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BY THE COMPTROLLER GENERAL 108221

Report To The Congress

OF THE UNITED STATES

Adjustment Assistance To Firms Under The Trade Act Of 1974-- Income Maintenance Or Successful Adjustment?

Many firms have been hurt by import competition, but so far fewer than 125 have been helped under the Trade Act program which the Congress designed for adjustment assistance. And most of those helped have not adjusted to become more competitive in their industry or changed to an industry where they could be competitive. Rather they have used program loans primarily to pay late bills and increase their operating money without taking remedial actions.

If the program is to meet the objective of helping import-hurt firms to achieve long-term viability and competitiveness, substantial adjustments to the present program will need to be considered by both the Department of Commerce and the Congress.

ID-78-53

DECEMBER 21, 1978

B-152183

To the President of the Senate and the
Speaker of the House of Representatives

This report discusses the effectiveness of the firm adjustment assistance program administered by the Department of Commerce. It is one of several reports which we will issue in fulfilling our legislative requirements to assess the effectiveness of adjustment assistance programs and to report our findings no later than January 31, 1980.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), the Accounting and Auditing Act of 1950 (31 U.S.C. 67), and the Trade Act of 1974 (19 U.S.C. 2101).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Commerce; and the Office of the Special Representative for Trade Negotiations.

Elmer B. Staats
Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

ADJUSTMENT ASSISTANCE TO FIRMS UNDER THE TRADE ACT OF 1974-- INCOME MAINTENANCE OR SUCCESSFUL ADJUSTMENT

D I G E S T

Although international trade benefits all nations, the reduction of trade barriers can lead to difficult transition problems for firms in import-competing industries. An adjustment assistance program was established by the Congress to help firms adjust to the competition of international trade.

In practice, adjustment assistance may turn out to be income maintenance--keeping a firm alive longer than would otherwise be the case--or it may turn out to be viable adjustment under which the firm is able to pay off past debts, make technical and marketing adjustments, and go forward profitably.

Currently, in addition to the firm adjustment assistance program prescribed in the Trade Act, the Department of Commerce is undertaking a special program for the footwear industry. This effort is an offspring of the regular program, providing benefits to individual firms and an industry program to help all firms.

LIMITED PROGRAM SUCCESS

GAO has determined that the assistance program is benefiting only a small fraction of firms in need of assistance. This is because:

--Commerce has not effectively publicized the program, and therefore most firms are not aware of it. Only recently have a series of seminars on trade adjustment assistance been instituted.

--Many firms find program benefits or other program aspects unattractive.

--The statutory certification criteria as well as Commerce's interpretation have kept some

ID-78-53

Tear Sheet. Upon removal, the report cover date should be noted hereon.

hurt firms from being certified, and thus, from receiving benefits.

--Program literature does not explain all of the procedures, is not combined into one publication, and is not written in an easily understood manner.

The high statutory interest rates for loans, Commerce's insistence, at times, on personal guarantees by owners and spouses, and a belief that the program is not the answer to import competition also keep many firms from entering the program. Still other firms believe that the legislative criteria, as well as Commerce's interpretation of these criteria, would keep them from being certified. In addition, under present legislation, some firms that provide services, supplies, or component parts to the manufacturer of a product which has been affected by imports are excluded from the program.

The few firms that have received adjustment assistance benefits have not usually used them to become viable in their own or different industries. Consequently, the program is providing these firms with income maintenance, but is not providing for their long-term strength or competitiveness. Of 28 firms which had loans approved as of September 30, 1977, 2 of them had already gone out of business and 8 others were delinquent on loan repayments on June 30, 1978. Perhaps it is unreasonable to expect a successful adjustment (one creating long-term viability) given the fact that the firms are usually in a weakened financial condition when receiving their assistance, their adjustment proposals often do not address their problems, the loan amounts are not large enough for real adjustment, and the drawn-out benefit-delivery process results in further financial deterioration.

AGENCY COMMENTS

In commenting on the report, Commerce agrees it could better publicize the program but says the report overestimates its ability to draw firms into the program. Commerce further comments that the distinction the report draws between income maintenance and viable adjustment is too sharp, but the Department does not deny that adjustment assistance to firms has served primarily as income maintenance for many firms receiving program loans. The Department validly points out that it had made or had planned several program improvements during GAO's review.

RECOMMENDATIONS

GAO recommends that the Secretary of Commerce and the Congress improve the adjustment assistance program to help assisted firms have a better chance to achieve long-term viability and that the Congress consider special industry programs when industries have been seriously injured by imports. (See pp. 49 to 52.)

Contents

ABBREVIATIONS

EDA	Economic Development Administration
FIT	Footwear Industry Team
GAO	General Accounting Office
GNP	Gross national product
TEA	Trade Expansion Act of 1962

CHAPTER 1

INTRODUCTION

International trade benefits all nations by allowing them to specialize in the products they produce best, thereby contributing to increased productivity and higher living standards. Thus, a nation imports things that it does not have or that can be produced better or cheaper abroad and exports things others do not have or that it can produce better or cheaper. The United States, for example, grows almost no bananas and coffee, lacks oil and bauxite sufficient for its needs, and does not produce shoes and television sets as competitively as others. Conversely, the United States produces such agricultural products as wheat, corn, and soybeans more cheaply than most other countries and produces capital-intensive and high technology items such as oil rigs and computers more competitively than others. The exchange of items of competitive strength for items of competitive weakness leaves both sides better off, providing the resources displaced by imports are effectively reemployed.

Since World War II, international trade has grown at roughly double the rate of the first quarter of this century, 8 percent annually as compared with 4 percent, due among other factors to:

--Reductions in tariff and nontariff trade barriers.

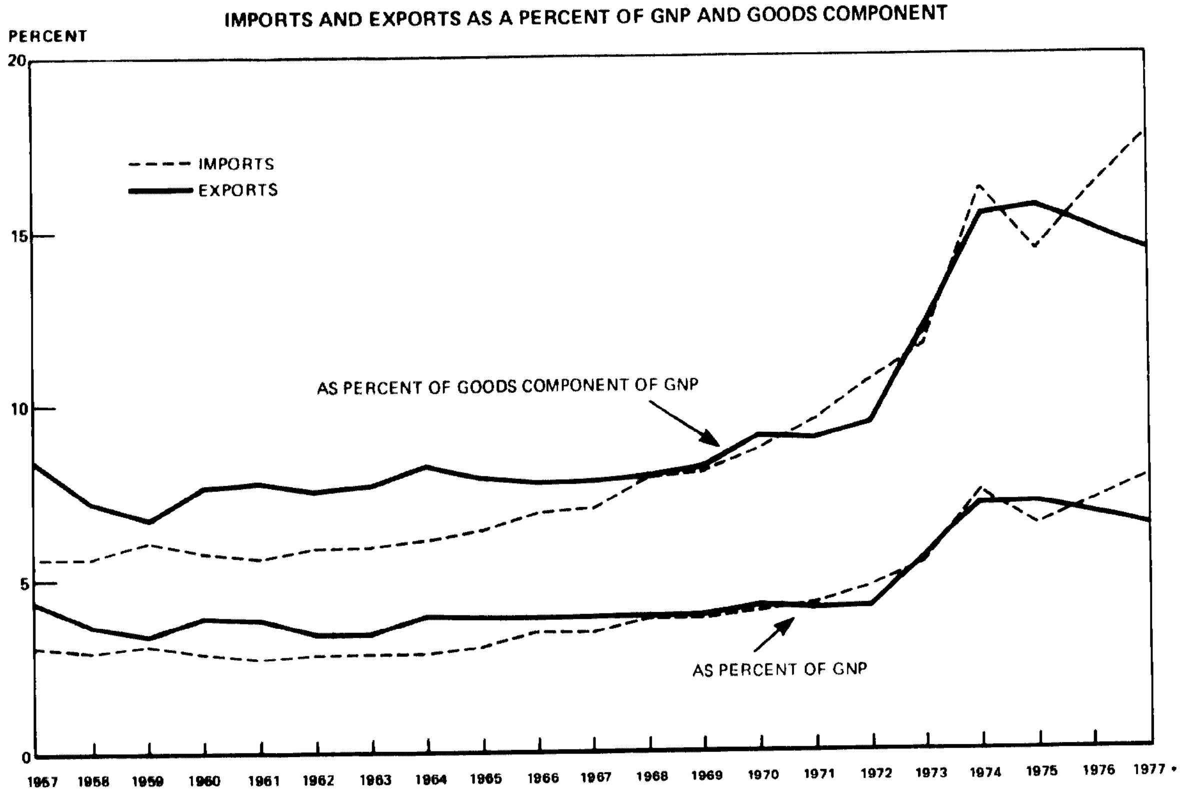
--Growth in worldwide gross national product (GNP).

--Technological breakthroughs in communication, transportation, and computers.

--Growth of multinational corporations.

--Government stimulus packages, both American and foreign, to particular industries.

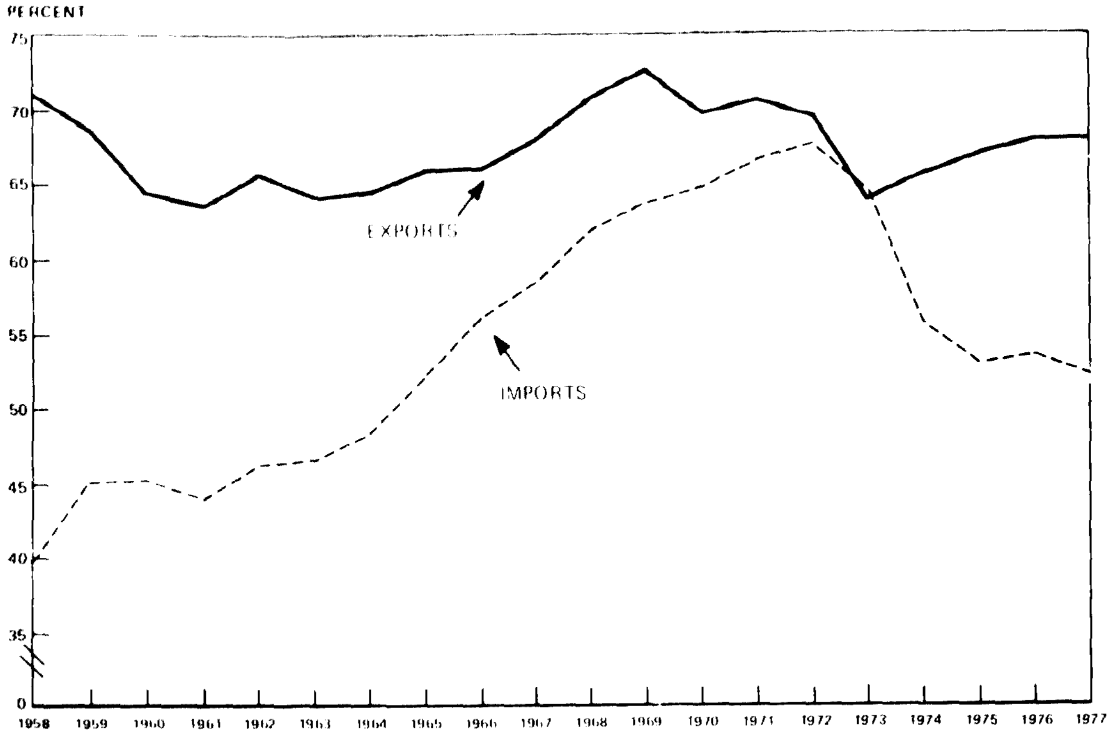
As a consequence of expanded trade, U.S. imports and exports have increased in importance in the U.S. economy, as shown in the chart below, with imports now equaling approximately 18 percent of the goods component of the U.S. GNP. In 1978, U.S. two-way trade is expected to approach $300 billion.



SOURCE. Prepared by GAO from the January 1977 Economic Report of the President and from information obtained from the Department of Commerce. *PRELIMINARY

During the last two decades, there has been a striking change in the composition of imports into the United States. The percent of total imports that are manufactured goods have shown a striking increase, as seen in the chart below. Manufactures increased from 40 percent of imports in 1958 to 68 percent in 1972. The decrease in this proportion since 1973 is overwhelmingly the result of the four-fold increase in the price of oil, a raw-material import. Over the same time span, manufactured exports fluctuated between 63 and 73 percent of total exports.

PERCENT OF TOTAL U.S. IMPORTS AND EXPORTS THAT ARE MANUFACTURED GOODS 1958 – 1977



Changes in U.S. trade have different impacts on firms and workers on the one hand, and consumers on the other. Increased imports benefit consumers through lower prices and increased product availability. Expanded exports benefit firms and workers--only in shortage situations may consumers be disadvantaged.

To the extent, however, that firms are not able to compete with imports and therefore dismiss workers and even close down because they are unable to make a successful transition to other lines, firms and workers are injured. For example, computer production has continued to grow during the last decade, and exports have aided that growth. In 1977, computer exports equaled 35 percent of U.S. consumption, up from 13 percent in 1967. On the other hand, U.S. shoe production has steadily declined during the last decade and imports have importantly contributed to the decline. In 1977, shoe imports equaled 49 percent of U.S. consumption, up from 18 percent in 1967.

Recognizing that the reduction of trade barriers could lead to difficult transition problems, the Congress in the Trade Expansion Act of 1962 initiated an adjustment assistance program for workers and firms. In the Trade Act of 1974 the program was continued and expanded to include communities as well. However, inasmuch as change is the hallmark of any economy, it may be wondered why change caused by international trade, as opposed to change in domestic sources, requires a Government program to smooth the transition. At least two factors are noteworthy here. One is that governments bargain over reductions in tariff and nontariff barriers (while often disregarding even bigger changes brought about through monetary realignment) so that there is a party to whom protest can be directed; in contrast, adjustments owing to domestic factors, such as the craze for faded denims in place of sports pants, for example, involve no one to whom one can complain--the marketplace is anonymous. Second, wage rates may differ by a factor of as much as 5, 10 or even 20 between developed and less developed economies, whereas capital, technology, and management may be comparable. In such circumstances, imports can increase abruptly and in larger quantities than domestic products.

DEPARTMENT OF COMMERCE'S ADJUSTMENT ASSISTANCE PROGRAM

Section 280 of the Trade Act of 1974 directs GAO to evaluate the worker, firm, and community adjustment assistance programs and to report no later than January 31, 1980, on their effectiveness. Because of the complexity of the programs, we are issuing several reports on specific aspects of adjustment assistance. (See app. I for those issued.) This report evaluates the firm adjustment assistance program administered by the Department of Commerce and recommends ways to improve it.

The purpose of firm assistance is to help firms adjust to the changing pattern of international trade. But what is meant by "adjust"? Different persons give different answers. Some appear to believe that a firm adjusts if it stays in business longer that it otherwise would have. Others believe that "adjustment" requires that a firm becôme more competitive in its existing product line or related lines or that it change to an industry in which it can be competitive. The Department of Commerce defines adjustment as recovery. Commerce says a firm which receives a program loan has recovered if any of the following occur:

--The firm, for 2 consecutive years, generates enough cash measured by net profit after taxes and depreciation expense to at least equal scheduled debt principal payments, 10 percent of depreciation expense to provide for capital replacement or improvement, and 10 percent of sales to increase working capital as inflation occurs and provide for some growth.

--The firm is acquired by or merged with another firm that is stronger financially and can meet the above cash generation measurement.

--The firm is acquired by or merged with another firm that is stronger financially and maintains a stronger market position.

