DRAFT **Assessment—for Citizen Trade Policy Commission review**

Report to the Natural Resources and Environment Subcommittee of the Maine CTPC

The Natural Resources/Environment Subcommittee of the Maine Citizens Trade Policy Commission has asked the Forum to look at agricultural strategies and policies favorable to Maine in light of current WTO and Farm Bill discussions. This paper first discusses why international trade is important to Maine's agriculture sector and how trade agreements impact three of the state's most important agricultural sectors. The second section of this report focuses on potential policy responses that may help Maine benefit from changes in Farm Bill legislation, with reference to dairy, forest products, and "specialty crops." We focus on how enhanced spending in the conservation and rural development titles, and changes to spending approaches used in the nutrition title, might yield substantial benefits for all Mainers. We briefly note the existence of significant organizing efforts on Farm Bill reform already taking place in Maine. Leaders in these efforts would be appropriate speakers to the Commission, and could collaborate further on state-based advocacy.

1. Why is international trade an issue for Maine's agriculture sector?

Agricultural exports—particularly of apples and berry crops, vegetables, seafood/aqua-culture products, and specialty preparations (jams and jellies, etc.)—form an important part of Maine's overall international trade in goods. By value, dairy products and potatoes have each accounted for about 20% of commodity receipts in the state. Continued tariff barriers in Canada, plus increasing competition from imports, have made it more difficult for Maine farmers to market these primary commodities abroad. In potatoes and to some extent dairy, the average size of operations has increased: "get big or get out" has been the watchword in these sectors. Consolidation throughout the food production and retail chain has accelerated dramatically in the last decade—some of the changes facilitated by provisions in international trade agreements[1], and some due to overall processes of globalization and structural changes in the U.S. economy. There has also been considerable consolidation in the forest products industry—some of it driven by policy instability and international disputes.

International trade is also an issue for Maine's agriculture sector because commitments made by the United States as part of the WTO Agreement on Agriculture is now putting considerable pressure on current U.S. farm programs contained in Farm Bill legislation.[2] The existing Farm Bill is scheduled to be reauthorized in 2007. In the five years since the last Farm Bill was passed by Congress, three important events have occurred to increase the significance of international trade for discussion of domestic farm policy:

[1] Note in particular the United States broad commitment in its WTO General Agreement on Trade in Services (GATS) schedule, in the category of Distribution Services, defined as "wholesaling, retailing, and franchising services."

[2] The Forum on Democracy & Trade, with colleagues at Harrison Institute, Georgetown University, has analyzed the potential impact of WTO commitments—and the dynamics of current "Doha Round" negotiations—for the Farm Bill reauthorization process as a whole. See "The Implications of the Expiration of the WTO's Peace Clause for U.S. Farm Subsidy Programs," Matthew Porterfield, manuscript in press and available from the Forum on Democracy & Trade.

1. **Expiration of the "Peace Clause."** In 1995, in the conclusion of the WTO Uruguay Round of trade talks, the European Union and the United States negotiated a nine-year "phase-in" period for new commitments intended to discipline their use of trade-distorting agricultural subsidies (called "Amber Box" domestic supports in the jargon of the WTO). Neither the United States nor the European Union could overcome domestic political resistance to making those changes—indeed, the 2002 Farm Bill *increased* total trade-distorting subsidies in the United States by more than 70%. Consequently, there is a mismatch between U.S. trade commitments and the content of domestic farm support programs. After the expiration of the Peace Clause in 2004, all domestic supports are now "actionable" under WTO rules.
2. **Brazil brings a trade dispute on cotton to the WTO—and wins.** Brazil argued that several domestic programs used by the United States to support cotton crops, including export subsidies and various direct payment programs, were illegal under its 1995 commitments. Brazil won this case and last year the WTO Appellate Body fully affirmed Brazil's arguments. Congress and the administration did make some changes to existing programs, including the repeal of an export subsidy program. In September 2006, the WTO Dispute Settlement Body agreed to Brazil's request to establish a Compliance Panel to review whether the United States has in fact complied with the WTO ruling.[3] Brazil has already floated the idea of targeting non-agricultural goods and services—as well as intellectual property rights—as part of its retaliatory action against the United States.[4]
3. **Collapse of Doha Round negotiations.** A failure to agree on agricultural tariffs and subsidy disciplines sunk the most recent round of international trade negotiations.[5] While no one country or negotiating bloc is to be blamed for the lack of progress in the trade talks, it is clear that there will be no movement in the Doha Round unless the United States and the European Union table more "ambitious" proposals to cut domestic supports (and in the case of Europe, to cut more of its agricultural tariffs, as well).

These three factors mean that the demands of the international trading system will be a new and critical driver in domestic discussions of Farm Bill reauthorization.

