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1525 Wilson Boulevard, Suite 900, Arlington, VA 22209-2411
703-841-9000 703-841-9514 fax www.mapi.net

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February 27, 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 on Capital Goods for Trade Policy Matters regarding the U.S.-Singapore Free Trade Agreement, reflecting the consensus of the full Committee on the proposed Agreement.

We want to thank the Administration and the Office of the U.S. Trade Representative for all their hard work in negotiating the Agreement.

Sincerely yours,
Industry Sector Advisory Committee on Capital Goods

David W. Danjczek
Chair

Executive Committee

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S. A. (Tony) Johnson, Chairman
Hidden Creek Industries

Vice Chairman
Markos I. Tambakeras, Chairman, President & CEO
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SKF USA Inc.

H. John Riley, Jr., Chairman and President
Cooper Industries, Inc.

THE U.S.-SINGAPORE FREE TRADE AGREEMENT (FTA)

**Report of the
Industry Sector Advisory Committee on Capital Goods for Trade Policy Matters (ISAC 2)**

February 2003

February 28, 2003

Industry Sector Advisory Committee on Capital Goods for Trade Policy Matters (ISAC 2)

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

I. Purpose of the Committee Report

The purpose of this report is to provide the consensus advice of the Industry Sector Advisory Committee on Capital Goods for Trade Policy Matters (ISAC 2) regarding the U.S.-Singapore Free Trade Agreement.

II. Executive Summary of Committee Report

The U.S.-Singapore Free Trade Agreement (FTA), as concluded between the two governments and shared with members of ISAC 2, provides for the elimination of tariff and non-tariff barriers to free trade between the United States and Singapore in a manner that provides for equity and reciprocity within the primary sectoral area represented by the Committee: capital goods. ISAC 2 members agree that the U.S.-Singapore FTA will increase export opportunities for American capital goods in Singapore, while fostering improved protection of U.S. intellectual property and market access for American capital goods in Singapore.

Key areas within the negotiated agreement of interest to ISAC 2 members include:

- Elimination of tariffs on products certified as meeting defined rules of origin requirements;
- Improved protection of intellectual property rights;
- Market Access to the Singapore services sector;
- Temporary Access for Business Visitors;
- Enhanced opportunities for Singapore's implementation and adherence to GATT/WTO obligations in the areas of customs valuation, technical barriers to trade, and government procurement.

III. Brief Description of the Mandate of ISAC 2

The mandate of the Committee is to advise the Secretary and the USTR concerning the trade matters referred to in Sections 101, 102, and 124 of the Trade Act of 1974, as amended; with respect to the operation of any trade agreement once entered into; and with respect to other matters arising in connection with the development, implementation and administration of the trade policy of the United States including those matters referred to in Reorganization Plan Number 3 of 1979 and Executive Order 12188, and the priorities for actions thereunder. The Committee also performs such functions and duties and prepares reports as required by Section 135 of the Trade Act of 1974, as amended, with respect to the sector and functional advisory committees.

In particular, the Committee provides detailed policy and technical advice, information, and recommendations to the Secretary of Commerce and the USTR regarding trade barriers and implementation of trade agreements negotiated under Sections 101 or 102 of the Trade Act of 1974, as amended, and Sections 1102 and 1103 of the 1988 Trade Act, which affect the products of the capital goods sector; maintains continuing liaison with the Industry Policy Advisory Committee (IPAC) for Trade Policy Matters, including, as necessary, sending a representative to IPAC meetings when the Committee's recommendations are considered; and performs such other advisory functions relevant to U.S. trade policy as may be requested by the Secretary and the USTR or their designees.

The current membership of ISAC 2 includes representatives of companies and trade associations representing U.S. manufacturers of a range of capital goods including oil field equipment, machine tools, industrial controls, construction equipment, mining machinery, bearings, electrical machinery and their components.

IV. Negotiating Objectives and Priorities of ISAC 2

The negotiating objectives of ISAC 2 included:

- Progressive reduction toward full elimination, within a reasonable time frame, of all Singaporean tariffs on products within the scope of ISAC 2;
- Establishment of appropriate preferential rules of origin for products eligible for such tariff reductions to ensure that the benefits of free trade accrue to the United States and Singapore as parties to the FTA;
- Safeguards to ensure that goods deemed qualifying for preferential tariff treatment satisfy rules of origin requirements;

- Elimination of non-tariff measures, associated with capital goods products, that unnecessarily restrict trade of those products;
- Facilitation of temporary entry for business persons;
- Ability to obtain services necessary for doing business in Singapore; and
- Full adherence of Singapore to GATT/WTO agreements and related obligations in the areas of customs valuation, technical barriers to trade, protection of intellectual property, and government procurement.

V. Advisory Committee Opinion on Agreement

Market Access - Industrial Goods

Singapore tariffs on most capital goods that are not already zero will go to zero when the Agreement goes into effect. Some machine tool parts do have four year staging.

ISAC 2 believes that these provisions fully satisfy the Committee's negotiating objectives.

Government Procurement

There are no specific provisions for liberalizing government procurement practices. Both parties do recognize interest in liberalizing government procurement practices. The Parties reaffirm their commitments under the WTO agreement on Government Procurement ("GPA") and their interest in further expanding bilateral trading opportunities in each Party's government procurement market.

These commitments by Singapore meet the negotiating objectives of ISAC 2.

Customs Procedures/Rules of Origin

ISAC 2 members had significant concerns regarding rules of origin for the Agreement. Specifically, members wanted the FTA to establish safeguards to ensure that goods deemed qualifying for preferential tariff treatment satisfy rules of origin requirements.