--The firm obtains debt financing or additional equity funding in the private sector without Federal assistance.

Commerce's targets are that a firm will be 20 percent recovered 3 years after receiving a program loan and 75 percent recovered 7 years after loan receipt; however, it recognizes that some firms are so marginal they will never recover. Nevertheless, the legislative background of the Trade Act indicates that the Congress emphasized viable adjustment, not just staying in business for 1 or more years before going bankrupt.

Under the provisions of the Trade Act, Commerce can provide the following benefits to an import-impacted firm.

--A Government loan up to $1 million.

--A 90-percent Government guarantee on private bank loans up to $3 million.

--Technical assistance.

--A 75-percent contribution by the Government for the costs of technical assistance provided by private consultants.

Because of the scale of the problem in the footwear industry, a decrease in employment from 233,400 workers in 1968 to 164,700 in 1977, President Carter in July 1977 initiated a special 3-year, $56 million assistance program for this industry. In addition to intensively publicizing the availability of adjustment assistance to footwear firms, Commerce has speeded up certification of footwear petitions and made available teams of consultants to help companies plan adjustment proposals.

The footwear program represents a modified industry approach to import problems--"modified" because, under the Trade Act, only financially weak firms qualify for loans. Further, it raises the most basic questions of trade policy: should the United States attempt to maintain international competitiveness in all industries, should it encourage strength rather than protect weakness, or should it attempt to do both? This is a policy question needing congressional consideration.

CHAPTER 2

ADJUSTMENT ASSISTANCE TO FIRMS--

PARTICIPANTS AND PROCESS

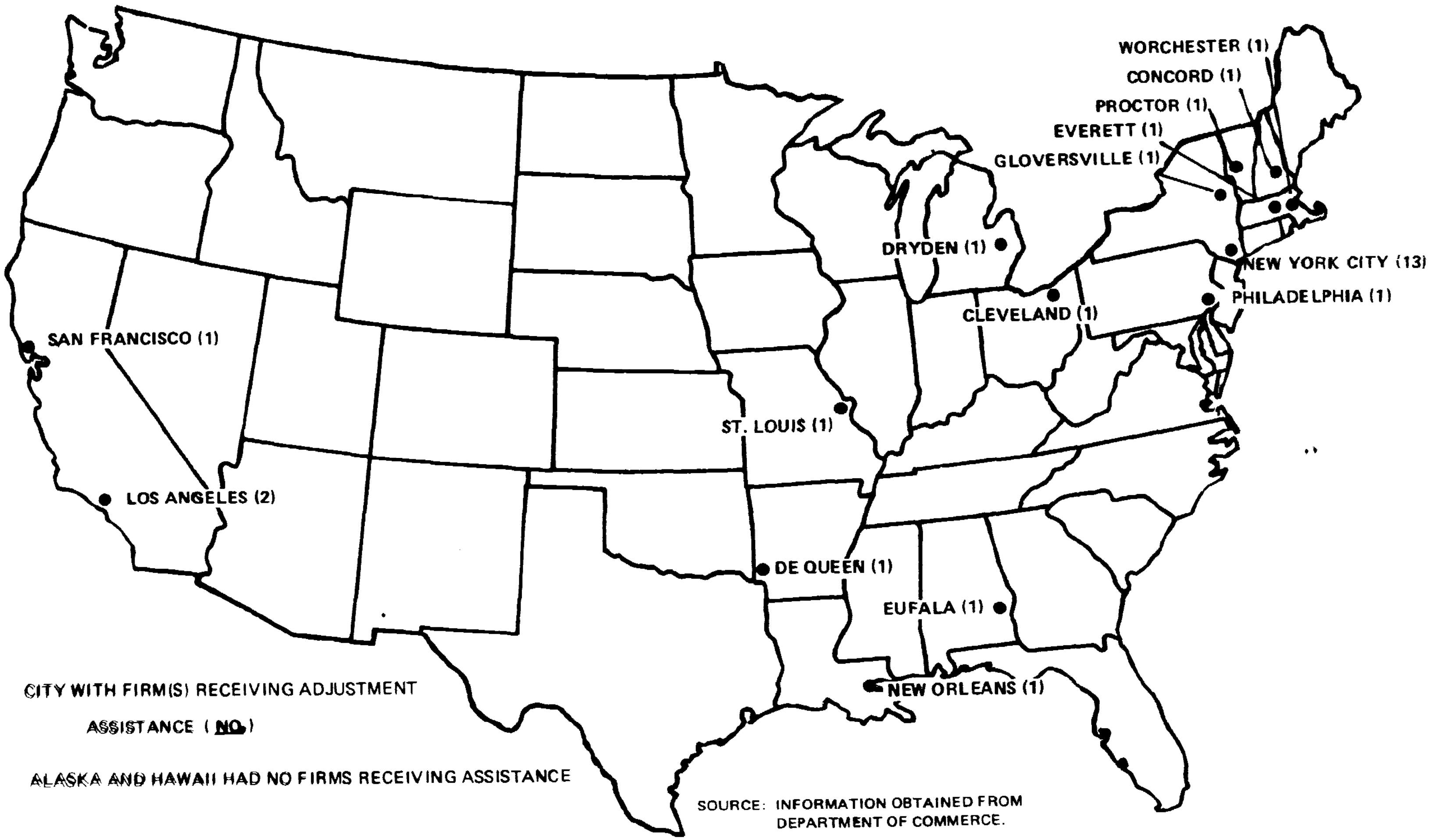
The firm adjustment assistance program is administered by the Economic Development Administration (EDA) of the Department of Commerce. Because time must pass before the effects of the program on firms receiving assistance can be determined, and because time is required to review such a program, we reviewed the petitions of the 194 firms that sought assistance on or before September 30, 1977. Of these, EDA determined 132 were eligible to apply for benefits and 28 had been approved to receive benefits.

The participants are primarily small, marginal firms in the footwear, apparel, and handbag industries. As shown on the map on the following page, an overwhelming majority of the 28 firms are located in the Northeast, principally in the New York City metropolitan area.

ECONOMIC DEVELOPMENT ADMINISTRATION

Since the program began in April 1975, EDA has devoted the equivalent of approximately 18 full-time employees a year to its implementation. As shown in the table on page 9, EDA is restricted by its budget, which is relatively small in relation to the number of firms that may be eligible for the program. For the first 3 years taken together, enough money was appropriated to provide only 51 firms with the maximum direct Government loan of $1 million. Commerce, however, requested additional funds for fiscal year 1978 and an increased level of funds for fiscal year 1979. The Congress recently appropriated these additional funds amounting to $132.7 million and authorized Commerce to use the fund balance of about $4.6 million left over from the program under the Trade Expansion Act of 1962. Based on the average level of past loans (about $780,000), this $137.3 million would enable 176 firms to receive Government loans.

DISTRIBUTION OF FIRMS RECEIVING ADJUSTMENT ASSISTANCE BY CITY AS OF SEPTEMBER 30, 1977



Firm Adjustment Assistance Program Loan Budget

Fiscal year	Budget (note a)	Obligations	Expenditures
	-------------(millions)	----------------	----------------
1976	$ 17	$ 6.8	b/ $ 8.5
1976 transition quarter	4.2	2.4	-
1977	17	13	6.7
1978	13.3	13.3	(c)
1978 supplemental	62	33.1	28.1
1979	75.3	-	-
Total	$188.8	$68.6	$43.3

a/Amounts budgeted that are not obligated during the fiscal year are not available for use in a later year unless the Congress so authorizes.

b/Includes some expenditures for obligations made in prior years under the Trade Expansion Act of 1962.

c/Commerce was unable to allocate expenditures between the regular and supplemental appropriations.

Source: Prepared by GAO from Department of Commerce information.

In addition to the loan budget, $14.1 million was budgeted for technical assistance to firms for fiscal years 1976 through 1978, and an additional $31.4 million was recently appropriated. The $31.4 million includes a 1978 supplemental appropriation of $12 million and a $19.4 million budget for 1979.

FIRMS RECEIVING ASSISTANCE

Through September 30, 1978, 249 firms had been determined eligible to apply for benefits, and 99 of these firms had been approved to receive direct Government or Government-guaranteed loans totaling $100.8 million. As of the same date 103 firms had been approved to receive technical assistance totaling $3.2 million. However, for the reasons explained at the outset of this chapter, our review covers events as of September 30, 1977, when 194 firms had sought assistance, 132 had been determined eligible to apply, and 28 had been approved to receive direct Government or Government-guaranteed program loans totaling $30.2 million. As of that date 12 firms had been approved to receive technical assistance totaling $65,350.

Industries most represented among the firms approved for adjustment assistance loans through September 30, 1977, are footwear, apparel, and handbags. As shown in the following table, over half of the firms receiving assistance were in one of these three industries.

Number of Firms with Sales Volumes in Various Ranges During the Year Prior to Receiving Assistance

Industry	Less than $1 million	$1 to 2.5 million	$2.5 to 5 million	$5 to 10 million	$10 to 20 million	Total
Footwear	2	2	1	2		7
Apparel	1	1	1	2	1	6
Handbags		1	3			4
Other	4	2	2	1	2	11
Total	7	6	7	5	3	28

Source: Prepared by GAO from Department of Commerce information.

Firms approved for assistance loans are relatively small; 89 percent had sales volumes under $10 million, and all had sales of less than $20 million during the year prior to receiving their loans. Eighty-nine percent of the firms employed less than 500 workers and none employed more than 1,000, as shown on the following page, during the year prior to receiving their loans.

Number of firms	Number of employees
6	less than 50
5	51 to 100
9	101 to 250
5	251 to 500
3	501 to 1,000

Although 75 percent of the firms suffered net losses during the year before receiving assistance, this relatively poor financial condition did not represent a short-term distortion of an otherwise sound financial picture. Many of the firms had experienced net losses for several years before entering the program. (See the table on p. 29.)

THE PROCESS

To receive adjustment assistance benefits, a firm must successfully complete a two-step process. In the first step, called certification, the firm must show Commerce that its sales or production has decreased and that employment has declined or workers are threatened with layoff. Commerce determines whether imports of articles like or directly competitive with the firm's products have increased, and if they have, seeks to link the increase with the firm's decline. In the second step, called application or benefit delivery, the firm must develop a proposal for its adjustment to import competition. It can request technical assistance to help develop such a proposal. If the firm wants a program loan it must meet the criteria for financial assistance. (See process flow charts, app. II.)

Certification

Certification begins when a petition for certification of eligibility to apply for adjustment assistance is submitted to Commerce's Trade Act Certification Division in Washington, D.C. Commerce limits itself to 5 working days to review and accept or reject the petition based on its completeness and the internal consistency of the sales, production, and employment information supplied by the firm for the past 3 years; tax returns or audited financial statements; and information about the firm, its affiliates, and its leading customers.

Following acceptance of the petition, Commerce starts an investigation and has 60 days in which to either certify or deny the petitioner the eligibility to apply for benefits. During this investigation, Commerce, when necessary, consults various sources such as the International Trade Commission, industry experts, the Department of Labor, Dunn and Bradstreet reports, and the Securities and Exchange Commission reports. It also determines whether imports of articles like or directly competitive with those produced by the firm have increased, and if they have, may contact some of the firm's customers to establish a link between import increases and the firm's decline in sales or production and employment.

At any time during the investigation, a firm may withdraw its petition. In practice, all firms that will be denied are encouraged to withdraw; only those that refuse to do so are denied. Commerce can also terminate an investigation whenever a petition does not comply with the Federal regulations. Petitioners may appeal decisions to EDA's Assistant Secretary within 60 days from the date of the formal notice of denial. The appeal must indicate the grounds for such action and the legal arguments in support of it.

Benefit delivery

The second step is called the application or benefit delivery process. In this step a firm seeking a program loan must develop, within 2 years of certification, an acceptable proposal for its adjustment to import competition and meet the criteria for financial (loan) assistance. It can request technical assistance to help develop its proposal. Certified firms that do not want a program loan may also request technical assistance to help determine how they can adjust to import competition.

When certified, the firm is referred to EDA's Office of Business Development in Washington for counseling on how to request technical assistance and/or apply for a loan. A Trade Adjustment Assistance index form (see app. III) identifies the necessary documentation required for loan applications, including forms for data pertaining to the firm and for requirements mandated by legislation other than the Trade Act, such as title VI of the Civil Rights Act of 1964, as amended; the Clean Air Act, as amended; and the Federal Water Pollution Control Act, as amended.

The legal responsibility of Commerce in assisting in the preparation of an adjustment proposal differs, depending upon whether or not the firm is in an industry for which the International Trade Commission has made an injury finding. If it is, Commerce must assist in the preparation of a proposal; if it is not, Commerce may assist. In practice Commerce tries to assist all certified firms.

After an application package is prepared by a petitioner seeking a loan, it is submitted to the appropriate Commerce regional office for processing. Prior to processing, however, Commerce restricts itself to 5 working days to screen the proposal and decide whether to accept or reject it and, if the latter, to notify the petitioner of the deficiencies found. Commerce then has 60 days to approve or disapprove the application. Regional loan development officials review and evaluate the application package and the economic adjustment proposal to determine if it

--contributes to the firm's economic adjustment,

--gives adequate consideration to the interest of the firm's employees, and

--demonstrates that the firm will make all reasonable efforts to use its own resources.

In addition, Commerce must determine that the applicant has no reasonable access to the private capital market, that needed funds are not available from the firm's resources, and that there is reasonable assurance that loans given will be repaid. The final decision on the adequacy of the proposal is based on an analysis of the firm's management, marketing, sales, profits, debt service, and collateral.

Once the regional office has recommended approval, the application package is forwarded to EDA's Office of Business Development in Washington, D.C., for review and final approval by the Assistant Secretary. Upon notice of final approval, the firm has 10 days to accept the assistance offered.

CHAPTER 3

FEW FIRMS HAVE SOUGHT ASSISTANCE

Participation in the firm assistance program has been extremely low. This is preventing the program from having a chance to help firms hurt by import competition. We estimate that approximately 14,700 firms in the manufacturing sector believe they have been hurt by imports and that 65 percent of these think they meet the criteria for certification. Some of the firms which think they meet the criteria are likely to be mistaken; still, as of September 30, 1977, only 194 had petitioned for assistance, only 28 had actually been approved to receive program loans, and only 12 had received technical assistance.

Participation has been low because:

--Commerce has not forcefully publicized the program, and therefore most firms are not aware of it.

--Many firms find program benefits or other program aspects unattractive.

--Certification criteria and Commerce's interpretation prevent some hurt firms from being certified, and thus, from receiving benefits.

Our findings and conclusions are based on our survey of 400 randomly selected firms from approximately 26,000 in 29 industries (see app. IV) selected on the basis of worker and firm adjustment assistance petitions and International Trade Commission findings of injury to industries and on our review of petitions investigated by Commerce.

PROGRAM NOT FORCEFULLY PUBLICIZED TO FIRMS

Obviously, firms can file petitions with the Department of Commerce only if they are aware of the adjustment assistance program and our survey suggested that 73 percent, or an estimated 19,400 of the firms in 29 trade-impacted industries are unaware of the program. Of those firms that are aware, 10 percent learned of it directly from Commerce. Others learned of it from newspapers, trade journals, trade associations, and other firms.

