National Retail Federation
The Voice of Retail Worldwide

July 10, 2006

The Honorable Charles E. Grassley
Chairman
U.S. Senate Committee on Finance
Rm. SD-203
Dirksen Senate Office Building
Washington, DC 20510-6200

Attn: Editorial and Document Section

Re: July 12, 2006, to Hear Testimony on S.3495 – A Bill to Authorize the Extension of Non-Discriminatory Treatment (Normal Trade Relations Treatment) to the Products of Vietnam

Dear Chairman Grassley:

The **National Retail Federation** (**NRF**) submits this statement on behalf of its member companies in the U.S. retail industry for the above titled hearing regarding the extension of permanent normal trade relations status to Vietnam. NRF is the world's largest retail trade association, with membership that comprises all retail formats and channels of distribution including department, specialty, discount, catalog, Internet, independent stores, chain restaurants, drug stores and grocery stores as well as the industry's key trading partners of retail goods and services. NRF represents an industry with more than 1.4 million U.S. retail establishments, more than 23 million employees – about one in five American workers – and 2005 sales of $4.4 trillion. As the industry umbrella group, NRF also represents more than 100 state, national and international retail associations.

NRF and American retailers strongly support the bilateral trade agreement that was concluded on May 31, 2006, between the United States and Vietnam as part of the process to complete Vietnam's accession to the World Trade Organization (WTO). In order for the United States to realize the benefit of this agreement and Vietnam's membership in the WTO, we whole-heartedly endorse congressional passage of legislation to grant Vietnam permanent normal trade relations (PNTR) status as soon as possible, and in any event no later than the date on which Vietnam competes its accession to the WTO or when President Bush travels to Hanoi in mid-November 2006 to attend the Asia-Pacific Economic Cooperation (APEC) summit, whichever is earlier.

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The bilateral agreement and the provision of PNTR status to Vietnam are significant steps to complete the process of normalizing political and economic relations between the United States and Vietnam that began under President Reagan, and continued uninterrupted by all three of his successors with strong, bi-partisan support in Congress. During the past twenty years, Vietnam has made steady progress in developing the rule of law, transitioning to a market-based economy, improving its adherence to international norms on human rights, and cooperating with the United States on important political and strategic issues (e.g., terrorism, human rights, and POW/MIA issues). As a result, commerce has grown rapidly between our two countries, to the benefit of U.S. services providers, manufacturers, farmers, and consumers. With the completion and implementation of the bilateral agreement and passage of PNTR legislation, there is every reason to expect these positive trends will continue once Vietnam has joined the rules-based, multilateral trading system through WTO membership. However, failure to pass PNTR legislation will force the United States to invoke the WTO non-application clause with Vietnam, thereby denying U.S. companies and consumers significant commercial benefits, and inflicting serious harm on bilateral relations.

Looking specifically at the retail industry, the bilateral agreement, PNTR, and Vietnam's membership in the WTO will have important positive benefits. As Vietnam's economy grows, its expanding middle class will increasingly demand the services of a formal retail sector like that available in the United States and other developed countries. Under the bilateral agreement, Vietnam has agreed to open its distribution services market by January 1, 2009. This commitment will allow U.S. retailers to open and wholly own stores and other retail operations serving customers in Vietnam essentially without restriction.

Vietnam has also agreed to reduce significantly its bound tariffs on imported products, to an average of 15 percent, remarkably low for a country at Vietnam's level of economic development. This commitment will make it much easier for retailers operating in Vietnam to provide their Vietnamese customers with consumer products exported from the United States.

With respect retail sourcing operations, it is also important to note that NRF's member companies already account for a significant portion of the commerce between the United States and Vietnam. Vietnam is still a comparatively small but growing supplier to the U.S. market of such basic consumer goods as furniture, footwear, apparel, coffee, and seafood. With respect to footwear, Vietnam is now second only to China as a supplier to the U.S. market, where imports account for 98 percent of all shoes sold. Vietnam has also become a growing importer of U.S. cotton to supply its apparel industry. For furniture, Vietnam has also become an important alternate sourcing location to China. Extending PNTR for Vietnam will provide the business predictability necessary for retailers to expand commerce ties and investment in Vietnam.

