



STATE OF VERMONT
GENERAL ASSEMBLY

Commission on International Trade and State Sovereignty

*Draft minutes of the 12/18/2007 public hearing on
the effects of international trade agreements on Vermont agriculture.*

Members Present Rep. Kathleen Keenan, commission co-chair; David Anger; Lawrence Bruce; Dan Brush; Elliot Burg

Members Absent Sen. Ginny Lyons, commission co-chair; John Boomhover; Dana Eidsness

Also Present Legislative counsels Sam Burr and Michael O'Grady; staff Nedene Martin; a videographer from channel 15 St. Albans, at the commission's request, taping the public hearing. Witness sign-up sheet attached in public file.

Recording

Convene

Rep. Keenan called the public hearing to order at approximately 1:00 p.m. at The Abbey Restaurant in Enosburg Falls. Each commissioner introduced himself or herself and explained his or her representative role.

Presentation

Legislative counsel Sam Burr narrated a PowerPoint presentation (available at <http://www.leg.state.vt.us/WorkGroups/Trade/Trade%20Agriculture%20PowerPoint.PPT>) on international trade issues related to Vermont's agricultural sector.

Mr. Burr noted that the exchange of goods and services among countries constitutes international trade. He indicated that the modern era of international trade regulation began when 41 countries attended the Bretton Woods negotiations in New Hampshire immediately following WWII. Key issues were finding a currency that would work across borders and funding the rebuilding of a tattered Europe. The International Monetary Fund was established (as The Reconstruction Fund). The Uruguay Round of negotiations, completed in 1994, created the World Trade Organization. The most recent round of negotiations, the Doha Round, met none of the goals established for it and negotiations are ongoing; agriculture subsidies are a major sticking point, Mr. Burr said.

Under the so-called "Fast Track" authority enacted in 1974, Mr. Burr explained, Congress was allowed 90 days to vote "yes" or "no" on trade deals negotiated by the executive branch (Congress cannot amend the agreements). Fast Track authority expired in 2007. The U.S.-Peru Trade Promotion Agreement is the last agreement approved under Fast Track; there will be no more agreements enacted under this system unless Fast Track is renewed. In 1979, the position of U.S. Trade Representative (USTR) was created. The USTR plays a very influential role and consults with 36 different advisory

committees, mostly representing industry groups. IGPAC, the Intergovernmental Policy Advisory Committee on Trade, is the only advisory committee providing input from state and local governments. Vermont has no representative on IGPAC. Mr. Burr said that Ms. Eidsness has been attempting to get appointed to IGPAC and that there is reason to be hopeful that she will succeed.

Agriculture is a difficult issue for the international trade arena because it is such an important domestic sector for most countries; consequently, Mr. Burr said, most early WTO agreements did not deal with agriculture; instead, agricultural agreements tended to be made among smaller groups of countries. The WTO now has 149 member countries, making universal agreement among WTO members even more difficult to achieve. "The Cairns Block" consists of 19 agricultural-exporting nations that are very focused on market access and the lowering of tariffs. "The Quad," consisting of the U.S., Japan, Canada, and the European Union, is a strong negotiating block among developed countries. The initial thrust behind trade agreements was to lower tariffs, Mr. Burr said, because exporting countries need to overcome the added value of tariffs in order for their products to be competitive.

Shortly after the original agricultural agreement was passed, the U.S. challenged Canada's agricultural quotas and won. Canada agreed not to export milk out of the quota system into the U.S. As a result, the U.S. dropped its challenge of the quota system.

Some of the major provisions of the U.S. Farm Bill are subsidies for grain, cotton, sugar, and dairy products and other products. Such U.S. subsidies may create issues of "fairness" for countries wishing to export to the U.S. Thus, the WTO trade dispute resolution process has implications for the structuring of the Farm Bill. For example, the U.S. lost a WTO dispute brought by Brazil over cotton subsidies. Under WTO rules, a country that wins a dispute can propose retaliation, and Brazil is pursuing that option.