One reason for this lack of awareness is that the Department of Commerce has not effectively publicized the program. In industries not identified by the International Trade Commission as import-impacted, it has primarily responded to inquiries for information. It did send program literature, however, to firms in 8 of the 14 industries that the International Trade Commission found to be injured by imports and tried to inform firms in the other 6 industries about the program through industry associations and other communication channels.

It also has recently stepped up its publicity effort by beginning a series of seminars on Trade Adjustment Assistance for representatives of import-impacted firms. These seminars are an excellent opportunity to make the firms aware of the program, give them additional information on the procedures required to obtain assistance, and familiarize them with the technical assistance available through the program. Officials from the Departments of Commerce and Labor who are experts in the petition certification and benefit delivery processes participate in the seminars. We believe Commerce should continue and increase this new publicity initiative.

ADEQUATE PROGRAM LITERATURE NEEDED

Regardless of whether Commerce begins to effectively publicize the program, program literature that firms can understand must be prepared. Commerce currently provides (1) the Trade Adjustment Assistance Program pamphlet, (2) excerpts from title II of the Trade Act of 1974, (3) departmental regulations, (4) a petition for adjustment assistance certification, (5) a two-page instruction letter, and (6) information about the Department of Labor worker adjustment assistance program. This literature does not explain all program procedures, is not (as would seem desirable) combined into one publication, and generally is not written in understandable layman's language. In short, it does not explain the program or program requirements in a way that will provide firms a thorough understanding of the program from the beginning.

Ten firms we visited that have been approved for benefits under the program confirmed our observations about the literature. Most said it is technical and difficult to understand, necessitating frequent calls to Commerce and assistance from Commerce regional office staff or from hired consultants. Also, initial program literature does not indicate the average time needed to get through the process and receive benefits or what firms must do to meet various program requirements.

As a result, firms expect to complete the certification and application processes and receive the program benefits much sooner than they actually do. Two of the firms said that, had they really understood the program from the beginning, they would not have applied, and gave examples of some essential terms that need clarification.

--The program literature states that financial assistance cannot be provided unless it is determined that there is reasonable assurance of repayment, but does not explain what is meant by "reasonable assurance."

--Until November 22, 1977, literature used for certification made no mention that Commerce requires personal guarantees when granting a loan. Now the literature states that "personal guarantees will be required only when necessary to assure the continued interest and effort of the borrowers, owners or management on behalf of the borrower"; however, it does not explain the criteria used to decide whether personal guarantees are necessary.

--Program literature notes that financial assistance depends upon whether the adjustment proposal meets all the statutory criteria essential for approval and lists the laws, in addition to the Trade Act, with which a proposal must comply. However, the brochure offers no guidance concerning the type of information necessary for an acceptable proposal or where information on the other laws may be found.

FIRMS FIND PROGRAM BENEFITS UNATTRACTIVE

Program activity is limited by the high statutory interest rates for loans, compared to rates available under other programs; by Commerce's insistence at times that firms' owners and their spouses personally guarantee some loans; by a belief that the program is not the answer to import competition; and by other problems discussed in chapter 4.

Our sample survey suggests that half, or an estimated 13,300, of the firms in 29 import-impacted industries would not apply for assistance, whether or not they were eligible. It also suggests that an estimated 3,800, or 40 percent, of the firms which believe they are eligible would not apply. Additionally, 11 of 78 firms already certified by Commerce say they will not apply for the benefits.

Many firms, including an estimated 22 percent of the 13,300 above, would cite the high interest rates of the loans as the reason. Interest rates required by law have been set at 10-1/8 percent for direct loans made during the quarter beginning October 1, 1978, and have varied from 8-3/4 percent to over 10 percent under the program. They are somewhat higher than those charged for business development loans under other Commerce-administered programs. For example, regular business development direct loan interest rates were 8-1/2 percent for fixed asset loans and 8-3/4 percent for working capital loans in the quarter beginning October 1978. The adjustment assistance loans are higher than these as a result of an extra 1-1/2 percent or more charge added to the Government's cost of borrowing to cover administrative costs and probable losses under the program. This charge was designed to cover the firm adjustment assistance program's cost to the Government. Even if it were removed the interest rates would be higher than those charged under some other Government programs. For example, interest rates under the Small Business Administration's disaster loan program are 3 percent for direct loans up to $250,000 and 6-5/8 percent for direct loan amounts over $250,000. The Small Business Administration's interest rate for regular (non-disaster) direct loans was 7-3/8 percent in November 1978. Also, interest rates under the Farmers Home Administration disaster loan program are 5 percent for direct loans, while its regular business and industrial program guaranteed loan rates are negotiable. H.R. 11711, 95th Congress, passed by the House of Representatives on September 8, 1978, and the Senate October 14, 1978, but not resolved in conference, contained a provision to remove the 1-1/2 percent extra charge.

Many other potential petitioning firms cite personal guarantees (earlier more widely used) as the reason they would not apply, but they did not expound on their reasons. However, firms we visited that have received program loans say that, since the Government is responsible for trade liberalization, it is the Government's duty to help them. If the Government's help fails to adjust them, they believe it is unfair to expect the owners and their spouses to lose their personal assets. Finally, many firms in our survey replied that import restrictions, not the Trade Adjustment Assistance Program, are the answer to the import problem.

CERTIFICATION CRITERIA AND COMMERCE INTERPRETATION DELAYED OR PREVENTED ASSISTANCE TO SOME HURT FIRMS

An estimated 5,200 out of 26,000 firms believe the legislative criteria would prevent their being certified even though they believe they have been hurt by imports. Present legislation also excludes from the program some firms that provide services or supplies related to the manufacture of a product or that produce component parts. In addition, Commerce's interpretation of some criteria may have prevented some hurt firms from being certified. Since so few firms have petitioned for assistance, problems arising out of the criteria have not had as great an impact on program activity as have publicity problems. However, as program awareness increases, criteria problems may exclude many hurt firms from program participation.

Criteria problems stem from section 251(c) of the Trade Act which states that the Secretary of Commerce shall certify a firm eligible to apply for adjustment assistance benefits if he determines

> "(1) that a significant number or proportion of the workers in such firm have become totally or partially separated, or are threatened to become totally or partially separated,
>
> "(2) that sales or production, or both, of such firm have decreased absolutely, and
>
> "(3) that increases of imports of articles like or directly competitive with articles produced by such firm contributed importantly to such total or partial separation, or threat thereof, and to such decline in sales or production."

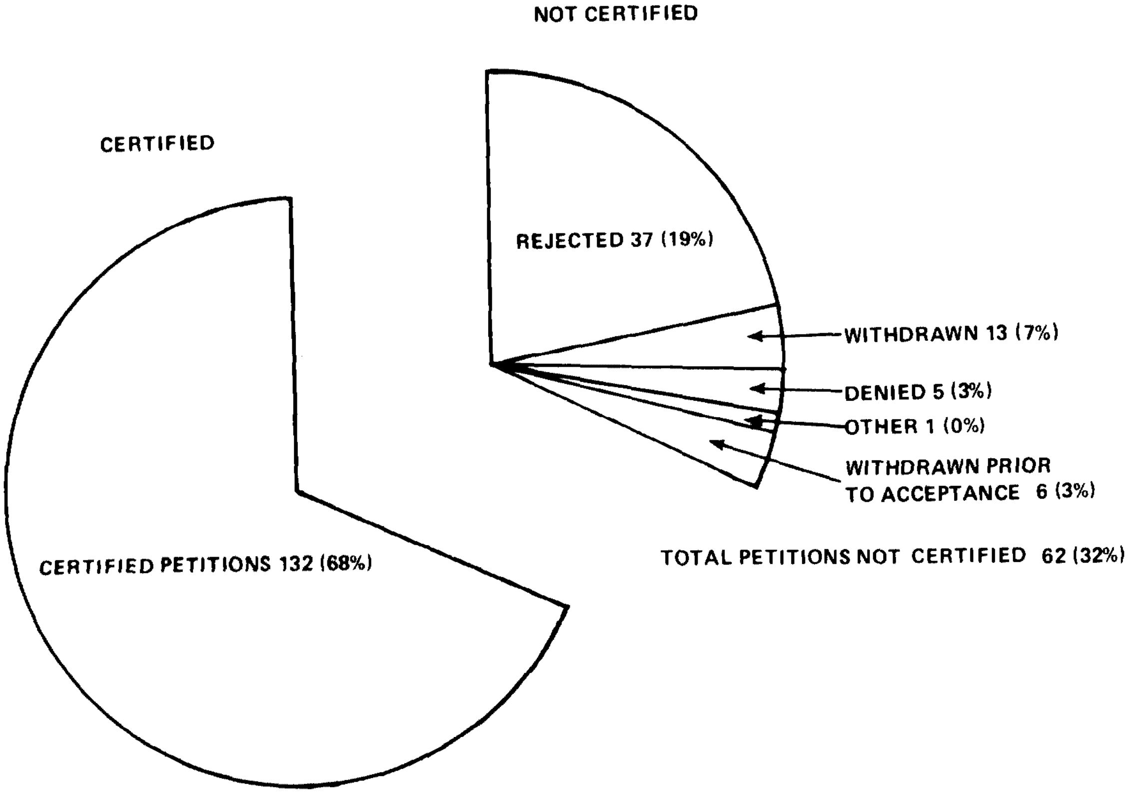
The act allows the Secretary to consider several firms as one when they are basically owned or controlled by the same people if this is necessary to prevent one entity that could be helped by the others from unjustifiably receiving program benefits.

To be more equitable in providing assistance, these criteria need to be liberalized and provision made to include service, supply, and component-part firms. Also, Commerce should modify its policy for deciding whether firms may receive unjustified benefits if certified.

The act also requires Commerce to make certification decisions within 60 days. Commerce has made the decisions within this time frame, has recently been trying to reduce the time required for decisions to 30 days, and has shown consistency in applying the qualifying criteria. The chart on the following page shows that Commerce certified 68 percent of the 194 petitions submitted through September 30, 1977.

FINAL OUTCOME OF FIRMS' PETITIONS RECEIVED BY COMMERCE

APRIL 3, 1975 THROUGH SEPTEMBER 30, 1977 (note a)



TOTAL PETITIONING FIRMS 194

a/ FIGURES ROUNDED TO EQUAL 100 PERCENT

SOURCE: PREPARED BY GAO FROM DEPARTMENT OF COMMERCE INFORMATION.

To assess the need for legislative changes in criteria and Commerce's interpretation of the criteria, we reviewed 49 percent of the 194 petitions, including all petitions rejected, withdrawn, denied, or terminated (not certified) as well as 33 certified petitions. The reasons petitions were not certified are summarized below.

Problem	Number of petitions	Percent of total petitions submitted
Incomplete	17	9
Definition of a firm	14	7
No decline in sales or production	11	6
Supplier or component-part producer	6	3
No decline in employment	2	1
No increase in imports	4	2
Imports did not contribute importantly	8	4
Total petitions not certified	62	32

Incomplete petitions

The 9 percent of petitions rejected for being incomplete did not have enough information for Commerce to make the necessary evaluation. Commerce officials note that New York City, to which it gave a $75,000 grant, helped its firms fill out their petitions and that these petitions were clear and complete.

During our review, Commerce recognized the need to simplify the petition and prepared a new one requiring less data. This new petition has been approved by the Office of Management and Budget and is currently in use. Commerce's petition investigators also give help over the telephone when firms call for assistance, but more may be needed. One official said regional staff could provide some help if properly trained. In September 1978, Commerce announced grants totaling $7.4 million for the establishment of trade adjustment assistance centers around the country to provide more help. We believe such centers will be helpful and that Commerce should also train its regional employees in the petitioning process so they and the headquarters' investigators can better help the firms over the telephone and/or by visiting them as needed.

Definition of a firm

For the purpose of firm adjustment assistance, the Trade Act defines a firm as including "an individual proprietorship, partnership, joint venture, association, corporation * * *, business trust, cooperative, trustee in bankruptcy, and receiver under decree of any court." The act limits the amount of assistance that can be given to any one firm and provides that a firm, together with any predecessor, successor, or certain affiliated firms, may be considered as one entity when necessary to prevent unjustifiable benefits, but does not define how "unjustifiable benefits" are determined. Inasmuch as the act specifies that related firms may be considered as a single entity, it is evident that the act contemplates the occurrence of situations where unjustifiable benefits will not result, just as it contemplates the occurrence of the reverse situation. Accordingly, the act requires that Commerce affirmatively make a determination that unjustifiable benefits will result before considering a petitioning firm and its related firms together as one firm.

How Commerce decides to define a firm is important for two reasons. First, some firms might be able to show the required declines and import impact and thus be certified if considered individually but be unable to pass the certification criteria when related firms are considered with them. Second, since the act limits the amount of assistance that can be given to any one firm, if two or more related firms have been hurt by imports, each could be eligible for the maximum benefits provided under the act if considered individually and certified individually. If, however, the related firms are considered and certified together as one firm, then they would not each be eligible to apply for the maximum benefits provided under the act but would be limited to applying together as one firm for the benefits.

Problems arising out of the definition of the firm constitute the reason for noncertification in 7 percent of the petitions submitted. During the period of our review Commerce routinely used a definition which limited certification by excluding those firms which might qualify as a single firm but fail to qualify when affiliates are included. Commerce did this by combining statistics for all affiliates of a firm when investigating a petition for certification and by rejecting petitions that did not include statistics for affiliates. Most rejected petitions were not resubmitted. Toward the end of our review, Commerce redefined the "firm" to be those corporate segments of the firm which produce or sell the "like or directly competitive" article against which the impact of imports is to be measured.

We found in the certification process that when Commerce considers related entities as one firm, the findings of fact, which constitute Commerce's written record of certification investigations, do not state that unjustifiable benefits would otherwise result nor state the basis for such determination. Certification administrators, however, say that they consider the similarity of related entities' operations and intercompany transactions when deciding which entities to consider as the firm. They usually include related entities in the same product line as part of the firm because they believe certification itself is a benefit. They believe this because certification entitles firms to apply for program loans, to request technical assistance in developing recovery plans, to receive assistance in preparing applications for program benefits, and because some banks have exhibited leniency toward firms after they were certified.

We question the premise that certification is a benefit under the Trade Act. The benefits of the program described and referred to in the Trade Act are the receipt of technical assistance and the receipt of program loans. Certification only makes a firm eligible to apply for these benefits. Furthermore, the act gives Commerce the authority to terminate a certification (cancel the certification making the firm ineligible to apply for benefits) if it determines the firm does not require assistance under the act.

We believe Commerce should find affirmative evidence that unjustifiable benefits would result before considering related entities together. Such determination and the basis therefor should be stated in the finding of fact. If unjustifiable benefits cannot be demonstrated during the certification process, whether they may result should be considered when the certified firm or firms apply for benefits.

Measuring decreased sales or production

A firm may be certified eligible to apply for adjustment assistance if it can demonstrate that increased imports are an important cause of decreased sales or production and of actual or threatened unemployment to its workers. Although the act requires these changes for certification, it does not specify the time period over which they must occur.

A firm needs to demonstrate that its sales or production are decreasing in a product line where overall U.S. imports are increasing. Commerce's criterion has been to use data available for the latest 12-month period and compare it with the previous 12 months because it is short enough to be recent yet long enough to eliminate seasonal variations.

This period does not necessarily coincide with a calendar or fiscal year because of the wide range of reporting systems used by firms and inherent time lags. Inability to show declines in sales or production occurred in 6 percent of the petitions reviewed. Two of the problems encountered are illustrated in the following cases.

