

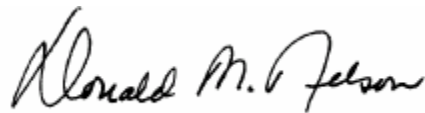
March 11, 2004

The Honorable Robert B. Zoellick  
United States Trade Representative  
600 17<sup>th</sup> Street, N.W.  
Washington, D.C. 20508

Dear Ambassador Zoellick:

Pursuant to Section 2104 (e) of the Trade Act of 2002 and Section 135 (e) of the Trade Act of 1974, as amended, I am pleased to transmit the report of the Industry Sector Advisory Committee on Consumer Goods (ISAC-4) on the US-Central America Free Trade Agreement, reflecting consensus advisory opinion on the proposed Agreement.

Sincerely,

A handwritten signature in black ink that reads "Donald M. Nelson". The signature is written in a cursive, flowing style.

Donald M. Nelson  
Chair, ISAC-4

The U.S.-Central America Free Trade Agreement (FTA)

Report of the  
Industry Sector Advisory Committee on Consumer Goods (ISAC-4)

March 2004

February 24, 2003

Industry Sector Advisory Committee on Consumer Goods (ISAC-4)

**Advisory Committee Report to the President, the Congress and the United States Trade Representative on the US-Central America Free Trade Agreement**

**I. Purpose of the Committee Report**

Section 2104 (e) of the Trade Act of 2002 requires that advisory committees provide the President, the U.S. Trade Representative, and Congress with reports required under Section 135 (e)(1) of the Trade Act of 1974, as amended, not later than 30 days after the President notifies Congress of his intent to enter into an agreement.

Under Section 135 (e) of the Trade Act of 1974, as amended, the report of the Advisory Committee for Trade Policy and Negotiations and each appropriate policy advisory committee must include an advisory opinion as to whether and to what extent the agreement promotes the economic interests of the United States and achieves the applicable overall and principle negotiating objectives set forth in the Trade Act of 2002.

The report of the appropriate sectoral or functional committee must also include an advisory opinion as to whether the agreement provides for equity and reciprocity within the sectoral or functional area.

Pursuant to these requirements, ISAC-4 hereby submits the following report.

**II. Executive Summary of Committee Report**

ISAC-4 members endorse the U.S.- Central America FTA's comprehensive nature. We believe the agreement will deliver important benefits to consumer goods firms in terms of market access, regulatory transparency, and customs procedures. Further, we generally support provisions on intellectual property and investment.

**III. Brief Description of the Mandate of ISAC-4**

The Committee advises the Secretary of Commerce and the USTR concerning the trade matters referred to in Sections 101, 102, and 124 of the Trade Act of 1974, as amended; with respect to the operation of any trade agreement once entered into; and with respect to other matters arising in connection with the development, implementation, and administration of the trade policy of the United States including those matters referred to in Reorganization Plan Number 3 of 1979 and Executive Order 12188, and the priorities for actions thereunder.

In particular, the committee provides detailed policy and technical advice, information, and recommendations to the Secretary and the USTR regarding trade barriers and implementation of trade agreements negotiated under Sections 101 or 102 of the Trade Act of 1974, as amended, and Sections 1102 and 1103 of the 1988 Trade Act, which affect the products of its sector; and performs such other advisory functions relevant to U.S. trade policy as may be requested by the Secretary and the USTR or their designees.

#### **IV. Negotiating Objectives and Priorities of ISAC-4**

“Consumer Goods” covers a wide array of products, including: sporting goods, furniture, appliances, toys, processed foods and beverages, jewelry, household utensils, motorcycles, cleaning products, and power equipment. Consequently, the primary objective for the U.S.- Central America Free Trade Agreement was that of comprehensiveness. ISAC-4 members take particular interest in the following seven aspects of the agreement: market access for industrial goods; market access for agricultural goods; intellectual property; investment; customs procedures; regulatory transparency; and services.

#### **V. Advisory Committee Opinion on Agreement**

ISAC-4 members endorse the comprehensive nature of the U.S.- Central America FTA, and believe its terms represent an advance in many aspects: Specifically:

a. Market Access for Industrial Goods – Most of the goods manufactured by ISAC-4 members are classified as industrial products. Market access terms affect both intermediate and finished goods. We endorse the accelerated tariff phase-out schedules on most industrial goods, noting that on a trade-weighted basis over 80% of U.S. exports of industrial and consumer goods will become duty-free upon entry into force. This rapid implementation will offset the existing competitive disadvantage faced by U.S. exports versus those of Mexico on key consumer goods like paper products.