Most of the rules of origin for capital goods require that a good made of imported materials undergo a change in tariff classification. A limited number of capital goods do have a regional content rule in addition to the tariff shift requirement. A good that does not undergo a tariff change can still be considered originating if the value of all non-originating materials used in the production of the good does not exceed 10 percent of the value of the good.

The Agreement contains strong safeguards to ensure that goods seeking preferential tariff treatment satisfy Rules of Origin requirements. The Government of Singapore will require all registered establishments to maintain in Singapore relevant records, for a period of five years, relating to each shipment that has been exported to the United States, on production capabilities in general, number of employees, and other relevant documents and information that demonstrate that the raw materials were obtained by the factory and were available for production. Such records would include bills of lading from suppliers, customs clearance records, purchase orders and transfer records.

ISAC 2 believes that the Agreement addresses the concerns of its members and therefore meets the Committee's negotiating objectives.

Temporary Entry

Under the negotiated Agreement, Singapore and the United States agreed to grant temporary entry to business visitors for up to 90 days. The agreement requires: proof of citizenship; documentation that business party will be so engaged; and evidence that the proposed business is international in scope and that the business person is not seeking to enter the local labor market.

ISAC members believe these provisions satisfy their objectives for the Agreement.

Services

The Agreement states that each Party shall accord to service suppliers of the other Party treatment no less favorable than that it accords, in like circumstances, to its own service suppliers.

Singapore reserves the right to adopt or maintain measures entailing restrictions of a wide variety of business services. Many of the measures constitute provisions requiring parties providing services in Singapore to be Singapore citizens or permanent residents. Only a person who is a Singapore citizen or Singapore permanent resident will be allowed to register a business without appointing a local manager. There are also limits on who can provide engineering services. Only persons who are registered with the Professional Engineers Board and resident in Singapore are allowed to provide professional engineering services. Only enterprises with local presence are allowed to apply for import/export permits, certificates of origin or other trade documents from the relevant authorities.

ISAC 2 believes that the obtaining of a negative list that restricts entry only in specific services areas is a notable achievement. However, the language in the Agreement that places restrictions on providing services could inhibit the ability of U.S. companies to trade with Singaporean parties.

Competition Policy

ISAC 2 is pleased that the competition policy part of the agreement provides enforceable assurances that will protect U.S. companies from possibilities of anti-competitive behavior by so-called Government Linked Corporations in Singapore. This part of the agreement ensures that American exporters and investors will have a level playing field in competing against government-supported firms in the Singapore market.

Customs Administration

Both Parties agree to administer in a uniform impartial and reasonable manner all its laws regulations, decisions and rulings governing customs.

The Agreement also states the each party shall ensure that its laws and regulations governing customs matters are not prepared, adopted or applied with a view to or with the effect of creating arbitrary or unwarranted procedural obstacles to international trade.

The Customs Administration provisions in the FTA satisfy the negotiating objectives of ISAC 2.

Technical Barriers to Trade

The Agreement states that with a view to facilitating the trade in goods between them, the Parties should, to the maximum extent possible, seek to enhance their cooperation in the area of technical regulations, standards, and conformity assessment procedures and deepen the mutual understanding of their respective systems. Efforts to this end are to include promoting the use of international standards by both parties in their respective technical regulations, standards and conformity assessment procedures.

These provisions satisfy the negotiating objectives of ISAC 2.

IPR

In the Agreement, Singapore and the United States agree to give effect to a number of treaties that would protect IPR rights in the capital goods sector. The parties agreed to give effect to Articles 1 through 6 of the Joint Recommendation Concerning Provisions on the Protection of Industrial Property and the General Assembly of the World Intellectual Property Organization.

The Parties will give effect to the Trademark Law Treaty (Singapore shall not be obligated to give effect to Articles 6 and 7). Each Party shall ratify or accede to WIPO Copyright Treaty (1996) and the Patent Cooperation Treaty (1984).

The Agreement does meet the negotiating objectives of ISAC 2 for IPR.

All members of ISAC 2 reviewed this report and concluded that the U.S.-Singapore Free Trade Agreement provides for the trade liberalization between the United States and Singapore in a manner that provides for equity and reciprocity within the capital goods sectors represented by the Committee. ISAC 2 members agree that the U.S.-Singapore FTA will increase the export opportunities for U.S. capital goods manufacturers, while fostering improved protection of U.S. intellectual property and market access for all American capital goods in Singapore.

VI. Membership of Committee

Members of ISAC 2 include:

- David Danjczek, Vice President, Administration, Manufacturers Alliance/MAPI (Chairman)
- Brian Petty, Senior Vice President, Government Affairs, International Association of Drilling Contractors (Vice-Chairman)
- Galen Cobb, Director, Industry Relations, Halliburton Energy Services Group
- Gary Devlin, Director of Marketing - Surface Products, Cooper Cameron Corporation
- David Gridley, Executive Director, Marketing Services and Government Affairs, The Torrington Company
- Jon Jenson, Consultant, Precision Metalforming Association
- William Lane, Washington Director, Governmental Affairs, Caterpillar, Inc.
- Robert McDonald, Vice President, Government Affairs, Emerson Electric Company
- Patrick McGibbon, Vice President, Industry Marketing Services, Association for Manufacturing Technology
- John Meakem, Manager, International Trade, National Electrical Manufacturers Association
- Mark Stanga, Vice President, Government Affairs, York International Corporation
- Patrick Thompson, President, Trans-Matic Manufacturing Company, Inc.
- Franklin Vargo, Vice President, International Economic Affairs, National Association of Manufacturers
- Nick Yaksich, Vice President, Government Affairs, Association of Equipment Manufacturers