

U.S. DOUBTS VIETNAM WILL FINISH WTO TALKS BY OCTOBER

Vietnam may not meet its goal of completing multilateral talks on its World Trade Organization accession by an Oct. 10-11 General Council meeting, where it hopes members will accept it as a member, a U.S. trade official said this week. The official said that while WTO members are working hard to meet this deadline, Vietnam still must complete talks with a number of members.

Vietnam did reach a deal with the European Union this week on multilateral talks. EU Trade Commissioner Peter Mandelson announced the deal on Sept. 7, and said he saw no further obstacles to Vietnam's entry.

The U.S. acknowledged that if multilateral talks were concluded quickly and the October General Council meeting were to accept Vietnam's working party report, the U.S. would likely be forced to invoke the so-called non-application clause in WTO rules, since Congress is not expected to have approved permanent most-favored nation (MFN) trade status for Vietnam by then. Invoking this clause would indicate that the U.S. is not in a position to apply WTO rules to Vietnam. The U.S. would have to invoke this clause before the General Council meeting, a U.S. trade official said.

However, this move would not have any real trade effect if the U.S. were at a later date able to approve permanent MFN for Vietnam before Vietnam becomes a formal member of that body. On the U.S. side, Congress is not expected to be in a position to approve permanent MFN until sometime in November, after the mid-term elections.

If permanent MFN were passed, the U.S. could simply dis-invoke the non-application clause. Most sources this week said they expected Congress would act in November in a post-election session on Vietnam, and the administration is pushing for action before President Bush's trip to Vietnam on Nov. 18-19 (see related story).

Even if Vietnam's working party report were accepted by the WTO in October, Vietnam would still have to have its legislature approve its terms of WTO accession, a process that could still take some time. Then, Vietnam would have to wait 30 days after notifying the WTO of its ratification before becoming a WTO member.

This means that there is still a chance that Vietnam might not become a formal member until well after November passage of permanent MFN by the U.S. Congress. If this happens, trade with Vietnam would not be affected at all by an initial invocation of the non-application clause by the U.S.

However, some sources said this outcome is not entirely certain, since Senate holds have been placed on the Vietnam permanent MFN bill, and also given the possibility that Democrats could win the House or Senate. The Vietnam bill is generally popular with both parties.

U.S. industry sources and the trade official said that even if the U.S. failed to grant permanent MFN to Vietnam after it became a WTO member, use of the non-application clause in any event would have a limited impact on actual trade. While it would prevent the U.S. from being able to use the WTO's dispute settlement system with Vietnam, Vietnamese goods would continue to be subject to most-favored nation tariffs in the U.S. since the U.S. has been giving Vietnam this status on an annual basis.

U.S. goods would still be covered by the U.S.-Vietnam bilateral trade agreement, the trade official said, but the U.S. would not gain the benefits of any additional concessions Vietnam agreed to in its accession. However, the bilateral agreement does include MFN clauses that entitle some U.S. goods and services to treatment no less favorable than any third country, a U.S. trade official explained.

The official said the MFN provision on services in the bilateral trade agreement is more limited. If Vietnam undertook new commitments in services as a result of its WTO accession, the U.S. would not be entitled to those benefits under the bilateral agreement.

The U.S. would also have to decide whether to keep quotas on apparel in place if Vietnam became a WTO member but Congress had not approved permanent MFN. The quotas were included in a bilateral textile agreement the two countries signed in 2003.

A U.S. trade official indicated that no decision has been made if this hypothetical situation were to occur.

According to the text of the bilateral deal, the quotas roll over each year unless they are renegotiated. The agreement states that if Vietnam enters the WTO after Jan. 1, 2005, the quotas shall not apply as of the date the U.S. applies the agreement establishing the WTO to Vietnam.

The bilateral deal also allows either party to terminate the agreement, but requires that the party doing so provide notice 90 days in advance of the end of the agreement period. This would require the U.S. to notify Vietnam that it is terminating the deal by around Oct. 1, an industry source said.

Separately, the Senate Finance Committee released its report on S. 3495, which would grant permanent MFN to Vietnam. Finance reported the bill favorably last month.

The report noted that many members of the committee including Chairman Charles Grassley (R-IA) had raised protections for religious freedom and human rights in the context of debate on the bill, and called on the administration to engage Vietnam on this issue. It said the committee had concluded that these issues were best addressed with deeper engagement with Vietnam, including through closer trade ties.

The report also noted that the Congressional Budget Office had estimated the Vietnam bill would increase revenue to the U.S. Treasury by \$18 billion in 2007, by \$108 billion between 2007 and 2011, and by \$253 billion from 2007 to 2016. CBO said the elimination of quotas on Vietnam through its membership in the WTO would increase imports to the U.S. and tariff revenue.

CBO stated that these rising imports would be somewhat offset by lower imports from other countries.

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