Project Report

PLANNING DECISIONS
Research & Planning

The Effects of NAFTA on the Maine Economy

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I. Executive Summary

Background

On June 14, 2003, the Maine Legislature passed L.D. 607, a resolve authorizing the Department of Economic and Community Development (DECD) and the State Planning Office (SPO) to study "the effects of the North American Free Trade Agreement, or 'NAFTA,' on small businesses." More particularly, the order requested study of the effects of the agreement on the construction, metals, wood, and manufactured housing industries in Maine. DECD and SPO asked the Maine International Trade Center (MITC) to coordinate the research. MITC, in turn, hired Planning Decisions, Inc., to conduct the study. This is its report.

The North American Free Trade Agreement (NAFTA) is an agreement entered upon by the federal governments of Canada, Mexico and the United States to increase trade and investment among the three partner countries by eliminating tariffs and other barriers. The agreement went into effect in December of 1994. NAFTA is the successor to the U.S.-Canada Free Trade Agreement that went into effect in 1988. While most national attention has been on NAFTA, and the effect of businesses moving to Mexico, the more important change from Maine's economic perspective occurred in 1988 with U.S. Canadian agreement to begin a scheduled process of tariff reductions.

As a consequence of the agreement, most tariffs between the U.S. and Canada were eliminated by 1998 and nearly all tariffs among the three partner countries will be completely phased out by 2008. In addition, NAFTA called for opening government procurement opportunities, easing business travel and investment restrictions and creation of improved dispute resolution processes.

On the whole, Canada made greater trade barrier reductions than the United States. Canadian tariffs prior to the trade agreements ranged from 25% on textiles and apparel to 23% on footwear to 15% on wood furniture to 4% on waferboard and computers. U.S. tariffs were more concentrated in products less important to Maine such as transportation equipment. In addition, some commodities were treated as an exception under NAFTA, and indeed, a separate U.S. Canadian agreement on softwood lumber remained unchanged by NAFTA. For Maine, the most significant tariff reduction was on processed fish.

Framework for analyzing trade pacts

Before presenting the findings of the study, it is useful to review the ways in which trade agreements like NAFTA *could* benefit and harm Maine's economy, to specify how this study attempts to measure actual gains and losses for Maine and to note some of the other important economic forces impacting Maine during the period since NAFTA's enactment.

The potential benefits of NAFTA are:

- ✓ Maine businesses increase exports to Canada and/or Mexico, thus creating new jobs and

income in Maine;
- ✓ Maine consumers and businesses enjoy lower prices from lower cost imports, thus freeing up income for other uses;
- ✓ Maine businesses increase investment in Canada and/or Mexico, thus expanding their markets and bringing more profit back to Maine; and
- ✓ Canadian and/or Mexican companies increase investment in Maine, thus creating new jobs and activity here.

The potential costs of NAFTA are:

- ✓ U.S. consumers and businesses substitute lower cost Canadian and/or Mexican imports for Maine products, thus reducing jobs and income in Maine;
- ✓ Maine businesses relocate to Canada and/or Mexico, thus reducing jobs and income in Maine;
- ✓ Maine businesses reduce wages in order to compete with lower cost Canadian and/or Mexican producers.

It must be noted here that the overall impact of NAFTA on the U.S. as a whole could be positive, while the net impact on Maine, or any given state or sub-region, could be negative. The question depends on the number of "winners" and "losers" and the extent of their gains and losses. In short, the policy debate is complicated not only because of the difficulty of calculating individual gains and losses, but also by the regional perspective of any given policy maker.

This study focuses on the job gains and losses in selected Maine industries over the last eight years by examining published data, making extrapolations about the effects of Canadian and Mexican trade and interviewing representatives of a variety of Maine businesses. This study is not a comprehensive analysis of gains and losses from NAFTA. Such a study would require greater analysis of consumption gains and investment flows as well as job and trade flows.

Finally, it is important to note that the effects of NAFTA cannot be isolated from other changes in the global marketplace. During the same time that NAFTA has been implemented:
- ✓ the U.S. and world economies have gone through a full business cycle from recovery to boom to bust and now back to recovery;
- ✓ the value of the Canadian dollar has dropped by 18%; and
- ✓ U.S. trade with China has doubled.

Each of these changes has affected Maine's economy, and it is important to keep each in mind in attempting to single out the effects just of NAFTA.

Findings

1. Maine's trade with Canada is vastly greater than its trade with Mexico.
In 2002:
- ✓ Maine's exports to Canada accounted for 40% of the state's total exports while its exports to Mexico accounted for only 1% of total exports; and

- ✓ Maine's imports from Canada accounted for 60% of its total imports while imports from Mexico accounted for less than 1% of the total.

2. Maine's trade with Canada and Mexico – both exports and imports -- has increased more rapidly than its general economic growth from 1993 to 2003.

- ✓ Maine's Gross State Product (GSP) grew 55%;
- ✓ Maine's NAFTA imports grew by 179% -- excluding energy products, the growth was 111%;[1] and
- ✓ Maine's total NAFTA exports grew 112%.

3. Maine's NAFTA trade diversified from an overwhelming concentration in paper and wood products to many industries.

Over the period from 1993 to 2003:

- ✓ Maine's paper/lumber/wood exports to Canada fell from 54% of total exports to 42% of total exports, while a wide variety of "other" products grew from 12% to 18% of total exports;
- ✓ Maine's imports of paper products fell from 40% to 24% of "non-energy" NAFTA imports while imports of wood and "other" products rose from 46% to 65%; and
- ✓ Maine's imports of fuel and related products grew from $107 million in 1993 to $1.1 billion in 2002, helping Portland become one of the nation's leading petroleum transporting ports;
- ✓ Virtually all of the food used in Maine's aquaculture industry is imported from Canada**.**

4. Maine has benefited from Canadian investment.

- ✓ Between 1993 and 2000, Canadian investment in the U.S. increased nine-fold to over $27 billion;
- ✓ A Canadian firm's investment of over $70 million in a potato processing plant in Aroostook County has helped transform Maine's potato growing economy;
- ✓ Three major paper mills and eight lumber mills in Maine are now owned by Canadian firms;
- ✓ Half of the Maine forestland remaining in industry hands is now owned by Canadian paper companies;
- ✓ Maine and Canadian blueberry growers and processors contribute to a joint branding and marketing program.
- ✓ The tremendous flow of petroleum and wood pulp products through the Port of Portland has created new jobs, income and economic opportunity.

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[1] Maine's largest import from Canada has become refined petroleum. These products totaled over $1 billion in 2002 and reflect Maine's growing consumption of gasoline and heating oil rather than any NAFTA related change in tariffs. Much the same can be said for Maine's $133 million importation of Canadian electric power. For these reasons, Maine's imports from Canada are divided between "energy" and "non-energy" related products.

5. Maine industries have encountered a wide variety of non-tariff barriers that present significant obstacles to increased trade with Canada.

The increasing Maine-Canadian trade has highlighted the growing importance of non-federal barriers to trade arising from state and provincial fiscal and regulatory policies.

- ✓ A Maine blueberry processor lost a major order in Quebec because of provincial packaging requirements that effectively excluded competitors from outside the province;
- ✓ State-provincial differences in the nature and application of sales taxes and their Canadian equivalents amounts to fiscal discrimination against the Maine manufactured housing industry;
- ✓ Maine and provincial differences in laws regulating the installation of equipment have created *de facto* non-tariff barriers to the sale of some machinery and equipment that include installation in the delivered price.
- ✓ Duty free limits for Canadians returning home from the U.S. are $39 ($50 Canadian) after 24 hours absence, $154 ($200 Canadian) after 48 hours absence and $386 ($500 Canadian) after 7 days absence; U.S. citizens returning from Canada, in contrast, can bring back up to $1,000 duty free. This limitation on Canadian importation has created a sense of unfair treatment among Maine businesses catering to the Canadian tourist trade.

These non-tariff barriers are not part of NAFTA or the result of NAFTA, but constitute a challenge to the trade dispute resolution mechanisms created by NAFTA. More importantly, they undermine popular support for the agreement.

6. Maine has both lost and gained manufacturing jobs as the result of NAFTA, but the overall result has most likely been a net loss because of imports and the movement of production facilities to Canada and Mexico.

- ✓ Nearly 4,400 Maine workers have been certified as eligible for Trade Adjustment Assistance (TAA) by the U.S. Department of Labor for reasons related to NAFTA. The largest number of workers were in electricity production and electronic machinery assembly;
- ✓ The largest number of businesses were in the wood products sector.

A "fixed growth" analysis of four Maine industries indicates that two gained jobs and two lost jobs as the result of NAFTA but that the overall result for the four as a whole was a net job loss for Maine. Under the "fixed growth" scenario, the four Maine industries considered here would have "saved" a net of approximately 800 jobs.[2]

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[2] The "fixed growth" scenario assumes that both imports from and exports to NAFTA countries were held to the overall growth rate of the industry and that Maine companies could have replaced the imports "lost" as a result of this constraint. Under this scenario for the four industries considered here, Maine would have "saved" nearly 800 jobs.

Industry	export employment lost	import employment gained	net employment change
Lumber & Wood	-817	1,432	615
Food	-102	535	433
Pulp & Paper	-103	47	-56
Metals	-294	92	-202
Totals	-1,316	2,106	790

7. Maine state government has established a formal policy of buying food products from Maine producers and provides for an offset against any state or province that establishes a "buy local" preference, but there is no such preference at the University System, the Community College System or municipal government. Canadian provincial governments do, in contrast, have a variety of such preferences.

Conclusion

Maine's economy has made important gains as a result of NAFTA. Since 1993 Maine's export and imports have more than doubled, creating more export-based jobs and providing wider purchasing choices to Maine's businesses and consumers. Canadian firms have made important investments in Maine's natural resource industries. Increased specialization within the geographically natural economy that Maine and the Canadian Maritimes comprise has strengthened the global competitiveness of potatoes, blueberries and aquaculture.

At the same time, the wood, food processing and some segments of the metals industries have been hard hit from import competition and have experienced a net loss of jobs.

How does it all balance out? It is impossible to say. Gains from international trade tend to be small and widely dispersed. Hundreds of thousands of people chose to save a few cents per board foot of lumber or a few dollars on a shirt by buying foreign made goods offered at lower prices than domestic alternatives. These small and widely distributed gains are difficult to measure and virtually impossible to locate. The costs, on the other hand, tend to be very clearly located and very large for those who bear them. A lumber mill, an apparel factory, a cannery, a potato chip plant close and hundreds of workers lose their livelihoods.

What is clear from this study is that there are winners and losers in Maine from greater international trade, and that public policy should address the problems encountered by those who lose jobs and income.

Recommendations

At the heart of the policy dilemma presented by NAFTA, indeed by all movement toward freer trade and more fully integrated markets, is the question. Is it better:

- ✓ to protect domestic producers by “taxing” through increased tariffs or other restrictions consumers who, given the freedom to choose, would buy imported goods?; or

- ✓ to provide trade adjustment assistance to domestic businesses and workers who suffer from a competitive disadvantage in the open international market so that they can increase their skills and competitiveness or migrate to other fields?

This debate is best exemplified for Maine in the long-running dispute between the U.S. and Canada regarding imports of Canadian softwood lumber. The United States has long argued that Canada “subsidizes” its lumber business by providing low fees to cut on government land whereas the U.S. restricts access to national forests and other government lands. The most recent result of this debate was the imposition by the U.S. eighteen months ago of an additional tariff on the importation of Canadian lumber. The tariff was supposed to protect U.S. producers. Its effect, however, was quite the opposite. First, Canadian producers increased their volume in an effort to lower unit costs sufficiently to offset the tariffs, and secondly (and more importantly for Maine), Canadian businesses increased their investment in wood processing. Since the U.S. market for softwood lumber was limited, Canadian businesses set up plants to glue lumber together, thus making it a structural wood product and not subject to the softwood lumber import quota. This led to a diversion of lumber from Maine milling and structural operations to new Canadian operations on Maine’s borders. In addition, it added a non-market disadvantage to Maine’s manufactured housing industry by increasing its cost of goods (imported Canadian lumber) while leaving those of Canadian producers unchanged. In effect, the U.S. tariff had the effect of exporting value added production from Maine to Canada.[3]

In short, the attempt to “help” a business by creating artificial, non-market cost differentials is an extremely complicated process that invites retaliation and frequently produces unintended consequences that run counter to the intended “help.” The central fact about NAFTA is that it represents only *partial* integration of the North American markets. It eliminates tariff barriers but leaves independent national currencies and independent national and state/provincial fiscal, social and environmental policies and regulatory structures. Lowering the barriers to trade has increased and diversified the contacts among the three NAFTA partners and with these contacts the conflicts arising from the different fiscal and regulatory policies. Therefore, the best response to this situation is to focus on and try to resolve these non-tariff conflicts. Only in this way, will businesses come to feel that they are operating on a truly “level playing field” and the full advantages of market integration be realized.

Five major policy recommendations emerge from the analysis contained in this report.

1. Establish a working group on the competitive effects of comparative state and provincial tax and regulatory policies.

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[3] Lloyd Irland This Emerald Empire: Maine’s Forest Resources and Industries in a New Century, November 17, 2003, and conversation with the author, December 4, 2003.

Annex C, Section 201.2 establishes a series of Committees and Working Groups under the general auspices of NAFTA. These include committees on subjects as broad as “agricultural subsidies” and as specific as “trade in worn clothing,” but there is no group on the trade implications of state and provincial tax policy. This is a matter of significant concern to Maine businesses affected by NAFTA trade. The State of Maine should call for establishment of such a state and provincial working group for identifying and resolving trade disputes arising from the effects of or differential application of state and/or provincial taxes on businesses participating in cross border trade.

2. Use the tax and regulatory working group as a first step toward realizing the Governor’s broader vision of a Northeast Atlantic Region.

Geographically and culturally, Maine and Northeastern Canada form a natural economy. The opportunities for mutual gain from a closer integration of the economic links across the border outweigh the costs. If Maine and its northern provincial neighbors can continue at the state-provincial level what their federal governments have begun, at the federal level, the gains from NAFTA can be enhanced and the costs minimized.

3. Link Federal Trade Adjustment Assistance to longer-term education in the State’s University and Community College Systems.

Nearly 4,400 Maine workers have been certified as eligible for assistance because they lost their jobs as a result of increased imports or plant relocation. Most of this assistance, naturally, is intended to help these workers survive short run financial dislocations, find new jobs and provide them with the short-term training needed to qualify for those jobs. Over time, however, most of these workers will require further education and training if they are to advance to jobs with the pay and benefit levels of those they lost. The state should provide certified workers scholarships, valid for up to ten years, for work towards an advanced degree, a GI Bill of sorts for displaced workers. Such a program could be further enhanced by granting income tax credits to firms who hire displaced workers and double credits to those who provide tuition assistance for further training for these workers. The state should do all it can to promote the expectation that lifetime jobs require lifetime education.

4. Link Federal Trade Adjustment Assistance for Firms more closely to the full array of state economic development assistance programs.

While over 4,400 Maine workers have been certified as eligible for TAA, only eight Maine firms have utilized the assistance provided by the TAA for firms program. One reason is that the program requires a 50% match by eligible businesses. Another is that the program is based in Boston. One of Maine’s greatest economic development needs is continuing education for its business leaders. If Maine firms are to thrive in the 21st century, they must adapt to the knowledge economy. This applies to business managers and owners just as much as to workers. The state should make a greater effort to encourage eligible firms to participate in this federally funded program and consider investing assistance funds in the best business plans so as to encourage creativity in seeking to adjust to the impact of international trade and investment.

5. Mandate an annual "State of Globalization in Maine" report to be delivered to the Legislature by the Maine International Trade Center.

As Maine's economy becomes increasingly internationalized—a trend clearly evident in the relative growth rates of Maine's international trade and Gross State Product—businesses, consumers and policy makers risk becoming increasingly remote from the causes behind the forces that shape their economy. In order to increase public understanding of both the problems and opportunities presented by international trade and investment, the State should order an annual report summarizing key effects on Maine of its connections to the world economy. This report should draw on the resources of the State Planning Office, the Department of Economic and Community Development and the Maine International Trade Center.

II. What is NAFTA and How Could It Affect Maine?

What is NAFTA?

NAFTA is the North American Free Trade Agreement enacted on December 17, 1994 by the federal governments of Canada, Mexico and the United States. It is an extension and expansion of the U.S.-Canada Free Trade agreement signed on January 2, 1988. NAFTA is a formal commitment by the three North American countries to phase out tariffs and eliminate a variety of fees and other hindrances to free trade between their countries. NAFTA was part of an effort on the part of the U.S. Federal Government to pursue its goal of greater freedom of international trade on a more limited bilateral, regional basis in the face of diminished progress under the former General Agreement on Tariffs and Trade (GATT) multilateral trade negotiating system.

Figure 1
Countries Included in NAFTA

The overriding goal of NAFTA was to improve standards of living and productivity within North America through the free trade of goods and services, the free movement of people and the free movement of investment capital.
More specifically, NAFTA sought to:

- ✓ Eliminate national tariff barriers to trade according to a set schedule running until 2008;
- ✓ Facilitate cross-border movement of people, goods and services among NAFTA partners;
- ✓ Increase investment opportunities among NAFTA partners;
- ✓ Promote conditions of fair competition;

- ✓ Protect intellectual property rights; and
- ✓ Provide a forum for addressing and solving trade, labor and environmental concerns that may arise among NAFTA partners.

NAFTA is an agreement signed at the federal level. As such, it cannot override state or provincial law. However, Article 105 of the NAFTA agreement stipulates that no NAFTA partner can avoid its commitments under the Agreement by claiming that the measure in question is a matter of state or provincial jurisdiction.

What Are the Reasons for NAFTA?[4]

The assumption underlying NAFTA is that access to foreign markets helps create wealth. Without international trade, every producer in a country would be limited by the size of its domestic market and every consumer in the country would be limited to domestic products. Imports enable both consumers and producers in a country to obtain goods they would otherwise not get or get only at higher prices. Conversely, exports enable producers within a country to expand sales beyond the limits of their own domestic market.

