

As of August 8, 2006



Textiles Provisions under the US-Vietnam Bilateral Agreement for WTO Accession

The textile and apparel provisions of the United States-Vietnam WTO accession agreement contain important benefits for both sides. On the one side, the United States obtained significant concessions from Vietnam because Vietnam agreed to the immediate elimination (no transition period) of prohibited subsidies in the sector upon accession to the WTO, and to an unprecedented enforcement mechanism that will allow the U.S. to take expedited action to back up that commitment. On the other side, by acceding to the WTO, U.S. quotas (quantitative restraints) on more than two dozen types of products made in Vietnam, which have been in place since May 2003, will terminate, although they could be reinstated if Vietnam fails to meet its commitment to eliminate the prohibited subsidies.

Eliminating Prohibited Subsidies in the Textile & Apparel Sector

The commitment by Vietnam to immediately eliminate prohibited subsidies for the textile and apparel sector, with no “phase-in” periods, and to accept a tough, expedited enforcement mechanism to ensure that it fulfills its commitment to eliminate those subsidies, is unprecedented. The enforcement mechanism, which will be in place for the first year Vietnam is in the WTO, provides that if the U.S. receives information indicating that a prohibited subsidy still exists, it will request consultations with Vietnam. If there is no resolution of the issue during a 60 day consultation period, a neutral third party arbitrator, acting under *Article 25* of the *WTO’s Dispute Settlement Understanding*, will be charged with determining, within 120 days, whether the measure is a prohibited subsidy. If the arbitrator makes an affirmative determination, the U.S. will be entitled to immediately re-impose for one year all 25 quotas that were removed upon accession, regardless of the value or product of the violation. Those quotas, set at the agreed 2006 levels with no increase to account for expanded trade since then, could remain in force for up to one year unless the U.S. determines the issue is resolved before the year is complete. The threat of the country-wide reimposition of highly restrictive quotas, including the expense and difficulties inherent in managing a licensing and allocation system, means that Vietnam has a significant incentive to be sure to eliminate all prohibited subsidies and to act quickly if a local or provincial or national authority is in violation in any way.

On 3 June 2006, in response to its commitment made to the United States, Vietnam undertook measures to abolish its subsidy program in the textile and apparel sector, including the repeal of *Decision 55-2001-QD-TTg of the Prime Minister dated 23 April 2001*. Vietnam is also currently working on to remove prohibited subsidies provided to the textile & apparel sector under broader programs administered by the State Treasury, Export Assistance Fund, and the Ministry of Finance.

Elimination of Quotas for Vietnamese Textiles & Apparel

At the end of 2004, with the expiration of a 10 year phase-out period under the *WTO Agreement on Textiles and Clothing*, all WTO member countries eliminated quotas on imports of textile and apparel from other WTO members. While Vietnam is not yet a member of the WTO, the U.S. is

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the only country that maintains quotas on Vietnam; the European Community and Canada cancelled their quotas on in 2005. Imports to the EU and Canada have not seen a surge since the quotas were dropped and they have also not called for a textile safeguard during Vietnam's accession.

The elimination of quotas on Vietnam's textile and apparel trade upon accession to the WTO was agreed upon by the two Governments in 2003 under the terms of a quota agreement, before this bilateral accession agreement was reached. In that agreement, the U.S. and Vietnam specifically agreed that:

If Vietnam becomes a Member of the World Trade Organization (WTO) to whom the United States applies the Agreement Establishing the WTO after January 1, 2005, then this Agreement and its Specific Limits shall no longer apply as of the date the United States applies the Agreement Establishing the WTO to Vietnam.

Basic Statistics on Vietnam's Textile and Apparel Industry

Textiles and apparel of Vietnamese origin account for 4% of total U.S. imports. This share ranks Vietnamese imports of textiles and apparel at 7th, well behind China at 26%, Mexico, Honduras, Bangladesh, El Salvador, and Indonesia. No countries except China and Vietnam are currently subject to quotas from the United States. Since the US-Vietnam textile agreement came into force, US Customs has inspected 129 factories in Vietnam and has found possible evidence of transshipment in only 6. Countries that joined the WTO after 1995, including Taiwan, which acceded immediately following China, as well as Oman and Cambodia, were not asked to accept a post-ATC textile safeguard. Vietnam's domestic textile industry relies on imported cotton from the U.S., India, Singapore, Taiwan, and Switzerland for up to 85% of its needs. During the first quarter of 2006, total U.S. cotton exports to Vietnam were close to \$10 million and are expected to grow.