

Investment management: Loopholes and environmental risks

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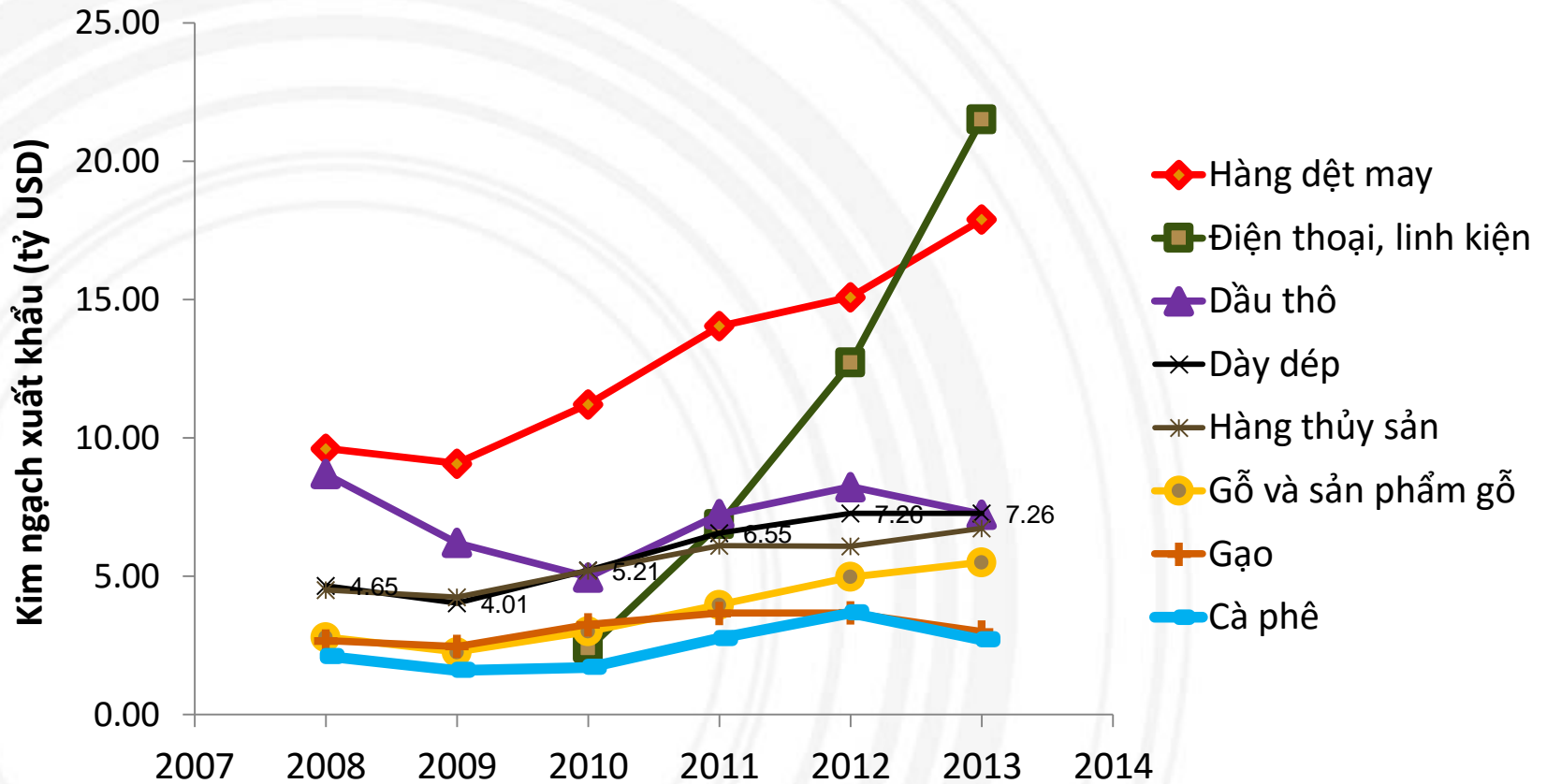


Presentation outline

- FTAs and investment flows in Vietnam
- Related environmental issues
- Management loopholes and environmental risks
- Conclusion and recommendations

