

February 28, 2003

The Honorable Robert B. Zoellick
United States Trade Representative
600 17th 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 – Paper and Paper Products for Trade Policy Matters (ISAC 12)* on the U.S.-Chile Free Trade Agreement. This report represents the majority advisory opinion on the proposed Agreement. Items identified as dissenting opinions represent the views of a single member of the Committee.

Sincerely,

Maureen R. Smith
Chair
ISAC 12

The U.S.-Chile Free Trade Agreement (FTA)

**Report of the
Industry Sector Advisory Committee for Paper and Paper Products
(ISAC-12)**

February 2003

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ISAC 12

Advisory Committee Report to the President, the Congress and the United States Trade Representative on Chile Free Trade Agreement (FTA)

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 principal 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, the Industry Sector Advisory Committee-- Paper and Paper Products (ISAC 12) hereby submits the following report.

II. Executive Summary of Committee Report

ISAC 12 strongly endorses the market access provisions of the U.S.-Chile Free Trade Agreement, which provide for the elimination of tariffs on all paper products immediately on implementation of the agreement. This provision provides equity and reciprocity within the sector – not only on a bilateral basis but also relative to competing suppliers in Canada and Mercosur member countries.

ISAC 12 strongly urges that the market access provisions of the U.S.-Chile agreement serve as a template for future FTA's. In order for subsequent agreements to achieve sectoral equity and reciprocity it is absolutely essential that they provide for the elimination of tariffs on all paper and paper products immediately on implementation.

Dissenting opinion: Any further FTA negotiations on tariff elimination should be done on a case-by case basis, considering the potential negative and positive environmental impacts in specific contexts.

III. Brief Description of the Mandate of the Industry Sector Advisory Committee (ISAC 12) on Paper and Paper Products

The Industry Sector Advisory Committee (ISAC) on Paper and Paper Products is comprised of industry and environmental representatives from the paper sector that include paper manufacturing and allied products (except insulation board), as well as distributors. Companies represented include integrated firms—with their own forestry resources—as well as non integrated companies. Member companies use both virgin and recycled fiber in varying proportions to produce their products. The trade association representing the U.S. paper industry is also represented on the Committee. Representatives serving on the Paper and Paper Products ISAC provide advice on trade policy matters

The Committee reports to the Secretary and the USTR, or their designees, through the Commerce Under Secretary for International Trade and the Assistant Secretary for Trade Development (the Assistant Secretary), and USTR's Assistant U.S. Trade Representative for Intergovernmental Affairs and Public Liaison (AUSTR).

IV. Negotiating Objectives and Priorities of the Industry Sector Advisory Committee (ISAC 12) on Paper and Paper Products

The elimination of global tariffs on paper and paper products remains the overarching priority for the U.S. paper industry. ISAC 12 supports any bi-lateral, regional or multi-lateral trade negotiations that would advance our core objective of eliminating tariffs on all paper and paper products. The Committee has urged U.S. trade negotiators to avail themselves of the authority provided in the Uruguay Round Agreements Act to pursue the elimination of paper tariffs as an urgent matter whenever opportunities arise.

Without agreements in the Doha Development Round or in regional and bi-lateral trade agreements to achieve total tariff elimination, equitable market opportunities will continue to be denied due to tariff escalation in the paper sector.

Tariff Reduction or elimination can have environmental consequences. The environmental impact of tariff modification should be considered on a case-by-case basis and analyzed in accordance with Executive Order 13141. ISAC 12 supports measures to avoid or mitigate negative environmental impacts of tariff changes.

ISAC 12 has initiated a discussion regarding the environmental review of the U.S.-Chile FTA. The Committee remains concerned about illegal logging and pertinent land management practices as global issues.

In addition to tariff elimination, the elimination of many non-tariff barriers is essential to ensure that the market access benefits of tariff concessions are not offset by existing or new non-tariff barriers. Strategically, this industry is best served to see that other countries do not apply lower safety, labor, and environmental standards than those which are upheld by American manufacturers.

