

March 10, 2004

The Honorable Donald Evans
Secretary of Commerce
U.S. Department of Commerce
14th & Constitution Avenue, NW
Washington, DC 20230

Dear Secretary Evans:

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 Transportation, Construction, Mining, and Agricultural Equipment for Trade Policy Matters regarding the U.S.-Central America Free Trade Agreement, reflecting the consensus of the full Committee on the proposed Agreement.

We congratulate the Administration and the U.S. Department of Commerce for their success in concluding these negotiations.

Sincerely,

A handwritten signature in cursive script that reads "Christopher M. Bates".

Christopher M. Bates
Chair, ISAC 16

The U.S.-Central America Free Trade Agreement (FTA)

Report of the
Industry Sector Advisory Committee on
Transportation, Construction, Mining & Agricultural Equipment
For Trade Policy Matters (ISAC 16)

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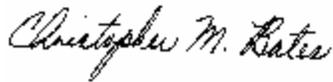
The Honorable Robert B. Zoellick
United States Trade Representative
600 17th Street, N.W.
Washington, DC 20508

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 Transportation, Construction, Mining, and Agricultural Equipment for Trade Policy Matters regarding the U.S.-Central America Free Trade Agreement, reflecting the consensus of the full Committee on the proposed Agreement.

We congratulate the Administration and the Office of the U.S. Trade Representative staff for their success in concluding these negotiations.

Sincerely,

A handwritten signature in cursive script that reads "Christopher M. Bates".

Christopher M. Bates
Chair, ISAC 16

The U.S.-Central America Free Trade Agreement (FTA)

Report of the
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**Industry Sector Advisory Committee on Transportation, Construction, Mining, and
Agricultural Equipment for Trade Policy Matters (ISAC 16)**

**Advisory Committee Report to the President, the Congress, and the U.S.
Trade Representative on the U.S.-Central America Free Trade
Agreement**

I. Purpose of the Committee Report

The purpose of this report is to provide the consensus advice of the Industry Sector Advisory Committee on Transportation, Construction, Mining, and Agricultural Equipment for Trade Policy Matters (ISAC 16) regarding the U.S.-Central America Free Trade Agreement.

II. Executive Summary of Committee Report

The U.S.-Central America Free Trade Agreement (CAFTA), as concluded between the United States and five Central American governments (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua), provides for the elimination of tariff and non-tariff barriers to trade between the United States and these countries in a manner that provides for equity and reciprocity within the primary manufacturing segments currently represented by the Committee: motor vehicles and motor vehicle parts and equipment.

Key areas within the negotiated agreement of interest to ISAC 16 members include:

- Elimination of tariffs on products certified as meeting defined rules of origin;
- Removal of non-tariff measures, including uncertainty regarding customs treatment of imports of remanufactured automotive products;
- Improved protection of intellectual property; and
- Enhanced opportunities for Central American countries' transparent implementation and adherence to WTO obligations in the areas of customs, technical barriers to trade, and government procurement.

ISAC 16 members agree that the U.S.-CAFTA will eventually enhance the export opportunities of the U.S. motor vehicle and motor vehicle parts and equipment industries, while fostering improved protection of U.S. intellectual property and market access for this vital American industry in Central America. ISAC 16 remains hopeful that the Dominican Republic will later adhere to the CAFTA provisions. However, we would have preferred a much more rapid phase out of tariffs on passenger vehicles.

ISAC 16 is pleased that U.S. negotiators were successful in addressing the industry's request for simplified, NAFTA-consistent rules of origin for motor vehicle products; and 2) equivalent market access for remanufactured and new motor vehicle components used in the repair and servicing of motor vehicles. These CAFTA provisions establish a precedent for ongoing negotiations in the broader Free Trade Area of the Americas (FTAA) as well as other pending free trade area agreements.

III. Brief Description of the Mandate of ISAC 16

The current membership of ISAC 16 includes representatives of U.S. manufacturers of automobile and trucks; motor vehicle cab chassis; motor vehicle components, modules, and assembled systems; and components for agricultural and construction equipment, but not final manufacturers of such equipment. These sectors are the focus of this report. The railway and mining equipment industries are not currently represented on ISAC 16.

IV. Negotiating Objectives and Priorities of ISAC 16

The negotiating objectives of ISAC 16 included:

- Progressive reduction toward full elimination, within a reasonable timeframe, of all Central American tariffs on products within the scope of ISAC 16;
- Establishment of appropriate rules of origin for products eligible for such tariff reductions to ensure that the benefits of free trade accrue to the U.S. and Central American countries and their producers as parties to the CAFTA;
- Elimination of non-tariff measures associated with those products, including uncertainty regarding the market access and customs treatment of remanufactured parts for motor vehicles; and
- Full adherence of Central American countries to WTO agreements and related obligations in the areas of customs, technical barriers to trade, protection of intellectual property, and government procurement.

