

November 15, 2005

The Honorable Rob Portman
United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 20508

Dear Ambassador Portman:

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 Trade Advisory Committee on Forest Products for Trade Policy Matters (ITAC 7)* on the U.S.-Oman Free Trade Agreement (FTA), reflecting majority and minority opinion on the proposed Agreement.

Sincerely,

Ernest T. Altman
Chair
ITAC 7

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

**Report of the
Industry Trade Advisory Committee on Forest Products
(ITAC 7)**

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ITAC 7

Advisory Committee Report to the President, the Congress and the United States Trade Representative on the U.S.-Oman 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 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 Trade Advisory Committee on Forest Products (ITAC 7) hereby submits the following report.

II. Executive Summary of Committee Report

ITAC 7 believes that the U.S.-Oman FTA taken as a whole, is a positive development, which will advance the economic interests of the United States and the region. The agreement meets most of the negotiating goals and objectives set forth in past advice by this Advisory Committee.

In particular, ITAC 7 supports the position that the tariffs on all forest products be eliminated immediately; this has been the overarching goal of this ITAC since the Uruguay Round. ITAC 7 compliments USTR on their success in achieving immediate elimination for the existing tariffs on all wood and paper products in Chapters 44, 47 and 48.

However, ITAC 7 does not support the current position regarding Rules of Origin on the transformation of commercial goods in Chapter 44. Section 4.1 (b) requires a 35% increase in the appraised value of the good in order for the material to be included as a new or different article of commerce. We believe this to be an unnecessary burden and will require an extremely difficult documentation process for compliance assessment. ITAC 7 has consistently supported the recognition of the transformation of solid wood products in Chapter 44 at the four-digit level.

III. Brief Description of the Mandate of the Industry Trade Advisory Committee on Forest Products (ITAC 7)

The Industry Trade Advisory Committee (ITAC) on Forest Products is comprised of environmental and industry representatives from the forest products sector that includes lumber and solid wood products and pulp and paper products. Representatives serving on the Forest Products ITAC 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 Manufacturing and Services (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 Trade Advisory Committee on Forest Products (ITAC 7):

In terms of market access, the global elimination of tariffs on forest products (which includes the full range of commodities in the lumber and wood products and pulp and paper products sectors) is the priority trade objective of ITAC 7. The majority of members of ITAC 7 support any bilateral, regional, or multi-lateral trade negotiations that would advance the core objective of eliminating tariffs on all forest products. The Committee urges U.S. trade negotiators to avail themselves of the authority provided in the Uruguay Round Agreements Act to pursue the elimination of forest products tariffs as an urgent matter whenever opportunities arise.

With a sustainably managed fiber base, skilled workforce, efficient mills, and logistics infrastructure, this is a highly competitive industry in the global economy. However, the persistence of high tariffs, and particularly, tariff escalation, applied to our products has prevented realization of our competitive advantage. High tariffs abroad allow foreign competitors to develop a competitive industry while securing their domestic or regional market share, while low or non-existent tariffs in the U.S. in this sector allow competing products free entry in our own market. Tariff escalation, allowing raw or semi-processed materials free entry, while imposing higher tariffs on more processed products is particularly disadvantageous to our most competitive products. A majority of us have urged U.S. negotiators to seek immediate elimination of tariffs on all products in this sector, and where tariff reductions are phased in, to reduce higher-level tariffs first and fastest to reduce the tariff escalation effect.

Other general trade objectives for the forest products industry include elimination of non-tariff barriers; elimination of capacity-building subsidies; support for monetary and trade policies that discourage currency manipulation for competitive trade advantage; rules of origin delineation providing for transformation at the four-digit level; mutual recognition and strong enforcement of trademark licenses; international harmonization and mutual recognition of product standards and accreditation procedures; and support for measures to ensure against reduced environmental standards for competitive advantage, particularly associated with illegal logging and trade in illegally harvested forest products.

V. Advisory Committee Opinion

The majority opinion of the Industry Trade Advisory Committee on Forest Products (ITAC 7) is to support the Oman agreement as currently proposed, with the exception of the Rules of Origin section.

The achievement of trade liberalization and accountability in this agreement is positive. ITAC 7 is encouraged that, like previously completed FTA's, notably Australia, Chile and Singapore, the immediate elimination of tariffs on wood and paper products was achieved.

The Oman FTA also includes provisions supporting the international treaties on technical barriers to trade, intellectual property rights, and phytosanitary regulations. Further, the Oman FTA includes provisions on conformity assessment procedures, which should ensure that U.S. certification agencies can be recognized, thus facilitating easier acceptance of our products.

Opinions on relevant sections of the agreement follow.

- A. **Market Access:** The immediate elimination of tariffs on all wood and paper products is a positive result, meeting the top priority objective of ITAC 7.

The environmental impact of tariff modification should be considered on a case-by-case basis and analyzed in accordance with Executive Order 13141. ITAC 7 supports measures to avoid or mitigate negative environmental impacts of tariff changes.

- B. **Rules of Origin:** ITAC 7 does not support the current description on the transformation of goods under the regulations described under Rules of Origin. Section 4.1 (b) requires a 35% increase in the appraised value of the good in order for the material to be included as a new or different article of commerce. We believe this to be an unnecessary burden and will require an extremely difficult documentation process for compliance assessment.

