

April 25, 2007

The Honorable Susan Schwab
United States Trade Representative
Executive Office of the President
Washington, D.C. 20508

Dear Ambassador Schwab:

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 for Forest Products (ITAC 7) on the United States-Panama Trade Promotion Agreement, reflecting majority and additional advisory opinion(s) on the proposed Agreement.

Sincerely,



Ann Wroblewski
Chair
ITAC 7 – Forest Products

The United States-Panama Trade Promotion Agreement

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

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Industry Trade Advisory Committee on Forest Products (ITAC 7)

Advisory Committee Report to the President, the Congress, and the United States Trade Representative on the United States-Panama Trade Promotion 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) 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 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.-Panama Trade Promotion Agreement taken as a whole, is a positive development, which will advance the economic interests of the United States and the region. The majority of members of ITAC 7 support any bilateral, regional, or multi-lateral trade negotiations that advance the Committee's core objective of eliminating tariffs on forest products. It is unfortunate that the achievement of this principal objective – the immediate elimination of all tariffs on wood and paper products - was not accomplished. However, the committee recognizes that this is not likely due to Panama's status as a developing country. Panama should thus be viewed as a unique case and should not be considered as a template for the treatment of paper and wood tariffs in future trade agreements.

ITAC 7 urges that the market access provisions of other FTAs (e.g., the U.S.-Chile and the U.S.-Australia FTAs) serve as the template for future FTAs/TPAs. 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 wood products immediately upon implementation. In the paper and wood products sector, many developing nations are already world-class competitors to the United States and do not require lengthy periods of tariff protection to develop and /or protect their domestic industries.

III. ITAC 7 Mandate

ITAC 7 is comprised of industry representatives from the forest products sector that includes lumber and solid wood products and pulp and paper products. The Committee also includes environmental representatives. 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 ITAC 7

In terms of market access, the speedy elimination of all tariffs on forest products (which includes the full range of goods 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 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, has prevented the realization of this competitive advantage. High tariffs allow foreign countries to support the development of forest products industries and secure their domestic or regional market share, while zero or low tariffs in the U.S. allow those competitors free entry into 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 the Committee members have urged U.S. negotiators to seek immediate elimination of tariffs on all products in this sector, and where tariff reductions have to be phased in, to reduce higher-level tariffs first, and at a faster rate, to diminish 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 high environmental and forestry management standards and for measures to ensure against reduced environmental standards for competitive advantage, particularly associated with illegal logging and trade in illegally harvested forest products.

V. ITAC 7 Opinion on Agreement

Market Access - TARIFFS

The U.S. - Panama TPA does not provide for Panama's tariffs to fall to zero immediately on certain key wood products such as flooring/molding and millwork (4409), panel products (4412) and certain types of builders joinery (4418). Rather, Panama offers immediate zero tariffs on raw unprocessed wood where its applied tariff rates were already at or near zero (logs and lumber). In most cases, Panama has only committed to between a 5 and 10 year phase out on wood product tariffs. As such, Panama's market access offer on wood products falls short of our industry's objective in this TPA.

All pulp products in Chapter 47 of the Panama schedule are already at zero or will go to zero immediately. In Chapter 48, the import tariffs on a large portion of current trade will be zero immediately. However, Panama has offered to eliminate tariffs on a relatively large number of tariff lines in 5 or 10 years. We can't make a proper evaluation of the economic value of current or potential trade in these tariff lines due to the lack of access to Panamanian import data and inability to match U.S. export statistics and Panama's tariff schedule beyond the 6 digit level. As such, we can only conclude that Panama's market access offer on paper products also falls short of our industry's objective in this TPA.

ITAC 7 wants to make sure that its long-standing position of securing zero tariffs upon entering into any new FTA/TPA is in no way undermined in the future.

Environmental Cooperation Agreement

While primarily producing wood and paper products domestically, U.S. forest products companies also operate in the global market where issues surrounding legality and the sustainability of the products we manufacture are growing in importance. We believe the U.S.-Panama TPA and its associated Environmental Cooperation Agreement (ECA) serve as an opportunity to demonstrate our respective countries' commitment to improving global forestry practices and taking steps to eliminate illegal logging and the use of illegally obtained timber in the manufacturing of forest products. ITAC 7 supports the intent of the ECA.

VI. Membership of the Industry Trade Advisory Committee on Forest Products (ITAC 7)

1. Ann Wrobleski, ITAC 7 Chair
International Paper Company
2. Jacob Handelsman, ITAC 7 Vice Chair
American Forest & Paper Association
3. Ernest T. Altman
Hardwood Plywood & Veneer Association
4. Heidi Biggs Brock
Weyerhaeuser Company
5. Michael G. Brummer
Hammer Lithograph Corporation
6. Angel M. Diez
Pope & Talbot, Inc.
7. Anne Divjak
American Forest & Paper Association
8. Edward G. Elias
APA – The Engineered Wood Association
9. Thomas E. Gestrich
International Paper Company
10. John A. Grunwald
Indiana Hardwood Lumbermen’s Association
11. Edward A. Heidt, Jr.
The Penrod Company
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 McKay
North Pacific Lumber Co.
16. Virginia McLain
MeadWestvaco Corporation
17. Douglas P. Norlen
Pacific Environment
18. Harold A. Rahn
Norcom, Inc.
19. Thomas D. Searles
American Lumber Standard Committee, Inc.
20. James A. Taylor
Tri-State Pole and Piling, Inc.
21. Robert W. Taylor
Weyerhaeuser Company
22. C. Richard Titus
Kitchen Cabinet Manufacturers Association
23. Elizabeth C. Ward
Hardwood Federation