Meeting Summary
Maine Citizen Trade Policy Commission
April 6, 2016
Room 437, State House
Augusta, Maine

Members Present: Senator Amy Volk, Senator John Patrick, Senator Rodney Whittemore, Representative Robert Saucier, Representative Craig Hickman, Representative Stacey Guerin, Randy Levesque, Sharon A. Treat, Christy Daggett, John Palmer, Janet Mills

Staff: Lock Kiermaier (Contract)

CTPC Chair Senator Amy Volk convened the meeting at approximately 1 PM.

To begin the meeting, Senator Volk asked Commission members to introduce themselves. After the commission members had introduced themselves, CTPC staff person Lock Kiermaier briefly reviewed a letter dated 2/1/16 from the Maine Center for Economic Policy (MECEP) to the US International Trade Commission on TPP's likely impact to US economy. The letter projected a detrimental effect to the US economy as a result of the TPP and indicated MECEP's opposition to the TPP; a copy had been sent to CTPC by MECEP.

Next on the agenda was a discussion and final decision on the topic and author for the 2016 CTPC Assessment. Mr. Kiermaier outlined the selection process that had been followed thus far which included initial candidate suggestions from CTPC members which was then narrowed down by CTPC Chairs Senator Amy Volk and Representative Robert Saucier to a list of 4 candidates:

- Maine Farmland Trust/ Institute for Trade & Agriculture Policy
- Muskie School for Public Policy at USM
- Margaret Chase Smith Policy Center at UM
- Global Development and Environment Institute at Tufts University

Mr. Kiermaier further reported that due to other commitments that the Muskie School for Public Policy at USM and the Global Development and Environment Institute at Tufts University had withdrawn themselves from further consideration. Mr. Kiermaier went on to explain as a next step in the selection process, that the CTPC Chairs had authorized him to send out a brief set of proposal instructions to the two final candidates which were the Maine Farmland Trust in collaboration with the Institute for Trade & Agriculture Policy and the Muskie School for Public Policy at USM. These written instructions were provided to each candidate organization several weeks before the April 6th meeting and stated the following submission requirements:

- A synopsis of no longer than 2 one-sided pages which describes a proposed topic (s) for the 2016 CTPC Assessment. While not required, given the impending Congressional vote on the TransPacific Partnership (TPP), it was suggested that a proposed topic(s) focus on some aspect(s) of the possible effects of the TPP on Maine. The synopsis should clearly identify a proposed topic(s) with a brief description of how the assessment would be constructed;

- An organizational vitae not to exceed one page in length which briefly describes the organization and its qualifications, resources and experience that are pertinent to being able to complete a meaningful and useful Assessment.
- These documents were to be sent to CTPC Staff person Lock Kiermaier no later than Tuesday, March 29, 2016. Upon receipt of the documents, Mr. Kiermaier would circulate them to CTPC members for their review and consideration.

After reviewing these instructions, Mr. Kiermaier drew commission members' attention to the copies of the documents submitted by each organization; these documents had also been sent to CTPC members a week before the April 6th meeting for their review. In brief, the proposals are summarized as follows:

- The Maine Farmland Trust and the Institute for Trade & Agriculture Policy proposed an analysis of the potential impacts of the TPP focusing on three issues:

    a. **Potential changes in the dairy sector.** The combination of changes in tariffs and food safety standards could affect production and prices of both conventional and organic dairy products in Maine.
    b. **Seafood sector.** Examine likely changes in tariffs and non-tariff barriers here and abroad, both for goods exported from Maine (such as lobster) to TPP countries and for goods that would likely be imported (such as shrimp from Vietnam).
    c. **Local foods programs.** Review recent local foods legislation and programs (such as GMO labeling, limits on pesticides, local foods procurement programs and proposals to enhance food sovereignty) in Maine and neighboring states and describe how TPP that could affect the implementation of those programs.

- The Margaret Chase Smith Policy Center at the University of Maine proposed the following:

    a. a neutral guide to the economic issues involved with free-trade agreements;
    b. a discussion of the major components of the TPP, including a comparison to the North American Free Trade Agreement (NAFTA);
    c. a summary of Maine's experience with international trade, particularly since NAFTA;
    d. an assessment of the likely economic impacts of the TPP on Maine, including job losses and gains; and
    e. a glossary of frequently asked questions about trade with simple, evidence-based answers.

