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The Economy and Environment Program for Southeast Asia (EEPSEA) was established in May 1993 to support training and research in environmental and resource economics across its 9 member countries: Cambodia, China, Indonesia, Laos, Malaysia, Papua New Guinea, the Philippines, Thailand, and Viet Nam. Its goal is to strengthen local capacity for the economic analysis of environmental problems so that researchers can provide sound advice to policymakers.

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Making Polluter Pay Legislation Work – A Study of Vietnam's Decree 67

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One of the most significant environmental problems affecting Vietnam is industrial waste pollution. Although the country has implemented a range of anti-pollution legislation, the problem has not been resolved and companies continue to pollute on a large scale. Now a new EEPSEA study has assessed the effectiveness of a key piece of Vietnam's anti-pollution legislation in an attempt to highlight what →

A summary of EEPSEA Research Report No. 2009-RR8: 'Assessing The Impacts Of Environmental Regulations On The Food Processing Industry In Vietnam' by Le Ha Thanh, from the Faculty of Environmental, Natural Resources and Urban Economics & Management, Hanoi National Economics University, Hanoi, Vietnam. E-mail: lhthanh@vdf.org.vn

“The legislation has been ...



Environmental Hotspots in Vietnam

Source: VEM 2003

➔ needs to be done to reduce industrial pollution in the country.

The study is the work of Le Ha Thanh from Hanoi National Economics University. It looks at the impact of Decree 67 on food processing companies in Hanoi and Ho Chi Minh City (HCMC). It finds that, although the legislation has been successful in raising environmental awareness among businesses, it has been less successful at stopping pollution. The study makes a number of sugges-

tions for how the implementation of the legislation can be made more effective. Recommendations include reducing the scope of the legislation to make it easier to implement and a phased increase in the charges that are levied on polluting businesses.

The Pollution Challenge

Decree 67 is Vietnam's first attempt at using the "polluter pays" principle to control industrial pollution. It became officially effective in January 2004. Under the legislation, all

registered enterprises in the country are now required to manage their wastewater properly and pay an environmental protection fee. It is clear that this legislation is effective as a way of raising budget revenues. However, it has been unclear exactly what impact it is having on firms' environmental behaviour. This lack of understanding is clearly a significant obstacle to the environmental policymaking process in Vietnam. Given the importance of this issue, Le Ha Thanh set out to provide policymakers with more insight on pollution control issues, so that they will be in a position to design and implement more effective regulations and policies.

The study looks at food-processing enterprises in Hanoi and HCMC. This research focus was chosen because both cities have a high concentration of food processing factories and face serious water pollution problems. What is more, the food processing industry is growing fast and is recognised as one of the country's most polluting industrial sectors. The survey assessed 119 firms: 55 firms located in Hanoi and 64 firms in HCMC. Firms in the seafood subsector topped the list of firms that took part in the study (they made up 39% of the total); these were followed by companies in the confectionery (26%) and beverages (23%) subsectors. The rest of the firms came from the milk and sugar (7%) and noodle (5%) subsectors.

Almost all information for the study was collected using survey questionnaires. These included information on companies' operations, inputs such as energy, materials, equipment and water, and on total production/outputs, as well as the total amount of wastewater firms

less successful at stopping pollution.”

generated, and the quality of this wastewater. Data was also collected on how firms perceived and responded to Decree 67. To complement the survey data, information on wider environmental issues and standards was also gathered from various environmental and trade agencies, including the Department of Natural Resources and Environment (DoNRE). DoNRE has the primary responsibility for managing the implementation of Decree 67.

Poor Pollution Performance

The 119 surveyed firms produced an average wastewater discharge of 211m³ per day. Most of the firms produced wastewater which contained COD (Chemical Oxygen Demand) or TSS (Total Suspended Solid) concentrations above permitted levels. In the worst case, COD concentrations were 18 times higher than allowed and TSS concentrations were 14 times higher than permitted. None of the businesses in the survey had a particular department, unit or person responsible for environmental management and only 24 companies have installed wastewater treatment facilities, which were generally not very effective. The survey revealed

three main reasons for the low quality of wastewater treatment facilities: A lack of knowledge about environmental protection, poorly trained workers and inadequate plant capacity.

The study finds that there has been a decline in the amount of money collected through Decree 67 from industrial firms in Hanoi. This trend may reflect the minimal impact of the legislation. However, it may also show that there are weaknesses in the implementation process. The survey also finds that inspections have very little effect on the behavior of food processing firms in both Hanoi and HCMC. In fact it appears that the more inspections companies receive, the worse the quality of their wastewater. It is clear that, although most of the interviewed firms are worried about the impact of inspections, instead of improving their environmental performance, many bribe inspectors to turn a blind eye. This is one of the key reasons why so few firms have installed wastewater treatment facilities.

