

# Impacts of Free Trade Agreements (FTAs) On Import Petroleum in Vietnam

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**Abstract:** *Petroleum is one of the important economic sectors, is an input material in production, services, and transportation in Vietnam, and accounts for a large proportion of revenue in the State budget. Currently, in the context of globalization, countries are moving towards integration, and free trade agreements (FTAs) significantly influence the petroleum import market in Vietnam. In this article, the author summarizes the contents related to Free Trade Agreements (FTAs) and state management policies on petroleum imports in Vietnam in the period 2017 - 2022. give recommendations to stabilize the petroleum market in Vietnam in the coming time.*

**Keywords:** *Impact of FTAs, Import support policies, Import of petroleum, Petroleum industry*

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## I. Introduction

Petroleum is a special commodity because it plays an important role in almost all fields such as production, transportation, commerce, services, and social life. This is a special commodity that is always regulated by the State through economic policies. In recent years, Vietnam has signed many free trade agreements including provisions on reducing import tax on petrol and oil, especially with key partners such as ASEAN, Korea, and China, reducing state budget revenue.

Since the end of 2021, especially since the armed conflict between Russia and Ukraine took place (starting in February 2022), the world petroleum market has complicated developments, the supply is scarce, and the price is constantly changing. continued to increase (the average world price of petroleum products in the first 10 months of 2022 increased by 57-85% compared to the same period in 2021). However, from the end of June to the end of September 2022, gasoline prices tend to decrease continuously. From the beginning of October until now, the world price of petroleum products has tended to increase again due to Opec+'s decision to reduce oil production and now continues to have complicated developments.

At the beginning of each year, the Ministry of Finance forecasts state budget revenues and submits them to the National Assembly for distribution of revenues to local Customs. In the structure of State budget revenue, import tax on imported gasoline accounts for the majority. Besides, the situation of petroleum imports is affected by many factors such as regimes and policies, and political and social fluctuations in the country and around the world. Therefore, it is necessary to assess the situation of petroleum imports according to FTAs and State policies to make recommendations to effectively manage the situation of petroleum imports, ensuring State budget revenue, especially during the implementation of FTA commitments and changes in the world economic context.

Within the research framework of this article, the author has given an overview of the situation of petroleum imports, and trade agreements, and analyzed the movement of the petroleum import market during the period of time. from 2017 to 2022 when implementing FTAs and making recommendations for the future development of the petroleum industry.

## II. Literature review

Several articles researched on effects of FTAs to international commerce:

The article "Effects of Free Trade Agreements on Trade Activities of Signatory Countries" analyzed the effects of free trade agreements (FTAs) signed by India on the changes in the trade volumes of member states. This article highlighted the role of FTAs in the economic activities of countries signing the trade agreement. Post FTAs, the compound annual growth rate (CAGR) of exports increased and imports reduced. This research aimed to help researchers identify the areas and countries where FTAs are desirable and help improve economic activities.

Le Thi Viet Nga (2020) did research to evaluate the potential impact of EVFTA on the imports of automobiles in Vietnam. The result of the tool suggests that after the trade agreement takes effect, the European nations would boost the export turnover of automobiles to Vietnam by the declination of tariff to 0%. It can be seen that nations that are not in the European Union would have negative growth of automobile exports to Vietnam after the agreement has an effect.

Seongtae Ji and JeongHo Yoo (2018) found out that As a result of the implementation of the FTA, tariff cuts and other changes in trade conditions could lead to an increase in imports of agricultural products in Korea from FTA partner countries or a diversity of partners.

However, Little research on the effects of FTAs on imports in Vietnam is found, especially the ones about petroleum imports – a hot issue in the past period because of the effects caused by Russia – Ukraine conflict.

### **III. Research Methodology**

Methods of data collection, comparative analysis, and statistical description. The source of secondary information about the situation of importing petroleum in Vietnam in the past five years is taken from the import declaration of the data system of the General Department of Customs. In addition, some other information is also quoted from statistical reports and data from the General Department of Customs. These are official sources of information, with theoretical value as well as high reliability. Information and data are taken directly from the database system of the General Department of Vietnam Customs, so it is accurate, practical and reliable, and the diversity of the data obtained is therefore very high, ensuring representative of the situation of petroleum imports in the past five years.

