

GENERAL AGREEMENT ON TARIFFS AND TRADE

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COM.TD/68
3 June 1969

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Committee on Trade and Development

REPORT OF THE EXPERT GROUP ON ADJUSTMENT ASSISTANCE MEASURES

1. In accordance with a decision taken by the Committee on Trade and Development at the thirteenth session, the Expert Group convened on 19 May 1969 and examined, on the basis of written submissions by developed countries, the current situation in regard to the use of adjustment assistance measures which have a bearing on the creation of better trading opportunities for developing countries. The Group's terms of reference are as follows:

- to study the material set out in document COM.TD/W/6 and addenda, and, as appropriate, to gather additional material;
- to report on the measures being applied or proposed to be applied, by industrialized countries for assisting adjustments in the changing structure and pattern of production, so as to permit an expansion of international trade in products of interest to less-developed countries and to provide larger opportunities for imports from these countries.

2. The Group had before it written statements submitted by ten developed countries; one developed country orally reported on the measures it had taken; and certain other governments advised the Group that the statements which they had supplied in 1966 and reproduced in COM.TD/H/3, remained valid. (Cf. COM.TD/W/88, COM.TD/W/92 and Add.1-9.)

3. In analyzing the material available to it, the Group noted that the adjustment assistance measures available to governments included the following:

A. Assistance to business entities

(a) Financial assistance

- (i) Grants, advances and loans (often low interest and with generous repayment periods) to:
 - private firms for machinery and building;
 - local authorities for infrastructural expenditure;
 - investment reserve funds to encourage enterprises to invest during periods of recession to even out business fluctuation.
- (ii) Grants or loans to firms to facilitate the scrapping or "moth-balling" of machinery, or to promote modernization of plant and equipment.

- (iii) Loans to small enterprises to encourage projects on a co-operative basis.
- (iv) Grants of land, transfer of works and sites, construction of factories for hire or sale to manufacturing concerns.
- (v) Subsidies towards costs of factory buildings.
- (vi) Guarantees of private loans to manufacturing concerns.
- (vii) Payments to offset interest charged on private loans to manufacturing concerns.
- (viii) Grants to enable feasibility studies by private firms.
- (ix) Inauguration of public works programmes.
- (x) Funds for assisting in the financing of moves towards industrial concentration, fusion and rationalization.

(b) Fiscal inducements

Tax exemptions, deferments and rebates, including accelerated depreciation allowances.

(c) Technical assistance

- (i) Assistance to manufacturers in preparing adjustment proposals for improving production, managerial, marketing and financial operations.
- (ii) Assistance in stimulating industrial growth of particular areas through the application of science and technology.

(d) Information and guidance service

Assistance to enable small enterprises to convert their businesses.

B. Assistance to labour

(e) Retraining of labour

- (i) Establishment of training facilities.
- (ii) Grants or loans to local authorities for the establishment of training facilities.
- (iii) Grants or loans to firms for the establishment of their own training facilities.

- (iv) Payment or part payment of salaries of instructors and trainees.
- (f) Temporary measures to smooth out fluctuations in manpower demand
 - (i) Payment for workers during periods of unemployment or reduced employment.
 - (ii) Emergency works, government construction, additional public contracts.
- (g) Movement of labour
 - (i) Payments to enable travel for training and interviews.
 - (ii) Payments for movement of family and effects.
 - (iii) Publicity on employment opportunities in localities outside the depressed area.
- (h) Guidance provided by public employment services

4. In reviewing the notifications, the Group noted the assertion of certain countries that by virtue of their liberal trade policies and the reliance on the forces of supply and demand, the adjustment of factors of production to changes in market situations tended to take place autonomously and direct government intervention had been minimal. The Group noted that the majority of developed countries had available various measures of adjustment under either general or specific legislation. These measures included direct financial assistance such as grants, loans and subsidies, or indirect assistance such as fiscal and credit facilities. The purpose of these measures was generally to promote efficiency through rationalization, reorganization, plant relocation and industrial research. In addition in the majority of developed countries legislation was also available for relocation of labour whenever it was necessitated by structural changes in the industry or by restructuring of the economy as a whole. In the case of two countries adjustment assistance programmes were specifically designed to assist firms and workers adversely affected by changes in the trade sector which might arise from obligations assumed in trade negotiations with foreign countries. It was noted that none of the developed contracting parties had measures designed specifically for assisting their industries or individual firms to undertake necessary structural changes in order to provide larger opportunities for the imports from developing countries.