A Lack of Knowledge

Although Decree 67 seems to have raised awareness of environmental protection, it is still clear that a large number of company managers have no significant knowledge of effective wastewater management. For example, a third of the interviewees thought that paying wastewater fees meant they had the right to pollute. This indicates that firms would rather pay wastewater fees than improve their environmental performance. What is more, some firms refused to pay wastewater fees outright. Among the reasons for this behaviour was the fact that the firms had already been charged by their water supply companies and saw no reason to make the second payment. Secondly, many of the dissenting firms did not agree with the data provided by DoNRE. Last but not least, dissenting firms felt that environmental regulations were not being fairly applied.

The survey also highlights some other weaknesses in Decree 67. From the firms' perspective, it is clear that the legislation is not sufficiently clear and detailed and this makes it difficult for firms to comply with it. Some firms find it difficult to contact the relevant government staff or to get sufficient information from them. This situation indicates that the environmental management agencies in both Hanoi and HCMC cannot cope with the implementation of Decree 67.

International Markets Drive Clean-up

On a positive note, it is clear that the international market has a significant positive impact on the firms' environmental performance. Products sold in foreign countries such as the USA and the EU must meet strict environ-

		Year 2004	Year 2005	Year 2006 (first 3 quarters)
1	Firms that received written notices from Hanoi DoNRE on the amount of wastewater fees to be paid	453	453	453
2	Firms that paid wastewater fees	76	28	23
3	Firms that did not pay wastewater fees	364	378	398
4	Total assessed fees (VND)	689,040,733	610,040,733	414,020,592
5	Total collected fees (VND)	683,611,214	249,349,661	62,635,654
6	Rate of collection efficiency (%)	99.2	24.8	15.3
7	Average fees paid by firms (VND)	8,994,884	8,905,345	2,723,289

Payment of wastewater fees by firms in Hanoi.

mental regulations and standards. Because of this it was found that, generally, the higher a firm's export capacity, the better its environmental performance. However, overall it is clear that most food processing companies show little concern for environmental improvement and that they are not under much pressure to change from domestic markets.

In summary, it can be concluded that the impact of Decree 67 is minimal. The results of the study also indicate that many company owners and managers have an inadequate knowledge of environmental protection. It is also clear that companies do not consider environmental protection a top priority. Overall, environmental costs are not being fully internalized by businesses – primarily due to the poor enforcement of regulations.

Improving the Implementation of Decree 67

By charging industrial wastewater fees through Decree 67, the Government of Vietnam has clearly signalled that it is committed to a greater use of economic instruments as a policy tool to improve the country's environmental quality. However, this study shows that, at present, this strategy is not working well. The study recommends that to implement Decree 67 more effectively, several actions should be taken.

The study showed that DoNRE staff does not have the resources to properly manage Decree 67. Given the limited environmental management capacity at all levels, it is strongly recommended that only big firms in highly polluting industrial sectors should be required to pay environmental protection fees. It is also recommended that environmental protection fees should only be applied to a limited number of pollutants such as COD and TSS. The experience of other countries suggests that the simpler a pollution control system is, the more workable it will be. The study also recommends that DoNRE should set up a specialized team dedicated to the collection and management of environmental protection fees. It also suggests that DoNRE should formulate a plan to improve its staffing and also set up a staff development program.

Charges Need Increasing

The fee structure that is used by Decree 67 is made up of a single pollution fee. It is recommended that a two-part fee structure, such as those adopted in the Philippines and Malaysia, should be investigated. Such fee structures incorporate a pollution fee alongside a fixed fee. The fixed fee serves as an administrative charge and is paid by all firms covered by the legislation. If a two-part tariff were adopted, 'small' facilities could be required to pay only the fixed fee part of the tariff. This would make it easier for DoNRE

to manage Decree 67 and make its implementation more cost-effective.

Another key issue is the level of fees that should be charged. Other Asian countries like China, the Philippines and Malaysia charge a higher pollution fee than Vietnam. However, considering the current economic climate in Vietnam, the study recommends that Vietnam should continue with the current fee level, but revise and raise it substantially every five years.

The study also recommends that, to implement Decree 67 effectively, Vietnam needs to establish a series of high quality and standardized testing laboratories. It should also set up accrediting agencies and ensure they have sufficient staff and measuring equipment. Finally it recommends that the government should establish a system of fines and penalties for firms that fail to pay their environmental protection fees. To provide a real incentive, these fines should be 5 to 10 times the value of the environmental protection fees that a firm pays. To realize all these recommendations, the study concludes that Vietnam should put in place a concrete and transparent roadmap for the improvement and implementation of Decree 67.

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