### **IV. Agreements Overview in Vietnam**

A Free Trade Agreement (FTA) is a trade agreement between two or more countries. Accordingly, countries will follow the roadmap to reduce and eliminate tariff and non-tariff barriers to move towards the establishment of a free trade area.

According to the commitments in the Free Trade Agreements, the special preferential import tax rates for petroleum products are on the way to gradual reduction. The period 2017-2022 is the period when the special preferential import tax rates for petroleum products are sharply reduced, due to the negotiation and signing of each Agreement at different times, there are different levels of commitments to reduce tax rates are different and at different times depending on each Agreement.

Since 1986, Vietnam has signed 13 Free Trade Agreements: Intra-ASEAN Agreement (ATIGA), ASEAN - China (ACFTA), ASEAN - Korea (AKFTA), and ASEAN - Japan. Japan (AJCEP), Vietnam - Japan (VJEP), ASEAN - Australia - New Zealand (AANZFTA), ASEAN - India (AIFTA), Vietnam - Chile (VCFTA), Vietnam - Korea (VKFTA), Vietnam – Eurasian Economic Union (VN-EAEU FTA), Trans-Pacific Partnership Agreement (TPP), ASEAN Free Trade Agreement and Hong Kong (China) (AHKFTA), Agreement Free Trade Agreement between Vietnam and the European Union (EVFTA). These Agreements are all based on the selection of partners in accordance with the international economic integration strategy until 2020. The final degree of liberalization in the FTAs is expected to reach about 90-95% of tariff lines in the period. Total Import Tariff with the final tax rate of 0% by 2020. This is a high degree of liberalization, in line with international regulations on the degree of market openness under the regulations of trade organizations. world.

In 13 bilateral and regional agreements, there are a number of agreements, petroleum products are on the list of "exclusions" (no obligation to reduce), but there are a number of Agreements that have been reduced with import tax rates. special privileges. Thus, petroleum products' preferential import tax rate (MFN) is currently higher than the special preferential import tax rate under these FTAs. However, in order to enjoy special preferential import tax rates, goods imported from these countries must ensure conditions of origin (C/O), transportation conditions, etc..., not all goods are imported from countries that have signed FTA Agreements, and not all goods imported from countries that have signed FTAs are entitled to special preferential import tax rates.

### **V. Overview of import tariffs related to petrol and oil in the Agreements**

The Ministry of Finance has submitted to the Government for promulgation Decree No. 51/2022/ND-CP dated August 8, 2022, to amend the preferential import tax rates for gasoline products in group 27.10 in the Preferential Import Tariff. preferential tax rate from 20% to 10% tax rate. The Decree takes effect from August 8, 2022. The special preferential import tax rate for gasoline in heading 2710.12 under the Special Preferential Import Tariff (FTA) is 8%; 8.8% and 20%; for oil products in heading 2710.19 is 0%; 5%; 7%; 8% and 20%; (General Department of Customs)

Petroleum products belong to group 2710 with 41 tax lines at an 8-digit level according to AHTN 2017, focusing on 05 main commodity groups including Gasoline, Flight fuel, Diesel, Mazut, and Kerosene. In 2019 and 2020, the tax rate that Vietnam applies to goods that come from WTO member countries and must comply with Vietnam's WTO commitments (MNF tax) for imported petroleum products will remain unchanged. However, when participating in the Agreements, petroleum is one of the items on the list of items to be reduced. The author has studied when in the period from 2017-2022, petroleum products in FTAs have the following changes:

**Table 1: Tax rates of products in the petroleum group in Decrees implementing FTAs**

Average tax rate (%)	MFN		AFTA			AKFTA		ACFTA		AJCEP/ AIFTA/ AANZFFTA/AH KFTA	VKFTA		VJFTA/ VCFTA	VNEAEU			EVFTA		CPTPP	
	2019	2020	2018 - 2019	2020	2021 - 2022	2018 - 2020	2021 - 2022	2018 - 2019	2020 - 2022	2018 - 2022	2018 - 2020	2021 - 2022	2018 - 2022	2018 - 2020	2021	2022	2018 - 2021	2022	2018 - 2021	2022
	Gasoline	20	20	20	20	8	20(*)	8	20	20	20(*)	10	8	20 (*)	20	8.8	8	20	20	20
Flight fuel	7	7	0;10	0;5	0;5	20(*)/0	12;0	10;15	5	7 (*)	12;0	12;0	7 (*)	10-7;7	7	7	10;9-8	10;7	20-7;20	7;20
Diesel	7	7	0	0	0	0	0	8	8	7 (*)	0	0	7 (*)	9.7-7.5	7	7	7	7	20-7	7
Mazut	7	7	0	0	0	0	0	5	5	7 (*)	0	0	7 (*)	10.4-8.1	7	7	9-8	7	20	20
Fuel	7	7	0	0	0	0	0	10	10	7 (*)	0	0	7 (*)	11.1-8.6	7.4	7	9-8	7	30	30

Note: (\*): Most favored nations (MFN)  
Source: General Department of Custom 2022

According to the data in Table 1, it can be seen that the import tax rate of gasoline products is quite high compared to the import tax rate of other petroleum products, specifically:

- For the group of gasoline products: In terms of commitment, the MNF tax on this item is 20%, the tax rate in ATIGA is 20% in 2020 reduced to 8% in 2021, in VKFTA, the commitment level is 10%. in 2020 to 8% in 2021, in the remaining FTAs currently being implemented, gasoline products have a commitment level of 20% or no commitment until 2020, from 2021 the tax rate is 20%, 8, 8%, 8%.

- For the group of aviation fuel products: In terms of commitment, the MNF tax on this item is 20%, the tax rate in ATIGA is 20% in 2020 and will be reduced to 8% from 2021, in VKFTA there is a commitment level of 20%. 10% in 2020 to 8% in 2021, in the remaining FTAs currently being implemented, gasoline has a commitment of 20% or no commitment until 2020, from 2021 the tax rate is 20%, 8.8%, 8%.

- For Diesel products: In terms of commitment, the MNF tax rate for this item is 7%, the tax rate in ATIGA, AKFTA, VKFTA is at 0% from 2018, in the remaining FTAs currently being implemented, Diesel products have a commitment equal to the tax rate of 7.5% in VNEAEU, 7% (equal to MNF), 8% in ACFTA or uncommitted in 2020, from 2021, the tax rate in VNEAEU will be reduced to 7%, tax rate in other FTAs remain unchanged.

- For Mazut oil: In terms of commitment, the MNF tax on this product is 7%, the tax rate in ATIGA, AKFTA, VKFTA will be at 0% from 2020, in the remaining FTAs currently being implemented. Diesel products have a commitment equal to the tax rate of 7.5% in VNEAEU, MNF (7%), 8% in ACFTA or uncommitted in 2020, from 2021, the tax rate in VNEAEU will be reduced to 7%, the tax rate in other countries. Other FTAs remain unchanged.

- For kerosene products: In terms of commitments, the MNF tax on this item is 7%, the tax rate in ATIGA is at 0% from 2018, in the remaining FTAs currently being implemented, kerosene products have committed rate of 0% (AKFTA), 8.6% in VNEAEU, 10% in ACFTA, 30% in CPTPP, uncommitted from 2021, tax rates in VNEAEU reduced to 7.4% and 7% in 2022, tax rates in other countries Other FTAs remain unchanged.

Thus, the tax rate of petroleum group in the period of 2018 -2020 does not have a big change, so the proportion of import value of petroleum group from partners in the region enjoying incentives from trade agreements compared to the world. gender has not changed much. Particularly for aviation fuel in 2020 compared to the previous year, there is a slight shift in import from China (down 22.39%) to ASEAN (up 10.94%), and at the same time, a sharp increase in the utilization rate of Form D (up 65.56%), this may be because the tax rate in ATIGA for some lines of aviation fuel is 0%.

