

TRADE ADJUSTMENT ASSISTANCE FOR FIRMS

TAAF 2.0

A reassessment of the federal response to trade impact, reconceiving the program but using the business model of TAAF. Such changes might be appropriate for a targeted outcome that takes TAAF appropriations over \$50M.

Background

Trade Adjustment Assistance for Firms (TAAF) is little changed since a major revision in the 1980's. Substantial economic changes during the past 30 years and first-hand experience with the program suggest strongly that certain aspects ought to be candidates for re-evaluation and subsequent improvement. Considering specific enhancement of TAAF, expanding it to include TRADE Impact (not simply IMPORT Impact) and revising some qualifying criteria, with a targeted outcome that takes TAAF appropriations to a level between \$50M and \$70M, the following changes might be considered:

1. Designate TAAF as the platform of choice to address a broad range of “trade” impacts rather than the too narrow focus currently of only “import” impact. Amend the following qualifying criteria for program entry:
 - *Lost Employment* – We ought to give consideration to mitigating circumstances for employment declines. For instance there are certain circumstances that would effectively negate the requirement of declines in employment.
 - *Lost Export Sales* – A decline in total corporate sales should be the criteria considered for program entry. The effect of lost sales on an enterprise is the same irrespective of whether the produced articles are subsequently consumed domestically or internationally. The same Americans are tasked with making them.
 - *Saturation Impact* – Any domestic company in a heavily trade impacted industrial segment that is found to be “saturated” by imports should be eligible for program entry. For example, we should require proof of trade impact in these specific cases by substituting the current import growth test with an import penetration test since year-over-year growth in imports in these instances may be nonexistent.
 - *Secondary Impact* – Any domestic company within the Supply Chain of a trade impacted manufacturer should be considered trade impacted too. The import test should be applied to the parent in the supply chain.

2. Increase the maximum amount of technical assistance per Company to \$300,000 on a sliding scale. Currently the program has a floor with companies receiving \$30,000 or less split 75% federal cost share and 25% firm cost share. All technical assistance in excess of \$30,000 is currently split 50% federal cost share and 50% firm cost share to a ceiling of \$150,000 scaled at not-to-exceed 2.5% of firm sales – net of exports.

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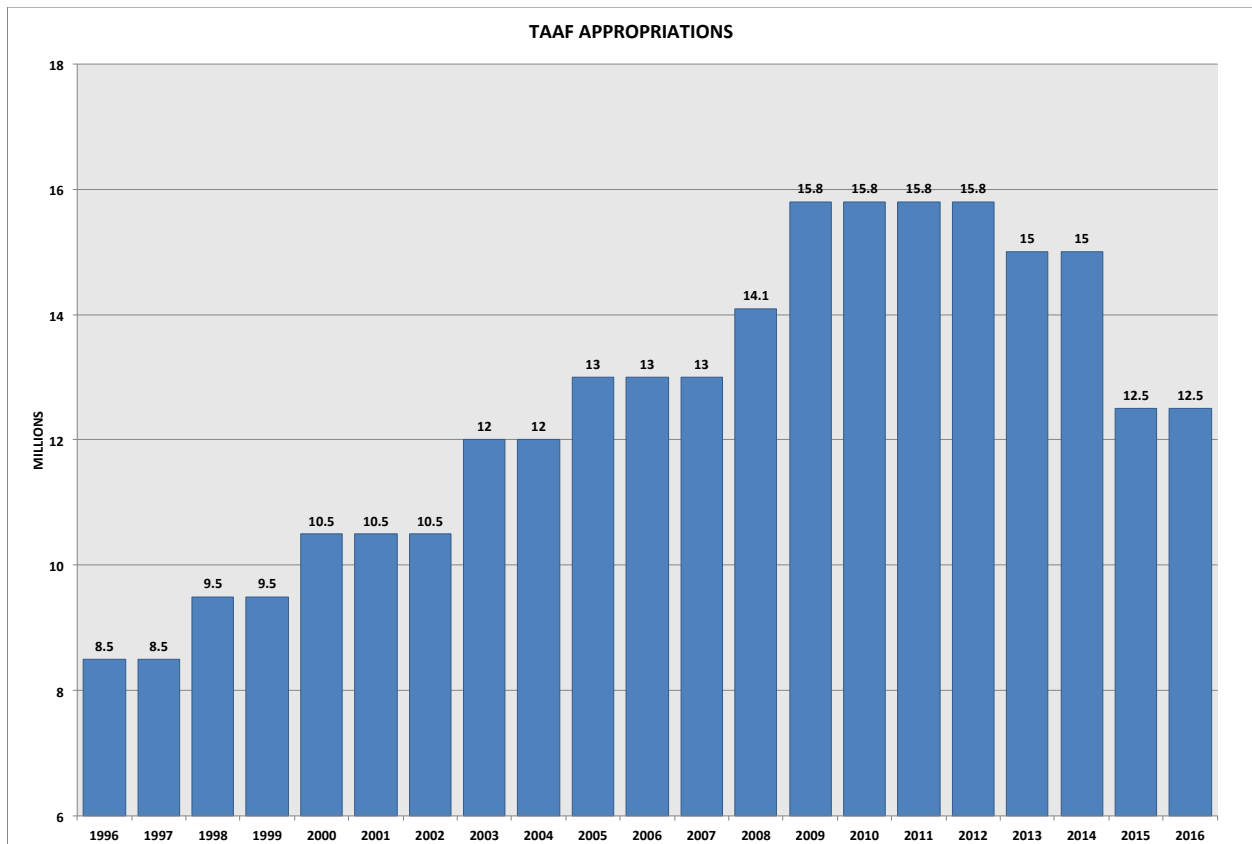
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What follows is a brief description of each ...