Upon further review of these documents, CTPC members proceeded to discuss the pros and cons of the proposals from each organization. After a consensus was arrived that seemed to favor the broader approach and specific foci of the Margaret Chase Smith Policy Center, CTPC Chair

Representative Robert Saucier made a motion to accept the proposal from that organization to conduct the 2016 Assessment for the CTPC. The motion was seconded by Senator Whittemore and approved by a unanimous vote of those voting members present.

Mr. Kiermaier will proceed to working with Grant Pennoyer, Executive Director of the Legislative Council, and the Margaret Chase Smith Policy Center to develop and finalize a contract to conduct the 2016 Assessment.

The next item on the agenda was a presentation by Ms. Cynthia Johnson, Senior Advisor, Texas Instruments regarding that organization's perspective on the TPP. Ms. Johnson made the following points in her presentation:

- Texas Instruments (TI) is a global semiconductor design and manufacturing company which currently operates in 35 countries serving more than 100,000 customers worldwide and currently offers nearly 100,000 analog ICs and embedded processors, along with software and tools
- In 2011, TI acquired National Semiconductor and the South Portland fab or MFAB. Today, TI employees at the site design and manufacture over 150 diverse analog semiconductor products. The South Portland plant employs over 500 people.
    - 20% of workforce hold engineering degrees, with over 50% of the degrees coming from Maine Universities.
    - 25% of workforce are equipment technicians, with over 30% holding a degree from the Maine Community College system.
    - 50% of workforce are on the production line where the only requirement is a high school diploma.
    - 5% of workforce are support personnel (HR, finance, procurement, planning, facilities).
- TI supports trade agreements like TPP because they open markets for their products and promote economic growth. TI also supports polices and initiatives that keeps the company strong here such as funding for basic research and STEM education.
- The semiconductor industry generated over $335 billion in revenue in 2015. U.S. semiconductor exports to the broader Asia-Pacific region represent 85 percent of total U.S. semiconductor exports. Semiconductors are the cornerstone of the global IT economy.
- MFAB exports about 2 billion chips per year. The majority go as wafers exported to Malaysia for final processing – testing and packaging. From there they may go directly to a customer or to a product distribution center. More than 80 % of TI sales are outside of the US.
- The chips can be subject to tariff or nontariff barriers which can increase cost or bar them from a market. Similarly, the phones, white goods or cars which are powered by semiconductors also face barriers.
- Greater access to the large and growing markets of the Asia-Pacific will mean growth for U.S. semiconductor companies. U.S. exports of semiconductors to TPP countries accounted for 41% of total U.S. semiconductor exports to the world in 2014 ($17 billion).

- The semiconductor industry is one of the most global industries in the world. The semiconductor supply chain and ecosystem- from raw materials, to research and design, to manufacturing, to assembly, packaging and testing, and finally to distribution- are spread across the globe. While U.S. companies manufacture the majority of semiconductors in the United States, TI and other companies rely on the global supply chain for raw materials, manufacturing equipment, and assembly/testing and packaging. TPP countries are a very important part of this global supply chain, with Japan, Malaysia, Singapore, and Vietnam specializing in the diverse segments that make up the semiconductor ecosystem.
- TPP provisions such as tariff elimination on semiconductor-rich applications (i.e. autos, and cell phone base stations), simplification and harmonization of customs and trade procedures, regulatory coherence, removal of impediments to e-commerce (TI has an online store to reach more of its customers – engineers designing these products), and requirements to eliminate tariffs on tech products strengthen the semiconductor supply chain and better enable companies to achieve efficiency, lower costs, and reduce risks.
- Trade secrets are a critical and major asset of U.S. semiconductor companies, and are essential to their technological progress and competitiveness. Semiconductor companies typically spend 15-20 percent of revenue on research and development (R&D), making intellectual property protection and enforcement of utmost importance to this industry. In 2014, U.S. semiconductor companies invested $35 billion in R&D, totaling 18% percent of their total sales, one of the highest rates of any industry.
- TPP will require that countries put laws in place to address the theft of trade secrets – even by means of cyber theft. It will also require countries to take steps to stop counterfeit products which is a concern for this industry.
- TPP establishes new disciplines around emerging high tech trade barriers, most of which have never been covered in previous agreements. For example, it includes commitments that state-owned enterprises will operate and compete fairly. Other specific provisions of interest to TI are:
    - *Information technology* : The TPP region is both a major consumer and provider of information technology products and services. While most TPP parties were already members of the Information Technology Agreement (ITA), which eliminates duties on technology products, three additional countries (Brunei, Chile, Mexico) agreed to join, eliminating duties on semiconductors and other technology products
    - *Forced technology transfer*: The agreement specifically prohibits forced technology transfer as a condition of market access or investment, including disclosure of source code or other sensitive intellectual property to a government entity.
    - *Cross-border data flow and data localization:* TPP ensures the free flow of data between countries, essential in today's global, interconnected economy. The agreement prevents mandates that data be stored within a country, known as data localization, a trend that is on the rise in many countries. For companies, like TI, with customers around the world, such data localization requirements would dramatically increase costs and complexity in operations, and would eventually require servers be owned or leased within each country where TI has customers.
- In conclusion, Ms. Johnson stated that the TPP is an important agreement as it will set precedents for the future of the global trading system. If successfully ratified, the TPP will preserve and strengthen the global model of free and open markets, to the immense

