



U.S. Department of Agriculture



**Office of Inspector General
Northeast Region**

Audit Report

Trade Adjustment Assistance for Farmers Program

**Report No. 50601-3-Hy
June 2007**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



June 13, 2007

REPLY TO

ATTN OF: 50601-3-Hy

TO: Michael W. Yost
Administrator
Foreign Agricultural Service

ATTN: Steven S. Rhodes
Director
Compliance, Security, and Emergency Planning Division

FROM: Robert W. Young /s/
Assistant Inspector General
for Audit

SUBJECT: Trade Adjustment Assistance for Farmers Program

This memorandum report presents the results of the subject audit. Our primary objective was to evaluate whether the Foreign Agricultural Service (FAS) effectively implemented the Trade Adjustment Assistance (TAA) for Farmers Program. FAS paid cash benefits of \$27.7 million to 8,324 producers¹ of 11 commodities from fiscal year (FY) 2004 to 2006. The Cooperative State Research, Education, and Extension Service (CSREES) provided technical assistance training to about 13,000 producers. According to agency officials, the difference in the number of producers who received cash benefits versus the number of producers who received technical assistance is due to the net farm income test and the low payment rates based on a cash payment formula. The cash payment formula was developed to pay producers for only a small amount of income lost as a result of import competition. We concluded that FAS, in conjunction with the Farm Service Agency (FSA), CSREES, and the Economic Research Service (ERS),² implemented TAA for Farmers Program in accordance with the authorizing legislation put forth in the Trade Act of 2002 (the Trade Act). In addition, FAS implemented effective controls to ensure that program eligibility requirements were met. Accordingly, we are not making any recommendations at this time.

¹ Producer means a person who is either an owner, operator, landlord, tenant, or sharecropper, who shares in the risk of producing a crop and who is entitled to share in the crop available for marketing from the farm, or a qualified fisherman.

² ERS is not one of the primary agencies to implement TAA for Farmers Program, but it provided support to FAS by conducting market studies.

The goal of TAA for Farmers Program is to help producers respond proactively to import competition by providing training, cash benefits, and employment services.³ Under TAA for Farmers Program, the Department of Agriculture (USDA) provides technical assistance and cash benefits to eligible farmers and fishermen if increased imports ‘contributed importantly,’ or had a significant effect, in causing a price decline of at least 20 percent. The technical assistance under TAA for Farmers Program provides access to a wide variety of resources to assist producers in exploring alternative crops and marketing techniques.

Since the inception of TAA for Farmers Program, FAS has only expended a fraction of the annual \$90 million appropriation each fiscal year to cover cash benefits to producers and expenses incurred by FAS, FSA, CSREES, and ERS for administration of TAA for Farmers Program. Each \$90 million appropriation is 1-year funds and unused funds are returned to the U.S. Treasury. Outlays over the course of 4 years (FY 2003 through 2006) were only \$46.7 million.⁴

BACKGROUND:

The Trade Act of 1974, as amended by the Trade Act of 2002 (Public Law 107-210), established TAA for Farmers Program for FYs 2003 through 2007. TAA for Farmers Program provides technical assistance and cash benefits to eligible producers of raw agricultural commodities when the FAS Administrator determines that increases in imports of like or directly competitive commodities contributed importantly to a specific decline in prices, and that the national average price in the most recent marketing year is less than 80 percent of the average national price over the preceding 5 marketing years. TAA for Farmers Program received an appropriation of \$90 million each fiscal year from FY 2003 through 2007 to provide technical assistance and pay out cash benefits. In October 2002, FAS was tasked with administering TAA for Farmers Program and requested assistance from other USDA agencies to implement it. FAS was responsible for certifying or denying the petitions for TAA for Farmers Program. FAS also developed and signed a series of memoranda of understanding (MOU) with the other USDA agencies: (1) FSA, to process applications, provide outreach and customer service, and administer cash benefits;⁵ (2) CSREES, to provide technical assistance and outreach services; and (3) ERS, to provide a market study examining the information provided by the producer in each petition and the related market information. Partnering with these agencies helped FAS establish a system for providing the required training and administering cash benefits. FAS launched TAA for Farmers Program on August 20, 2003, with the publication of the Final Rule in the *Federal Register*.

The eligibility requirements were included in the governing legislation, the Trade Act. In order for producers of a specific commodity to be determined eligible to receive Federal assistance under TAA for Farmers Program (i.e., certified), the commodity must pass two tests: (1) the national average price in the most recent marketing year for the commodity

³ Re-employment services are also authorized; however, these resources are funded through the U.S. Department of Labor.

⁴ This included \$27.7 million for cash benefits, \$9.5 million for technical assistance training costs, and \$9.5 million for administrative costs.

⁵ These cash benefits are processed through the Commodity Credit Corporation.

produced by the group must be equal to or less than 80 percent⁶ of the average of the national average prices in the preceding five marketing years; and (2) increases of imports of a like or directly competitive commodity must have contributed importantly to the decline in prices. In order to remain eligible for program benefits in subsequent years (i.e., re-certification), prices must remain at or below the same 80 percent threshold as the initial year and imports must have continued to increase and contribute importantly to the decline in prices. Once a petition is re-certified, producers must submit an application to be eligible for subsequent year program benefits. In addition, the Trade Act precludes a producer from receiving more than \$10,000 in cash benefit payments per fiscal year.

FAS' national office is responsible for certifying or denying the petitions for TAA for Farmers Program. Prior to the petition certification process, FAS publishes a notice in the *Federal Register* about a petition that has been filed, and after FAS has certified or denied the petition, it publishes a notice in the *Federal Register* accordingly. ERS conducts a market study to verify that each petition meets the two tests of eligibility and provides the results to FAS. FAS then forwards ERS' analysis to a Petition Review Committee (the Committee)⁷ that evaluates ERS' conclusions and submits a recommendation of certification or denial to the FAS Administrator. The Administrator's decision is final, released on FAS' website, and published in the *Federal Register*.

