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New Decree Could Drastically Affect Auto Business in Vietnam

On October 17, 2017, the government of Vietnam issued Decree No. 116/2017/ND-CP setting out the conditions for the manufacture, assembly, importation, and offering of warranty and maintenance services of automobiles (Decree 116). In light of the new decree, which took immediate effect, companies operating in the automotive industry in Vietnam may find it necessary to comply with strict new regulations in order to carry out their business in the country.

Automobile Importation

Decree 116 is particularly strict on auto importers. The decree states that only companies – not individuals – will be considered for the issuance of a business license for automobile importation. These companies also must have facilities for automobile warranty and maintenance either under their ownership, under a lease contract, or belonging to their authorized dealerships.

Notably, Decree 116 also puts forward a stringent requirement for auto importers to obtain documents certifying or documenting that they are authorized to act on behalf of the foreign automobile manufacturers and assemblers to recall imported cars in Vietnam. This extreme clause may spell an end to small-scale auto importers in Vietnam, as the probability that international car manufacturers will agree to allow an unofficial dealer to conduct any recall of their products is minimal. This is especially true in the cases of international car manufacturers which already have official dealerships in Vietnam such as Audi, BMW, and Toyota.

Although this new regulation will likely lead to a decrease in the number of companies eligible for entry into the automobile importation market, such reduction could benefit consumers in the sense that companies with weak potential and lack of experience will be excluded from the market. Also, even strong, experienced importers will have to seek partnerships with famous and well-established foreign automobile manufacturers instead of less reputable and trustworthy partners.

Another important issue of Decree 116 is the tightening of regulations on imports of used cars. Any used cars imported into Vietnam must be registered for circulation in countries with equivalent or higher emissions standards than those currently in force in Vietnam. In addition, when conducting inspection procedures for used vehicles with quality management agencies, the importers must be able to provide valid circulation registration certificates up to the date of export granted by a competent foreign agency, or papers of equivalent legal validity. Used cars are required to have a warranty period of at least two years or 50,000 km for small cars, and at least one year or 20,000 km for other types of cars.

These regulations make doing business in automobile importation more difficult, especially for old/used cars. Many used-car dealers are complaining that the new policy

will make their business unprofitable and force them to close down. On the bright side, this move will undoubtedly reduce the importation of secondhand cars of uncertain provenance, which should have a corresponding positive impact on the environment and give the domestic automobile industry more opportunity to develop.

Auto Manufacturing and Assembly

Decree 116 also tightens regulations related to domestic auto manufacturers and assemblers. Pursuant to Article 7 of the decree, companies carrying out automobile manufacturing and assembly business in Vietnam are required to meet a wide range of requirements on facilities such as workshops, production lines, warranty facilities, fire safety, environmental safety, etc. Particularly, with regard to personnel, the technicians in charge of the manufacturing and assembly lines must have a university degree or higher and must have at least five years of experience in automobile assembly and manufacturing. Obviously, though burdensome for the manufacturers and assemblers, these strict regulations will benefit consumers by limiting the number of inexperienced companies that may participate in the market.

Auto manufacturers and assemblers (as well as importers) are also obliged to collect and dispose of all scrap cars. Though it is not clear how this regulation will be enforced, it should help increase the environmental responsibility of companies in the automotive industry and at the same time benefit the living environment of the people.



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Warranty and Maintenance Requirements

According to Decree 116, companies seeking a license to provide warranty and maintenance services for automobiles must meet conditions on workshops, premises, work areas, tools and equipment, human resources and quality management systems, occupational safety and health, fire prevention and firefighting, as well as records on environmental protection. In addition, these companies must also commit to providing technical support and supply of parts and accessories for the warranty and maintenance of automobiles of either domestic or foreign auto manufacturers and assemblers.

The Vietnam Automobile Registry under the Ministry of Transport of Vietnam (the Inspection Agency) is the agency competent to grant certificates of automobile warranty and maintenance.

Conclusion

The strict regulations introduced under Decree 116 are likely to close the door for small-scale auto importers in Vietnam. Also, under the regulations from the new decree, the importation of autos in general will be much more costly and time-consuming. As such, Vietnamese consumers should not expect to own cheap imported cars anytime soon. In light of Decree 116, however, Vietnam's automobile market will soon be clear of weak and inexperienced players and be more organized with official dealerships. 🚗