Expanding market size allows producers to achieve economies of scale and thus lower costs. Through market competition, these cost savings are passed on to consumers. Expanding markets also allow greater specialization and thus greater consumer choice. Finally, expanding markets enable clusters of mutually supporting companies to benefit from the external economies of scale they create for one another—transfers of advanced technical knowledge, larger pools of skilled labor, development of specialized support industries in engineering, law, accounting, design, transportation and finance.

At the same time, international trade enables consumers to choose from a wider variety of products at lower costs, thus enabling them to get more for the income they earn.

In should be noted here that this pattern applies just as well to trade within a single company as to trade among separate companies. Intra-firm trade is growing in importance. In the mid-1990s, over 65% of U.S. merchandise exports and 40% of U.S. merchandise imports were carried out within firms.[5]

In short, market expansion through freer trade creates opportunities for growth. Larger markets

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[4] The theoretical explanations for the net social benefits of division of labor, specialization of production and expanding markets go back to Adam Smith Wealth of Nations published in 1776. A more modern treatment of the points summarized here is found in Krugman, P.R. and M. Obstfeld, International Economics: Theory and Policy, 6th Ed., Addison-Wesley, 2002.

[5] Georges A. Tanguay, University of Maine, Department of Economics and Canadian American Center Why Do Governments Sign Free Trade Agreements? A Survey of Trade Theory, Nov 21, 2003.

enable firms to achieve greater specialization and lower prices. This, in turn, enables them to continue to grow, reaching out to ever wider markets.

Trade barriers, in contrast, limit or decrease the size of markets, hampering the prospects for specialization, technological progress, mutually beneficial exchange and wealth creation. In addition, they create businesses more dependent on government protection than on market superiority. Trade barriers create vested interests and add an otherwise unnecessary political component to the operation of decentralized, free economies. Trade barriers tend to create a tit-for-tat, stimulus-response, political competition that over time distorts the true costs of production and wastes vast sums of money. Examples of such "trade wars" are nowhere better illustrated than in the case of U.S.-Canadian lumber trade to be described more fully in Section IV.

NAFTA was an outgrowth of fears in the late 1980's and early 1990's that the United States would suffer a competitive disadvantage compared to the growing unification of European economies, the opening up of the former Soviet bloc and China and fear that Japan—then growing quite rapidly—would capture large blocks of the U.S. market both through exports and through investment in the U.S. The underlying historical reason for NAFTA was a desire by the United States not to be left behind in a global economy that was increasingly retreating from multi-lateral trade negotiations and increasingly moving toward bi-lateral Free Trade Agreements. NAFTA was an attempt to make North America a globally competitive bloc within that environment. As noted above, NAFTA began as an agreement between the U.S. and Canada in 1988 and was expanded to Mexico in 1993.

What Does NAFTA Do?

NAFTA's major provisions call for:

1. Elimination of Tariffs:
A tariff-reduction schedule was worked out among the NAFTA partners. As of January 1, 2008, all trade among Canada, Mexico and the United States will be tariff-free. Many of the barriers between the U.S. and Canada had already been eliminated by the time NAFTA was signed and most remaining U.S.-Canadian barriers were eliminated by 1998. This benefited the U.S., for the most part, because Canadian tariffs were higher than those of the U.S. prior to NAFTA.[6]

2. Equal National Treatment:
Canada, the U.S. and Mexico are to treat each other's goods, services and investors as they treat their own.

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[6] Canadian tariffs on products relevant to Maine ranged from 25% on textiles & apparel to 23% on footwear to 15% on wooden furniture to 4% on waferboard and computers. U.S. tariffs on Canadian products were more concentrated in products such as transportation equipment less important to Maine. See Maine State Planning Office The U.S. – Canada Free Trade Agreement: Effects on Maine 1990.

3. Formal Dispute Settlement Rules and Organizations:
NAFTA establishes a clear set of rules for dealing with disputes arising under the agreement.

4. Opening Government Procurement:
All three countries have agreed to provide substantially increased access to government procurement opportunities for both goods and services. This provision does not prohibit state or provincial "local preference" provisions which are now or may in the future be put in place, but merely states that the parties hold out the goal of opening government procurement to cross-border bidding.

5. Facilitating Business Travel:
NAFTA facilitates the cross border movement of businesspersons who are citizens of member countries. The provisions do not alter a member country's general immigration regulations governing public health, safety and national security, nor do they preclude the requirement for temporary workers to meet licensing or certification requirements.

6. Protection of Intellectual Property:
NAFTA includes comprehensive coverage of intellectual property rights to encompass standard rules of enforcement.

7. Promotion of Investment:
The most important provisions created by NAFTA to promote inter-member investment are: protection from expropriation, which stipulates that any expropriation must be for a public purpose, non-discriminatory, in accordance with due process of law and compensated by the expropriating government; national equal treatment obligations by which parties are obligated to treat investors from a NAFTA partner no less favorably than local investors; and prohibition of performance requirements on investors as a condition of entry and establishment. Among the requirements prohibited are demands to export a certain percentage of sales, demands to purchase locally for certain inputs and demands to transfer certain technologies to the host country.

What is NAFTA's Organizational Structure?

The central institution created by NAFTA is the NAFTA Free Trade Commission (FTC), composed of the cabinet-level representatives of all three countries.
The FTC functions are to oversee fulfillment of NAFTA's objectives and to supervise the implementation of the Agreement and resolve any disputes that may arise regarding its interpretation or application.

The second main institutional body of NAFTA is the Secretariat. The functions of the Secretariat are to support the FTC and any working groups or committees it may establish, to act as the administrative assistant for NAFTA's dispute settlement panels and related committees and to act in a limited capacity as a depository for any investment-related disputes.

The third main institutional structure under NAFTA is a group of commissions charged with overseeing the duties of a series of agreements enacted with NAFTA. The most important commissions are:

- ✓ The Commission for Labor Cooperation;
- ✓ The Commission for Environmental Cooperation;
- ✓ The North American Development Bank;
- ✓ The Border Environment Cooperation Commission.

NAFTA created The North American Agreement on Labor Cooperation (NAALC) to manage and supervise labor standards. The main objectives of NAALC are:

- ✓ to improve working conditions and living standards;
- ✓ to promote principles that protect, enhance and enforce basic workers' rights such as minimum employment standards, prohibition of forced labor, prevention of occupational injuries, protection of migrant workers and the right to bargain collectively.

NAFTA is complemented by a major side agreement, The North American Agreement on Environmental Cooperation (NAAEC) that established the Commission for Environmental Cooperation (CEC). The CEC has three main duties:

- ✓ to address regional environmental concerns;
- ✓ to help prevent potential trade and environmental conflicts; and
- ✓ to promote the effective enforcement of environmental laws.

The environmental provisions of NAFTA specify that:

- ✓ each NAFTA country can set the level of environmental protection it considers appropriate;
- ✓ each member country can determine the level of national environment protection it desires when taking standard-related measures;
- ✓ countries cannot lower environmental standards or their enforcement in order to increase or maintain investment in their territory; and
- ✓ environmental concerns must be submitted to dispute settlement panels.

How Could NAFTA Affect Maine?

By lowering barriers to trade and investment, NAFTA could result in one or more of several possible outcomes. It could:

1. Increase exports from Maine to Canada and/or Mexico. This would help those Maine companies whose sales increased as well as their employees and suppliers.

2. Increase imports to Maine from Canada and/or Mexico. This would benefit Maine consumers choosing these imports and Maine businesses whose costs fell or whose sales increased because of these imports. But it would hurt any Maine business whose sales fell as a result of this Canadian or Mexican competition.

3. Increase investment by Maine companies in Canada and/or Mexico. To the extent that such investment increased the company's overall health and profitability, Maine would benefit. To the extent that such investment meant a reduction of economic activity in Maine, the state would be hurt. In addition, to the extent that such investment in Canada or Mexico was made by national or international companies that might otherwise have invested in Maine the state would be hurt.

4. Increase investment in Maine from Canada and/or Mexico. To the extent that such investment increased sales and employment in Maine, the state would benefit.

As a result of each of these possible effects, some Maine businesses, workers and consumers will be hurt and others will gain. The net impact on the state will be the sum total of all these individual impacts. It should be noted here that the overall impact on the U.S. as a whole could be positive, while the net impact on Maine, or any given state or sub-region, could be negative. The question depends on the number of "winners" and "losers" and the extent of their gains and losses.

Most of the existing studies of NAFTA concentrate on only one aspect of the impact. Studies favoring NAFTA emphasize increases in exports and the employment associated with this sales growth and conclude that NAFTA has been a gain for the parties.[7] Anti-NAFTA studies concentrate on job losses in industries hurt by imports or by businesses shifting production to Canada or Mexico, compare these to the number of jobs created by increased exports and conclude that NAFTA has been a net loss to the U.S. and to Maine.[8]

All of these studies ignore both the gains to consumers in all countries whose purchases fuel the increased trade and the indirect effects on related businesses that result from trade. It is easy to point to a factory that closes because of lower cost imports and say, "Trade is bad" or to a factory that expands because of sales to a foreign market and say, "Trade is good." It is harder to find the extra cup of coffee someone buys because his morning newspaper is less expensive because its publisher bought lower cost Canadian newsprint. It is harder to find the extra miniature golf game a tourist played because his family's lobster dinner was cheaper because of the added supply from Canada.

In short, the production gains and losses from trade are studied because they tend to come in big chunks and can be easily located and easily counted. The consumption gains and losses tend to be ignored because they come in minute savings and are spread over millions of people and millions of square miles. Yet these decisions are the fundamental driving force behind the more noticeable factory openings and closings. If consumers didn't shop at for the lowest prices, imports wouldn't expand market share. But they do.

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[7] See for example Council of the Americas FTAA Blueprint for Prosperity: Building on NAFTA's Success, September, 2001 and their annual series, NAFTA Delivers for Maine.

[8] See for example a series of reports by the Economic Policy Institute www.epinet.org.

To fully answer the question, “What is the impact of NAFTA on Maine?” would require estimating its effect on consumption as well as its impact on production. To attempt such a comprehensive calculation is clearly beyond the time and funding available for this report. Indeed, no such truly comprehensive effort has been made even at the national level. Instead, this report presents the findings from four distinct avenues of investigation seeking to identify impacts of NAFTA. These are:

1. an examination of trade and investment data to see how the transactions among NAFTA partners compared to Maine’s overall trade and investment flows and to the state’s overall economic performance;

2. an examination of sales and employment data for several sectors of the Maine economy to see if there are any relationships between industry wide performance and NAFTA related trade and investment activity;

3. an examination of petitions filed by Maine workers and companies for trade adjustment assistance or other form of compensation for damages alleged to be the result of NAFTA; and

4. interviews with business officials in selected Maine industries seeking to specify the impacts of NAFTA on their businesses and industries.

Together, these findings provide some conclusions regarding the overall net impact of NAFTA on the State of Maine and some suggestions about policies the state might undertake to enhance the positive effects and mitigate the negative ones.

A Cautionary Note on Economic Cause and Effect

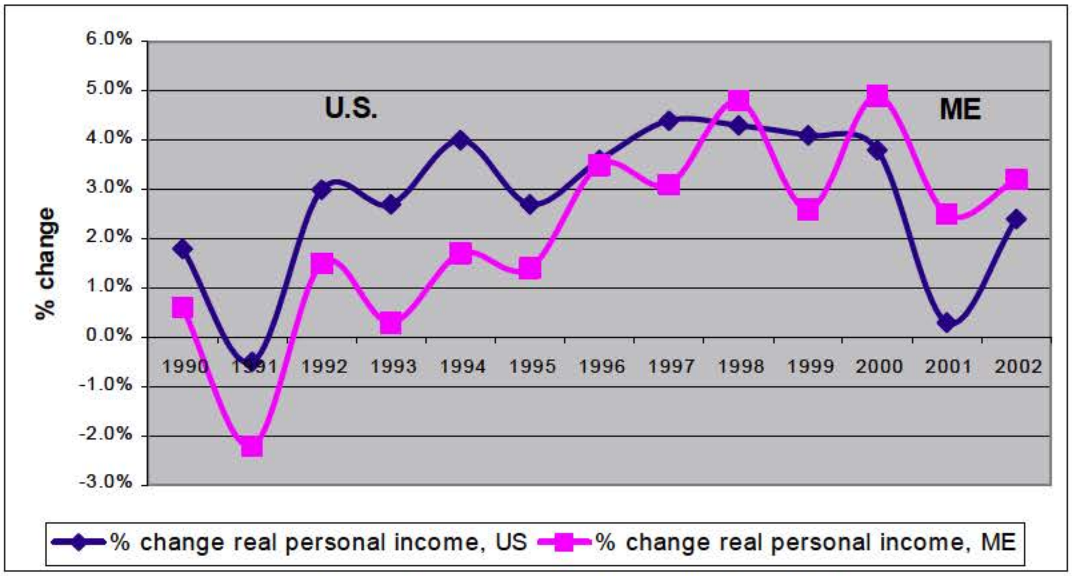
Rarely, if ever, is economic activity undertaken for one reason and one reason only. Maine, along with the rest of the world, is enmeshed in an increasingly complex web of interconnections. Supply chains are becoming worldwide in scope. Changing dietary customs in Japan can affect fishing in Maine; slowing worldwide sales of cell phones can reduce Maine exports of silicon chips to Malaysia; exchange rate fluctuations that redirect Boeing outsourcing patterns can increase or decrease sales for Maine machine shops.

For this reason, it is important to remain sensitive to the overall global economic context within which NAFTA has operated. For some economic changes, NAFTA was certainly a major contributing factor, for others it played a minor role, and for still others it had little or no impact. In particular, four factors must be kept in mind when assessing the impact of NAFTA—the global business cycle, exchange rate policies, the emergence of China in the world economy and the distinction between federal trade policies and state/provincial fiscal and regulatory policies. Each of these factors have caused changes in Maine that have frequently been misattributed to NAFTA.

1. The Global Business Cycle

NAFTA was enacted during the early stages of recovery from the 1991 recession, its opportunities were exploited during the longest economic expansion of modern times and it has now operated through three years of recession and the so-called "jobless recovery". Figure 2 depicts the business cycle by comparing the year-to-year percent changes in real (1996 dollars) personal income for both the U.S. and Maine.

Figure 2
Year to Year Change in Real Personal Income, Maine & U.S.



Source: Bureau of Economic Analysis http://www.bea.doc.gov/beahome.html

During the recession of 1991, real personal income in Maine fell more than in the U.S. as a whole, and, during most of the expansion of the 1990's, it grew more slowly than that of the nation. During the last three years, however, personal income in Maine has grown faster than the national average.

The point here is to underline the fact that NAFTA has existed through a full cycle of economic expansion and contraction. While some of the changes in sales and employment in Maine are undoubtedly the result of NAFTA, those changes cannot easily be isolated from the myriad of other factors affecting the business cycle. NAFTA's impacts must be sought in discreet individual experiences.

2. Foreign Exchange Rates

In a similar way, exchange rate policies have had a significant impact on the Maine economy. Over the last ten years, the U.S. dollar has strengthened against both the Canadian dollar and the Mexican peso. Figures 3 and 4 illustrate these trends.

Figure 3
Price of the Canadian Dollar, 1993 to 2002

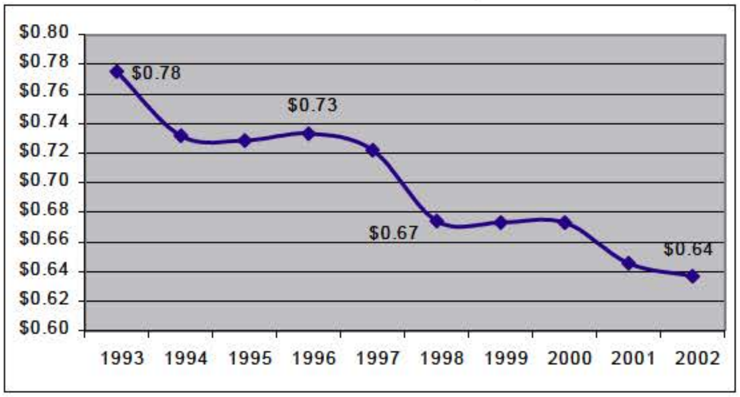
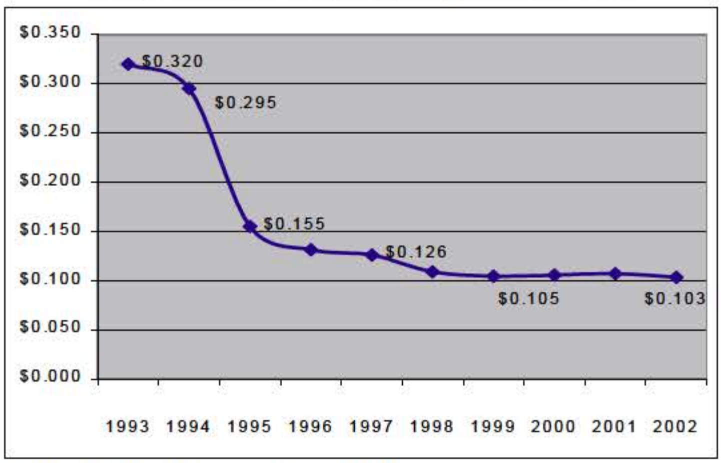


Figure 4
Price of the Mexican Peso, 1993 to 2002



Source: Federal Reserve Board of Governors
http://www federalreserve.gov/releases/g5a/20020102/

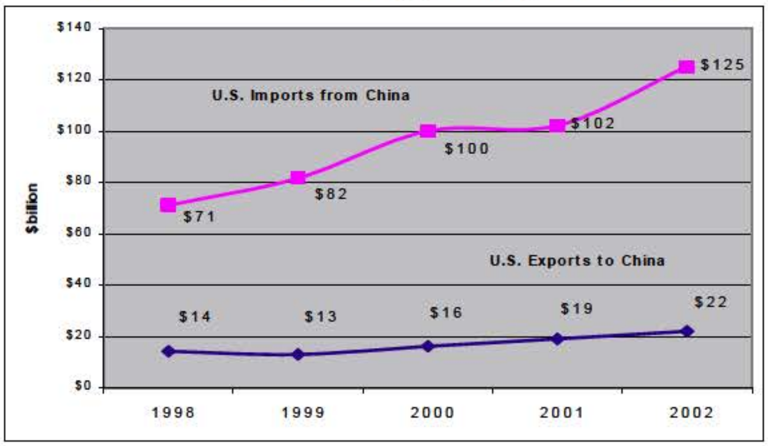
Both the Canadian dollar and the Mexican peso fell in value compared to the U.S. dollar over the 1990's. In the case of Mexico, the drop occurred through a formal devaluation in 1994, followed by a small downward drift and stabilization in recent years at about $0.10. In the case of Canada, the decline was more volatile, but generally steady over the period.