Case A

A women's shoe manufacturer petitioned for assistance in 1976 and was denied it because sales or production had not decreased during the most recent 12 months, the last half of 1975, and the first half of 1976. Commerce files showed that this firm produced only 40 percent as many shoes in 1975 as it had in 1971 and that production had steadily declined from 1971 through 1975. For the first half of 1976, production, although higher than during the first half of 1975, was only 60 percent of 1971 production on an annual basis.

Commerce's failure to consider trends caused the denial of the petition. In late 1976 and early 1977, the firm's sales plummeted and production was drastically reduced. It submitted another petition for assistance on March 28, 1977, and because it could then show that sales or production had decreased in the most recent 12 months compared with the preceding 12 months, it was certified.

The firm's first petition could have been certified if Commerce had considered the past performance over an extended period of time. A careful consideration of sales or production over the long term would have shown a downward trend with a slight upward surge.

During our review, Commerce decided that in the absence of a recent decline, it would start considering the presence of a long-term declining trend. Recently it certified a firm on the basis of such a trend.

Case B

On February 7, 1977, Commerce rejected a petition submitted by a manufacturer of leather and vinyl handbags. The firm could not show a decline in sales or production for the most recent reportable 12 months as compared with the previous period. The petition, however, indicated that production was based mainly on orders received, and orders had declined. The firm submitted another petition for assistance on April 4, 1977, when it could show actual decreases in sales or production, and this second petition was certified on April 27, 1977.

In this case, evidence of immediate threat--a decline in orders--could not be taken into consideration because the law requires an actual decline. Consequently, certification for a firm injured by imports was delayed. Commerce's ability to consider orders is limited by language in the Trade Act requiring an actual sales or production decline before a firm can be certified.

Legislation excludes some firms that provide services, supplies, or component parts

The law and Commerce's application of it as to what are "like or directly competitive articles" prevented 3 percent of the petitioning firms from receiving assistance. Firms that produce component parts are excluded by law from the assistance if they are not corporately tied to the final producer whose sales have declined. Independent suppliers and service providers are also excluded by law if not corporately tied to the final producer, even though the trade induced injury may extend to them. Following are two examples of component goods.

Case C

A firm which produces yarn used in sweaters was excluded because imports of yarn were not increasing, but rather imports of sweaters--an end product. When imports increased and domestic sweater production declined, producers reduced purchases of the firm's yarn. The petitioner was informed that it was not eligible since it did not produce sweaters and was asked to withdraw its petition for assistance.

Case D

A producer of wire and cable assemblies used in electronic products was rejected in 1975 because it was not wire imports but imports of finished products containing the wire, such as TV sets and radios, which contributed importantly to its declining sales. On submission of a second petition, 2 years later, the firm was certified because Zenith Corporation had opened its own cable wire plant in Mexico and was importing wire as a way of reducing cost. As a result, the firm was able to show increased imports of cable wire, that is, imports of the like and directly competitive product.

CHAPTER 4

FIRMS RECEIVING ASSISTANCE

HAVE NOT BECOME VIABLE

The few firms that have received adjustment assistance benefits have not generally become viable in their own or different industries. Consequently, the program is providing these firms with income maintenance, keeping some of them in business longer than they might have otherwise remained and thus keeping their workers employed, but not providing for the firms' long-term strength or competitiveness. As a result, most firms are not as successful in increasing sales and employment after receiving assistance loans as their adjustment proposals had anticipated. In fact, two have defaulted on their loans and several are delinquent on loan repayments.

The economic climate of the 1970s, characterized by both recession and inflation and the energy crisis, has not been conducive to viable adjustment. Even so, the following factors reduce a firm's chances of achieving viability.

--Adjustment proposals do not usually address a firm's real problems and provide solutions.

--Commerce has not provided technical assistance to help all certified firms that wish to apply for program loans prepare proposals that will help them achieve viability.

--Maximum direct loan limits provided in the Trade Act are not large enough to help most firms achieve viability.

--Commerce does not provide adequate assistance to help all certified firms that wish to apply for benefits prepare required application documents.

--Delays in the benefit delivery process contribute to continued deterioration of applicants' weak financial conditions.

FIRMS NOT REALLY ADJUSTING

If note is taken of the historical experience under the Trade Expansion Act of 1962, where the firm adjustment assistance benefits were very similar to those under the

Trade Act, the record is not encouraging. In the 13 years under the 1962 act, only 16 firms received financial (loan) assistance, with the first loan being made in fiscal year 1971. Some of these firms also received technical and tax assistance. Today, 5, or 31 percent, of these 16 firms are no longer in business and 5 are delinquent on their loan repayments. Of the six that are current on their loan repayments, one is achieving both its sales and profit projections and two are achieving profit projections but not sales projections. Comparatively, of the 12 firms certified eligible to apply for benefits under the act but not approved to receive benefits, 6 or 50 percent, are now out of business. Thus, based on these very small "universes," firms assisted have a somewhat better record than those which sought but did not receive assistance. However, the small universe size makes it difficult to draw conclusions.

Firms receiving assistance under the Trade Act of 1974 do not appear to be faring much better than those under the Trade Expansion Act. As of June 30, 1978, 2 of the 28 that had been approved for loans through September 30, 1977, were out of business and 8 were delinquent on their loan repayments.

There was sufficient data available and sufficient time has passed since loan receipt for us to perform a financial analysis of 13 firms to find out if they are better off financially since receiving program loans. These 13 firms are the 11 that received loans under the Trade Expansion Act of 1962 which are still in business and 2 of the earliest firms to receive loans under the Trade Act of 1974. Our analysis indicates the financial condition of one firm has improved, of six has remained the same, and of six has decreased.

Of the 28 firms approved for loans under the Trade Act, 17 had received theirs a year or more before our review and they planned to adjust to import competition as follows.

Adjustment plan	Number of firms
Produce same product	3
Upgrade product	10
Modify product	1
Expand product line within same industry	3

As of the spring of 1978, two of these 17 firms were out of business, and as shown below most of the others have not attained or we believe will not attain the sales volume, profit, and employment projected when assistance was requested.

Projections	Number of firms for which data was available	Have met or appear likely to meet projections (note a)	
		Yes	No
Sales	14	7	7
Profit	14	5	9
Employment	10	4	6

a/In cases where a full year's data was not available, we converted the data to a full year basis at a proportional rate to compare it with projections.

Overall, of the nine firms that are so far not achieving projected profit levels, none is achieving even half of its projected profit and several a much lower percentage. Four of the nine are among those delinquent on loan repayments. An example is a shoe firm that projected the following results in its adjustment proposal for the 3 years following assistance.

	1976	1977	1978
	---------(millions)----------		
Projected sales	$9.0	$10.9	$13.9
Actual sales	6.7	6.7	a/ 6.1
Projected profit	0.419	1.0	2.0
Actual profit or (loss)	(0.900)	0.229	a/ 0.392
Projected employment	-	-	527
Actual employment	-	b/ 332	-

a/1978 actual sales and profit figures are for the first 9 months of the firm's fiscal year. If converted at a proportional rate to a full year basis, sales would be $8.13 million and profit would be $523,000.

b/Employment as of Mar. 16, 1977.

The fact that firms are not generally making significant product changes to become more competitive; are not meeting projected sales, profit, and employment; are not experiencing an improved financial condition after receiving program loans; and are having difficulty making loan repayments indicates that they are not becoming viable after receiving assistance. Perhaps it is unreasonable to expect successful adjustment, since firms helped by the program are usually in weakened financial condition at the time they receive assistance, their adjustment proposals do not really address their problems, loan amounts are not large enough for real adjustment, and the drawn-out benefit delivery process results in further financial deterioration.

Financial condition of firms before assistance

The financial condition of all 28 firms in the program, almost without exception, was marginal at the time they were approved for assistance loans. The table below summarizes the before-tax net income or loss of these firms just before receiving their loans.

Income or Loss Status of Firms

	Number of firms
Income:	
$1 to $100,000	3
$100,001 to $500,000	2
$500,001 to $1,000,000	0
More than $1,000,000	1
Total firms with profits	6
Loss:	
$0 to $100,000	6
$100,001 to $500,000	11
$500,001 to $1,000,000	4
More than $1,000,000	1
Total firms with losses	22
Total	28

The relatively poor financial situation shown in the above table apparently did not represent a short-term distortion of an otherwise sound financial picture. Many of the firms had experienced net losses in several of the most recent years before entering the program. We attempted to review company financial data for 4 years prior to the receipt of loan assistance, but Commerce records did not have data for all 4 years for all the companies. Therefore, the second column of the table on the following page shows the number of years for which data was available, and the first column shows the number of these years for which a loss was reported.

Pre-Loan Net Income Experience of Firms in Program

Number of years loss was reported	Number of years (out of 4) for which financial data was available	Number of firms
4	4	5
3	3	3
2	2	1
3	4	3
2	4	6
1	4	5
2	3	2
1	3	1
0	4	2
		28

ADJUSTMENT PROPOSALS NOT AIMED AT VIABILITY

Firms must prepare adjustment proposals and have them approved by Commerce before they can actually receive program loans. The proposals are their plans for becoming viable.

Commerce regulations require that, to show that the assistance requested will materially contribute to their economic adjustment, the firms' proposals contain:

--Data on productive capacity and raw material and energy supplies for current and proposed production.

--Market plans and domestic market share data for existing and proposed product lines.

--Projected statements of financial position, income, and cash flow, with underlying assumptions used in their preparation.

--Information about the character, financial standing, and capability of management.

The adjustment proposals must also give adequate consideration to the interests of the workers adversely affected or threatened as a result of the increased imports and must demonstrate that the firms will make maximum use of their own resources and that the funds requested are not otherwise available to the firms on reasonable terms.

Before assistance can be made available Commerce must determine that funds are not available from other sources and that there is reasonable assurance that the borrowers can repay the loan. In determining repayment ability, Commerce considers (1) management of the firms, (2) marketing plans, (3) availability of raw materials, energy, and productive capacity, (4) projected sales, profits, and debt service, and (5) collateral.

Whether or not a firm can repay its loan is probably the most important consideration when determining whether an adjustment proposal will be accepted. One Commerce official said that he looks at the financial statements, both past and projected, to ascertain what effect the financial assistance will have on the firm. He stated that he was interested in the adjustment of a firm's financial position which, in turn, will affect the firm's ability to repay its loan.

Our review showed that the adjustment proposals usually do not specify in detail the reasons why the firm is not competitive and how the proposed adjustment will make them become competitive. For example, most do not state whether their production costs and required selling prices are higher than those of competing imported products and how the proposed adjustment will correct such a problem. Many simply state that imports have contributed importantly to declines in sales or production or the separation or threat of separation of a number of workers. Without knowing the specific reasons that caused the firm to be hurt by imports, it is difficult to determine whether the proposed adjustment will make the firm more competitive. However, the fact that most firms are not achieving projected sales volume or profits indicates that they are not increasing their competitiveness.

Our examination of proposals showed that most plans to become more competitive were not aimed toward achieving long-term viability. Many were directed toward whatever improvements could be made for $1 million, the statutory maximum Commerce can directly loan firms under the program. Since most firms were in a poor financial condition when they requested assistance, this translated into plans to pay off overdue debts and increase working capital. Although using some funds in this way is often necessary, few plans also provided for modernizing plant and equipment.

An example of a firm which geared its adjustment proposal to the $1 million direct loan is a shoe firm that had negative working capital and net worth positions of $591,000 and $634,000, respectively. Its adjustment proposal called for a $1 million direct working capital loan to produce the same product but sell to a younger aged market. The loan was to be used to pay off past debts and purchase inventories. However, prior to loan approval, the firm received short-term loans from two banks in order to stay in business. This money also was to be repaid from the adjustment loan proceeds, leaving the firm insufficient working capital to purchase the necessary inventory supplies for producing the shoes. This company made its last loan payment in April 1976 and as of April 30, 1978, was behind $260,246 in past-due principal and interest payments.

To assist certified firms in preparing and/or implementing viable adjustment proposals, Commerce may provide technical assistance through its own staff, other Federal agencies, or private consultants. Commerce attempts to assist firms whenever firm officials visit Washington, D.C., or one of its regional offices. It also attempts to assist over the telephone. Commerce, however, does not usually visit firms to help them analyze their problems and develop viable proposals. It also has not used other Federal agencies to provide technical assistance. Commerce provided private consultant assistance totaling $21,000 to only 3 of the 28 firms approved for loans as of September 30, 1977. It also provided such technical assistance totaling $44,350 to nine other certified firms which had not been approved to receive assistance by that date. The three approved firms receiving technical assistance received assistance loans faster, on the average, than the approved firms not receiving technical assistance. In addition, at least 6 firms got technical assistance by hiring their own consultants, and Commerce, under another program, provided $225,000 to the American Footwear Industries Association and $125,000 to the Gulf and South Atlantic Fisheries Development Foundation to technically assist the footwear and shrimp industries.

Commerce officials say that personnel hiring policies and budget limitations prevent them from hiring their own experts to provide technical assistance and that the stringent Federal procurement process makes it difficult to provide assistance through private consultants. They say, however, that firms receiving technical assistance submit better adjustment assistance proposals and that they are now trying to provide it for an increasing number of firms. In fact, they say many firms are now petitioning for certification with the intent of asking for technical assistance only. These firms, they say, are not necessarily financially marginal. They point out that through September 30, 1978, 103 of the 249 firms certified by that date had been approved to receive technical assistance totaling $3.2 million. For many firms Commerce has been providing the first $10,000 of such assistance under another program which does not require the firms to share any of the technical assistance cost. Commerce is also trying to increase industry technical assistance grants and had made a total of $7.3 million in grants to industry organizations by September 30, 1978.

Commerce officials also say that many firms' managers and executives need training in management principles and business operation. Several firm executives we visited agree with this observation. Commerce officials believe management training could be given to firms' managers through the Small Business Administration's management assistance program. Such assistance, however, has not yet been used under the program.

If firms are to have real opportunities to become viable, Commerce will have to ensure that their plans address problems in detail and specify what must be done to solve those problems in the firms' present industries or how the firms can change industries. It should also provide management training to firm executives. Commerce will then have to monitor the implementation of the proposals. To do this, Commerce may have to provide adequate technical assistance to all certified firms that wish to apply for assistance, which might necessitate hiring industry, financial, management, and marketing specialists as well as continuing to increase the use of technical assistance contracts and adding the use of services provided by other Government agencies. H.R. 11711 would have required Commerce to provide all certified firms with technical assistance unless the Secretary, after consulting with a firm, determined it could prepare an adequate proposal without assistance.

PROGRAM BENEFITS INADEQUATE

The Trade Act limits the amount of loans outstanding to any one firm to $1 million in direct loans and $3 million in guaranteed loans. However, firms have generally only been able to get the direct loan and many of them have sought the maximum $1 million amount. As of September 30, 1977, direct loans totaling $21.8 million had been approved for 28 firms. Only 5 of the 28 had also been approved for guaranteed loans which totaled $8.4 million. Two factors are primarily responsible for the failure to make greater use of guaranteed loans.

1. The Trade Act limits the maximum interest rate that banks can charge on guaranteed loans to the Small Business Administration's guaranteed loan rate. For the past 2 years, this rate ranged between 9-1/2 and 10-3/4 percent. Because of the poor financial condition of firms seeking assistance, banks are often unwilling to make loans at these interest rates, even with a Government guarantee on 90 percent of the unpaid balance.

