

April 19, 2004

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.-Dominican Republic 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.-Dominican Republic Free Trade Agreement (FTA)

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

April 2004

**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.-Dominican Republic 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.-Dominican Republic Free Trade Agreement.

II. Executive Summary of Committee Report

The U.S.-Dominican Republic Free Trade Agreement (DRFTA), as concluded between the United States and the Dominican Republic provides for the elimination of tariff and non-tariff barriers to trade between the two countries in a manner that provides for reasonable equity and reciprocity in motor vehicle and motor vehicle parts and equipment trade.

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, which are understood to be the same general and specific rules as contained in the U.S.-Central America Free Trade Agreement, submitted to the U.S. Congress earlier this year;
- Removal of non-tariff measures, including uncertainty regarding application of the so-called “Dealers Act” (Law 173 of the Dominican Republic) so that general contract law will prevail in governing future relations between U.S. exporters and Dominican import agents;
- Improved protection of intellectual property; and
- Enhanced opportunities for transparent implementation and adherence to WTO obligations by the Dominican Republic in the areas of customs, technical barriers to trade, and government procurement.

ISAC 16 members agree that the U.S.-DRFTA will 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 the Dominican Republic. ISAC 16 wishes to particularly note that the Dominican Republic, through this agreement, will adhere to a faster tariff liberalization schedule than set forth in most motor vehicle product categories under the Central American FTA (CAFTA).

ISAC 16 is pleased that U.S. negotiators were again 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

III. Brief Description of the Mandate of ISAC 16

The current membership of ISAC 16 includes representatives of U.S. manufacturers of automobiles 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 of the Dominican Republic's 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 United States and Dominican Republic and their producers as parties to the DRFTA;
- Elimination of non-tariff measures associated with those products, including uncertainty regarding the market access and customs treatment of remanufactured parts for motor vehicles, as well as clarification of the application of general contract law in matters pertaining to relationships between exporters and importing agents/dealers; and
- Fuller adherence of the Dominican Republic 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 the Dominican Republic's 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 and exporter/importer dealer relationships are important elements of the negotiated U.S.-DRFTA. ISAC 16 believes that these principal goals have been met in the final agreement.

The Dominican Republic currently applies tariffs on an MFN basis to imports from the United States that are considerably higher (3-20% *ad valorem*) than the minimal tariffs that the United States applies to comparable imports from the Dominican Republic. Examples are outlined below:

	Current		U.S.-Dom. Repub. FTA	
	Tariff Rates (%)		Tariff Staging Period (yrs.)	
	U.S.	Dom. Repub.	U.S.	Dom. Repub.
Cars and light trucks*	2.5%	8-20%	immediate	5-10 years
Trucks, 5-20 tons, truck tractors	4.0%	0-8%	immediate	0-5 years
Engines, engine parts, elec. Parts	0-3.5%	3.0%	immediate	immediate
Motor vehicle parts	2.5%	3-14%	immediate	0-5 years

** The United States has a 25.0% tariff on certain imports of light trucks, but this tariff does not impact U.S. trade with the Dominican Republic.*

During the negotiations, ISAC 16 supported U.S. proposals in the Dominican Republic FTA negotiations, as in the U.S.-CAFTA talks, to eliminate most tariffs immediately or within 5 years. This goal was met for motor vehicle parts in the Dominican Republic’s final tariff offer, to a lesser degree for motor vehicles. In virtually all cases, tariff reductions begin immediately and continue in equal or nearly equal stages through year 5 or 10. Because the Dominican Republic does not have a motor vehicle assembly industry and has minimal local parts manufacturing, U.S. motor vehicle and parts producers will achieve, in stages over a 5-10 year period, preferential market access to the Dominican Republic under the proposed DRFTA agreement.

ISAC 16 representatives also supported negotiation of the DRFTA, along with the CAFTA negotiations, as interim steps toward successful negotiation of a Free Trade Area of the Americas (FTAA). The Committee spent considerable time discussing proposed rules of origin and improved market access for remanufactured motor vehicle parts within the U.S.-CAFTA FTA (and by extension the DRFTA which shares text with the CAFTA) and the potential favorable precedent that such rules might set for negotiation of the hemispheric-wide FTAA.

In addition, the DRFTA breaks important new ground in its provisions addressing Law 173 of the Dominican Republic, which has made it difficult for U.S. and other foreign exporters to that country to terminate contractual relationships with import agents and distributors in the Dominican Republic, even in cases where the parties’ signed contract permitted such termination for cause or by mutual agreement. Other countries in Latin America maintain similar provisions, so this feature of the DRFTA establishes a useful precedent that ISAC 16 hopes can be applied in the FTAA.

V. Advisory Committee Opinion on Agreement

All members of ISAC 16 reviewed this report and concluded that the U.S.-Dominican Republic FTA provides for trade liberalization between the United States and the Dominican Republic in a manner that provides for reasonable 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 DRFTA will enhance the export opportunities of these two major U.S. industries, while fostering improved general market access through improvements in trade and

regulatory transparency, customs administration, government procurement, protection of U.S. intellectual property, and legal system handling of exporter/importer business disputes.

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