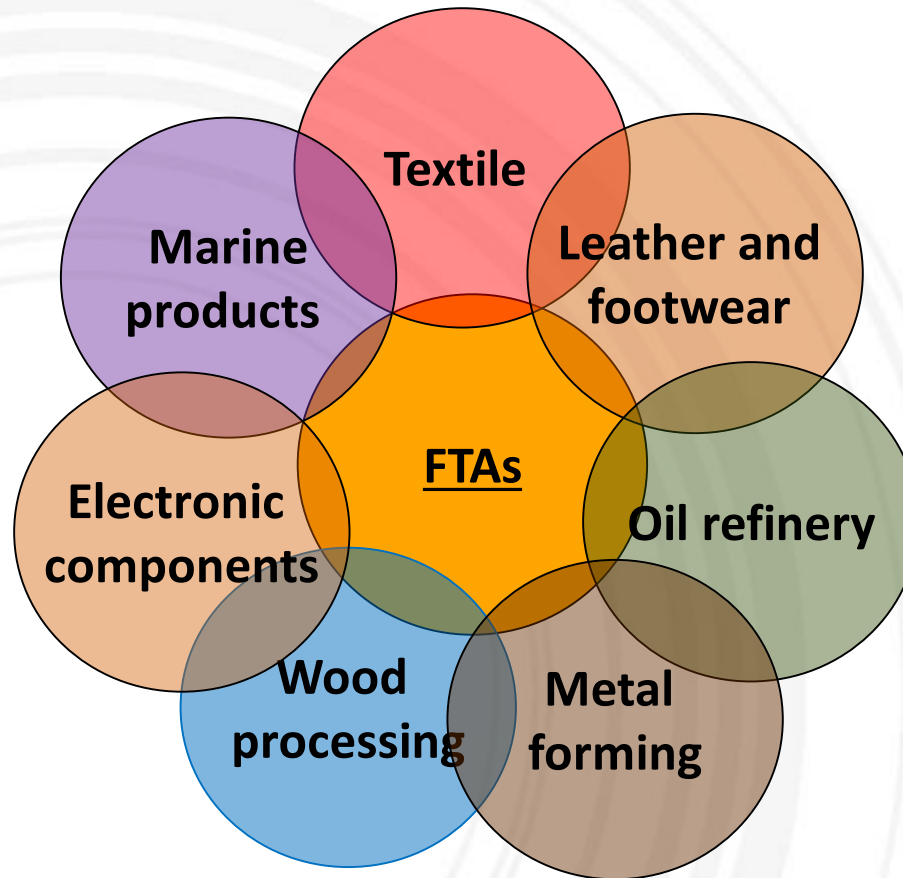
1. Investment flows in Vietnam

Exports in Goods (2007 – 2014)



