

April 26, 2007

The Honorable Susan C. Schwab  
United States Trade Representative  
Executive Office of the President  
Washington, DC 20508

Dear Ambassador Schwab:

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 on Consumer Goods (ITAC-4) concerning the proposed United States-Korea Free Trade Agreement. This report reflects the consensus opinion of Committee members.

Respectfully submitted,

A handwritten signature in black ink that reads "Timothy K. Hoelster". The signature is written in a cursive style with a long horizontal stroke at the end.

Timothy K. Hoelster  
Chairman

# **The United States-Korea Free Trade Agreement**

**Report of the**

**Industry Trade Advisory Committee on Consumer Goods (ITAC-4)**

**April 26, 2007**

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## **Report of the Industry Trade Advisory Committee on Consumer Goods (ITAC-4) to the President, the Congress and the United States Trade Representative on the United States-Korea 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) 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 Trade Advisory Committee on Consumer Goods (ITAC-4) hereby submits the following report.

### **II. Executive Summary of Committee Report**

ITAC-4 members support the United States-Korea Free Trade Agreement (“Agreement” or “Korea FTA”). We believe the Agreement will deliver important benefits to consumer goods firms in terms of market access, regulatory transparency and customs procedures. Further, we generally support the Agreement’s provisions on intellectual property and investment. In our view, the Agreement provides for equity and reciprocity within the consumer goods sector.

ITAC-4 members have long been supporters of comprehensive trade agreements. Regrettably, however, our committee believes the Korea FTA falls short in one very important respect: In short, we are profoundly disappointed that the Korea FTA does not address rice, one of the most protected of all commodities. We believe that the Korea FTA, by excluding rice, is now firmly entrenching the precedent we feared was being set several years ago by the Australia FTA, which excluded sugar as a protected commodity. Surely, such exclusions are harmful to the interests of the United States. By excluding rice, we believe the Korea FTA serves notice to all our trading partners that the United States

lacks the determination to liberalize markets and signals to every future FTA or TPA partner that the principle of commodity exclusions is acceptable to the United States.

### **III. Brief Description of the Mandate of ITAC-4**

The Committee advises the Secretary of Commerce 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. In particular, the Committee provides detailed policy and technical advice, information and recommendations to the Secretary and the USTR regarding trade barriers and the 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, 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.

### **IV. Negotiating Objectives and Priorities of ITAC-4**

“Consumer Goods” covers a wide array of products, including sporting goods, furniture, appliances, toys, processed foods and beverages, jewelry, household utensils, motorcycles, cleaning products, fisheries products and outdoor power equipment. All of these products – and others – are represented by members of ITAC-4. Consequently, the Committee’s primary objectives for the United States-Korea Free Trade Agreement were that it be a comprehensive agreement encompassing all sub-sectors within the consumer goods category and that it achieve both free and fair trade through the rapid elimination of both tariff and non-tariff barriers.

ITAC-4 members take particular interest in the following seven elements/chapters of the agreement: market access for industrial goods; market access for agricultural goods; intellectual property; investment; customs procedures; regulatory transparency; and services. Although all of these provisions are important to ITAC-4 members, our comments will address only four aspects of the Agreement: market access for industrial goods; market access for agricultural products; services; and intellectual property.

### **V. Advisory Committee Opinion on Agreement**

#### **Market Access for Industrial Goods; General Market Access Provisions**

Most of the goods manufactured by ITAC-4 members are classified as industrial products. Market access terms affect both intermediate and finished goods. We are extremely pleased that ninety-five percent of the bi-lateral trade in consumer and industrial products becomes duty-free within three years of entry-into-force of the Agreement. Most remaining tariffs will be eliminated within ten years. Under the Agreement, key U.S. exports will gain immediate duty-free access to Korea including, *e.g.*, heavyweight

motorcycles which currently are subject to a duty rate of 8%, and Bourbon which currently is subject to a duty rate of 20%. We are extremely pleased that Korea has agreed to recognize Bourbon and Tennessee Whiskey as distinctive products of the United States. We also are pleased that Korea has agreed to allow trade in remanufactured goods. We are disappointed, however, that the Agreement does not grant heavyweight motorcycles like those manufactured by Harley-Davidson access to Korea's extensive network of toll roads, expressways and certain bridges, in contrast to other developed countries. We hope this issue will be addressed either within the context of the Autos Working Group or as part of Korea's undertakings to harmonize its standards and not adopt technical regulations that create unnecessary barriers to trade in the vehicle industry.