b. Market Access for Agricultural Products – ISAC-4 includes a number of processed food manufacturers, as well as wine and spirits producers. Further, a number of important industrial products used in the production of consumer goods (like natural alcohols) are classified as agricultural goods. We commend negotiators for improving market access for processed foods, and the Committee is extremely pleased that the agreement incorporates explicit recognition of Bourbon and Tennessee Whiskey as distinctive products of the United States. We note with interest the renewed commitment on resolving sanitary and phytosanitary (SPS) issues. For SPS, we would advise that this commitment be implemented through a stronger consultation mechanism.

c. Intellectual Property (IP) – Consumer goods firms are among America’s leading innovators, and have strong interest in the protection of Trademarks, Patents, and Trade Secrets. In our estimation, the IP chapter of the U.S.-Central America FTA represents a major improvement in IP protection and a useful benchmark for future agreements. In general, we applaud the application of the “first in time, first in right” principle to trademarks and geographical indications. This may serve as a useful precedent. Further, we note the enhanced protections for

trade secrets, including the protection from government disclosure of test data and trade secrets submitted for the purpose of product approval. Regarding enforcement, the agreement meaningfully strengthens Central American law for IP violations and requires the seizure, forfeiture, and destruction of counterfeit and pirated goods and the equipment used to produce them.

d. Investment – Many consumer goods firms compete by establishing operations close to the consumer. These firms rely on the high standards of investor protection found in U.S. Bilateral Investment Treaties (BITs). The Investment chapter of the U.S.- Central America FTA appears to secure a predictable legal framework. Further, we note and appreciate the elimination of local content requirements.

e. Customs Procedures – ISAC-4 member firms rely on efficient, predictable administration at the border. We strongly endorse the U.S.- Central America FTA’s specific obligations on customs procedures, as well as the transparency requirements. For the most part, rules of origin for goods exported by ISAC-4 firms appear straightforward; the administrative framework also appears adequate. The Committee is, however, concerned that the rules of origin for certain processed agricultural products, including certain distilled spirits and undenatured ethyl alcohol for beverage purposes, have incorporated onerous regional content requirements limiting the eligibility of certain products for preferential tariff treatment under the CAFTA. Such requirements are inconsistent with the well-established principle of “substantial transformation,” which is the backbone of rules-of-origin regimes, and limit the ability of U.S. exporters to source their raw materials and processed ingredients from multiple suppliers. We welcome the fact that this FTA retains the ability of U.S. companies to avail themselves of duty drawback mechanisms. This ensures that duties paid for inputs on goods that are subsequently exported are reimbursed. This ensures more competitive end products, which benefits both U.S. manufacturers and U.S. consumers.

f. Regulatory Transparency – Consumer goods are subject to a wide range of regulation wherever they appear in commerce. We applaud negotiators for security detailed disciplines on regulatory transparency. Our experience under the NAFTA has been that regulatory transparency is a critical factor in improving the business climate for all firms.

g. Services- The Members especially appreciate changes in the “dealer protection” regimes that had locked US firms into exclusive or inefficient distributor arrangements. The agreement addresses the issues in each of the countries where the laws created problems—Costa Rica, El Salvador, Guatemala, and Honduras. All countries undertook to allow U.S. exporters freedom to contract in future distribution agreements, including termination at the end of the contract period without indemnification. ISAC-4 members welcome these innovative provisions, and believe that these improved rules will help promote more efficient distribution within the region.

## **VI. Membership of Committee**

See Attachment I.

## **Attachment I**

Don Nelson, Altria Corporate Service, Inc., ISAC 4 Chairman  
Timothy Hoelter, Harley-Davidson Motor Company, Vice Chairman  
Russell Batson, American Furniture Manufacturers Association  
Phillip Brandl, National Housewares Manufacturers Association  
Thomas Catania, Whirlpool Corporation  
Tom Cove, Sporting Goods Manufacturers Association  
Robert Fay, Incredible Technologies, Inc.  
Charles Husick, Vernal Air System  
Steven Jacober, School, Home, and Office Products Association  
Deborah Lamb, Distilled Spirits Council of the United States  
Larry Lasoff, representing the Outdoor Power Equipment Institute, Inc.  
Justin LeBlanc, National Fisheries Institute  
Barry Levy, representing the Toy Manufacturers Association of America  
James Marquart, Manufacturing Jewelers & Suppliers of America, Inc.  
Patrick McDonough, representing Libbey, Inc.  
Joseph McGuire, Association of Home Appliance Manufacturers  
Scott Miller, The Procter & Gamble Company  
Barclay Resler, Coca Cola Company  
Michael Rudowicz, American Amusement Machine Association  
Hugh Rushing, Cookware Manufacturers Association  
E. Peter Rutledge, representing Brown-Forman Beverages Worldwide  
Norman Sharp, Cigar Association of America, Inc.  
Thomas St. Maxens, representing Mattel, Inc.  
Catherine Suttmeier, Oneida Ltd.  
John Thompson, Hall China Company  
Deborah Wiley, John Wiley and Sons, Inc.