

CHAPTER 21 MOBILITY: MOTORCYCLES

OVERVIEW

Vietnam ranks the second-largest motorbike market in ASEAN, following Indonesia, and stands fourth worldwide behind India, China, Indonesia, and Pakistan.¹ Over the past few decades, the motorcycle industry in Vietnam has experienced rapid growth, even with the setbacks brought by the COVID-19 global pandemic^{2, 3}. In 2022, the two-wheeler market in Vietnam saw a resurgence, growing by 20.5% from previous year, with sales surpassing 3 million units⁴.

Given this context, the motorcycle industry presents significant potential, with anticipated growth in exports, revenue, and consumption. This potential can be realised with a well-defined and transparent development strategy from the Government. Industry stakeholders have also been active in societal contributions, especially in enhancing road safety in Vietnam⁵ and promoting environmental friendliness. However, the sector is not without its challenges. In the sections that follow, we delve into these critical concerns and provide our recommendations to tackle each one.

I. MOTORCYCLE LIMITATION IN BIG CITIES BY 2030 AND ICE PHASE OUT TO SHIFT TO ELECTRIC VEHICLES BY 2050

Relevant authorities: Office of the Government (OOG), Ministry of Transport (MOT), Hanoi People's Council (HNPC), Da Nang People's Council (DNPC), Ho Chi Minh City People's Committee (HCMCPC), provincial Departments of Transport (provincial DOTs)

Issue description

The Government has proposed a limitation on private vehicles, including motorcycles in five big cities in Vietnam and a gradual transition from internal combustion engines using fossil fuels (ICE) to Electric Vehicles (EV) between 2030 to 2050. This initiative aligns with the commitments made at United Nations Climate Change Conference (COP) 26 for CO₂ neutrality. However, motorcycle remain a vital mode of transportation for the majority of Vietnamese people, not only because of their economic considerations but also due to longstanding habits and the country's road conditions.

Potential gains/concerns for Vietnam

1. Limiting private vehicles, particularly motorcycles, to access into central areas of big cities

We commend the Government's proactive steps to address traffic congestion and pollution in Vietnam's five major cities: Ha Noi, Ho Chi Minh City, Da Nang, Hai Phong, and Can Tho. However, the Transportation Development

1 "Vietnam motorbike consumption among the top in ASEAN", Vietnamnet, 18 December 2021. Available at: <https://vinamr.com.vn/vietnam-motorbike-consumption-among-the-top-in-asean/>, last accessed on 26 July 2022.

2 "Vietnam emerges as a major motorcycle market and manufacturing hub", Vietnamnet Global, 04 June 2023. Available at <https://vietnamnet.vn/en/vietnam-emerges-as-a-major-motorcycle-market-and-manufacturing-hub-2150832.html>, last accessed on 07 November 2023.

3 According to a report released by the General Statistics Office, in the past month of June, the country's motorcycle production reached an estimated 283,900 units, a slight decrease of 2.6% compared to May (with 291,600 units), but still a significant increase of 21.8% compared to the same period in 2022. This marks the third consecutive month in which domestic motorcycle production has exceeded 280,000 units per month. Considering the second quarter of the year, motorcycle output in Vietnam amounted to 856,800 units, an increase of 11.2% compared to the first quarter of 2023 (with 770,700 units) and a 7.6% increase compared to the same period in 2022. Cumulatively, the total number of newly manufactured motorcycles in the first half of 2023 is estimated to reach 1,675,500 units, equivalent to 96.5% of the previous year's first half (approximately 1.74 million units)

4 "VAMM announces its sales of 4th quarter of 2022 and whole year 2022 in Vietnam", VAMM, 15 January 2023. Available at: <https://vamm.vn/wp-content/uploads/2023/01/VAMM-Doanh-so-ban-hang-Q4-va-ca-nam-2022.pdf> (to be updated), last accessed on 07 November 2023.

