

# CRS Report for Congress

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### Trade Adjustment Assistance for Farmers

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#### Summary

The 107<sup>th</sup> Congress in late July and early August 2002 cleared for the President's signature a wide-ranging trade bill (H.R. 3009) that includes reauthorization and expansion of trade adjustment assistance (TAA) programs for workers and firms. One TAA provision authorizes a new \$90 million annual program for agriculture, aimed at addressing low farm prices caused at least partly by imports. Among the issues is the need for a new program designed specifically for farmers in ranchers, particularly after Congressional approval, earlier in 2002, of a comprehensive 6-year farm bill that significantly expands farm commodity support. This report will be updated if events warrant.

U.S. workers and firms have long been eligible to apply for trade adjustment assistance (TAA) under separate programs operated through the Departments of Labor (DOL) and Commerce (DOC), respectively. The TAA programs provide extended unemployment benefits and training support for workers, and technical assistance to firms, that are adversely affected by federal policies that reduce barriers to foreign trade. Many economists prefer TAA over trade restrictive remedies because it directs assistance to those most affected and does so without distorting prices, although some critics have questioned the need for this assistance and/or its effectiveness.<sup>1</sup>

Legislative authority for TAA for workers and firms expired at the end of FY2001, as the 107<sup>th</sup> Congress considered legislation to extend it.<sup>2</sup> A TAA bill approved by the Senate Finance Committee in late 2001 included a new TAA program specifically for producers of agricultural commodities. This program was incorporated into a more wide-ranging Senate trade bill and was retained by House-Senate conferees in July 2002. The final conference version of the trade bill, with the agriculture TAA, was cleared by Congress and is expected to be signed by the President (see "Congressional Action").

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<sup>1</sup> Examples of trade restrictive remedies are higher import tariffs obtained through anti-dumping and countervailing duty actions. See: CRS Report RL31296, *Trade Remedies and Agriculture*.

<sup>2</sup> Although the program authorization expired, it continued to operate in FY2002 with funds appropriated in P.L. 107-116.

## Current TAA Programs<sup>3</sup>

TAA programs were first authorized in 1962. However, Title II of the Trade Act of 1974 (P.L. 93-618), as amended, provides the most recent legislative foundation for three separate programs. They are TAA for workers; the North American Free Trade Agreement Transitional Adjustment Assistance Program (NAFTA-TAAP), also for workers; and TAA for firms.

**TAA for Workers.** A group of unemployed workers can seek assistance under either TAA or NAFTA-TAAP by petitioning the U.S. Department of Labor (DOL) and proving that competition from foreign imports “contributed importantly” to their employer’s loss of business. Under NAFTA-TAAP, eligibility also can be established by showing that the employer relocated the jobs to Mexico or Canada. Under both programs, each worker must establish individual eligibility by: qualifying for state unemployment compensation (UC) benefits; working for the affected firm in at least 26 of the 52 weeks before layoff; and receiving at least \$30 per week from the firm. Total federal cost of the two programs is an estimated \$416 million in FY2002.

Once eligible, a worker is entitled to weekly cash benefits (i.e., trade readjustment allowances) equivalent to the state’s UC benefits, payable after the state UC payments have been exhausted, for up to an additional 52 weeks; up to 104 weeks of required training for a new job (DOL can waive TAA training under certain conditions); and allowances of \$800 for out-of-town job searches and \$800 for relocation to take a new job.

**Agricultural Worker Assistance.** Relatively few petitions for agricultural worker assistance have been filed or approved since the start of the current TAA program in 1974 and NAFTA-TAAP in 1994, according to DOL. For example, from FY1994 to FY2000, only 35 certifications were in agriculture, covering an estimated 5,135 workers. Of these, 2,181 were employees of Florida vegetable firms (1,334 from a single fresh tomato packing company alone). Florida vegetable producers filed numerous claims after 1994 in reaction to increased Mexican imports, an outgrowth, DOL asserts, of the Mexican peso devaluation (i.e., not NAFTA itself).<sup>4</sup> Other certified workers came from various flower and nursery, beef, table grape, mushroom, apple, poultry, and fresh vegetable companies in a number of different states.

