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March 12, 2004

The Honorable Robert B. Zoellick
United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 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 Capital Goods 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 want to thank the Administration and the Office of the U.S. Trade Representative for all their hard work in negotiating the Agreement.

Sincerely yours,
Industry Sector Advisory Committee on Capital Goods

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THE U.S.-Central America FREE TRADE AGREEMENT (FTA)

**Report of the
Industry Sector Advisory Committee on Capital Goods for Trade Policy Matters (ISAC 2)**

March, 2004

Industry Sector Advisory Committee on Capital Goods for Trade Policy Matters (ISAC 2)

Advisory Committee Report to the President, the Congress, and the United States Trade Representative on the U.S.-Central America Free Trade Agreement (FTA)

I. Purpose of the Committee Report

The purpose of this report is to provide the consensus advice of the Industry Sector Advisory Committee on Capital Goods for Trade Policy Matters (ISAC 2) regarding the U.S.-Central America Free Trade Agreement.

II. Executive Summary of Committee Report

The U.S.-Central America Free Trade Agreement (FTA), as concluded between the various governments and shared with members of ISAC 2, provides for the elimination of tariff and non-tariff barriers to free trade between the United States and Central America in a manner that provides for equity and reciprocity within the primary sectoral area represented by the Committee: capital goods. ISAC 2 members agree that the U.S.-Central America FTA will increase export opportunities for American capital goods in Central America, while fostering improved protection of U.S. intellectual property and market access for American capital goods in Central America.

ISAC 2 thanks the Administration for its outstanding work on behalf of US industry and workers in having successfully negotiated the immediate elimination of tariffs for products. This immediate zero tariff will have a positive influence on our sector of the economy. Although ISAC 2 is disappointed in the investor-state language, we remain in full support of the overall Agreement.

Key areas within the negotiated agreement of interest to ISAC 2 members include:

- Elimination of tariffs on products;
- Investment framework.
- Dealer Distribution Regime

III. Brief Description of the Mandate of ISAC 2

The mandate of the Committee is to advise the Secretary 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. The Committee also performs such functions and duties and prepares reports as required by Section 135 of the Trade Act of 1974, as amended, with respect to the sector and functional advisory committees.

In particular, the Committee provides detailed policy and technical advice, information, and recommendations to the Secretary of Commerce and the USTR regarding trade barriers and 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, which affect the products of the capital goods sector; 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.

The current membership of ISAC 2 includes representatives of companies and trade associations representing U.S. manufacturers of a range of capital goods including oil field equipment, machine tools, industrial controls, construction equipment, mining machinery, bearings, electrical machinery and their components.

IV. Negotiating Objectives and Priorities of ISAC 2

The negotiating objectives of ISAC 2 included:

- Full elimination of all Central American tariffs on products within the scope of ISAC 2;
- Investment framework;
- Dealer Distribution Regime.

V. Advisory Committee Opinion on Agreement

Market Access - Industrial Goods

Central America tariffs on most capital goods that are not already zero will go to zero when the Agreement goes into effect.

ISAC 2 believes that these provisions satisfy the Committee's negotiating objectives, although the Committee would like to see a faster reduction on tariffs.

Dealer Distribution Protection Regime

The Agreement addresses the issues of those countries which have had significant restrictions on distribution through dealer protection regimes. The Administration has done an excellent job in addressing those restrictions. However, there are sections that fail to provide protection for existing investment agreements, defined as agreements relating to natural resources or other assets controlled by the governments of the signatory countries. The Committee believes that the protections afforded should have been for all existing agreements as well as prospective agreements.

Investment Framework

The investment chapter of the Agreement generally contains the primary protections sought by the membership of ISAC 2. The Agreement makes excellent progress in reducing barriers to ensuring access to U.S. investment.

All members of ISAC 2 reviewed this report and concluded that the U.S.-Central America Free Trade Agreement provides for the trade liberalization between the United States and Central America in a manner that provides for equity and reciprocity within the capital goods sectors represented by the Committee. ISAC 2 members agree that the U.S.-Central America FTA will increase the export opportunities for U.S. capital goods.

VI. Membership of Committee

Members of ISAC 2 include:

- **Mr. David Danjczek, Vice President, Administration, Manufacturers Alliance/MAPI (Chairman)**
- **Mr. Brian Petty, Senior Vice President, Government Affairs, International Association of Drilling Contractors (Vice-Chairman)**
- **Mr. Durga Agrawal, President, Piping Technology & Products, Inc.**
- **Mr. Galen Cobb, Director, Industry Relations, Halliburton Energy Services Group**
- **Mr. Gary Devlin, Director of Marketing - Surface Products, Cooper Cameron Corporation**
- **Mr. David Gridley, Executive Director, Marketing Services and Government Affairs, Timken Company**
- **Ms. Leslie Hennessy, Operations Manager, Lovejoy, Inc.**

- **Mr. Jon Jenson, Consultant, Precision Metalforming Association**
- **Mr. William Lane, Washington Director, Governmental Affairs, Caterpillar, Inc.**
- **Mr. Robert McDonald, Vice President, Government Affairs, Emerson Electric Company**
- **Mr. Patrick McGibbon, Vice President, Industry Marketing Services, Association for Manufacturing Technology**
- **Mr. John Meakem, Manager, International Trade, National Electrical Manufacturers Association**
- **Mr. Gerald Prout, Vice President, Government Affairs, FMC Technologies, Inc.**
- **Mr. John Rauber, Jr., Director, Washington Affairs, Deere and Company**
- **Mr. Mark Stanga, Vice President, Government Affairs, York International Corporation**
- **Mr. Patrick Thompson, President, Trans-Matic Manufacturing Company, Inc.**
- **Mr. Franklin Vargo, Vice President, International Economic Affairs, National Association of Manufacturers**
- **Mr. Nick Yaksich, Vice President, Government Affairs, Association of Equipment Manufacturers**