The reasons for these relative declines have to do with national fiscal and monetary policies, relative national interest rates and international flows of capital. The strong U.S. dollar was a fact entirely separate from NAFTA. The effect of the strong dollar, however, was to accelerate the growth of imports from *all* countries, Canada and Mexico included. Because the U.S. dollar could buy more Canadian and Mexican goods, businesses naturally imported more. The effect was comparable to lowering a tariff barrier, but the cause was entirely different. While the U.S. business importing more Canadian or Mexican goods doesn't particularly care whether its better deal results from lower tariffs or a stronger dollar, it is important for policy makers to recognize this difference. That the Canadian government pursued a higher interest rate policy in the 1990's and that Mexico suffered a banking crisis are facts entirely separate from the enactment of NAFTA, but their results amplified the effects of NAFTA.

3. The Emergence of China

It is equally important to recognize that NAFTA is unrelated to the emergence of China into the international market. Figure 5 illustrates the relative growth over the past several years of U.S. imports from and exports to China.

Figure 5
U.S. Trade with China, $ billion, 1998-2002



Source: MISER http://www.misertrade.org/

While U.S. exports to China have increased over 50% since 1998 to over $22 billion, U.S. imports from China have increased over 75% to over $125 billion. Businesses all across the U.S. (and, indeed, all across the world) have both imported Chinese goods and moved production facilities to China to take advantage of that country's vastly lower cost of labor. And consumers all across the U.S. (and the rest of the world) have responded with an unprecedented buying spree. Clearly the voice of the marketplace has welcomed China into the world economy. At the same time, this change has cost Maine and the U.S. as a whole many manufacturing jobs and led to increased calls for protection for U.S. companies.

The reason for referring to U.S. trade with China is to emphasize its distinction from NAFTA. While NAFTA is clearly part of a policy oriented to opening up markets beyond the U.S., it is not the reason for *all* increased international activity by U.S. businesses. Nor is it the reason behind the low price choices made by consumers across the globe.[9]

4. Trade Policy vs. Other Government Policies

[9] Most of the business officials interviewed as part of this study cited trade with China as being far more serious a concern than NAFTA.

Finally, any attempt to evaluate NAFTA must place it in its proper policy context. To do this requires clearly distinguishing federal *trade* policy from federal *social, fiscal, regulatory and development* policies. In addition, it is important to distinguish *federal* policies from *state and provincial* policies.

Canada provides a single-payer national health insurance system as part of its federal government. The U.S. provides health care through an almost incomprehensively complicated mix of private insurance coverage (some paid by employers, some by households), federal programs for the very low income (Medicaid) and the elderly (Medicare), private individual payment and non-payment (resulting in cost shifting to those who do pay). In addition, most U.S. businesses are required to maintain workers compensation insurance to cover work-related accidents and illnesses.

Some argue that Canada's single-payer health care system, financed by *all* Canadian taxpayers, represents a subsidy to Canadian businesses compared to their U.S. counterparts who must pay workers compensation premiums and (in the case of businesses who choose to pay all or a portion of their workers' health insurance) private insurance premiums. Clearly, national health care policy affects the costs of doing business and thus the relative competitiveness of businesses on either side of the Maine-Canadian border. That policy, however, reflects concerns and political attitudes that far transcend international trade issues. The relative benefits and costs of the single-payer system versus the public-private insurance system will continue to be debated on both sides of the border. But it is not an issue subject to NAFTA regulation. Canadian consumers and businesses pay for their health care system with their taxes. If, in fact, Canada's single-payer system provides its businesses with a competitive advantage, it is because of the relative benefits of the two health-care systems not because Canada set out to increase international trade through health-care policies.

NAFTA has mechanisms to address complaints about specific government payments to specific industries that result in non-cost justified economic advantages. It is not intended to lead to any synthesis of the social policies of the parties to the agreement.[10]

Similarly, while NAFTA established mechanisms for pursuing common goals and resolving problems resulting from differences in other national policies such as those relating to labor and the environment, it does not presume to impose standards on any of the parties. Where a policy can be demonstrated to exist solely to provide an advantage in international trade, NAFTA provides an avenue for dispute resolution. Where a policy reflects a different national/cultural/political decision about how to address an issue, NAFTA is irrelevant, at least administratively. In fact, by making such policy conflicts more apparent, NAFTA does increase pressure to "harmonize" them.

[10] In fact, Canadian critics of NAFTA hold just such a view. "Free trade was seen as a threat to the more progressive Canadian social model of stronger unions, higher levels of income protection and broader access to public and social services." Andrew Jackson From Leaps of Faith to Hard Landings: Fifteen Years of Free Trade Canadian Center for Policy Alternatives, December 2003, p. 2.

Just as federal policies differ among NAFTA members, so too do state and provincial policies. Just as Maine's mix of property, sales and income taxes differ from those of New Hampshire, so does it differ from those of the various states and provinces in Canada and Mexico. And, just as state fiscal policies result in differing impacts on businesses within the U.S., so too do they impact international competitive differences. The same can be said for state and provincial regulatory policies.

These differences have led to many complaints on both sides of the border. In one instance a Maine blueberry processor bid on a contract to provide 500,000 pounds to a company in Quebec. In pursuing the deal, the Maine company discovered that delivery of "bulk agricultural content" in any container larger than a five-gallon pail required a provincial permit. Such permits, it turned out, were available only to Quebec processors. Thus, the Maine processor would have had to deliver its goods in thousands of five-gallon pails rather than in bulk containers, making transport uneconomical. In effect, a provincial agricultural permitting regulation became a barrier to international trade.[11]

Problems such as these might best be called NAFTA's indirect effects. As a result of the increased volume and diversity of trade and investment among NAFTA partners, the social, fiscal and regulatory differences among them become more apparent and thus more of an obstacle to further increases in trade and investment. Clearly, these problems constitute the next challenge for NAFTA's administrative mechanisms to address.

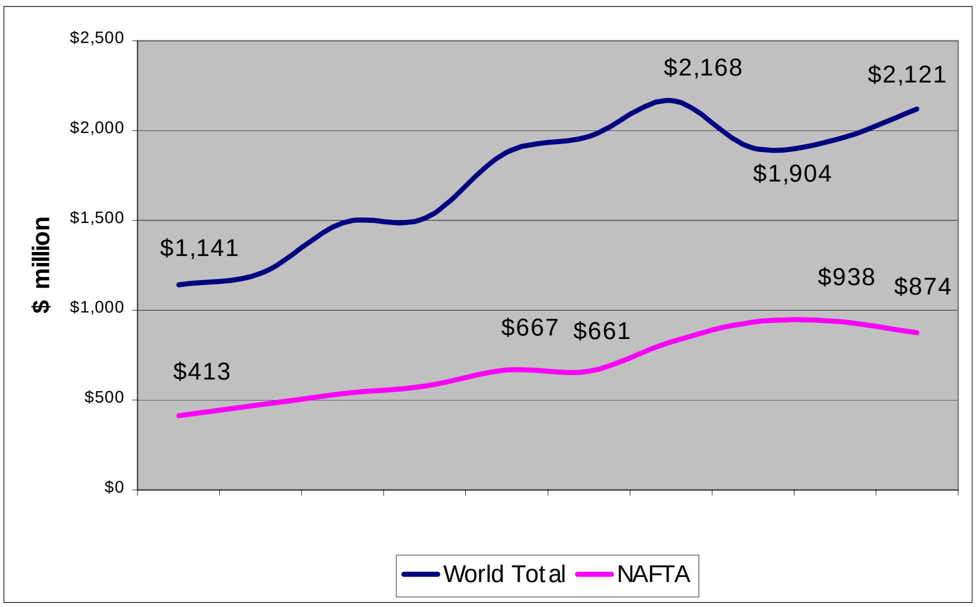
[11] Phone conversation with Wade Merritt, Director Bangor Office, Maine International Trade Center. Monday December 1, 2003.

III. Foreign Trade & Investment and Maine's Economy

Trends in Maine's International Trade

Over the past decade, Maine's exports have grown tremendously. Between 1993 and 2002, the value of Maine exports grew from approximately $1.1 billion to over $2.1 billion, an increase of 85%. Exports to NAFTA countries (Canada and Mexico) increased even more, growing from $413 million in 1993 to a peak of $938 million in 2001 before dropping to $874 million in 2002. Over the entire period, Maine's exports to NAFTA countries increased 112%. Figure 6 illustrates this pattern of export growth.

Figure 6
Maine Exports, $ million, 1993 to 2002



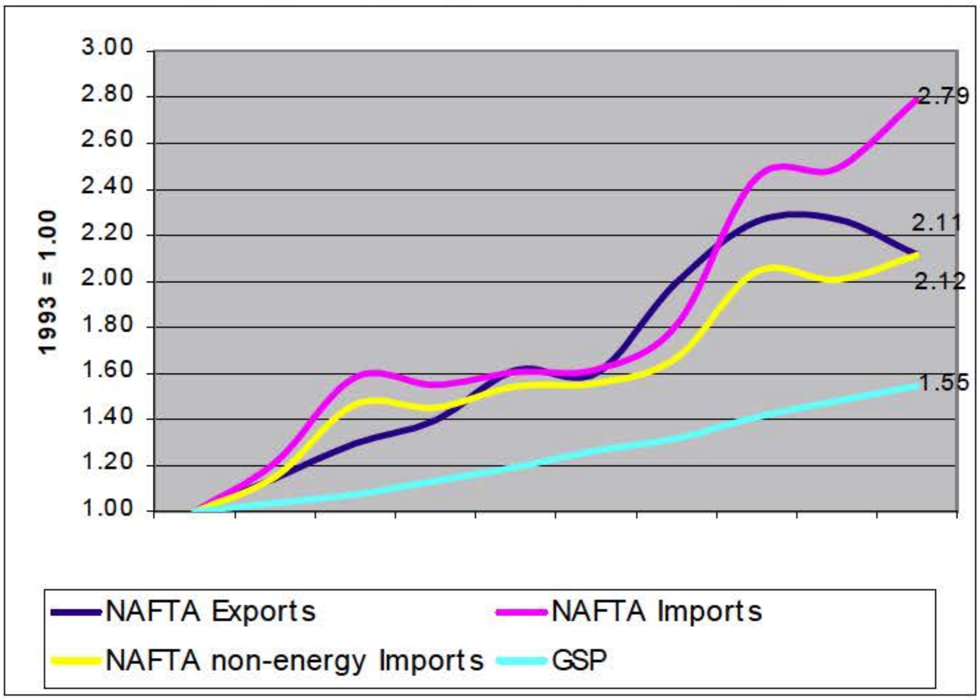
Source: MISER http://www misertrade.org/

NAFTA exports grew steadily throughout the period, suffering declines only in 1998 and 2002. Exports to the rest of the world increased rapidly through the early and mid 1990's, fueled in large part by the export of integrated circuits from National and Fairchild Semiconductor. These exports dropped drastically in 1999 and 2000 (with the drop in business high-tech investment) before resuming their growth in 2001 and 2002, causing the steep drop in exports to the rest of the world during those years.

Growth of international trade was more rapid than the general rate of growth of Maine's economy. Exports as a share of Gross State Product (GSP) increased from 4.5% in 1993 to 6.4% in 1999 before falling back to 5.4% in 2002.

Because data on imports are gathered only at the port of entry, it is impossible to track the trends of overall imports into Maine with the same accuracy as is possible for exports. However, data on Canadian exports to Maine are available from Canadian sources, and, since the late 1990's, similar data are available from Mexico.[12] Therefore it is possible to obtain a picture of the pattern of NAFTA imports into Maine. Maine imports from Canada grew from just over $1.0 billion in 1993 to nearly $3.0 billion in 2002. Imports from Mexico reached nearly $160 million in 2000, but fell to $113 million in 2002, following the general decline of the Maine and national economies over the past several years. Figure 7 illustrates the relative growth of Maine's NAFTA trade compared to its Gross State Product (GSP).

Figure 7
Indices of Growth, NAFTA Imports, Exports and GSP, 1993 to 2002



Source: MISER http://www.misertrade.org/
BEA http://www.bea.doc.gov/beahome.html

While Maine's Gross State Product (GSP) grew 55% over the decade, the State's exports to NAFTA countries doubled and its imports from NAFTA countries nearly tripled. Excluding refined petroleum and electric power, Maine's imports from NAFTA countries increased by approximately the same amount as did our exports to NAFTA countries.

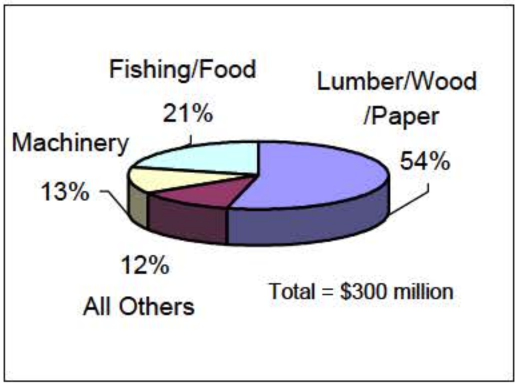
[12] Canadian export data are available online at http://www.strategis.ic.gc.ca. Mexican data are available at The Massachusetts Institute for Social and Economic Research (MISER) http://www.misertrade.org/

Maine's Exports to Canada and Mexico by Industry

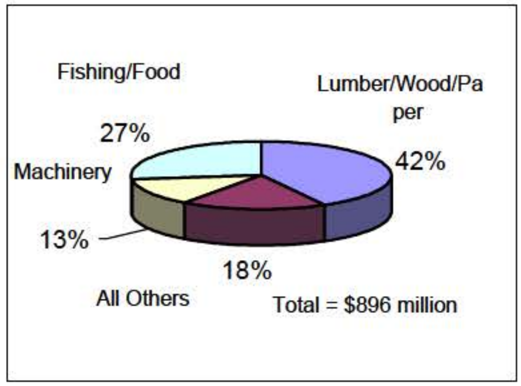
Over the past decade, Maine increased both the volume and the diversity of its exports to Canada and Mexico. Figures 8 and 9 illustrate these trends.

Figure 8
Distribution of Maine Exports to Canada by Industry, 1988 and 2000

1988



2000



Source: MISER http://www misertrade.org/

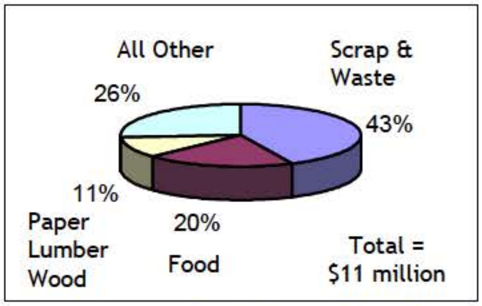
In 1988, lumber, wood and paper products accounted for over half of the state's exports to Canada, and the top three categories accounted for nearly 90% of all exports. In 2000, total exports nearly tripled to $896 million, lumber. paper and wood products accounted for only 42% of the total, and the "all other" category had risen from 12% to 18% of total exports.

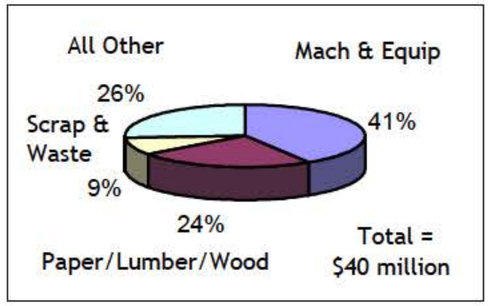
With respect to exports to Mexico, the share derived from the largest sectors remained about the same, but the composition changed substantially. In 1988, scrap and waste products accounted for 43% of Maine's exports, followed by food products at 20% and paper/lumber/wood products at 11%. All other export products accounted for 26% of the $11 million total.

By 2000, Maine's exports to Mexico had risen nearly fourfold from $11 million to $40 million, and machinery and equipment had risen to first place among exporting industries, accounting for 41% of the total. Paper/lumber/wood had risen to second with 24%, while scrap and waste products had fallen to third with 9% of the total. All other industries continued to account for 26% of the total.

Figure 9
Distribution of Maine Exports to Mexico by Industry, 1988 and 2000

1988 **2000**





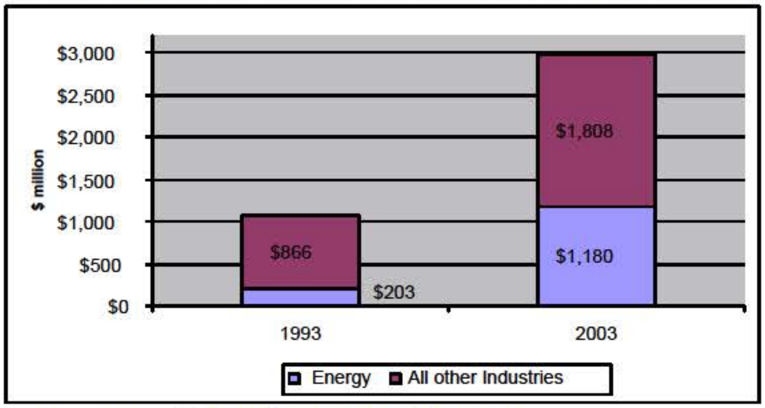
Source: MISER http://www.misertrade.org/

In short, while Mexico was a relatively small trading partner for Maine, its purchases did increase substantially, particularly for the state's machinery and equipment businesses.