As noted, these workers primarily are paid employees in established firms. Farmers and ranchers typically cannot qualify for either of the worker programs for a number of reasons:<sup>5</sup>

<sup>3</sup> This section is based on information from Jim Storey, Specialist in Social Legislation, CRS Domestic Social Policy Division; the CRS Trade Electronic Briefing Book, [Trade Adjustment Assistance for Workers](#) and [Trade Adjustment Assistance for Firms](#); and the 1997 *Overview and Compilation of U.S. Trade Statutes* published by the House Ways and Means Committee.

<sup>4</sup> Data and DOL analysis from *Report on Trade Adjustment Assistance for Agricultural Commodity Producers*, October 26, 2000, to the House Ways and Means Committee. The report was required by Section 408 of the Trade and Development Act of 2000 (P.L. 106-200).

<sup>5</sup> Source: Storey; *Report on Trade Adjustment Assistance for Agricultural Commodity Producers*.

- ! Farmers and ranchers mainly are self-employed and therefore rarely eligible for unemployment benefits;
- ! The TAA law emphasizes training for a new demand occupation and tries to condition income payments on such training. Agricultural producers are less likely than other workers to want to be retrained for a new occupation – especially if they are still earning income from other crops or from non-farm income;
- ! The 1974 trade act ties eligibility to “increases of imports of articles like or directly competitive with articles produced by such workers’ firm.” Agricultural firms are explicitly covered, but only if they produce “articles;”
- ! Farmworkers (as opposed to farm owners and operators) may qualify for unemployment benefits, but low-paid seasonal work may keep them below the earnings and work history thresholds under state UC programs.

**TAA for Firms.** Compared with worker TAA, the program for firms is small, with direct appropriations ranging between \$8 million and \$13 million per year. The program provides technical assistance, via 12 regional Trade Adjustment Assistance Centers, primarily to individual manufacturing and producing businesses that can document decreases in jobs and sales or production due to increased imports of like or similar goods. Direct financial assistance (e.g., grants, loans) was discontinued in 1986. Technical assistance generally is provided through private contractors and emphasizes the development of new or improved products; production efficiency improvements; better marketing; and other strategies to regain competitiveness.

**Agricultural Firm Assistance.** Between FY1995 and the first half of FY2000, DOC’s Economic Development Administration (EDA) certified 29 agricultural and food businesses for the program, including producers of fresh flowers, pineapples, pears, carrots, maple syrup, and a number of seafood companies. More than \$750,000 in program funds were spent during the period to provide technical assistance to 20 of them.<sup>6</sup>

## Congressional Action

In the 106<sup>th</sup> Congress, the Senate had included, in a trade bill (H.R. 434) expanding U.S. trade benefits to Africa, Latin America, and the Caribbean, a new TAA program for farmers. The program, sponsored by Senators Grassley and Conrad, was deleted from the final bill in conference. Conferees instead inserted a requirement that DOL, in consultation with DOC and the U.S. Department of Agriculture (USDA), submit a report to Congress examining applicability of the current TAA programs to agricultural commodity producers and making recommendations to improve their operation for such producers or to establish a new program for them.<sup>7</sup>

In the 107<sup>th</sup> Congress, Senator Conrad introduced, on June 26, 2001, the Trade Adjustment Assistance for Farmers Act (S. 1100), to add a new chapter to Title II of the Trade Act of 1974 creating such a program for FY2002-FY2006. The bill’s language was

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<sup>6</sup> Report on Trade Adjustment Assistance for Agricultural Commodity Producers.