In the U.S., the Northeast produces 7% of the country's agricultural output but receives only 1% of federal subsidies. Just five crops receive 90% of federal subsidies. Most of those crops are not heavily grown in Vermont. Under the new Farm Bill, caps are proposed on the size of farms eligible for federal subsidies. It may be that by shifting away from commodity subsidies and toward payments to farmers that are not related to production, farm subsidies can be rendered acceptable to the WTO. At present, agriculture accounts for only 1% of the U.S. Gross National Product, while services account for 79%, so that "agriculture will be hard-pressed to defend itself" in international disputes, Mr. Burr said.

Brazil's proposed retaliation in the dispute over cotton is \$3 billion of intellectual property rights involving pharmaceutical patents, software, industrial design, and other areas.

Vermont agriculture is involved in several legislatively supported programs that could be subject to challenge under international trade agreements (see slide #). Vermont makes substantial conservation payments, for example, which are not commodities subsidies, so they are not subject to challenge under the WTO.

Mr. Berg asked Mr. Burr to elaborate on the distinguishing factors that cause a program to be classified as a trade-distorting (so-called "amber box") or non-trade-distorting (so-called "green box") program under WTO criteria. Mr. Burr said the clearest line that has been drawn distinguishes between support for production of a crop as opposed to support for the activities of agriculture; a production subsidy can lead to a challenge from countries where farmers do not have the same competitive advantage. Organic transition assistance, renewable energy assistance, and other forms of subsidies not directly related to production of a crop seem less open to challenge.

The U.S.-Peru Trade Promotion Agreement was just completed, Mr. Burr said. In Peru, agriculture accounts for 7.6% of the gross national product. What effect will the agreement have on farmers?

In evaluating the North American Free Trade Agreement (NAFTA), it is interesting to look at some of the unintended consequences, Mr. Burr said. Some small Mexican farmers have been driven off the land by the importation of American grain; this has exacerbated the immigration problem in the

U.S. Immigration is an issue for Vermont because we have 2,000 immigrants working on dairy farms in this state. Mr. Burr said that one question on the horizon is what happens to small-scale Peruvian farmers when the new international agreement goes into effect? One possible result is that they will turn to growing coca, as some Afghani farmers have turned to heroin, because no other crop produces as much income.

Mr. Burr indicated that he would be speak for a few minutes about the role of the Vermont Commission on International Trade and State Sovereignty. Early international trade agreements, Mr. Burr said, dealt uniquely with tariffs. Now the agreements are dealing with a much more complex realm of issues. Under the U.S. constitutional structure, states have a very significant regulatory role in certain arenas. For example, the U.S. has some of the most progressive labor laws in the world, involving both federal and state layers; when trade agreements involve countries that have very different labor laws with few rights for workers, the sovereignty of U.S. states may be compromised. He showed a slide listing some of the programs supported by Vermont's legislature that might be subject to a challenge under international trade

Mr. Burr encouraged anyone interested in the issue to visit the commission's website (<http://www.leg.state.vt.us/WorkGroups/Trade/>). He noted that the commission intends to listen to citizens and report to the rest of the legislature on how trade agreements are affecting them.

Public Hearing

After the conclusion of Mr. Burr's remarks, Rep. Keenan invited anyone wishing to testify to come forward.

Testimony of Sharon Zecchinelli

Ms. Zecchinelli identified herself as a resident of Enosburg Falls. She said that global trade agreements "always seem to favor industry and do great harm to the regular citizen." She cited the national animal identification system (NAIS) as an example of rules sought by "industrialized agriculture" to satisfy the global marketplace that are forcing small farmers out of agriculture. She said that soon she will not be able to raise pigs for her own freezer because of rules designed to open the Japanese market to U.S. pork. "Isn't international trade and state sovereignty an oxymoron?" she asked. "How can you protect the people in your state when you're trying also to protect those people in Peru by keeping a level and fair playing field?" She said that fluid milk is sent from the U.S. to New Zealand, turned into powdered milk, and then shipped back. In response to questioning by Mr. Berg, Ms. Zecchinelli said that NAIS "is a mandate by the U.S. Department of Agriculture that is being pushed by members of the national institute of agriculture" which she characterized as being "forced down people's throats." She said that because she refuses to comply with the mandate, she will no longer be able to raise pigs.

