



# Trade Basics

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## Trade Adjustment Assistance and Agriculture

By Paul Drazek

Removing barriers to international trade is generally acknowledged to be beneficial to economies as a whole by offering consumers a wider selection of goods and services at lower prices. Lower prices, in turn, free up disposable income for additional purchases or savings and encourage more efficient and competitive domestic production. When trade barriers are removed as a result of trade agreements in which foreign trade barriers are also reduced or eliminated, widespread economic benefits are also generated through increased exports.

However, increased trade can also have negative effects on domestic industries and workers that face increased competition from increased imports. In recognition of this reality, the United States Congress created the Trade Adjustment Assistance (TAA) Program as part of the Trade Expansion Act of 1962. The objectives of the program were essentially two-fold: to help workers and firms adjust to dislocation that may be caused by increased trade liberalization and to offer an alternative to calls for increased import protection, potentially resulting in costly trade disputes and potential foreign retaliation. TAA was seen as an obligation the government had to help out those hurt by trade for the greater benefit of society.

Although farmers are in theory also eligible for TAA benefits, in 2002, a Trade Adjustment Assistance for Farmers (TAAF) program was added to TAA, with somewhat different objectives that will be explained later. In addition, a new trade assistance program for agriculture was created in August 2018 in response to export losses from foreign retaliation for U.S. tariffs imposed against a number of countries. This program is dissimilar from traditional TAA programs in several respects, as explained in a later section, and is, as of now, a temporary one-shot assistance effort.

Then as now, however, critics have complained variously that the TAA program is inefficient or inequitable, underfunded or overfunded, or a waste of taxpayer dollars. Despite these criticisms, the program has been continually renewed and sometimes broadened, generally as part of legislation approving a bilateral or regional trade agreement or when providing trade negotiating authority to presidents. It was most recently reauthorized as part of the bill extending Trade Promotion Authority (TPA) in 2015 and its eligibility and benefit provisions were authorized to continue through June 30, 2021.

### ***The Trade Adjustment Assistance Program***

*How It Works:* Obtaining TAA benefits is a two-step process. First, a group of trade-affected workers must petition the U.S. Department of Labor (DOL) and a DOL investigation must verify the role of increased foreign trade in the workers' job losses. In doing so, DOL considers the following: (1) Did sales or production of the petitioning entity decrease, while imports of directly competitive products increased? (2) Did the petitioning workers' firm shift production or did it acquire from a foreign provider articles or services that are directly competitive with those produced by the workers? (3) Have workers in a downstream petitioning firm been adversely affected by lost business with a firm already TAA-certified? (4) Are affected workers from firms that have been identified by the U.S. International Trade Commission (USITC) as injured by imports in an import relief investigation?

Second, once a petition is certified by DOL, covered workers may apply for individual benefits if they meet all of the following eligibility requirements: (1) separation from the firm on or after the impact date specified in the certification but within two years of DOL certification, (2) employment with the affected firm in at least 26 of the 52 weeks preceding layoff, (3) entitlement to state unemployment compensation benefits, and (4) no disqualification for extended unemployment benefits.

Benefits available to individual workers include the following: (1) training and reemployment services designed to assist workers in preparing for and obtaining new employment, (2) training subsidies to support workers in developing skills for a new occupation, (3) case management services and job search assistance, (4) weekly income support payment for TAA-certified workers who have exhausted their unemployment compensation and who are enrolled in an eligible training program, (5) a

wage insurance program available to certified workers age 50 and over who obtain reemployment at a lower wage, and (6) a Health Coverage Tax Credit operated through the tax code equal to 72.5% of qualified health insurance premiums. All of the above benefits are subject to maximum limits, whether in receipts or time period, or both.

*Funding:* TAA is a direct spending (also called "mandatory") program that is supported through annual appropriations. As such, it is subject to sequestration under the Budget Control Act of 2011. For FY2018, the Office of Management and Budget (OMB) determined that the reduction for non-exempt, non-defense spending would be 6.6%.

In FY2018, Congress appropriated \$790 million for the TAA programs. Of this amount, \$450 million was for training and reemployment services and the remaining \$340 million was for income support and wage insurance. The entire \$790 million appropriation was subject to the sequestration cut, which was \$52.14 million. The DOL applied all of that cut to the training and reemployment services funding, reducing the funding for training and reemployment services from \$450 million to \$397.86 million. It left income support and wage insurance unchanged.

### ***The Trade Adjustment Assistance for Farmers Program***

The Trade Adjustment Assistance for Farmers (TAAF) program was created in 2002 and modified in the 2009 economic stimulus package (P.L. 111-5). Although farmers could always apply for TAA benefits, most are self-employed and would have difficulty meeting the criteria for assistance for adverse effects from imports. Moreover, farmers are also less interested in programs aimed at finding work in new or different jobs. For these reasons, the DOL recommended that a separate program be established for them.

While the TAAF provides technical assistance and cash benefits to producers of farm commodities and fishermen who experience losses from increased imports, it is different from the main TAA program in that its objective is to help producers remain in business, rather than assist workers who have lost jobs in finding new work. There is a training component, which is intended to help a producer become more competitive in producing the same or another commodity, and a financial assistance component, which is to be used to develop and implement a business adjustment plan designed to address the impact of import competition.

