

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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Group of Experts on Adjustment Assistance Measures

## ADJUSTMENT ASSISTANCE MEASURES

Note Prepared by the Secretariat for the Meeting  
of the Group of Experts on 28-30 June 1965

1. The terms of reference of the Group are:

- 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 might wish to take note of the discussion at the March meeting of the Committee on Trade and Development, in the course of which it was pointed out that the examination of measures for assisting adjustments in the structure and pattern of trade should be carried out in the context (1) of the Ministerial Conclusions of May 1963, which referred to the need for industrialized countries, in drawing up or implementing policies affecting patterns of production and trade, to take into account the need to facilitate the efforts of less-developed countries to strengthen their export capacity and to diversify their economies and (2) of the provisions of Part IV of the Agreement which refer to measures designed to provide greater scope for the development of imports from less-developed country contracting parties, including steps to promote domestic structural adjustments.

3. Availability of material

To date, the following countries have provided material:

Belgium	COM.TD/W.6/Add.4	Sweden	COM.TD/W.6/Add.3
Canada	COM.TD/W.6/Add.2	Switzerland	COM.TD/W.6
Germany	COM.TD/W.6/Add.1	United Kingdom	COM.TD/W.6
Netherlands	COM.TD/W.6	United States	COM.TD/W.6
New Zealand	COM.TD/W.6		

4. The Group might wish to request countries who have not yet responded to the invitation to furnish appropriate data.

5. It may be noted that some information concerning adjustment assistance measures, as applied to the cotton textile industry, has been furnished by several governments to the Cotton Textiles Committee (see notably document COT/W/32). Certain provisions relating to adjustment assistance are also to be found in the Bill introduced recently in the United States Congress to implement the Agreement concerning automotive products between the United States and Canada.

6. The annex to this note reproduces the texts of Section 23 of the Convention on the Transitional Provisions of the Paris Treaty establishing the European Coal and Steel Community and of Article 56 of that Treaty as well as the texts of Articles 125 and 130 of the Rome Treaty establishing the European Economic Community. It was suggested in the Committee on Trade and Development that experience gained in implementing measures for adjustment assistance provided for in these Treaties might also be examined.

7. Under its terms of reference, the Group is to report on the measures being applied or proposed to be applied by industrialized countries for assisting adjustments "so as to permit the expansion of international trade in products of interest to less-developed countries...". A review of the available material suggests the following:

- (i) in most countries, which have furnished information on the subject, there is no general legislation designed specifically to facilitate structural adjustments necessitated by changing conditions in world trade;
- (ii) in a number of countries the autonomous adjustment of factors of production to market forces is assisted by governmental policies aimed at promoting the mobility of labour and fostering employment opportunities or directed towards stimulating areas of slow growth in the economy, in particular, the economically depressed regions; in some instances measures designed to encourage structural adaptation are not always distinguishable from general policy measures aimed at securing economic expansion and higher levels of employment, particularly in relation to problems of regional development;
- (iii) in at least one country a system of public credits, shortly to be reinforced by a system of guarantees, is used to assist enterprises in effecting adaptations and adjustments made necessary by international competition;
- (iv) one country has ad hoc legislation specifically designed to assist a particular industry - cotton textiles - to adjust to changing conditions in world trade. Another country has introduced measures involving the "moth-balling" of excess capacity which serves the same purpose;

- (v) in the Trade Expansion Act 1962, the United States has comprehensive legislation authorizing adjustment assistance where increased imports resulting from trade concessions become a major factor in causing or threatening serious injury, the assistance being given to enable the affected industries, firms or workers either to become more competitive or to move into other fields of activity. While, to date, the legislation has been invoked in several instances, there has been no finding of serious injury to justify the provision of assistance.

8. The following is a summary of the types of assistance provided by governments through adjustment assistance measures including measures designed to overcome regional imbalances:

I. Financial assistance.

- (a) Grants, advances and loans (often low interest and with generous repayment periods) to:
- (i) private firms for machinery and building,
  - (ii) local authorities for infrastructural expenditure.
- (b) Grants or loans to firms to facilitate the scrapping or "moth-balling" of machinery.
- (c) Acquisition of land and construction of factories for hire or sale to manufacturing concerns.
- (d) Subsidies towards costs of factory buildings
- (e) Guarantees of private loans to manufacturing concerns.
- (f) Payments to offset interest charged on private loans to manufacturing concerns.
- (g) Grants to enable feasibility studies by private firms.
- (h) Inauguration of public works programmes.

II. Fiscal inducements

Tax exemptions and rebates, including accelerated depreciation allowances.

III. Retraining of labour

- (a) Establishment of training facilities.
- (b) Grants or loans to local authorities for the establishment of training facilities.

- (c) Grants or loans to firms for the establishment of their own training facilities.
- (d) Payment or part payment of salaries of instructors and trainees.
- (e) Payment for workers during periods of unemployment or reduced employment.

IV. Movement of labour

- (a) Payments to enable travel for training and interviews.
- (b) Payment for movement of family and effects.
- (c) Publicity on employment opportunities in localities outside the depressed areas.

The use of particular measures and the purpose for which these are used naturally tend to differ from country to country.