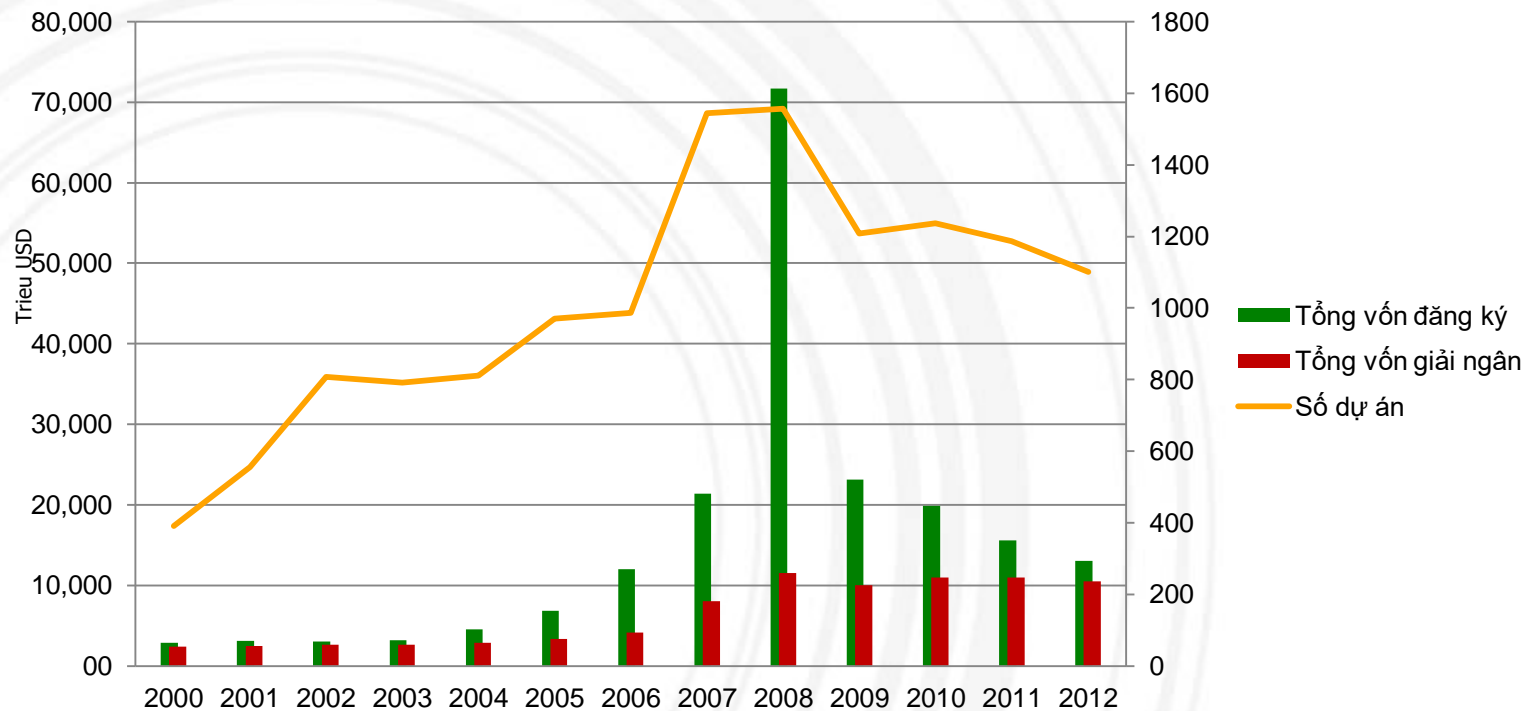
1. FTAs and investment flows

Which industrial sectors will benefit from FTAs?