Maine's Imports from Canada and Mexico by Industry

The first point to be made about Maine's imports from Canada is to highlight the special place of what might be termed "energy related products," i.e. petroleum and electricity. Imports of both of these products increased tremendously over the past decade. This trend reflects Canada's abundance of hydroelectric power and the importance of Canadian refineries, particularly those of Irving Oil, in meeting Maine's demand for gasoline and heating oil. Meeting this demand has helped provide port related jobs in Searsport and Portland. Figure 10 illustrates the overwhelming impact these energy related products have on the picture of Maine's imports from Canada. While Maine's non-energy imports from Canada increased 109% over the past decade, our energy imports increased nearly 500%, growing from $203 million in 1993 to over $1.8 billion in 2002.

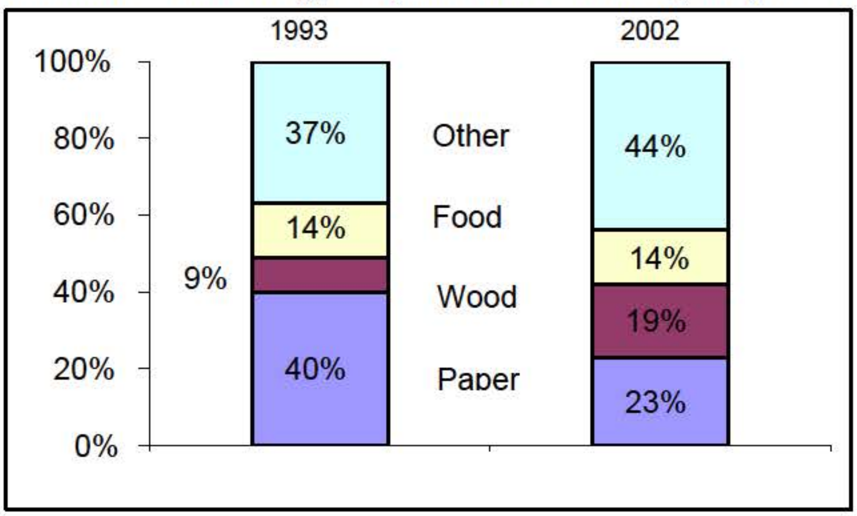
Figure 10
Maine Imports from Canada, 1993 and 2002 ($ million)



Source: Strategis: http://www.strategis.ic.gc.ca

Because of this vast growth differential, Maine's imports from Canada are best understood by separating these energy related products from the remaining imports. Figure 11 presents this picture.

Figure 11
Distribution of "Non-Energy" Imports from Canada by Major Category



Source: Strategis: http://www.strategis.ic.gc.ca

In 1993, pulp & paper products were Maine's predominant "non-power" import from Canada, accounting for 40% of total imports. Food products were next at 14% of the total, followed by wood products at 9%. All other imports accounted for 37% of the total. By 2002, the same diversification seen in export growth was evident in import growth. Pulp and paper imports fell to 23% of the total; food remained steady at 14%; wood products more than doubled to 19% and all other imports rose to 44% of the non-power total. Table 1 presents a more detailed picture of this pattern.

Table 1
Maine "Non-Energy" Imports from Canada, 1993 and 2002 ($1,000)

Industry (NAICS)	1993	2002	% change 1993-2002
Pulp Mills	$294,313	$279,776	-5%
Paper Mills	48,978	123,470	152%
Paperboard Containers	3,039	15,915	424%
Subtotal Paper	346,330	419,161	21%
Sawmills and Wood Preservation	70,784	247,059	249%
All Other Wood Products	3,087	34,704	1,024%
Veneer, Plywood and Engineered Wood	1,983	29,480	1,387%
Nursery and Floriculture Production	2,869	17,750	519%
Millwork	745	12,095	1,523%
Subtotal Wood Products	79,468	341,088	329%
Fishing	57,366	72,473	26%
Frozen Food Products	13,163	70,635	437%
Seafood Product Preparation and Packaging	34,606	66,686	93%
Animal Aquaculture	7,727	22,348	189%
Animal Food Products	7,802	16,018	105%
Subtotal Food Products	120,664	248,160	106%
Inorganic Chemical Products	41,099	70,718	72%
Heavy-Duty Truck Products	8,387	26,881	221%
Resin and Synthetic Rubber Products	5,562	21,436	285%
Other Plastic Product Products	5,295	17,034	222%
Plate Work & Fabricated Structural Products	1,100	16,730	1,421%
Automobile and Light-Duty Motor Vehicles	297	14,481	4,776%
Unsupported Plastic Film, Sheet and Bags	5,495	13,990	155%
Industrial Gas Products	489	13,189	2,597%
Men's and Boys' Cut and Sew Clothing	875	12,343	1,311%
Computer and Peripheral Equipment	396	12,107	2,957%
Misc. Other	250,060	581,003	132%
Subtotal All Other	319,055	799,912	151%
TOTAL (Excluding Energy)	$865,518	$1,808,323	109%

Source: Strategis: http://www.strategis.ic.gc.ca

The most important point to be drawn from Table 1 is that diversification is occurring within each of the major sub-categories:

- ✓ paper products have grown more slowly than the overall total, but paperboard containers increased over 400%;

- ✓ in 1993, nearly 90% of wood product imports were sawn lumber, but by 2002 that share had dropped to just over 70% because of the more rapid increase of other wood products;
- ✓ food products as a whole grew at about the "non-power" average largely because of the slow growth of fish imports, but imports of frozen foods and aquaculture products grew much faster than average;
- ✓ virtually all products within the "all other" category grew at above average rates, thus increasing this group's share of total imports.

Data on imports from Mexico are much more limited and available by industry only since 1999. Table 2 lists the totals.

Table 2
Maine Imports from Mexico, 1999-2002 ($1,000)

Description	1999	2000	2001	2002
TOTAL ALL COMMODITIES	$134,452	$159,742	$123,056	$113,551
Mineral Fuels, Lubricants And Related Materials	110,617	127,098	83,281	78,125
Crude Materials, Inedible, Except Fuels	19,466	15,931	17,697	22,981
Food And Live Animals	3,024	5,664	5,409	6,267
Manufactured Goods Classified Chiefly By Material	151	230	389	2,581
Machinery And Transport Equipment	224	6,248	14,146	2,050
Beverages And Tobacco	867	4,203	1,379	1,438
Miscellaneous Manufactured Articles	100	254	468	98
Commodities & Transactions NEC	4	1	4	9
Chemicals And Related Products	0	115	283	4

Source: MISER http://www.misertrade.org/

Three important points can be drawn from Table 2:

- ✓ Maine's imports from Mexico are relatively insignificant in comparison either to imports from Canada or to the overall economy; even at its peak in 2000 Mexican imports amounted to about three tenths of one percent of Maine's Gross State Product (GSP);
- ✓ Maine's imports from Mexico have been affected by the economic slowdown, dropping from nearly $160 million in 2000 to just over $113 million in 2002;
- ✓ The same pattern of diversification is evident in imports from Mexico, with the predominance of fuel and crude materials falling from 97% of the total in 1999 to 89% in 2002.

International Investment

As noted above, one of NAFTA's goals is to increase cross-border investment among the three parties. On a national basis, this goal has been achieved, particularly from the perspective of the United States. Table 3 lists the pattern of investment between the U.S. and each of its NAFTA partners.

Table 3
Foreign Direct Investment in the U.S. and By the U.S., $ billion

	Investment in U. S. from		Investment by U. S. in	
Year	Canada	Mexico	Canada	Mexico
1994	$2.9	$0.0	$6.0	$4.5
1995	$4.8	$0.1	$8.6	$3.0
1996	$8.6	-$0.1	$7.2	$2.4
1997	$8.4	$0.1	$7.6	$5.6
1998	$16.0	$0.9	$7.8	$4.6
1999	$26.4	$1.3	$22.8	$8.2
2000	$27.3	$5.1	$16.9	$4.2
2001	$13.0	-$0.3	$15.5	$15.3
2002	-$3.6	$1.3	$12.9	$3.6
Totals	$103.8	$8.4	$105.3	$51.4

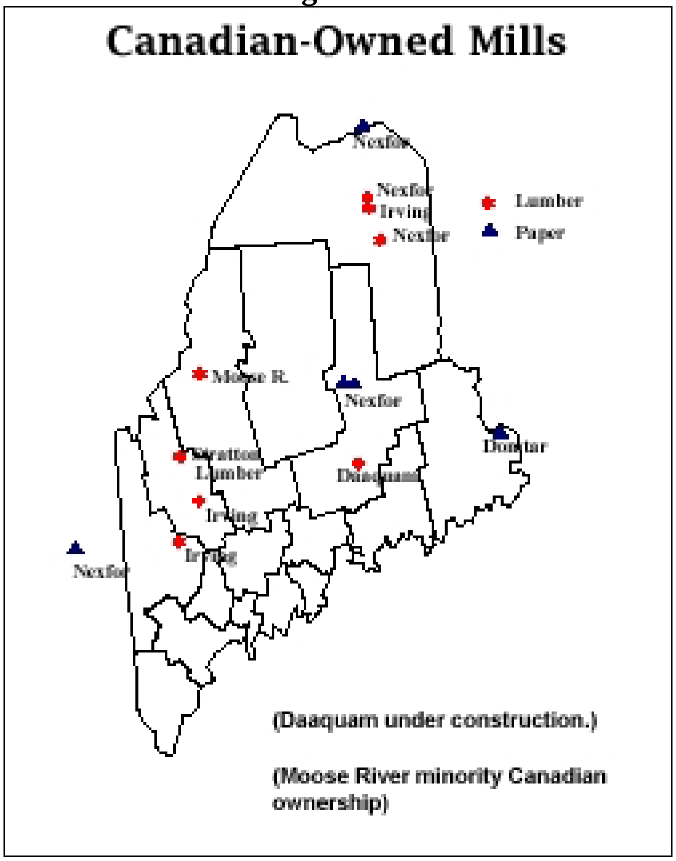
Source: BEA http://www.bea.doc.gov/bea/di/di1usdbal.htm

While U.S. companies have clearly made substantial investments in both Canada and, to a lesser extent, Mexico, the most striking fact presented in Table 4 is the tremendous increase in Canadian investment in the U.S. From a total of just less than $3 billion in 1994, Canadian investment in the U.S. increased over nine-fold to a total of over $27 billion in 2000. Since that time, this investment has diminished, even turning negative in 2002, indicating a net capital flow back to Canada. Nevertheless, total Canadian investment in the U.S. over the past decade exceeded $103 billion, nearly equaling the total U.S. investment in Canada of $105 billion. Given the substantially smaller Canadian GNP, this level of investment is remarkable.

While data on the flow of Canadian capital to individual states are not readily available, it is clear that Maine has been a major beneficiary of this investment. Geographically, Maine is quite similar to Quebec and the Maritime Provinces. Thus, companies accustomed to doing business in those areas will find little difference in running Maine operations. In fact, Canadian companies are often more familiar with Maine's resource base and climate than U.S. companies whose home offices are in the South, the Mid-West or the West.

Figure 12 shows the locations of some of the major Canadian investments made in Maine over the last several years.

Figure 12



Source: Irland, Lloyd This Evergreen Empire p. 6.

Lloyd Irland, a Professor of Forestry at Yale University and long time consultant on lumber and wood issues in Maine, in a review of Maine's forest industry done for the recent Blaine House Conference on Natural Resource Industries, says that the net balance of investment between Canada and the U.S. is "not clear." He does note, however, that "half of the Maine [forest] land remaining in industry hands is now owned by Canadian paper companies."[13]

Similarly, Maine's largest potato processing facility, a $70 million newly modernized plant in Easton is owned by McCain Foods, Inc., a Canadian based international food processing company. Canadian companies have also made substantial investments in aquaculture in Maine. In short, Maine has benefited from an inflow of Canadian capital to its economy.

[13] Lloyd Irland This Evergreen Empire: Maine's Forest Resources and Industries in a New Century prepared for the Blaine House Conference on Natural-Resource Based Industries, November 17, 2003, p. 6.

IV. NAFTA & Selected Maine Industries

Wood Products

The wood products industry has long been a mainstay of Maine's economy. Table 4 presents a summary picture of its performance during the period since NAFTA has been in effect.

Table 4
Indices of the Wood Products Industry in Maine, 1992 to 2002[14]

Index of Industry	1992	1997	2001	2002	% change
Number of Establishments	743	828	848	804	8%
Number of Employees	10,794	10,431	10,071	9,544	-12%
Value of Shipments ($ million)	$1,475	$1,769	$1,685	$1,597	8%
Value of Exports, Total ($ million)	$147	$221	$287	$273	86%
Value of Exports, to Canada ($ million)	$125	$208	$285	$272	118%
Value of Exports, to Mexico ($ million)	$0.05	$0.13	$0.07	$0.04	-20%
Total Exports as % of Value of Shipments	10.0%	12.5%	17.0%	17.1%	72%
Value of Imports from Canada ($ million)	$77	$144	$281	$323	319%
Value of Imports from Mexico ($ million)	na	na	na	na	na
Canadian Imports as % of Value of Shipments	5.2%	8.1%	16.7%	20.2%	287%

Source: Data are derived from a number of sources; see footnote below.

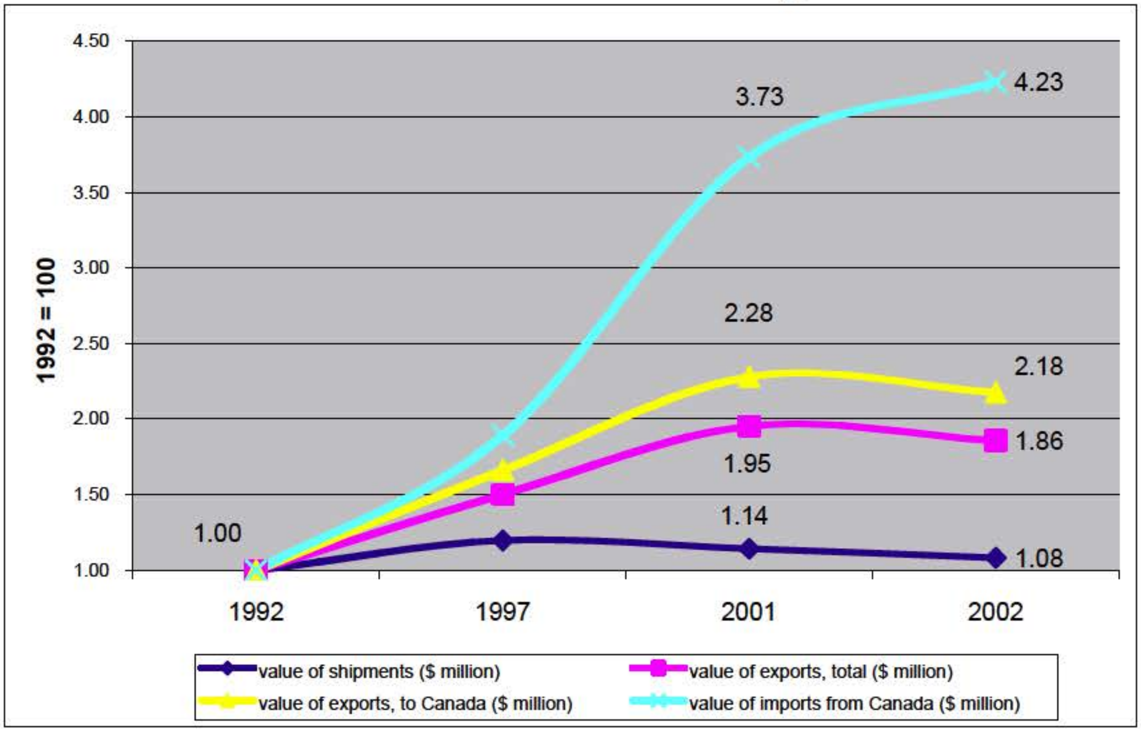
The most important points to be drawn from this table are:

- ✓ That employment in Maine's wood products industry has declined steadily throughout the period;
- ✓ That the number of reporting businesses and their sales increased throughout the 1990's and have declined in recent years;
- ✓ That international trade, both exports and imports, have increased much more rapidly than sales in general; and
- ✓ That imports from Canada have increased more rapidly than exports and have increased even through the downturn of the past several years.

Figure 13 illustrates these trends graphically by measuring each of these changes from the base year of 1992.

[14] Data on employment, establishments and value of shipments were derived from data provided by the Maine Department of Labor and supplemented by the U.S. Bureau of the Census 1992 Economic Census , 1997 Economic Census and 2001 Annual Survey of Manufacturers http://www.census.gov/epcd/ec97sic/E97SMED.HTM and http://www.census.gov/mcd/asmdata/2001/me23.htm. Export and import data are from The Massachusetts Institute for Social and Economic Research (MISER) http://www.umass.edu/miser/. Data are reported according to the SIC classification system for 1992 and 1997. Data for 2001 and 2002 are reported in the North American Industrial Classification System (NAICS). Figures here are adjusted back to the SIC system to allow comparison over time.

Figure 13
Trends in Maine's Wood Products Industry, 1992=100



While sales of the industry as a whole increased only 8% over the period, exports increased 86%; exports to Canada more than doubled; and imports from Canada increased more than fourfold.

It is important to note here that debate surrounding softwood lumber imports from Canada have an existence largely separate from NAFTA. U.S. softwood lumber producers have long argued that the Canadian government subsidizes its lumber industry by charging low fees to cut on government land whereas the U.S. restricts access to national forests and other government lands. Debate on this issue has led to U.S. tariffs on Canadian imports and Canadian challenges to these impositions in 1982, 1986, 1992, 1996 and 2001. The U.S. currently charges a 29% tariff on imports of Canadian softwood lumber.[15] In short, imports of softwood lumber from Canada must be seen as occurring quite apart from the operation of NAFTA.
Whatever their cause, some of these imports did clearly have a negative impact on Maine companies. One way of estimating this impact is to examine the number of companies certified by the U.S. Department of Labor as being eligible for Trade Adjustment Assistance.[16] Table 5 lists the companies certified and, for some companies, lists the number of workers affected.

