

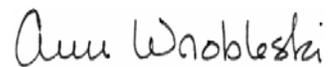
April 26, 2007

The Honorable Susan Schwab
United States Trade Representative
Executive Office of the President
Washington, D.C. 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 Forest Products (ITAC 7) on the United States-Korea Free Trade Agreement, reflecting majority and additional advisory opinion(s) on the proposed Agreement.

Sincerely,

A handwritten signature in cursive script that reads "Ann Wroblewski".

Ann Wroblewski
Chair
ITAC 7 – Forest Products

The United States-Korea Free Trade Agreement

**Report of the
Industry Trade Advisory Committee on Forest Products (ITAC 7)**

April 26, 2007

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Industry Trade Advisory Committee on Forest Products (ITAC 7)

Advisory Committee Report 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 Forest Products (ITAC 7) hereby submits the following report.

II. Executive Summary of Committee Report

ITAC 7 believes that the U.S. – Korea Free Trade Agreement (FTA), taken as a whole, is a positive development. The majority of members of ITAC 7 support any bilateral, regional, or multi-lateral trade negotiations that advance the Committee's core objective of eliminating tariffs on forest products. It is unfortunate that the achievement of this principal objective – the immediate elimination of all wood product tariffs was not accomplished.

ITAC 7 urges that the market access provisions for forest products of the U.S.-Chile and the U.S.-Australia FTAs serve as the template for future FTAs. In order for subsequent agreements to achieve sectoral equity and reciprocity, it is absolutely essential that they provide for the elimination of tariffs on all paper and wood products immediately upon implementation. In the paper and wood products sector, many developing nations are already world-class competitors to the United States and do not require lengthy periods of tariff protection to develop and /or protect their domestic industries.

Our industry has also been impacted by unfair trade practices such as foreign government subsidies for the building and support of manufacturing capacity that competes with the U.S. industry both at home and abroad. Since FTA's negotiated by the U.S. by definition include WTO-plus provisions, ITAC 7 urges that FTA's with countries such as Korea where there has been a pattern of government subsidies to the paper and wood products industries, include commitments to strong subsidy disciplines.

III. ITAC 7 Mandate

ITAC 7 is comprised of industry representatives from the forest products sector that includes lumber and solid wood products and pulp and paper products. The Committee also includes environmental representatives. Representatives serving on the Forest Products ITAC 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 Manufacturing and Services (the Assistant Secretary), and USTR's Assistant U.S. Trade Representative for Intergovernmental Affairs and Public Liaison (AUSTR).

IV. Negotiating Objectives and Priorities of ITAC 7

In terms of market access, the speedy elimination of all tariffs on forest products (which includes the full range of goods in the lumber and wood products and pulp and paper products sectors) is the priority trade objective of ITAC 7. The majority of members of ITAC 7 support any bilateral, regional, or multi-lateral trade negotiations that advance the core objective of eliminating tariffs on all forest products. The Committee urges U.S. trade negotiators to avail themselves of the authority provided in the Uruguay Round Agreements Act to pursue the elimination of forest products tariffs as a priority matter whenever opportunities arise.

With a sustainably managed fiber base, skilled workforce, efficient mills, and logistics infrastructure, this is a highly competitive industry in the global economy. However, the persistence of high tariffs, and particularly tariff escalation, has prevented the realization of this competitive advantage. High tariffs allow foreign countries to support the development of forest products industries and secure their domestic or regional market share, while zero or low tariffs in the U.S. allow those competitors free entry into our own market. Tariff escalation, allowing raw or semi-processed materials free entry, while imposing higher tariffs on more processed products is particularly disadvantageous to our most competitive products. A majority of the Committee members have urged U.S. negotiators to seek immediate elimination of tariffs on all products in this sector, and where tariff reductions have to be phased in, to reduce higher-level tariffs first, and at a faster rate, to diminish the tariff escalation effect.

Other general trade objectives for the forest products industry include elimination of non-tariff barriers; elimination of capacity-building subsidies; support for monetary and trade policies that discourage currency manipulation for competitive trade advantage; rules of origin delineation providing for transformation at the four-digit level; mutual recognition and strong enforcement of trademark licenses; international harmonization and mutual recognition of product standards and accreditation procedures; and support for high environmental and forestry management standards and for measures to ensure against reduced environmental standards for competitive advantage, particularly associated with illegal logging and trade in illegally harvested forest products.

V. ITAC 7 Opinion on Agreement

Market Access - TARIFFS

ITAC 7 urges the U.S. government to continue to seek the immediate elimination of all paper and wood tariffs in future FTAs. The Committee notes that staging tariff cuts over a period of years is discouraging to the U.S. forest products industry as the delay minimizes the benefits of tariff reductions and further erodes U.S. export competitiveness.