Changes in current Farm Bill programs present both threats to and opportunities for Maine's rural producers. If spending in Farm Bill Title I (the "commodity title") were to be slashed, and not restored in other Farm Bill titles, dairying operations in the State of Maine would suffer. If Farm Bill Title VI (forestry) were eliminated, this could also present hardships to a number of Maine's woodlot operators and wood product industries. These threats are described in the following sections.

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[3] See www.wto.org/english/news_e/news06_e/dsb_28sept06_e.htm, viewed 11 November 2006.
[4] Ken Cook and Chris Campbell from the organization Environmental Working Group explore this issue in an on-line essay at www.ewg.org/issues/agriculture/20050609/index.php.
[5] See www.forumdemocracy.net/trade_negotiations/WTO_Doha_Round_trade_talks_suspended.html.

Understanding Dairy in the WTO context.

There are continued pressures on all U.S. crop-support programs in the current round of WTO trade talks, and dairy is no exception. As is the case with most dairy producers globally, the United States has used a variety of policy instruments to provide assistance to dairy operators and to bolster prices. These include limits on the import side through use of tariffs, as well as price supports and direct payments to domestic producers.[6] These two mechanisms have generally kept dairy prices in the U.S. at or above the world market price. Still, a marked increase in the price of inputs as compared to the guaranteed market price for Class I and Class II milk has meant that dairy producers in Maine continue to struggle, and the long-run viability of the industry is very much in question.[7]

As noted above, the policy environment for dairy could become more complicated in the next Farm Bill:

- **End to the Export Incentive Program.** At the Hong Kong WTO Ministerial in December 2005, the United States joined with the European Union and others in agreeing to a full phase-out of all export subsidies by the year 2013. This will necessitate an end to the Dairy Export Incentive Program, which was designed to subsidize U.S. exports.
- **Market-access concessions to trade partners**. As part of the United States' WTO commitments, and through its bilateral FTA with Australia, foreign milk and dairy product suppliers have received expanded access to the U.S. market. Commitments in the Uruguay Round mean that the United States must gradually expand the volume of dairy products that can be imported duty-free through the Tariff Rate Quota (TRQ) scheme. Dairy producers in Australia received additional market access equal to about $41 million, according to the Office of the U.S. Trade Representative. That duty-free TRQ with Australia expands between 3 and 6% annually, depending on the category of product.
- **No increases in access to the Canadian market.** Unfortunately, the North American Free Trade Agreement (NAFTA) did not do much to create market-access opportunities for Maine dairy producers, as Canada continues to provide substantial protections to its dairy industry.[8] Currently, the United States and Canada provide approximately equal levels of subsidization to their national dairy

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[6] Under Uruguay-Round WTO rules, the United States set up "tariff rate quotas" (TRQs) that allowed a certain volume of imports of dairy products at a very low or zero-tariff rate. Imports beyond those TRQ amounts were subject to very high tariffs. Price supports have come through federal milk marketing orders, price supports, and dairy market loss payments. See "ERS Analysis: Dairy Programs," and "2002 Farm Bill: Commodity Programs," **ERS Features—Farm Bill 2002**; and the **Dairy Policy Briefs** of the Dairy Policy Analysis Alliance, Food and Agricultural Policy Research Institute (FAPRI), University of Wisconsin-Madison, for a complete overview of U.S. dairy-sector support programs.

[7] See for example "Issues in Maine's Natural Resources Industries: Maine Dairy Industry**," College of Natural Sciences, Forestry, and Agriculture White Papers #4,** University of Maine, March 2003.

[8] For a more detail discussion of NAFTA and dairy, see "Free Trade Agreements and the Doha Round of WTO Negotiations—Implications for the U.S. Dairy Industry," W.D. Dobson; **Babcock Institute Discussion Paper No. 2005-2,** University of Wisconsin-Madison.

herds.[9] A breakout for the regional fluid milk market meaningful to Maine producers is not available.

- **Dairy is a big part of United States' Aggregate Measure of Support (AMS).** Price-support programs are not prohibited under the WTO rules, but their use is limited. The amount of trade-distorting spending is strictly calculated. The United States negotiated a total of $19.1 billion in trade-distorting spending under the Uruguay Round agreement. This figure is known as the "Aggregate Measure of Support" (AMS). Price supports for other 'program crops,' including corn, wheat, rice, and cotton, are also included under that AMS cap of $19.1 billion.[10] USDA researchers have calculated that support to dairy producers has comprised 55% of total AMS spending since 1995—more than the amount for corn, cotton, or other program crops.[11] In October 2005, the United States Trade Representative put forward a proposal to the WTO that would have further reduced U.S. "Amber Box" spending. In sum, if the AMS cap is taken seriously (and Brazil's successful challenge to certain subsidy programs suggest that it must be), and if the U.S. proposes a lower AMS limit in order to get the Doha Round talks moving again, then other commodities will be competing vigorously with dairy for a larger slice of a dwindling subsidy "pie." The strategic compromise that resulted in the continuation of key dairy programs in the 2002 Farm Bill may not materialize in the new legislation.

