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July 14, 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 Trade Advisory Committee – Forest Products for Trade Policy Matters (ITAC 7)* on the U.S.-Bahrain Free Trade Agreement (FTA), [reflecting majority and minority opinion on the proposed Agreement].

Sincerely,

A handwritten signature in blue ink that reads "Lyn Withey".

Lyn Withey
Chair
ITAC 7

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

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

July 14, 2004

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ITAC 7

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

II. Executive Summary of Committee Report

The U.S.-Bahrain FTA provides for the reciprocal elimination of tariffs on nearly all forest 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 acknowledges that all duties on U.S. exports of wood products (HTS Chapter 44) and pulp and secondary fiber (HTS Chapter 47) will go immediately to zero upon entering in the agreement. In addition, the Committee recognizes that with the exception of 4 converted paper products, duties on U.S. paper and paper products (HTS 48) exports will also go immediately to zero upon entering into the agreement.

The Committee commends negotiators for achieving this result, thus expanding the opportunity to grow U.S. forest products exports to Bahrain. U.S. exports of wood products to Bahrain were approximately \$463,000 in 2003, while U.S.

exports of paper were valued at \$1.1 million and exports of pulp and secondary fiber were valued at \$164,000.

Recognizing that the U.S.-Bahrain FTA includes some limited exceptions to the immediate elimination of tariffs on all wood and paper products, ITAC 7 supports this Agreement, and reiterates its advice that future FTA negotiations follow the model of the U.S.-Chile, U.S.-Singapore and U.S.-Australia agreements which provide for immediate tariff elimination on all products in this sector, thus providing full sectoral equity and reciprocity. In the forest products sector, many developing nations are world-class competitors and do not require lengthy periods of tariff protection to develop their domestic industry.

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 Trade Advisory Committee (ITAC 7) on Forest Products

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 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 Trade Advisory Committee (ITAC 7) on Forest Products:

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 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 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.

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. ITAC 7 supports measures to avoid or mitigate negative environmental impacts of tariff changes.

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

The majority opinion of the Industry Trade Advisory Committee for Forest Products (ITAC 7) is to support the Bahrain agreement as currently proposed. Opinions on relevant sections of the agreement follow.

- A. **Market Access:** The immediate elimination of tariffs on all wood products and all but four converted paper products is a positive result, largely meeting the top priority objective of ITAC 7.
- B. **Rules of Origin:** ITAC 7 is satisfied with the results of the negotiations on Rules of Origin, which provide for recognition of transformation of wood products at the four-digit level.
- C. **Intellectual Property Rights:** ITAC 7 supports the results of the negotiations on Intellectual Property Rights (IPR), noting that many of the shortcomings of the Chilean and Central American Free Trade Agreements (e.g. less-than-desirable periods of staging in particular) have been remedied. In terms of trademark protection, copyright and patent protection ITAC 7 is satisfied with the Bahrain results. However, U.S. industry still believes that the U.S./Morocco Free Trade Agreement provides the most advanced chapter in IPR, negotiated to date, and should be held as the model for minimum performance in future negotiations. We are also concerned that if the U.S./Bahrain FTA were to be used as the docking document for further negotiations in the region (Middle East Free Trade Area), then stronger language with these new countries may be difficult.

Bahrain has also chosen to increase levels of IPR protection beyond those required by the TRIPS agreement, thereby reaffirming that higher levels of protection benefit both developing as well as developed nations. However, ITAC 7 also wishes to emphasize the

importance it places on the enforcement of IPR obligations to this agreement. The protections are of little value without the commitment of the Government of Bahrain to enforce those standards. The proof will rest on the implementation of these standards by the regulatory authorities, judicial and administrative agencies that are responsible for enforcement. The United States Government should be prepared to act quickly if Bahrain fails to implement or enforce its IPR obligations in a timely manner.

- D. **General:** ITAC 7 believes the FTA provides reciprocity in the forest products sector and will advance the economic interests of the U.S. and therefore strongly supports the U.S.-Bahrain FTA and urges its prompt approval and entry into force.

VI. Membership of the Industry Trade Advisory Committee on Forest Products (ITAC7)

- 1) Lyn Withey - CHAIR
International Paper Company
- 2) Michael Brummer – VICE CHAIR
York Paper Company
- 3) Ernest Altman - VICE CHAIR
Hardwood Plywood & Veneer Association
- 4) Angel Diez
Pope & Talbot
- 5) Edward Elias
APA-The Engineered Wood Association
- 6) Charlie Greiner
International Paper Company
- 7) John Grunwald
Representing the Indiana Hardwood Lumberman's Association
- 8) Edward Heidt, Jr.
The Penrod Company
- 9) Jerry L. Hingle
Southern Forest Products Association
- 10) Paul Houghland, Jr.
National Hardwood Lumber Association
- 11) Michael Leahy, Esq.
Defenders of Wildlife
- 12) Paul E. McKay
PMG & Associates
- 13) Doug Norlen
Pacific Environmental Resource Center
- 14) Michael Onustock
Weyerhaeuser Company
- 15) David Paterson
Georgia-Pacific Corporation
- 16) Harold Rahn
Norcom, Inc.

- 17) Thomas Searles
American Lumber Standards Committee
- 18) Maureen Smith
American Forest and Paper Association
- 19) James Taylor
Representing Tri-State Pole and Piling, Inc.
- 20) Robert Taylor
Weyerhaeuser Company
- 21) C. Richard Titus
Kitchen Cabinet Manufacturers Association