Testimony of Jane Clifford

Ms. Clifford identified herself as a dairy producer in Starksboro, Vermont, and the executive director of Green Mountain Dairy Farmers Cooperative Federation, representing four dairy cooperatives (St. Albans Cooperative Creamery, Inc., Agri-Mark, Dairy Farmers of America, Inc., and DairyLea Cooperative Inc.). Ms. Clifford said that she came to the meeting to listen and had not expected to testify but, after listening, she felt it was important for the commissioners to know what is happening to the price of milk due to Chinese demand for dairy products. She said she had just received a milk check for \$22.58 per hundredweight. A year ago the price was \$14.58 a hundredweight, she said, so the difference in what she is paid for her product is "huge." During that same time, the cost of production also increased dramatically. In Vermont, she said, farmers thought that through efficiency and good management they could produce a hundredweight of milk for \$13 or \$14. Energy, insurance, property

taxes, and other costs have risen so high that her 200-cow farm, which has been in the family for more than 200 years, would be hard-pressed to produce milk for \$18.50 a hundredweight. The \$22 she is receiving is allowing her to make payments on accounts that have remained open for two years. Much of the price improvement, she said, is due to the fact that the Chinese are buying dried powder from the global market, while drought has prevented New Zealand and Australia from being able to supply it.

The way that Vermont dairy farmers are paid is controlled under a federal milk price system that has been in existence for a number of years. "I don't profess to know the good or the bad" of a very complex issue of global trade, Ms. Clifford said, "but the direct impact right now to me is very positive."

Rep. Keenan asked whether the federal MILC program (milk income loss contract) is considered a subsidy that could lead to difficulties for Vermont dairy farmers under trade agreements. Ms. Clifford replied that MILC is considered a subsidy, whereas the dairy compact, which was a marketplace control, was not considered a subsidy. MILC could be challenged under a global trade agreement.

Mr. Burr clarified that MILC is not a factor at the moment because prices are above \$16.94 per hundredweight, the price that causes the subsidies to take effect. Rep. Keenan said that if milk prices go down again, then MILC may cause problems in Vermont because it is a subsidy and subject to challenge under international trade agreements.

"As a producer, I would much rather have the marketplace pay me than the government," said Ms. Clifford, but the question, she added, is how to get the farmers, processors, and retailers to create a system that allows all parties to be successful.

Mr. Berg noted that while the powdered milk phenomenon is a result of international trade, it is not a result of any free trade agreement, because we don't have any agreement with China. For Vermont farmers, he asked, what is the benefit or the downside of moving to a free trade agreement with China? Is there some added benefit to having a free trade agreement with countries where Vermont milk will be sold?

Ms. Clifford said that she would defer to Mr. Burr on the subject of trade agreements. However, she wanted the commission to understand that "it's difficult to *not* be in the global market." The question is how to create relationships that are beneficial to other countries and to us at the same time.

Mr. Burr added that the phenomenon of the Chinese buying milk on the global market has nothing to do with any agreement to discourage Chinese production or encourage ours. Free trade agreements are structured to try to eliminate restrictions so that when there is a demand for something, people can go find it without being penalized by their own country for bringing it in and without penalizing another country for exporting. Between countries doing trade, it is very easy to see the effects of tariffs on the costs of production. What is less easy to see is, for example, is what is happening for U.S. farmers as increasingly stringent conservation regulations are driving up their cost of production, yet they are trying to compete with farmers in countries where costs of production are lower because no such regulations are in place. Mr. Burr said the challenge is how to craft an international agreement for free trade that respects those differences and values them in such a way that U.S. farms are not forced out of business.

Mr. Berg noted that a main purpose of the commission is to identify areas where state laws and regulations may be impacted by free trade agreements. Free trade agreements strip away barriers to trade, but with those barriers go laws and regulations affecting the environment, health, professional certification, and other things.

Ms. Clifford said that the Chinese will probably be consumers of U.S. products because they are limited, by their land base and their environment, in how much they can produce for their own country's consumption.