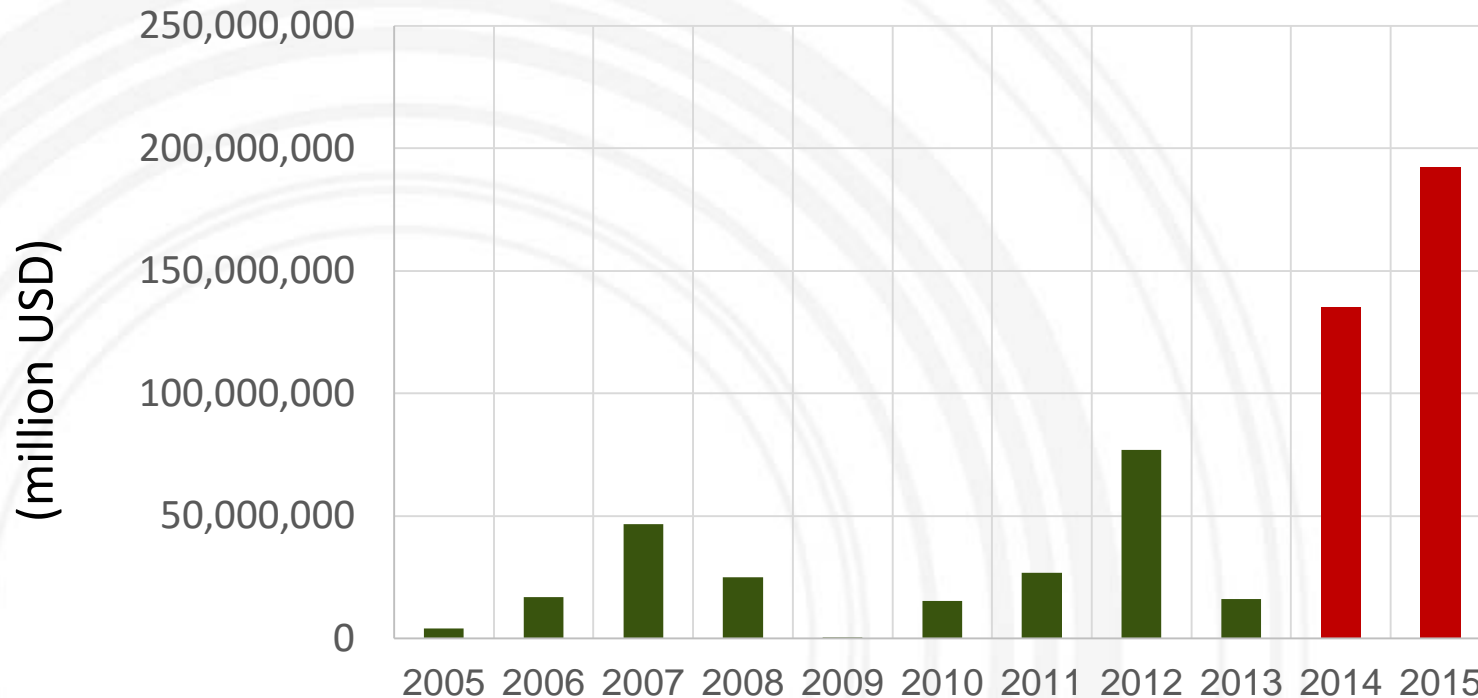
1. FTAs and investment flows

Foreign direct investments (FDI) in Vietnam



1. FTAs and investment flows

Investment flows in Nam Dinh province



- ❑ 88.9 % of total investment in the textile sector
- ❑ 30.32% investment from China, 26.98% from South Korea

1. FTAs and investment flows

Some big scale projects in Nam Dinh

In 2015, Nam Dinh approved 15 textile projects. Some big scale projects include:

- Junzhen (25 million USD)
- Thien Nam Sunrise (77 million USD)
- Sung Nam Knitting Mills (25 million USD)
- Denim (38 million USD)
- Yulun (68 million USD)

Currently, the Vietnam National Textile and Garment Group (VINATEX) is developing infrastructure for Bao Minh and Rang Dong Industrial Zones in order to receive textile projects from Chinese business partners.

2. Related environmental issues

The most polluting industries in Vietnam

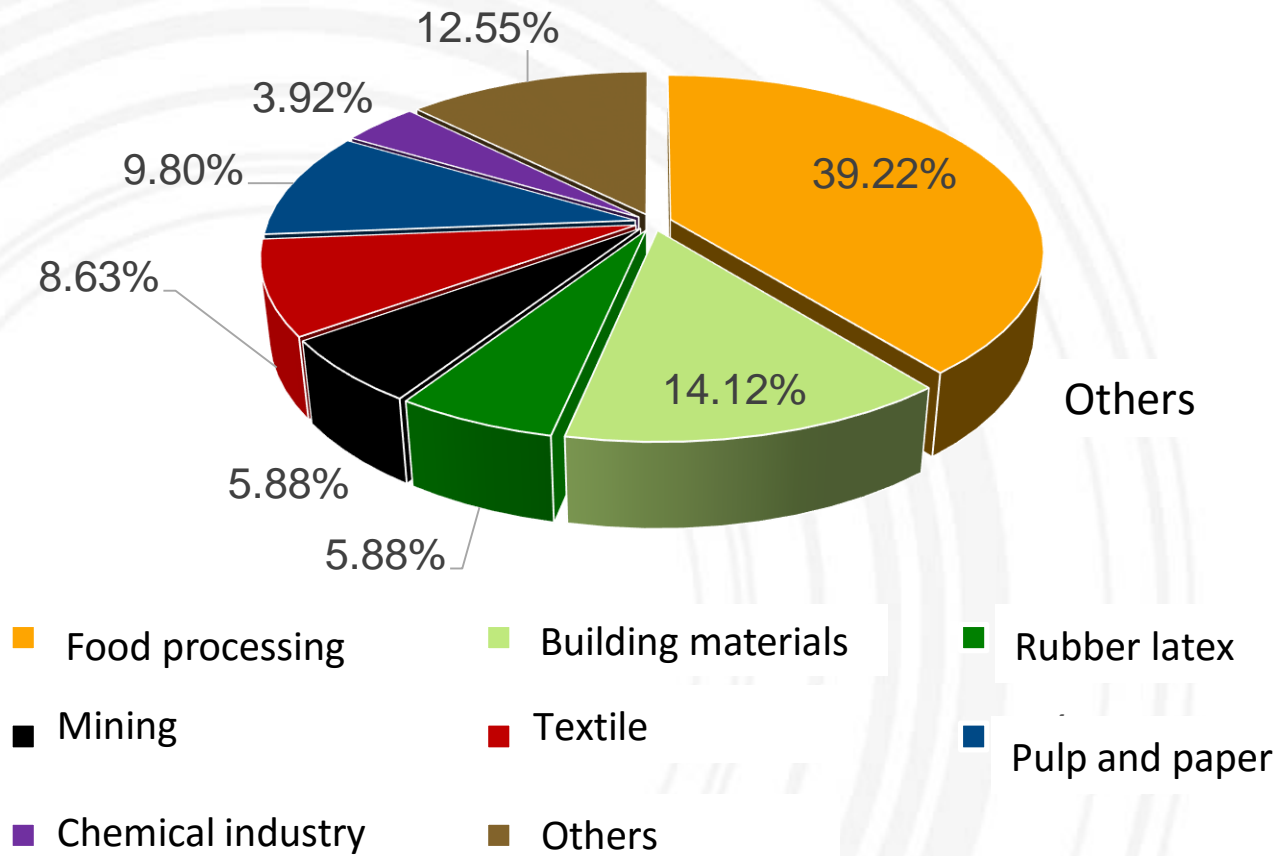
No	Industry	No	Industry
1	Fertilizers and nitrogenous compounds	9	Metal forming industry
2	Leather tanning	10	Rubber latex processing
3	Iron and steel production	11	Paper coaster and plastic boxes
4	Chemical industry	12	Textile
5	Marine products industry	13	Clipboard, particle-board
6	Plastic industry	14	Painting and plating industry
7	Pulp and paper industry		
8	Non-ferrous metal industry		