Although the program was funded through 2013 and was reauthorized through FY2015 in the Preferences Extension Act of 2015, no funds for it have been appropriated since December 2011.

When operational, the program is carried out by the U.S. Department of Agriculture (USDA), which administers it in a two-step process. Much like the TAA, first a group of producers must be certified eligible to apply and then each producer in that group must meet certain requirements to receive benefits. A group can be certified if it can demonstrate that imports were a significant reason for a 15% or greater decline in one of the following: the price of the commodity, the quantity of the commodity produced, or the production value of the commodity.

If a commodity group is certified, an individual producer within that group must then meet three requirements to receive program benefits: (1) he or she produced the commodity in the current year and also in one of the previous three years, (2) the quantity produced of the commodity decreased compared to that in a previous year or the price received for the commodity decreased compared to a preceding three-year average price, and (3) no benefits were received under any other trade adjustment assistance program.

From 2009 to 2011, USDA certified 10 of 30 petitions filed by producers of 5 commodity groups: shrimp, catfish, asparagus, lobster, and wild blueberries. Approximately 4,500 individual producers received benefits in FY2010 and about 5,700 producers received benefits in FY2011.

### *Assistance for Farmers Impacted by Unjustified Retaliation*

On August 27, 2018, USDA announced details of a program to assist farmers in response to trade damage from retaliation by foreign nations in response to tariffs imposed by the United States on imports of steel and aluminum from China, the European Union, Canada, Mexico, India and Turkey, and for U.S. tariffs imposed on a wide range of products from China for China's treatment of U.S. intellectual property rights.

The program provides up to \$12 billion in funding to "mitigate the trade damages sustained by our farmers," according to USDA Secretary Sonny Perdue. According to USDA's press release, the following programs "will assist agricultural producers to meet the costs of disrupted markets." Additional details on each of these programs are available from USDA.<sup>1</sup> The program includes three components:

- A Market Facilitation Program (MFP) to provide payments to corn, cotton, dairy, hog, sorghum, soybean, and wheat producers starting September 4, 2018. The amount allocated for a first tranche of payments is \$4.7 billion, or about half of the total allocated for this program. A second, and final, set of payments will be made in January.
- A Food Purchase and Distribution Program to purchase up to \$1.2 billion in commodities targeted by unjustified retaliation. USDA's Food and Nutrition Service (FNS) will distribute these commodities through nutrition assistance programs such as The

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- Emergency Food Assistance Program (TEFAP) and child nutrition programs.
  - A final \$200 million will be made available through the existing Agricultural Trade Promotion Program (ATP) to develop foreign markets for U.S. agricultural exports. The program will help U.S. agricultural exporters identify and access new markets.

USDA has stated that there are no plans to extend these programs beyond their current scope, regardless of the status of foreign retaliation against U.S. agricultural exports. The objective of the programs was to assist farmers in coping with “unjustified” retaliation and to allow time for producers to “adjust” to new market conditions moving forward.

There are several significant differences between these USDA programs and more traditional trade adjustment assistance programs.

- First and foremost, the assistance is not in response to competition from increased imports. Rather, it is aimed at offsetting harm done to producers from lost exports.
- Second, it is not part of a broader policy objective of lowering import barriers and freeing up international trade, such as through free trade agreements. Instead, it is fallout from what is essentially a trade war, albeit one that is hoped will ultimately lead to freer trade.

- Third, the programs are not available to all sectors affected by foreign retaliation, only farmers (and not all sectors of agriculture receive direct payments). Other sectors have expressed frustration that agriculture has been given preferential treatment.
- Fourth, the funding is coming from USDA’s Commodity Credit Corporation’s statutory authority to borrow up to \$30 billion from the U.S. Treasury Department. So, the program is not specifically legislated or authorized by Congress.
- Finally, the size of the program is significantly larger than funding for TAA. As mentioned above, TAA was funded for workers in all sectors in fiscal year 2018 at about \$738 million after sequestration, or about 6% of the funding for these agricultural programs.

### **Conclusion**

Trade adjustment assistance programs (TAA, TAAF, or other monetary assistance from the federal government) make up an important component of U.S. trade policy, which can help workers and farmers negatively impacted by global trade. However, funding for these programs has been limited or nonexistent over the years, with has limited the benefit of these programs for affected workers and farmers.

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*Notes from the Author: The Trade Adjustment Assistance Program and its operational provisions are highly complex and involve many more layers of detail than can properly be summarized in this paper. For a fuller description of the program, please refer to the following Congressional Research Service (CRS) reports, from which much of this paper was derived: “Trade Adjustment Assistance for Workers and the TAA Reauthorization Act of 2015,” August 14, 2018, CRS Report R44153; “Trade Adjustment Assistance for Farmers,” August 1, 2016, CRS Report R40206; and “Trade Adjustment Assistance (TAA) and Its Role in U.S. Trade Policy,” August 5, 2013, CRS Report R41922.*

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<sup>1</sup> For additional information on the “Assistance for Farmers Impacted by Unjustified Retaliation,” visit <https://www.fas.usda.gov/newsroom/usda-announces-details-assistance-farmers-impacted-unjustified-retaliation>