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March 12, 2004

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 of Advisory Committee - Lumber and Wood Products for Trade Policy Matters (ISAC 10)* on the U.S.-Australian Free Trade Agreement (FTA).

Sincerely,

A handwritten signature in blue ink, appearing to read "Lyn Withey".

Lyn Withey
Chair
ISAC 10

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

**Report of the
Industry Sector Advisory Committee for Lumber and Wood Products
(ISAC-#10)**

March 12, 2004

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ISAC 10

Advisory Committee Report to the President, the Congress and the United States Trade Representative on the U.S.-Australia Free Trade Agreement (FTA)

1. 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 Sector Advisory Committee - Lumber and Wood Products (ISAC 10) hereby submits the following report.

2. Executive Summary of Committee Report

ISAC 10 commends the US negotiators on the outcome of the Free Trade Agreement between the United States and Australia. This agreement is consistent with the negotiating goals and objectives as set forth in past advice from ISAC 10. We recognize that this agreement represents a negotiated document between two countries in an advanced stage of development. However, ISAC 10 also believes that this agreement broadly establishes provisions relative to market access, rules of origin, phytosanitary and intellectual property rights provisions that should be included in future FTA's, particularly the Free Trade Agreement of the Americas.

Global elimination of tariffs on wood products is the priority trade objective of ISAC 10. The US-Australia FTA provides for the reciprocal elimination of tariffs on wood products on entry into force. This is a significant result, building on similar tariff elimination agreements with Singapore and Chile, which hopefully will offer encouragement for other trading partners to eliminate tariffs in this sector. The Committee commends negotiators for achieving this result, thus expanding the opportunity to grow U.S. wood products exports to Australia. U.S. exports

of wood products to Australia were estimated at \$28 million in 2003. Product mix consists primarily of hardwood lumber, cooperage and builders joinery. Australia is not a major supplier of wood products to the U.S. Imports of Australian wood products into the U.S., consisting primarily of higher valued product, amounted to an estimated \$17 million in 2003.

III. Brief Description of the Mandate of the Industry Sector Advisory Committee (ISAC 10) on Lumber and Wood Products

The Industry Sector Advisory Committee (ISAC) on Lumber and Wood Products is comprised of environmental and industry representatives from the lumber and **solid wood products** sector that includes sawmills and planing mills, hardwood veneer and plywood, softwood veneer and plywood, reconstituted **and engineered** wood products, and certain treated wood products. Representatives serving on the Lumber and Wood 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 10) on Lumber and Wood Products:

- a. Global elimination of tariffs on all wood products remains the top priority trade objective of the U. S. wood products industry. 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 value-added products is particularly disadvantageous to our most competitive products. We 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.
- b. Other general trade objectives for the wood 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

Market Access: ISAC 10 commends negotiators for achieving the top priority objective of the wood products industry, the immediate elimination of tariffs on all products in this sector. It is hoped that this example and those of Singapore and Chile FTAs will convince other countries that immediate elimination of tariffs in this sector is in the interest of all countries regardless of their economic circumstances.

Rules of Origin: ISAC 10 is satisfied with the results of the negotiation on rules of origin, which provide for recognition of transformation of solid wood products at the four-digit level.

Intellectual Property Rights (IPR): ISAC 10 commends negotiators for results in this area, particularly with respect to text describing seizure of suspected goods, obliteration of falsified marks and identifying civil damages associated with the areas of copyright piracy and trademark counterfeiting. While we recognize that piracy and counterfeiting are probably lower in Australia than in many other countries around the world, this agreement sets high standards and good precedents for future trade agreements. But, even in Australia, the proof will lie in the willingness of the government to implement these enforcement standards.

Sanitary and Phytosanitary Measures (SPS): ISAC 10 recognizes that the free trade agreement is predicated on the mutual recognition of existing rights and obligations currently being enforced by each country under their respective sanitary and phytosanitary regulations. For wood products, the Australian Quarantine and Inspection Service (AQIS) provides the current documentation on Australia's exclusion of exotic pests and diseases particularly by container transportation of wood products and packaging via air or through shipping. ISAC 10 is satisfied with existing SPS requirements as described by AQIS for our sector.

Dispute Settlement: ISAC 10 is satisfied that there are the necessary arbitration bodies established for providing settlement of commercial issues between Australian and US parties covering customs activities, rules of origin, SPS, IPR and technical barriers to trade.

International Harmonization of Standards:

The citation in Article 8.9 Chapter Coordinators leaves unclear whether the reference to "representatives of both Parties" includes private sector representatives. The breadth of standards activities impacting trade across all U.S. goods and services is extensive and, as such, consideration should be given to broadening the ad hoc working groups to include private sector experts affiliated with the specific industrial sector at issue. Due to the complex technical nature of certain TBT issues, the input of industry experts will be necessary to facilitate the development of workable solutions that facilitate trade.

General: ISAC-10 believes the FTA provides reciprocity in the wood products sector and will advance the economic interests of the U.S. and therefore strongly supports the US-

Australia FTA and urges its prompt approval and entry into force.

VI. Membership of the Industry Sector Advisory Committee on Lumber and Wood Products (ISAC 10)

- 1) Lyn Withey - CHAIR
International Paper Company
- 2) Ernest Altman - VICE CHAIR
Hardwood Plywood & Veneer Association
- 3) Edward Elias
APA-The Engineered Wood Association
- 4) John Grunwald
Representing the Indiana Hardwood Lumberman's Association
- 5) Edward Heidt, Jr.
The Penrod Company
- 6) Jerry L. Hingle
Southern Forest Products Association
- 7) Paul Houghland, Jr.
National Hardwood Lumber Association
- 8) Michael Leahy, Esq.
Defenders of Wildlife
- 9) Paul E. McKay
PMG & Associates
- 10) Thomas Searles
American Lumber Standards Committee
- 11) James A. Taylor
Representing Tri-State Pole and Piling, Inc.
- 12) Robert Taylor
Weyerhaeuser
- 13) C. Richard Titus
Kitchen Cabinet Manufacturers Association

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