2. Commerce leaves it up to firms to find banks willing to make loans with the Government's guarantee; it has not tried to persuade banks to make guaranteed loans.

The firms' poor financial condition often does not permit them to make changes required to become viable for $1 million, so their plans call for debt payment and working capital loans. In fact, the first 16 firms receiving loans under the Trade Act which are still in business planned to use almost 80 percent of their loan funds for working capital. Of these, data was available for nine which showed they planned to use 77 percent of their working capital loans to pay existing debts.

An example of how a firm's adjustment is limited by this situation is illustrated by one proposal which called for financial assistance totaling $1.4 million, $1 million for working capital and the remaining $400,000 for new machinery and equipment needed to modernize production and reduce production costs. Although the firm contacted a number of financial institutions to acquire the additional $400,000 needed to implement its adjustment proposal, it was unsuccessful in acquiring the funds at the mandated guaranteed loan interest rate. Consequently, the firm modified its adjustment proposal, requesting the $1 million direct loan for working capital with plans to lease the necessary machinery and equipment.

Another example involves a ball bearing manufacturer that claimed it needed $1.5 million just for working capital but was limited to the $1 million direct loan because it could not get a bank to give it a loan even with the Government's guarantee. When we visited this firm its manufacturing equipment appeared dilapidated. Firm officials say they do not have funds to maintain or replace the equipment.

If the Congress and Commerce want to give firms in the program a better chance to become viable, the Congress will have to increase the maximum loan limits allowed under the program and Commerce will have to make greater use of guaranteed loans. While we could not determine the exact amount that loan limits should be increased, H.R. 11711 would have increased the maximum direct loan Commerce could make from $1 million to $3 million and the maximum loan guarantee liability from $3 million to $5 million per firm.

SLOW BENEFIT DELIVERY PROCESS

When firms have been certified eligible to apply for assistance, it has taken about 4 to 17 months for them to actually receive it. The average has been almost 9 months. Because it takes time for a firm, even if it receives adequate technical assistance, to develop a plan for becoming competitive and time for Commerce to analyze the plan, assistance is not forthcoming immediately upon certification. During this time many firms' financial conditions continue to deteriorate, which makes it more difficult for them to adjust and become viable when they actually receive the program loan. For example, a shoe manufacturer was certified on November 22, 1976. This firm's application for assistance was accepted on May 11, 1977, and direct and guaranteed loans were approved on June 30. But the firm received no money until September 30, 1977. Because the time from the start of the loan negotiations to actual disbursement took longer than anticipated and the company suffered an additional loss of about $300,000, Commerce had to modify the guarantee agreement so the bank could disburse an additional $500,000 in working capital.

Most other firms were not able to have their loan amounts increased when their financial conditions got worse during the slow benefit-delivery process. A speedier process would minimize financial deterioration. Some ways in which the benefit delivery process could be shortened are discussed below.

Contacting and helping certified firms

Commerce does not contact all certified firms periodically to find out if they wish to apply for benefits and how it can help them, which could speed up the benefit delivery process. Most firms we visited said they needed help in preparing required benefit application documents. Some firms in New York City received help from New York City's Economic Development Administration, which received a $75,000 grant from Commerce, of which $25,000 was to help New York based firms with the process. These firms had their applications for benefits accepted more quickly following certification than firms in other areas that did not receive such help. In addition to providing technical assistance to help firms develop viable adjustment proposals, Commerce should help all certified firms that wish to apply for benefits prepare required application documents. Some Commerce officials say their Washington and regional office staff would need more training to do this. Commerce officials also have approved establishment of trade adjustment assistance centers around the country to provide firms with the needed help.

Reducing delays in Commerce's internal process

Several problems in Commerce's methods for evaluating benefit applications slow the process. One is that Commerce established a 5-working-day limit to review applications for completeness before accepting them for processing. It did not time-stamp applications on receipt, however, so it would know whether it was meeting the 5-day limit, and our review showed it did not meet the limit for some applications. Commerce's regional office in Philadelphia, which has processed about 70 percent of the assistance applications, began time-stamping them upon receipt in January 1978. We believe this is a step in the right direction; however, to better control adherence to the time limit, Commerce should require that the receipt and acceptance dates be shown on the action memorandum (Form ED-506).

Once an application has been accepted for processing, the Trade Act requires that Commerce approve or deny assistance within 60 days. Of the 28 firms approved for benefits by September 30, 1977, 14 were not approved within the required 60 days; overruns ranged from 2 to 126 days and averaged 21 days. Although Commerce had to spend extra time considering the environmental impact of some proposals or the ability of some firms to repay loans, the major cause of delays was Commerce's procedures for approving benefit applications. Commerce, in effect, duplicates efforts required for approval by having the regional office which receives the application perform a complete review and approval process. Commerce then re-reviews and approves the application in Washington. Commerce should either decentralize the benefit application approval process, authorizing its regional office managers to approve applications, or recentralize the process to avoid time-consuming duplication.

After a benefit application is approved, the regional office manager is given the responsibility to close and disburse the loan. Among firms we sampled, this took from 5 to 211 days. The average time was 55 days. The Trade Act does not require that loan disbursement occur within a given time limit after approval of benefits. Commerce, however, makes faster disbursements under its other loan programs. It says it does not have a large enough legal staff to write all loan agreements quickly. Also, the firms must have their lawyer perform a thorough title search of all collateral offered as security for their loan in order to protect Commerce's interest. Because of their poor financial conditions and liens on many of their assets, it often takes considerable time to work out collateral arrangements. In addition, Commerce gives no priority to disbursing adjustment assistance loans despite the poor financial condition of these firms. Commerce could give these firms disbursement priority which would help shorten the benefit delivery process.

CHAPTER 5

THE "SPECIAL" FOOTWEAR PROGRAM

On July 20, 1977, the Department of Commerce initiated a "special" $56 million, 3-year program for revitalizing the footwear industry, using resources from the Trade Act as well as other Commerce programs. This program was conceived when the President, on April 1, 1977, rejected the tariff rate quota recommended by the International Trade Commission (in its investigation entitled "Footwear," of Feb. 1977) because it "did not fairly balance our concerns for domestic jobs and production, inflationary pressures, and expanded world trade." 1/ Instead, the President decided to assist the footwear industry through an expanded and more effective adjustment assistance program and Orderly Marketing Agreements. 2/ Four-year Agreements calling for a 22.5 percent reduction in exports were concluded with Taiwan and Korea, which in 1977 together accounted for 62 percent of nonrubber footwear imports. In undertaking to revitalize the shoe industry and to restrict imports temporarily, it is apparent that the Administration believes it is possible for the American footwear industry, notwithstanding the labor intensiveness of the industry and American wage rates, to become internationally competitive.

In a memorandum to the "Heads of Certain Departments and Agencies," dated April 1, 1977, the President listed three goals of the program: "To help the industry become more competitive; to support the industry in the development of new business opportunities; and to provide jobs for affected workers." The following statistics about the U.S. footwear industry and U.S. population demonstrate the problems besetting the industry.

1/Statement by the President, April 1, 1977, "Presidental Documents: Jimmy Carter, 1977," Vol. 13, No. 14.

2/Agreements limiting exports to the United States of a specific article or articles which are causing or are threatening to cause serious injury to a U.S. industry.

Changes in the Footwear Industry and U.S. Population

	1968	1977	Percent of change
Production (pairs)	642.4 million	385.5 million	-40
Imports (pairs)	181.5 "	368.1	+103
Exports (pairs)	2.4 "	5.4	+125
Consumption (pairs)	821.5 "	746.2	-9.2
Ratio of imports to consumption	22 percent	49 percent	+123
Employment	233,400	164,700	-29
Number of firms	675 a/	341 b/	-49
Population	200.7 million	216.8 million	+8

a/1967 figure used because 1968 not available
b/1976 figure used because 1977 not available

Source: Prepared by GAO from International Trade Commission reports, the Jan. 1978 Economic Report of the President, and information obtained from the Bureau of the Census.

The above statistics show that overall consumption decreased 9.2 percent in the 9-year period even though the U.S. population increased 8 percent. Many factors may have contributed to this decrease including: the age-recomposition of the population 1/; redistribution of expenditures of discretionary income in times of inflation; and a change in lifestyles. It is more difficult, of course, to revitalize an industry in which demand is decreasing than one where it is increasing.

PROGRAM ORGANIZATION

This program, coordinated by a task force within Commerce called the Footwear Industry Team (FIT), is directly under the Under Secretary of Commerce. The Under Secretary chairs a steering committee which provides overall policy guidance and includes the Deputy Assistant Secretaries from the Industry and Trade Administration, the Economic Development Administration, and the Office of Science and Technology. According to a Commerce official, FIT is responsible to the Under Secretary in order to provide it with overall access to Commerce programs and funds to help the footwear industry. It is not limited to EDA funds in implementing the broad elements of its program activity.

1/Between 1968 and 1977 population in the 15 and under age group decreased 10.8 percent, while in the over-15 age group it increased 16.5 percent.

For the individual footwear firm, the organizational structure means that

--petitions for certification are submitted to the Trade Act Certification Division in EDA;

--if certified, the firms are advised to contact both FIT and the EDA Regional Office;

--FIT provides general information, acts as a liaison or focal point between the firms and EDA, and can provide consultants to study the firms and help develop adjustment proposals for loans or technical assistance;

--requests for technical assistance are submitted to FIT for review and then to EDA for review, fund approval, and monitoring.

--requests for loans in the form of adjustment proposals are submitted to the EDA regional office (as are all other Trade Act firms' requests) and are reviewed for approval, disbursed, and monitored by EDA.

PROGRAM BUDGET

The special footwear program is planned for funding at $56 million over a 3 year period as follows.

	1978	1979	1980	Total
	----------(millions)------------			
Technical assistance	$ 5.0	$ 2.6	$ 2.6	$10.2
Loan and loan guarantees	13.6	14.6	13.7	41.9
Research, education, and technical training	1.4	1.4	1.4	4.2
Total	$20.0	$18.6	$17.7	$56.3

FIT COORDINATION

The Footwear Industry Team coordinates several aspects of the special program, including an outreach effort to make the program known, administrative changes which speed up certifications and make the benefits more attractive, technical assistance by consultants, retailer participation, technological studies, and export promotion. Although several aspects of the program relate to the footwear industry as a whole, e.g., the technological studies and export promotion, program resources under the Trade Act criteria have been used to aid individual marginal footwear firms.

Two other separate activities, one industry-wide and the other local, which are not coordinated by the FIT, may help the footwear industry or parts of it. The first, the Orderly Marketing Agreements with Korea and Taiwan, is designed to provide import relief to the entire footwear industry. The second, a facility-sharing project, is planned to help the small, localized segments of the footwear industry in Lynn, Massachusetts.

Outreach

The special publicity efforts, including extensive press coverage, 6 regional footwear seminars, direct mailings, and regional footwear association meetings have brought far wider participation in the program. Thus, as is seen in the statistics below, footwear petitions in the 6 months after the program was announced were over double the number of the preceding 2 years under the Trade Act and 5 times the number under the 13 years of the Trade Expansion Act.

Program	Footwear petitions accepted	Footwear petitions certified
Trade Expansion Act of 1962 (TEA) (1962 to 1975)	11	11
Trade Act before Special Footwear Program (Apr. 3, 1975 to July 19, 1977)	26	20
Trade Act after Special Footwear Program (July 20, 1977 to Jan. 31, 1978)	56	52
Total	93	83

Since July 20, 1977, as will be seen in the following statistics, the proportion of the adjustment assistance program devoted to footwear has also increased significantly. It will be observed in the following table that footwear petitions are comprising 60 percent of the total adjustment assistance certification activity.

	Footwear petitions accepted	Total petitions accepted	Footwear as percent of total	Footwear petitions certified	Total petitions certified	Footwear as percent of total
Trade Act (Apr. 3, 1975 to July 19, 1977)	a/29	121	24	a/23	101	23
Trade Act (July 20, 1977, to Jan. 31, 1978)	56	92	61	52	86	60
Total	85	213	40	75	187	40

a/Includes three petitions originally certified under the Trade Expansion Act of 1962 and recertified under the Trade Act of 1974.

A Commerce official estimates there are about 376 nonrubber domestic footwear companies, of which about 130 to 150, or 35 to 45 percent, could be certified. Based on those estimates, at least half of the potentially certifiable footwear firms had been certified as of January 31, 1978.

Administrative change

One of the initial changes made under the special footwear program was a commitment to make certification determinations within an average of 29 days as opposed to the 60 days allowed in the Trade Act. Success in meeting this commitment as of January 31, 1978, is shown below.

Period	Number of petitions	Average days for certification
TEA footwear petitions recertified under the Trade Act	3	38.3
Trade Act footwear petitions		
Before special program	20	49.3
After special program	53	31.0

The certification division has made two important adjustments in order to meet the new administrative deadline. First, footwear firms are no longer required to submit information about the basis for the petition, i.e., why they are being hurt by imports, since Commerce is considering the International Trade Commission's finding of import injury to the industry as sufficient evidence. Secondly, and more importantly, Commerce is requiring a lighter burden of proof of injury for footwear firms. A Commerce official said that during the certification investigation, unless there is reason to believe otherwise, Commerce determines that a causal link exists between increased imports and the firm's decreases in sales or production and employment.

The speed of certification in footwear is one of the most positive aspects of Commerce's adjustment assistance to firms in this industry, but it is not the most critical part. The change from 50 to 31 days is rather insignificant in comparison to the slowness of the benefit approval and delivery processes, as discussed in chapter 4. The Team's "Six Month Progress Report" made no mention of efforts to speed up the benefit approval and delivery process. It did mention making the benefits more attractive by eliminating personal guarantees, except when an owner/manager's continued active participation in the firm is essential to the firm's viability and the security of the Government's loan.

The delivery of benefits (loans) under this special program is difficult to assess because so few loans have been approved or dispersed to companies which applied for certification after July 20, 1977. As of March 31, 1978, only 2 of the 52 firms certified eligible to apply for benefits during July 20, 1977, to January 31, 1978, had actually received loans. Commerce needs to improve its processes for approving and delivering benefits. Faster certification alone is useless without more effective, faster benefit approval and delivery.

Technical assistance

Diagnostic studies, the initial phase of the technical assistance being offered in this special program, are made by consultants under contract with Commerce. In their contract proposals, the consultants set forth their capability, expertise, and experience for analyzing footwear manufacturing firms to determine their strengths, weaknesses, and problems and to recommend appropriate issues to be addressed in adjustment proposals. The individual footwear wear firm may choose from Commerce's list of consulting firms the one it feels best meets its own needs and which it will be able to work with. Commerce funds these diagnostic studies fully to a maximum of $10,000 under the statutory authority of the Public Works and Economic Development Act of 1965, as amended. As of February 6, 1978, one quarter of the certified footwear firms (13 of the 52 on January 31, 1978) had been approved for technical assistance.

The reactions among several footwear firms about the use of consultants for these diagnostic studies are difficult to categorize. They ranged from the view that consultants were not needed to displeasure with them to comments that they were very helpful and useful. We believe that studies or analysis of firms by qualified consultants can aid significantly, both in better, more complete adjustment proposals and in increasing the firm's chances of success so that it can repay its loans to the Government.

Retailer participation

A Footwear Industry Team official outlined three purposes of the retailer program.

--To help footwear firms identify marketing opportunities and obtain new orders, since this is really the best type of adjustment.

--To impress on retailers the advantages of having a viable domestic footwear industry.

--To change the attitude of retailers about the domestic industry.

