

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Committee on Trade and Development

Group on Adjustment Assistance Measures

MATERIAL FOR DISCUSSION AT THE MEETINGS ON 12-13 MAY 1969

Note by the Secretariat

1. At its second session, held in March 1965, the Committee on Trade and Development gave consideration to certain data submitted by governments on their adjustment assistance measures. In the course of the discussion it was pointed out that the examination of such measures should be carried out in the context of:

- (i) the Ministerial Conclusions of May 1963, which refer to the need for industrial countries, in drawing up or implementing policies affecting patterns of production and trade, to take into account the need to facilitate the efforts of developing countries to strengthen their export capacity and to diversify their economies; and
- (ii) the provisions of Part IV, which refer to measures designed to provide a greater scope for the development of imports from developing countries, including steps to promote domestic structural changes.

2. In the light of this the Committee indicated an intention of examining such matters as tax exemptions and refunds, special credit facilities, re-settling and training facilities for labour, etc. for assisting structural adjustment. The purpose would be to throw light on governmental policies and scope for international co-operation. For this purpose, an Expert Group on Adjustment Assistance Measures was set up and was given the following terms of reference:

To study the material set out in document COM.TD/W/6 and addenda and, as appropriate, to gather additional material, and

To report on 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 provide larger opportunities for imports from these countries.
(BISD, Thirteenth Supplement, pages 80-81).

3. At its fifth session, in March 1966, the Committee examined a report of the Expert Group (COM.TD/H/4), based on a study of new material submitted by governments (COM.TD/H/3). The Committee observed that, generally, adjustment assistance had not been used specifically for the purpose of dealing with difficulties that had been caused by increased imports from developing countries; such adjustment assistance policies as had been adopted had generally been conceived with a view to improving the overall domestic situation or to directing a re-allocation of resources without specific reference to competition from imports and only in a few cases as a means of facilitating the adoption and implementation of liberal trade policies. The general consensus in the Committee was that adjustment assistance could make some contribution to the solution of the problem of creating greater access for the exports of developing countries. The views expressed in the Committee are summarized in the report of the Committee to the twenty-third session of the CONTRACTING PARTIES (BISD, Fourteenth Supplement, pages 133-175).

4. In the report the Committee proposed that the attention of contracting parties should be drawn for appropriate action to its conclusion that, although adjustment assistance as a tool in commercial policy designed to improve the trading opportunities of developing countries had its limitations, it nevertheless had a valuable rôle to play. It was suggested 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 these organs were concerned (*ibid*, page 135).¹ In suggesting that a more detailed examination of the subject might be taken up by agreement in the Expert Group, the Committee mentioned certain information which governments might be expected to supply, namely:

- (a) what measures of adjustment assistance were available under either general or specific legislation;
- (b) which of these measures could be used specifically for the purpose of providing larger opportunities for imports from developing countries;

¹There is no record to indicate the extent to which protective considerations mentioned in the report of the Ad Hoc Group on the Assessment of the Results of the Kennedy Round as having impeded fuller action were modified through the use of such measures. But the possible use of measures of adjustment to deal with the difficulties in making tariff concessions on products of interest to developing countries was presumably taken into account by governments participating in the Kennedy Round negotiations.

- (c) instances in which measures under (b) had been employed and the progress made in achieving the objective outlined in that sub-paragraph;
- (d) indications as to programmes in hand, whether in the enactment of new legislation, or in the employment of measures already available in the field of adjustment assistance, to promote imports from developing countries.

5. At its thirteenth session, in January/February 1969, the Committee on Trade and Development agreed that the Expert Group on Adjustment Assistance Measures should be re-convened. The decision was taken against the background of proposals put forward and agreed to at the previous session of the Committee that the Group should resume its activities as a follow-up of the work done in the Group on Residual Restrictions. In preparation for this meeting governments of industrial countries were requested to supply fresh information along the above lines. To date eight governments have responded to the invitation and supplied statements, which have been circulated as COM.TD/W/88, COM.TD/W/92 and Add.1-6. Some governments have advised that they have nothing new to add to their previous submissions circulated in COM.TD/H/3 and examined in 1966.