Scale:

TAAF is administered at a very small scale relative to the scale of actual trade impact. Trade centers currently serve only a small percentage of companies that self-identify as trade impacted. This issue of trade impact has only grown in importance during the time of the program's existence. It remains at only about 1% of the trade adjustment response by the United States. As currently designed, it is significantly inadequate.

Current Program Capacity



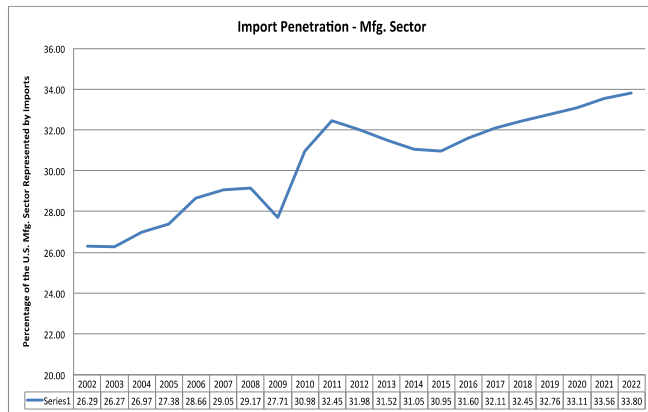
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In recent years the program has spent about \$950 per employee in subject companies that average approximately \$20M in sales with 100 employees (under \$100,000 per firm.) Firms are active for less than 5 years on average (the current limit of participation). Therefore, at present program rules, capacity is:

Approp \$M	New Per year		Program Total	
	Companies	Employees	Companies	Employees
12.5	132	13,200	568	56,800
15	158	15,800	757	75,700
20	211	21,100	1,011	101,100

If the program were expanded, several things would happen:

1. The average company will increase in size because many larger firms will enter the program.
2. The investment per company will rise, but include an efficiency factor because TAAC's will not spend as much time on outreach and will be able to specialize more by position.
3. The number of employees affected will rise and cost per employee will fall as greater impact occurs on a client base of larger companies.



The program will still serve companies of all sizes, but will admit more, larger ones. Over the next five years it is forecasted that import penetration of the nation’s manufacturing sector will continue to increase¹. The easiest to implement outsourcing and offshoring activities have already taken place, so any additional movements will be incremental. While domestic manufacturers will continue to send low-value production overseas, the US sector will likely experience some growth as well. US operators will, out of necessity, continue to shift their focus to high-quality, high-value items, to expand the domestic sector. And prudence dictates that we also have to consider the real probability that the value of the dollar will continue its rise in comparison with other currencies, making imports more affordable for US consumers and businesses, while simultaneously making exports more costly for foreign buyers. This factor will have the effect of pushing import penetration even further.

