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SENATE

{ REPORT
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A BILL TO AUTHORIZE THE EXTENSION OF NONDISCRIMINATORY TREATMENT (NORMAL TRADE RELATIONS TREATMENT) TO THE PRODUCTS OF VIETNAM

AUGUST 30, 2006.—Ordered to be printed

Filed, under authority of the order of the Senate of August 4,
(legislative day August 3) 2006.

Mr. GRASSLEY, from the Committee on Finance,
submitted the following

R E P O R T

[To accompany S. 3495]

[Including cost estimate of the Congressional Budget Office]

The Committee on Finance, to which was referred the bill (S. 3495) to authorize the extension of nondiscriminatory treatment (normal trade relations treatment) to the products of Vietnam, having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

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I. REPORT AND OTHER MATERIALS OF THE COMMITTEE

A. REPORT OF THE COMMITTEE ON FINANCE

The Committee on Finance, to which was referred the bill (S. 3495) to authorize the extension of nondiscriminatory treatment (normal trade relations treatment) to the products of Vietnam, having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

B. TRADE RELATIONS WITH VIETNAM

1. U.S.-VIETNAM ECONOMIC RELATIONS

Vietnam is a densely-populated developing country. It ranks as the world's 13th most populous country with nearly 85 million people in an area slightly larger than the size of New Mexico. In 1986, Vietnam responded to disastrous economic conditions with the doi moi (renovation) economic reforms. Since then, Vietnam has had one of the fastest growing economies in the world, with an annual gross domestic product (GDP) growth rate of nearly eight percent. Despite its economic development, nearly 20 percent of the Vietnamese population is estimated to live in poverty as of 2004.

Since the early 1990s, the United States has taken gradual steps to improve relations with Vietnam. On February 3, 1994, President Clinton lifted the trade embargo on Vietnam in recognition of the cooperation received from the Government of Vietnam in Prisoner of War/Missing in Action (POW/MIA) accounting. On July 11, 1995, the President announced the establishment of diplomatic relations with Vietnam. On March 9, 1998, the President first determined that a Jackson-Vanik waiver for Vietnam would substantially promote the freedom of emigration objectives under the Act. On April 7, 1998, the President issued Executive Order 13079, under which the waiver entered into force. Vietnam has received a presidential Jackson-Vanik waiver every year since 1998.

In 1997, the United States began negotiations with Vietnam toward the conclusion of a U.S.-Vietnam bilateral trade agreement (BTA). The negotiations culminated in a BTA, which Congress approved in 2001. Under the BTA, Vietnam agreed to implement significant economic reforms, expand the rule of law, and broaden economic freedoms. In the years that followed, Vietnam made important progress in implementing its commitments under the BTA, though concerns remain, particularly with respect to the protection of intellectual property rights. Since 2002, the Administration has placed Vietnam on the Special 301 watch list for poor protection of intellectual property rights, particularly in the areas of music recordings and trademark protection. In November 2005, Vietnam's National Assembly passed a new, comprehensive, law on intellectual property rights.

Vietnam applied to join the World Trade Organization (WTO) on January 1, 1995. The WTO Working Party on the accession of Vietnam was established on January 31, 1995. The eleventh meeting of the Working Party was held in March 2006. On May 31, 2006, U.S. and Vietnamese negotiators signed a bilateral agreement on the conditions for Vietnam's accession into the WTO. This was the last of Vietnam's bilateral accession negotiations to be concluded. Vietnam still needs to conclude the negotiations with the multilat-

eral Working Party, which consists of 63 WTO members, including the United States. Once the Working Party report is concluded and Vietnam accedes to the WTO, the United States will have to extend unconditional or permanent normal trade relations (PNTR) to Vietnam in order for U.S. exporters to avail themselves of the market access commitments Vietnam has made to join the WTO.

