



December 27, 2006

Mr. David M. Spooner
Assistant Secretary for Import Administration, Room 1870
Department of Commerce
14th Street and Constitution Ave, NW
Washington DC 20230

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ITA
IMPORT ADMINISTRATION

Re: Request for Comments on Textile and Apparel Import Monitoring Program for Vietnam

Dear Mr. Spooner,

NCTO is pleased to provide comments to you on the new textile and apparel import monitoring program for Vietnam. As the national trade association representing the U.S. textile industry, NCTO requested that Senators Dole and Graham seek to provide the textile industry with a means of defense once quotas on imports of apparel products from Vietnam are lifted. This request occurred after the U.S. government failed to include safeguards or a quota extension in its bilateral WTO accession agreement with Vietnam and, therefore, left the U.S. textile industry defenseless against unfairly traded imports of apparel products from Vietnam.

The new program is aimed at establishing a meaningful remedy to address unfairly trade textile and apparel imports from Vietnam. We look forward to working closely with the U.S. government to ensure that the new program is employed in a manner that prevents illegally dumped Vietnamese textile and apparel products from entering U.S. commerce at prices that do not reflect the true costs of production. Vietnam is one of only two countries (the other being China) which has a large state-owned, state-subsidized textile and apparel sector. Governments in both countries have poured billions of dollars in subsidies into their respective sectors with the apparent goal being domination of global apparel supply chains. In almost every apparel sector where quotas have been removed, these governments have achieved their goals of domination.

Vietnam's government owned entity, Vinatex, while of a smaller scale than Chinese counterparts, has matched China's price points in dozens of apparel categories no longer under quota control and is now the second largest supplier to the U.S. market (after China) in those categories¹. Since 2002, imports from China have increased by 162% while imports from Vietnam, from a much smaller base, increased by 1,048%. In contrast, U.S. apparel production has continued to decline while imports of these same products from CAFTA and NAFTA trade partners has declined by 47%.

¹ Apparel categories released from quota in 2002.

While the quota free categories do not, by and large, utilize yarns and fabrics that are sensitive to U.S. textile producers, the history of trade in the post-quota environment is telling. Simply put, when non-market economies such as Vietnam and China have been left unrestrained on world markets, they have dominated those markets, marginalizing almost all free market competitors. China and Vietnam now account for 70 % of all imports of quota-free apparel products into the United States.

Indeed, Vietnam is essentially a smaller scale proxy for China. With still lower wage rates coupled to a large highly-developed state-owned textile and apparel sector, importers typically call Vietnam their alternative to China or "little China." With this moniker comes full access to subsidized Chinese yarns and fabrics – Chinese textile mills account for over half of all apparel fabrics imported into Vietnam².

Regarding important technical criteria for the monitoring process, NCTO offers the following recommendations:

1. Monitoring of specific products:

Monitoring should be done on a textile category basis in order to accurately reflect the level of dumping and the impact on the domestic industry that occurs. Textile and apparel categories are the most efficient way to do this because they group together like products into simple and definable categories which enable further investigation and data collection. In addition, the category system has been the mainstay of U.S. textile and apparel import data analysis for many years. It is a tool with which both government and industry are intimately familiar. Establishing a new format or template for analyzing imports at this stage of the game will only serve to make the process more cumbersome and less efficient and transparent for all interested parties.

Apparel manufacturing is, in important ways, a simple process. A sewing machine operator can produce dozens of different types of garments from a single machine. To a significant extent, the operator does not become skilled in producing a specific type of garment – there are not "trouser" plants or "women's dress plants" per se, there are instead garments plants that sew trousers and women's dresses as well as many other types of garments. Thus a typical sewing plant can, and does, have the ability to assemble a woman's dress, a man's cotton pant, a child's sweatshirt and so on and so forth. Indeed, with seasonal swings, an apparel plant may sew trousers during one part of the year, coats another and shorts another. The reality of the production process therefore calls for monitoring on a broader rather than on a more specialized basis. The category process recognizes this fact implicitly by grouping large numbers of tariff lines into broad categories.

At the same time, the current category system allows the Commerce Department to focus on specific categories of apparel products that have higher sensitivities to U.S. industry

² UN Comtrade database: At \$792 million in 2005, China was by far the largest exporter of apparel fabrics to Vietnam. The next largest supplier was Korea at \$408 million.

than others. The Commerce Department itself recognized this when it noted it would concentrate efforts specifically on trousers, underwear, knits shirts, woven shirts and swimwear. These categories have the highest domestic production in the apparel sector as well as the highest production of the inputs that go into these garments. Dumped products in these categories therefore have the greatest impact on U.S. workers and U.S. companies. Also, these categories are among the ones that Vietnam appears to be targeting in terms of export sales with quota fill rates in these categories now exceeding 90 percent.

In contrast, other categories, which still represent substantial trade but where the impact on U.S. industry is much less, can and should get less focus by Commerce. Such an approach allows for the most efficient allocation of resources and also allays concerns by importing interests that the entirety of Vietnam's apparel exports is being targeted for potential dumping investigations.

Finally, the category system proved extremely effective in conducting reviews of products for China safeguard actions. By utilizing the same template for analysis of imports from Vietnam, the domestic industry can have faith in the transparency of the process and in understanding how decisions are made.