benefit of U.S. companies and its global partners. If the TPP fails, U.S. leadership in global trade may be weakened, as will the ability of companies to compete in international markets on a level playing field. In addition, the TPP would promote open and fair trade, reaffirm America's global technology and trade leadership, and ensure that more products made in America – including tech products like semiconductors from Maine – can be shipped to customers around the world.

After Ms. Johnson's presentation, the next item on the agenda was a similar presentation from Mr. Nolan Barkhouse, Lawrence S. Eagleburger Fellow, P&G Global Government Relations and Public Policy, Proctor & Gamble (P&G). In his comments to the commission, Mr. Barkhouse made the following points:

- P&G has operated a large manufacturing facility in Auburn since 1997. P&G is the largest employer in Auburn;
- Founded in 1837, P&G has grown to become a global leader in fast-moving consumer goods, focused on providing branded consumer packaged goods of superior quality and value to our consumers around the world. With $76.3 billion in global sales, P&G sells products in more than 180 countries and territories, with manufacturing sites spread throughout the U.S. and international markets. P&G owns and operates 26 manufacturing sites located in 20 U.S. states and territories, as well as some 100 manufacturing sites in foreign countries. Nearly 5 billion consumers use P&G products.
- Commerce and trade is part of P&G's corporate DNA. P&G actively supports implementation of high quality multilateral, regional and bilateral trade agreements as policy tools to accelerate economic growth, reduce tariff and non-tariff barriers to trade, and to promote regulatory coherence across geographical borders.
- While more than 60% of P&G's sales come from the company's international operations, the company's growth outside the U.S., where 95% of the world's consumers live, doesn't come at the expense of U.S. workers. In fact, one in five of P&G's U.S. based jobs – and two in five in P&G's home state of Ohio – support their international business. These high paying U.S. jobs are in areas such as marketing, innovation and supply chain management.
- Here in Maine, P&G directly employs more than 400 people who come from 70 communities spread over 8 counties. In addition, the P&G manufacturing plant indirectly supports another 230 jobs in the State of Maine, outside of direct payroll. P&G has invested over 350 million dollars in the Auburn plant since 2000, and annually pays millions of dollars in state and local taxes.
- The Auburn plant is the only P&G plant in the United States and Canada producing Tampax, the world's leading brand of tampons. P&G products are shipped to customers throughout North America, and our employees are some of the world's most knowledgeable and experienced producers of top-quality feminine products.
- Existing free trade agreements have helped to eliminate or reduce trade barriers globally – tariffs, quotas and unnecessary bureaucracy at the borders. P&G benefits from these agreements because they have allowed the company to create efficient, reliable supply chains that have expanded access to markets around the world. In every market where

P&G operates, the company benefits from economies of scale, and from the common regulatory and legal foundations on which U.S. and WTO trade agreements are based.