5 "Motorcycle manufacturers' association and traffic safety committee boost co-operation", Viet Nam News, 22 April 2019. Available at: <https://vietnam-news.vn/society/519007/motorcycle-manufacturers-association-and-traffic-safety-committee-boost-co-operation.html>, last accessed on 26 July 2022.

Strategy Institute (TDSI) suggests that public transportation should cater to 50% - 60% of transportation needs to reduce motorcycle reliance. Presently, Hanoi's public transportation meets only 18.5% of the demand, with a brief metro rail (~13km) and 153 bus routes. Similarly, Ho Chi Minh City's system covers 18.5% demand, offering 132 routes serviced by 2,332 vehicles⁶. The urban layout, characterised by narrow roads and alleys, makes public transportation stops and parking areas less accessible. Given the current state of public transport and infrastructure challenges, personal mobility, especially motorcycles, will remain essential and affordable for Vietnamese citizens. A potential limitation could also adversely impact the motorcycle manufacturing industry, which has heavily invested in Vietnam over the past decade, benefiting both domestic and global markets. This industry has significantly contributed to Vietnam economic and social development through taxes and job generation. Instead of an outright limitation on motorcycles, we suggest the Government explore alternative motorcycle management strategies, coupled with the enhancement of public transportation. Long-term solutions should encompass urban planning, technology integration, smart traffic systems, and education to instil traffic awareness and appropriate behaviour among the populace.

2. Phasing out ICE to shift to EV

The Government is contemplating a complete transition from ICE to EV. We believe that this transition should not be abrupt but instead be well-thought-out, extending beyond just electric energy (under EV) to other sustainable, green and clean energy alternatives. Several crucial factors need consideration in this EV shift: the preparedness charging infrastructure, customer's acceptance of new transport modes, manufacturing costs and quality standards for EVs, greenhouse gas emissions from EV production and energy creation, and battery disposal.

Given these factors, a complete move from ICE to EV demands careful consideration. Alternative green energies, like biofuel and/or electro fuels (e-fuels)⁷, may present a solution to CO₂ neutrality. Beyond biofuel and e-fuel, tightening emission standard for new motorcycles using EURO4 and regulating emissions from motorcycles in use are possible transitional solutions.

Recommendations

Before advancing any plans to limit motorcycles accessing to central areas of big cities and/or phase out ICE, we urge the Government to:

- Acknowledge the importance of motorcycles in daily life, considering concerns about public transportation readiness, the efficiency and eco-friendliness of motorcycle, and the potential lifestyle impact of motorcycle restriction;
- Address pollution by emphasizing vehicles quality over sheer quantity;
- Emulate best practices from nations that have successfully integrated advanced public transport and traffic infrastructure with motorcycle use to mitigate congestion and pollution;⁸
- Encourage MOIT to expand biofuel usage, starting from E10, and to thoroughly explore e-fuel for future implementation. Alongside renewable electric energy, biofuel and/or e-fuel should be recognized as green and clean energy sources;
- Promote an educational campaign on ethanol to highlight the benefits of using fuel with lower ethanol content; and
- Consider the adoption and promotion of stricter emission standards for new motorcycles, such as Euro 4, Euro 5. An approach to cease circulating older motorcycles which do not meet gas emission standards and the MOT's proposed roadmap for EURO 4 implemented by 2025 could effectively diminish air pollution and CO₂ emissions. Additionally, establish regular testing procedures for gas emissions from used motorcycles.

6 "Ha Noi dung hoat dong cua xe may tai noi do vao nam 2030 có kha thi?" ("It is feasible for Hanoi to stop motorbike operations in the inner city by 2030?"), Bao Giao thong. Available at: <https://www.baogiaothong.vn/ha-noi-dung-hoat-dong-cua-xe-may-tai-noi-do-vao-nam-2030-co-kha-thi-d594437.html>, last accessed 03 October 2023.