Non-tariff measures often pose the most difficult and insidious barriers to market access for consumer goods. The US-Korea FTA chapter on Technical Barriers to Trade (TBT) includes novel provisions which should help US exporters better compete in Korea. Specifically, the TBT commitments include: a) a broad national treatment obligation regarding participation in the development of product standards; and b) a requirement that new standards be published in advance and subject to public comment, with the government required to give reasons for accepting or rejecting alternative proposals. In addition, the TBT agreement requires the formation of a working group which would immediately begin notification of regulations in four sectors of special interest to ITAC-4: cosmetics, household electrical appliances, motor vehicles, and noise/emissions.

### Agriculture

Other than as noted earlier, we are pleased that the Agreement covers nearly all agricultural products; ITAC-4 members strongly support the principle that there should be no product exclusions from trade agreements. ITAC-4 includes a number of processed food manufacturers, as well as wine and spirit producers. Further, a number of important industrial products used in the production of consumer goods (like natural alcohols) are classified as agricultural goods. However, although tariffs on certain processed agricultural products will be eliminated immediately, we are disappointed that some products, including, *e.g.*, U.S. distilled spirits exports other than Bourbon, will be subject to a longer (5-year) phase-out period. We urge the United States to avail itself of the Agreement's tariff acceleration provisions at the earliest possible date to seek a more rapid elimination of the tariffs on these products and others subject to longer-term tariff phase-outs.

### Services

As representatives of consumer products industries, distribution services are extremely important to the members of ITAC-4. We are pleased that Korea vastly improved upon its WTO commitments in services, providing meaningful market access commitments that extend across virtually all major service sectors.

## Intellectual Property

ITAC-4 members hold some of the world's most valuable trademarks, making intellectual property an important focus. The Committee is pleased that the Agreement provides standards for protection and enforcement of a broad range of intellectual property rights, including trademarks, copyrights and patents, which are consistent with U.S. standards and will provide effective protection and enforcement for emerging technologies. These standards include state-of-the-art protections for digital products such as U.S. software, music, text, and videos. Additionally, the Agreement provides for stronger, more comprehensive protection for patents, trademarks and test data, as well as rules on civil, criminal and customs enforcement, and a commitment to establish a patent linkage system to ensure adequate enforcement of pharmaceutical patent rights.

### **VI. Membership of Committee**

Timothy Hoelter, Harley-Davidson Motor Company, Chairman  
Deborah Lamb, Distilled Spirits Council of the United States, Vice Chairman  
Russell Batson, American Home Furnishings Alliance  
Robert Fay, representing Merit Industries, Inc.  
Charles Hansen III, representing Del Monte Foods  
Charles Husick, Vernal Air, Inc.  
Carter Keithley, Toy Industry Association, Inc.  
Laurence Lasoff, representing Outdoor Power Equipment Institute, Inc.  
James Marquart, representing Manufacturing Jewelers and Suppliers of America, Inc.  
Patrick McDonough, representing Libbey, Inc.  
R. Scott Miller, Procter & Gamble  
Donald Nelson, Altria Corporate Services, Inc.  
Michael Rudowicz, American Amusement Machine Association  
Hugh Rushing, Cookware Manufacturers Association  
Mark Smith, Brown-Forman Corporation  
Thomas St. Maxens, representing Mattel, Inc.  
Catherine Suttmeier, Oneida Ltd.  
John Thompson, The Hall China Company