¹ IBISWorld Business Environment Profiles – January 2016

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Assistance per Company:

The program currently has a cap of assistance of \$75,000 per company. This figure has not changed in more than 40 years and should be revisited. Its effect is that many larger SME's choose not to participate because the amount of assistance is not meaningful to their circumstances. Whereas the definition of SME includes firms with sales of up to \$1B and small business is often defined by entities with 500 or fewer employees, TAAF's average client is about \$20M in sales and 100 employees. This disparity tends to either miss a large and important segment of SME's or have a small impact on larger firms that *do* decide to employ the program.

Consideration of a recovery plan maximum at \$300,000 should be established to reflect 21st century realities and tiered to firm size and complexity by using a variable cost-share architecture similar to the following –

- 75% fed share @ technical assistance \leq \$30k
- 65% fed share @ technical assistance \geq \$30k \leq \$100k
- 50% fed share @ technical assistance \geq \$100k \leq \$150k
- 30% fed share @ technical assistance \geq \$150k \leq \$200k
- 25% fed share @ technical assistance \leq \$200k \leq \$300k

Fast Track Protocol:

Such a protocol should be developed for all firms entering the program with less than 100 employees. These are most often the entities at greatest risk. Every extra day of delay in their petition development, their certification development, or their recovery plan development has the real potential of intensifying an already precarious situation.

Recovery Plans²:

Recovery plans must contain certain statutorily required statements and assurances, the existence of which should be confirmed by the agency. However, ultimate approval of them regarding:

- The amount of technical assistance awarded
- The number of projects to be implemented
- The types of projects to be implemented
- And the time span allocated for turnaround of the entity's global competitiveness

² a.k.a. Adjustment Plans

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should all be devolved to the TAAC Directors. Currently the agency insists that it has up to 60 days for its approval process. Unless you have physically visited the firm, collaborated with a company's management, interviewed key players in the organization, observed and understood its manufacturing operations, performed the market research, performed the financial analysis, etc. – in short, unless you have written the business plan (and all that that involves), you can not adjudicate its appropriateness in any way that would be meaningful. And to say that you need 60 days to do that is laughable.

Qualifications:

Employment Decline – Many companies, especially rural firms that may be the major employer (or even the *only* employer in the township), make layoffs based on factors other than scale of import impact. They may keep employees out a sense of community responsibility and eat the losses, or even hire new ones in anticipation of future growth – in spite of associated productivity declines. Under current program rules these firms will not qualify for TAAF even though it's unequivocal that they are injured – because they have decided, for a variety of reasons, to do the right thing.

Harmonized Tariff Code – An alternative to (HTC) data matching must be developed. Few small companies match closely to HTC data and changes in that data to begin with. While certainly contributing to making a case for import impact, this exercise by itself does not exactly match the phenomenon of trade impact because small companies more often experience injury independent of macro trends, i.e. trade impact is less like a rising tide and more like thousands of flash floods – and exclusive reliance on HTS data often is not a reliable indicator.

Exclusion of Export Data – Currently a firm must exclude export data from its sales numbers to qualify. But, as the world economy becomes more global, domestic producers that loose export sales are no different from those that lose domestic sales. Jobs and company survival are still at risk. Export Sales should not be removed from consideration of trade-impact by virtue of the fact that the same American workers make all of a firm's products, regardless whether or not they eventually get sold in the U.S. or someplace else on the globe. The overall effect of this rule is to depress the probability that the firm will qualify for assistance – especially if a major portion of the company's sales declines are attributable to exports.