5. Mention was also made by some countries of adjustment assistance programmes to deal with problems of specified industries or with problems of depressed areas, though generally, the adjustment assistance measures available were designed to deal with the problems faced by individual firms and workers of individual firms rather than for entire industrial sectors.

6. The Group attempted to ascertain from the material before it whether there had been any notable changes in the situation since 1966, when the Group conducted its last review. Some developments in this regard had taken place. Canada, like the United States, now had provisions for adjustment assistance to deal with changes in import patterns arising from trade negotiations. Some countries, notably Austria, France and Italy, had obtained more specific legislation to facilitate the use of adjustment assistance measures for adaptation to economic changes. In the case of Italy the measure taken related to the reorganization of its sulphur industry which had led to the abolition of import restrictions on sulphur last year. Effective measures had been taken by the United Kingdom in the cotton textile sector in response to changing patterns of imports through rationalization in the industry which had facilitated increases in imports from developing countries. Other countries, notably the Netherlands had also taken certain measures in this sector. While there was little fundamental change in the situation as to the availability or use of specific measures, many developed countries stated that they were attaching increasing importance to the use of adjustment assistance measures, especially in the labour field, as might be seen from the increases in the financial resources allocated for this purpose.

7. One expert referring to the Task Force on Carpets and Glass mentioned in paragraph 13 of the United States notification (COM.TD/W/92), asked for more information on the nature of the work of this body, particularly on whether its activities were directed at providing assistance to individual firms or to whole industrial sectors. In response to this enquiry the expert of the United States replied that the Task Force on Carpets and Glass was created on 11 October 1967 at the time the President extended existing escape clause actions on Wilton and velvet carpets and sheet glass. The President appointed the Task Force because it had been determined that the adjustment assistance provisions of the Trade Expansion Act would not provide adequate remedies for the problems of the two industries. The Task Force was instructed to make a comprehensive study of the industries involved and of the small communities in which many of the plants were located. The mission of the Task Force was to make an inventory of government assistance programmes available to these areas, to search for alternate employment, and to take other steps to work out long-term solutions to problems created by job dislocation. The Task Force was currently engaged in carrying out its mission. It would be premature at the present time to attempt to estimate the degree of success it may achieve, or the degree to which it might serve as a model for the solution of similar problems.

8. In urging that greater use be made of adjustment assistance measures some members drew attention to the provisions of Article XXXVI:9, as well as those of Article XXXVII:3(b). Under the latter provision developed countries had undertaken to give active consideration to the adoption of measures, which might include measures to promote domestic structural changes designed to provide opportunities for increased imports from developing countries. In the view of experts from developing countries having regard to the principles and objectives of Part IV, it was thus incumbent on developed countries to make conscious or purposeful attempts to deal with their particular

problems through internal adjustment. To that end, the experts from developing countries stated that in their view it was important for the Group to carefully examine the measures reported, particularly in the light of the second section of its terms of reference. They felt that for the purpose it was necessary to find out to what extent it was possible for the developed contracting parties within their existing legislation and authority in this field to adopt "other measures designed to provide greater scope for the development of imports from less-developed contracting parties", in terms of Article XXXVII:3(b). The Group should therefore identify the extent and the type of authority which was available to each developed contracting party to undertake the above-mentioned measures. They further suggested that the Group might at a future meeting examine the availability or effectiveness of adjustment assistance measures in relation to particular products or particular industrial sectors.