<sup>7</sup> Section 408 of the Trade and Development Act of 2000 (P.L. 106-200), which resulted in the above cited report.

incorporated into a broader measure to extend and amend the TAA programs, the Trade Adjustment Assistance for Workers, Farmers, Communities, and Firms Act of 2001 (S. 1209), introduced July 19, 2001, by Senator Bingaman, which was substantially amended and approved by the Senate Finance Committee on December 4, 2001 (S.Rept. 107-134). TAA including the new program for farmers was incorporated into a substitute amendment to H.R. 3009, extending the Andean Trade Preferences Act, that the Senate approved on May 23, 2002. This larger substitute also contains trade promotion (fast track) trade negotiating authority (TPA), an extension of the Generalized System of Preferences, and several other provisions.

In late July, House and Senate conferees concluded their work on H.R. 3009, and it includes (as Section 141) a slightly modified version of the farmer TAA program cleared late last year by the Senate Finance Committee. The House approved the conference report (H.Rept. 107-624) early on July 27, and the Senate did so on August 1, 2002.

## **Program Description**

Under the new program, a group of agricultural producers can petition the Secretary of Agriculture to be certified as eligible for TAA. The Secretary then has 40 days to determine whether the national average price for the affected commodity or class of goods from that commodity (for the most recent marketing year) was less than 80% of the average price for the prior 5 years, and imports of "articles like or directly competitive with" the commodity in question "contributed importantly" to the price decline. The bill defines this as "a cause which is important but not necessarily more important than any other cause."<sup>8</sup>

If a determination were so made, each member of the eligible group would have 90 days to apply to the Secretary for a cash payment equal to: one-half of the difference between the most recent year's national average price and 80% of the preceding 5 marketing years, times his or her production for the year. An individual commodity producer's benefits under the program are limited to \$10,000 in any 12-month period, and all claims are to be decreased proportionately, if necessary, to ensure that the total national cost of the program does not exceed the annual funding level, which the legislation sets at \$90 million (for each fiscal year, 2003 through 2007).

An applicant's net farm income (as determined by USDA) for the most recent year must be less than his or her net farm income for the latest year in which no adjustment assistance was received. Those with average adjusted gross income above \$2.5 million per year are ineligible if less than 75% of that income is from farming, ranching, or forestry. The applicant also must certify that he or she has met with an Extension Service agent to obtain information and technical assistance on how to adjust to import competition, including improving competitiveness in producing and marketing the import-affected commodity, and possibly shifting to an alternative commodity. Payment recipients cannot receive cash benefits under any other TAA program. However, they are

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<sup>8</sup> The legislation also requires the U.S. International Trade Commission to notify the Secretary of Agriculture when it begins a "section 202," i.e., safeguard, investigation of a particular agricultural commodity, and for the Secretary in turn to study and report to the President on potential U.S. producer eligibility for TAA for the affected commodity.

permitted (but not required, as are other workers) to use other job training and related employment services offered through the TAA programs.

## **Policy Considerations**

The Labor Department report on TAA for agriculture observed that the existing programs for workers emphasize retraining those who have lost their jobs so that they can find other occupations. “Any modifications to these DOL programs such as to provide financial assistance to workers to remain in their current occupations runs counter to the emphasis of these important readjustment programs.” The Commerce TAA program for firms “provides opportunities for agriculture commodity producers who have been injured by lost sales and reduced the number of their employees due to increased imports to receive limited technical assistance, on a cost shared basis, that will help them regain their economic competitiveness.” However, the program has funding limitations and “no authority to provide any direct financial assistance in the form of loans, loan guarantees, or income supplements, to trade injured firms.”

If lawmakers consider legislation to assist agricultural producers and workers affected adversely by imports, it should be “enacted separately and apart” from the current programs, the report concludes. (The newly-approved program is a separate one.)