The U.S. - Korea FTA does not provide for Korea's tariffs to fall to zero immediately on any product within the wood products chapter (Chapter 44), with the exception of logs. As such, Korea's market access offer on wood products is critically short of our industry's objective in this FTA. Korea offers immediate zero tariffs only on raw unprocessed wood where its applied tariff rates were already between zero and 2 percent. In contrast, on key value-added wood products of interest to the U.S. forest products industry, including 4407 (sawn wood), 4408 (veneer), 4409 (flooring), 4412 (plywood) and 4418 (builders' joinery), Korea offers phase outs of between 3 and 10 years. ITAC 7 has a firm position that any phase-out schedule that goes up to 10 years is unacceptable.

However, ITAC 7 acknowledges the fact that some improvement was made during the late stages of the negotiation in Korea's tariff offer on certain wood products. We appreciate this final push made by U.S. negotiators to bring the results closer to our ultimate objective, and which committed Korea to phasing out tariffs within the 3 to 5 year timeframe on the majority of our products of interest, with the exception of panel products.

Trade Remedies – Industrial Subsidies

ITAC 7 was pleased when USTR included the matter of Korean industrial subsidies in the market access basket of the Korea FTA negotiations. We believed that the side letter proposed by USTR represented the thrust of the subsidies disciplines commitments that we were seeking from the Korean government. This was a critical deliverable for ITAC 7. As a result, we are troubled by the Korean government's refusal to agree to the side letter by which the Korean government would have acknowledged its responsibility to

rein-in direct and indirect lending and other forms of financial assistance to Korean industry – e.g., coated paper producers.

The FTA agreement concluded with Korea establishes a Committee on Trade Remedies, intended to provide a framework for the parties to raise relevant topics of mutual interest including "practices of a Party that may constitute industrial subsidies". Once the Korea FTA goes into effect, ITAC 7 urges the U.S. government to use the Committee as a forum for dealing with Korean industrial subsidy practices that harm U.S. industries both at home and abroad.

Environmental Cooperation Agreement

While primarily producing wood and paper products domestically, U.S. forest products companies also operate in the global market where issues surrounding legality and the sustainability of the products we manufacture are growing in importance. We believe the U.S.-Korea FTA and its associated Environmental Cooperation Agreement serve as an opportunity to demonstrate our respective countries' commitment to improving global forestry practices and taking steps to eliminate illegal logging, associated illegal border trade, and the use of illegally obtained timber in the manufacturing of forest products.

We note that the ECA specifically identifies the development of joint initiatives to combat illegal logging and the transport and trade, including transshipment, of illegally harvested timber and timber products, as well as to combat the illegal trade in wildlife and wildlife parts as a priority issue under the ECA.

Due to geographic proximity, Korea's main trading partners in forest products are other Asian and Southeast Asian countries. Some portion of imports from countries such as China, Indonesia, Malaysia and Russia are of suspicious and of potentially illegal origin. Korea imported a total of over US\$3 billion in forest products (including wood, pulp and paper) in 2005, primarily due to its heavy dependence on foreign sources for raw fiber materials. This reliance on imported forest products to supply its domestic processing industry puts the country in a key position to positively influence the illegal logging debate, especially in a region such as Asia where the problem is especially prevalent.

VI. Membership of the Industry Trade Advisory Committee on Forest Products (ITAC 7)

1. Ann Wroblewski, ITAC 7 Chair
International Paper Company
2. Jacob Handelsman, ITAC 7 Vice Chair
American Forest & Paper Association

3. Ernest T. Altman
Hardwood Plywood & Veneer Association
4. Heidi Biggs Brock
Weyerhaeuser Company
5. Michael G. Brummer
Hammer Lithograph Corporation
6. Angel M. Diez
Pope & Talbot, Inc.
7. Anne Divjak
American Forest & Paper Association
8. Edward G. Elias
APA – The Engineered Wood Association
9. Thomas E. Gestrich
International Paper Company
10. John A. Grunwald
Indiana Hardwood Lumbermen's Association
11. Michael T. Leahy, Esq.
Defenders of Wildlife
12. Brent J. McClendon
The International Wood Products Association
13. Paul McKay
North Pacific Lumber Co.
14. Virginia McLain
MeadWestvaco Corporation
15. Douglas P. Norlen
Pacific Environment
16. Harold A. Rahn
Norcom, Inc.
17. Thomas D. Searles
American Lumber Standard Committee, Inc.

18. James A. Taylor
Tri-State Pole and Piling, Inc.

19. Robert W. Taylor
Weyerhaeuser Company

20. C. Richard Titus
Kitchen Cabinet Manufacturers Association

21. Elizabeth C. Ward
Hardwood Federation