Assessment of FDI attraction for 20 years

- Limited transfer of high technology
- 80% of FDI companies use medium-level technologies, 5-6% use high technologies, 14% use outdated technologies

2. Related environmental issues

Economic and industrial sectors that cause serious environmental pollution



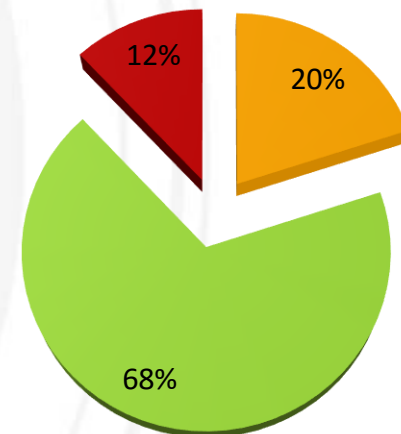
Calculated from the list of establishments causing serious environmental pollution in Decision No. 64/2003/QĐ -TTg

2. Related environmental issues

Environmental compliance in FDI companies

- 80% of industrial zones are not fully compliant with environmental regulations
- 23% of FDI companies could not meet environmental standards for air emission and wastewater
- FDI companies accounted for 60% of total companies that could not meet environmental standards

- ✓ 20% of FDI companies said that they save 10% in environmental treatment costs when investing in Vietnam (compared with their home countries)
- ✓ 68% of FDI companies said that they save 10%-50% environmental treatment costs
- ✓ 12% of FDI companies said that they save above 50% environmental treatment costs.