[15] Ross W. Gorte and Jeanne Grimmett Lumber Issues from Canada: Issues and Events Congressional Research Service, Updated June 24, 2003.
[16] See Section V below for a more complete explanation of this program.

Table 5
Wood Products Companies Eligible for Trade Adjustment Assistance

Company	Location	Workers	Date
Georgia Pacific	Baileyville	283	01/19/99
International Paper	Passadumkeag	263	09/25/01
International Paper	Milford	250	09/25/01
Saunders Brothers, Inc.	Westbrook	90	12/3/2002
Houlton International Corp.	Houlton	90	6/27/2003
Alltrista Comsumer Products	Strong	85	6/26/2003
Solon Manufacturing	Skowhegan	65	03/19/02
Georgia Pacific	Baileyville	55	01/09/02
Shermag Corporation-DBA Woodtek	North Anson	50	10/17/01
Sherman Lumber Company	Sherman Station	40	11/29/2002
Irving Forest Products	Ashland	37	01/12/01
Solon Manufacturing	Solon	34	03/19/02
H.G. Winter and Sons, Inc	Kingfield	27	1/27/2003
Totals		1,369	

Source: http://www.doleta.gov/tradeact/taa/nafta_search_form.cfm.

Based on the investigations conducted by the U.S. Department of Labor, it appears that over 1,300 Maine jobs were lost either because of increased Canadian imports or because of shifts of production to Canada or Mexico.

Interviews with representatives of several Maine wood products companies illustrate the varying impacts of increased trade with NAFTA partners, primarily Canada.[17] Some have increased both their imports from Canada and exports to Canada. Others have seen increased Canadian investment in Maine facilities. One, the manufactured housing industry that imports much of its lumber from Canada has, paradoxically, been hurt by the U.S. effort to protect domestic softwood lumber producers. Tariffs on Canadian lumber increased costs for Maine producers while the free trade in manufactured housing itself has enabled Canadian producers to capture nearly one half of Maine's market.

In the interviews with officials of the wood products industry, several points were repeated consistently:

- ✓ It is virtually impossible to distinguish between the effects of NAFTA and the effects of the cheaper Canadian dollar as factors contributing to increased Canadian imports;

[17] See Appendix e. for a list of those interviewed.

- ✓ Non-tariff barriers such as treatment of sales tax and licensing requirements for installation of manufactured homes are more significant than tariffs;
- ✓ China (except in the case of manufactured housing) is a more serious threat to Maine business than Canada or Mexico;
- ✓ Maine business climate issues such as taxes, health care costs and environmental regulations are more significant barriers to increasing sales than foreign competition.

Short of examining the sales figures of each wood products company in the state, there is no way of drawing a definitive conclusion about the overall impact of NAFTA on this industry.

One way of approaching an answer, however, is to ask, "What would have happened if exports and imports had grown at the same rate as sales for the industry as a whole?" Table 6 offers a possible answer.

Table 6
Sales & Employment Changes Under "Fixed Growth"

Index of Growth	1992	1997	2001	2002
VOX Canada* at VOS growth (million $)	$125	$150	$143	$135
export sales lost (million $)	$0	-$58	-$142	-$137
export employment lost	0	-342	-850	-817
VOM Canada at VOS growth (million $)	$77	$92	$88	$83
import sales gained (million $)	$0	$52	$193	$240
import employment gained	0	305	1,154	1,432
net lost sales (million $)	$0	-$6	$51	$103
net lost employment	0	-38	304	615

*Since trade with Mexico is so small a portion of total Maine trade in lumber and wood products, only Canadian imports and exports are considered here. VOX refers to value of exports; VOM to value of imports; and VOS to value of sales.

If the value of exports (VOX) to Canada had grown at the same rate as did sales for the wood products industry as a whole in Maine, exports would have been $150 million in 1997, $143 million in 2001 and $135 million in 2002. Compared to the actual export sales that did occur, this diminished growth would have meant lost sales of $58 million in 1997, $142 million in 2001 and $137 million in 2002. If the ratio of sales to employment had been the same for these lost sales as for the industry as a whole, this loss of export sales would have meant the loss of 817 jobs in 2002.

Following the same logic, had imports from Canada grown only at the industry wide growth rate, and had Maine production replaced all of these "lost" imports, and had the same sales to jobs ratio held true for imports, then the value of imports from Canada (VOM) would, by 2002, have grown by $240 million less and Maine would have "saved" 1,432 jobs. Netting the loss of export sales and job growth against the import sales and job "savings" indicates that Maine's wood products industry would have gained $103 million in sales and 615 jobs had the industry's Canadian trade grown only as fast as its overall sales growth.

In actual fact, it is unlikely that Maine production could have increased sufficiently to replace Canadian imports. Between 77% and 91% of these imports were in the form of lumber, destined to supply the housing boom in the U.S. as a whole, and, as noted above, Maine lumberyards and manufactured housing producers. Had these imports not been available, lumberyards would undoubtedly have both paid higher prices for Maine lumber and bought additional lumber from other sources. In addition, any savings from buying lower priced Canadian lumber that Maine homebuyers spent on other Maine products would have been lost.

In other words, the import substitution job "savings" to Maine would have come in the form of higher prices:

- ✓ for all the businesses and consumers in the U.S. who would have been limited to Maine products rather those they actually bought;
- ✓ for all the businesses and consumers in Canada who would have been limited to Canadian products rather than the Maine products they actually bought.

In sum, the *partial* integration of the U.S. and Canadian economies through the elimination of tariff barriers while maintaining separate currencies and separate fiscal, social and regulatory policies has cost Maine jobs in the wood products industry while saving money for Maine lumber dealers, homebuyers and other lumber users.

Pulp & Paper Industry

Table 7 presents a summary picture of Maine's pulp and paper industry over the period since NAFTA was enacted.

Table 7
Indices of the Pulp & Paper Industry in Maine, 1992 to 2002

Index of Industry	1992	1997	2001	2002	% change
Number of Establishments	56	59	63	54	-4%
Number of Employees	16,489	14,830	12,596	11,979	-27%
Value of Shipments ($ million)	$3,480	$4,484	$4,479	$4,260	22%
Value of Exports, Total ($ million)	$221	$382	$378	$411	86%
Value of Exports, to Canada ($ million)	$73	$76	$113	$121	66%
Value of Exports, to Mexico ($ million)	$1.0	$1.9	$11.2	$5.9	487%
Total Exports as % of Value of Shipments	6.4%	8.5%	8.4%	9.6%	52%
Value of Imports from Canada ($ million)	$343	$438	$438	$403	17%
Value of Imports from Mexico ($ million)	na	na	na	na	na
Canadian Imports as % of Value of Shipments	9.9%	9.8%	9.8%	9.5%	-4%

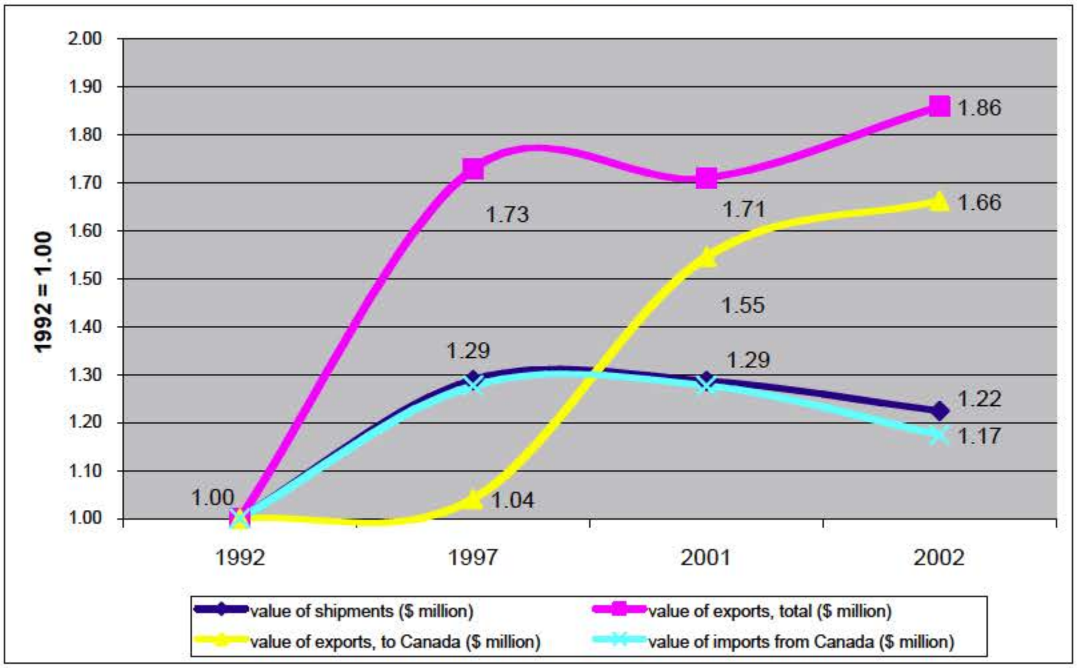
Source: Data are derived from a number of sources; see footnote 14 above.

The most important points to be drawn from this table are:

- ✓ That employment in Maine's paper industry has declined steadily throughout the period;
- ✓ That the number of reporting businesses and their sales increased throughout the 1990's and have declined in recent years;
- ✓ That exports, both overall and to Canada and Mexico, have increased much more rapidly than sales in general; and
- ✓ That imports from Canada have increased more slowly than exports, generally following the industry's overall sales growth; this is because between 70% and 85% of imports are in the form of pulp for Maine paper mills.

Figure 14 illustrates these trends graphically by measuring each of these changes from the base year of 1992. The most striking fact pictured here is the increase in 2002 of exports, both in general and to Canada while production on the whole was declining. This chart also shows clearly how imports from Canada follow the industry's overall sales.

Figure 14
Trends in Maine's Pulp & Paper Industry, 1992 = 100



As was true for the wood products industry, certain paper companies petitioned the Department of Labor for Trade Adjustment Assistance. Table 8 lists the petitions that were approved.

Table 8
Paper Companies Eligible for Trade Adjustment Assistance

Company	Location	Workers	Date	Reason
Great Northern Paper	E. Millinocket	197	2/3/2003	Customer imports increased; not identified Canada/Mexico
Mead Paper	Rumford	157	02/12/99	Increased aggregate U.S. imports from Canada/Mexico
Kimberly Clark	Winslow	115	08/27/97	Increased company imports from Mexico
Tree Free Fiber L.L.C.	Augusta	115	02/23/98	Increased customer imports from Mexico
Chinet Company (The)	Waterville	89	01/28/00	Increased customer imports from Canada
S.D. Warren Company	Westbrook	35	6/12/2003	Customer imports increased; not identified Canada/Mexico
Nexfor Fraser Papers	Madawaska	14	6/25/2003	Customer imports increased; not identified Canada/Mexico
Volk Packaging	Biddeford	8	03/21/02	Increased customer imports from Canada
Totals		730		

Source: same as Table 6 above.

In the paper industry, Maine lost approximately 730 jobs as the result of increased imports and changes in the location of production facilities. At the same time, however, Maine benefited from major Canadian investment in Maine facilities (see Figure 12 above). On the whole, the paper industry has become increasingly global. Maine mills import pulp from Canada and sell their output worldwide. Their competitors are Scandinavian, South American and Asian. Sales from Canada are more a reflection of the falling value of the Canadian dollar than of tariffs decreased as a result of NAFTA.

This internationalization is evident in the outcome of the "fixed growth" scenario for the paper industry. Had NAFTA imports been limited to the growth of overall industry sales, the sales "saved" would have been only $17 million, supporting 47 jobs. Export losses, on the other hand, would have been over $37 million, costing 103 jobs. The net result of the "fixed growth" scenario for the pulp and paper industry would have been a loss of approximately $20 million in sales and 56 jobs. Table 9 presents the data on the "fixed growth" scenario.

Table 9
Sales & Employment Changes Under "Fixed Growth"

Index of Growth	*1992*	*1997*	*2001*	*2002*
VOX NAFTA at VOS growth (million $)	$74	$95	$95	$91
export sales lost (million $)	$0	$17	-$29	-$37
export employment lost	0	58	-81	-103
VOM NAFTA at VOS growth (million $)	$343	$442	$441	$420
import sales gained (million $)	$0	$4	$3	$17
import employment gained	0	13	10	47
net lost sales (million $)	$0	$21	-$25	-$20
net lost employment	0	71	-71	-56

Metal Products

Table 10 presents a summary picture of Maine's metal & machinery industry over the period since NAFTA was enacted.

Table 10
Indices of the Metal Products Industry in Maine, 1992 to 2002

Index of Industry	1992	1997	2001	2002	% change
Number of Establishments	285	343	356	342	20%
Number of Employees	6,573	7,659	8,167	7,323	11%
Value of Shipments ($ million)	$474	$1,101	$1,256	$1,120	136%
Value of Exports, Total ($ million)	$71	$110	$129	$118	67%
Value of Exports, to Canada ($ million)	$31	$43	$46	$58	86%
Value of Exports, to Mexico ($ million)	na	$2.3	$6.8	$2.0	n.a.
Total Exports as % of Value of Shipments	15.0%	10.0%	10.3%	10.6%	-29%
Value of Imports from Canada ($ million)	$1	$8	$17	$17	1,418%
Value of Imports from Mexico ($ million)	na	na	na	na	na
Canadian Imports as % of Value of Shipments	0.2%	0.7%	1.3%	1.5%	543%

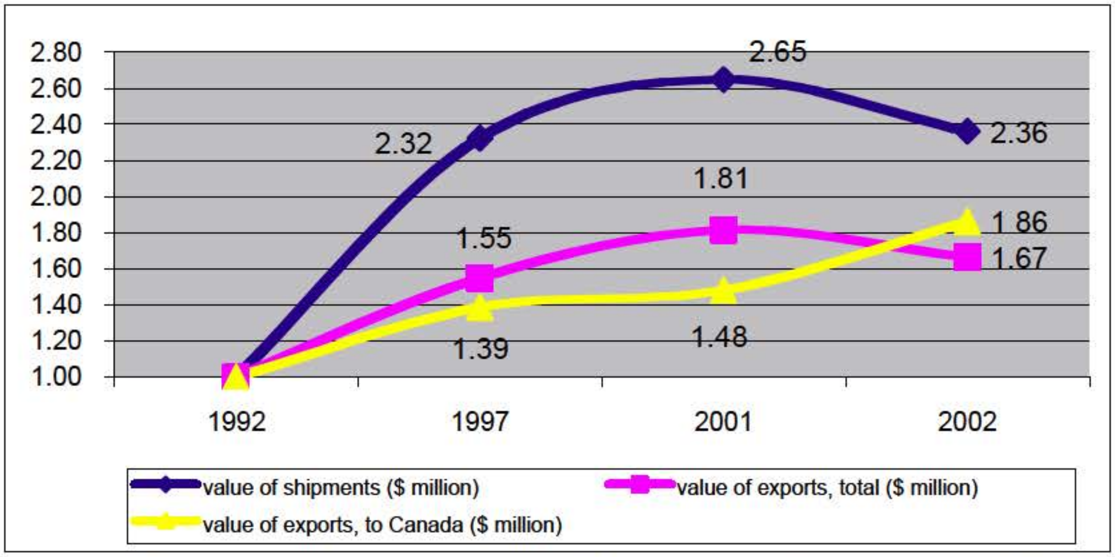
Source: Data are derived from a number of sources; see footnote 14 above.

The most important points to be drawn from this table are:

- ✓ that employment in Maine's metal products industry has increased steadily throughout the period until dropping off in 2002;
- ✓ that the number of reporting businesses and their sales also increased through 2001 before declining in 2002;
- ✓ that international trade, both exports and imports from Canada, have increased much more rapidly than sales in general;
- ✓ that exports to Canada have increased even during the generally down year of 2002;
- ✓ that exports to Mexico increased from zero to nearly $7 million in 2001 before dropping off substantially in 2002; and
- ✓ that imports from Canada, while growing, constitute a very small portion of the industry's overall sales.

Figure 15 illustrates these trends graphically by measuring each of these changes from the base year of 1992. As was true for the pulp and paper industry, the most striking fact pictured here is the increase in 2002 of exports, both in general and to Canada while production on the whole was declining.

Figure 15
Trends in Maine's Metal Products Industry, 1992=100



Imports from Canada are not pictured here because their small initial values and rapid growth would distort the overall point of the chart. In addition, these imports are the equivalent of less than 2% of total industry sales.

Only two companies in the metals industry were certified by the Department of Labor for Trade Adjustment Assistance. Fifty one workers at the Robert Mitchell Company in Portland were certified because of increased imports from Canada, and twenty workers at Fayscott, LLC of Dexter were certified because of increased imports, although no source of the imports were identified in the certification.[18]

Interviews with officials from Maine metals businesses indicated a full range of experience: some have lost sales to Canadian competitors; others have increased exports to Canada; some have switched supplies from European to Canadian sources as the result of NAFTA. In general, however, most said that their major competition comes from China and Eastern Europe rather than Canada and that the Canadian impact is more the result of currency changes than tariff changes. One company, in fact, in advertising for skilled workers received 30 applicants from Ontario who said they had lost jobs because their employer moved to Mexico. The Maine company ended up obtaining work visas for 12 of these workers.
While individual companies have been hurt by imports from NAFTA partners, the "fixed growth" analysis indicates that Canadian trade has been an overall gain for the metal products industry. Had Canadian imports been limited to the growth of overall industry sales, the sales "saved" would have been only $14 million, supporting 92 jobs. Export losses, on the other hand, would have been approximately $45 million, costing nearly 300 jobs. The net result of the

[18] It is important to note here that the "metals" industry does not include the "electronic machinery industry. That industry suffered the loss of nearly 1,000 jobs, mostly through relocation of plants to Mexico. See Appendix Two for the companies certified for TAA.