Since it could adversely impact the business operations of U.S. apparel retailers, NRF would like to respond to arguments raised by the U.S. textile industry, the <u>only</u> U.S. industry group opposed to the bilateral agreement with Vietnam and PNTR legislation. Textile industry opposition has arisen due to the commitment made by the United States in the bilateral agreement to eliminate all existing textile and apparel quotas on Vietnam upon its accession to the WTO. NRF strongly disagrees with any argument that quotas on Vietnam should be maintained. The following points support our conclusion that there is simply no economic rationale for continuing to restrain apparel imports from Vietnam:

1. The U.S. is currently the <u>only</u> country that still imposes quotas on Vietnam;
2. All major exporting countries, except China, are not subject to quota, and China will also be quota free by the end of 2008;
3. In the last U.S.-Vietnam textile agreement, the U.S. promised it would eliminate these quotas when Vietnam joined the WTO;
4. In 2005, Vietnam only ranked 8th by value (12th by volume) among textile and apparel exporters to the U.S. market, and accounted for only 3.2 percent of U.S. textile and apparel imports by value (1.9 percent by volume) – in contrast, China is the number one exporter by volume and value to the U.S. market, and accounts for 25 percent of all textile and apparel imports into the U.S. by value (33 percent by volume);
5. Over 90 percent of all clothing imported from Vietnam is now produced by privately-owned companies, not state-owned enterprises, a positive trend that would be further reinforced by eliminating quotas on those products;
6. Restraining Vietnamese textiles and apparel would hinder the development of Vietnam as a growing export market for U.S. cotton;
7. The China textile safeguard mechanism was very disruptive and costly for U.S. apparel retailers and manufacturers, but did nothing to improve the competitiveness of U.S. textile producers or protect American textile jobs;
8. Restraining imports from Vietnam would not change the overall level of imports into the United States, and will only result in the shifting of trade to other Asian suppliers.

During negotiation of the bilateral agreement, textile industry representatives' comments focused almost entirely on the creation of an effective mechanism to counter WTO-prohibited government subsidies (those based on export performance and local content requirements) provided to Vietnamese textile and apparel producers. In response to these concerns, U.S. negotiators insisted on, and Vietnam agreed to the immediate elimination upon accession of all WTO-prohibited subsidies to Vietnamese textile and apparel producers. In addition, Vietnam agreed to be subject to a safeguard mechanism to ensure it abides by this commitment. That mechanism includes the following provisions:

- If, within one year of accession, the U.S. believes Vietnamese textile and apparel producers are receiving WTO-prohibited subsidies, it may request consultations with Vietnam.

- If no solution is reached after 60 days, the U.S. may request a WTO arbitrator to determine within 120 days if Vietnam is violating WTO subsidies rules.
- Upon a finding of a violation, the U.S. may immediately reimpose quotas for a period of 12 months on those products under quota and at the quota levels existing in the last full year before Vietnam's accession. (If there is no decision by the arbitrator within 120 days, the U.S. may also reimpose quotas until a written decision is provided.)
- Thereafter, the U.S. has the WTO dispute settlement system to ensure that Vietnam abides by its obligations under WTO rules.

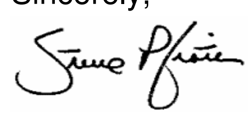
This safeguard mechanism provides an appropriate and effective means to identify and eliminate WTO prohibited subsidies. Notwithstanding arguments to the contrary, this mechanism does provide a strong incentive for the Vietnamese to abide by their commitment, because, were it ever to be invoked, Vietnamese apparel exporters know their orders for shipment to the United States would cease <u>immediately</u>.

It is also important to note that the bilateral agreement and PNTR legislation will have no impact on existing cases or on the filing of new actions against imports from Vietnam under U.S. trade remedies laws for a considerable length of time. Indeed, under the terms of the bilateral agreement, the United States will continue to treat Vietnam as a non-market economy for purposes of antidumping cases for 12 years – *i.e.*, until December 31, 2018. Vietnam could receive market economy status at an earlier date, but <u>only if</u> it has met U.S. requirements for such designation.

In conclusion, we urge Members of the Finance Committee to support legislation to provide PNTR status for Vietnam. During the course of the Committee's and the Senate's consideration of this legislation, we also urge Members to oppose efforts to attach non-germane amendments that would force renegotiation of the bilateral agreement or otherwise jeopardize or delay expeditious passage of this important legislation by Congress.

Passage of Vietnam PNTR legislation is a priority issue for the U.S. retail industry, and NRF appreciates the opportunity to offer our views on behalf of our member companies. Please send any questions or comments to NRF Vice President and Int'l Trade Counsel, Erik Autor (202-783-7971; autore@nrf.com).

Sincerely,



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