

TESTIMONY OF
GARY G. KUJAR, ESQ.
TO THE
UNITED STATES SENATE
COMMITTEE ON FINANCE
SUBCOMMITTEE ON
INTERNATIONAL TRADE

JULY 19, 2001

My name is Gary G. Kuhar. I am the Executive Director of the Northwest Trade Adjustment Assistance Center (NWTAAAC). My center covers the states of Montana, Idaho, Oregon, Washington and Alaska. It is one of twelve such centers located around the country. These twelve centers deliver the assistance to the individual companies available through the Trade Adjustment Assistance (TAA) program for firms and industries. Although we report to the Economic Development Administration (EDA) of the U.S. Department of Commerce (DOC), we are not federal employees.

Trade Adjustment Assistance is a trade remedy designed to be nonconfrontational with U.S. trading partners. Its primary mission is to help trade-injured small and mid-sized manufacturing and agricultural firms compete with imports.

The Trade Adjustment Assistance Centers (TAACs) identify and assist small and mid-sized manufacturing and agricultural firms to become certified for Trade Adjustment Assistance (TAA). TAACs assist certified, import-impacted firms to become competitive with imports. This is accomplished through cost shared technical assistance, competitively bid, with private sector consulting firms. This assistance is competitive, objective and free from special interests or motives.

Our assistance begins with helping the firm to become certified. My staff visits the client and while on site fills out the petition for certification. There is no cost to the client for this service. The petition is then sent to DOC for certification.

Once the client is certified, my staff again visits the client firm. A cost share agreement is entered into. At this point the firm begins to pay for 25 percent of the cost of diagnostic analysis and adjustment proposal. The DOC pays 75 percent.

The diagnostic analysis looks at the strengths and weaknesses of the company. Every operational aspect of the company is thoroughly investigated. Production, marketing, finance and management sections are studied to better understand the company and its needs.

The adjustment proposal is then prepared. This is a joint effort between the company and NWTAAAC staff. This becomes the company's strategic plan for recovery and improved competition with the imports. Many client company owners and managers

have stated that this exercise alone was worth entering the TAA program. It is surprising how many companies have never attempted any sort of strategic planning.

The adjustment proposal is sent to DOC for approval. If the recovery strategy is reasonable and calculated to help the firm recover, it is approved. It must also take into consideration its workers.

NWTAAC then sets out to find the expert or experts needed to implement the strategy. This is often accomplished through competitive bids. Once identified, NWTAAC enters into a contract for 50 percent of the work to be completed. The client firm also enters into a contract for the other 50 percent and 50 percent of the TAAC staff's time to monitor the progress on these contracts.

Our involvement with the company remains until the projects are completed. This is often several years. The following is a partial list of the types of projects performed on behalf of the company.

- Strategic marketing plan development and implementation
- Brochure development (English & foreign language)
- Production engineering
- ISO 9000 preparation and registration
- Management information systems design
- Product design
- New product development
- Accounting system design

Although we are limited to technical assistance only, within that framework we are only limited by our imaginations and finances, as long as it accomplishes the needed recovery.

I have worked for NWTAAC for over 19 years and in my opinion the Trade Adjustment Assistance (TAA) program for firms is the most effective trade remedy

available to small and medium size farmers and manufacturers in the U. S. It is the only trade remedy that does not restrict imports in any way, yet effectively mitigates the injury caused to individual companies by those imports. It is designed to save the U.S. workers' jobs by making their employer more competitive with imports. Saving jobs is much more efficient than retraining workers for a job that may not even exist. The only thing that keeps this program from reaching its maximum potential is the extremely low level of funding.