Mr. Brush asked Ms. Clifford her opinion about "buy Vermont" programs for schools and the Vermont seal of quality. He said the commission has been advised that those could be construed as barriers to trade because they encourage preferential procurement of local goods.

Ms. Clifford responded that Vermont farmers are highly productive but have so few processing facilities and such a small population that much Vermont milk is shipped and sold elsewhere. “I want Massachusetts, New York City, and other places to buy the fluid milk that is coming to their market from us. Milk moves where the people are,” she said.

Testimony of Rep. Albert Perry

Mr. Perry identified himself as the vice-chair of the house agriculture committee but stated that he was commenting as an individual and not representing the views of his district or his committee. U.S. trade policy, which is ostensibly free trade, works to the disadvantage of the U.S. economy in general and the rural economy in particular, as well as labor and manufacturing, he said. He advocates adopting a fair trade policy rather than a free trade policy. Current policy works to the advantage of China and other countries that can use low-cost labor and U.S. natural resources to produce finished goods and sell them back to us. Rep. Perry said he was pleasantly surprised to learn of the existence of the commission. He said he cannot identify any advantage to Vermont arising from these international trade agreements. How does Vermont benefit and how does state sovereignty play into this game? He would like to learn about specific instances in which Vermont agriculture has benefited through U.S. membership in the World Trade Organization.

During the previous legislative session, he said, the house agriculture committee developed an “ag viability bill” that passed both bodies and became law. Rep. Perry invited the commissioners to look at that bill and see how their role can help make agriculture viable in Vermont for the long term. Agriculture as we know it in Vermont is clearly at a crossroads, he said, not only as a means of livelihood for individuals but as a shaper of the landscape. The question is what will be the dominant agricultural sector, if any, in the twenty-first century?

Rep. Perry said that the Northeast dairy compact returned a fair price to Vermont farmers without any federal subsidy. He believes that the typical Vermont farmer is more similar to the typical Peruvian farmer than to the typical Midwestern farmer. The U.S. has pursued a cheap food policy; therein lies a main reason for the instability of milk prices. Milk is marketed and paid for as a commodity but it is not a commodity – rather, it is a perishable. He lamented “the suits controlling the lives of the boots,” meaning that executives control the lives of farmers.

Richford has a good organic vegetable farmer, Rep. Perry said. This farmer cannot sell his product on Richford’s main street. His investment in land, growing, and storing (refrigerating) his crop provides him some satisfaction, but he is dependent on selling his product to a restaurant.

Rep. Perry said that he was an advocate for the forest products industry for many years. We are currently selling our best products to overseas markets, he said.

Rep. Perry said that he hoped the commission would initiate a discussion about these things at the state house that would include the house and senate agriculture committees as well as the house commerce and senate economic development committees.

Richford went without a full-service food market for three years and regained one this past summer. Rep. Perry said that he is a “card-carrying supporter” of Mac’s Market and urges anyone to consider what it means to live in a rural area which has is no full-service local market.

Rep. Keenan recounted the history of some of the international trade agreements, the benefits that have resulted for IBM and some other businesses, and the concerns that have arisen in Vermont and other states about the limited ability of states to govern for the benefit of their own people once a trade agreement takes effect.

Testimony of Sen. Sara Kittell

Sen. Kittell identified herself as chair of the senate agriculture committee. She expressed her gratitude to the commission for traveling to Franklin County. She said that the difference between a

small farm in Vermont and a large commodity agriculture business elsewhere is the quality of the soil. Our soil allows Vermont farmers to produce high-quality products, whether organic vegetables or milk from grass-fed cows, that can command above-market prices.

Sen. Kittell remarked on the importance of efficient border crossings for agricultural products and supplies moving in both directions between Vermont and Canada.

Closing

Rep. Keenan thanked all who attended and closed the public hearing.

Commission Meeting

Mr. Brush moved the approval of the minutes of the public hearings of October 30 and November 13, 2007. The motion was seconded and approved on a voice vote. At about 3:30, Rep. Keenan adjourned the meeting.

Respectfully submitted,

/s/ Nedene Martin
Committee Staff

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