A further negotiating dynamic in Doha Round talks on agriculture is the extent to which countries can designate particular tariff lines as "sensitive products," which could allow these products to be excluded from further *tariff* reductions. One can thus imagine a "food fight" similar to the fight over subsidies, but this time with different commodity groups seeking to have their product designated as "sensitive," which would enable the U.S. to maintain TRQs and other market-access restrictions for that particular tariff line.

Understanding Forest Products in the WTO and NAFTA contexts.

Unlike the Agreement on Agriculture, there exists no WTO agreement specific to forestry. Prior to the 1999 Seattle ministerial of the WTO, there was an attempt to negotiate a "forest practices agreement" to govern worldwide trade in wood products. This portion of the Seattle agenda was controversial, insofar as it included no accompanying environmental protections; and because modeling of the proposed agreement's impacts suggested it would result in a four percent increase in global

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[9] The United States won a WTO case against Canada on its past export subsidies for dairy products in 2003. Canada promised to end such practices. www.usinfo.state.gov/ei/Archive/2003/Dec/31-635626.html.

[10] In fact, it is likely that the United States has exceeded this $19.1 billion level in recent years. See "Boxed In: Conflicts between U.S. Farm Policies and WTO Obligations," Daniel A. Sumner, **Cato Institute Center for Trade Policy Studies,** December 2005. The United States has not reported its subsidy levels to the WTO since 2001, even though Uruguay Round disciplines call for "timely notifications" to the WTO of all trade-distorting supports. Some nations have cited the lack of timely reporting of subsidies as one obstacle in the current round of trade talks.

[11] **Trade Liberalization in International Dairy Markets: Estimated Impacts**, Suchada Langley, Agapi Somwaru, and Mary Anne Normile; Economic Research Report 16, USDA, February 2006. Proposed Doha Round rules do call for countries to adopt *product-specific spending caps*, which could impact the dairy sector—with those products most heavily subsidized being subjected to larger proportional cuts.

deforestation. Negotiation of this agreement collapsed along with other items on the Seattle agenda, and there does not seem to have been any serious attempt to revive it for the current round of trade talks. Consequently, forest products trade remains primarily regulated by the GATT, the major WTO agreement covering all goods.

The signing of NAFTA had greater impact on forestry trade between Mexico and the United States than between the US and Canada, because the United States and Canada had previously negotiated a set of agreements outlining trade and tariff duties between the two countries.[12] The agreements, however, did not lead to orderly trade in wood products, and disputes on softwood lumber tariffs between the United States and Canada have been brought forward in both NAFTA and GATT/ WTO settings. After twenty years of conflict, this dispute is headed toward resolution. A 12 October 2006 Press Release from the Office of the United States Trade Representative described the outcomes of this last round of negotiations, and the coming into force of the U.S. – Canada Softwood Lumber Agreement:

> For Canada, based on current market prices for softwood lumber, this will require the immediate collection of an export tax. With respect to the United States, this will result in revocation of the antidumping and countervailing duty orders on softwood lumber from Canada, an end to the collection of duty deposits on imports of Canadian softwood lumber, and the initiation of the process to refund duty deposits currently held by the U.S. Customs and Border Protection.[13]

While this has been a major issue in overall US-Canada trade relations, the softwood lumber dispute has been of less importance to Maine, because of provisions stating that logs originating in the Canadian Maritime provinces or in Maine are exempt from its conditions.

Farm Bills since 1990 have contained programs on forestry, and the 2002 Farm Bill included a separate forestry title. Both Senate and House versions of the 2002 Bill contained more provisions on forestry than were included in the final version produced by conference committee.[14] One of the most important programs included in this title, the Forest Land Enhancement Program (FLEP), was eventually provided with just 35%

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12 The North America Commission for Environmental Cooperation—which was set up because of concerns about the environmental impacts of NAFTA—has never released a comprehensive study of the impacts of North American forest trade on the environment. This may be due to the sensitive nature of the topic, given the long history of disputes between the United States and Canada on softwood lumber tariffs.

13 "U.S. Trade Representative Susan C. Schwab Announces Entry into Force of U.S.-Canada Softwood Lumber Agreement," USTR press release 12 October 2006. The original 1996 text of the Softwood Lumber Agreement can be found at www.dbtrade.com/casework/softwood/175976w.htm.