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Segment-wide Injury – Some consideration should be given to the extent of trade injury on two important economic segments:

- Injured industry-wide sectors
- The supply chains of injured domestic enterprises (i.e., secondary trade injury)

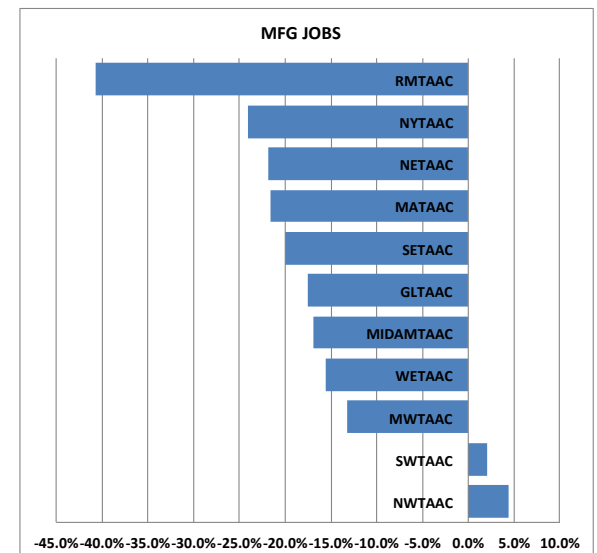
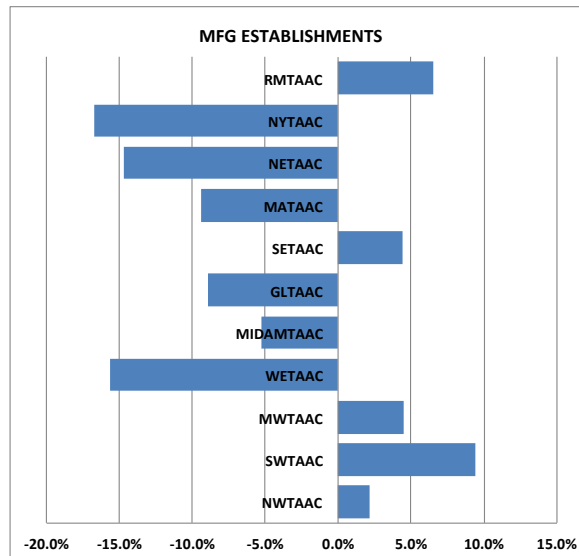
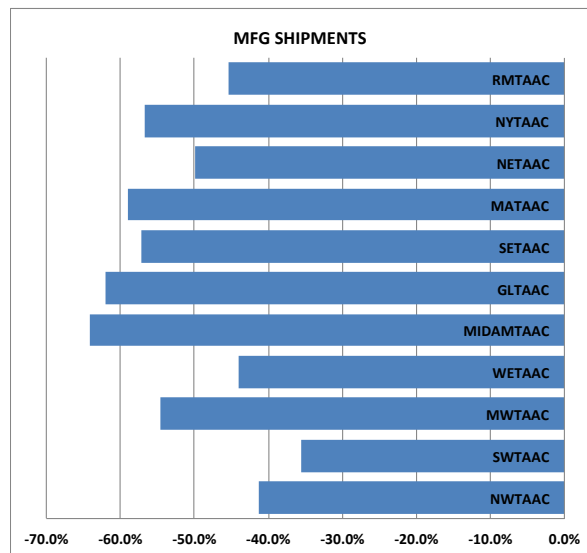
- Currently every firm must individually qualify regardless of how many others in the same industry have already qualified or the extent to which saturation has been reached. The import penetration rates that would represent clear import injury to unique major sectors should be established. These “tipping points” would then trigger a (yet to be determined) TAAF entry protocol on an industry-specific basis.

- We need language recognizing client-customer injury equivalency to client injury. By way of example, there are currently in the TAAF pipeline firms that are not losing sales because their customers are procuring more volume off-shore but rather their *customer* is. Indeed, the argument could be made that the entire supply chain of injured firms fall into this category. Lots of jobs are at stake. But we cannot now certify these small companies. For example:
 - A PV³ cell maker sells to a solar panel manufacturer. But the importation of solar panels to the U.S have increased 2,000% in the past couple of years – thus impacting demand for the domestic solar panel manufacture’s output, who subsequently reduces its demand to our client for PVs. The PV cell maker is intensely impacted but not directly. And cannot be certified as such.
 - A tractor manufacturer buys parts from our client. But an Asian producer of tractors exports cheaper tractors to the U.S. – thus forcing our domestic tractor manufacturer to reduce its demand for transmissions from our client. Our client is impacted but not directly.
 - A coal miner digs metallurgical coal out of the ground & sells it to steel manufacturers. Cheap steel is imported to the U.S. thus reducing sales of domestic steel and consequently reducing demand for domestically mined metallurgical coal. Our client is impacted but not directly.

