

February 21, 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 Building Products and Other Materials for Trade Policy Matters (ISAC-9) on the United States-Chile Free Trade Agreement, reflecting a consensus advisory opinion on the proposed Agreement.

Sincerely,

A handwritten signature in black ink that reads "Stephen P. Farrar". The signature is written in a cursive style with a large, prominent "S" and "F".

Stephen P. Farrar
Chair
ISAC-9

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

Report of the
Industry Sector Advisory Committee on Building Products and Other Materials
for Trade Policy Matters (ISAC-9)

February 2003

**Industry Sector Advisory Committee on Building Products
and Other Materials for Trade Policy Matters (ISAC-9)**

**Advisory Committee Report to the President, the Congress and the United States Trade
Representative on the United States-Chile Free Trade 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)(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 Advisory Committee on Building Products and Other Materials (ISAC-9) hereby transmits the following report.

II. Executive Summary of Committee Report

ISAC-9 concludes that the U.S.-Chile Free Trade Agreement promotes the economic interests of the United States and achieves the negotiating objectives set forth in the Trade Act of 2002. All of the priority issues of ISAC-9 have been satisfactorily addressed.

III. Brief Description of the Mandate of ISAC-9

The mandate of ISAC-9 is to provide advice and information on trade policy and trade negotiations issues that affect the building products and related products sector. These issues include market access problems; barriers to trade; tariff levels; discriminatory foreign procurement practices; information, marketing and advocacy needs of the sector; and other important trade issues. The building products and other materials sector includes such items as wood buildings, mobile homes, cement, miscellaneous metal products, plumbing fittings and

supplies, and heating equipment. The building products and other materials sector saw exports in excess of \$6.0 billion in 2000, and shipment values over \$192 billion.

Recently, members of the Building Products and Other Materials ISAC have provided advice on a range of issues that included: recent negotiations on the North American Free Trade Agreement (NAFTA); the World Trade Organization (WTO); the Asia Pacific Economic Cooperation (APEC); the Organization for Economic Cooperation and Development (OECD); trade relations with China, the Philippines, Eastern Europe, and the former Soviet Union; trade and labor issues; and environmental agreements.

IV. Negotiating Objectives and Priorities of ISAC-9

The members of ISAC-9 strongly support the President's trade strategy of negotiating free trade agreements with a wide range of countries. In addition to providing effective leverage in multilateral negotiations in the World Trade Organization, this strategy will help overcome the competitive disadvantage U.S. exporters and investors face abroad due to the many existing bilateral and regional trade agreements in which this country is not a participant. ISAC-9 advocates the following objectives and priorities in negotiating free trade agreements:

- Staging of Tariff Elimination. ISAC-9 has urged U.S. negotiators to consider carefully competitive conditions in import-sensitive sectors before agreeing to schedules for the phase-out of tariffs in a free trade agreement. In certain building products where foreign competition is intense, such as ceramic tile -- where imports account for 80% of the U.S. market, an extended adjustment period is essential to ensure that the U.S. industry is able to remain competitive. At the same time, ISAC-9 advocates early opening of foreign markets for U.S. building products that compete in export markets.
- Rules of Origin. Unless rules of origin are properly specified, trade agreements can have serious unintended consequences that disadvantage U.S. exporters. ISAC-9 has advocated that all trade agreements include sector-specific rules of origin at least as rigorous as those contained in the North America Free Trade Agreement.
- Standards. Product standards and related licensing, testing, marking, product descriptions, and other technical regulation issues have become major barriers to U.S. exports of building products.
- Competition. The members of ISAC-9 have advocated using the leverage provided in free trade agreements to promote competitive markets in partner countries. In many countries, anticompetitive behavior remains a significant obstacle to market access, especially in more traditional manufacturing industries.

V. Advisory Committee Opinion on Agreement

ISAC-9 concludes that the U.S.-Chile Free Trade Agreement promotes the economic interests of the United States achieves all the primary objectives set forth in the Trade Act of 2002.

- Staging. As noted above, a priority of ISAC-9 has been ensuring that tariff phase-out schedules 1) provide import-sensitive building materials sufficient time to adjust to increased foreign competition, and 2) provide export-oriented products with early access to the market of our foreign partner country. The Committee is pleased to report that its advice was taken with respect to staging of tariff elimination for ceramic tiles (HS 6904.08). Ceramic tiles are provided 10-year staging in the Agreement. ISAC-9 advocates similar treatment for future free trade agreements and is concerned that the U.S.-Singapore Free Trade Agreement only provides for an 8-year phase-out for ceramic tiles.
- Rules of Origin. ISAC-9 supports the sector-specific rules of origin included in the Agreement. Because U.S. exporters depend on clear and uniform rules of origin, the Committee recommends that U.S. negotiators incorporate the rules in the U.S.-Chile Free Trade Agreement in all future free trade agreements.
- Standards. The Committee strongly supports the provisions in the Agreement for enhanced cooperation on technical regulations, standards, and conformity assessment procedures. The establishment of a joint Committee on Technical Barriers to Trade is an especially promising development and should be emulated in future trade agreements. As noted above, standards and related licensing, testing, marking, product descriptions, and other technical regulation issues have become major barriers to U.S. exports of building products.
- Competition. The Committee applauds the inclusion of competition provisions in the Agreement. Similar provisions should be included in all future free trade agreements. Diligent follow-up is essential if the provisions are to have their intended impact. In particular, the effectiveness of the provisions will depend on the extent to which the Antitrust Division in the Department of Justice is successful in establishing a meaningful dialogue and understanding with its Chilean counterpart.

VI. Membership of Committee

FIRST NAME	LAST NAME	TITLE	COMPANY/ORGANIZATION
Chairman Mr. Stephen	Farrar	Director, International Business	Guardian Industries Corporation
Mr. Kent	Sorensen	President and Chief Executive Officer	American Homes International, Inc.
Mr. Robert	Bell	Director of Governmental Affairs	USG Corporation
Mr. John	Bruce, Esq.	Counsel, Howry & Simon	Representing Tile Council of America
Ms. Barbara	Higgins	Executive Director	Plumbing Manufacturers Institute
Mr. K. Gordon	Lawless	President, Almerica Overseas, Inc.	Representing Phifer Wire Products, Inc.
Mr. Marcus	Lyons	International Manager	American Cast Iron Pipe Company
Mr. Anthony	Mudford	Vice President, General Manager	Detex Corporation
Mr. Robert	Randall	President and Chief Executive Officer	TRACO
Mr. Charles	Santomeno	President	Isolatek International