Negotiations to eliminate Central American countries' tariffs, to establish a simplified rule of origin consistent with NAFTA rules for the motor vehicle products industry, and clarification of treatment of remanufactured products were important elements of the U.S.-CAFTA. ISAC 16 believes that these principal goals have been met in the final agreement.

Countries of Central America currently apply tariffs on an MFN basis to imports from the United States that are considerably higher than the minimal tariffs that the United States applies to comparable imports from Central American countries. Examples are outlined below:

	<u>Current Tariffs</u>	<u>CAFTA Tariff Elimination</u>
Passenger vehicles	10-15%	10 year phase out
Medium/Heavy trucks	5-10%	5 years or less in most cases
Motor Vehicle Parts	5-15%	immediate in many cases; 5-10 years max.

During the negotiations, ISAC 16 supported U.S. proposals in the CAFTA negotiations to eliminate most Central American tariffs immediately or within 5 years. This goal was largely met for motor vehicle parts in all Central American countries, to a significant degree for medium/heavy trucks, and was generally not met for passenger vehicles, where a 10-year, back-loaded phase out applies. However, since Central America does not have a regional motor vehicle assembly industry and has minimal local parts manufacturing, U.S. producers will still achieve, in stages over a 5-10 year period, a significant improvement in preferential access to Central American markets under the proposed CAFTA agreement.

ISAC 16 representatives also supported negotiation of the CAFTA as an interim step toward negotiation of the Free Trade Area of the Americas (FTAA). The Committee spent considerable time discussing proposed rules of origin within the U.S.-CAFTA FTA and the potential precedent that such rules might set for negotiation of the hemispheric-wide FTAA.

Given the lack of significant regional production of motor vehicles and parts in Central America, ISAC 16 recommended that the CAFTA specific rules of origin for motor vehicle products be based on a simple framework of change in Harmonized Tariff Schedule codes, with less stringent value-content measurements than in the NAFTA rules, and with the elimination of the requirement for tracing of value-content for some motor vehicle products as included in the NAFTA. ISAC 16 concluded, however, that the CAFTA rules of origin should NOT be viewed as the exact model for the FTAA, which must make provision for more significant and complex trade and investment relationships involving the motor vehicle products industry.

The CAFTA rules of origin for motor vehicle products are consistent with the Committee's advice. The CAFTA rules provide an appropriate balance between ensuring that CAFTA tariff reduction benefits accrue to the United States and Central American-origin products on the one hand, while offering a reasonable cost of compliance (i.e., no "tracing" of regional content, flexible rule of origin averaging provisions) to eligible producers seeking reduced tariffs and ultimately duty-free treatment as the Agreement is implemented.

In addition, ISAC 16 recommended that the CAFTA provisions on safeguards, technical barriers to trade, protection of intellectual property rights, and other important obligations should be designed to provide a logical foundation for anticipated FTAA negotiations on these disciplines. The Committee believes that the CAFTA provides such a foundation for the ongoing FTAA negotiations.

V. Advisory Committee Opinion on Agreement

All members of ISAC 16 reviewed this report and concluded that the U.S.-CAFTA provides for the trade liberalization between the United States and the five covered Central American countries in a manner that provides for equity and reciprocity within the two primary sectoral areas represented by the Committee: motor vehicles and motor vehicles and equipment. ISAC 16 members agree that the CAFTA will eventually enhance the export opportunities of these two major U.S. industries, while fostering improved protection of U.S. intellectual property and market access for American motor vehicle products in the region.

VI. Membership of Committee

Members of ISAC 16 include:

- Chris Bates, President & CEO, Motor & Equipment Manufacturers Association (Chairman)
- Stephen Collins, President, Automotive Trade Policy Council
- Lee Kadrich, Vice President, Government Affairs & Trade, Automotive Aftermarket Industry Association
- Stephen Latin-Kasper, Director, Market Data and Research, National Truck Equipment Association
- Curt Magleby, Washington Affairs Manager, Ford Motor Company
- Mustafa Mohatarem, Chief Economist, General Motors Corporation
- Linda Spencer, Director, Government & International Affairs, Specialty Equipment Market Association
- Thomas Trueblood, Director, Green Diesel Technology Public Affairs, International Truck and Engine Corporation