9. In response, the representatives of some developed countries suggested that the provisions of Article XXXVI and XXXVII referred to by representatives of developing countries should also be viewed in the context of other relevant provisions of the General Agreement. They pointed out that under their legislation their governments could only take action to assist individual firms and labour associated with such firms, there being no authority to take action with respect to broad sectors or entire branches of industry. Some members stressed the danger of an unreserved endorsement of the use of financial and fiscal assistance to business entities having regard to the possibility of its becoming disguised subsidization of production to the disadvantage of all concerned.

10. Some members of the Group pointed out that restraint in the use of adjustment assistance measures in developed countries also reflected inadequate public awareness in these countries with the concept of adjustment assistance involving the curtailment of particular lines of domestic production in order to make room for imports even from developing countries. It was noted that the Group had recommended in 1966 that the education of public opinion should be given special attention by governments. In the nature of things, this could only be a long-term process. Some members suggested that greater efforts needed to be made by the developed countries in educating public opinion in this regard and that the public opinion in these countries remained more or less the same today as in 1966.

11. The Group recalled the views expressed in paragraph 23 of its last report to the Committee on Trade and Development (COM.TD/H/4) viz, "It was the general view of the Group that adjustment assistance measures could contribute to the solution of difficulties which might otherwise create pressures for the erection of new barriers or impede the rapid removal of existing barriers affecting the trade of developing countries and that, therefore, the developed countries should, wherever such difficulties were faced, explore the possibility of resolving them through the use of such measures.". The Group also recalled that the Committee on Trade and Development, in approving the Group's report in 1966, had confirmed the consensus reached in the Group that adjustment assistance could make some contribution to the solution of the problem of creating greater access for the exports of developing

countries and had agreed that the attention of the contracting parties should be drawn for appropriate action to that conclusion. The Committee had also agreed that contracting parties taking part in various organs of GATT should be invited to consider to what extent adjustment assistance could be employed in dealing with the specific issues with which those organs were concerned. The Group therefore recommended that these conclusions be drawn to the attention of other GATT bodies for example, the Agriculture Committee, the Committee on Trade in Industrial Products, the Special Group on Trade in Tropical Products, the Group on Residual Restrictions, etc.

12. The Group noted the decision taken by the Cotton Textiles Committee to make a special study of the problem of structural adjustment in the cotton textiles industry as the results of that study would be of interest to the work of this Group.

13. The Group noted the view of some members that the enquiries so far conducted in the Group had served to produce a broad profile of the adjustment assistance policies and programmes of developing countries. Some members felt that future work of the Group should be concentrated on establishing the extent to which adjustment assistance measures were available to deal with those areas in which trade barriers to imports from developing countries were not reduced or removed because of economic and social reasons and the extent to which, where such measures existed, they were in fact used. In this connexion the experts from developing countries referred to the proposal made by them in paragraph 8. In their view, the Group could best perform the task assigned to it by selecting for examination a few products of export interest to developing countries on which developed contracting parties maintained non-tariff barriers including quantitative restrictions and/or high tariffs, and for which it was claimed that their removal would pose acute economic and social problems unless structural adjustments were carried out. In regard to such products, the Group should examine whether the developed contracting parties concerned had at present the necessary legal and other authority available to them to carry out internal structural adjustments so that the barriers maintained by these countries to protect domestic production could be progressively relaxed and eliminated. In their view, only such an examination would enable the Group to effectively assist the Committee on Trade and Development to carry out its responsibilities under Part IV.

14. In the view of some experts, from developed countries, other existing bodies rather than the Group on Adjustment Assistance Measures might be utilized for any future work on adjustment assistance measures. They believed that if this Group should remain operative it should primarily be concerned with any new initiatives taken by governments regarding adjustment assistance measures.

15. The Group did not have sufficient time to discuss these points to arrive at an agreed view and agreed that these suggestions might be remitted to the Committee on Trade and Development for further discussion and decision.