7 According to <https://en.wikipedia.org/wiki/Electrofuel>, e-fuel is a class of synthetic fuels, are a type of drop-in replacement fuel. They are manufactured using captured carbon dioxide or carbon monoxide, together with hydrogen obtained from sustainable electricity sources such as wind, solar and nuclear power.

8 "ASIA'S FUTURE CITIES: Will motorcycles ever be seen on Yangon's streets again?", CNA. Available at: <https://www.channelnewsasia.com/asia/asia-future-cities-will-motorcycles-ever-be-seen-yangons-streets-again-1023151>, last accessed on 1 August 2022.

II. TAX AND CUSTOMS ISSUES

Relevant authorities: Ministry of Finance (MOF) and General Department of Customs (GDC)

SPECIAL CONSUMPTION TAX

Issue description

Under the current Law on Special Consumption Tax (SCT Law)⁹, motorcycles with a capacity of over 125cc are subjected to a 20% SCT. Nonetheless, as Vietnam's economic and social landscapes have evolved, motorcycles, even those over 125cc, are no longer viewed as luxury items. Instead, they are seen as common private transportation means. Imposing an additional 20% SCT on consumers seems inappropriate given this context.

Potential gains/concerns for Vietnam

The Law on Special Consumption Tax's enforcement adversely affects the production of local motorcycles exceeding 125cc. It discourages manufacturers from investing in and advancing this specific business segment with modern and advanced technologies. Consequently, this hinders the potential growth and development of this industry. Moreover, many Vietnamese consumers are deterred from accessing advanced over 125cc scooters. While these are not luxury items, they do offer enhanced technology for the benefit of the user.

Recommendations

- › We urge entities like the National Assembly, Ministry of Finance, Ministry of Planning and Investment to re-evaluate this matter during the revision or introduction of a new law on special consumption tax. It would be beneficial to exclude motorcycles over 125cc from the law on special consumption tax.

IMPORT TAX EXEMPTION LICENSE (ITEL)

Issue description

At present, entities importing machines and equipment (M&E) intended as fixed assets for manufacturing both excise taxable and non-excise taxable motorcycles face rejections for their ITEL requests with custom authorities. This occurs even when the majority of the imported M&E are designated for non-excise taxable products.

Potential gains/concerns for Vietnam

Such a stance does not paint Vietnam's investment environment in a positive light for significant projects. It appears as if the motorcycle industry is being unfairly targeted. In contrast, other excise taxable industries like cars, aircrafts, and yachts receive full duty exemptions on their M&E imports.

Recommendation

We suggest that the Ministry of Finance and the General Department of Customs:

- › Extend the regulations applied to cars, aircrafts, and yachts, granting duty exemptions for all M&Es imported for manufacturing within the motorcycle sector;
- › Pending the implementation of the above recommendation, consider adopting a proportional approach for M&Es imported for the manufacturing of both non-excise taxable and excise taxable products (i.e., imposing duties in proportion to the expected production of excise taxable goods).

⁹ Law 27/2008/QH12 dated 14 November 2008 of the National Assembly on Special Consumption Tax (Law on Special Consumption Tax)

OTHER CUSTOM ISSUES

Issue description

Manufacturing enterprises that import duty-exempt materials and components encounter several customs challenges, such as:

- The absence of a system allowing manufacturers to voluntarily declare and remit taxes for discrepancies in inventory counts of duty-exempt materials/components they spot themselves.
- Ambiguities in the HS classification rules for certain items, leading to confusion for both businesses and customs officials.
- The absence of clear guidelines for re-importing exported goods (A31), particularly in cases of substandard parts/components of export products/vehicles (E62).

Potential gains/concerns for Vietnam

Without a mechanism for voluntary disclosure of inventory discrepancies for duty-exempt goods, businesses are left waiting for an official audit or inspection to settle any tax issues. This process can span several years once the discrepancies are pinpointed.

