

## SUMMARY REPORT

### **EU GREEN DEAL & VIETNAM'S EXPORT**

#### **Cases of agricultural, food and textile sector**

1. The European Green Deal (EGD) is a comprehensive and long-term program of the European Union (EU) to respond to the global climate emergency from now to 2050. Approved on January 15, 2020, the EGD has shaped the EU's strategy to reach net zero greenhouse gas emissions (climate neutrality) and become a resource-efficient economy by 2050.
2. The full text of EGD states major goals to be achieved and EU's strategic directions on climate issues without directly setting specific green standards nor conditions. To implement the EGD, the EU has been developing various specific strategies, programs, action plans, policies and legislation (hereinafter referred to as green policies) in almost all economic sectors. These green policies set many new and/or upgraded green standards, conditions and/or requirements, then directly or indirectly affecting various groups of economic actors in related sectors.
3. In general, the EU's green policies are categorized by 09 main sectors, some cover activities/actors both inside and outside the EU (e.g., Climate, Environment and Oceans, Agriculture), while many mainly focus on European ones (e.g., Industry, Energy, Transportation, Research and Development, Finance, and Construction).
4. As an internal policy package of the EU, the EGD theoretically only applies to EU actors and activities within the EU market/territory (including goods, services, economic activities circulating/occurring in the EU). However, in some specific cases, EGD's policies may also apply to actors/activities outside the EU, most commonly (i) ones with scope of application involving goods circulated, traded, used, consumed, discharged and/or releasing emissions within the EU, regardless of whether goods are produced within or imported into the EU; or (ii) ones designed to apply specifically to imports into the EU to ensure alignment with EU regulations on EU domestic goods. Because the EU is Vietnam's key export market, the implementation of the EGD is assumed to have considerable impacts on a substantial part of Vietnam's exports.

5. In just less than four years from the start of EGD's implementation, the EU has introduced numerous green policies that have/are expected to have a direct impact on foreign goods imported into this Union. In the agricultural sector, the "Farm to Fork" (F2F) Strategy outlines green transition goals in many different aspects of production, trade and consumption of agricultural products and foods. For manufacturing and processing sectors, the new Circular Economy Action Plan (CEAP) lists 35 policies to build a green, clean, and circular economy in 07 targeted product chains (electronics and information technology, batteries and vehicles, packaging, plastics, textiles, construction, food and nutrients). In other narrower areas, some EGD policies are noteworthy, such as the Biodiversity Strategy, the Carbon Border Adjustment Mechanism (CBAM), the Chemicals strategy for sustainability, the Consumer waste policy, etc. This list of EU green policies covering imports from outside the EU will continue to be added along with the progress of implementing EGD's targets by 2050, particularly in the period from now to 2030.
6. The EU green policies as above-mentioned are to have impacts on Vietnam's exports in different ways. The most common impacts are the increase in "green and sustainable" standards for EU-exported goods (in form of total new green standards/requirements, or newly-amended, upgraded or expanded green standards/requirements from existing ones). The next group of impacts is the increase in manufacturers' financial responsibility for "green, sustainable" targets (payment of additional fees, purchase of carbon certificates, etc.). And finally, the extra requirements on accountability responsibility upon goods' origin (e.g., origin of the land used for agricultural production, amount of carbon emissions during the production process per unit of product, etc.), or information provision about the "green, sustainable" aspects of products to consumers (e.g., labeling, digital passport for products, etc.).
7. With the green policies in the European Green Deal identified so far, the following Vietnam's exporting sectors are expected to be severely affected by the green transition in the EU market in the coming time: (i) Electrical, electronics, information technology products, machinery, equipment, and related components; (ii) Agricultural products (especially coffee, cashews, pepper, cocoa, meat, etc.), seafood, wood and wood products; (iii) Foods of all kinds (especially organic foods); (iv) Textiles and footwear; (v) Chemicals, fertilizers, batteries; (vi) Iron and steel, aluminum, cement; and (vii) Product packaging (especially packaging of food and chemicals, etc.).



8. The challenge brought by EGD to Vietnam's exports firstly lies in the awareness of businesses, associations, and involved stakeholders. As a comprehensive and long-term policy package, the EGD and its implementing actions are not only numerous in number and complex in nature, but also continuously evolving over time. There is no prefixed set of green standards nor unified green transition roadmap for all goods imported into the EU. Meanwhile, a quick survey conducted by the Vietnam Chamber of Commerce and Industry (VCCI) in August 2023 showed that 88-93% of respondents had never known or only briefly heard of the EGD or the EU's outstanding green policies related to Vietnam's exports. In particular, the number of businessmen, employees, and workers having a clear understanding of the EGD is only 4%, which is much lower than other groups (8-12%). Therefore, the first solution to deal with the impacts of the EGD on Vietnam's exports is to proactively learn about the EGD in order to identify, accurately grasp and regularly update specific green policies related to specific exported products.
9. Going deeper into the requirements of green policies, the challenge for Vietnamese manufacturers and exporters lies in their capability to comply with these requirements. Meeting the EU's common Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) is already difficult for many businesses, the task is surely much more challenging with new or upgraded green standards that are higher, stricter and/or more difficult than existing TBT and SPS. Depending on each manufacturer, the challenges they face may be the capacity to transform technology, to control the production chains, to ensure the labor skills, or to track, store or provide information in the right manners. Behind all these technical challenges is the affordability or investment for transition. For the majority of small and micro-sized enterprises with limited capital, technology, and management capacity, and currently in a volatile business period, coping with challenges from the EGD is a just difficult mission.
10. However, with early preparation, it is still feasible for most Vietnamese exporters to meet the EU's green requirements. On the one hand, all EU green policies are to be drafted and publicly consulted a long time before being officially adopted/approved. Even when entering into force, these policies normally have a step-by-step implementation roadmap, in which difficult requirements would only be fully enforced after a long schedule. On the other hand, not all green standards require high compliance costs, they may instead involve changes in the way of action (for example, requirements on the report of CO<sub>2</sub> emission, on the provision of detailed information on the product, etc.).