6. In these statements reference is usually made to the basic reliance of the economy on market forces, on the inter-play of supply and demand, and on the inter-action of economic and social forces, for the evolution of adjustment in the economic structure. It is pointed out that a growing and dynamic economy is expected to facilitate such structural changes with a minimum amount of dislocation. Whilst spontaneous adjustment is thus seen as the main feature of these economies, the governments supplying the statements also mention governmental measures specifically taken, directly or indirectly to assist or promote changes in the structure of production. In most of these countries there exist policies and measures directed at increasing the mobility of labour, usually in the form of training facilities, employment information service, direct assistance to workers and local employment creation. There are many references to fiscal and financial measures aimed at encouraging investments in new industries or providing relief to firms in contracting industries. In some cases the measures are specifically aimed at providing assistance for industrial adjustment for the purpose of alleviating difficulties arising from increased imports.

7. For example, the Government of Canada operates a programme providing adjustment assistance in relation to dislocation arising from tariff concessions granted during the Kennedy Round. The basic purpose is to bring about an effective and speedy transfer of productive resources from less efficient to more efficient lines of production. The principal features of the programme are: governmental insurance to cover risks incurred in industrial adjustment loans granted by

private lenders; direct governmental loans in hardship cases; and technical assistance to manufacturers in preparing adjustment proposals. The criterion for eligibility is the existence of serious injury or threat of such injury as a result of the Kennedy Round concessions made by Canada or the existence of significant export opportunities arising out of the Kennedy Round (COM.TD/W/88).

8. The United States adjustment assistance programme provided under the Trade Expansion Act of 1962 has been examined by the Expert Group. The present United States statement briefly describes the implementation of those provisions. Although twenty-six investigations have been made by the Tariff Commission under those provisions, in no case has an affirmative finding been made. It is now considered that the eligibility criteria provided in that Act are too rigorous and provisions to ease the standards have been included in a general trade Bill submitted to Congress in June 1968. Under these new provisions it would be sufficient if the President determines that increased imports of a directly competitive product are a substantial cause of serious injury to the firm or workers; there would be no requirement of a causal link between the trade agreement concession and the increase in imports and the increased imports need no longer be the "major cause" but only a "substantial cause"; and determinations would be made by the President rather than the Tariff Commission. No final action has been taken on the Bill.

9. The United States statement also refers to certain adjustment assistance provisions in the Automotive Products Trade Act of 1965. The purpose of these is to alleviate difficulties caused by dislocation arising from increased imports or declining exports or internal shifts within the industry resulting from rationalization. These provisions are considered necessary as such cases are not covered by the Trade Expansion Act of 1962 (COM.TD/W/92).

10. The Swiss statement refers to certain measures adopted by the Federal and Cantonal authorities which directly or indirectly encourage the adjustment of production to market conditions. These measures are not specific in character in that they do not apply to a given sector of industry. In the view of the Swiss authorities the liberal trade policy of the country is designed to stimulate competition, through forcing industry to keep a constant watch on the organization of production and on manufacturing programmes. In addition the Federal authorities have been dealing with problems caused by obstacles to competition in the form of certain restrictive trade practices. In 1962 the Swiss Parliament enacted a law on trusts and similar organizations and set up a Commission on Trusts. A number of investigations have been carried out in the conditions of competition in various sectors and appropriate recommendations have been made to the undertakings or associations concerned. The Federal authorities can also take legal proceedings where necessary (COM.TD/W/92/Add.1).

11. In its statement the Government of Japan mentions that in the course of implementation of the policies for improving the industrial structure capital-intensive industries which do not directly compete with industries in developing countries are gaining relative importance while labour-intensive sectors are declining, making it easier for developing countries to sell their products on the Japanese market. As regards governmental assistance, reference is made to certain measures in the financial and fiscal field together with certain facilities for research and technical guidance. With regard to spinning, weaving and knitting industries there is, however, a specific Structural Improvement Policy which has been adopted with a view to encouraging plant and equipment modernization and the scrapping of redundant equipment (COM.TD/W/92/Add.2).