The program does not guarantee any sales, but does provide manufacturers access to retailers who have expressed an interest in providing ideas for improving product lines, service, and merchandising as well as new marketing opportunities. As of January 31, 1978, 24 of the largest footwear retailers had volunteered to participate in this program. As one participating retailer made clear, his company is still going to purchase on the basis of cost. Another retailer in the program found himself considering samples from two companies which he would not have explored had the program not existed.

Technological studies

According to the "Six Month Progress Report" of the Footwear Industry Team, Commerce has started a program which aims to develop competitive strength for the U.S.

footwear industry in its home market through new technologies. Numerous studies are being planned and conducted which deal with business strategies and required technologies and with the state of the art in footwear manufacturing, materials, and management technologies. The studies are being undertaken by the Government, private industry, universities, and consultants. Many of the planned studies fall into either of two categories: a comparison of the U.S. and foreign footwear industries or special studies by consultants concerning particular problems of the U.S. footwear industry.

Commerce views the technological aspects of the program as a concerted effort by the Government and industry to develop a "new generation of technology." This is occurring in an industry characterized by modest technological change under circumstances which are not those of a national emergency. This is not likely to be something which can be accomplished quickly. The pace of past technological change is revealed in the productivity figures for the industry during 1961-1977, with 1967 assigned the rating of 100.

Year	Production worker output per hour
1961	98.3
1964	101.7
1967	100.0
1970	105.3
1973	104.2
1976	108.1
1977	103.7

FIT is also undertaking a project to encourage the establishment of one or more schools and/or college curriculums for footwear design as a means of attracting "young creative people" to the industry. At present, according to FIT, no U.S. schools offer a curriculum in footwear design and only two offer courses. In contrast, Italy has three institutions devoted to training footwear designers. FIT conducted a seminar on June 22, 1978, to discuss the development of a footwear-design career-opportunity program. It was hoped that the meeting would serve as a springboard for the development of curriculums of footwear design in the leading fashion institutes throughout the country.

Export promotion

Footwear exports totaled about 5.4 million pairs, or 1.4 percent of production, in 1977. The Department of

Commerce and the American Footwear Industries Association are attempting to substantially increase this level of exports and, in turn, U.S. production. However, exports would have to be increased 35-fold to offset the U.S. production losses from imports which occurred between 1968 and 1977. Although industry leaders realize that the export program cannot correct the industry's recent problems, the association is cooperating in the effort and is hopeful of positive results.

Orderly marketing agreements

On April 1, 1977, the President instructed the Special Trade Representative to negotiate Orderly Marketing Agreements with the "appropriate foreign suppliers" of shoes. The Representative deemed such countries to be Korea and Taiwan. As a result, the United States signed 4-year agreements with Taiwan (The Republic of China) and Korea. In the first year of the agreements (June 28, 1977, to June 30, 1978), Taiwan and Korea agreed to reduce their exports to the United States by 22.5 percent from 1976 levels. Taiwan agreed to cut its exports from 156 million pairs in 1976 to 122 million pairs, and Korea from 44 million to 33 million. During the first 6 months (as of Dec. 31, 1977), Taiwan had filled nearly 62 percent of its restraint level, and Korea had exceeded its restraint level by 5 percent. According to a Commerce official, Korea is taking advantage of carry forward provisions, i.e., borrowing against future years' restraint level, contained in the Orderly Marketing Agreements with the United States. Whatever combination of factors explains the situation, the International Trade Commission statistics on the U.S. volume of footwear imports from the world for the first quarter, 1978, reveal that imports were down only 3 percent.

Facility-sharing project

The Department of Commerce and the city of Lynn, Massachusetts, are jointly participating in a project for small businesses which, when completed, could prove beneficial to footwear and component parts firms in the Lynn area. It rests on shared use of buildings, shared use of such "generic" expensive equipment as computers, and shared special transportation arrangements.

CONCLUSIONS

It is difficult to reach conclusions about the special footwear program because (1) it was so recently initiated, (2) so few firms have gone through the special program from certification to receipt of benefits, and (3) many aspects of the program have not been fully implemented. Analytically, however, it is evident many problems--including differences in U.S. and foreign wages in labor intensive industries with comparable technology--will need to be overcome before it is viable.

Individual or industry approach

At present, the Department of Commerce is operating a program for footwear, which in part rests on the individual firm and in part on the industry. Although Commerce press releases and officials' statements say that the program is on "behalf of a single manufacturing industry" and "a government program aimed at a single manufacturing industry," only individual financially weak firms can receive loans. The strong or moderately strong footwear firms are in a position to benefit only from the industry studies, technological studies, and export programs which are planned or underway.

Our forthcoming report, "Considerations for Adjustment Assistance Under the 1974 Trade Act: A Summary of Techniques Used In Other Countries" (ID-78-43), discusses industry approaches used by other countries, such as textiles in Japan, steel in Europe, and shipbuilding in France, Sweden, and Japan. In each of these instances, eligibility for specially designed benefits was based on an industry-wide approach rather than on individual determinations. Other countries provide help to economically healthy firms as well as to marginal firms. The major objectives of these approaches are to create new jobs in the industry and to provide employment in the same industry for workers laid off from less competitive firms. Although we were not in a position to audit their programs, officials in those countries with whom we spoke said that their industry approaches had worked advantageously for the country, firms, and workers. Commerce officials have stated that they intend to provide special funds and extra attention to the apparel, steel, and handbag industries. If Commerce changes to a full industry approach, it will be making provisions for firms other than financially weak firms to receive financial benefits and for funds to assess the problems of the industry as a whole and how to correct them.

CHAPTER 6

AGENCY COMMENTS, RECOMMENDATIONS, AND

MATTERS FOR CONSIDERATION BY THE CONGRESS

The United States is committed to a liberal trade policy which benefits society as a whole, but some firms are caught between this commitment and the threat to their own viability or existence from import competition. The adjustment assistance provisions included in the Trade Expansion Act of 1962 and the Trade Act of 1974 were meant to help firms adjust to import competition, but few firms have received assistance and almost none have made a long-term adjustment.

In theory, assistance can be provided to import-impacted firms by either (1) infusing money into the firm to prolong its existence, with no major changes in product line or manufacturing efficiency (income maintenance), or (2) helping the firm change its product line and/or manufacturing process as necessary to become competitive within its present industry or move to another industry and thereby attain long-term viability (changes for viability).

Neither the legislation nor the legislative background clearly delineate among possible purposes of adjustment assistance. The Senate Finance Committee Report on the Trade Act states that Commerce should give greater stress to assisting firms in declining industries to shift to more profitable lines of activity. It appears, therefore, that the Congress wanted firms to become viable. To date, however, the few firms which have received benefits have used them primarily as income maintenance and have not made sufficient changes to become viable in the long run.

AGENCY COMMENTS AND OUR EVALUATIONS

Income maintenance versus viability

In commenting on our findings, Commerce states that the distinction we draw between income maintenance and viable adjustment is too sharp. It does not deny, however, that firm adjustment assistance, even if not so intended, has served primarily as income maintenance for many firms receiving program loans. Rather, Commerce points out that 18 of the 28 firms approved to receive program loans by September 30, 1977, are current on loan repayments. But, we would observe that some of these firms, although approved, did not actually receive loans until considerably later than September 30, and most loans have a moratorium on principal repayments for 1 year and on interest payments for a few months. Therefore, Commerce's conclusion is tentative. Because some time must elapse after assistance is received before an evaluation can be made, we were obliged to base our audit work on early Trade Act loans and on the experience under the Trade Expansion Act.

New dynamism

Even though we concentrated on firms that had had program loans long enough for us to analyze the effects of receiving assistance, Commerce has been striving to improve program administration and operation during our review and its comment that our draft report did not reflect the dynamic nature of the program is valid. Commerce points out that during the review it began an outreach program to inform more firms about assistance, stepped up technical assistance to help firms develop adjustment plans, began plans for trade adjustment assistance centers to help firms in the certification and benefit delivery processes, and generally worked to improve program effectiveness. In September 1978, after we had received Commerce comments on our draft report, the department announced $7.4 million in grants for the establishment of the planned adjustment assistance centers. We believe these are needed improvements that should contribute to helping firms have a better chance to make viable adjustments and that such improvements should be continued, expanded, and broadened.

Speeding up assistance versus doing a more thorough job

Commerce also commented that our findings imply the assistance process should be speeded up while simultaneously suggesting that it do more to help firms develop viable adjustment plans. Commerce appears to believe these are divergent objectives. Our review showed, however, that of the first 28 firms approved to receive loans, the 3 that received technical assistance provided by Commerce received their loans faster on the average than those not receiving technical assistance. In addition, we point out that it took an average of 55 days after these firms' adjustment proposals and loan applications were approved before loans were actually disbursed. We believe, therefore, that these are not completely divergent objectives. At the same time we share Commerce's view that the process should not be so shortened that there is not adequate time to assist firms in preparing viable adjustment proposals.

Commerce's ability to draw firms into program

Our review also showed that program activity has been extremely limited. Commerce comments that we overestimate its ability to draw firms into the program and that there are many reasons in addition to the level of program publicity that cause the low program activity level. At the same time Commerce agrees that it could better publicize the program and could handle applicants more quickly and decisively.

Our survey sample of firms in 29 trade-impacted industries indicates that most firms are not aware of the program and that many would be interested in applying if they become aware of it. Therefore, we believe better publicity would increase program participation by eligible firms.

The "special" footwear program

Additionally, Commerce expresses a concern that we inaccurately separate trade adjustment assistance for firms in the footwear industry from trade adjustment assistance for firms in other industries.

We believe, however, that this concern is too great. The President decided there should be a "special" program to provide expanded and more effective adjustment assistance to the footwear industry. This was the first time adjustment assistance was structured on an industry basis, and the program Commerce developed has several distinctive features. These include retailer participation, export promotion, and technological studies, all aimed at assisting the entire industry. Additionally, Commerce established a Footwear Industries Team directly under the Under Secretary of Commerce. This Team gives footwear firms special help in getting through the adjustment assistance certification and benefit delivery processes.

RECOMMENDATIONS

Department of Commerce officials state, and we agree, that a firm has achieved viability (or recovery) when its level of operations is sufficient to repay its loans and to support its capital needs. To become viable, then, a firm must address those problems which originally caused it to be unable to compete with imports, correct them, and successfully compete with all other domestic and foreign firms in the industry. If this is not possible, a firm must change to another industry where it can be viable.

If this is the goal Commerce is seeking to attain and this is the congressional intent, then the program has not been very effective for those firms which have received benefits. Viability for these import-injured firms has not been achieved for two reasons: (1) recovery plans have not addressed the reasons for the firms' lack of competitiveness or contained provisions to overcome their problems and (2) maximum loan amounts that firms can actually get under the act are not large enough to allow firms to pay current debts (both short- and long-term), provide adequate working capital, and modernize plant and equipment or purchase new equipment as needed. In addition, the size of the program budget has restricted the potential number of firms which can receive assistance.

Program effectiveness has also been limited by a general lack of program awareness on the part of the business community. As of September 30, 1977, 28 firms had been approved for assistance loans and 12 had received technical assistance in a $2 trillion economy. Other factors limiting program participation include (1) restrictive guidelines for determining eligibility, (2) a slow benefit delivery process, and (3) Commerce's failure during the first 2-1/2 years of the program to help firms complete petitions and adjustment proposals.

Recommendations to the Secretary of Commerce

Based on current program size, we recommend that the Secretary of Commerce do the following to help assisted firms have a better chance to achieve long-term viability:

1. Prepare a clear and simply written program brochure.

2. Train Washington and regional office staff in the preparation of petitions and adjustment proposals to enable them to assist firms in applying for benefits.

3. Assure that the adjustment proposals will enable the firms receiving benefits to become viable by hiring industrial, financial, management, and marketing specialists at Commerce to help firms develop their proposals; by quickly bringing into operation the newly announced trade adjustment assistance centers; by continuing to increase the use of technical assistance contracts and adding the use of services provided by other Government agencies; by providing management training for firm executives; and by monitoring more closely the implementation of proposals.

4. Expedite the benefit delivery process by reducing the amount of duplication in reviewing benefit applications and by giving priority to disbursement of approved adjustment assistance loans.

5. Make greater use of guaranteed loans.

6. Devote more employees to program administration.

Recommendations to the Congress

Based on current program size, we recommend that the Congress do the following to help assisted firms have a better chance to achieve long-term viability.

1. Increase the size of individual direct loans made available through the program.

2. Reduce the interest rates.

3. Modify the certification criteria to include both actual and threatened declines in sales or production.

MATTERS FOR CONSIDERATION BY THE CONGRESS

Expanded program

Our survey of firms in 29 import-impacted industries indicates that several thousand firms might be eligible for assistance. So far, the current program and its results are insignificant in relation to the size of the problem.

Implementation by the Secretary of Commerce and the Congress of our recommendations for a current-sized program aimed at viability will likely make the program more effective in helping assisted firms achieve long-term viability. But if the program is operated at the current level, the number of firms helped is likely to remain small compared to the number that might be eligible. The Congress may wish to consider expanding the program so that a larger number of eligible firms could be helped.

If the Congress decides to expand the program, it would need to:

1. Appropriate the funds necessary to increase the level of program participation. This could mean several billion dollars in loans, if even 50 percent (2,900) of the firms that according to

our sample believed they met program criteria and would apply actually did so and received $1 million each. Of course, if firms achieved viable adjustment, the loans would be repaid.

2. Modify the definition of "like or directly competitive" so that an imported article like or directly competitive with a domestically produced article is also directly competitive with supplies and component parts used in the manufacture of the domestically produced article as well as with services related to its production and distribution.

Special industry programs

Adjustment to import competition sometimes requires significant industry-wide changes in product composition and/or manufacturing processes, which the regular adjustment assistance program was not designed to accomplish. The special footwear program initiated by Commerce on July 20, 1977, is an initial effort by the Administration to provide help on an industry-wide basis. However, it falls short of an industry approach since loans are still available only to financially weak firms. The Administration is currently operating a second industry program for steel under several statutory authorities.

The Congress may wish to consider making provisions for special industry programs to complement the regular firm adjustment assistance program when industries have been seriously injured by imports and it is believed that the industry can be made internationally competitive. Such complementary programs might more effectively assist firms and industries injured by import competition.

This type of special program could be costly but could lead to more effective help for seriously injured industries, as determined by the International Trade Commision. Such a program might include the following types of features.

--Financial aid to help stronger firms expand in addition to the help which is now given only to marginal firms.

--Increased Government aid for research and development that promotes industry-wide competitiveness.

--Large-scale technical assistance.

CHAPTER 7

SCOPE OF REVIEW

We reviewed the authorizing legislation and other materials pertaining to the firm adjustment assistance program under the Trade Act of 1974 and the Trade Expansion Act of 1962. To gain an understanding of the Department of Commerce's administration of the program between April 3, 1975, and September 30, 1977, we examined 95 petitions submitted for certification and the adjustment proposals from the 28 Trade Act firms and the 16 Trade Expansion Act firms which had been approved to receive adjustment assistance loans. Also, during three telephone surveys we contacted (1) 400 randomly selected firms from 29 potentially trade-impacted industries, to determine firm awareness and interest in the program, (2) 78 firms which had been certified under the Trade Act but had not received any benefits, to determine their current status and intentions concerning application, and (3) 12 firms that were certified under the Trade Expansion Act as eligible to apply for benefits but had not received any to determine why they had not.