Since the U.S. trade embargo on Vietnam was lifted in 1994, two-way trade between the United States and Vietnam has increased steadily. During the period 1994–1996, two-way trade increased from \$223 million to \$935 million. In 1997 the Asian financial crisis had a dampening effect on two-way trade, which fell to \$666 million. Since then, two-way trade has been on a continuous upward trend. During the period 1998–2005, two-way trade increased from \$789 million to \$7.7 billion. In 2005, U.S. exports to Vietnam totaled \$1.2 billion, while U.S. imports from Vietnam were valued at \$6.5 billion. Top U.S. exports to Vietnam include aircraft, cotton, polymers, milk, footwear parts, and wood. Major U.S. imports from Vietnam include furniture, clothing, footwear, shrimp, petroleum products, nuts, and coffee.

2. U.S.-VIETNAM TRADE DATA

Vietnam ranks 58th as a U.S. export market, and 38th as a source of U.S. imports. The following tables summarize the top 15 exports to Vietnam and top 15 imports from Vietnam during the period 2000–2005:

U.S. EXPORTS TO VIETNAM, 2000–2005

[In U.S. dollars]

HTS Chapter	Top 15 product descriptions, by HTS chapter	2000	2001	2002	2003	2004	2005
88	Aircraft	2,918,996	7,483,150	78,642,144	715,577,109	376,203,722	346,028,506
84	Boilers and Mechanical Appliances	78,302,366	78,895,614	121,586,326	121,298,360	114,638,618	106,670,521
39	Plastics	17,649,915	22,117,086	26,564,371	36,882,341	57,926,186	83,888,107
85	Electrical Machinery	30,260,573	34,965,557	39,659,544	46,807,925	54,254,473	57,525,474
90	Optical, Photographic	12,521,281	18,859,652	22,272,905	41,250,426	37,366,352	54,730,877
52	Cotton Yarns and Fabric	14,508,449	29,178,243	27,585,335	33,715,744	66,571,078	48,716,284
44	Wood and Articles of Wood	1,639,483	6,342,629	18,970,559	20,302,054	38,962,897	43,315,222
87	Vehicles, Other Than Railway	5,079,475	7,387,870	12,237,734	24,920,637	36,979,461	40,726,786
4	Dairy Produce	5,037,445	8,127,845	3,172,907	2,653,414	23,617,244	38,852,186
64	Footwear	27,471,668	19,309,669	17,850,053	22,769,739	24,465,764	31,165,782
23	Waste From The Food Industries	8,739,012	8,443,425	13,003,601	12,476,647	9,412,731	21,781,196
72	Iron and Steel	3,681,125	2,898,975	4,380,944	5,295,662	75,736,593	17,617,952
48	Paper and Paperboard	7,183,041	12,014,730	10,655,970	16,732,905	23,294,203	17,125,812
47	Pulp of Wood	5,768,163	9,276,841	8,960,610	9,190,415	6,707,243	16,932,761
41	Raw Hides and Skins	2,590,212	2,589,162	5,474,147	5,517,000	11,447,727	15,997,645

Note: HTS denotes the Harmonized Tariff Schedule of the United States.
Source: U.S. International Trade Commission Dataweb.

U.S. IMPORTS FROM VIETNAM, 2000–2005

[In U.S. dollars]

HTS Chapter	Top 15 product descriptions, by HTS chapter	2000	2001	2002	2003	2004	2005
62	Woven Apparel	29,920,973	26,036,156	437,133,188	1,240,919,563	1,421,626,440	1,539,880,325
61	Knit Apparel	16,753,925	21,319,457	435,760,339	1,096,375,035	1,080,584,384	1,123,594,629
64	Footwear	124,535,232	132,004,312	224,191,079	324,805,608	473,389,837	716,621,083
94	Furniture and Bedding	9,686,998	14,263,761	81,766,415	189,586,600	388,643,084	697,011,535
27	Mineral Fuels and Oils	90,713,774	156,693,042	179,340,422	209,176,775	249,515,516	501,629,565
03	Fish and Crustaceans	242,854,840	383,745,193	478,926,382	568,527,472	403,916,698	464,443,009
09	Coffee, Tea, Mate and Spices	132,892,458	88,666,512	73,001,887	97,875,797	143,795,358	184,463,002
16	Meat, Fish, and Aquatic Invertebrates	57,717,966	93,048,467	138,101,069	161,969,116	161,662,318	162,755,772
08	Fruit and Nuts	51,146,615	48,087,034	70,535,333	99,206,684	171,918,868	154,367,931
42	Articles of Leather	3,567,997	3,422,989	61,955,011	100,694,756	123,881,364	127,111,159
84	Boilers and Mechanical Appliances	1,207,502	1,432,266	19,911,509	66,843,656	62,027,576	126,365,035