Producers then are able to apply under the approved petition to receive Phase I Technical Assistance training, cash benefits, and employment services. Producers are to apply for technical assistance training within 180 days of the certified petition. The training under TAA for Farmers Program assists producers in exploring alternative crops and marketing techniques to help them adjust to import competition. CSREES secured the assistance of four Regional Risk Management Education (RME) Centers and a Digital Center for RME to carry out the technical assistance requirements as specified in the program regulations. The MOU specifies that CSREES will ensure that eligible farmers and fishermen receive technical assistance from an Extension Service agent. Producers must first complete the Phase I Technical Assistance training in order to receive cash benefits.

A second phase (i.e., Phase II) of the technical assistance training is offered, but this assistance is voluntary. Phase II Technical Assistance training is more intensive whereby each producer meets one-on-one with a business expert to enhance the producer's capabilities to successfully adjust to import competition.

In December 2006, the Government Accountability Office (GAO) issued a report titled "Trade Adjustment Assistance: New Program for Farmers Provides Some Assistance, but Has Had Limited Participation and Low Program Expenditures" (GAO-07-201). This report provided a summary of TAA for Farmers Program. GAO stated that producers were generally satisfied with the technical assistance and thought applying for the cash

⁶ S. 122 and H.R. 910, dated, January 4, and February 8, 2007, respectively, proposed amendments to the Trade Act of 1974 pertinent to TAA for Farmers Program including striking "80 percent" and inserting "90 percent" effective for all petitions certified on or after January 1, 2007.

⁷ Petition Review Committee Members: Assistant Deputy Administrator, FAS; Staff Economist, Office of the Chief Economist; Assistant to the Deputy Administrator for Farm Programs, FSA; and Senior Economist, Economic Analysis and Program Planning Branch, Agricultural Marketing Service.

payment was worthwhile. GAO further stated that, while the cash benefits and technical assistance appear to assist farmers and fishermen in adjusting to the effects of import competition on a limited, short-term basis, the cash payments are relatively low and must be approved each year. GAO noted that TAA for Farmers Program eligibility requirements are difficult for many farmers and fishermen to meet and that the low cash payments may discourage others from applying. As a result, the spending for TAA for Farmers Program was well below the amount provided for in the Trade Act. GAO concluded that this was a new program and, therefore, could make only a limited assessment of how this program is working. GAO did not make any recommendations in this report.

OBJECTIVE:

Our primary objective was to evaluate whether FAS effectively implemented TAA for Farmers Program. As part of this, we assessed the levels of coordination and cooperation between FAS, FSA, and CSREES in implementing TAA for Farmers Program.

SCOPE AND METHODOLOGY:

We reviewed the roles and responsibilities of FAS, FSA, CSREES and ERS.⁸ We reviewed the policies and procedures developed by FAS to ensure they were in concert with the authorizing legislation.

From FY 2004 through 2006, FAS approved 30 and denied 34 petitions. We tested FAS' eligibility requirements set forth in its policies and procedures and implemented at the national office level. This was done through judgmentally selecting and reviewing 18⁹ of the 30 certified petitions, since the inception of the program in 2003, including supporting documentation (i.e., petition justification statements, ERS' market studies, the Committee's recommendation memorandums, and FAS' certification memorandums). We reviewed 6 of the 12 petitions certified in FY 2004 and all of the certified petitions in FYs 2005 and 2006, 5 and 4, respectively. We also selected 3 of the 9 re-certified petitions for review in FY 2005. We sampled 100 percent of the petitions in FYs 2005 and 2006 because we needed to review an adequate number of petitions to ensure FAS consistently implemented the petition review process based on ERS' market study results. We also reviewed the reasons petitions were denied.

We reviewed the MOUs between FAS and both FSA and CSREES, and the policies and procedures each developed to fulfill their roles and responsibilities. We did not review the individual payment and training records because they were maintained at the State and local offices. We did not perform additional fieldwork at these offices due to low participation in this program.¹⁰

⁸ ERS was not instrumental in the conduct of this Program. ERS' market studies were used by FAS to fulfill their role as the lead agency in implementing TAA for Farmers Program.

⁹ This included 15 new and 3 re-certified petitions.

¹⁰ Our decision to not perform this fieldwork was based on the low number of applications and amount of cash outlay.

We conducted our fieldwork at FAS, FSA, and CSREES' national offices in Washington, D.C., from April 2006 to December 2006.

We also reviewed the GAO report, "Trade Adjustment Assistance, New Program for Farmers Provides Some Assistance, but Has Had Limited Participation and Low Program Expenditures," dated December 2006 (GAO-07-201).

We conducted our audit in accordance with the 2003 revision of the *Government Auditing Standards* issued by the Comptroller General of the United States.

AUDIT RESULTS:

We noted participation in TAA for Farmers Program was lower than anticipated. FSA provided cash benefits to only 8,324 producers from FY 2004 through 2006. TAA for Farmers Program participation had been estimated to exceed 11,000 producers in FY 2004 and was expected to increase in the subsequent years.

Based on our review of petitions since the inception of the program, we concluded that FAS effectively implemented TAA for Farmers Program in accordance with the Trade Act, *Federal Register* final rule, and FAS guidance. Our analysis disclosed that strong controls over petition eligibility were designed and implemented. Therefore, we are not making any recommendations at this time.

Thank you for coordinating the receipt of comments from the other agencies involved. We have incorporated the technical comments received. We appreciate the courtesies and cooperation extended to us by your staff.