- The tax rate of petroleum group in the period of 2020 - 2022 has some changes as follows:

+ Petrol subgroup: tax rates in ATIGA, AKFTA, VKFTA will be reduced from 20%, uncommitted, 10% to 8% respectively from 2021;

+ Subgroup of aviation fuel: some product lines have tax rates in AKFTA reduced from uncommitted (MNF 20%) to 12%, EVFTA reduced from 9% to 7%, CPTPP reduced from 20% to 7%.

+ The Diesel, Mazut, and Kerosene subgroups have tax rates in the VNEAEU reduced from 7.5% to 8.6% to 7% - 7.4%, and from 20% to 7% in the CPTPP.

## VI. Current market of petroleum imports in Vietnam

Table 2: Petroleum import turnover from main partner countries

Petroleum (million USD)	ASEAN			Korea				Other regions		World
	Million USD	% to the world	Rate of using D Form	Million USD	% to the world	Rate of using VKFTA Form	Rate of using AKFTA form	Million USD	% to the world	Million USD
2018	152.43	9.73%	0%	1,409.03	89.93%	11.99%	3.48%	5.35	0.34%	1,566.81
2019	83.60	6.23%	0%	1,218.99	90.79%	15.23%	0.45%	40.12	2.98%	1,342.71
2020	90.57	13.02%	0%	592.74	85.19%	21.38%	0.99%	12.46	1.79%	695.77
Average of period of 2018 - 2020	108.87	9.66%	0%	1,073.59	88.64%	16.2%	1.64%	19.31	1.7%	1,201.76
Increase/decrease 2020 compare to 2019	+8%	+6.79%	0%	-51%	-5.6%	+6.15%	+0.44%	-68.9%	-39.9%	-48%

Source: General Department of Customs, 2021

In the period of 2018-2020, gasoline import turnover reached an average value of USD 1,201.76 million. Import turnover from Korean and ASEAN partners always accounts for the majority of import value from the world, reaching an average of 88.64% and 9.66% respectively for the period 2018-2020. The large import turnover from Korea can be partly attributed to the 10% tax rate in the VKFTA Agreement for gasoline products from 2016 to 2020, which is the lowest special preferential tax rate in the framework of the FTA Agreement in the current period. This. The large import value from Korea is also the same trend compared to the previous period 2016-2018. Accordingly, keeping the import shift from ASEAN to the Korean market due to the impact of the difference in import tax between the two countries. this market since 2016. The utilization rate of Form D and Form VK AKFTA is low, the average for the whole period is 0%, 16.2%, and 1.64%, respectively.

In 2020, the import value from Korea is the largest among partners, reaching US\$592.74 million, accounting for 85% of the import value from the world, however, this volume has decreased by 51% compared to 2019. The utilization rate of VK form and AK form reached 21.38% and 0.9% respectively, a slight increase compared to 2019.

Import turnover from ASEAN (of which the majority is imported from Singapore) is 90.57 million USD in 2020, accounting for 13.02% of the total value of imports from the world, up 8% compared to 2019. Gasoline tax rate in ATIGA 2020 holds at 20%. The rate of using form D is 0%.

Although the import value accounts for a large proportion, the level of use of Form VK for gasoline import turnover from Korea still accounts for a low percentage. The reason may be due to the delay in the statistics of import statistics for special incentives or incomplete statistics

According to statistics from the General Department of Customs, from 2017 to 2021, petroleum import turnover from Korea, Malaysia, Singapore, Thailand, and China accounts for the majority of imports from other countries and blocs. other.

