



**STATEMENT REGARDING
UNITED STATES-REPUBLIC OF KOREA FREE TRADE AGREEMENT
BEFORE THE TRADE POLICY STAFF COMMITTEE
PUBLIC HEARING**

MARCH 14, 2006

I am Donna Harman, Vice President of the American Forest & Paper Association (AF&PA). I appreciate this opportunity to present the views of the United States forest products industry on issues pertaining to the negotiation of a free trade agreement between the United States and the Republic of Korea (ROK). The AF&PA is the national trade association of the forest, pulp, paper, paperboard and wood products industry.

More and more, U.S. forest products companies operate in a global market place in which tariffs, non-tariff barriers and government industrial policies have a significant impact on the ability of U.S. companies to compete both at home and abroad. Consequently, AF&PA, on behalf of the industry, has consistently urged the Administration to pursue bilateral, regional and multilateral trade agreements that provide substantive commercial benefits for American business and welcomes the initiation of a U.S. – Korea FTA.

I would like to highlight AF&PA's two primary objectives for the Korea FTA negotiations: 1) the immediate elimination of Korea's tariffs on wood products; and 2) Korea's elimination of all direct and indirect subsidies to its paper industry.

Wood Tariffs

Korea was a participant in the Uruguay Round zero-for-zero agreement on paper products which resulted in the phase out of all paper tariffs by January 1, 2004. There was no agreement, however, in the Uruguay Round to eliminate tariffs on wood products. As a result, Korea is not an attractive market for exports of U.S. wood products. Building on the successes of the Uruguay Round, the forest products industry's primary market access objective in these FTA negotiations is the immediate elimination of all tariffs on wood products contained in Chapter 44. The model for this FTA should be the FTAs the U.S. has negotiated with Chile and Australia which provided for the immediate elimination of tariffs on all forest products.

It is our hope that Korea's interest in negotiating this FTA is an indication that Korea has embraced the concept of trade liberalization in its fullest form and will agree to dismantle its protectionist practices, such as its tariff rate adjustment program that aims to protect, in the case of wood panel products, uncompetitive domestic industries. In 2005, U.S. exports of wood products to Korea amounted to \$150 million. While the average tariff rate for most wood products is between 1 and 5 percent, rates on panel products often exceed 13 percent. These tariffs must be eliminated immediately.

Paper Subsidies

AF&PA views the launch of FTA negotiations as an excellent opportunity to deal with the long-standing issue of the ROK's role in the creation, development, and subsequent expansion of the Korean pulp and paper industry. The Korean government has given a host of subsidies to domestic coated free sheet paper producers, keeping several of the otherwise bankrupt paper companies afloat. This has resulted in a significant increase in Korean production capacity, primarily directed at the export market. Coated free sheet paper is high-quality printing paper used for prestige magazines, brochures and annual reports.

Korean coated free sheet paper production capacity was initially established to supply the rapidly expanding China market. However, the massive expansion of China's own domestic capacity, coupled with China's antidumping measures against Korean coated paper imports, have driven Korean suppliers to redirect their exports to the U.S. market. On a value basis, U.S. annual imports of Korean coated free sheet paper jumped from \$93 million in 1999 to \$315 million in 2005. It is important to note that Korea doesn't have the fiber resources that are necessary for the cost effective manufacture of coated free sheet paper and is largely dependent on imports of wood fiber. The fiber disadvantage is being offset by lower financial costs resulting from access to subsidized capital and creating an un-level playing field. We believe that the U.S. industry should not have to incur financial damage due to the miscalculation of Korean producers.

Korean government subsidies to Korean producers of coated free sheet paper include low-interest rate facility loans, other types of government-provided policy loans, government bailouts of bankrupt paper companies and preferential access to raw materials. For example, from 2000 to mid-2003, we calculated that the coated free sheet sector benefited from more than \$2 billion in Korean government sponsored funding. U.S. trade officials have raised this issue in multilateral and bilateral fora, including the WTO Subsidies Committee and in a February 2004 dedicated paper subsidies consultation in Seoul. USTR's recent report to Congress on the 2006 Trade Policy Agenda indicates that the U.S. will continue to pursue this issue with Korea.

The Korean government has not acknowledged that it is subsidizing the Korean coated paper industry. However, the pattern of subsidization in the Korean coated paper sector is similar to that for semiconductors, where the U.S. won an important WTO Appellate Body decision last June.

It is critical that the Korean FTA creates a level playing field for manufacturers in both countries. To attain that goal, the Korean government must agree to withdraw direct and indirect lending and other forms of financial assistance to the Korean coated free sheet paper sector and allow market mechanisms to determine the amount of capacity and production in Korea. The FTA should also establish a monitoring mechanism to ensure that these practices are ended and prevent the Korean government from intervening in bankruptcy proceedings of the Korean coated paper producers.

I would be glad to respond to any questions on these issues. Thank you.