14 **Forestry in the Farm Bill**, Ross Gorte, CRS Report to Congress, Congressional Research Service; 22 November 2005. Some forestry programs were included in a controversial 2003 bill, the "Healthy Forests Restoration Act" (HFRA). A voluntary conservation program of the HFRA allowed for registration of acreage with respect to a range of biodiversity objectives. A June 2006 "fact sheet" from the Natural Resource Conservation Service states that "the primary focus of the Healthy Forests Restoration Program in Maine is to manage boreal forest to promote the recovery of Canada lynx."

of the $100 million "guaranteed" in the Farm Bill. It expires at the end of FY2007, and there is speculation that FLEP might not be renewed in a subsequent Farm Bill.

The Maine Forest Service has been a regional leader in drawing attention to the particular needs of Northern Forest states in relation to the Farm Bill, and has participated in a number of the USDA Farm Bill "listening sessions." A 5 September 2006 letter to Senator Olympia Snowe, co-signed by state officials from Maine, New Hampshire, Vermont, and New York, as well as several important forest conservation groups in Maine, laid out a "consensus policy agenda" for the 2007 Farm Bill, including:

- Increased support for state forest stewardship and research programs;
- Increased funding for cost-share and incentive programs that support good forest stewardship and slow parcelization of forest land;
- Support for the Forest Legacy Program;
- Grant support for value-added production and marketing.

In sum, there has been considerable work done at a regional level, as well as within Maine, to think about forestry components in the next Farm Bill.

Understanding Specialty Crops in the WTO Context.

Unlike the European Union, which has spread out farm-support payments to a huge range of crops and cropping systems, US Farm Bill Title I subsidies are concentrated in a handful of "program crops"—grains, dairy, and cotton. Because the threshold for whether or not such subsidies are "actionable" under WTO rules is whether the subsidies have an impact on market prices or displace another country's product from domestic or third-country markets, the concentrated nature of U.S. subsidies is of particular concern, as has already been seen in cotton. Because of the value of these subsidies, commodity groups representing "program crops" have been particularly vociferous in Farm Bill reauthorization debates.

Recognizing the increased importance of specialty crops in the overall US agricultural economy, and in particular the increasing contribution of specialty crops to export performance, specialty crop producers—including potato growers, as well as growers of fruits and vegetables—have recently become much more active in advancing their interests through legislation. Earlier this year, a "Specialty Crop Farm Bill Alliance" was formed,[15] and other legislation passed in the 108th Congress created special programs to increase the competitiveness of specialty crops. These programs would appear to be "Green Box," non-trade distorting supports.

It is quite clear, however, that there is no chance that Title I-style subsidies will be extended to specialty crop growers. (To do so would in fact be "illegal" under WTO Uruguay Round rules.) Secretary of Agriculture Mike Johanns noted as much in a recent speech:

> the specialty crop farmers…are not coming to me and saying they want to be treated the same as the program crop producers. They are arguing instead that

[15] For an example of the Alliance's engagement on recent legislative proposals, see the press release at http://www.competitiveagriculture.org/news/supportslegislation.html.

> we should address needs that they have by strengthening our support for research, voting resources to sanitary and phytosanitary issues, and boosting market promotion dollars.[16]

Specialty crop growers also have a defensive interest. In the 1996 and 2002 Farm Bills, Congress included a provision stating that recipients of "program crop" supports are restricted from growing fruits and vegetables on land counted in the "base acreage" for calculating support payments. However, in the US-Brazil WTO cotton case, it was precisely these planting restrictions which led the Dispute Panel and Appellate Body to conclude that subsidies that the United States had argued were "Green Box," non-trade-distorting, were in fact actionable "Amber Box" subsidies. Naturally, specialty crop producers are strenuously opposed to the removal of such planting restrictions, fearing that acreage currently devoted to cotton, rice and other "program crops" may be shifted into fruits and vegetables. This is of particular concern to Maine, where fruits and vegetables and other specialty crops are amongst the highest-dollar components of agricultural exports.

2. Suggestions for the Maine Citizens Trade Policy Commission and the Natural Resources and Environment Subcommittee

The climate in which negotiations on the renegotiation of the Farm Bill will take place in 2007 differs dramatically from that prevailing in 2002. Three major factors are different in this round:

1. **The Deficit.** Probably the best that rural America can hope for in the 2007 Farm Bill is to preserve current spending levels. Increases are extremely unlikely. Urban legislators and "deficit hawks" argue that the new Farm Bill should be much smaller, and should therefore contribute to paying down the overall national deficit. The possible use of "PAYGO" rules—which mandate that any new spending or tax changes not add to the federal deficit—may further sharpen the conflict between spending levels in different titles of the Farm Bill.
2. **Trade Pressures.** The 2004 expiration of the "Peace Clause," the collapse of the Doha Round, and the prospect of retaliation from Brazil on cotton subsidies would suggest, at a minimum, that the need for the U.S. to comply with its existing WTO commitments will play a more prominent role in Farm Bill debates. Subsidy cuts become even more relevant should there prove to be enthusiasm in Congress for U.S. leadership in reviving the Doha talks.
3. **Increased public awareness of current inequities in subsidy programs.** The availability of an on-line database detailing subsidy payments (www.ewg.org), combined with multi-part articles over the past few months in many metropolitan dailies (New York Times, Washington Post, Atlanta Constitution-Journal, etc.) has increased public awareness of the market distortions that subsidies cause (or exacerbate). Public attention has also focused on the ways in which subsidies

[16] "Transcript of Remarks by Agriculture Secretary Mike Johanns at the National Milk Producers Federation," USDA Press Release 0443.06, 2 November 2006.

can spur agribusiness consolidation, and subsidies' inequitable geographic distribution.[17]

Maine at present does not have a member of its federal Congressional delegation on either a House or Senate Agriculture Committee, where the Farm Bills are written. Historically, delegations from New England have been under-represented on these committees—although Senator Patrick Leahy of Vermont played a very active role in the 2002 negotiations to broker a deal on dairy that provided benefits to smaller-scale milk producers in this region (the MILC program).

Maine benefits comparatively little from the current structure of the Farm Bill—because of its diverse cropping base, low acreage levels of "program crops" and because of the insignificant amounts of money contained in the Forestry Title. To be sure, Maine dairy farmers, and (to a lesser extent) potato growers who are rotating acreage with grain crops, have benefited from federal supports,[18] and Maine farmers and woodlot owners received $34.2 million in conservation program payments over the past decade. But it is also clear that Maine could derive more benefit if the current Farm Bill was restructured to focus on rural development, on building regional food and nutrition systems, on sustainable forestry, and on biofuels development.

More generally, it is probably in Maine's best interest to focus on developing regional economies of scale and in-state areas of economic comparative advantage. To date, a broader focus on rural development concerns has not driven US negotiating strategy at the WTO. By contrast, in past WTO negotiating rounds, the European Union and Japan focused on a concept called "multifunctionality," which the WTO defines on its website as the "[i]dea that agriculture has many functions in addition to producing food and fibre, e.g. environmental protection, landscape preservation, rural employment, food security, etc." The United States and the "Cairns Group" of major agricultural product exporting countries have resisted this negotiating concept. For states such as Maine, however—where the health of farm and forest landscapes are taken as important quality of life indicators, and also contributes to tourism and other non-agricultural sectors—a negotiating approach emphasizing "multi-functionality" as a key value might speak more directly to Maine's particular interests for its rural sector.

The Maine CTPC (and in particular its Natural Resources Subcommittee) could, as part of its 2007 Workplan, devote attention to working with Maine state agencies, rural-sector businesses, producer associations, local governments, and nonprofit groups to identify and advance a set of priorities for a reformed Farm Bill. Suggested areas of focus are:

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17 As the Environmental Working Group notes on their website, "Over the past decade, U.S. taxpayers have spent over $112 billion on commodity subsidies, but just seven states took in half of the money. Why? Because four commodities—corn, wheat, rice and cotton—account for 78 percent of the subsidies, and a handful of states produce most of the subsidized crops."

18 Environmental Working Group's database shows that Maine producers received $41.9 million in subsidies between 1995-2004, with dairy programs accounting for about $15 million of that total.

Continue payments to dairy producers through a combination of "Green Box" and capped "Amber Box" supports. As noted above, dairy occupies much of the United States' trade-distorting "Amber Box" spending. Other commodity groups, which understand that they are now competing for a limited volume of "Amber Box" spending, may attempt to eliminate USDA's price- support programs for milk. From another direction, there may be a strong push from producers in other parts of the country, where average herd sizes are much larger than in New England, to remove the current cap on MILC payments (in which producers receive supports up to a maximum of 2.4 million pounds of milk produced per year[19]). Either of those outcomes would be disadvantageous to Maine's producers. Ironically, it can be argued that MILC is an example of a less-trade-distorting subsidy, precisely because of the cap; nonetheless, because of the way subsidies are calculated at the WTO, dairy price supports occupy a particularly large proportion of U.S. Amber Box spending as compared to what it "costs" the federal treasury in terms of actual outlays.[20]

The Maine CTPC may wish to address the following strategic questions regarding dairy and the Farm Bill, arranged from "minimalist" to "maximum" reform approaches:

a) *Argue for replication of the 2002 Farm bill status quo on dairy, including retention of the current MILC cap (and a reevaluation of benchmark prices).*

Pro: relatively predictable, understood by producers, and modestly responsive to the particularities of Maine's dairy sector (i.e., smaller average herd size).