In the report on its TAA bill S. 1209 (S.Rept. 107-134), the Senate Finance Committee said it “recognizes that the dislocations that can be suffered by farmers and ranchers when imports surge as a result of the liberalization of agricultural trade are as economically devastating as those experienced by manufacturing workers who lose their jobs when their plant relocates abroad. Yet, when rising imports result in a collapse of commodity prices, individual farmers and ranchers do not become unemployed in the same way as other workers and therefore cannot take advantage of the [existing] TAA program.”

The committee report cited testimony by the North Dakota Farmers Union (at a July 21, 2001, hearing): “When agricultural trade agreements fail to provide for fair competition or allow adjustments to offset the impact of import surges, farmers, ranchers, and fishermen are the ones who suffer due to their inability to influence or rapidly adjust to changed market conditions.” A TAA program for farmers would be a fair and logical means for “U.S. agriculture to better cope and adjust to the effects of import competition.”

It also could be argued that the commodities most likely to be affected by import surges – and to qualify for the new program – are those that receive few subsidies relative to other crops. For example, since the United States entered into NAFTA, some fruit and vegetable growers (particularly in Florida) contend that they have been economically harmed by stiff Mexican competition; livestock producers also have raised concerns about the price impacts of Mexican and Canadian imports. These types of producers are not generally eligible for the types and level of direct payments and price support offered to those who grow row crops like wheat, corn, cotton, soybeans and rice.

A fundamental difference in the new farmer TAA is that it ties payments to the price effects of an imported commodity. Current TAA eligibility for workers, on the other hand, is based on loss of a job. Tying subsidies to price and production (either current or past) has long been a key feature of the traditional USDA farm support programs. And,

Congress has passed, and the President signed, on May 13, 2002, omnibus farm legislation (H.R. 2646, P.L. 107-171) that is estimated to provide \$99 billion in commodity price and income support over 6 years (FY2002-FY2007). This total includes \$38 billion in new budget authority, above baseline estimates (i.e., what the programs would have cost if they had been reauthorized without changes).<sup>9</sup> Some are critical of establishing yet another agricultural subsidy program, even one with relatively lower costs.

Moreover, agricultural producers already can, and do, seek relief through a variety of established trade remedy laws when they believe they have been injured by imports. The major avenues are safeguard investigations under the Trade Act of 1974, which can lead to the imposition of temporary duties, quotas, or other restrictions on imports; and anti-dumping and countervailing duty investigations under the Tariff Act of 1930, which also can lead to import-constraining duties on agricultural goods.<sup>10</sup>

In the Labor Department report, USDA noted that low commodity prices are caused by a variety of factors, including large U.S. and world commodity supplies, and reduced demand in key consuming countries, particularly following recent financial problems around the world, which reduced U.S. agricultural exports. “Increased U.S. imports, while significant for some products, have generally not been a major factor in explaining the decline in U.S. farm prices for major agricultural commodities.”

USDA said it had examined imports as a share of U.S. consumption for various products and also data comparing the ratio of changes in imports to changes in domestic production. This research does not support the argument that imports are the primary cause of low prices, USDA concluded. The DOL-drafted report used these observations to conclude that “TAA-type programs with their linkage to increased imports would not help address low prices faced by agricultural commodity producers.”

A number of lawmakers believe that the expanded TAA package, including the new program for farmers, was essential to passage of TPA. They argue that TPA would have lacked enough support for final passage without the TAA provisions, aimed at cushioning any potentially negative impacts from imports that future trade agreements (negotiated under TPA procedures) might bring – although other lawmakers have disagreed with this assessment.<sup>11</sup>

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<sup>9</sup> For background see CRS Report RS20848, *Farm Commodity Programs: A Short Primer*, and CRS Report RL31195, *The 2002 Farm Bill: Overview and Status*.

<sup>10</sup> For details on these and others see CRS Report RL31296, *Trade Remedies and Agriculture*.

<sup>11</sup> See: CRS Report 97-817, *Agriculture and Fast Track or Trade Promotion Authority*.