85	Electrical Machinery	1,632,484	662,348	7,132,904	30,249,976	49,582,490	86,617,880
65	Headgear	125,055	245,801	23,942,979	38,590,509	63,019,046	68,444,723
39	Plastics	225,301	257,212	5,563,440	11,296,261	28,399,795	52,585,921
63	Made-Up Textiles	845,768	741,893	6,779,157	22,236,891	47,779,022	40,780,717

Note: HTS denotes the Harmonized Tariff Schedule of the United States.
Source: U.S. International Trade Commission Dataweb.

C. SUMMARY OF COMMITTEE CONSIDERATION

1. THE JACKSON-VANIK AMENDMENT

Section 401 of Title IV of the Trade Act of 1974 requires the President to continue to deny nondiscriminatory treatment (normal trade relations treatment) to any country not receiving such treatment at the time of the law's enactment on January 3, 1975. Section 402 of Title IV, also referred to as the Jackson-Vanik amendment, provides that the President may extend normal trade relations treatment on a recurring basis to a country that is in full compliance with certain specified freedom-of-emigration conditions. Section 402 also authorizes the President to waive full compliance with the freedom-of-emigration requirements if the President determines that such a waiver would encourage freedom of emigration. Before the President may extend conditional normal trade relations to a country subject to Title IV, that country must first conclude a bilateral commercial agreement with the United States pursuant to section 405 of Title IV. Since Congress approved the BTA with Vietnam in 2001, Vietnam has received conditional normal trade relations pursuant to the President's waiver authority under section 402.

2. DESCRIPTION OF THE BILL

S. 3495 authorizes the President to determine that title IV of the Trade Act of 1974 (19 U.S.C. 2431 et seq.) no longer applies to Vietnam and to proclaim the extension of unconditional or permanent normal trade relations treatment (PNTR) to the products of Vietnam.

3. COMMITTEE CONSIDERATION

S. 3495 was introduced on June 13, 2006, by Senator Baucus, on behalf of himself and Senators Smith, McCain, Kerry, Hagel, Lugar, Murkowski, and Carper. Since then, Senators Crapo, Bennett, and Stevens have also joined as cosponsors. Also on June 13, 2006, Congressman Ramstad introduced companion legislation (H.R. 5602) in the House of Representatives.

Chairman Grassley convened a hearing of the Finance Committee on July 12, 2006, to consider S. 3495. Testifying at the hearing were: Ambassador Karan K. Bhatia, Deputy U.S. Trade Representative, Office of the U.S. Trade Representative; Mr. Eric John, Deputy Assistant Secretary, Bureau of East Asian and Pacific Affairs, U.S. Department of State; Mr. Jon Caspers, Former President, National Pork Producers Council (Swaledale, IA); Mr. Christian Schlect, President, Northwest Horticultural Council, (Yakima, Washington); Mr. Jeffrey R. Shafer, Vice Chairman, Citigroup Global Markets (New York, NY); Mr. Augustine D. Tantillo, Executive Director, American Manufacturing Trade Action Coalition (Washington, DC); Mr. Chris Seiple, President, Institute for Global Engagement (Washington, DC); Mr. T. Kumar, Advocacy Director for Asia, Amnesty International (Washington, DC); and Ms. Virginia B. Foote, President, U.S.-Vietnam Trade Council (Washington, DC). Invitations to appear and testify were also extended to the AFL-CIO, the International Brotherhood of Teamsters, and the Union of Needletrades, Industrial and Textile Employees. Due

to scheduling conflicts, those organizations were unable to provide a witness to testify at the hearing.