Moreover, in some cases, EU mandatory green standards are actually the codification of voluntary standards of EU customers which Vietnamese enterprises have been acting in compliance with for quite a time, and thus do not require any significant changes to these businesses.

11. Although in the near time, the EU's green policies pose significant challenges to Vietnam's exports, in a longer term, proactively implementing green transition in a synchronous and comprehensive manner can offer certain opportunities for Vietnamese businesses. From a market perspective, this is the best way for businesses to be one step ahead and gain early access to the EU's potential green products market with a rapidly increasing number of green customers in this area. At the same time, early adaptation to EU green requirements also provides certain guarantees for businesses to export to other developed markets that are also promoting actions to realize climate goals similar to the EU (such as the United States, United Kingdom, Japan, Australia, etc.). From an efficiency perspective, although green transition may require substantial initial investment, it can become a cost saver and efficiency promoter in the long term. Additionally, on a macro level, the green transition by individual business can jointly make a significant contribution to promoting the green transition in the domestic economy, thereby making a meaningful contribution to Vietnam's sustainable development.
12. Coping with these EU's green policies, Vietnamese manufacturers/exporters targeting EU markets are recommended to (i) closely watch out the progress of EU's green policies; (ii) promptly and accurately identify specific green standards/requirements relevant to their products; and (iii) plan, prepare fund, and take early action to gradually adapt and ensure compliance with mandatory requirements when the EU officially enforces them. At their turn, government agencies, business associations and related entities can effectively support Vietnamese enterprises in adapting to EU green policies by (i) providing timely, accurate and detailed information on EU green standards by products/sectors; (ii) advising and guiding them on how to comply with such requirements; and (iii) coordinating with the EU competent authorities on appropriate enforcement mechanisms, and on technical assistance for Vietnamese businesses, if any.
13. Agricultural and food products are among Vietnam's high value exporting potentials in the EU market. This is however a sector that concentrates many EU green policies, notably the "Farm to Fork" Strategy with important rules on (i) reducing the use of plant protection products and maximum residue limits

(MRL) for substances in agricultural and food products; (ii) reducing the use of antibiotics in animal and MRL for antibiotics in meat and seafood; (iii) strengthening green requirements on design and materials of food packaging; (iv) adjusting labeling methods and label position, enhancing information provided to consumers about the green aspect of products; (v) changing requirements for animal rearing, transportation, and slaughtering, etc. In addition, some other green policies may also impact the production and export of agricultural and food products from Vietnam to the EU in the present (such as the Regulation on Deforestation-free products – EUDR), or possibly in the future (such as the Regulation on Extended Producer Responsibility, Border Carbon Adjustment Mechanism – CBAM, etc. if their scope of application is expanded to include agricultural and food products).

14. For Vietnam's textile sector, the EU has been the most important export market. For the EU, textile and garment is among the top sectors causing environmental degradation and climate change, thus subject to many early green efforts of the EU. The majority of EU green policies on textiles are concentrated in the EU Strategy for Sustainable and Circular Textiles with multiple policies heading to (i) eco-design (design ensuring durability, repairability, recyclability, etc.); (ii) enhanced information (through product digital passports, information requirements to prevent greenwashing, etc.); (iii) minimizing the release of microplastics from textiles into the environment; (iv) reducing hazardous chemicals in fibers; (v) implementing extended producer responsibility, etc. In addition, some other green policies may also extend to textiles someday such as the Industrial Emissions Directive, Textiles Ecosystem Transition Pathway, Commitment to sustainable consumption, Carbon Border Adjustment Mechanism (CBAM), etc.
15. In comparison to many other sectors, EU's green policies on agricultural and food products, and textiles are considerably more complex and challenging as most of them (i) have a wide scope of application, covering across all agricultural and food products, and textiles (not just specific types within these categories/groups); (ii) are codified as mandatory, minimum legal requirements (not merely voluntary recommendations); and (iii) involve standards, measures, and/or requirements affecting multiple stages in the production chain (from design to supply of raw materials, from production, farming to transportation, from usage to repair, from disposal to recycling), not just applicable to the final products.

16. Out of the challenges, Vietnamese businesses in agricultural and food products, and textiles sectors may have certain advantages in implementing EU's green policies. Firstly, as most of the current policies are in draft form and not yet effective, businesses still have a certain time to acknowledge and prepare for implementation. Secondly, some green requirements (especially for textiles or organic food) are already quite familiar to many Vietnamese businesses (due to their similar contents to the voluntary codes that EU customers have required), so the transition might not be overly difficult. Thirdly, like other sectors, the green policies in these sectors will generally have a long implementation roadmap, the level of requirements will be gradually raised, without applying fully obligations as soon as these policies take effect.
17. Therefore, in addition to the recommendations for all sectors affected by the EGD, businesses engaged in producing, processing, manufacturing and exporting textiles, agricultural and food products to the EU are advised to (i) closely monitor green trends in the EU, especially specific policies and legal regulations to implement the "Farm to Fork" Strategy and the EU Strategy for Sustainable and Circular Textiles; (ii) proactively and closely coordinate with customers and related entities in updating, drafting, adopting, and implementing specific green standards and regulations related to their products; and (iii) take appropriate, proactive and early preparatory actions for compliance when needed. For textile sector, besides the requirements of EGD, businesses now should actively build their own green transition strategy to meet the expected green requirements from consumers, thereby capable to sustainably grasp at their shares in developed markets./