

Asia Sourcing Flash

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Fung Business Intelligence Centre's timely alerts and insights on major developments in Asia's dynamic sourcing landscape

Vietnam

EU-Vietnam FTA: Implication on garment sourcing

After the EU and Vietnam agreed in principle on the European Union-Vietnam Free Trade Agreement (EVFTA) on 4 August 2015, the full text of the agreement was released on 1 February.

The deal will, among others, eliminate nearly all tariffs (over 99% of all tariff lines) on trade between the two parties. Under the EVFTA, the EU will eliminate duties on a wide range of Vietnamese products, including many clothing items and accessories, either immediately or over a period of up to seven years. Vietnam has also committed to cut tariffs on a wide range of EU products over 10 years. Other commitments of the EVFTA include:

- detailed 'rules of origin' for determining the eligibility of goods for tariff preferences;
- non-tariff barriers, i.e. standards and conformity assessment procedures;
- customs and trade facilitation;
- liberalization of trade in services, investment and e-commerce; and
- behind-the-border measures, such as competition policy, rules governing state-owned enterprises, and labor and environmental standards.

Just-style.com's article '*What the EU-Vietnam trade deal means for duties*', published on 10 February, discusses the implications of the EVFTA on garment sourcing. Below are a few key points from the article:

- Although the agreement has yet to be ratified, ratification is expected to be smooth sailing. Obstacles will be unlikely in the one-party state Vietnam. The author predicts that the European Parliament will ratify the deal swiftly, perhaps within this year, amongst competitive pressures stemming from the US-led Trans-Pacific Partnership (TPP).



- The article lists some Vietnamese-made textile and apparel items which will enjoy preferential tariff rates in the EU market under the EVFTA:

Commitments by the EU	Products (current tariff rates)
Immediate abolition of tariffs	<u>Apparel</u> : knitted man-made fibre anoraks (including ski jackets), windcheaters and wind-jackets (12%); women's or girls' knitted blouses and shirts (12%) <u>Textiles</u> : terry towelling (6.3%); woven fabrics with elastomeric yarn (7.5%); lace (8%); tulle (6.5% and 8%)
Tariffs to be phased out over four years	<u>Apparel</u> : manmade fibre overcoats, car coats, capes and cloaks (12%)
Tariffs to be phased out over six years	<u>Apparel</u> : knitted cotton overcoats, car coats, capes, cloaks, anoraks (including ski jackets), windcheaters and wind-jackets (12%)

- Vietnam is set to cut tariffs on garment production inputs imported from the EU. This will help make up for the country's lack of local backward linkages.

Commitments by Vietnam	Products (current tariff rates)
Immediate abolition of tariffs	Textiles made from artificial yarn, dyed, printed and bleached (12%); woven fabrics obtained from strip (12%); needleloom felt and stitch-bonded fibre fabrics (12%); artificial filament tow from synthetic and man-made fibres (3%); processed artificial staple fibres for spinning, knitting yarn (5%)

- On rules of origin, the author highlights the 'tolerance' rule applicable to mixed fabrics. In essence, it is a more relaxed set of ROOs that allows a small amount of materials not satisfying the origin rules. For example, a synthetic yarn which does not satisfy the origin rules may be used if it constitutes less than 10% of the weight of the fabric.

All in all, the EVFTA will give Vietnamese products better access to the EU market, while providing Vietnam duty-free access to EU materials. Given that the two parties have already established strong trade links, with the EU accounting for a 20% share of Vietnam's clothing and textile export market, the agreement is likely to further boost Vietnamese exports to the EU. However, the strict, complex rules of origin may hinder the utilization of the tariff preferences.

THE FUNG BUSINESS INTELLIGENCE CENTRE

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CONTACT

Global Sourcing
Fung Business Intelligence Centre
10/F LiFung Tower,
888 Cheung Sha Wan Road
Kowloon, Hong Kong

T: (852) 2300 2470
F: (852) 2635 1598
E: fbicgroup@fung1937.com
W: <http://www.fbicgroup.com>



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