

The New York Times



December 13, 2013

# To Lower Tariffs, Vietnam Pushes for Easing Trade Rules

By **DANNY HAKIM** and **TUAN NGUYEN**

BRUSSELS — The executives came from companies that own brands like Nike, Levi’s and Zara.

They gathered here last month in a hearing room operated by the European government, for a public briefing on the status of trade talks between Vietnam and the European Union, which began last year. One industry noticeably dominated the audience, from the 14 chairs reserved for the European Branded Clothing Alliance, a trade group for the likes of H&M and Ralph Lauren, to the leader of an alliance of textile makers seated a few rows behind them.

For clothing and shoe companies, the negotiations between Europe and Vietnam are being watched with especially close care. Part of the reason is Vietnam’s role as an assembly line for much of the apparel worn in the Western world. Another is that Vietnam’s population also recently topped 90 million. Because the number of young people in the country is rapidly increasing, it has become an attractive growth market for apparel makers.

The most contentious issue, though, relates to a continuing push by the fashion industry to ease global “rules of origin.” Such rules establish where customs collectors consider a product is made. The standards are stricter in the United States than in Europe — indeed, the issue is also part of negotiations between the United States and Asia — but the fashion industry hopes that a change in rules in one jurisdiction could weigh on the larger negotiations among the giant trading blocs.

For goods coming into the European Union from Vietnam, the rules of origin can add up to substantial sums of money.

Garments face a 12 percent tariff coming into the European Union, but only 9.6 percent if they are considered “Made in Vietnam.” (The European Union grants special preferential trade access to many developing countries, including Vietnam, as a way to aid those

countries.) Sneakers and other athletic shoes face tariffs of 16.9 percent, or 13.4 percent if they are made in Vietnam.

Given the volume of trade, these differences can quickly mean millions of euros.

But if clothes are made with fabrics imported from China or elsewhere, they are not considered “Made in Vietnam” and face the higher tariffs when they are imported into Europe. The importers, and Vietnam, would like relaxed tariffs.

Apparel makers contend that modern trade policy should not penalize companies for making their products in more than one country. Europe’s domestic textile industry is opposed to relaxing the tariffs.

Mauro Petriccione, the chief negotiator for the European Union, drew a hard line at the hearing. “We do have very firm views on what constitutes an originating product, and we’re not always consistent in our policies, but if there is one where we have been consistent, it is this one,” he said.

Then he softened his position. “I think there will be ways to make rules of origin for textiles — which as I say, we are very likely to keep to a very firm position — more acceptable to Vietnam, more adaptable if you like with the reality of trade with Vietnam,” he added. “We are negotiating with Vietnam, however, not with China, and I think that has to be made clear.”

Far larger trade negotiations have been getting headlines — notably the separate talks that the United States has been pursuing with the European Union and Asian countries. But the apparel companies know that there is a lot at stake with the Vietnam trade talks.

“The E.U. needs a modern approach to rules of origin,” Tim McPhie, a lobbyist based in Brussels and a spokesman for the European Branded Clothing Alliance, said in a statement.

“There are still very high tariffs and significant trade barriers in place which make it hard for importers and exporters to do business, and the free trade agreement could potentially solve this issue,” he said. Members of the association, he said, seek “the best quality and best value materials, services and labor around the world” and “the E.U.’s trade rules need to take into account this reality.”

For the Vietnamese government, easing the rules has the potential to lift its exports and its economy. Pham Sanh Chau, Vietnam’s ambassador to the European Union and its chief negotiator in the trade talks, said the discussions were of the “highest priority,” adding that the potential agreement “enjoys the personal attention and interest of my prime minister.”

But many groups do not favor easing these rules. “We are not against trade, we want fair access,” said Francesco Marchi, director general of the European Apparel and Textile Confederation, which represents Europe’s domestic textile industry, during the hearing last month.

“For us, the rules of origins are key,” he said. “They should be linked to the condition of our tariff.”

Europe generally requires what is known as a “double transformation” in goods for them to be considered made in a certain region. In the case of clothing, one step, or “transformation,” would be weaving yarn into a fabric. A second transformation would be assembling the fabric into a garment.

The United States requires a “triple transformation” that extends back to the production of yarn from synthetic or natural fibers, like cotton.

Relatively few factories in Vietnam use domestically made fabrics. Lien Phat Ltd.'s factory, in a sprawling industrial zone about 18 miles northeast of Ho Chi Minh City, is a common example. It occupies two large tin-roofed hangars and employs 1,000 workers on four production lines. The factory, tucked among other factories and low-income housing, produces mostly women’s shoes and counts Europe as its largest export market.

Its supplies are imported. “I mainly take orders from international corporations, who give us materials and designs,” said Truong Thi Thuy Lien, the owner of Lien Phat. “Usually the clients will designate us to certain suppliers, most of them are in China.”

Ms. Lien said the issue of “point of origin” was an important one, but perhaps more so for the corporations that contracted work to her factory.

“I don’t deal with the exporting process. I take the order and deliver the goods to the port” in Ho Chi Minh City, she said. “The rest lies with my clients.”

*Danny Hakim reported from Brussels, and Tuan Nyguyen from Ho Chi Minh City, Vietnam.*