In the five year period of 1996 – 2000, 530 companies were assisted by our program nationally. TAA for firms helped save and create over 59,000 jobs in those 530 companies. It also helped preserve and increase revenues of over 6.5 billion dollars generated by these same companies. When these figures are compared to the cost of the program, it works out to be an investment of \$884 dollars per job saved and created. Comparing the various federal taxes generated by those 530 companies and over 59,000 employees to the cost of running this program gives a return on the government's investment of over 1100 percent (See Attachment 1). Thus, for every dollar spent on this program over 11 dollars are returned to the U.S. Treasury through federal taxes paid. So much is accomplished by so few federal dollars because the individual companies pay nearly 50 percent of their assistance. This does not take into effect the local taxes generated or costs saved, such as reduced unemployment expenses.

Numbers, although impressive, don't tell the real story of this program. To see just how truly effective this program is you must look at each company assisted on an individual basis. Every story is unique. Virtually every sector of the U.S. manufacturing

economy has received assistance. I would like to focus my testimony today on just one sector, agriculture (including fishing).

More often than not, the agricultural sector of the U.S. economy is the first to feel the impact whenever the U.S. enters into a new trade agreement. This is so because agricultural products are often the most price sensitive. Invariably agricultural imports are cheaper than the U.S. produced product.

The definition of firm used in the Trade Act of 1974, as amended, specifically includes agriculture. To qualify for TAA for firms, a company must have a decline in sales and/or production and employment, and these declines have to be attributed to a significant (not exclusive) extent to increasing imports. The regulations state that “a significant number or proportion of workers (that must be terminated) means 5 percent of the firm’s work force or 50 workers, whichever is less. An individual farmer is considered a significant number or proportion of workers”. Thus, it is clear that our program was meant to help agriculture. The existing legislation empowers each of the 12 centers to include agriculture in its client base to be assisted.

As Executive Director of NWTAAAC I will use our experience as an example of what can be done to help agriculture.

Since the creation of our center we have helped 99 agricultural firms (See Attachment 2). Currently 21 out of 52 active clients are agricultural. Historically, ten of these clients have been in various aspects of the livestock industry. Seventeen clients have been in the seafood industry. Forty-one have been in the wood products industry. Thirty-one clients have been in the specialty agricultural products industry.

Specialty crop producers which have been assisted include:

- blueberries
- raspberries
- pears
- apples
- honey
- wool uses
- vegetable oil
- grass seeds
- alfalfa pellets
- hazelnuts
- flowers
- mushrooms and
- peas and lentils

We coordinate with the International Trade Commission (ITC) in our marketing to specific agricultural sections and other industries.

Assistance is custom made to fit each company assisted. This is a major benefit of the program. We look at the relative strengths and weaknesses of each company and then help the company customize a recovery plan to fit their individual needs. But instead of stopping here, our program finds the expert needed to implement the recovery strategy. We then monitor the implementation until it is complete to be sure it is effective. Currently, nationally, there is a backlog of over 14 million dollars (federal share) of approved, but unfunded projects.

Sometimes we can help a company reduce its cost of production by redesigning its processing floor or designing a new, more efficient piece of equipment. However, the program does not provide hard assets such as actually paying for the piece of equipment to be built. Historically, it is rare that a U.S. agricultural producer can ever compete with imports on price.

The majority of our assistance, especially in the specialty crop area is marketing related. Quality of the U.S. product is stressed along with customer service. Brand identification , web site design and brochures are very popular forms of assistance with agricultural related companies. But again, the needs of the individual company dictate the type of assistance. With the winter pear growers of Oregon that assistance took the form of a national marketing strategy which was developed from a marketing study that showed consumers want to buy pears that are riper than those currently being marketed by Chile. In another example, NWTAAAC hired an engineer to design a small hydroelectric dam for a sheep rancher. This rancher built the dam and is now selling power to his local power grid. The profits from the sale of electricity help keep his sheep ranch in business. The expiration of the softwood lumber agreement with Canada has created a surge in lumber clients. In Montana alone NWTAAAC has had three such clients since mid April. A project we are going to do for one of these firms is the development of mill control software. This will allow this company to process small diameter logs which are available to it. This has become necessary because the supply of large diameter material has dried up and virtually disappeared.