ITAC 7 has consistently supported the recognition of the transformation of solid wood products at the four-digit level. Annex 4-A of this agreement does not specify rules for products in Chapter 44. ITAC 7 advice to USTR on this topic for all U.S. FTAs has been to include negotiating text similar to that agreed to in the U.S.-Chile Free Trade Agreement for forest products:

“Chapter 44 Wood and Articles of Wood, Wood Charcoal, 4401 - 4421. A change to heading 4401 through 4421 from any other heading including another heading within that group.”

ITAC 7 still encourages the inclusion of this text within the Oman FTA and all future trade negotiations.

- C. **Intellectual Property Rights (IPR):** ITAC 7 supports the Chapter on IPR believing that this agreement is adequate. ITAC 7 is supportive of the negotiations on trademark (specifically certification marks) and copyright protection. In particular, the U.S. forest products industry is pleased with the broader scope of protection that will be recognized for well-known marks, in a manner similar to that negotiated in the Singapore and Chile FTAs. ITAC 7 also supports the enhanced language leading to the establishment of a system of statutory civil damages and criminal accountability associated with IPR violations, including the physical destruction of illegally counterfeit trademarked goods.

ITAC 7 is pleased with the absence of long transition periods for acceptance of the IPR agreements by Oman, unlike the ITAC 7 objections to the lengthy transition periods relative to implementation in the CAFTA agreement.

ITAC 7 also wishes to emphasize the importance it places on the effective enforcement of the IPR obligations within this agreement. The protections promised are of little value to the U.S. forest products industry without the commitment of the Oman government to enforce those standards. The proof will rest on the implementation of these standards by those Oman regulatory authorities, judicial and administrative agencies that are responsible for enforcement.

- D. **Sanitary and Phytosanitary (SPS) Measures:** The industry representatives of ITAC 7 support the Chapter on SPS and the establishment of an annual forum for the review of SPS issues between the respective countries
- E. **Technical Barriers to Trade (TBT):** ITAC 7 supports the Chapter on TBT, particularly with respect to transparency in standards development, participation by U.S. entities in the Omani standards, technical regulation and conformity assessment processes and mutual recognition or harmonization of conformity assessment bodies between the United States and Oman. The U.S. industry also supports the minimum 60-day response time period for responding to Standards Notifications. ITAC 7 is pleased that Oman has agreed to implement all of the TBT agreement provisions through a transition period not to exceed five years. We encourage the two governments to take advantage of these provisions allowing for acceleration of technical harmonization between the parties.
- F. **Corporate Stewardship:** The Environment chapter lacks a provision on promoting good corporate stewardship. Article 17.4(1.b) instead emphasizes incentives including market-based incentives and public recognition. While incentives can facilitate improved environmental stewardship, there should not, and need not, come at the cost of de-emphasized corporate stewardship objectives. A minority of ITAC 7 members encourage the inclusion of language promoting corporate stewardship as included in Article 18.9 of the Singapore FTA or Article 19.10 of the Chile FTA (Art 19.10). This language would be most beneficial if combined with the existing language on incentives.

- G. 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. ITAC 7 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.
- H. Subsidies from Public Finance Institutions.** 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.
- I. 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. 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.
- J. Globally consistent environmental standards.** ITAC 7 supports equal application of environmental standards on a global basis consistent with WTO decisions and guidelines on Trade and Environment. Consistent with the 1994 Uruguay Round agreement, ITAC 7 supports optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment. ITAC 7 believes that there should not be any policy contradiction between upholding and safeguarding an open, nondiscriminatory multilateral trading system and acting for the protection of the environment and promotion of sustainable development of natural resources.
- K. General:** ITAC 7 believes the FTA provides reciprocity in the forest products sector and will advance the economic interests of the United States and therefore strongly supports the U.S.-Oman FTA and urges its prompt approval and entry into force.
- VI. Membership of Industry Trade Advisory Committee on Forest Products (ITAC 7)**
- 1) Ernest T. Altman – Acting Chair
Hardwood Plywood & Veneer Association
 - 2) Heidi Biggs Brock
Weyerhaeuser Company

- 3) Michael G. Brummer
Representing Hammer Lithograph Corporation
- 4) Angel M. Diez
Pope & Talbot, Inc.
- 5) Anne H. Divjak
American Forest & Paper Association
- 6) Edward G. Elias
APA-The Engineered Wood Association
- 7) Thomas E. Gestrich
International Paper
- 8) John A. Grunwald
Representing the Indiana Hardwood Lumberman's Association
- 9) Jacob Handelsman
American Forest & Paper Association
- 10) Edward A. Heidt, Jr.
The Penrod Company
- 11) Jerry L. Hingle
Southern Forest Products Association
- 12) Paul Houghland, Jr.
National Hardwood Lumber Association
- 13) Michael T. Leahy, Esq.
Defenders of Wildlife
- 14) Brent J. McClendon
The International Wood Products Association
- 15) Paul E. McKay
PMG & Associates
- 16) Virginia R. McLain
MeadWestvaco Corporation
- 17) Douglas P. Norlen
Pacific Environment

- 18) David J. Paterson
Georgia-Pacific Corporation
- 19) Harold A. Rahn
Norcom, Inc.
- 20) Thomas D. Searles
American Lumber Standard Committee
- 21) James A. Taylor
Representing Tri-State Pole and Piling, Inc.
- 22) Robert W. Taylor
Weyerhaeuser Company
- 23) C. Richard Titus
Kitchen Cabinet Manufacturers Association