

EU environmental regulations

Impact of EUDR, IUU yellow card, and CBAM on Vietnam's key export sectors

The EU has introduced three major regulatory frameworks — EUDR, IUU yellow card, and CBAM — aimed at strengthening environmental compliance and advancing sustainable development. These measures are expected to create varying degrees of impact on Vietnamese exporters:

EU Deforestation Regulation (EUDR)

- Regulatory scope: The EU requires that selected land-linked commodities — including rubber, coffee, palm oil, timber, and cocoa — placed on its market must not be associated with deforestation or forest degradation occurring after 31 December 2020.
- Implementation timeline: On 17 December 2025, the EU confirmed a postponement of enforcement. The regulation will take effect from 30 December 2026 for large EU companies and from 30 June 2027 for smaller enterprises.
- Impact on Vietnamese exporters: Most wood and rubber exporters are likely to face compliance challenges, as demonstrating full traceability and verifying that raw materials are not linked to post-2020 deforestation is operationally complex. This is particularly relevant in Vietnam, where timber sourcing remains fragmented and heavily dependent on small-scale household growers. However, EU exposure for these sectors is relatively modest. We therefore believe companies retain adequate time to strengthen traceability systems, restructure supply chains, or diversify export destinations to mitigate potential demand softening once the regulation becomes effective.
 - Wood sector: Listed manufacturers such as SAV, PTB, GTA, and TTF derive an estimated 10–15% of revenue from the EU market.
 - Rubber sector: Natural rubber producers including GVR and PHR face relatively limited risk, given their export focus on China and domestic consumption. In contrast, downstream rubber processors such as CSM, SRC, and DRC may experience higher exposure, as the EU accounts for roughly 5–10% of their total revenue.

IUU (Illegal, Unreported, and Unregulated) Yellow Card

- The EU imposed the IUU yellow card on Vietnam in October 2017, citing concerns that certain offshore fishing vessels were operating without proper national registration and engaging in serious violations of foreign waters and international fishing regulations.
- In response, Vietnamese authorities have introduced comprehensive corrective measures to secure the removal of the yellow card. These include mandatory registration of all fishing vessels under the Vietnamese flag, real-time offshore vessel monitoring systems, and tighter inspection and enforcement mechanisms. The Prime Minister has also instructed that all outstanding IUU violations be fully resolved, while making clear that ministers, sector leaders, and coastal provincial authorities will bear direct accountability — including potential disciplinary action — for any falsified reporting or continued illegal fishing activities under their jurisdiction.
- The likelihood of the yellow card being removed during the March 2026 inspection appears increasingly favorable, as the national fisheries database (VNFishbase) has achieved significant full vessel registration and data synchronization, covering all 79,360 fishing vessels nationwide. In key provinces such as Quang Ngai, authorities have completed all assigned tasks, with 100% of active vessels now holding valid fishing licenses.
- From a corporate perspective, most listed seafood companies focus primarily on aquaculture rather than wild capture fisheries. As a result, direct exposure to IUU-related regulatory risks is expected to remain limited, even under less favorable scenarios.

EU Carbon Border Adjustment Mechanism (CBAM)

- CBAM will officially take effect on 1 January 2026, applying to steel, cement, and fertilizer imports into the EU. Designed to address carbon leakage and embedded emissions in production, the mechanism will require EU importers to purchase CBAM certificates following the conclusion of the 2023–2025 transitional phase.
- In the steel sector, CBAM is estimated to raise import costs by approximately 15–25%, depending on production technology (electric arc furnace (EAF) versus blast furnace (BF)), potentially eroding the price competitiveness of Vietnamese steel exports to the EU. Over the longer term, however, producers that proactively invest in greener technologies may capture emerging advantages. For 2026–2027, we expect the overall impact on Vietnamese steelmakers to remain manageable, as many domestic producers are increasingly pivoting toward the local market, supported by strengthening demand driven by residential real estate development and expanding public investment.
- For cement and fertilizer, domestic consumption accounts for the bulk of total sales volume. Consequently, direct exposure to CBAM-related risks is expected to be limited.

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(Based on the expectation of price gains over the next 6 months)

Buy:	Neutral:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(Based on the assessment of sector prospects over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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