

The Honorable Robert B. Zoellick
United States Trade Representative
Executive Office of the President
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.-Central America Free Trade Agreement, reflecting majority and additional advisory opinion(s) on the proposed Agreement.

Sincerely,

Michael G. Brummer
Chair
ISAC 12

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

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

March 2004

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Industry Sector Advisory Committee for Paper and Paper Products (ISAC 12)

Advisory Committee Report to the President, the Congress and the United States Trade Representative on the U.S.-Central America 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) 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, the Industry Sector Advisory Committee for Paper and Paper Products (ISAC 12) hereby submits the following report.

II. Executive Summary of Committee Report

Although the market access provisions of the U.S.-Central America Free Trade Agreement (CAFTA) will eventually lead to the removal of tariffs on all U.S. paper products exports to the CAFTA region, ISAC 12 can not endorse the market access agreement. ISAC 12 understands the challenges associated with securing immediate tariff elimination with developing countries, but the market access provisions of the CAFTA allow for stagings of 5 and 10 year phase outs on too many important paper products. ISAC 12 states that this provision does not provide equity and reciprocity within the sector on a bilateral or multilateral basis. The full range of pulp, paper, paperboard, packaging, and converted paper products are not treated equally in the context of the tariff provisions. The CAFTA region is an important export market for the U.S. paper and paper products industry. In 2003, U.S. industry's exports to CAFTA in this sector were valued at nearly \$390 million. Through the implementation of the CAFTA, the industry will see improved access and greater export opportunities in the future, but many of the potential benefits are lost to the industry due to the long duty phase outs.

ISAC 12 strongly urges that the market access provisions of other FTA's (e.g., U.S.-Chile FTA, U.S.-Australia FTA) serve as the 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 upon implementation.

For the U.S.-CAFTA, the negotiating objectives and priorities were not achieved reflecting the advice sought by the U.S. Government upon the launching of negotiations in January 2003.

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 of Commerce 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

In terms of market access, the elimination of global tariffs on paper and paper products remains the overarching priority for the U.S. paper industry. ISAC 12 supports any bilateral, regional or multi-lateral trade negotiations that would advance the 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 WTO multilateral trade organization or in regional and bilateral 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 ongoing discussions regarding the process effectiveness and implications of environmental reviews of FTAs. 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 existing or new non-tariff barriers do not offset the market access benefits of tariff concessions. This industry supports efforts to ensure 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.

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 not to support the CAFTA agreement as currently proposed. Opinions on relevant sections of the agreement follow.

Market Access

In comments submitted to USTR in April 2003 and June 2003, 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 minimize the benefits of tariff reductions and further erode U.S. export competitiveness.

ISAC 12 is disappointed with the results of the negotiations as the agreement does not call for tariffs to fall to zero immediately for all of Chapter 47 and 48 once the agreement goes into effect. The majority of the committee states that products with 5- and 10- year staging for duty reductions are unacceptable. Current Central American country tariffs on paper products range

from 5-15% . The longer staging will result in significantly reduced benefits to the U.S. industry, and be in contrast to our previously stated positions. ISAC 12 wants to make sure that its traditionally stated position of requiring zero tariffs upon entering into any new treaty/agreement is in no way undermined in the future.

Therefore; this agreement on paper and paper product tariff elimination should not be seen as a precedent for other FTA negotiations, FTAA market access approaches, or for market access negotiations in the Doha WTO multilateral trade round.

Environment

It is the unanimous opinion of the members of ISAC 12 that equal application of environmental standards is enforced on a global basis and is consistent with WTO decisions and guidelines on Trade and Environment. Consistent with the 1994 Uruguay Round agreement, ISAC 12 supports the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment. ISAC 12 believes that there should not be any policy contradiction between upholding and safeguarding an open, non-discriminatory multilateral trading system and acting for the protection of the environment and promotion of sustainable development of natural resources.

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

- 1) Michael Brummer, York Paper Company
- 2) Angel Diez, Pope and Talbot
- 3) Charles Greiner, International Paper Company
- 4) Douglas Norlen, Pacific Environmental Resource Center
- 5) Michael Onustock, Weyerhaeuser
- 6) David Paterson, Georgia-Pacific Corporation
- 7) Harold Rahn, Norcom Inc.
- 8) Maureen Smith, American Forest and Paper Association

This letter was received from a member of the committee following receipt of the committee's report. It is not part of the committee's report.

The Honorable Christopher Padilla
Assistant United States Trade Representative
Executive Office of the President
60017th Street, NW
Washington, D. C. 20508

Dear Chris:

The American Forest & Paper Association (AF&PA) shares the concern expressed by ISAC 12 regarding the inclusion of five and ten year phase out periods in the recently concluded FTA negotiations with CAFTA and the Dominican Republic.

The advice that AF&PA and ISAC 12 has consistently provided to our trade negotiators is, I believe, well known: because all U.S. tariffs on paper products have now been eliminated, and because our industry is still struggling with the adverse effects of the ten year tariff phase out agreed to in the Uruguay Round and finally, because some of our most aggressive competitors are located in developing countries, our industry must insist that only the immediate elimination of tariffs by our trading partners would provide us with the substantially equivalent competitive opportunities we are both seeking.

We fully support the ISAC 12 contention that this must be the template for all future trade agreements.

At the same time, however, we recognize that implementation of the CAFTA and DR market access agreements will of course improve our access to these markets. Our ability to sell our products in these markets will be improved as a result of this agreement. For this reason, we do not wish to join in the statement that we do not endorse the market access agreement. We recognize that it brings benefits to our companies, and we anticipate our companies will take maximum advantage of these opportunities.

It is respectfully requested that this statement of clarification be included with the ISAC report.

Thank you.

Sincerely,

Maureen R. Smith
Consultant
American Forest & Paper Association
Public Strategies Inc.