We also interviewed and obtained data from:

--Department of Commerce officials in Washington, D. C., and Philadelphia, Pennsylvania.

--Firm officials in various industries which had petitioned for certification.

--Firm officials in various industries which had received benefits.

--Footwear manufacturers and retailers and consultants involved in the special footwear program.

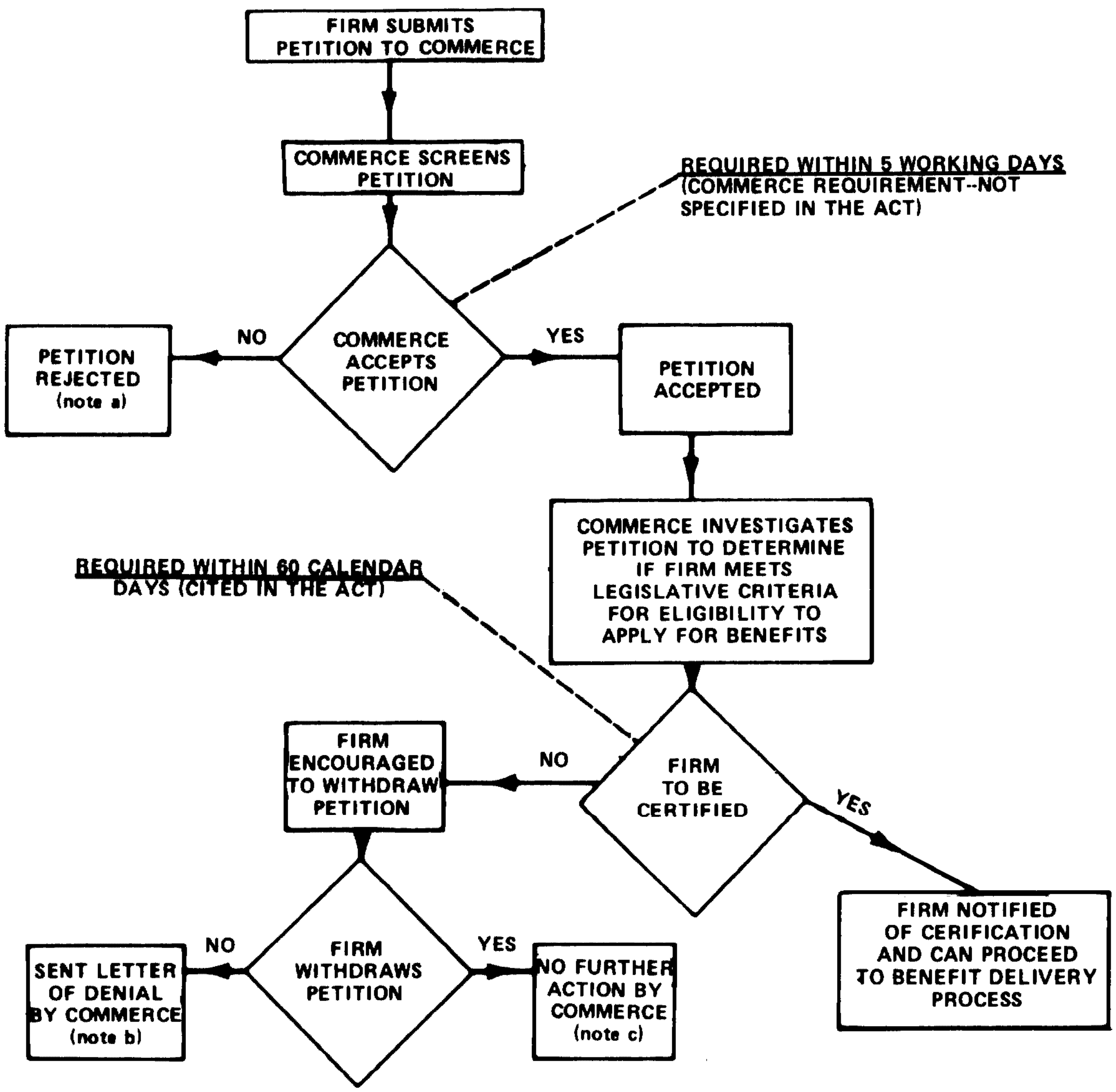
Section 280 of the Trade Act requires GAO to study the firm adjustment assistance program and provides that the Secretary of Commerce "shall make available to the Comptroller General any assistance necessary for an effective evaluation" of the program. Officials with the Department of Commerce were consistently cooperative and helpful in providing data, answering questions, and making files available.

OTHER GAO REPORTS ON ADJUSTMENT ASSISTANCE

Assistance to Nonrubber Shoe Firms	CED-77-51	Mar. 4, 1977
Certifying Workers for Adjustment Assistance--The First Year Under the Trade Act	ID-77-28	May 31, 1977
Letter Report to Congressman Charles A. Vanik, Chairman, Subcommittee on Trade, House Commitee on Ways and Means, on the Need to Improve Coordination of Trade Adjustment Assistance Programs for Workers, Firms, and Communities	ID-78-5	Dec. 6, 1977
Worker Adjustment Assistance Under the Trade Act of 1974 --Problems in Assisting Auto Workers	HRD-77-152	Jan. 11, 1978
Adjustment Assistance Under the Trade Act of 1974 to Pennsylvania Apparel Workers Often Has Been Untimely and Inaccurate	HRD-78-53	May 9, 1978
Worker Adjustment Assistance Under the Trade Act of 1974 to New England Workers Has Been Primarily Income Maintenance	HRD-78-153	Oct. 31, 1978

CERTIFICATION AND BENEFIT DELIVERY PROCESSES

CERTIFICATION

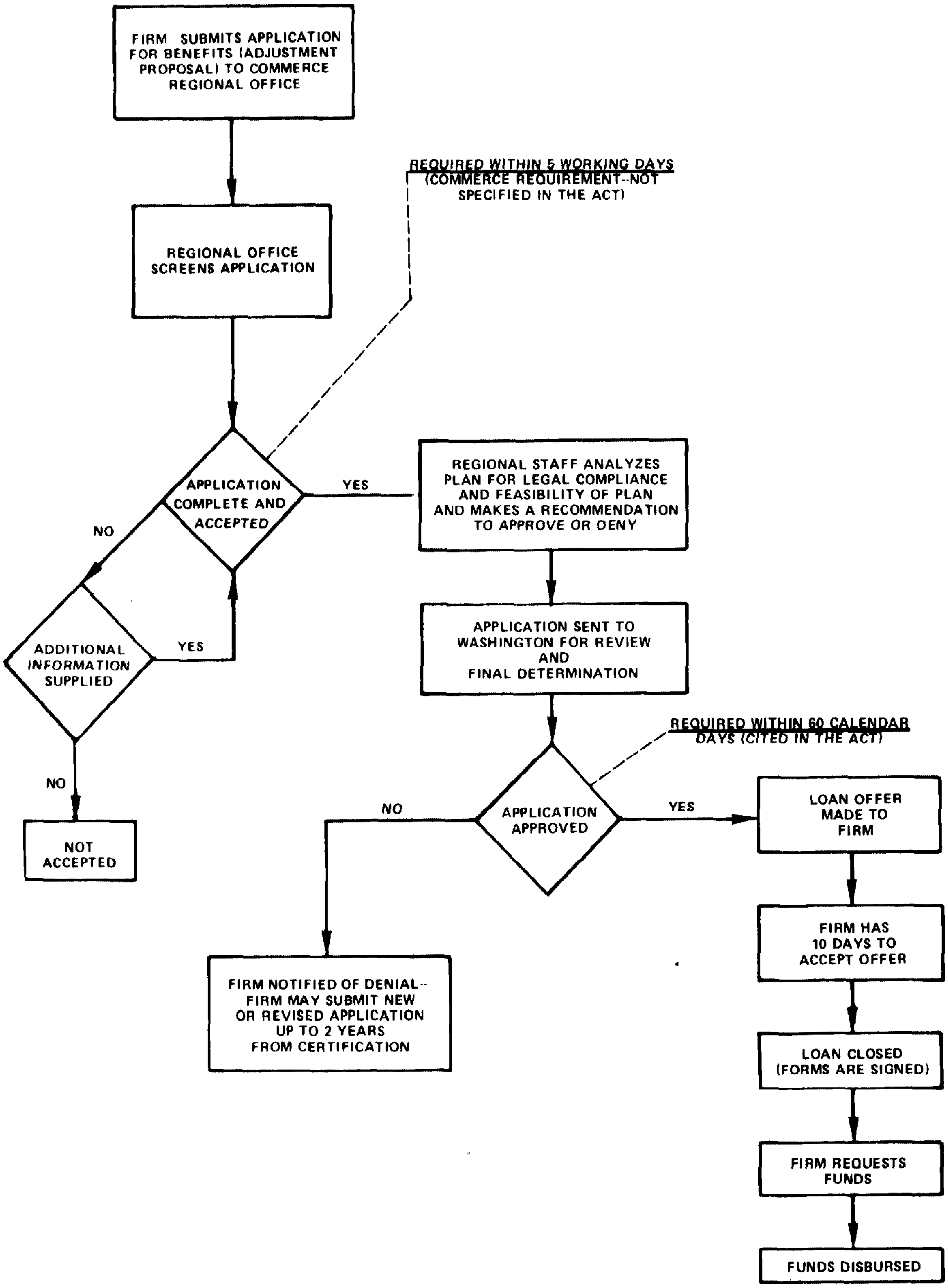


a/ FIRM MAY RESUBMIT PETITION AT ANY TIME.

b/ FIRM MAY NOT RESUBMIT PETITION FOR 1 YEAR.

c/ FIRM MAY RESUBMIT PETITION AT ANY TIME, SHOULD CIRSTANCES CHANGE.

DELIVERY OF FINANCIAL ASSISTANCE



 APPENDIX III

FORM ED-272
(Rev. 10-78)

OMB Approval Not Required

U.S. DEPARTMENT OF COMMERCE
ECONOMIC DEVELOPMENT ADMINISTRATION

APPLICATION REQUIREMENTS AND INDEX-TRADE ADJUSTMENT ASSISTANCE FOR FIRMS

NAME AND ADDRESS OF APPLICANT *(Operating Company)*	PROJECT NO.
PROJECT LOCATION *(If different from above)*	DATE:

INSTRUCTIONS FOR COMPLETION AND USE OF FORM ED-272

This form identifies the documentary material needed by EDA to evaluate applications for financial assistance to businesses under its trade adjustment assistance programs. Many items are included in this list, but only those items checked in Column (B) will be required to perfect an application.

Each project is unique; the specific documentary requirements for it are determined in a pre-application conference with the prospective applicant, at which time an EDA representative shall:

1. Place a check mark in Column (B) to the left of each required item, except for those with pre-printed check marks which are required from all applicants;
2. Place the letters NR, instead of a check mark, next to each unneeded item;
3. Identify additional documentary requirements on the numbered, but otherwise blank, lines;
4. Execute the first endorsement to this form; and
5. Give the prospective applicant a copy of the endorsed form as the index of the application.

Using a copy of the checked form as an index (which shall be included in the application package), the applicant shall assemble in the order indicated the documentary material and mark each item for identification with its appropriate number/letter from this form. When the application is received, an EDA representative shall check each item to ensure that it provides the necessary information and shall indicate its acceptability by initialing the appropriate space in Column (A) and shall execute the second endorsement.

USCOMM-DC 18179-P

ACCEPTED A	REQUIRED B	APPLICATION REQUIREMENTS AND INDEX
		Basic Application
	✓	1. Form ED-271, *"Application for Trade Adjustment Assistance for Firms"*, or equivalent
	✓	2. Letter of transmittal by Applicant firm setting forth its proposal for Trade Adjustment Assistance and including narrative history of the firm The history of the firm must include a discussion of the basis of its certification as being eligible for Trade Adjustment Assistance. Its financial position in years prior to being affected by foreign competition and in recent years must be identified by reference to actual sales, profits, net worth, etc. The proposal for Trade Adjustment Assistance must not only discuss the results expected from the Project for which the application is being made, but must also discuss in detail how the proposal will 1. materially contribute to the economic adjustment of the firm, 2. give adequate consideration to the interest of the firm's workers, and 3. demonstrate that the firm will make all reasonable efforts to use its own resources for *economic development.*
	✓	3. Form ED-436 or Form DIB 346, "Certificate of Eligibility"
	✓	4. Form ED-272, "Application Requirements and Index – Trade Adjustment Assistance for Firms"
		General Requirements
	✓	5. Form ED-220, *"Marketing and Capacity Information Report"*
	✓	6. Form ED-223, "Employment Schedule and Assurances"
	✓	7. Form ED-503, "Assurances of Compliance with the Department of Commerce and the Economic Development Administration Regulations under Title VI of the Civil Rights Act of 1964 and Public Law 92-65"
	✓	8. Form ED-524, "Certification of Compliance with the Clean Air Act and the Federal Water Pollution Control Act"
		9. Affirmative Action Plan (businesses 50 or more employees)
	✓	10. Form CD-227, *"Request for Name Check or Identification Record Check" for owners and/or officers (EDA representative shall list required persons below)* a. ____ b. ____ c. ____ d. ____ e. ____ f. ____ g. ____ h. ____
		Applicant's Financial Position
	✓	11. Most recent (not over 90 days old) signed interim financial statement of applicant *dated* ____
	✓	12. Most recent ☐ audited or ☐ signed fiscal year-end financial statement (supported by copy of tax return) for FY ____
	✓	13. Pro forma income and cash flow projections (by quarters from the date of the most recent interim financial statement, submitted in accordance with 11 above, through the first year of operations subsequent to completion of the project and yearly for the second and third years of operation) showing cash requirements and demonstrating applicant's ability to service all debt principal payments from net income after taxes rather than from cash flow
	✓	14. Assumptions underlying *pro forma projections*
	✓	15. Pro forma balance sheets for the last date of each of the periods covered by the pro forma projections submitted pursuant to 13 above
		16. Aging of accounts payable
		17. Aging of accounts receivable not factored
		18. Statement of the firm's position with the factor
		19. Letters of financial commitment from the below listed lenders involved in the project *(letters of commitment or intent must include amount of loan, interest rate, repayment term, collateral and lien position required.)* a ____ b ____ c. ____ d ____ e. ____

APPENDIX III

ACCEPTED A	REQUIRED B	

Applicant's Financial Position–Continued

20. Letter of equity commitment from the below listed sources for fixed asset and working capital requirements, as appropriate *(letters of commitment should show borth amount of funds and ownership interest)*:

a. ____________
b. ____________
c. ____________
d. ____________
e. ____________

21. Financial statements (not over 90 days old) of below listed parties, of a parent corporation, or owners, partners or principals of a closely held applicant, or both (Individuals use Form ED-273, "Personal Financial Statement, as of ____________.") *(EDA representative shall list below those parties required to submit financial statements)*:

a. ____________
b. ____________
c. ____________
d. ____________
e. ____________

22. Letters of commitment of guarantors *(EDA representative shall list required guarantors below)*:

	Required Guarantors	Requested Amounts
a.	____________	____________
b.	____________	____________
c.	____________	____________
d.	____________	____________
e.	____________	____________

23. ✓ Letters from two lending institutions declining to finance the project either directly, in participation with EDA or with an EDA guaranty.

a. ____________
b. ____________

24. Proposed Loan Documents (Note and Loan Agreement) identifying term, interest rate, collateral to be taken and other key terms and conditions of any loan to be guarantied by EDA