"fixed growth" scenario for the metals industry would have been a loss of over $30 million in sales and over 200 jobs. Table 11 presents the results of the same "fixed" growth scenario as was presented for the other industries.

Table 11
Sales & Employment Changes Under "Fixed Growth"

Index of Growth	1992	1997	2001	2002
VOX Canada at VOS growth	$31	$72	$82	$73
export sales lost	$0	-$38	-$47	-$45
export employment lost	0	-264	-304	-294
VOM Canada at VOS growth	$1	$3	$3	$3
import sales gained	$0	$5	$14	$14
import employment gained	0	34	90	92
net sales change	$0	-$33	-$33	-$31
net employment change	0	-230	-214	-202

*Since trade with Mexico is so small a portion of total Maine trade in metal products, only Canadian imports and exports are considered here.

Food & Agricultural Products

Table 12 presents a summary picture of Maine's food processing industry over the period since NAFTA was enacted.

Table 12
Indices of the Food Processing Industry in Maine, 1992 to 2002

Index of Industry	1992	1997	2001	2002	% change
Number of Establishments	150	168	169	*166*	11%
Number of Employees	6,598	6,394	6,691	*6,391*	-3%
Value of Shipments ($ million)	$914	$1,183	$1,105	*$1,055*	15%
Value of Exports, Total ($ million)	$33	$77	*$80*	*$78*	135%
Value of Exports, to Canada ($ million)	$18	$35	*$38*	*$38*	111%
Value of Exports, to Mexico ($ million)	$0.4	$0.1	*$0.6*	*$2.5*	535%
Total Exports as % of Value of Shipments	3.6%	6.5%	7.2%	7.4%	104%
Value of Imports from Canada ($ million)	$56	$95	$151	$153	173%
Value of Imports from Mexico ($ million)	*na*	*$3*	*$5*	*$6*	na
NAFTA Imports as % of Value of Shipments	*6.1%*	*8.3%*	*14.1%*	*15.1%*	146%

Source: Data are derived from a number of sources; see footnote 14 above.

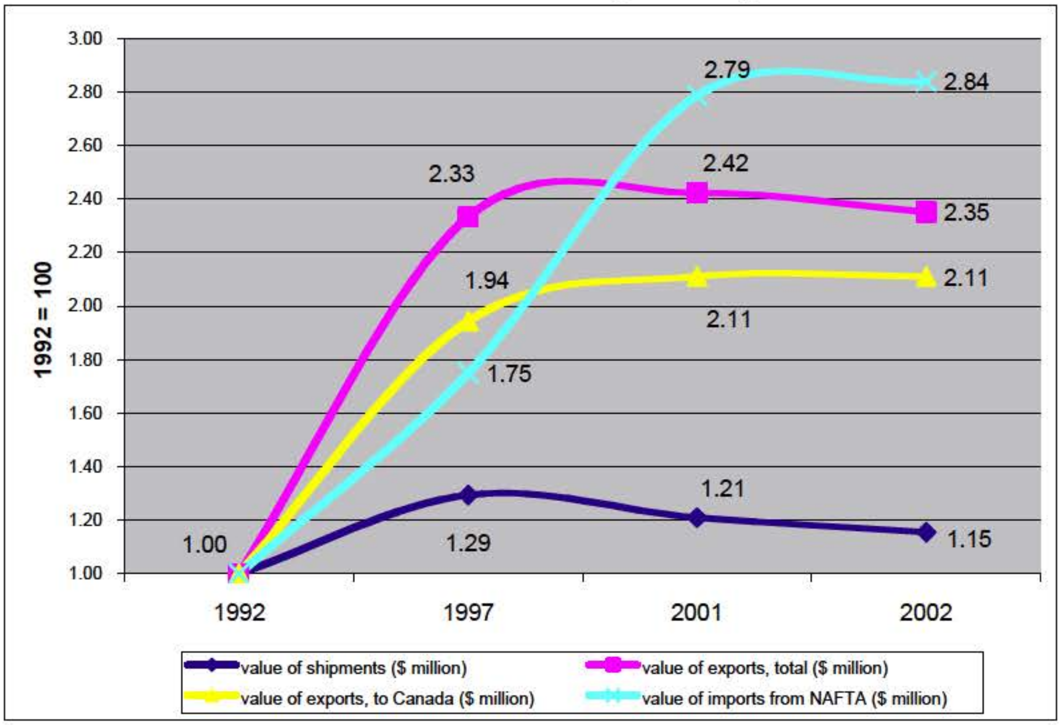
The most important points to be drawn from this table are:

- ✓ That employment in Maine's food processing industry has remained basically steady throughout the period before dropping in 2002; it must be emphasized here that the figures for 2002 were adjusted downward slightly to allow comparability over the period; using the NAICS classification system, Maine's DOL reported 214 establishments employing 6,586 people[19];
- ✓ That the number of reporting businesses and their sales also increased through 2001 before declining in 2002;
- ✓ That exports, both generally and from Canada, increased rapidly in the early 1990's before leveling off in recent years;
- ✓ That imports from Canada and Mexico have grown substantially throughout the period.

Figure 16 illustrates these trends graphically by measuring each of these changes from the base year of 1992. Again, the most striking fact pictured here is the relatively more rapid growth of exports and imports than total production.

[19] Maine reported under both the SIC standard and the NAICS standard in 2001. The 2001 ratios of SIC to NAICS for establishments (0.78) and for employment (0.97) were used to present 2002 data on the SIC basis.

Figure 16
Trends in Maine's Food Processing Industry, 1992 = 100



As is true in other sectors, not all companies gained from this increase in trade. The workers from two major Maine companies were certified for Trade Adjustment Assistance because of shifts in production to Canada, 120 at Port Clyde Canning in Rockland that closed in 1997, and 144 at Humpty Dumpty Potato Chips in Scarborough that closed in 2000.[20]

These companies illustrate the local costs of large-scale market integration. Both plants closed because customers switched to lower cost Canadian sources. These small, regional plants could not survive against Canadian plants using local fish and potato suppliers and selling into the U.S. market on the basis of the increasingly less expensive Canadian dollar.

In the case of food products, the impact of the "fixed" growth scenario indicates a net loss for Maine. Had NAFTA imports been limited to the growth of overall industry sales, the sales "saved" would have been $88 million, supporting 535 jobs. Export losses, on the other hand, would have been approximately $56 million, costing 341 jobs. The net result of the "fixed" growth scenario for the food industry would have been a gain of $32 million in sales and 194 jobs. Table 13 summarizes these findings.

[20] Three workers from a third company, Say Cheese in Lewiston, were also certified in 2003. But this represented a decision by the Canadian company to close its first Maine operation which had opened only two years earlier.

Table 13
Sales & Employment Changes Under "Fixed Growth"

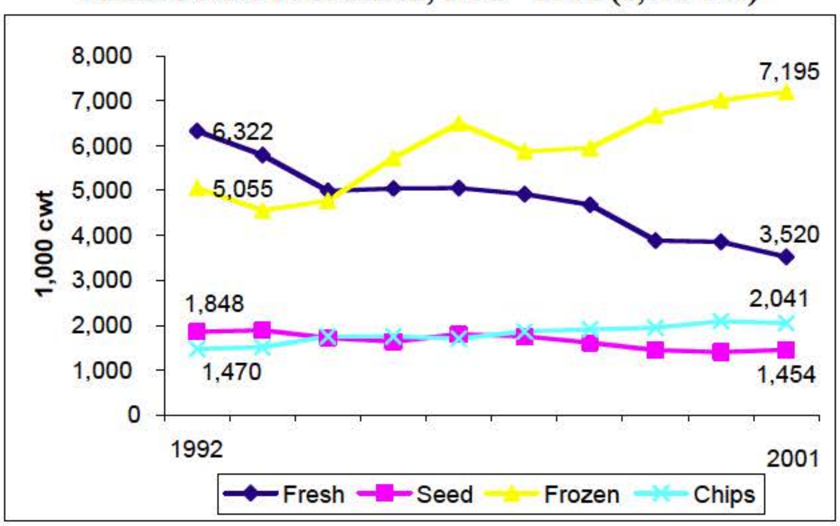
Index of Growth	1992	1997	2001	2002
VOX NAFTA at VOS growth	$18	$24	$22	$21
export sales lost	$0	-$53	-$58	-$56
export employment lost	0	-287	-349	-341
VOM NAFTA at VOS growth	$56	$72	$68	$65
import sales gained	$0	$23	$83	$88
import employment gained	0	122	504	535
Net sales change	$0	-$31	$26	$32
Net employment change	0	-166	155	194

In addition to the food processing industries described above, Maine shares two common agricultural products with its Canadian neighbors—blueberries and potatoes. Each should be considered briefly with respect to NAFTA and international trade.

Potatoes

The most significant fact regarding potatoes is how Maine and the eastern Canadian provinces operate as a single economic region. The most significant change in Maine's potato industry over the past decade has been the shift from production for the fresh market to production for the processed market. Figure 17 illustrates this change.

Figure 17
Maine Potato Production, 1992 – 2001 (1,000 cwt)

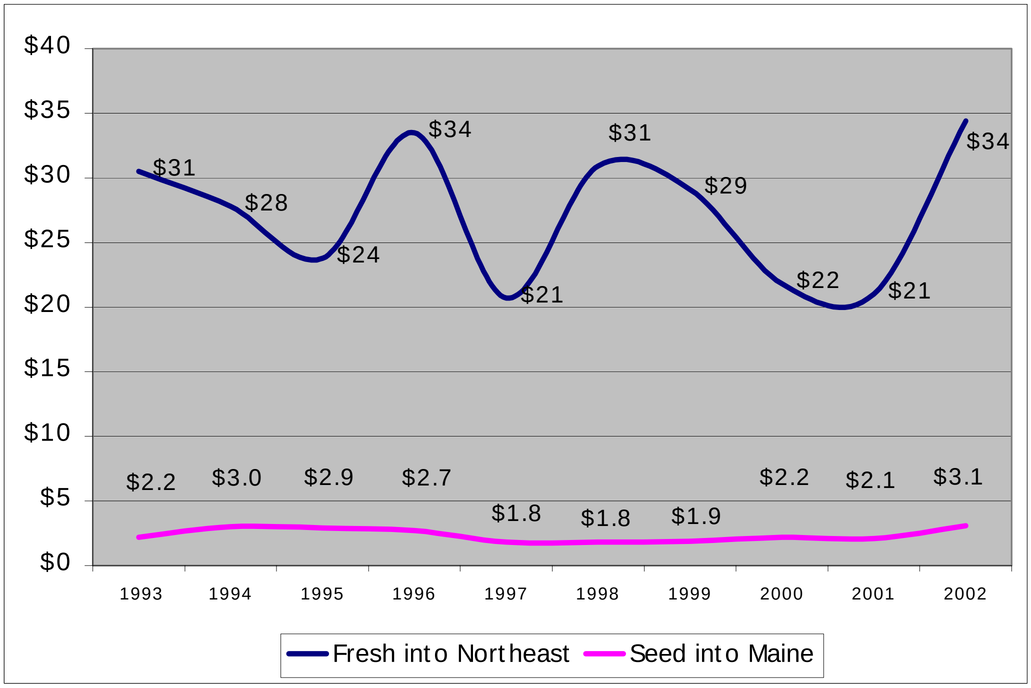


Source: U.S. Department of Agriculture, National Agricultural Statistics Service, Potatoes Final Estimates, 1992-97 and 2001 Summary.

While Maine's production of potatoes for the fresh market has dropped by nearly half, from 6.3 million cwt in 1992 to 3.5 million cwt in 2001, its production for the processed market showed a reverse pattern, jumping from 5.1 million cwt to 7.2 million cwt. The primary reason for this jump was the $70 million investment by the Canadian based company McCain Foods in its processing plant in Easton, Maine. This investment was accompanied by guaranteed contracts offered to Maine growers. Many Maine growers chose this market over the volatility and risk of the fresh market. A similar pattern was evident in the potato chip market where the largest producer—Frito Lay—contracted with Maine growers (as well as those from other areas) to supply its plant in Connecticut, while small, independent producers such as Humpty Dumpty went out of business. In both cases, Maine has the advantage of being closer to the major consumer market than its competitors, but is growing ever more dependent on major producers with their ability to manage the production, pricing, inventory and marketing process.

This market shift in Maine coupled with the generally declining value of the Canadian dollar (see Figure 3 above) resulted in an increase in imports of Canadian potatoes (particularly from Prince Edward Island) for the fresh market. Figure 18 below illustrates the changing values of fresh potatoes imported from Atlantic Canada into the Northeastern U.S. and of seed potatoes imported into Maine.[21]

Figure 18
Imports of Fresh & Seed Potatoes (million $)



Source: Statistics Canada http://strategis.gc.ca/sc_mrkti/tdst/tdo/tdo.php#tag

[21] Atlantic Canada is Prince Edward Island, Nova Scotia and New Brunswick. Northeastern U.S. is New England, New York, Pennsylvania, New Jersey, Maryland, Delaware and the District of Columbia.

The value of Canadian fresh potatoes imported into the Northeastern U.S. fluctuated between $20 million and $30 million per year over the past decade. The value of Canadian seed potatoes imported into Maine fluctuated between $1.8 million and $3.1 million over the same period. Both ended the period at high levels because of the generally higher prices on the market in 2002.

The central point to be made with respect to NAFTA and potatoes is that the agreement *per se* had very little effect on Maine. The decrease in tariffs had very little if any impact on the decisions of Maine growers. In a larger sense, however, the atmosphere of increased economic integration did play a major role in development of the market. The McCain investment in a Maine processing facility was the single most significant reason for the movement of Maine growers toward the processing market. It was accompanied by an equally significant investment by Maine growers (backed by FAME's commitment) in improved storage facilities. This movement, strongly assisted by the favorable exchange rate for Canadian growers, facilitated a major increase in market share in the fresh market by Canadians growers.

Blueberries

Table 14 below illustrates the pattern of trade between Maine and Canada with respect to both fresh and frozen blueberries.

Table 14
Maine-Canadian Trade in Blueberries, 1993-2002, ($1,000)

	Maine Exports to Canada		Maine Imports from Canada	
Year	Fresh	Frozen	Fresh	Frozen
1993	$3,903	$2,126	$4,974	$2,074
1994	$3,697	$2,086	$3,322	$3,454
1995	$31	$1,919	$2,831	$2,619
1996	$15	$5,048	$4,106	$3,205
1997	$875	$6,531	$2,953	$3,588
1998	$184	$9,114	$2,152	$3,267
1999	$5,509	$3,404	$6,441	$5,257
2000	$12,493	$9,244	$5,152	$6,429
2001	$11,504	$4,625	$7,618	$11,076
2002	$9,114	$5,349	$4,376	$7,756

Source: Strategis, http://strategis.gc.ca/sc_mrkti/tdst/tdo/tdo.php#tag

Despite a drastic drop in the mid 1990's, Maine's exports of fresh blueberries to Canada increased over 130% over the period since the establishment of NAFTA. Similarly, exports of frozen blueberries increased over 150%.

On the import side, Maine's imports of fresh berries fluctuated substantially over the period, but ended the decade down just 12% below the 1993 level. Maine's imports of frozen berries, in contrast, increased sharply in the late 1990's. Even after falling from $11 million in 2001 to just under $8 million in 2002, the total increase over the decade amounted to over 270%. The primary reasons for this increase was a near doubling of imports from Novia Scotia and the opening of new land for cultivation in Quebec.

More importantly, the Canadian and Maine blueberry industry has, since 1981, jointly funded an association-- The Wild Blueberry Association of North America (WBANA)--to jointly promote Wild Blueberries and its brand “the Power of Blue”™ to markets around the world.

V. Trade Adjustment Assistance Programs

Introduction

Recognizing that the movement to freer trade will have losers as well as winners, the Federal Government has established a number of programs both to help companies and workers adjust to the impact of legitimate increases in international trade and to protect them from unfair trade practices, most importantly dumping.[22] These programs are:

- ✓ Trade Adjustment Assistance for Workers;
- ✓ Trade Adjustment Assistance for Firms; and
- ✓ Countervailing Duties.

Trade Adjustment Assistance Programs for Workers

The U.S. Department of Labor operates a program that provides a variety of benefits to workers hurt by foreign trade or investment or by the relocation of U.S. operations to another country. The Trade Adjustment Assistance Reform Act of 2002 (TAA Reform Act) was signed on August 6, 2002, reauthorizing the Trade Adjustment Assistance (TAA) program through fiscal year 2007. Under this act, workers directly affected by increased imports or certain shifts of production to other countries and secondarily affected workers of an upstream supplier or downstream producer to a certified primary firm, may petition the U.S. Department of Labor for certification. If their case is certified, they become eligible for retraining, income maintenance, tax credits and health insurance coverage. In addition, the new act includes an alternative program for older workers for whom the retraining offered under the regular TAA program may not be appropriate. The new program provides eligible individuals over the age of 50 who obtain new employment within 26 weeks of their separation with a wage subsidy to help bridge the salary gap between their old and new employment.

Some of the firms eligible for such assistance were listed above in each of the sector reports. Table 15 below presents a summary of the petitions presented to the Maine Department of Labor for such assistance alleging impact from NAFTA. It lists total petitions submitted as well as the totals for those approved, denied and withdrawn.

[22] Dumping is the practice of selling goods on the international market at a price below the domestic cost of production.

Table 15
Summary of Maine's NAFTA Related Petitions for TAA, 1994-2001

Action Taken	Petitions Submitted	Employees Laid Off
Total	54	4,587
Approved	32	2,727
Denied	19	1,615
Terminated	3	245

Source: Maine Department of Labor, Division of Labor Market Information Services, Gerard Dennison, Senior Economic Analyst and NAFTA Petition Coordinator, Lewiston Career Center, January 1994-November 2002.

