Bryant Christie Inc.

U.S. AG. EXPORTERS AT RISK
of Losing Ground in Vietnam

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With local attention squarely focused on the health, economic, and social impacts of the COVID-19 pandemic, and on the coming U.S. elections in November, one can be forgiven for missing the announcement that Europe's free trade agreement with Vietnam went into force on August 1.

Europe's advancement on free trade with an important Southeast Asian economy puts U.S. agricultural exporters at a competitive disadvantage in a growing market.

Vietnam is a growing market. In 2019, according to the United States Department of Agriculture (USDA), "Vietnam was the eighth largest destination for U.S. agricultural exports, which totaled $3.5 billion... The United States is expected to be Vietnam's second largest supplier of agricultural goods, following China." Vietnam was the top market for U.S. cotton for a fourth straight year, and the market has seen solid and steady growth for other U.S. agricultural commodities from tree nuts, fresh fruits and vegetables, to meat and poultry, dairy, wine, and processed products. U.S. blueberry exporters just concluded an agreement this year that permits shipments to that market and growers have been excited about prospects there.

The United States' withdrawal from the Trans Pacific Partnership (TPP), which included Vietnam, and now Europe's conclusion of its own trade agreement with Vietnam, leaves U.S. agricultural exporters in a trade policy no-man's land. A 2014 USDA study looked at likely benefits to U.S. agriculture from the Trans Pacific Partnership, an agreement the U.S. spearheaded. The report stated that Vietnam already maintains low tariffs on commodities needed as agricultural inputs such as cotton, soy, wheat, and corn but that TPP could provide benefits for other agricultural commodities. Specifically, "U.S. agricultural exporters may be well suited to expand in meats, dairy products, and fruits. The TPP agreement also could provide new opportunities for exports of other high-valued U.S. consumer food products to the growing Vietnamese market."

The U.S. withdrawal from TPP and Vietnam's FTA with Europe does not necessarily threaten the export of U.S. bulk commodities but could undercut our ability to expand U.S. exports of consumer-oriented products. Consider the following examples:

Wine

Growth in the middle class and tourist sector have contributed to a boom in Vietnam's hospitality industry creating new markets and consumers for U.S. wine. Unfortunately, U.S. wines confront a 50% tariff while the tariff on European wines will be eliminated over 8 years starting with a 6.3% reduction already this year. Opportunity for growth in U.S. wine exports to Vietnam may be cut short by Europe's tariff advantage under their FTA.

Frozen Fries/Potatoes

U.S. frozen fries exports to Vietnam have grown by 460% over the past five years and now total over $22,000,000. U.S. fresh potato exports to the market have also grown from 25 metric tons in 2015 to over 1,500 metric tons in 2019. Europe also supplies frozen fries and potatoes. Canada, Australia, and New Zealand do too. All three are members of the Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP), the agreement that moved forward following U.S. withdrawal. Europe will have duty free access to Vietnam for frozen fries and fresh potatoes in six years. Canada, Australia, Bryant Christie Inc.

and New Zealand will achieve the same in 2021 for frozen fries and fresh potatoes. By comparison, U.S. exports will still face Vietnam's 15% and 20% tariffs respectively for these products.

Confectionery

With over 50% of the population under the age of 25, Vietnam is a target market for chocolate and confectionery exporters. U.S. exports of these products have risen significantly in recent years with growth of 177% by volume and 356% by value. U.S. exports of chocolate and confectionery products to Vietnam surpassed the $40,000,000 mark in 2019. This has been despite tariffs of 25% on chewing gum, 15%-20% on sugar confectionery, and 12%-30% on chocolate. European producers faced these tariffs as well, until recently. Under their FTA, European chocolate and confectionery will enter Vietnam duty free in six to eight years depending on the product with one round of reduction already in effect.

Distilled Spirits

A burgeoning business and tourism market, expanded hotel and restaurant sector, and wealthier local consumer base has also attracted imports of distilled spirits. For U.S. exporters, the market has grown from $8,700,000 to over $63,000,000 in sales the past five years, an increase of 626%. U.S. spirits face a 45% tariff. European spirits will enter duty free in 8 years.

Cheese/Dairy

Vietnam and other Southeast Asian markets have also received growing attention by U.S. cheese and dairy exporters. U.S. dairy exports to Vietnam totaled over $170 million in 2019 and have been trending up. Certain dairy ingredients like milk powders or proteins may still compete well but U.S. producers of higher value dairy products such as cheese and yogurt will face challenges. Vietnam already allows duty free dairy imports from New Zealand, Canada, and Japan under CPTPP, and now will allow European imports duty free access in four to six years depending on the product.

Cost differences matter to importers and consumers. If U.S. products cost more than European or Australian or New Zealand or Korean or Japanese or Canadian products, we will be at a disadvantage in the marketplace. Unfortunately, this is the position the U.S. has willingly put itself in, and producers and exporters of U.S. consumer-oriented products, one of the fastest growing sectors in U.S. agricultural exports, may first experience the ramifications of that policy.

With all the other issues swirling about, trade policy may not garner a lot of attention today but when the U.S. election fades from headlines in 2021 and hopefully COVID-19 along with it, the U.S. agricultural and food processing sectors would surely benefit from renewed focus on trade in markets like Vietnam that once looked so promising.

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