Con: liable to be 'at risk' due to attacks from other 'program crop' commodity groups in the Farm Bill reauthorization process; vulnerable to WTO challenge; does not directly assist producers with income diversification.

b) *Argue for the continuation of some price-support mechanism (still "Amber Box"), with any reductions in overall supports made up for with other types of support through non-trade-distorting ("Green Box") payments.* This could include payments to assist with environment/nutrient-management compliance costs. This could be achieved through use of a state (or regional) "community capital displacement fund," perhaps funded through the rural development title, whereby communities/counties/states that have a particular reliance on dairy as part of their economic base have that funding made up to them through different "Green Box" mechanisms. Funding made available through the Rural Development Title could provide one avenue for administering such an approach.

Pro: indicates flexibility by the dairy sector in responding to the Amber Box caps proposed in the United States' October 2005 proposal to the WTO; provides a mechanism for "subsidy conversion" toward conformity with existing trade

[19] Rates for MILC payments are established on a monthly basis based on the difference between a "trigger price" and the actual price for Class I milk in Boston. Producers receive a payment equal to 45% of the difference between those two prices—up to 2.4 million pounds of milk per producer.

[20] To simplify somewhat, this is because WTO subsidies are to be calculated and notified in relation to the global price for milk during the years 1986-88, whereas the MILC program is calculated with reference to the price of milk in Boston, which is a higher price, because it reflects the existing tariff and U.S. market-access restrictions.

commitments while strengthening environmental compliance incentives; less likely to be challenged through the WTO dispute resolution system.

Con: subject to the vagaries of the appropriations process; will inevitably create new winners and losers, and increase compliance costs; possibility of greater price volatility for milk; probably increased administrative costs at the state level.

c) *Argue for across-the-board cuts in **all** commodity programs, freeing up significant resources that can be used in other Farm Bill titles, including (for example):*

- conservation—major increases in Environmental Quality Incentives Program (EQIP), Conservation Reserve, and working lands programs, and possibly the introduction of new "Ecosystem Services" payments;
- nutrition—aggressive implementation of "Farm to School" and other purchasing programs to guarantee supply and minimum prices for Maine dairy products in local markets; ensuring that producers capture more of the "per-food-dollar" spent in federal/state procurement programs; ensuring that families qualifying for food stamp programs can get vouchers to farmers' markets; etc.
- energy—major investments/tax credits etc. to advance installation, and integration into the electricity grid, of an emerging technology utilizing poultry and cattle wastes—methane bio-digesters;
- rural development—block grants, or other funding mechanisms, to the state and local governments for a variety of economic development activities. These might include: small/ medium scale processing facilities and other specialty-product value-added supports; infrastructure development assistance for on-farm operations, or improvements in rural-urban food-system linkages; support to rural health treatment and insurance services; promoting organic certification, etc.;
- farm credit; and
- trade—increased funding to enable small/ medium businesses with particular specialty food/nursery products to participate in international trade and marketing activities.

Pro: WTO compliant; embraces the concept of 'multifunctionality' that foregrounds regional rural innovation strategies for economic development while assisting in the diversification of income streams and improving risk management for producers; helps move Maine and other states in the direction of more sustainable food systems, which many organizations and individuals have expressed as a very high priority for the state.

Con: runs counter to the current direction of discussions on Farm Bill reauthorization.[21] Maine's lack of representation on Congressional agriculture committees makes this a much greater challenge for the Commission than would be the case if Maine had a voice on one or both of the Congressional committees responsible for writing the Farm Bill.

[21] At the time of this writing, it is not decided who will chair the House and Senate Agriculture Committees in the 110th Congress, but the likely candidates are Rep. Collin Peterson of Minnesota and Senator Tom Harkin of Iowa. Peterson has already expressed his enthusiasm for, essentially, a continuation of the 2002 Farm Bill; his Congressional district is the 7th-largest recipient of agricultural subsidies. Iowa ranked second among states (behind Texas) in overall subsidy supports. Data are from Environmental Working Group, based on 1995 – 2004 numbers.

On the other hand, there are a number of vehicles for discussing multi-state strategies on Farm Bill reform, including several in which Mainers play a very prominent role. These include the Northeast States Association for Agricultural Stewardship (NSAAS); the National Campaign for Sustainable Agriculture; the Northeast Sustainable Agriculture Working Group; and others.