³ Photovoltaic cell

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Objections & Rebuttals:

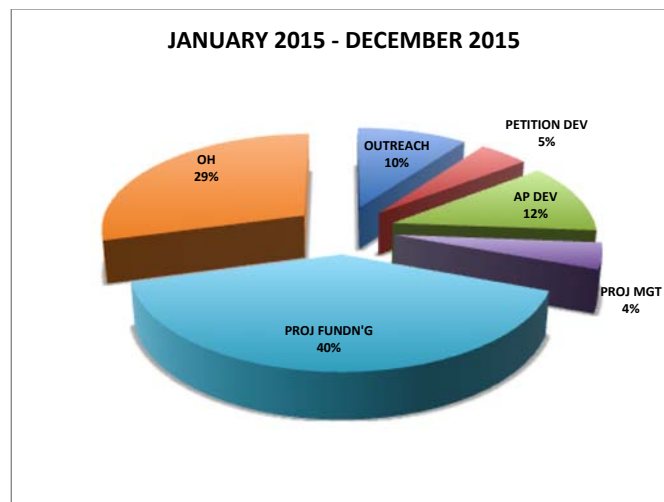
1. This is just another corporate welfare program. It's the kind of stuff that spawned the Solyndra debacle.

- No it's not. Not by a mile!
- Solyndra was a very fortunate startup. Management had little skin in the game. The American taxpayer had lots of skin in the game. Our government *gave* that management half a billion dollars because it was thought to be the wave of the future by some people – begging the question: if it was such a good and sexy business idea, why wasn't it attractive to those professional venture capitalists out there who routinely play in that sandbox?
 - The Solyndra case will go down in history as a quintessential example of corporate welfare. If it isn't already, it should be used in every "B" school as an illustration of how *not* to have a government behave vis-a-vis operators in a free market. In a legal sense a corporation is treated as a "person." And history is filled with examples of how some "persons" respond to welfare. Persons without skin in the game respond differently than persons *with* skin in the game. And it's a truism: the more skin in the game – the more robust and focused and committed the "person." Shocking though it may seem, businesses are little different in their behavior.
- In contrast TAAF has never, does not now, and never shall give any public money to a company – not one dime ... ever. Actually every firm in the program pays *into* it. The program doesn't assist startups. It works only with firms already in existence that are injured and under threat of extinction as a result of various trade agreements negotiated by the U. S. government. In other words, these firms (once profitable and growing enterprises) face existential threat through no fault of their own.
 - Firms typically pay up front for the development of their unique recovery plan. The specific amount is based upon firm size and complexity.
 - Firms typically pay 50% of all fees needed to engage the services of outside expertise – private sector professional consultants who's mission is to get the firm to modify its behavior ... permanently.
 - Management is required to change its behavior to gain any benefit
 - Companies are required to actually do things differently to achieve different results (a truly novel idea that!)
 - and we score their performance for half a decade re: sales, earnings, productivity and job creation (not jobs "saved")

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- And a collateral benefit is we hire small professional firms in the service sector to implement the knowledge-based projects.
2. **This is old news. We already addressed this stuff during the recent debates around Trade Promotion Authority (TPA). We even authorized this program for 5-years and at an authorized funding level of \$50 million.**
- You didn't do nearly enough.
 - And, as surprising as it may seem, nothing happened. Oh yes, the deck chairs might have been moved around a bit with the trade center re-bid and subsequent "reorganization" effort. A laughable process in which the only tangible result was a monumental clogging of the pipeline of clients moving through the processes of certification as trade-injured and the approvals of recovery plans. The program ground to a halt for months. The subsequent damage done to individual enterprises at risk can't be calculated.
3. **According to Senator McCain, this program has been running with a 60% overhead rate. Why should we consider supporting something like that?**
- The good Senator is wrong.
 - As a matter of fact, actual results on the ground show just the opposite. In one TAAC in 2015 (these metrics are calculated annually) 71% of