The Finance Committee also received numerous statements for the record. Many of the statements were in support of extending permanent normal trade relations to Vietnam. Examples of support include a letter from the Vietnam Veterans of America Foundation to congressional leaders. Another letter of support was submitted by the U.S.-Vietnam WTO Coalition and signed by a number of respected individuals, including former Secretaries of State Madeleine Albright, James Baker III, Warren Christopher, Henry Kissinger, and Colin Powell, among others. Separately, the Chairman of the Committee on International Policy of the United States Conference of Catholic Bishops wrote a letter to Ambassador Susan Schwab, the United States Trade Representative, expressing support for the extension of permanent normal trade relations to Vietnam.

Other statements submitted to the Committee expressed reservations, particularly with respect to inadequate protection of human rights and religious freedoms in Vietnam. One such letter from a group of democracy advocates in Vietnam and other organizations in the United States and abroad was submitted to the Committee by California Assemblyman Van Tran. Separately, testifying on behalf of the American Manufacturing Trade Action Coalition, Mr. Augustine Tantillo expressed strong opposition to extending permanent normal trade relations to Vietnam.

During the hearing, Chairman Grassley and the Members of the Committee expressed very strong concerns regarding the protection of human rights and religious freedoms in Vietnam. The Committee notes that the Department of State's 2005 Country Reports on Human Rights Practices states that, with respect to Vietnam, "[t]he government's human rights record remained unsatisfactory" and that "[g]overnment officials, particularly at the local level, continued to commit serious abuses, despite improvement during the year." Specific concerns identified include arbitrary detention or restriction of movement, or imprisonment, of persons for political and religious activities; restrictions on freedoms of speech, press, assembly, and association; and, police abuse of suspects during arrest, detention, and interrogation. Separately, the Department of State's 2006 report on human trafficking listed Vietnam as a "Tier 2" country that "does not fully comply with the minimum standards for the elimination of trafficking."

The protection of religious freedoms is another matter of serious concern to the Committee. In September 2004, the Secretary of State designated Vietnam as a "Country of Particular Concern" under the International Religious Freedom Act for particularly severe violations of religious freedom. The Department of State's International Religious Freedom Report 2005 states that, with respect to Vietnam, a number of U.S. government officials have "raised concerns about the registration and recognition difficulties faced by religious organizations, the detention and arrest of religious figures, the repression of Protestants in the Central and Northwest Highlands, and other restrictions on religious freedom with the Prime Minister, Deputy Prime Minister, government cabinet ministers, Communist Party of Vietnam (CPV) leaders, provincial officials, and others." In May 2005, the United States and Viet-

nam concluded an agreement in which the Government of Vietnam made a number of commitments to advance and protect religious freedoms. While conditions are improving, restrictions on religious freedoms continue to occur.

The Committee finds that engagement between the United States and Vietnam has facilitated some improvement in the protection of human rights and religious freedoms in Vietnam. The Committee believes that concerns over inadequate protection of human rights and religious freedoms are best addressed through expanding such engagement, particularly via greater involvement of U.S. citizens in Vietnamese society as a result of expanding our bilateral trade relations. Still, the Committee calls upon the Administration to continue to actively engage the Government of Vietnam on these issues, particularly with respect to adequate enforcement at the local level, in order to facilitate continued improvement in the protection of human rights and religious freedoms in Vietnam.

On July 27, 2006, Chairman Grassley convened the Committee in open executive session to consider favorably reporting S. 3495. Senator Conrad filed one non-germane amendment to the bill. The Conrad amendment was discussed by the Committee, but the amendment was not offered. In the absence of a quorum, Chairman Grassley recessed the executive session subject to the call of the Chair. On July 31, 2006, Chairman Grassley reconvened the Committee in open executive session, at which time the Committee ordered S. 3495 favorably reported, without amendment, by rollcall vote: 18 ayes, 0 nays, 2 present. Ayes: Grassley, Hatch, Lott, Snowe, Kyl, Thomas, Frist, Smith, Crapo, Baucus, Rockefeller, Conrad, Jeffords, Bingaman (proxy), Kerry (proxy), Lincoln, Wyden, and Schumer. Present: Santorum, Bunning (proxy).

II. BUDGETARY IMPACT OF THE BILL

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, August 18, 2006.

Hon. CHARLES E. GRASSLEY,
Chairman, Committee on Finance,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for S. 3495, an act to authorize the extension of nondiscriminatory treatment (normal trade relations treatment) to the products of Vietnam.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Emily Schlect.

