

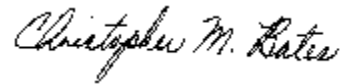
April 6, 2004

The Honorable Robert B. Zoellick  
United States Trade Representative  
600 17<sup>th</sup> 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.-Morocco Free Trade Agreement, reflecting the consensus of the full Committee on the proposed Agreement.

Sincerely,

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

Christopher M. Bates  
Chair, ISAC 16

**The U.S.-Morocco 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.-Morocco 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.-Morocco Free Trade Agreement.

**II. Executive Summary of Committee Report**

While the U.S.-Morocco Free Trade Agreement establishes a schedule for the reduction and eventual elimination of tariff and non-tariff barriers to trade between the United States and Morocco, ISAC 16 believes it does not do so in a manner that provides for equity and reciprocity within the primary industrial sectors currently represented by the Committee: motor vehicles and motor vehicle equipment.

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

- Phase-down and eventual elimination of tariffs on products certified as meeting defined rules of origin;
- Removal of non-tariff measures;
- Improved customs administration, protection of U.S. investors' rights, transparency in regulatory rulemaking, and protection of intellectual property rights.

ISAC 16 is disappointed with the lack of reciprocity in market access and tariff treatment accorded for motor vehicles and motor vehicle equipment in trade between the United States and Morocco under this agreement. The Committee is also concerned with the comparative structural disadvantage over a 9-10 year period that U.S. motor vehicle products would experience under the terms of this agreement, relative to the tariff treatment of these products afforded European exports to Morocco under the Euro-Mediterranean Association Agreement. However, ISAC 16 members agree that the U.S.-Morocco FTA will eventually enhance the export opportunities of the U.S. motor vehicle and motor vehicle parts and equipment industries in Morocco, while fostering improved customs administration, protection of U.S. investors' rights, transparency in rulemaking, and protection of U.S. intellectual property in Morocco.

### **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**

For the U.S. motor vehicle products industry, the U.S.-Morocco Free Trade Agreement represents an opportunity to improve market access and protection of investor rights and intellectual property in an important emerging market in Africa, and one that has limited, though growing automotive production and preferential access to the European Union.

U.S. motor vehicle product exports to Morocco totaled a modest \$4.8 million in 2003, including:

- \$3.3 million in motor vehicles; and
- \$1.5 million in motor vehicle parts and equipment.

The United States imported \$2.5 million in motor vehicle products from Morocco last year, resulting in a U.S. sectoral trade surplus of \$2.3 million.

The negotiating objectives of ISAC 16 included:

- Early removal of high Moroccan tariffs on products within the scope of ISAC 16 to achieve reasonable reciprocity between the phase-out of U.S. and Moroccan tariffs under the agreement, as well as parity with the terms of the Euro-Mediterranean Association Agreement;
- 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 Morocco and their producers as parties to the Agreement;
- Elimination of non-tariff measures associated with those products, including uncertainty regarding the market access and customs treatment of remanufactured parts for motor vehicles;
- Expanded Moroccan commitment to improved customs administration, transparency in rulemaking, protection of investors, and protection of intellectual property.

ISAC 16 is disappointed that, while a number of these goals have been met, the priority objective of securing prompt tariff reductions and market access for U.S. motor vehicle and motor vehicle equipment and parts has not been met.

Morocco currently applies substantially higher tariffs on most categories of motor vehicles and motor vehicle parts than does the United States. Examples include:

	Current		U.S.-Morocco FTA	
	Tariff Rates (%)		Tariff Staging Period (yrs.)	
	<u>U.S.</u>	<u>Morocco</u>	<u>U.S.</u>	<u>Morocco</u>
Cars and trucks (CKDs*)	2.5%	2.5%	immediate	9-10 years
Cars and light trucks (Fully built)*	2.5%	32.5-40%	immediate	9-10 years
Trucks, 5-20 tons, truck tractors	4.0%	32.5-40%	immediate	9-10 years
Motor vehicle parts	2.5%	10-32.5%	immediate	9-10 years

*\*Morocco maintains substantially lower tariffs on imports of completely knocked down (CKD) vehicle imports in order to encourage investment in motor vehicle assembly in Morocco. Fully built U.S. vehicles imported into Morocco incur the much higher tariff shown, as do imports of U.S. motor vehicle parts. The United States has a 25.0% tariff on certain imports of light trucks, but this tariff does not impact a significant volume of global trade nor U.S. trade with Morocco.*

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

All members of ISAC 16 reviewed this report and concluded that the provisions of the U.S.-Morocco FTA relating to trade in motor vehicles and motor vehicle parts and equipment do not provide for the liberalization of trade in a manner that provides for reasonable equity and reciprocity in market access for these U.S. products. While the United States will offer immediate duty-free treatment for nearly all of these products within the scope of ISAC 16 industries, Morocco will phase down over a 9-10 year period its much higher tariffs on the most important and highest-value U.S. exports of motor vehicles and motor vehicle parts and equipment.

ISAC 16 members are particularly concerned that the tariff reduction schedule for these products contained in the U.S.-Morocco FTA lags considerably behind the access provided to similar products from Europe contained in the Euro-Mediterranean Association Agreement, which entered into force on March 1, 2000. This structural competitive disadvantage for the U.S. products represented by the members of ISAC 16 compared to that of similar European exporters would remain in place for a 9-10 year period following any approval by the U.S. Congress of the U.S.-Morocco FTA. This disadvantage would offset, to a significant extent, the longer-term market access benefits intended to accrue to U.S. producers represented on ISAC 16.

Nonetheless, ISAC 16 members agree that, at the end of the ten-year period of its implementation, the U.S.-Morocco FTA will enhance the export opportunities of the U.S. motor vehicle and motor vehicle parts and equipment industries. The agreement also would foster improved customs administration, transparency in regulatory rulemaking, and protection of intellectual property and investors' rights in Morocco.

## **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 Kadrach, 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