Focus attention on the Forestry title of the Farm Bill, since this is arguably where Maine can achieve greatest gains within the most-likely structure for the 2007 bill. Perhaps because it is a smaller and thus far less contentious Farm Bill title, a number of important consensus documents on forestry have already been produced that outline a set of principles and strategies for the 2007 Farm Bill. And whereas the term "sustainable agriculture" is still contentious in the overall Farm Bill, there appears to be agreement about the use of the term "sustainable forestry" in describing the appropriate goals of a Farm Bill title.[22] Further, a "Northern Forest Farm Bill Summit" convened earlier this year resulted in an excellent letter to Senator Olympia Snowe, dated 5 September 2006, and signed by numerous state forest associations and nonprofits, which described this region's set of priorities.[23]

As noted above, a majority of the "mandatory" spending in the 2002 Farm Bill Forestry Title never reached intended recipients; and current Forest Land Enhancement Program (FLEP) grants to Maine are beginning to expire. Maine's Congressional delegation arguably enjoys a higher profile on forestry issues than is the case for agriculture as a whole.[24] It may therefore be easier for the Commission to connect to its Congressional delegation on issues specific to forestry.

A further consideration is the fact that Maine has been a state leader in the area of "forest certification," responding to the demand for timber that has been grown according to specific "sustainability" and labor rights criteria.[25] The Maine Forest Service and the

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22 See, for example, the "National Association of State Foresters Principles for Sustainable Forestry in the 2007 Farm Bill," on-line at: http://www.stateforesters.org/reports/2007FarmBillPrinciples.pdf. The statement's first principle is "Meeting the goal of sustainable forestry is best achieved through a Forestry Title."

23 Copy of letter provided by Jad Daley, Campaign Director of the Northern Forest Alliance. The lead signature on this letter is R. Alec Griffin, Director of the Maine Forest Service.

24 Representative Mike Michaud is a member of the U.S. House of Representatives Forestry Task Force; Representative Tom Allen spearheaded a Congressional sign-on letter intended to increase funding for various forest land conservation programs; and Senator Susan Collins has sponsored legislation to amend the Cooperative Forestry Assistance Act of 1978, "to establish a program to provide assistance to States and nonprofit organizations to preserve suburban forest land and open space and contain suburban sprawl."

25 See www.mainegov-images.informe.org/doc/mfs/certification/pubs/forest_cert_brochure.pdf and final report of "The Maine Forest Certification Initiative" dated 28 January 2005. The brochure provides examples of economic development and contracts won/retained as a result of the state's push on sustainable forestry. An analysis of the different forest certification schemes used in Maine, and the controversies associated with each, is beyond the scope of this report. However, it should be noted that while eco-labeling schemes have in the past been a controversial topic at the WTO--because of the perception among some member states that they constitute disguised protectionist barriers to trade--no challenges to forest certification schemes have been brought forward through the WTO. Nonetheless, this is an aspect of international trade that the Maine CTPC may wish to monitor closely—also because certification issues are very much at play in debates on government procurement.

Maine Technology Institute also looked at this product "branding" issue as part of its Maine Future Forest Economy Project, with one consultant's report concluding that "the [Maine] brand should be position to highlight the principles of sustainability and local economic development as well as accomplishments in these areas."[26]

In sum, Maine is in a position to show leadership in developing a stronger and better-funded Forestry Title in the 2007 Farm Bill, with possible attention to:

- market linkages for building a sustainable wood products industry through certification and branding;
- arguing for the importance of developing new markets for Ecosystem Services;
- "Cooperative Conservation," including methods/programs for bringing together groups of private landowners to achieve "economies of scale" with respect to watershed values, biodiversity conservation, *and* working lands approaches; and
- utilization of forest biomass for renewable energy production.

The Commission is well-placed to support such arguments and connect to Maine's Congressional delegation on these matters.

Focus attention on increasing "Green Box" supports to Specialty Crops to U.S. agriculture, through the nutrition, trade, and rural development titles. Maine is primarily a "specialty crop" state, with production and export of brown eggs, fruits, vegetables, syrups, and potatoes making the major contribution to the state's agricultural economy. As noted above, specialty crop associations nationally are organizing to be "players" in the 2007 Farm Bill in ways that have not been seen before.[27] At the same time, specialty crop producers have a defensive interest—a concern that planting restrictions on fruits and vegetables may be removed as part of the Brazil cotton dispute settlement.

Various legislative proposals—some in the Farm Bill, some in other legislation[28]—have sought to address the concerns of Specialty Crop producers and increase funding levels. Among the approaches that have been considered for block grant funding, and which arguably could benefit from expanded support:

- Product market development and expansion, including support for value-added programs
- Pest and disease prevention, including support to University of Maine programs
- Organic certification programs

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[26] "Branding Maine Forest Products," pp. 288-290 of the report, **Maine Future Forest Economy Project – Current Conditions and Factors Influencing the Future of Maine's Forest Product Industry,** prepared by Innovative Natural Resources Solutions, March 2005. "Brand" commentary by Robert Bush.