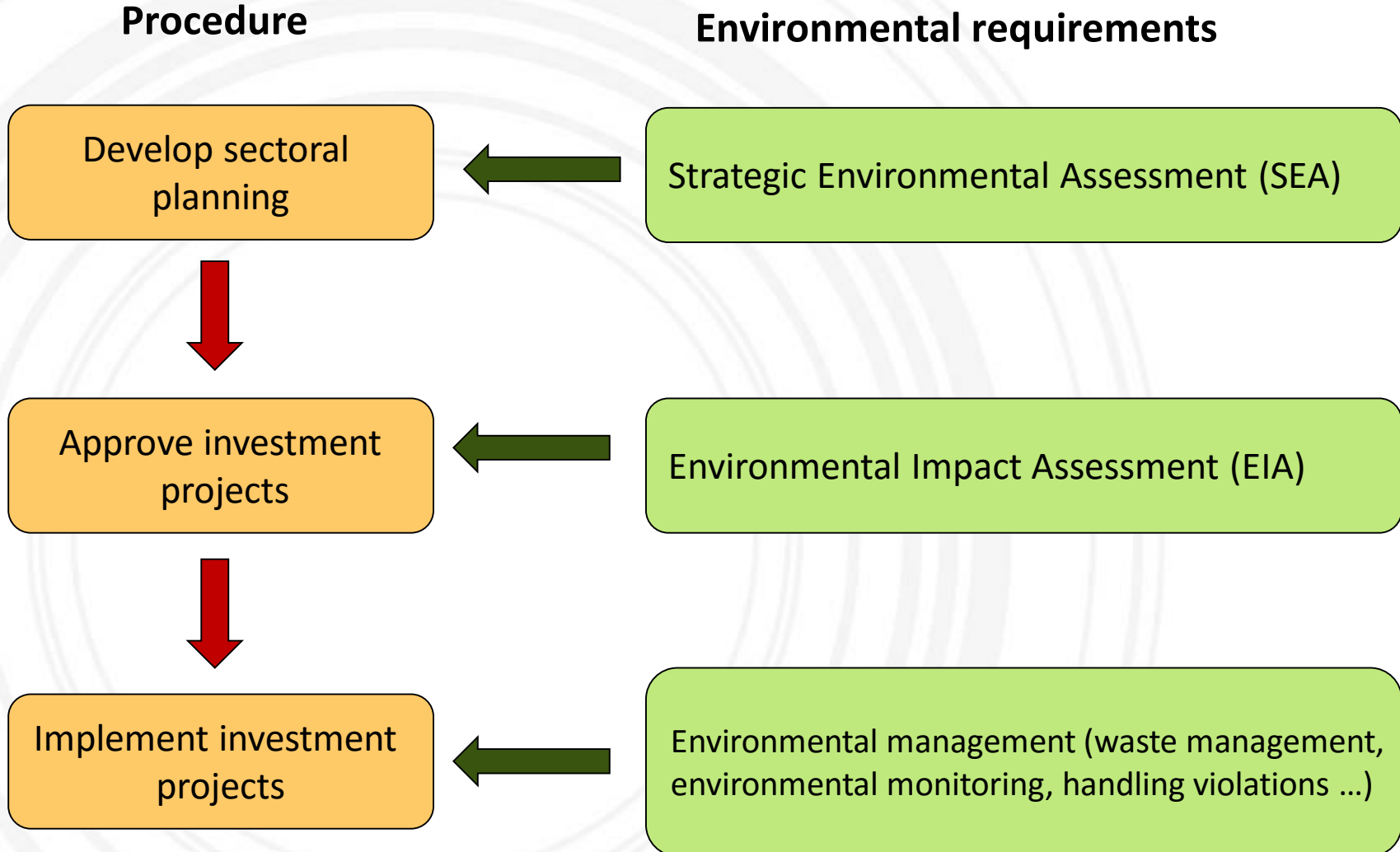
2. Related environmental issues

Challenges for environmental management at the local level:

- Nam Dinh Garment Textile Company and Nam Dinh Silk Textile Joint Stock Company were listed as establishments causing serious environmental pollution by Decision No. 64/2003/QĐ-TTg of the Prime Minister. It took Nam Dinh provincial authorities more than 10 years to handle these companies by relocating them to industrial zones. (Nam Dinh DONRE)
- Wastewater treatment is very expensive, around 22,000 VND/m³. Furthermore, some Chinese companies are using outdated technologies and releasing wastewater with high concentration of pollutants. Therefore, treatment is more expensive (Management Board of Bao Minh Industrial Zone)
- It is difficult and costly to meet environmental standards for textile wastewater (Son Nam Garment Textile Company)

3. Management loopholes and environmental risks

Investment management



3. Management loopholes and environmental risks

Loopholes in sectoral strategy and planning

- Lack of integration and coordination among different government planning processes (i.e., between hydropower development planning and biodiversity conservation planning)
- Lack of independent SEA approval (MONRE verifies SEA for strategy/planning under competence of National Assembly, Prime Minister; other Ministries verifies SEA for their sectoral strategy/planning and PPCs verify SEA for provincial strategy/planning)
- Limited consultation of the public in the SEA process.
- Typically, SEA is conducted after developing the strategy/plan, and is not an integral part of the process.

3. Management loopholes and environmental risks

Loopholes in sectoral strategy and planning from Dong Nai 6 & 6A hydropower projects

PM approved National Planning for Power Development (after SEA is approved)

MONRE concluded that project conflicts with Biodiversity Law

Re-summitted EIA report for Dong Nai 6 & 6A

Summitted EIA report for Dong Nai 6 & 6A

Re-summitted EIA report for Dong Nai 6 & 6A

Duc Long withdrew EIA report

PM remove Dong Nai 6 & 6A out of National Planning for Power Development

2011

2012

2013

4 years

3. Management loopholes and environmental risks

Loopholes in investment approval process

Inconsistency among various regulations: According to the Law on Investment 2014, environmental requirements for approving investment projects are as follows:

Environmental Requirements

Under competence of National Assembly



Initial Environmental Impact Assessment

Under competence of Prime Minister



Initial Environmental Impact Assessment

Under competence of People's Committee



Report on a project's equipment and technologies

3. Management loopholes and environmental risks

Loopholes in investment approval process

Inconsistency among various regulations: According to the Law on Environmental Protection 2014, the decision on verifying the EIA report shall serve as the ground for the competent authority's following tasks:

- a) The decision on the intention to invest in projects specified in Article 18 of this Law must be granted if the project is required to obtain such decision in accordance with laws.
- b) Issuing and revising the prospecting permit, mineral extraction permit in relation to mineral exploration and extraction projects;
- c) Approving the plan for prospecting or exploration, and the plan for mine development in relation to petroleum exploration and extraction;
- d) Issuing and revising the construction permit in relation to projects on the development of works or structures that are required to obtain the construction permit before commencement;
- e) Issuing the investment certificate for projects that are not regulated in provisions a, b, c and d of this clause.

3. Management loopholes and environmental risks

Loopholes in investment approval process

EIA plays a very limited role in decision making process:

- Lack of independent EIA reviewing process: (MONRE verifies EIA for projects under competence of National Assembly, Prime Minister, Government; other Ministries verifies EIA for their projects and Provincial People's Committees verify EIA for investment projects under their competence)
- Lack of participatory approach and transparency during EIA process.
- Pressure in terms of time, investment and development targets.

Nam Dinh does not have many advantages for attracting investment. Therefore, we try to attract investment in any economic sector. Thus far, we have not rejected any projects.

(Nam Dinh Department of Investment and Planning)

3. Management loopholes and environmental risks

Loopholes in environmental management

🌿 **Environmental monitoring:** Occurs at least 4 times per year. Companies can choose consulting firms to conduct their environmental monitoring program. Automatic monitoring system only records basic parameters such as TSS, DO, pH.

🌿 **Inspection:** Inspection must be prepared, informed, and agreed upon between authorities and companies in terms of timeline and activities.

🌿 **Violation handling:** Difficult to identify specific polluters and estimate damages. In case a violation occurs, the fine is normally much lower than treatment cost.

3. Management loopholes and environmental risks

Loopholes in environmental management in the case of Pang Rim Textile Company

- In 1992, the company was established in Viet Tri, Phu Tho province
- In 2003, the company was listed as “Establishments causing serious pollution” by the Decision No. QĐ 64/2003/QĐ-TTg of the Prime Minister
- In 2008, Phu Tho Provincial People’s Committee accepted Pang Rim’s proposal to expand production
- In 2009, for the first time, local authorities warned that Pang Rim was causing serious pollution
- In 2010, the environmental police reported that Pang Rim illegally released 2,000 – 2,200 m³ of untreated wastewater per day into the Red River. The company was then fined 370 million VND (~16,500 USD)
- In 2011, Phu Tho Provincial People’s Committee accepted another proposal to expand production (second time)
- In 2016, Pang Rim has plan for expanding production...

3. Management loopholes and environmental risks

Legal risks related to environment

- The Government can be sued due to inappropriate policies or decisions (such as withdrawal of licenses or unfair treatment)
- The companies can be fined due to commercial disputes

Son Nam Textile Company is mainly exporting their products to Japan. According to requirements from Japanese importers, Son Nam has to report on chemical usage, origin of chemicals, and situation of wastewater treatment plant (certified by Nam Dinh environmental authority)

(Representative of Son Nam Textile Company)

4. Conclusion and recommendations

- FTAs are encouraging investment in some industrial sectors including textile, leather tanning, food processing ... which are listed as polluting industries.
- Policy system exposure loopholes from sectoral planning to project implementation. These loopholes lead to environmental risks when investment is increased in polluting industries .
- Investors are allowed to sue governments. Therefore, dispute and legal risks for government also increased
- In this context, “green growth” strategy could not be implemented in practice without specific mechanisms for implementation and monitoring.

4. Conclusion and recommendations

How to attract “clean FDI” projects?

- Reform policies and institutional arrangement for improving investment competitiveness.
- Develop a list of restricted investment sectors and list of conditional investment sectors basing on pollution assessment.
- Improve transparency and public participation in the SEA and EIA processes by disclosing information and enhancing public participation.
- Create reporting and monitoring mechanisms for local communities during project implementation.

Thank you for your attention!