In short, over 2,700 workers were approved for assistance as a result of some NAFTA related trade activity. The largest number of firms applying for such assistance were in the wood products industry, but a wide variety of firms are included among those certified for assistance. Since this table was prepared, another 1,645 workers have been certified for TAA, bringing the state's current total to 4,372. See Appendix Two for a full listing of firms certified.

Trade Adjustment Assistance Programs for Firms

Trade Adjustment Assistance for Firms is a federal program sponsored by the U.S. Department of Commerce, Economic Development Administration (EDA). It provides financial assistance to manufacturers affected by import competition. The program pays for half the cost of consultants or industry-specific experts for projects that improve a manufacturer's competitiveness.

The program is administered through a network of twelve regional, non-profit organizations. The New England office is currently working with Penley Corporation of South Paris (a clothespin manufacturer), Bethel Furniture of Bethel (a furniture components manufacturer) and Byer Manufacturing Co. of Orono (a camp furniture manufacturer). Previous Maine clients have included Kent, Inc. (a children's clothing manufacturer), Hathaway Shirt Company, Eastland Woolen Mill, Saco Brick Company and Gilber Manufacturing (a producer of cutting boards).

Anti-Dumping Enforcement and Countervailing Duties

Unfair foreign pricing and government subsidies distort the free flow of goods and adversely affect American business in the global marketplace. The Import Administration, within the International Trade Administration of the Department of Commerce, enforces laws and agreements to protect U.S. businesses from unfair competition within the U.S. resulting from unfair pricing (dumping) by foreign companies and unfair subsidies to foreign companies by their governments.

Dumping occurs when a foreign producer sells a product in the United States at a price that is below the producer's sales price in the country of origin or at a price that is lower than the cost of production. The difference between the price (or cost) in the foreign market and the price in the U.S. market is called the dumping margin.

Foreign governments subsidize industries when they provide financial assistance to benefit the production, manufacture or exportation of goods. Subsidies can take many forms, such as direct cash payments, credits against taxes, and loans at terms that do not reflect market conditions.

If a U.S. industry believes that it is being injured by unfair competition through dumping or subsidization of a foreign product, it may request the imposition of antidumping or countervailing duties by filing a petition with both the Import Administration of the U.S. Department of Commerce and the United States International Trade Commission (ITC). The ITC is an independent, nonpartisan, quasi-judicial federal agency that:

- ✓ provides trade expertise to both the legislative and executive branches of government;
- ✓ determines the impact of imports on U.S. industries; and
- ✓ directs actions against certain unfair trade practices, such as patent, trademark, and copyright infringement.

Petitions may be filed by a domestic interested party, including a manufacturer or a union within the domestic industry producing the product that competes with the imports to be investigated. To ensure that there is sufficient support by domestic industry for the investigation, the law requires that the petitioners represent at least 50% of domestic production. The statute requires the petition to contain certain information, including data about conditions of the U.S. market and the domestic industry, as well as evidence of dumping or unfair subsidization.

The Import Administration investigates foreign producers and governments to determine whether dumping or subsidization has occurred and calculates the amount of dumping or subsidies. The ITC determines whether the domestic industry is suffering material injury as a result of the imports of the dumped or subsidized products. The ITC considers all relevant economic factors, including the domestic industry's output, sales, market share, employment, and profits.

If both the Import Administration and the ITC make affirmative findings of dumping and injury, the Department of Commerce instructs the U.S. Customs Service to assess duties against imports of that product into the United States. The duties are assessed as a percentage of the value of the imports and are equivalent to the dumping and subsidy margins.

Over the period from 1993 through 1999, there were 261 petitions filed for anti-dumping or countervailing duties in the United States. Of these, eight were filed against Canadian firms and seven against Mexican firms. Those filed against Canada dealt with stainless steel plate, steel wire rod, live cattle and UHT milk.

Two Maine industries have brought complaints to the Import Administration—mussel growers and the manufactured housing industry. Federal officials from these agencies visited Maine to hear the complaints and explain the process, but neither complaint has resulted in any government action. In the case of the manufactured housing industry, no formal petition was ever filed, and in the case of mussel growers, the petition was withdrawn before the investigation was completed.[23]

[23] Phone conversation and email correspondence with Meredith Wood, Import Policy Analyst, Import Administration, Department of Commerce. See also http://ia.ita.doc.gov/ for information on the Import Administration and its enforcement actions.

VI. Conclusions & Policy Recommendations

The Policy Debate

NAFTA is an agreement entered upon by the federal governments of Canada, Mexico and the United States to increase trade and investment among the parties. In this respect, it has been an unqualified success, as both trade and investment have increased dramatically. The net benefit of this increased international activity has been hotly debated. NAFTA supporters point to the growing value of exports and to the jobs they support as reasons to claim the agreement a success. NAFTA's detractors point to the growing value of imports and to the jobs lost by domestic producers displaced by the imports as reasons to claim the agreement a failure. Interestingly, this debate is played out in all three countries, each claiming that the others have gained more.

The primary reason for this debate, apart from the vested interests of those who have clearly gained and those who have clearly lost, is that determining the net effects of the vast multitude of economic decisions following enactment of NAFTA is extremely difficult. This difficulty arises for two major reasons: unequal distribution of benefits and costs; and the contributing role of non-NAFTA factors.

The gains from international trade tend to be small and widely dispersed. Hundreds of thousands of people chose to save a few cents per board foot of lumber or a few dollars for a shirt by buying foreign made goods offered at lower prices than domestic alternatives. These small and widely distributed gains are difficult to measure and virtually impossible to locate. The costs, on the other hand, tend to be very clearly located and very large for those who bear them. A lumber mill and an apparel factory close and hundreds of workers lose their livelihoods. Opponents of NAFTA are quick to point out the costs, and proponents must generally point to the opposite trends in growing exports. Neither side agrees on a common measure.

The second reason the impact of NAFTA is difficult to measure is the impossibility of singling out one and only one cause to an economic event. Over the housing boom of the past decade, U.S. homeowners have saved thousands of dollars buying Canadian lumber. Is its lower cost relative to U.S. lumber the result of tariff reductions, differences in forest practices, differences in production costs or differences in exchange rates. In the end, the buyer doesn't care as long as the price is lower, and analysts seeking reasons must struggle to attribute percentages to contributing factors.

Finally, It must be noted here that the overall impact on the U.S. as a whole could be positive, while the net impact on Maine, or any given state or sub-region, could be negative. The question depends on the number of "winners" and "losers" and the extent of their gains and losses. In short, the policy debate is complicated not only because of the difficulty of calculating individual gains and losses, but also by the regional perspective of any given policy maker.

Findings

1. Maine's trade with Canada is vastly greater than its trade with Mexico.
In 2002:

- ✓ Maine's exports to Canada accounted for 40% of the state's total exports while its exports to Mexico accounted for only 1% of total exports; and
- ✓ Maine's imports from Canada accounted for 60% of its total imports while imports from Mexico accounted for less than 1% of the total.

2. Maine's trade with Canada and Mexico – both exports and imports -- has increased more rapidly than its general economic growth from 1993 to 2003.

- ✓ Maine's Gross State Product (GSP) grew 55%;
- ✓ Maine's NAFTA imports grew by 179% -- excluding energy products, the growth was 111%;[24] and
- ✓ Maine's total NAFTA exports grew 112%.

3. *Maine's NAFTA trade diversified from an overwhelming concentration in paper and wood products to many industries.*

Over the period from 1993 to 2003:

- ✓ Maine's paper/lumber/wood exports to Canada fell from 54% of total exports to 42% of total exports, while a wide variety of "other" products grew from 12% to 18% of total exports;
- ✓ Maine's imports of paper products fell from 40% to 24% of "non-energy" NAFTA imports while imports of wood and "other" products rose from 46% to 65%; and
- ✓ Maine's imports of fuel and related products grew from $107 million in 1993 to $1.1 billion in 2002, helping propel Portland to become one of the nation's leading fuel ports;
- ✓ Virtually all of the food used in Maine's aquaculture industry is imported from Canada**.**

4. Maine has benefited from Canadian investment.

- ✓ Between 1993 and 2000, Canadian investment in the U.S. increased nine-fold to over $27 billion;
- ✓ A Canadian firm's investment of over $70 million in a potato processing plant in Aroostook County has helped transform Maine's potato growing economy;
- ✓ Three major paper mills and eight lumber mills in Maine are now owned by Canadian firms;
- ✓ Half of the Maine forestland remaining in industry hands is now owned by Canadian paper companies;

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[24] Maine's largest import from Canada has become petroleum products. They totaled over $1 billion in 2002, but do not reflect the rest of Maine's economy, so import totals are listed as "total" and "non-power" total.

- ✓ Maine and Canadian blueberry growers and processors contribute to a joint branding and marketing program.
- ✓ The tremendous flow of petroleum and wood pulp products through the Port of Portland has created new jobs, income and economic opportunity.

5. Maine industries have encountered a wide variety of non-tariff barriers that present significant obstacles to increased trade with Canada.

The increasing Maine-Canadian trade has highlighted the growing importance of non-federal barriers to trade arising from state and provincial fiscal and regulatory policies.

- ✓ A Maine blueberry processor lost a major order in Quebec because of provincial packing requirements that effectively excluded foreign competitors;
- ✓ State-provincial differences in the nature and application of sales taxes and their Canadian equivalents amounts to fiscal discrimination against the Maine manufactured housing industry;
- ✓ Maine and provincial differences in laws regulating the installation of equipment have created *de facto* non-tariff barriers to the sale of some machinery and equipment that include installation in the delivered price.
- ✓ Duty free limits for Canadians returning home from the U.S. are $39 ($50 Canadian) after 24 hours absence, $154 ($200 Canadian) after 48 hours absence and $385 ($500 Canadian) after 7 days absence; U.S. citizens returning from Canada, in contrast, can bring back up to $1,000 duty free. This limitation on Canadian importation has created a sense of unfair treatment among Maine businesses catering to the Canadian tourist trade.

These non-tariff barriers are not part of NAFTA or the result of NAFTA, but constitute a challenge to the trade dispute resolution mechanisms created by NAFTA.

6. Maine has both lost and gained manufacturing jobs as the result of NAFTA, but the net has most likely been a loss because of imports and the movement of production facilities to Canada and Mexico.

- ✓ Nearly 4,400 Maine workers have been certified as eligible for Trade Adjustment Assistance (TAA) by the U.S. Department of Labor for reasons related to NAFTA. The largest number of workers were in electricity production and electronic machinery assembly;
- ✓ The largest number of businesses were in the wood products sector.

A "fixed growth" analysis of four Maine industries indicates that two gained jobs and two lost jobs as the result of NAFTA but that the overall result for the four as a whole was a net job loss for Maine. Under the "fixed growth" scenario, if there had been no NAFTA agreement:[25]

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[25] The "fixed growth" scenario assumes that both imports from and exports to NAFTA countries were held to the overall growth rate of the industry and that Maine companies could have replaced the imports "lost" as a result of this constraint. Under this scenario for the four industries considered here, Maine would have "saved" nearly 800 jobs.

- ✓ The wood products industry would have lost 817 export jobs and gained 1,432 import substitution jobs for a net gain of 615 jobs had there been no NAFTA agreement;
- ✓ The food processing industry would have lost 102 export jobs and gained 535 import substitution jobs for a net gain of 433 jobs;
- ✓ The paper industry would have lost 103 export jobs and gained 47 import substitution jobs for a net loss of 56 jobs;
- ✓ The metal products industry would have lost 294 export jobs and gained 92 import substitution jobs for a net loss of 202 jobs.

7. Maine state government has established a formal policy of buying food products from Maine producers and provides for an offset against any state or province that establishes a "buy local" preference, but there is no such preference at the University System, the Community College System or municipal government. Canadian provincial governments do, in contrast, have a variety of such preferences.[26]

Conclusion

Maine's economy has made important gains as a result of NAFTA. Since 1993 Maine's export and imports have more than doubled, creating more export-based jobs and providing wider purchasing choices to Maine's businesses and consumers. Canadian firms have made important investments in Maine's natural resource industries. Increased specialization within the geographically natural economy that Maine and the Canadian Maritimes comprise has strengthened the global competitiveness of potatoes, blueberries and aquaculture.

At the same time, the wood, food processing and some segments of the metals industries have been hard hit from import competition and have experienced a net loss of jobs.

How does it all balance out? It is impossible to give a definitive quantitative answer. Gains from international trade tend to be small and widely dispersed. Hundreds of thousands of people chose to save a few cents per board foot of lumber or a few dollars on a shirt by buying foreign made goods offered at lower prices than domestic alternatives. These small and widely distributed gains are difficult to measure and virtually impossible to locate. The costs, on the other hand, tend to be very clearly located and very large for those who bear them. A lumber mill, an apparel factory, a cannery, a potato chip plant close and hundreds of workers lose their livelihoods.

What is clear from this study is that there are winners and losers in Maine from greater international trade, and that public policy should address the problems encountered by those who lose jobs and income.

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[26] See MRSA, Title 5 §1825-B [Bids, awards and contracts] and Chapter 8-A [Purchase of foodstuffs from Maine concerns], §213 [implementation of state policy to purchase foodstuffs from Maine concerns].

Recommendations

At the heart of the policy dilemma presented by NAFTA, indeed by all movement toward freer trade and more fully integrated markets, is the question. Is it better:

- ✓ to protect domestic producers by "taxing" through increased tariffs or other restrictions consumers who, given the freedom to choose, would buy imported goods?; or
- ✓ to provide trade adjustment assistance to domestic businesses and workers who suffer from a competitive disadvantage in the open international market so that they can increase their skills and competitiveness or migrate to other fields?

This debate is best exemplified for Maine in the long-running dispute between the U.S. and Canada regarding imports of Canadian softwood lumber. The United States has long argued that Canada "subsidizes" its lumber business by providing low fees to cut on government land whereas the U.S. restricts access to national forests and other government lands. The most recent result of this debate was the imposition by the U.S. eighteen months ago of an additional tariff on the importation of Canadian lumber. The tariff was supposed to protect U.S. producers. Its effect, however, was quite the opposite. First, Canadian producers increased their volume in an effort to lower unit costs sufficiently to offset the tariffs, and secondly (and more importantly for Maine), Canadian businesses increased their investment in wood processing. Since the U.S. market for softwood lumber was limited, Canadian businesses set up plants to glue lumber together, thus making it a structural wood product and not subject to the softwood lumber import quota. This led to a diversion of lumber from Maine milling and structural operations to new Canadian operations on Maine's borders. In addition, it added a non-market disadvantage to Maine's manufactured housing industry by increasing its cost of goods (imported Canadian lumber) while leaving those of Canadian producers unchanged. In effect, the U.S. tariff had the effect of exporting value added production from Maine to Canada.[27]

In short, the attempt to "help" a business by creating artificial, non-market cost differentials is an extremely complicated process that invites retaliation and frequently produces unintended consequences that run counter to the intended "help." The central fact about NAFTA is that it represents only *partial* integration of the North American markets. It eliminates tariff barriers but leaves independent national currencies and independent national and state/provincial fiscal, social and environmental policies and regulatory structures. Lowering the barriers to trade has increased and diversified the contacts among the three NAFTA partners and with these contacts the conflicts arising from the different fiscal and regulatory policies. Therefore, the best response to this situation is to focus on and try to resolve these non-tariff conflicts. Only in this way, will businesses come to feel that they are operating on a truly "level playing field" and the full advantages of market integration be realized.
Five major policy recommendations emerge from the analysis contained in this report.

[27] Lloyd Irland <u>This Emerald Empire: Maine's Forest Resources and Industries in a New Century</u>, November 17, 2003, and conversation with the author, December 4, 2003.

1. Establish a working group on the competitive effects of comparative state and provincial tax and regulatory policies.

Annex C, Section 201.2 establishes a series of Committees and Working Groups under the general auspices of NAFTA. These include committees on subjects as broad as "agricultural subsidies" and as specific as "trade in worn clothing," but there is no group on the trade implications of state and provincial tax policy. This is a matter of significant concern to Maine businesses affected by NAFTA trade. The State of Maine should undertake to establish such a working group to attempt to establish a vehicle for identifying and resolving trade disputes arising from the effects of or differential application of state and/or state taxes on businesses participating in cross border trade.

2. Use the tax and regulatory working group as a first step toward realizing the Governor's broader vision of a Northeast Atlantic Regional Council.

Geographically and culturally, Maine and Northeastern Canada form a natural economy. The opportunities for mutual gain from a closer integration of the economic links across the border outweigh the costs. If Maine and its northern provincial neighbors can continue at the state-provincial level what their federal governments have begun, at the federal level, the gains from NAFTA can be enhanced and the costs minimized.

3. Link Trade Adjustment Assistance to longer-term education in the State's University and Community College Systems.

Over 4,100 Maine workers have been certified as eligible for assistance because they lost their jobs because of increased imports or plant relocation. Most of this assistance, as should be the case, is directed toward helping these workers survive the short run financial dislocations, find new jobs and providing them with the training to qualify. Over time, however, most of these workers will require further education and training if they are to advance to jobs with the pay and benefit levels of those they lost. The state should provide 10-year tuition guarantees for work towards a degree, in effect, a GI Bill for workers certified as displaced by foreign trade/investment activity. Such a program could be further enhanced by granting income tax credits to firms who hire displaced workers and double credits to those who provide tuition assistance for further training for these workers.

4. Link Trade Adjustment Assistance for Firms more closely to the full array of state economic development assistance programs.

While over 4,100 Maine workers have been certified as eligible for TAA, only eight Maine firms have utilized the assistance provided by the TAA for firms program. One reason is that the program requires a 50% match by eligible businesses. Another is that the program is based in Boston. One of Maine's greatest economic development needs is continuing education for its business leaders. If Maine firms are to thrive in the 21st century, they must adapt to the knowledge economy. This applies to business managers and owners just as much as to workers.

The state should make a greater effort to encourage eligible firms to participate in this federally funded program and consider investing assistance funds in the best plans so as to encourage creativity in seeking to adjust to the impact of international trade and investment.