[27] "[Stakeholders]…point out that specialty crop producers are not beneficiaries of the $23 billion in USDA spending (in FY 2005) on price and income support programs for grains, oilseeds, peanuts, sugar, upland cotton, and dairy, although the value of specialty crop sales accounts for roughly 50% of all U.S. farm crop cash receipts." **Specialty Crops: 2007 Farm Bill Issues**, CRS Report to Congress, by Jean Rawson; 6 July 2006.

[28] These include the Specialty Crop Competitiveness Act of 2004, and three bills introduced in the 109th Congress that will inform the 2007 Farm Bill debate. Provisions of the 2004 Act are subject to the vagaries of the annual appropriations cycle, and were never fully funded. The recently-introduced bills seek as much as a ten-fold increase in funding for specialty crop block grants.

- "Farm to School" programs, increasing the amount of fresh fruits and vegetables supplied by local farmers to school districts, as well as to other state/local institutions (hospitals and nursing homes, prisons, etc.)
- Conservation programs to assist with specialty crop soil/water management and environmental compliance.

As can be seen, this list overlaps with many of the elements described in a previous section regarding "Green Box" and the shifting of payment types out of trade-distorting "Amber Box" programs. The nutrition, rural development, and conservation titles are all relevant to this effort. While some WTO member countries have raised concerns about use of the green payments, none of the types of programs outlined here have led to specific objections.[29]

In sum, the problem of current U.S. non-compliance with its WTO commitments on agriculture can be addressed in several ways that can be grouped under three main headings. All of these should be seen as *partial* solutions rather than panaceas:

1. Payment Caps—of which the MILC dairy program provides one possible model;
2. "Box shifting"—moving payments from current "Amber Box" to "Green Box" categories of spending. It will be incumbent on the United States for reasons of its trade commitments—as well as for the success of such programs at the local level—to identify specific environmental, local-food-system/nutritional, or economic development objectives associated with these payments; and
3. Transforming subsidies—through greater attention to the Rural Development title[30] in the Farm Bill, and by USDA giving greater program implementation scope and flexibilities to in-state institutions as appropriate.

As part of its workplan, the Maine CTPC will decide how much attention it may devote to assisting with the process of organizing and communicating Maine's priorities for the 2007 Farm Bill, and possibly for other legislation that deals with the particular needs of specialty crop producers—bringing its particular perspective on the mechanics of and potentials for writing a "WTO-consistent" Farm Bill.

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[29] The G-20 group of advanced developing countries, led by Brazil and India, has expressed concerns about a range of developed-country subsidy payments in its public statements. Current WTO rules in the Subsidies and Countervailing Measures (SCM) Agreement, however, only preclude domestic support subsidies that cause significant price suppression or displace another country's market share. None of the measures proposed here would like lead to significant price distortion of markets at regional or international levels. In fact, there appears to be a rather significant "North-South" consensus regarding the importance of local food security. In many ways, the current WTO negotiating dynamic on subsidies and tariffs cuts across the grain of this tacit consensus. Members of the Maine CTPC, and speakers at public hearings, have expressed concerns about the impacts of U.S. negotiating actions with respect to local, national, and global food security. Issues of food sovereignty could be part of the CTPC's future work plan.

[30] The transcript of the USDA "Listening Session" in Maine, in which Undersecretary for Rural Development Tom Dorr and Congressman Mike Michaud were both involved, provides further insights into the interests and priorities of Maine farmers in relation to the Farm Bill and rural development. This fifty-page document is on-line at www.usda.gov/documents/FBFME101105.pdf.

Support the ability of Maine's Specialty Food Product Producers to take part in national and international trade fairs/shows. Finally, the Farm Bill includes a title on Trade that funds a variety of marketing initiatives. The Maine Department of Agriculture and the Maine International Trade Center (MITC) have devoted substantial resources to assisting seafood and specialty food producers to take part in trade fairs where Maine products can become better known. Maine is home to a "Gourmet and Specialty Foods Producers Association," which was strengthened through a $38,000 Federal-State Marketing Improvement Program grant in 2002.[31] Conversations with producers in Maine suggest that this assistance has been extremely useful, as has been outreach to the tourism industry, restaurant associations, and specialty-food publications.[32] The Maine Citizens Trade Policy Commission may wish to engage specialists from MITC, from specialty food firms, and from the University of Maine to better understand the regional, national, and international marketing and "awareness" barriers that these producers continue to face, and how the Maine CTPC might assist in this area of rapid growth and development.

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[31] "Strengthening the Organization of Maine's Value-Added Food Producers," Jane Auidi, November 2003, final report on this USDA-FSMIP grant at www.ams.usda.gov/tmd/FSMIP/FY2002/ME0357.pdf.

[32] The Forum is grateful to Mary Ellen Johnson from the Commission for her assistance in connecting Forum staff to state officials who could speak knowledgeably on these topics.