In conducting its analysis, the government should consider utilizing the UN Comtrade database. This database provides an in-depth examination of global trends and supply chains in textiles and apparel on a country-by-country basis. Such a comparison may help to identify anomalies in the trade as well as further substantiate cases where it appears dumping may be occurring. The database can be particularly helpful in analyzing prices and will allow the government to review pricing data on a global basis as opposed to just the U.S. market.

2. Timing of the monitoring process:

With the imminent removal of quotas on Vietnam, it is important that the U.S. government keep its commitment to begin the new program on the day quotas are lifted. As our previous experience with both Vietnam and China has demonstrated, apparel exporters in these countries can enter a market and, in a matter of months, drive out virtually all other competitors and gain dominant market share – this of course is achieved by offering prices that are well below the average world price. Once this market share is lost, the damage is done and losses in the domestic market are almost impossible to reverse.

Such timely action will also clearly demonstrate that the U.S. government is serious about enforcing its trade laws and preventing unfairly traded goods from entering U.S. commerce.

Again, given the sensitivity of the timeframe for launching the monitoring system, it becomes clear that use of the category system in conducting the analysis is the most

efficient model for this exercise. If a new system is created, it will take months at a minimum to get such a system in place.

3. Outreach to interested parties:

NCTO supports outreach to interested parties in this process but categorically opposes any preconditions of approval or support by U.S. apparel producers, which some importing interests are seeking, in order for Commerce's monitoring process or its subsequent investigations to move forward. The driving force behind such a request is crystal clear. Such a requirement would turn the monitoring or investigatory process into a bullying exercise where importing and retailing interests could use their dominant market power to force small apparel producers in the United States to oppose petitions, even when the petitions are in their own self interest.

As reflected in USITC reports, the apparel industry in the United States is fragmented with over 60 percent of establishments having fewer than 20 workers and only ten percent employing 100 or more³. This makes these establishments extremely vulnerable to pressure from large retail or importing concerns which now dominate U.S. consumer markets and which source principally outside the United States. Indeed, importer/retailer groups have practiced such intimidation in the past when they have threatened to move sourcing out of entire countries if those countries supported the continuation of quotas on China.

Instead, NCTO suggests that given the commitment to establish a monitoring and reporting system was made to Senators Dole and Graham in response to their concerns about the lack of recourse for the U.S. textile industry, the government should consider conducting field hearings in both North Carolina and South Carolina where the Senator's textile and apparel constituents could be exchange views and offer advice on this program.

4. Selection of a proxy country:

The selection of an appropriate proxy country for Vietnam will be critical. Proxy countries must approximate the level of development, income and industrial development of the non-market economy in question. In the past, the Commerce Department has selected other Asian countries as proxies for Vietnam in non-textile cases.

While there are Asian countries that have similarities to Vietnam, NCTO believes there are countries in the Western Hemisphere which would be better suited to serve as a proxy country. In particular, certain countries in Central America and the Caribbean should be considered because these countries more closely approximate Vietnam in size, structure and make-up of their apparel exports to the United States. In addition, problems concerning the contamination of the export data because of dumped or subsidized Chinese yarn and fabric inputs are more easily avoided by using non-Asian countries.

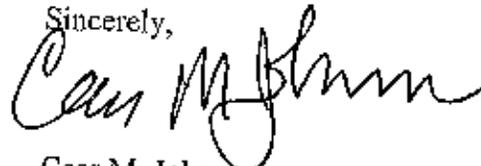
³ INDUSTRY AND TRADE SUMMARY: APPAREL, USITC, 1999.
http://hotdocs.usitc.gov/docs/pubs/industry_trade_summaries/qwb3169.pdf

<i>Factor</i>	<i>Honduras</i>	<i>Vietnam</i>
Apparel exports to U.S. (YE Oct. 2006, OTEXA)	\$2.5 bil.	\$3.2 bil.
Per capita income (PPP: CIA World Factbook)	\$2,900	\$2,800
Apparel percentage of country's total manufacturing exports to U.S. (USITC: YTD 10/06)	78%	47%
Top apparel exports to United States	1. Knit shirts, 2. Trousers 3. Underwear 4. Woven shirts	1. Knit shirts, 2. Trousers, 3. Coats, 4. Woven shirts

Regarding Chinese inputs, the impact of subsidized Chinese yarns and fabrics is more easily teased out of Central American and Caribbean countries than other Asian players because Western Hemisphere countries rely less heavily on Chinese yarns and fabrics. This becomes important when considering the impact that subsidized yarns and fabrics from China could play in a dumping calculation. Chinese inputs should be excluded from any dumping analysis because China, like Vietnam, is a non-market economy with a heavily subsidized textile sector. The U.S. government already recognized fact when it included a safeguard mechanism in China's WTO accession agreement. The aggressive use of the safeguard mechanism by the U.S., as well as by the European Commission, Turkey, Brazil, South Africa, Peru among others, demonstrates the serious concerns worldwide about the depth of subsidization within China's textile and apparel industries and China's ability to distort world markets.

Thank you for this opportunity to offer comments on the government's development of this important program. If you have any questions or if we can offer any assistance, please let me know.

Sincerely,



Cass M. Johnson
President