5. Mandate an annual "State of Globalization in Maine" report to be delivered to the Legislature by the Maine International Trade Center.

As Maine's economy becomes increasingly internationalized—a trend clearly evident in the relative growth rates of Maine's international trade and Gross State Product—businesses, consumers and policy makers risk becoming increasingly remote from the causes behind the forces that shape their economy. In order to increase public understanding of both the problems and opportunities presented by international trade and investment, the State should order an annual report summarizing key effects on Maine of its connections to the world economy. This report should draw on the resources of the State Planning Office, the Department of Economic and Community Development and the Maine International Trade Center.

VII. Appendices

Appendix A: LD 0607 A Study of the Effects of NAFTA on Maine

Sec. 1. Study effects of NAFTA. Resolved: That the Department of Economic and Community Development and the Executive Department, State Planning Office shall jointly study the effects of the North American Free Trade Agreement, or "NAFTA," on Maine small businesses. The study must include, but is not limited to, the positive and negative effects of NAFTA on imports and exports in general with particular attention to:

1. Imports used in public and nonprofit construction projects;
2. Metal products and steel fabrication industry;
3. Wood products; and
4. Manufactured housing and home building industries; and be it further

Sec. 2. Report. Resolved: That on or before October 31, 2003, the Department of Economic and Community Development and the Executive Department, State Planning Office shall submit to the Legislature a joint report summarizing the results of the study, including, but not limited to, information on jobs created and jobs lost in the State due to NAFTA and businesses created and businesses closed in the State due to NAFTA; and be it further

Sec. 3. Legislation. Resolved: That on or before November 14, 2003 the Department of Economic and Community Development may submit legislation resulting from the study to the Legislature that would:

1. Expand business opportunities under NAFTA for Maine businesses; &
2. Minimize adverse effects of NAFTA on Maine businesses.

SUMMARY

This resolve directs the Department of Economic and Community Development and the Executive Department, State Planning Office to study the positive and negative effects of the North American Free Trade Agreement, with particular emphasis on several important business sectors, and permits the Department of Economic and Community Development to submit legislation for consideration in the Second Regular Session of the 121st Legislature to help expand business opportunities under and minimize adverse effects of NAFTA.

Appendix B: Trade Adjustment Program Petitions in Maine, 1993 to 2002

Company	Sector	Location	Workers	Date	Reason
Maine Brand Manufacturing	apparel	Littleton, ME	15	4/24/2003	Customer imports increased; no location identified
L.L. Bean Mfg.	Apparel	Brunswick, ME	30	4/14/2003	Customer imports increased; no location identified
Dirigo Stitching, Inc.	apparel	Skowhegan, ME	23	4/24/2003	Customer imports increased; no location identified
Manufacturing and Technical Enterprises	electric mfg	East Wilton, ME	23	03/05/99	Customer imports increased; no location identified
Tyco Electronics	electric mfg	Sanford, ME	211	12/14/00	Shift in production to Mexico
Nautel Maine	electric mfg	Bangor, ME	7	04/03/01	Shift in production to Canada
SCI Systems	electric mfg	Augusta, ME	200	06/19/01	Increased company imports from Mexico
OSRAM Sylvania Products,	electric mfg	Bangor, ME	97	4/2/2003	shift in plant to Mexico.
Sanmina – SCI Corp.	electric mfg	Augusta, ME	400	7/25/2003	shift of assembly to Mexico and Canada
Maine Yankee Atomic Power	electricity	Wiscasset, ME	512	01/23/98	Increased customer imports from Canada
Johns Manville International	foam insulation	Saco, ME	24	07/13/00	Shift in production to Canada
Port Clyde Canning	food	Rockland, ME	120	08/28/97	Shift in production to Canada
Humpty Dumpty Potato Chips	food	Scarborough, ME	144	02/15/00	Shift in production to Canada
Say Cheese	food	Lewiston, ME	3	7/7/2003	shift of production to Canada.
Apollo Tanning	leather	Camden, ME	22	07/27/99	Increased customer imports from Mexico
Robert Mitchell	metal	Portland, ME	51	01/22/02	Increased company imports from Canada
Fayscott LLC	metals	Dexter, ME	20	5/14/2003	Customer imports increased; no location identified
Kimberly Clark	paper	Winslow, ME	115	08/27/97	Increased company imports from Mexico

Tree Free Fiber L.L.C.	paper	Augusta, ME	115	02/23/98	Increased customer imports from Mexico
Mead Paper	paper	Rumford, ME	157	02/12/99	Increased aggregate U.S. imports from Canada/Mexico
Chinet Company (The)	paper	Waterville, ME	89	01/28/00	Increased customer imports from Canada
Volk Packaging	paper	Biddeford, ME	8	03/21/02	Increased customer imports from Canada
S.D. Warren Company	paper	Westbrook, ME	35	6/12/2003	Customer imports increased; not identified Canada/Mexico
Nexfor Fraser Papers	paper	Madawaska, ME	14	6/25/2003	Customer imports increased; not identified Canada/Mexico
Thomas and Betts	plastics	Sanford, ME	90	09/25/97	Shift in production to Mexico
Geiger Bros, Inc.	printing	Lewiston, ME	22	4/16/2003	Customer imports increased; not identified Canada/Mexico
Maine Rubber International	rubber tires	Scarborough, ME	6	09/07/99	Shift in production to Canada
Ansewn Shoe	shoe	Bangor, ME	39	06/17/99	Increased customer imports from Mexico
Acorn Products	shoe	Hampden, ME	68	07/23/99	Increased customer imports from Mexico
Acorn Products	shoe	Lewiston, ME	22	07/23/99	Increased customer imports from Mexico
G.H. Bass	shoe	S. Portland, ME	37	10/27/99	Shift in production to Mexico
L and A Molding	shoe	Lewiston, ME	46	05/01/02	Shift in production to Canada
Bottoms Group, Inc.	shoe	Auburn, ME	20	12/6/2002	Customer imports increased; not identified Canada/Mexico
Allen-Edmonds Shoe Corp.	shoe	Lewiston, ME	6	4/9/2003	Customer imports increased; not identified Canada/Mexico
Jagger Brothers	textiles	Springvale, ME	15	5/14/2003	Customer imports increased; not identified Canada/Mexico
Georgia Pacific	wood	Baileyville, ME	283	01/19/99	Increased company imports from Canada

Irving Forest Products	wood	Ashland, ME	37	01/12/01	Increased customer imports from Canada
Georgia Pacific	wood	Baileyville, ME	55	01/09/02	Increased aggregate U.S. imports from Canada/Mexico
International Paper	wood	Milford, ME	250	09/25/01	Shift in production to Mexico
International Paper	wood	Passadumkeag, ME	263	09/25/01	Shift in production to Mexico
Shermag Corporation-DBA Woodtek	wood	North Anson, ME	50	10/17/01	Shift in production to Canada
Solon Manufacturing	wood	Skowhegan, ME	65	03/19/02	Increased customer imports from Canada
Solon Manufacturing	wood	Solon, ME	n.a.	03/19/02	Increased customer imports from Canada
Sherman Lumber Company	wood	Sherman Station, ME	40	11/29/2002	Related Industry
Saunders Brothers, Inc.	wood	Westbrook, ME	90	12/3/2002	Customer imports increased; not identified Canada/Mexico
H.G. Winter and Sons, Inc	wood	Kingfield, ME	27	1/27/2003	Customer imports increased; not identified Canada/Mexico
Great Northern Paper Co.	wood	E. Millinocket, ME	197	2/3/2003	Customer imports increased; not identified Canada/Mexico
Houlton International Corp.	wood	Houlton, ME	90	6/27/2003	Customer imports increased; not identified Canada/Mexico
Alltrista Comsumer Products	wood	Strong, ME	85	6/26/2003	Customer imports increased; not identified Canada/Mexico
Totals	49	companies	4,372	workers	

Source Maine Department of Labor

Appendix C
Maine Exports to Canada by Industry, 1988 and 2000 ($ & %)

Description	1988	share of total	Description	2000	share of total
TOTAL ALL INDUSTRIES	**$299,614,658**	**100.0%**	**TOTAL ALL INDUSTRIES**	**$895,922,348**	**100.0%**
LUMBER AND WOOD PRODUCTS	86,815,687	29.0%	LUMBER AND WOOD PRODUCTS	273,802,928	30.6%
PAPER AND ALLIED PRODUCTS	73,556,230	24.6%	FISHING, HUNTING, AND TRAPPING	122,832,146	13.7%
FOOD AND KINDRED PRODUCTS	36,236,810	12.1%	PAPER AND ALLIED PRODUCTS	99,241,485	11.1%
IND MACHINERY, COMPUTER EQUIPMENT	20,251,895	6.8%	ELECTRONIC,ELECTRIC EQUIP,EXC COMPUTERS	72,052,035	8.0%
ELECTRONIC,ELECTRIC EQUIP,EXC COMPUTERS	18,035,495	6.0%	IND MACHINERY, COMPUTER EQUIPMENT	42,321,195	4.7%
PRINTING AND PUBLISHING	13,668,276	4.6%	FOOD AND KINDRED PRODUCTS	38,247,296	4.3%
PRIMARY METAL INDUSTRIES	7,192,887	2.4%	OIL AND GAS EXTRACTION	36,427,286	4.1%
TRANSPORTATION EQUIPMENT	6,571,282	2.2%	AGRICULTURAL PRODUCTION-LIVESTOCK	34,602,681	3.9%
RUBBER AND MISC. PLASTICS PRODUCTS	5,695,667	1.9%	TRANSPORTATION EQUIPMENT	30,103,726	3.4%
LEATHER AND LEATHER PRODUCTS	5,604,509	1.9%	GOODS RETND TO CAN	22,990,320	2.6%
CHEMICALS AND ALLIED PRODUCTS	4,565,317	1.5%	AGRICULTURAL PRODUCTION-CROPS	20,699,967	2.3%
AGRICULTURAL PRODUCTION-CROPS	3,572,792	1.2%	RUBBER AND MISC. PLASTICS PRODUCTS	19,178,922	2.1%
PETROLEUM AND COAL PRODUCTS	3,063,207	1.0%	SCRAP AND WASTE	14,621,715	1.6%
INSTRUMENTS AND RELATED PRODUCTS	2,880,031	1.0%	FABRICATED METAL PRODUCTS	11,112,121	1.2%
TEXTILE MILL PRODUCTS	2,219,583	0.7%	CHEMICALS AND ALLIED PRODUCTS	10,232,927	1.1%
STONE, CLAY, AND GLASS PRODUCTS	2,049,347	0.7%	LEATHER AND LEATHER PRODUCTS	8,238,779	0.9%
FABRICATED METAL PRODUCTS	1,787,808	0.6%	APPAREL AND OTHER TEXTILE PRODUCTS	6,720,861	0.8%
SCRAP AND WASTE	1,643,456	0.5%	PETROLEUM AND COAL PRODUCTS	6,165,279	0.7%
MISC. MANUFACTURING INDUSTRIES	936,688	0.3%	INSTRUMENTS AND RELATED PRODUCTS	5,625,263	0.6%
SPECIAL CLASSIFICATION PROVISIONS, NSPF	912,116	0.3%	TEXTILE MILL PRODUCTS	5,443,866	0.6%
AGRICULTURAL PRODUCTION-LIVESTOCK	826,956	0.3%	MISC. MANUFACTURING INDUSTRIES	3,468,470	0.4%
APPAREL AND OTHER TEXTILE PRODUCTS	460,532	0.2%	STONE, CLAY, AND GLASS PRODUCTS	2,851,819	0.3%
USED OR SECOND-HAND MERCHANDISE	434,009	0.1%	PRIMARY METAL INDUSTRIES	2,605,391	0.3%
FORESTRY	264,418	0.1%	FURNITURE AND FIXTURES	2,243,622	0.3%

FURNITURE AND FIXTURES	188,707	0.1%	PRINTING AND PUBLISHING	1,103,984	0.1%
NONMETALLIC MINERALS, EXCEPT FUELS	180,953	0.1%	SPECIAL CLASSIFICATION PROVISIONS, NSPF	1,066,495	0.1%
FISHING, HUNTING, AND TRAPPING	0	0.0%	METAL MINING	955,270	0.1%
OIL AND GAS EXTRACTION	0	0.0%	USED OR SECOND-HAND MERCHANDISE	664,784	0.1%

Source: MISER http://www.misertrade.org/

Appendix D
Maine Imports from Canada by Industry, 1993 and 2002 ($ & %)

Industry (NAICS)	1993	% share	2002	% share
32411 - Refined Petroleum	$170,185	15.9%	$1,046,555	35.0%
32211 - Pulp Mills	294,313	27.5%	279,776	9.4%
32111 - Sawmills and Wood Preservation	70,784	6.6%	247,059	8.3%
22111 - Electric Power Generation	33,036	3.1%	133,434	4.5%
32212 - Paper Mills	48,978	4.6%	123,470	4.1%
11411 - Fishing	57,366	5.4%	72,473	2.4%
32518 - Other Basic Inorganic Chemicals	41,099	3.8%	70,718	2.4%
31141 - Frozen Foods	13,163	1.2%	70,635	2.4%
31171 - Seafood Product Preparation and Packaging	34,606	3.2%	66,686	2.2%
32199 - All Other Wood Products	3,087	0.3%	34,704	1.2%
32121 - Veneer, Plywood and Engineered Wood Products	1,983	0.2%	29,480	1.0%
33612 - Heavy-Duty Trucks	8,387	0.8%	26,881	0.9%
11251 - Animal Aquaculture	7,727	0.7%	22,348	0.7%
32521 - Resin and Synthetic Rubbers	5,562	0.5%	21,436	0.7%
11142 - Nursery and Floriculture Products	2,869	0.3%	17,750	0.6%
32619 - Other Plastic Products	5,295	0.5%	17,034	0.6%
33231 - Plate Work and Fabricated Structural Products	1,100	0.1%	16,730	0.6%
31111 - Animal Foods	7,802	0.7%	16,018	0.5%
32221 - Paperboard Containers	3,039	0.3%	15,915	0.5%
33611 - Automobile and Light-Duty Motor Vehicles	297	0.0%	14,481	0.5%
32611 - Unsupported Plastic Film, Sheet and Bags	5,495	0.5%	13,990	0.5%
32512 - Industrial Gases	489	0.0%	13,189	0.4%
31522 - Men's and Boys' Cut and Sew Clothings	875	0.1%	12,343	0.4%
33411 - Computer and Peripheral Equipment	396	0.0%	12,107	0.4%
32191 - Millwork	745	0.1%	12,095	0.4%
All Other Industries	250,060	23.4%	581,003	19.4%
Total All Industries	$1,068,739	100.0%	$2,988,312	100.0%
Total non-energy	$865,518		$1,808,323	

Source of data: Statistics Canada

Report Date: 14-Nov-2003

Appendix E
List of People Interviewed in the Course of the Study

Professor Áslaug Ásgeirdóttir of Bates College and her students in International Political Economy provided enormous assistance in the completion of this project. As part of their course work, students interviewed the following individuals.

William Atwood	Atwood Lobster Company	Spruce Head
Peter Connell	Oxford Homes	Oxford
Theresa DesFosses	Burlington Homes of Maine	Oxford
Alan Dorval	Mid-State Machine	Winslow
Harold Durost	McCain Foods USA Incorporated	Oak Brook, IL
Tim Farrar	Keiser Industries	Oxford
Cynthia E. Gelinas	Parker Hannifin Corporation	Portland
Tom Howard	Domtar Industries	Augusta
Mike Luciano	Madison Paper Industries	Madison
Lisa Martin	Maine Metal Products Association	Augusta
Tom Maurey	Nichols Portland	Portland
Delmont Merrill	Merrill Blueberry Farms Incorporated	Ellsworth
Mark Patterson	Great Eastern Mussel Farms	Tenants Harbor
Alden Robbins	Robbins Lumber	Searsmont
John Rosmarin	Saunders Manufacturing	Winthrop
Tom Rush	Marin Wild Blueberry Company Inc.	Cherryfield
Roland Sutton	Maine Machine	South Paris

All those interviewed were asked the following questions:

1. In the past 10 years, has your company increased exports from plants or operations in Maine to either Canada or Mexico? Specify how much?

2. In the past 10 years, has your company imported more goods from either Mexico or Canada to use in its production in Maine? Specify how much?

3. In the past 10 years, has your company lost suppliers to competitors from either Mexico or Canada? Specify how much?

4. Has your company invested in businesses in Canada or Mexico? Specify where?

5. Have Canadian or Mexican businesses invested in your sector in Maine in the past 10 years? Ask for specifics?

6. What foreign companies provide the most competition to your sector in the State of Maine? Where are these companies headquartered? Is this a change from the years before NAFTA was passed?

7. How many people does your company currently employ?

8. What is the maximum number of workers your company has employed during the past 10 years? When was this?

9. During the past 10 years, has your business had to lay off people? If yes, When? How many?

10. Has your company had to change employee benefits to stay competitive? Health benefits? Retirement benefits

11. Do you see conditions worsening or improving in the future? Why?

12. What changes could the State of Maine make to help Maine businesses stay competitive?

In addition to these interviews, staff from Planning Decisions, Inc. interviewed the following individuals:

David Clough	National Federation of Independent Businesses
Richard Coyle	President, Maine International Trade Center
Gerard Dennison	Maine Department of Labor
Kathryn Dostie	Maine Department of Labor
Dana Evans	Maine Department of Labor
Kevin Hancock	Hancock Lumber
Lloyd Irland	Irland Associates (Lumber Consultant)
Wick Johnson	Kennebec Tool & Dye

Richard McLaughlin	Director, New England Trade Adjustment Assistance Center, Inc.
Wade Merritt	Director, Bangor Office, Maine International Trade Center
Carla Miller	Trade Specialist, Massachusetts Institute for Social & Economic Research (MISER)
Meredith Wood	Import Policy Analyst, Import Administration, U.S. Department of Commerce

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