

February 28, 2003

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 Advisory Committee – Paper and Paper Products for Trade Policy Matters (ISAC 12)* on the U.S.-Singapore Free Trade Agreement (FTA). This report represents the unanimous advisory opinion on the proposed Agreement.

Sincerely,

Maureen R. Smith
Chair
ISAC 12

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

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

February 2003

February 28, 2003

ISAC 12

Advisory Committee Report to the President, the Congress and the United States Trade Representative on Singapore 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 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 Sector of Advisory Committee for Paper and Paper Products (ISAC 12) hereby submits the following report.

II. Executive Summary of Committee Report

Worldwide elimination of tariffs on paper and paper products is a priority trade objective for ISAC 12. In the case of Singapore, tariffs are not an issue since they've been eliminated unilaterally on virtually all paper products. The majority of ISAC 12 members support the FTA with Singapore as it commits Singapore to bilaterally bind tariffs at zero for all paper products when the FTA goes into effect.

To the extent that the Singapore agreement may serve as a model for a future agreement with ASEAN or other regions, ISAC 12 would support the implicit concept that the elimination of all tariffs on paper and paper products should be accomplished as soon as possible and, to the extent possible, even before the conclusion and implementation of the agreement.

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 includes paper manufacturing and allied products (except insulation board). 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 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:

The elimination of global tariffs on paper products remains the overarching priority for the U.S. paper industry. ISAC 12 supports any bi-lateral, regional or multi-lateral trade negotiations that would advance our 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 Doha Development Round or in regional and bi-lateral trade agreements to achieve total tariff elimination, equitable market opportunities will continue to be denied 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 a discussion regarding the environmental review of the U.S.-Singapore FTA. The Committee remains concerned about illegal logging and pertinent land management practices as global issues.

In addition to tariff elimination, the elimination of most non-tariff barriers is absolutely essential to ensure that the market access benefits of tariff concessions are not offset by existing or new non-tariff barriers. Strategically, this industry is best served to see that other countries do not

apply lower safety, labor, and environmental standards than those that 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 like 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.

Monetary and trade policies that lead to a dollar exchange rate that supports the global competitiveness of U.S. forest products and other manufacturing industries. The committee has consistently urged that the Administration recognize the devastating effect of inequitable exchange rates on U.S. based manufacturing industries, such as the paper products industry. Provisions of Trade Promotion Authority provide for consultations regarding the potential for exchange rate movements to offset the balance of benefits achieved in trade agreements. The U.S. Treasury should identify countries that manipulate their currencies to gain competitive advantage and pursue actions to end such practices.

Rules of origin delineation. The committee supports actions that provides for transformations at the four-digit level of Chapter 48, regardless of the country of origin. The committee has also urged that third-party transshipments of goods and inputs be better identified.

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 forest products.

V. Advisory Committee Opinion on Agreement

The consensus opinion of industry representatives of the Industry Sector Advisory Committee for Paper and Paper Products (ISAC 12) is to strongly support the FTA with Singapore and opinions on those relevant sections of the agreement follow.

Market Access

Inasmuch as Singapore participated in the Uruguay Round zero for zero agreement on paper and

had therefore eliminated all tariffs on paper products, the FTA agreement could not be expected to provide additional advantage to our industry in terms of market access. Sectoral equity and reciprocity were established with the Uruguay Round zero for zero agreement.

To the extent that the Singapore agreement may serve as a model for a future agreement with ASEAN or other region, we would support the implicit concept that the elimination of all tariffs on paper and paper products should be accomplished as soon as possible and, to the extent possible, even before the conclusion and implementation of the agreement.

Rules of Origin

ISAC 12 is satisfied with the results of the negotiations on rules of origin as drafted in the US - Singapore Free Trade Agreement. ISAC 12 had requested that the rules of origin for the Singapore FTA be based on NAFTA rules of origin. This was achieved. ISAC 12 requests the same approach be taken in subsequent free trade agreements negotiated by USTR.

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

- 1) Michael Brummer
York Paper Company
- 2) Charles Greiner
International Paper Company
- 3) Douglas Norlen
Pacific Environmental Resource Center
- 4) Michael Onustock
Weyerhaeuser
- 5) David Paterson
Georgia-Pacific Corporation
- 6) Harold Rahn
Norcom, Inc.
- 7) Maureen Smith
Public Strategies Inc.