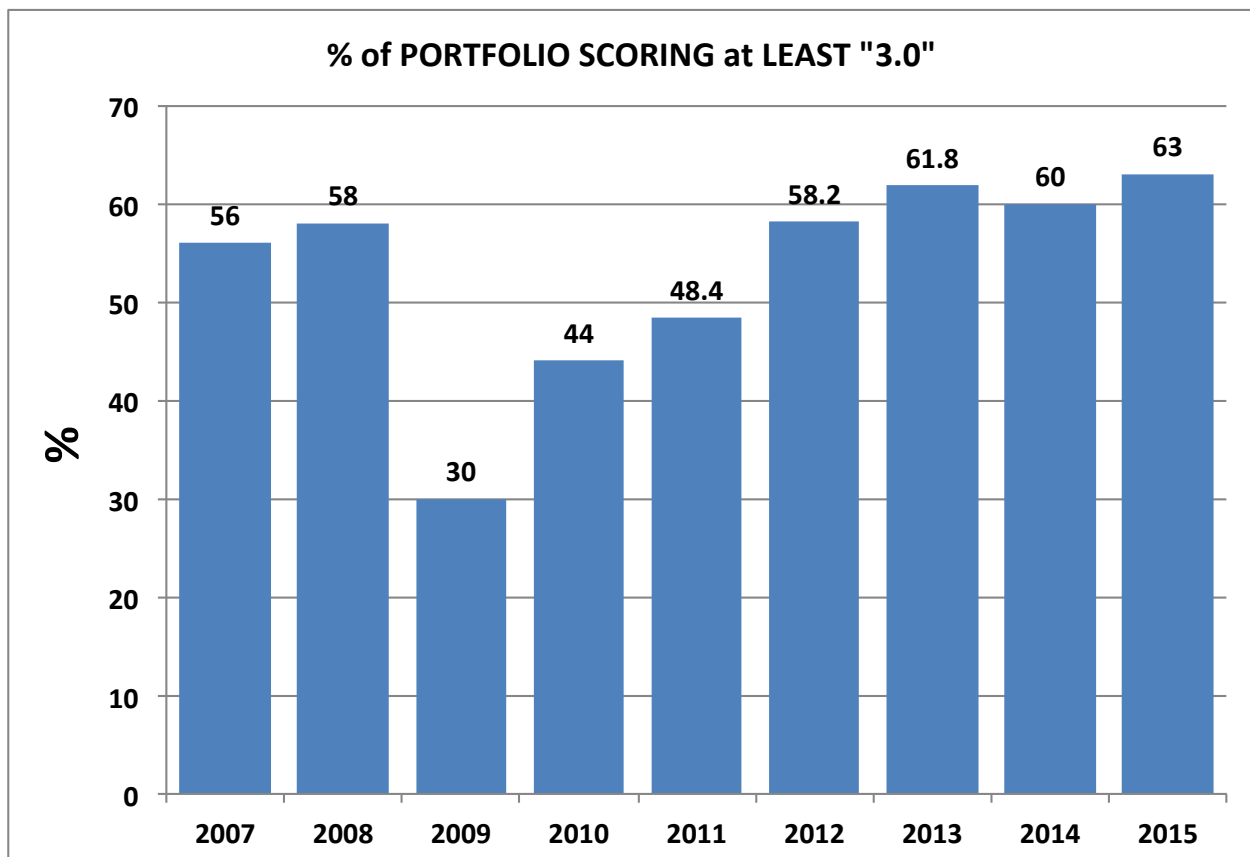


its total expenses went to firm assistance, while 29% went to overhead.

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4. I hear that these trade centers can't spend the money we appropriate for them now. Why should we think that *increasing* funding would somehow change that?
- Program results⁴, as measured by share growth over a 5-year period, are outstanding – notwithstanding the fact that historically some firms in TAAF never spend all of the technical assistance offered to them, suggesting that the assistance implemented is effective. In fewer words: this business model works.
 - Obviously that assistance not expended ought to be put to use assisting a higher volume of firms. Unfortunately the program, as now designed, cannot accommodate a significant increase in traffic through the pipeline. There exist too many bureaucratic choke points for that to happen.



⁴ One TAAC metrics only