According to the Law on Tax administration¹⁰, interest for late payment start accruing from the tax payment due date to the actual payment date. Without a voluntary disclosure mechanism, even enterprises willing to fulfil their tax responsibilities proactively are hamstrung. This results in enterprises incurring higher administrative fines and late payment interest. It contradicts the provision that allows reduced penalties for proactive disclosures of shortfalls. This situation hampers businesses from self-compliance. Instituting a voluntary disclosure system would aid businesses to timely tax payments and in mitigating penalties and late payment interest charges.

Additionally, businesses occasionally recognise past errors in declaring HS codes for certain products, either due to intricate classifications or internal review mistakes. Varying interpretations of HS codes mean businesses can be penalized, incurring taxes, and late-payment interest if they declare incorrectly. Companies mandated to pay extra duties or those who overpay face challenges in securing refunds through administrative means.

Lastly, without established regulations, businesses re-import such exported components by liaising with customs, declaring the initial E62 export declaration with precise exported vehicle code on a case-by-case basis.

Recommendation

We recommend the Ministry of Finance and the General Department of Customs to:

- Introduce a voluntary disclosure mechanism, enabling businesses to proactively inform customs about inventory discrepancies in duty-exempt imported goods and make timely tax payments;
- Streamline the re-declaration process by (i) permitting a one-time declaration for multiple entries with identical errors; and (2) allowing an offset of tax payments among declarations requiring modifications;
- Create a list of goods already classified either preemptively, during customs clearance, or post-clearance audit to guide businesses in identifying potential HS code disputes within industries, aiding appropriate actions; and
- Implement regulations on broad scale, moving away from a case-by-case approach, to provide a consistent framework for businesses.

¹⁰ Law 38/2019/QH14 of the National Assembly on 13 June 2019 on Tax administration (Law on Tax administration)

MOTORCYCLE FOR ROAD TESTING

Issue description

The newly enacted Circular 24¹¹ mandates that motorcycle manufacturers obtain a document, the Certificate, from the Vietnam Register. This Certificate confirms that the vehicle meets technical and environmental safety standards and is fit for road trials¹². However, the Vietnam Register has declined to issue such Certificates, citing the absence of specific legal regulation. This refusal prevents motorcycle manufacturers from procuring temporary registration from the police, thus barring them from conducting on-road tests¹³. This situation creates a standstill for testing locally developed motorcycle models.

Potential concerns

Local motorcycle manufacturers engage in research and development to launch new models and enhancing existing ones. Before transitioning to mass production or new or imported models, a real-world road trial is imperative to ensure the motorcycles are tested under authentic traffic and road conditions, beyond just the manufacturers' internal testing facilities. The current regulatory gap regarding Certificate issuance hinders the provision of temporary license plates for trial motorcycles. This poses significant challenges for the motorcycle manufacturing process, as many new or improved designs remain untested and potentially delaying production.

Recommendation

Relevant authorities should contemplate facilitating smoother road-testing processes by:

- › Removing the need for a Certificate for temporary motorcycle registration;
- › Promptly introducing guidelines for the issuance of Certificates to test motorcycles, similarly to the provisions for car; and
- › Creating specific scheme for granting number plates to test motorcycles, drawing inspiration from the EU's model. This would involve allowing motorcycle manufacturers to acquire and manage specific number plates by themselves dedicated solely to their test motorcycles.

ACKNOWLEDGEMENTS

EuroCham Mobility Sector Committee.

11 Circular 24/2023/TT-BCA dated 1 July 2023 of the Ministry of Public Security on procedures for issuance and revocation of vehicle registration and license plates (Circular 24).

12 A department under the Ministry of Transport responsible for managing the quality of vehicles, including motorcycles.

13 Circular 16/2021/TT-BGTVT dated 12 August 2021 of the Ministry of Transport providing procedures for granting a document certifying that the vehicle meets standards of the quality of technical and environmental safety, but this Circular apply to car only (Circular 16).