Year	Korea (Republic)	Malaysia	Singapore	Thailand	China	Other countris	Total
2017	1.939.241.625	1.299.170.540	2.158.227.287	951.554.311	518.502.387	198.469.126	7.065.165.276
2018	1.793.439.532	2.047.590.093	1.531.002.176	990.544.058	1.001.585.031	271.831.577	7.635.992.467
2019	1.928.895.789	1.474.753.449	1.258.782.982	393.437.991	981.783.342	102.067.621	6.139.721.174
2020	1.025.802.414	882.715.301	535.105.526	449.005.134	292.513.408	141.492.715	3.326.634.498
2021	989.583.720	1.277.960.334	780.855.150	733.684.393	184.884.653	178.575.708	4.145.543.959
<b>Total</b>	<b>7.676.963.080</b>	<b>6.982.189.717</b>	<b>6.263.973.121</b>	<b>3.518.225.887</b>	<b>2.979.268.821</b>	<b>892.436.747</b>	<b>28.313.057.374</b>

Source: General Department of Customs, 2022

The data in Table 3 is analyzed in detail for 5 importing countries (Korea, Malaysia, Singapore, Thailand, and China) with the largest proportion compared to the total import turnover from other countries. Specifically, in 2017, the import turnover of these five countries accounted for 97.2% of the total import turnover of the whole world. From 2018 to 2021, the import turnover of the 5 countries accounted for 96.4%, 98.3%, 95.7%, and 95.7% respectively of the total import turnover worldwide. These 5 countries belong to 4 bilateral and multilateral trade

agreements as AFTA Agreement (ASEAN), AKFTA Agreement (ASEAN, Korea), ACFTA Agreement (ASEAN, China), VKFTA Agreement (Vietnam, Korea). Country).

In 2017, the largest petroleum import turnover from Singapore was 2.1 billion USD, accounting for 30.55% of the total import turnover of 7.0 billion USD. In 2018, the import turnover of petrol and oil was 7.0 billion USD. The largest is from Malaysia with 2 billion USD, accounting for 26.8% of the total import turnover of 7.6 billion USD. In 2019, 2020, the largest petroleum import turnover from South Korea is 1.9 billion USD and 1 billion USD, accounting for 31.4% and 30.8% of the total import turnover, respectively. \$6.1 billion and \$3.3 billion respectively. In 2021, the largest petroleum import turnover from Malaysia is 1.2 billion USD, accounting for 30.8% of the total import turnover of 4.1 billion USD.

Besides, petroleum import turnover of the years decreased gradually from 2017 to 2021, specifically in 2017 the total import turnover reached 7.06 billion USD, in 2020 the total import turnover reached 4.14 billion USD (down 41% compared to total import turnover in 2017).

Thus, there has been a shift in imports from ASEAN (mainly Singapore) to Korea in recent years, especially gasoline. The large import turnover from Korea can be partly attributed to the tax rate in the VKFTA Agreement for gasoline products of 10% from 2016 - 2020, this is the lowest special preferential tax rate in the framework of the FTA Agreement. At this stage. The large import value from Korea is also the same trend compared to the previous period 2016-2018. Accordingly, keeping the import shift from ASEAN to the Korean market due to the impact of the difference in import tax between the two countries. this market since 2016.

Regarding the import market, Korea led with more than 2.5 million tons, worth \$2.745 billion, up 91.62% in volume over the same period last year. The Korean market accounted for 39.16% of the country's total petroleum imports in the first nine months of the year.

Other major markets such as Malaysia imported 956,148 tons, worth USD 885.67 million, a sharp decrease compared to nearly 1.7 million tons of the same period last year; imported from Singapore 960,508 tons, worth 978.7 million USD, Thailand 877,870 tons, worth 960 million USD, an increase of nearly 100,000 tons over the same period last year.

## **VII. Some comments on the situation of petroleum imports in Vietnam**

Thus, before 2017, petroleum imports were mainly from Singapore (under the AFTA Agreement). From 2019 to 2021, the number of imports from Korea increased more than that of Singapore.

It can be seen that the import-export tax reduction policy for petroleum products in recent years has been implemented in accordance with the free trade agreements between Vietnam and the ASEAN region with partners such as Korea, and China. These are also the leading partners in importing petroleum from Vietnam, thus, significantly reducing the State budget revenue from petroleum import and export tax. Because of that, it loses the role of petroleum import and export tax in regulating as well as being an important source of revenue for the State. With the import and export tax on petrol and oil will continue to decrease in the near future, it is necessary for the State to take measures to switch from collecting import and export taxes on gasoline to collecting domestic taxes to ensure the role of State management. and future budget revenue.

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