25. Copies of Lease(s) involved in project.

a. From ____________ to ____________
b. From ____________ to ____________

Management and Operations

26. Certificate of good standing for corporate applicant

27. Copy of partnership agreement

28. Organization charts showing coroporate and management (personnel) structures

29. Resumés of the following named project administrative and operational personnel.

✓ a. Chief executive officer ____________
✓ b. Chief financial officer ____________
✓ c. Chief sales and marketing officer ____________
✓ d. Officer in charge of production ____________

Others. (Title and Name)

e. ____________
f. ____________

30. Letters of commitment from below listed suppliers of scarce power and raw materials, and from critical customers, brokers, etc. *(EDA representative shall list required commitments below)*

	Name of Supplier or Customer	Items
a	____________	____________
b	____________	____________
c	____________	____________
d	____________	____________
e.	____________	____________

31. Independent Feasibility Study by ____________

AC-CEPTED A	RE-QUIRED B	
		Costs and Capabilities
		32. Schedule for construction of facilities, and acquisition and installation of M & E
		33. Schematic layouts of buildings including layout and work flow of key machinery and equipment (i.e. production lines) (Reduce to as near legal size (8-1/2 x 14) as practical)
		34. Capability of machinery and equipment to produce the anticipated quality of quantity of goods at maximum production rate per hour anticipated
		a. Independent appraisal of production capacity
		b. *Manufacturer's warranties (EDA representative shall list required items below):* 1. ______ 2. ______ 3. ______
		35. Form ED-267, "Tabulation of Total Incurred Costs to Date" – Applicant should use this as a detailed projected listing of specific sub-elements of project cost. (For M & E, indicate model, capacity, and whether new or used)
		36. Evidence of ☐ or Option for ☐ purchase of land including description of land and purchase price
	✓	37. Map of local area (city or county) showing *precise* location of the project *(relevant portion thereof not greater than 8-1/2 x 14)*
		38 Site plat (Reduced to as near legal size (8-1/2 x 14) as practical
		39. Independent bid by contractor or cost estimate by architect/engineer for project buildings, *including description of type of construction, square footage and special features and statement* assuring that Davis Bacon Wages will be paid
		40. Cost estimates by machinery and equipment suppliers and installers (including Davis Bacon statement on costs associated with major installations)
		41. Other Project Costs:
		a. Architectural and engineering services
		b. Legal and/or administrative expenses
		c. Commitment of interim lender supporting the projected cost of interest expenses during construction indicated on Forms ED-267 and ED-271
		d. Preliminary expenses ______
		e. Evidence in support of contingency reserve
		Other Documentation Required
		42. ______
		43. ______
		44. ______
		45. ______
		46. ______
		47. ______
		48. ______
		49. ______
		50. ______

First EDA Endorsement

A pre-application conference was held at ______ on ___/___/___ at which time *the undersigned EDA representative explained the items on this form to* ______ of ______ (firm), the undersigned indicated the forms, documentation and other items of information required to support an application for business development assistance by placing his initials in the appropriate boxes.

TYPE NAME AND TITLE OF EDA REPRESENTATIVE	SIGNATURE	DATE

Final EDA Endorsement: *The undersigned has reviewed the application and has determined that the applicant has submitted all* required items of information, that each item is completed, that all documents requiring applicant's signature or certification are properly executed, that the entire application is organized as required by this form and that all problems involving required items have been resolved.

It is therefore recommended that the Regional Director assign this application a project number and that processing commence.

RECOMMENDED TYPE NAME AND TITLE OF EDA REPRESENTATIVE	SIGNATURE	DATE

GAO Note: Commerce has recently changed some form numbers and consolidated some required forms.

FORM ED-272 (Rev. 10/75)

USCOMM-DC

GAO AWARENESS SURVEY SAMPLE

To find whether firms are aware of the adjustment assistance program, we conducted a survey of firms in import-impacted industries. We identified 29 four-digit Standard Industrial Classification industries (see following list) based on certified worker and firm adjustment assistance petitions and on affirmative findings of import injury to industries by the International Trade Commission. Dunn and Bradstreet then gathered a random sample of 400 firms from its list of over 26,000 firms in the 29 specified industries. The questions asked these firms follow the list of industries.

Standard Industrial Classification	Industry title
0133	Sugar cane and sugar beet
0182	Food crops grown under cover
0279	Animal specialities
0913	Shellfish
2061	Cane sugar--except refining only
2063	Beet sugar
2253	Knit outerwear mills
2311	Men's and boys' suits and coats
2321	Men's and boys' shirts and nightwear
2327	Men's and boys' separate trousers
2337	Women's and misses' suits and coats
2339	Women's and misses' outerwear, not elsewhere classified
2342	Corsets and allied garments
2816	Inorganic pigments
2819	Industrial inorganic chemicals
3021	Rubber footwear
3143	Men's footwear, except athletic
3144	Women's footwear, except athletic
3149	Footwear, except rubber, not elsewhere classified
3171	Women's handbags and purses
3312	Blast furnaces and steel mills
3452	Bolts, nuts, rivets, and washers
3465	Automotive stampings
3494	Valves and pipe fittings
3651	Radio and television receiving sets
3671	Radio and television receiving type tubes
3711	Motor vehicles
3714	Motor vehicle parts and accessories
3914	Silverware, plated ware, and stainless steel ware

FIRM AWARENESS QUESTIONNAIRE

Basic Information:

Name of Firm ____________

Location (State) ____________

Telephone # ____________

Industry Product ____________

Number of Employees ____________

Chief Executive Officer

Name ____________

Title ____________

Busy ☐

Out of Town ☐

When to Call Back ____________

Date of Call ____________

Person Contacted ____________

and Position ____________

Net Worth of Firm

Less than $500,000 ☐

$500,000 - $1,000,000 ☐

Over $1,000,000 ☐

My name is ____________ and I'm with the United States General Accounting Office in Washington, D.C. We are a Congressional audit agency currently reviewing the assistance given to U.S. firms under the 1974 Trade Act.

Primarily we would like to determine whether firms are aware of the assistance available and, if so, whether they might be eligible for such assistance. Could you take about 10 minutes to answer a few questions?

☐ Yes - Start ☐ No - Ask when we can call back.

If we can call back, record time and date ____________

____

If we can't call back force awareness question.
Have you ever heard of Trade Adjustment Assistance for firms?

Start - The Trade Act provides that firms whose business has suffered as a result of imports to the United States of foreign-made products can receive loans from the Federal Government to help in adjusting to the impact of foreign competition. We are interested in whether the Department of Commerce has been effective in publicizing the fact that this assistance is available.

1. So my first question to you is "Prior to receiving our letter saying that we would be calling you, was your firm aware that a program of loans to firms hurt by import competition was in existence?

☐ Yes ☐ No - Skip to #3

2. Do you recall how you became aware of the program?

   ☐ Yes, through ☐ No

☐ Trade Association
☐ Department of Commerce (Specify)

☐ Press Media

☐ Trade Journal
☐ Federal Register
☐ Another Firm
☐ Other (Specify)

3. Your company was selected for this survey on the basis of possibly being in an industry that in general has been hurt by imports. My next question is, has your company itself been hurt by imports?

   ☐ Yes ☐ No - Skip to #10

OK, then I'd like to ask you a few questions to get an idea of whether the assistance provided for in the Trade Act might be applicable for your firm. The act requires that in order to qualify for assistance the firm must meet several criteria. So I'd like to ask whether your firm would meet these criteria.

4. First, within the past three years, has your firm laid off or reduced the number of hours worked by either 5 percent of your workforce or 50 employees whichever is less?

   ☐ Yes - Skip to #6 ☐ No

5. Does your firm have plans to do so within the next year?

   ☐ Yes ☐ No - Skip to #7 ☐ Don't Know

6. Are these layoffs or reductions in hours worked a result of imports of foreign goods?

   ☐ Yes ☐ No

7. Has your firm's sales or production volume recently decreased as a result of imports of foreign goods?

   ☐ Yes ☐ No - Skip to #9

8. For about how long has this decrease been occurring _______ months or _____ years?

9. Specifically, which of your company's products are suffering from imports of foreign products?

Under the Trade Act the Department of Commerce can loan up to $1 million directly to a firm and can guarantee 90 percent of the amount up to a loan balance of $3 million. Generally the loan repayment period cannot be longer than 25 years. Currently loan interest rates are ____ percent. To get the loan, however, the Department of Commerce can require a firm's owners to pledge their personal assets as loan collateral.

10. If your firm believed that it might be eligible for such a loan, do you believe your firm would be likely to apply?

☐ Yes - Skip to #12 ☐ No ☐ Can't Say - Skip to #12

11. Is there a specific reason why?

☐ Yes, it is ☐ No

☐ Too much paperwork involved in government loans.
☐ Do not think benefits are adequate.
☐ Believe program is not the answer to our problems.
☐ Other (Specify)

12. Is there something else that the Federal Government should be doing, in your opinion, to help American firms that are injured by imports?

☐ Yes ☐ No - Skip to #14

13. If so, what would you like to see done?
(Specify)

APPENDIX IV

Aside from assistance provided under the Trade Act the Federal Government provides loans to businesses through other agencies.

14. Has your firm ever applied for any government loan after being hurt by imports?

    ☐ Yes ☐ No - Skip to End

15. a. What agency did you apply to? ____________________

    b. How long ago did you apply? Years ______ Months ______

    c. What was the amount of the loan you received? ____________________

    d. How long after applying did it take before you got the money?
    Years ______ Months ______

    e. Did you receive any technical assistance?

    ☐ Yes ☐ No

END - That was the last question we had to ask you. Thank you very much for helping us find out how effective the Department of Commerce has been in publicizing Adjustment Assistance.

UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Administration
Washington, D.C. 20230

Sept. 26, 1978

Mr. Henry Eschwege
Director, Community and Economic
Development Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

This is in reply to your letter of July 27, 1978, requesting comments on the draft report entitled "Firm Adjustment Assistance Under The Trade Act Of 1974 -- Income Maintenance Or Viable Adjustment."

We have reviewed the enclosed comments of the Deputy Assistant Secretary for Economic Development and believe they are responsive to the matters discussed in the report.

Sincerely,

Elsa A. Porter
Assistant Secretary
for Administration

Enclosure

UNITED STATES DEPARTMENT OF COMMERCE
Economic Development Administration
Washington, D.C. 20230

SEP 19 1978

Mr. Henry Eschwege
Director
Community and Economic
Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

Enclosed are our general comments on the GAO draft report to the Congress entitled "Firm Adjustment Assistance Under the Trade Act of 1974--Income Maintenance or Viable Adjustment."

These comments, which are in response to a request by Dr. Eleanor Hadley, Assistant Director, International Division, GAO, are in confirmation of informal comments supplied earlier.

Sincerely,

H. W. Williams
Deputy Assistant Secretary
for Economic Development

Enclosure

Comments on Draft GAO Report--"Firm Adjustment Assistance Under the Trade Act of 1974"--Income Maintenance or Viable Adjustment"

In the main, the proposed draft report is an excellent, carefully researched report which highlights a number of important trade adjustment issues and makes a considerable contribution to the understanding of this complex subject.

However, the report suffers from its attempt to clarify and simplify the major issues and occasionally falls into the fault of oversimplification. This leads to five major problems contained in the draft of the proposed report.

1. The distinction between "income maintenance" and "viable adjustment" is much too sharp. The report states that helping firms to "adjust" to import competition can be taken two ways. One way would simply be to keep a business in operation longer than it would be without assistance. The second would be to help a firm to reach a level of operations sufficient to repay its loans and operate profitably.

   EDA rejects "income maintenance" as a rational objective for trade adjustment. If trade adjustment assistance cannot help a firm reach a level of operations sufficient to repay its loans and operate profitably, the Act is not achieving its objective. But aiming for viable adjustment does not mean the rejection of marginal firms, as the report seems to imply. It means providing sufficient financial and technical assistance to all qualified firms in a way which will help them become viable.

   The report reaches a conclusion that the program has not succeeded in helping firms reach viable adjustment. This conclusion is based on an examination of the first 28 firms assisted, two of which had already gone out of business and eight others were delinquent on their loan payments. It should be noted that that leaves 18 still operating and still current on their loan payments. This may not be a bad average for a program which is designed to take risks. Moreover, there is no showing that the eight firms which are delinquent are about to go out of business. Many delinquent borrowers become current in their payments at a later date.

It is much too simplistic to assume that a loan officer can always know if a firm is beyond help. Much of the future cannot be foreseen. Management capabilities differ. Loans offered under trade adjustment assistance should encounter more risk than those offered under regular commercial banking practices. But even allowing for such a risk, the Government must always operate on the assumption that the assistance is being provided to make the firm viable again, and not simply to keep it in business for a few years longer.

2. The report suffers from a split personality on the question of speeding up assistance versus doing a more thorough job prior to the provision of assistance. Perhaps it is due to the attempt to distinguish between income maintenance and viable adjustment, but the report seems to be finding fault with Commerce at one point for taking too long to provide financial assistance and at another point for not doing a thorough job in helping firms develop viable adjustment assistance plans. The report overlooks the fact that it takes time to prepare viable adjustment plans. For example, its report on the footwear program mentions, in a rather pejorative manner, that only two firms had received financial assistance out of 52 eligible, as of July 31, 1978. This overlooks the fact that the program includes considerable technical assistance in advance of any application for financial assistance, and thus there was not enough time for applications to be prepared and processed.

3. <u>The report overestimates the ability of Commerce to draw firms into the program</u>. Over and over again, the report states directly and implies indirectly that if only Commerce had done a better job publicizing the program; if only its publications had been simple, more firms would have come into the program. Granted that Commerce could do a better publicity job and could handle applicants more quickly and decisively, there are many more important reasons why firms don't participate in the program. For example, many firms were encouraged by their industry associations not to use the program because to do so would undercut the case for border relief. Many firms just don't like to borrow and particularly from the Government. Many firms may not need to borrow, or they may have ample credit from local financial institutions. Many firms are too large, or their credit needs too great to make the trade adjustment assistance program of interest. The GAO report simply does not address these other issues in detail, nor does it attempt to determine in depth why some firms never came into the program.

4. <u>The report separates trade adjustment assistance for firms in the footwear industry from trade adjustment assistance for firms in other industries</u>. The distinction is inaccurate. While it is true that there are certain benefits being made available only to footwear firms, e.g., the export program and the retailers program, the trade adjustment assistance benefits available to footwear firms are also available to any qualified firm in any other industry found injured by the International Trade Commission including expedited processing.

5. <u>The report neglects the dynamic nature of present programs for trade adjustment assistance to firms</u>. It is unfortunate, indeed, that this report presents a rather negative impression of trade adjustment as administered by the Department of Commerce although the Department is giving new life to the program. While the report seems to take some of the

changes into account by throwing in a sentence here or there (about new Commerce outreach programs--or improved statistics on numbers certified), the general impression is conveyed that the program is stagnant. If such an impression is given to Congress, that would be misleading, and it may lead to unwise and precipitous action which would be harmful to the Nation.

One can understand the need for a cutoff date for statistics, but cutting off the date in September 1977 for a report which will probably not be published until September 1978 does leave a sizable gap in time. Unfortunately, this is precisely the period when Commerce began to undertake a number of new initiatives in trade adjustment assistance, even beyond the footwear initiative, and it is a disservice to the Congress to give such a small amount of attention to so much that is happening.

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