

Bilateral Trade Agreement Sets Stage for Trade With Vietnam

Backed by a solid GDP (gross domestic product) growth rate averaging 7 percent a year, Vietnam is becoming a marketplace for consumer-oriented foods. In 2003, the country's official trade data showed imports of \$252 million worth of consumer-ready foods, up from \$152 million in 2000. The actual level, however, is thought to be much higher as many products cross the Vietnamese border informally.

Though this market is unfamiliar to many exporters, U.S. consumer-oriented exports to Vietnam came to a record-breaking \$20.5 million in fiscal 2003. During the first eight months of 2004, exporters had sold \$14.5 million worth of consumer-oriented products and seem certain to set another new record. Much of this increasing trade is due to provisions of the 2001 Vietnam-U.S. BTA (Bilateral Trade Agreement).

BTA Opening Trade Door

Two-way trade between the United States and Vietnam in all agricultural, fish and forestry products has almost doubled in the past few years, from \$514 million in fiscal 2000 to more than \$1 billion in 2003.

The terms of the BTA cover reciprocal normal trade relations treatment, market access for goods and services, intellectual property rights and the rights of foreign direct investors. In addition, Vietnam agreed to reduce many tariff and nontariff barriers on key U.S. consumer-oriented and ingredient exports to the country, such as soybeans, grapes, apples, pears,



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cheeses, vegetable oils, prepared meats, fish, pasta and fruit juices—making these U.S. products more competitive with those of other suppliers.

However, other major U.S. agricultural exports to Vietnam in 2003 were concentrated in more traditional bulk and intermediate products, including cotton, hardwood lumber, feeds and fodders, sugars, sweeteners and beverage bases.

Market Overview

The five-day work week and increasing disposable income of Vietnamese urban families have accelerated the trend for purchasing ready-to-eat, snack and luxury food items.

Most homes, however, do not yet have refrigerators or microwaves to take full advantage of convenience foods.

Over the past several years, Vietnam's urban retail market has begun a steady transition away from the traditional open-air markets to modern supermarkets and

Homework Required: First Steps

Personal contact is very important in Vietnam. A good way to meet prospects is to participate in a trade show. The FAS office in Hanoi organized participation in the CanTho Fair, Vietnam's major international food and agriculture show, and Food and Hotel Vietnam, both held in December.

Other Southeast Asia regional shows include HOFEX in Hong Kong, May 10-13, 2005, and Food and Hotel Asia, scheduled for April 2006.

Time and money can be saved if U.S. exporters find an importing partner who also has a distributor license and works with all food retail sectors. Bringing an interpreter to all meetings, even those in English, with prospective importing partners can avoid misinterpretations. It is highly recommended that a written document of the meeting be provided immediately to all parties following any verbal agreement, to prevent misunderstandings.



shopping centers. This trend alone has greatly increased opportunities for Western food products.

Vietnam went from two supermarkets in 1999 to more than 85 in 2004—distributors now make 40 percent of their sales through supermarkets.

However, exporters should not overlook the open-air and enclosed traditional markets. Many vendors sell case lots of shelf-stable imports, especially in rural areas.

Tourism, Investment Up

Ho Chi Minh City is the commercial center of Vietnam and also the most economically dynamic area in the country. It has attracted foreign and domestic investment for a wide range of projects.

Though Hanoi's food shopping sector lags behind that of Ho Chi Minh City, it is playing catch-up with its sister city—with 20-25 large food retail stores compared to more than 50 in Ho Chi Minh City.

HRI Rife With Opportunity

The hotel and restaurant sector in Vietnam offers the most near-term opportunities for U.S. food products, followed by the retail sector.

In the future, the food processing sector will present opportunities as customers demand higher quality and a more diverse range of products.

Though U.S. food products are highly regarded, most local chefs come from Australia or Europe and have a preference for products from those areas. Education

and promotion are very important in new product introduction. Proven best sellers include:

- Snack foods
- Fresh deciduous and citrus fruits
- Canned fruits and vegetables
- Canned meats
- Tree nuts
- Wines
- Chilled and frozen meats
- Frozen poultry



Vietnam's tourist numbers are steadily increasing and adding to the economy. At 2.8 million in 2003, these visitors helped boost the hotel and restaurant industry, a targeted sector for high-value food suppliers.

Expert Help Needed

Until there is unified food law, suppliers new to the market should contact an established law firm in Hanoi or Ho Chi Minh City to help sift through the regulations and provide guidance on market



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entry. As provisions of the U.S.-Vietnam BTA become effective, U.S. suppliers will benefit from stabilized food import regulations.

When the BTA eases import restrictions in December 2004, U.S.-Vietnamese joint ventures and international companies may import products. In the past, only domestic companies could import food products. Many international companies have offices in the country, however, to work with local importing and distribution partners.

Cold Chain Could Be Better

As Vietnamese consumers begin to have higher expectations of their food purchases, larger shops are installing freezers and refrigerators.

Vietnam has a fairly good export cold chain, but the temperature and humidity controls on imported foods at critical links (transport, storage, handling, distribution and retail) are not as strong.

Storage, refrigeration and transport equipment are often less than adequate, and technical know-how and coordination among industry segments are in early development.

Through the cold chain improvement initiative that is funded by its Emerging Markets Program, FAS has worked with the International Association of Refrigerated

Warehouses/World Food Logistics Organization to host several conferences and company consultations to improve the handling and storage practices for perishable foods.

This training has led to significant cold chain improvements (less product shrinkage, better product safety, better quality) and more import orders. Food marketers are seeing improved profits, often with minimal additional cost.

In the next few months, FAS plans follow-up consultations for companies that participated in earlier training. Keen interest by the industry suggests that there is excellent potential growth for the Vietnam cold chain and for accompanying growth in imported chilled or frozen products.

Entry Process

Two entities control Vietnam's food import process. Though regulations and applications can vary, a government-approved laboratory samples and tests food items for wholesomeness. The General Department of Customs determines and collects import duties and assures procedural compliance.

U.S. food imports are taxed according to Article 7 of the GATT (General Agreement on Tariffs and Trade). If a food item is not listed, import duties are based on the cargo's cost, insurance and freight invoice value. Inspection fees add another 0.1 percent of the retail value, but not less than \$20 per shipment.

Customs divides foods into two categories. Most foods are subject to general food quality standards and requirements. A few special foods face additional requirements. These include infant formula, dairy, flour, oils, processed meats and fish, bakery and confectionery items, fresh fruits, vegetables and alcoholic flavorings.

All imported foods must have food quality registration certificates issued by Vietnam's Ministry of Health and certificates of origin issued by a recognized agency of the exporting country. Prescribed trademarks must be registered with the National Office of Industrial Property. Refined sugar, refined vegetable oils and some liquor require an import license. ■

For further information on the Vietnamese market, contact the FAS Office of Agricultural Affairs in Hanoi, Vietnam, at: Tél.: (011-84-4) 831-4572; Fax: (011-84-4) 831-4573; E-mail: AgHanoi@usda.gov or ATOHoChiMinhCity@usda.gov

For details on exporting to Vietnam, see FAS Report VM4037.

To find it on the Web, start at www.fas.usda.gov, select **Attaché Reports** and follow the prompts.