In situations where the identity of the specific grower's crop is lost in the distribution process, marketing based on the individual grower's quality does not work. This is the case in commodity crops such as corn. Commodity crops are best dealt with on an industry-wide basis. TAA for firms is specifically empowered by statute to help firms and industries injured by imports. The Trade

Act of 1974 states that up to 10 million dollars per industry per year can be spent in assistance. However, it has been several years since enough money was appropriated for this program to be able to fund industry-wide assistance projects. Again, with the pear growers, NWTAAC combined the funds available to assist individual companies to create a fund large enough to perform a project that would ultimately help the entire U.S. industry, due to the lack of industry grant funding.

While the Trade Act of 1974 as amended, and its accompanying regulations provide the framework to help the small, family farm and the processor of its crops, it hasn't lived up to its potential. EDA allocates its very limited financial resources to each of the 12 centers based on new certifications and adjustment proposals approved. Experience has shown it is easier to qualify a small manufacturer than a small farmer, usually because of the access to better records by the manufacturer. Since each center has many more clients than it has funds to help, combined with EDA's evaluation process of each center, small family farms tend to get overlooked. Also, the limited amount of dollars appropriated for this program means more jobs can be saved with fewer dollars by focusing on non-agricultural product manufacturing.

There is one major problem with the wording of the present statute. As it now exists, the decline in sales and employment must be tied to increasing imports. The word increasing is interpreted to mean imports must be increasing over the same period a year ago. There are industries in the U.S. where imports have 98 percent of the market. It is very difficult to have imports increase over

what they were last year. In this case, U.S. companies that may still exist cannot qualify for the program because imports are not increasing, even though the imports may control 98 percent of the market. The U.S. shoe manufacturing industry, what is left of it, is facing this dilemma. The word “increasing” as it relates to imports should be removed from the statute.

The biggest problem facing the operations of TAA for firms is the lack of adequate funding. Every one of the 12 centers delivering the assistance to the companies have many, many more client firms than they have money to help. Several of these centers have stopped taking new clients or have stopped actively marketing the program.

The track record of this program proves this program saves jobs by helping to make the company generating these jobs more competitive with the imports. It just makes sense to put money into the program to save the jobs. Every job saved is another worker that won't have to be retrained for a new job. It's also easier to save a job than to retrain a laid off worker for a new job. If as many jobs as possible are saved, the impact on the community will be lessened.

The labor side of this program is there to provide a much needed safety net for those jobs that simply cannot be saved. For TAA for firms to be effective we must help the company before it is ready to close its doors. Often our client firms are the primary employer in the region. If it closes, a domino effect is experienced by the community and many other businesses also end up closing. In one case in Montana, if the lumber mill closes, the local school will also close. Currently NWTAAAC has four such clients. If they close, the impact on the

community will be devastating. Therefore, it is much more cost effective and efficient to save the job in the first place. If the job is saved the worker is not laid off and retraining is not necessary, plus the community is also not impacted with its resultant negative social and economic cost. The taxes raised from the increased revenue generated by the firms in our program, plus the taxes paid by the workers whose jobs have been saved more than pays for the cost of this program, arguably by over 1100 percent.

If funded adequately there would be no need for a new program aimed exclusively at farmers and fishermen. TAA for firms and industries can do the job. This would generate a savings in administrative costs. TAA for firms already have the infrastructure in place to help any farmers, fisherman or manufacturer in need of help. Lack of funding is the only thing stopping that assistance.

This program has had to learn to be lean and effective. Any additional funds over the 10.5 million dollars received this year will go to client assistance directly. Putting 24 million dollars into annual funding of TAA for firms would go a long way in meeting the existing needs of companies. It is also low enough not to be considered a subsidy by the WTO. By helping the firm to compete with the imports, jobs are saved. Workers do not have to be retrained and/or relocated and communities do not suffer the consequences of high unemployment and the social and economic costs associated with unemployment.

Thank you for the opportunity to deliver my testimony to this committee. I hope it helps in your consideration of reauthorization of the TAA program.