- TPP goes even further by addressing 21st century trade issues including e-commerce, cross-border data flows and unnecessary regulatory differences. P&G believes that the TPP Agreement will not only benefit current and future operations in member countries, but it lays the groundwork for P&G to enjoy similar benefits in countries that subsequently join this important trade agreement. P&G suppliers, many of whom are small- and medium-sized companies, will also enjoy the benefits of the TPP Agreement.
- The TPP region includes some of P&G's largest and fastest-growing markets in Asia Pacific and Latin America. P&G's long term growth will be determined by the ability to compete on a level playing field in all markets. In 2014, the TPP countries accounted for 36% of world GDP, and the Peterson Institute estimates real income growth of $465 billion by 2030 for the 12-country group, including $131 billion in U.S. real income growth. Increased personal wealth in TPP member countries will allow more consumers to choose P&G's high-quality daily use and personal care products when shopping for themselves and their families.
- In addition, the TPP Agreement will serve as the first U.S. trade agreement with five of the member countries, including Japan, the world's third largest economy, as well as Vietnam and Malaysia, two of P&G's fast-growing emerging markets.
- Provisions within the agreement, including the chapters on electronic commerce, customs administration, and small- and medium-sized businesses, complement P&G's future business growth in all of the TPP member countries as online and non-traditional distribution models and sales channels rapidly expand.
- P&G operates close to its consumers. The company invests in manufacturing and distribution capability in key regions and markets, allowing P&G to tailor products to meet the wants and needs of consumers. TPP's tariff reductions will benefit P&G as import duties will be reduced or eliminated on raw materials and finished products shipped within the TPP-based supply chain.
- Tariff savings are important to P&G's bottom line and allow the company to supply a competitive mix of innovative and high quality products to consumers in TPP markets. Citing cosmetics and beauty products as an example, the economic benefits of reduced tariffs, like Vietnam's elimination of its 27% tariff on cosmetics in year four, will provide an increasing variety of cosmetic and personal care products to a growing group of middle class consumers.
- P&G anticipates major benefits from TPP member countries' agreement to establish or enhance new protections for investors and reduce non-tariff barriers. The agreement extends investor-state dispute settlement (ISDS) to five new markets (Malaysia, Vietnam, Brunei, New Zealand and Japan) and enhances investor protections in the six markets that enjoy existing trade agreements with the United States.
- In addition to dispute settlement, P&G strongly supports outcomes in the TPP chapters on transparency and anti-corruption, labor, intellectual property rights, environment, and competition policy. Compliance with local laws and policies designed to govern company behavior on important policy issues like these is one of the most challenging aspects of investing and doing business in different countries. P&G expects provisions within these TPP chapters to help validate P&G's high standard business practices in all

countries where we operate, and to further strengthen business practices among our partners, suppliers and customers, thus ensuring a more level competitive playing field.

- TPP also provides rules on cross-border data flows that will allow P&G to fully utilize technology and modern sales platforms to serve consumers. Today's consumers, especially those in the Asia Pacific Region, increasingly shop online and purchase our products via computers, phones, and other mobile devices. By ensuring the freedom of cross-border data flows, generally prohibiting data localization and protecting personal information, TPP will help boost electronic commerce among the 12 participating countries.
- P&G expects some of their most important long term gains to stem from increased regulatory coherence. The TPP agreement's Cosmetics Annex commits partner countries to important underlying principles of "Good Regulatory Practices." It affirms a risk-based, transparent approach to cosmetic regulations, promotes international standards and approaches such as those developed by the International Organization for Standardization. The Cosmetics Annex recommends that regulators move away from bureaucratic pre-market approvals systems and rely on shared responsibilities between manufacturers, the system utilized in the United States. The Annex also supports the industry's long-standing commitment to avoid animal testing by prohibiting such tests when validated alternatives are available, and it eliminates requirements for exports to be accompanied by Certificates of Free Sale. These provisions broaden a number of benefits to all TPP countries that already enjoyed in the ASEAN Cosmetics Directive and cosmetics regulatory provisions in ANDEAN Regulation 516 of the Pacific Alliance Partnership.
- The reduction in regulatory barriers will reduce costs and simplify business processes as duplicative and ineffective regulations are eliminated between member countries and increase the speed in which P&G can deliver the safest, newest and most innovative beauty and personal care products to consumers.
- P&G supports immediate passage of the TPP Agreement because it will accelerate economic growth, reduce tariff and non-tariff barriers to trade, and increase regulatory coherence among member countries. The TPP Agreement is an important opportunity for P&G, their employees, shareholders, and for the communities where P&G is located.

On a topic not on the agenda, the CTPC learned about a situation where the country of Sweden has lodged a formal complaint with the European Union alleging that lobsters from North America had been found in Swedish waters. Further, Sweden is asking the EU to consider the North American lobster to be an invasive species and that it be banned from importation into the EU. The CTPC members present requested that a letter be sent from the CTPC to appropriate officials within the USTR indicating their concern about this development.

Next, CTPC staff person Lock Kiermaier briefly referred to a summary of articles pertaining to some aspect of free trade agreements. The written summary and copies of the articles in their entirety can be viewed at the CTPC website:

http://legislature.maine.gov/legis/opla/ctpcmtgmtrls40616.pdf

Adjournment

The meeting was adjourned at approximately 3 PM.