Additional ISAC 12 negotiating objectives include:

Eliminating subsidies for capacity building. Subsidies not only give competitors price advantages, they also contribute to building uneconomic/unsustainable capacity which further distorts markets for forest products and increases pressure on forest resources. ISAC 12 data indicate that some governments--in both developed and developing countries--are providing substantial funding for building paper production capacity in the absence of normal market justification.

Financing from Multilateral Finance Institutions, such as the World Bank Group and Export Credit and Investment Insurance Agencies, can also contribute to uneconomic/unsustainable capacity that can simultaneously distort markets and contribute to environmental harm. The extent to which such public financing represents a real or de-facto subsidy should be assessed and these subsidies should be eliminated.

Monetary and trade policies that lead to a dollar exchange rate that supports the global competitiveness of U.S. forest products and other manufacturing industries. The committee has consistently urged that the Administration recognize the devastating effect of inequitable exchange rates on U.S. based manufacturing industries, such as the paper and paper products industry. Provisions of Trade Promotion Authority provide for consultations regarding the potential for exchange rate movements to offset the balance of benefits achieved in trade agreements. The U.S. Treasury should identify countries that manipulate their currencies to gain competitive advantage and pursue actions to end such practices.

Rules of origin. The committee requests that the rules of origin for new agreements be based upon the NAFTA rules of origin.

Eliminating lower environmental standards, and especially illegal logging, as a basis for competition in the forest products industry. The Committee has expressed particular concern about illegal logging practices, associated illegal border trade, and the use of illegally obtained timber being used in the manufacturing of forest products.

V. Advisory Committee Opinion on Agreement

The consensus opinion of the Industry Sector Advisory Committee for Paper and Paper Products (ISAC 12) is to strongly support the FTA with Chile. Opinions on relevant sections of the agreement follow.

Market Access

In comments submitted to USTR in February 2001, a majority of ISAC 12 urged the U.S. government to insist that all paper tariffs be reduced to zero immediately upon the FTA going into effect and be bound at that level. The committee noted that staging tariffs cuts over a period of years would be unacceptable to the U.S. paper and paper products industry as this would further erode U.S. export competitiveness vis-à-vis other countries such as Canada and Mexico

that already enjoy zero tariff status with Chile.

The US industry also worked closely with our counterpart forest industry groups in Chile to ensure that the Chilean government would adopt this approach in the market access discussions.

ISAC 12 is satisfied with the results of the negotiation as the agreement calls for tariffs to fall to zero immediately for all of Chapter 47 and 48 once the agreement goes into effect. Current Chilean tariffs on paper products are 6% so this outcome will benefit US industry.

The agreement on paper and paper product tariff elimination also sets a precedent for other FTA negotiations, FTAA market access approaches and a zero for zero agreement on paper tariff elimination in the Doha Development Agenda in the WTO.

Rules of Origin

ISAC 12 advice on rules of origin was accepted in the US-Chilean FTA agreement. This sets an important precedent for other negotiations in the hemisphere and in the WTO. ISAC 12 had requested that rules of origin for the Chilean FTA be based on NAFTA rules of origin and we would request the same approach in other negotiations. We recommended that transformations at the four-digit level of Chapter 48 such as these listed qualify under Rules of Origin, regardless of the country of origin.

Environment

The Environment Chapter takes important steps beyond some previous FTAs to promote environmental protection.

Dissenting opinion: However, there have been questions and concerns raised about whether the narrowing of the Chapter's legal scope, along with its insufficient provisions for public participation, may weaken its ability to be a process that protects the environment and is equitable to all stakeholders.

VI. Membership of the Industry Sector Advisory Committee on Paper and Paper Products (ISAC 12)

- 1) Michael Brummer
York Paper Company
- 2) Charles Greiner
International Paper Company
- 3) Douglas Norlen
Pacific Environmental Resource Center
- 4) Michael Onustock
Weyerhaeuser

- 5) David Paterson
Georgia-Pacific Corporation
- 6) Harold Rahn
Norcom Inc.
- 7) Maureen Smith
Public Strategies Inc.