

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Expert Group on Adjustment
Assistance Measures

ADJUSTMENT ASSISTANCE MEASURES

Secretariat Background Note for the Meeting
on 30 November 1970

At its meeting in May 1969 the Group of Experts carried out an examination of the situation regarding the use of adjustment assistance bearing on the creation of better trading opportunities for developing countries. The Group had noted, *inter alia*, that while there had been little fundamental change in the situation since 1966 as to the availability or use of specific measures, many developed countries had stated that they were attaching increasing importance to the use of adjustment assistance especially in the field of labour. Thus, most developed countries had available a variety of measures designed to promote industrial efficiency and legislation existed for the purpose of re-training and re-locating labour whenever necessary. In the case of two important trading countries, it was noted that measures were specifically oriented towards assisting enterprises and workers adversely affected by trade changes that might arise from commitments or concessions in the context of trade negotiations.

During the discussion of the Group's report (COM.TD/68) by the Committee on Trade and Development at its fifteenth session, it was noted that the view had now evolved in at least some developed countries that adjustment assistance measures could be a more desirable alternative to measures restricting imports in dealing with sectors in the national economy which were particularly sensitive to trade liberalization, and that the governments of certain of these countries were seeking legislation which would facilitate resort to these measures. It was therefore agreed by the Committee that it should continue to watch developments in this field including the results of work in other GATT bodies. It was felt that there would be advantage in governments continuing to furnish information on the availability of adjustment assistance legislation and measures and the use made of them to allow the Committee to discuss any new developments and to provide for an exchange of the experience of governments in areas of practical application.

In the light of these views, the secretariat requested information from governments and the material received was circulated in COM.TD/W/126 and Addendum 1. From the information supplied it appears that in most instances no significant changes had taken place since the situation described in COM.TD/W/88 and COM.TD/W/92 and addenda. The submission by the United States, however, summarized certain major changes in the adjustment assistance programme which were put forward in the proposed Trade Act of 1970.

Although no major general developments have been reported, the future work of the Group could be discussed against the background of the increased interest which is currently being shown in this field. This was noted in the report of the Committee on Trade and Development to the twenty-sixth session which stated that "there was a trend towards the increasing use of adjustment assistance policies, sometimes specifically to deal with problems of trade liberalization in particular sectors and more broadly as a means for adapting industrial structures to technological developments in a more efficient pattern of international specialization".

The Group of Experts might therefore wish to ascertain what observations they could usefully make to the Committee on Trade and Development on future action in this field or whether suggestions might be made to the Committee on possible re-orientation of the work of the Group. It is recalled in this connexion that the concern of Part IV of the General Agreement and the Committee on Trade and Development in the field of adjustment assistance is related to the particular use that might be made of adjustment assistance measures to increase import opportunities for developing countries. In discussing these questions the Group will thus no doubt keep in mind its interest in examining adjustment assistance as a tool for speeding up "trade liberalization in particular sectors and more broadly as a means of adapting industrial structure to technological development in a more efficient pattern of international specialization". The Group is not concerned with government aids to production and investment not directly related to these objectives and, at its last meeting, the Group itself drew attention to the possibility of financial and fiscal assistance to business entities being used as a means of providing disguised subsidization of production. The Group will no doubt also wish to bear in mind the point made in earlier submissions by governments that it would be counter-productive to emphasize the rôle of adjustment assistance only in relation to import competition, particularly from developing countries, since this might encourage industries to believe that structural adjustment is largely caused by such competition whereas in fact the need for such adjustment arises more often from the normal development of technology and internal market forces.

During the meeting of the Group in May 1969, some members had drawn attention to the provisions of Articles XXXVI:9 and XXXVII:3(b), and had suggested:

- (i) that the Group identify the extent and the type of authority which was available to each developed country to undertake the measures provided for in the above-mentioned provisions of the GATT, as well as the degree to which these were being used, especially in areas where barriers to imports from developing countries were not reduced or removed because of economic and social reasons;
- (ii) 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.

There had been some differences of opinion regarding whether and to what extent these suggestions should be pursued.

At the October 1970 meeting of the Group on Residual Restrictions, it was suggested that solutions to deal with social and economic problems which have been advanced by developed countries as reasons for the maintenance of residual restrictions might include the application of measures of diversification by developed countries in the regions and sectors concerned. Attention was given, in this connexion, to the possibility of governments continuing to have recourse to the use of measures of adjustment assistance to deal with the problems that might underlie the maintenance of particular restrictions. The view was expressed that progress in the dismantling of restrictions might be expedited by more vigorous use of these measures. In the light of these suggestions the Expert Group might wish to consider whether it would be useful to examine in more detail than was possible in the Group on Residual Restrictions, the nature of adjustment problems with regard to at least some of the products under examination in that Group, in particular as to the adjustment assistance measures available and efforts made to implement or supplement such measures.

The Group might also wish to consider (a) whether the possibility of using adjustment assistance should be explored with regard to situations where high tariffs are still maintained to protect particular industrial processes or particular lines of industrial production from competition from imports, and the difficulties involved could be alleviated through adjustment assistance measures, (b) the rôle these measures could play in avoiding excessive reliance on escape clauses and other safeguard mechanisms during the operation of the generalized scheme of preferences. More generally, and without prejudice to the provisions of Article XXXVII, paragraph 1, it may be possible for countries to agree that before they take action to reduce or restrict the existing degree of liberalization for any product from a developing country, they will examine how far the difficulties to which such action is addressed can be resolved through measures of adjustment assistance or that such action will be maintained only until such time as the adjustment measures can go into effect.

It has been noted in the earlier discussions of the Group that many countries look to the operation of market forces as providing the basic means of bringing about the shift of resources from lagging low productivity sectors of the economy to those that are technologically more advanced or skill-oriented. The rôle of adjustment assistance has been conceived as that of removing obstacles to this process related to the smooth redeployment of labour and other factors of production. In this context the Group might therefore examine also whether there would be advantage in governments considering arrangements for anticipatory adjustments before difficulties in individual sectors actually manifest themselves.

Another aspect relevant to the questions raised in the preceding paragraphs is whether some form of concerted and co-operative consideration of the possibilities of anticipating adjustments in certain industrial sectors would be useful since measures which individual countries might take to deal with the structural problem in particular areas might be facilitated if other countries are also willing to take similar and complementary action. In this event it might be possible to look forward to a process for exchange of information and co-operation between the countries concerned where it is considered that the use

of concerted adjustment assistance measures is called for. The Group might wish to discuss whether such a process may be of assistance in helping enterprises and labour in various countries to adjust to higher import levels in particular industrial sectors and also if any suggestions can be made as to how such exchange of information can be organized.

Finally, instances are now also growing of co-operation at industry-to-industry level between enterprises in developed and those in developing countries, in terms of which production in developing countries is being geared to meet requirements of enterprises in developed countries of component parts etc. through various forms of sub-contracting and other arrangements. The extent to which this process can be facilitated by appropriate policy measures on the part of governments is likely to become a question which will require increased consideration. The Group may wish to examine whether this is a matter to which it can give some attention at the present time and in the light of its terms of reference.