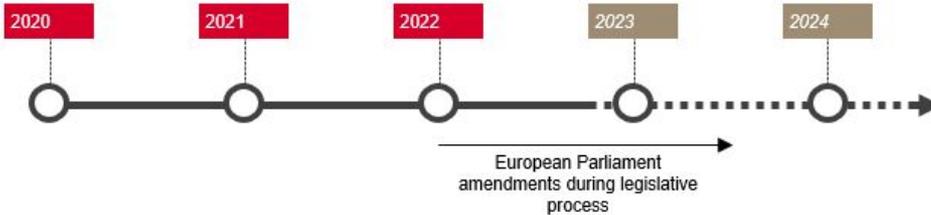
Study on directors duties and sustainable corporate governance (July) and proposal for consultation on sustainable Corporate Governance (October)¹

European Parliament resolution with recommendations to the Commission on Corporate due diligence and corporate accountability (March)

Proposal for a Directive on Corporate Sustainability Due Diligence by the European Commission (February). Committee referral announced in Parliament, 1st reading ongoing.

Legislative process ongoing and eventual adoption of the proposal by the council and the parliament.

Each member state to establish a supervisory authority to oversee compliance by companies incorporated in its own jurisdiction. Network of supervisors to be established.



Sources: Spglobal

- Businesses are required to evaluate **regional and industry-specific risks** and conduct **sustainability analyses**.
- Foreign firms in Vietnam may also need to conduct due diligence and **compliance checks** to ensure their **suppliers** meet these new standards.

Criteria included:

- Companies of 500+ employees and 150 million+ EUR in net turnover (worldwide for EU companies, EU-wide for non-EU companies).
- Companies of 250+ employees and 40 million+ EUR in net turnover (worldwide for EU companies, EU-wide for non-EU companies) operating in defined high impact sectors

Opportunities

- **FTAs as a Catalyst for Green Transformation**
- FDI focus on **advanced technologies** and modern management techniques that are environmentally friendly with high added value.
 - In February 2021, Siemens Gamesa won its largest nearshore project to date in Vietnam - expands to the nearshore sector to complement its existing renewables portfolios for solar and onshore wind projects.
- **Just Energy Transition Partnership (JETP)**
- The new **Law on Environmental Protection**: Vietnam is moving in the direction of harmonizing its laws with international rules and practices
- **Sustainable Finance Instrument**
- Inform & Educate **SMEs** on potential & benefits from the green transition



Challenges



- **Impacts of climate change:** caused Vietnam to lose about 10 billion USD in 2020, equivalent to 3.2% of GDP.
 - **Expanded Scope of CBAM:** In the long run, the scope of the CBAM could be extended to cover indirect emissions and other sectors and carbon-intensive products. Depending on the price put on the carbon produced by products imported into the EU, this may balance out the benefits of the EVFTA
 - **Business Readiness:** According to a survey in 2022, businesses that clearly understand the CBAM's content reached only about 11%. Up to 53% did not know about it, and around 36% had heard about it but did not understand clearly.
 - Limited knowledge of CBAM and how to comply
 - Limited capacities to abide by complex, EU-focused, procedures
 - Regulatory environment conducive enough to instal due diligence processes?
 - **Geopolitical Dynamics:** EU elections, Comprehensive strategic partnership between Viet Nam and the US: implications for the EU?
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The pathway towards sustainable future value chains?



- **Raise awareness** and educate local businesses sector including SMEs: inform business sector on the opportunities and what they can gain from just transition and sustainability.
 - Accelerate green transition through **Financial instruments** - Carbon Market
 - Propose **incentives** for businesses to adopt sustainable practices and offering support for the transition could be beneficial
 - **International collaborations and partnerships** could also facilitate the exchange of **knowledge and resources**.
 - Enhance the **legal framework**, implement and operationalise existing regulations
 - Increase **resilience** and climate adaptability
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Thank you