Sincerely,

DONALD B. MARRON,
Acting Director.

Enclosure.

S. 3495—An act to authorize the extension of nondiscriminatory treatment (normal trade relations treatment) to the products of Vietnam

Summary: S. 3495 would allow the President to grant permanent normal trade relations (PNTR) status to Vietnam. The Congress-

sional Budget Office estimates that the bill would increase revenues by \$18 million in 2007, by \$108 million over the 2007–2011 period, and by \$253 million over the 2007–2016 period. Granting PNTR standing to Vietnam would have no impact on tariff rates relative to CBO’s revenue baseline assumptions. However, if Vietnam were to become a member of the World Trade Organization (WTO), which CBO assumes for baseline purposes is very likely in the near future, quotas on Vietnamese products would be liberalized, thereby increasing imports and yielding more tariff revenue.

CBO has determined that S. 3495 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

Estimated cost to the Federal Government: The estimated budgetary impact of S. 3495 over the 2007–2016 period is shown in the following table.

	By fiscal year, in millions of dollars—									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	CHANGES IN REVENUES									
Estimated Revenues	18	22	22	23	23	25	27	29	31	33

Source: Congressional Budget Office.

Basis of estimate: The legislation would remove Vietnam from the list of countries under title IV of the Trade Act of 1974 (the Jackson-Vanik amendment). Removing Vietnam from scrutiny under the Jackson-Vanik amendment would permit the President to accord it PNTR standing. Vietnam has received normal trade relations (NTR) status, renewed annually pursuant to a Presidential waiver of the Jackson-Vanik amendment, since 2001. CBO’s revenue baseline assumes that Vietnam will continue to receive NTR status, so CBO estimates that making permanent Vietnam’s NTR standing would not affect tariff rates.

Granting Vietnam PNTR status would affect receipts, CBO estimates, if that country were admitted to the WTO. With Vietnam in the WTO, the United States would have to allow it PNTR status in order for the two countries to trade with each other under the WTO, because the rules of that body do not allow member countries to discriminate against each other (with certain exceptions). Further, any quotas in place on imports from Vietnam would be liberalized. Because it appears that significant types of imports from Vietnam are restricted by binding quotas, CBO would expect that liberalizing those quotas would result in an increase in imports (particularly of textiles and apparel) from Vietnam and the associated tariff collections. Those increases would be partly offset by decreased imports from other countries.

Vietnam is currently negotiating to enter the WTO, and it could become a member as early as October 2006. Indeed, CBO assumes that it is highly probable that Vietnam will join the WTO this fall. Taking that high probability into account, CBO estimates that S. 3495 would increase revenues by \$18 million in 2007, by \$108 million over the 2007–2011 period, and by \$253 million over the 2007–2016 period. If Vietnam does not join the WTO, however, these receipts would not materialize.

Intergovernmental and private-sector impact: The bill contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

Estimate prepared by: Federal revenues: Emily Schlect. Impact on state, local, and tribal governments: Melissa Merrell. Impact on the private sector: Tyler Kruzich.

Estimate approved by: G. Thomas Woodward, Assistant Director for Tax Analysis.

III. REGULATORY IMPACT OF THE BILL AND OTHER MATTERS

Pursuant to the requirements of paragraph 11(b) of rule XXVI of the Standing Rules of the Senate, the Committee states that S. 3495 will not significantly regulate any individuals or businesses, will not affect the personal privacy of individuals, and will result in no significant additional paperwork.

The following information is provided in accordance with section 423 of the Unfunded Mandates Reform Act of 1995 ("UMRA") (Pub. L. No. 104-04). The Committee has reviewed the provisions of S. 3495 as approved by the Committee on July 31, 2006. In accordance with the requirement of Pub. L. No. 104-04, the Committee has determined that the bill contains no intergovernmental mandates, as defined in the UMRA, and would not affect the budgets of State, local, or tribal governments.

IV. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

Pursuant to paragraph 12 of rule XXVI of the Standing Rules of the Senate, the Committee finds no changes in existing law made by S. 3495, as ordered reported.

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