12. In Sweden, a National Investment Bank has been established to facilitate especially such investment projects as are aimed at rationalization, structural adjustment and development. Apart from this, very extensive facilities exist to facilitate inter-industrial or inter-regional transfer of labour; a whole range of measures are in force under the aegis of the National Labour Board to meet problems of labour mobility. The Swedish statement cites in conclusion an example to demonstrate the effectiveness of the mechanisms used in re-allocating labour from areas in which there is redundancy (cf. COM.TD/W/92/Add.3).

13. In the comprehensive submission by France a description is given of the general policy in this field and the methods used in the implementation of that policy. Adjustment assistance in France is not based on a distinct set of provisions and a considerable number of State departments are involved and co-ordination between them is ensured through the economic plan and inter-ministerial committees. At the level of implementation, such organs as the Economic and Social Development Funds, the Association for Adult Vocational Training, etc. all take part. The measures include modifications of the tax system and the corporation law, finance and tax incentives and assistance in labour adaptation (COM.TD/W/92/Add.4).

14. The Austrian statement refers to a number of fiscal and credit policy measures aimed at facilitating adaptation by commercial firms through strengthening their financial position. Under the Federal Law on Improvement of Economic Structure, adjustment assistance is provided in the form of tax relief and special facilities for capital transfer aimed at promoting co-operation and adjustment between commercial firms. A Development and Renovation Fund has been set up for the promotion and financing of development and equipment renewal in productive enterprises and research institutes. In addition, specific policies have been adopted to enhance competition and to improve labour mobility (COM.TD/W/92/Add.5).

15. In the United Kingdom, apart from assistance given under the Cotton Industry Act of 1959 providing for a specific period of reorganization and rationalization in this industry, a number of general measures are in force, which include provisions to assist the diversification of industry in certain

areas of the United Kingdom and the adaptation of industry to changing conditions. Building grants, grants and loans to assist new enterprises and the erection of factory buildings are among the principal measures adopted to encourage industrial development and diversification in the so-called "development areas", where the country's older and declining industries are located. In 1966 an Industrial Re-organization Act was adopted for the purpose of promoting industrial efficiency and profitability and assisting the economy nationally or regionally. Other governmental measures that are mentioned include the Ship-building Industry Act of 1967, the Industrial Expansion Act of 1968 and the Industrial Training Act of 1964 (COM.TD/W/92/Add.6).

16. From these statements, it would appear that the majority of developed countries have available various measures of adjustment assistance under either general or specific legislation. These measures include direct financial assistance such as grants, loans and subsidies or indirect measures such as fiscal and credit facilities. The purpose of these measures is generally to promote efficiency through rationalization, reorganization, plant relocation and industrial research. In addition, in the majority of developed countries there are also legislation, regulations or other arrangements which provide for the retraining and relocation of labour whenever this is necessitated by structural changes in industry or by the restructuring of the economy as a whole.

17. None of the above measures are indicated as being designed specifically for the purpose of providing larger opportunity for the imports from developing countries. It has, however, been suggested that developing countries would share in the benefit from the implementation of these measures, in particular those relating to assistance for adjustments made necessary by a higher level of imports of competing products whether resulting from trade agreements or otherwise. In one or two instances, mention has also been made of situations where developing countries had benefited from the use of adjustment assistance measures.

18. It might be recalled that, at their twenty-fourth session, the CONTRACTING PARTIES invited importing countries participants in the Cotton Textiles Arrangement to report to the Cotton Textiles Committee the steps taken by them to facilitate adjustments in their domestic industry during the period of special protection provided by the Cotton Textiles Arrangement. The matter was subsequently discussed in the Cotton Textiles Committee and a questionnaire seeking information from governments on structural adjustments in the cotton textile industry has been sent out in document COT/W/110. The Cotton Textiles Committee is expected to review the matter at its next meeting.

19. In the course of discussions in the Group on Residual Restrictions, reference has been made by countries applying restrictions on certain products to the structural and social problems involved in eliminating these restrictions and in certain instances to the measures adopted by them to

facilitate the solution of these problems. There has, however, been no specific discussion of the rôle which these measures might play in dealing with the particular problems mentioned as necessitating the application of the restrictions in question. At its last meeting, the Group on Residual Restrictions, however, agreed to proceed to an examination in depth of restrictions affecting a limited number of products, with a view to exploring the possibilities of accelerating the process of trade liberalization.