9. The Group may find the following points of interest:

- (i) A number of countries have indicated that, under conditions of rapid economic growth and full employment, the need for adjustment assistance to facilitate structural changes has not made itself felt to any considerable extent.
- (ii) Some specific provisions on adjustment assistance are incorporated in the ECSC and EEC Treaties.<sup>1</sup> These provisions envisage the grant of adjustment assistance by the executive authority of the economic union on the basis of requests made by the member States. Under the ECSC Treaty assistance could be provided to facilitate the re-adaptation of workers thrown out of employment or obliged to cease or modify their operations as a result of the opening of the Common Market as well as to deal with the consequences of technological developments and of structural changes in marketing conditions.<sup>2</sup> The EEC Treaty provides more generally for provision of employment opportunities and

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<sup>1</sup>See paragraph 6 and Annex.

<sup>2</sup>For information concerning the actual use made of these provisions see the annual reports published by the High Authority.

labour mobility through aid from the Social Fund.<sup>1</sup> In both cases the use of adjustment assistance to promote structural changes aimed at forestalling or mitigating injury is related to the framework of rights and obligations constituted by the Treaty instruments.

- (iii) In their replies, a number of governments have referred to legislation on measures of assistance designed to overcome problems arising from regional imbalances within national economies. Although the contents of such legislation and measures tend to vary from country to country, their object appears generally to be to remedy post factum situations in which certain regions in a country are characterized by higher than average levels of unemployment, unacceptable levels of emigration or lower than average levels of income. In most instances, such measures are designed either to create new employment skills and opportunities in the depressed areas<sup>2</sup>, or to encourage the movement of labour to other areas where job opportunities exist. To the extent that the situation of industries in a particular economic region is made worse by the working of the international trade mechanism, these measures could be used to mitigate injury arising from the impact of import competition. Such regional problems, however, would also be due to other factors such as technological development or because of the failure of a particular sector to keep pace with the general growth of the economy. With the possible exception of Lancashire, it is not clear how far adjustment assistance has been used to deal with the consequences of import competition in an industry whose production units were concentrated in a particular locality or region and the extent, therefore, to which regional legislation has served the purpose mentioned in the Group's terms of reference.

10. In the light of the available data the Group might wish to give consideration inter alia, to the following points:

- (i) Can any more specific information be made available by governments concerning the actual use made of adjustment assistance measures to facilitate structural changes necessitated by the opening of markets to exports of less-developed countries or in regard to plans for use of such measures?

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<sup>1</sup>A recent instance of the use of these provisions is represented by the proposals submitted by the EEC Commission to the Council of Ministers for use of the Social Fund to cover the social aspects of the reorganization of the Italian sulphur industry, in order that the Italian sulphur market, which is protected by measures applied under the safeguard clause of Article 226 of the Rome Treaty, may be progressively liberalized.

<sup>2</sup>The activities of the European Investment Bank are of a similar character.

- (ii) To what extent do adjustment assistance legislation and measures in force lend themselves to the promotion of structural changes designed to facilitate larger trade in products of interest to less-developed countries?
- (iii) Are there any special conditions or circumstances in which the use of such measures can be developed as an alternative, for example, to the application of trade barriers to imports?
- (iv) In this context, would the Group have any suggestions as to how the more extended use of such measures may be studied:
  - (a) by further exchange of information on production plans and capacities in both developed and developing countries;
  - (b) more precise information on direction and lines in which particular exports from various less-developed countries are likely to develop?

ANNEX

Treaty Establishing the European Coal and Steel Community  
Containing the Transitional Provisions

Chapter I - General Provisions

Readaptation

Section 23

1. If the consequences of the introduction of the Common Market oblige certain enterprises or parts of enterprises to cease or to change their activities during the transition period defined in Section 1 of the present Convention, the High Authority, at the request of the governments concerned and under the conditions specified below, must help to protect the workers from the burden of readaptation and assure them productive employment, and may grant non-repayable assistance to certain enterprises.
2. At the request of the governments concerned and under the conditions defined in Article 46, the High Authority shall participate in a study of the possibilities of re-employing the unemployed workers either in existing enterprises or by creating new activities.
3. According to the procedure laid down in Article 54, the High Authority shall assist the financing of approved programmes submitted by the governments concerned for the readaptation of enterprises or for the creation, either in the industries subject to its jurisdiction or (with the agreement of the Council) in any other industry, of new, economically sound activities capable of assuring productive employment to the workers thus discharged. Subject to the agreement of the government concerned, the High Authority shall give preference in granting such facilities to the programmes submitted by enterprises which have been obliged to cease their activities on account of the introduction of the Common Market.
4. The High Authority shall grant non-repayable assistance for the following purposes:
  - (a) to contribute, in case of the complete or partial closing of enterprises, to the payment of compensation to tide the workers over until they can obtain new employment;
  - (b) to contribute, by means of grants to the enterprises, to assuring the payment of their personnel in case of temporary unemployment made necessary by the change in their activities;

- (c) to contribute to the payment of resettlement allowances to the workers;
- (d) to contribute to the financing of technical retraining for workers who are led to change their employment.

5. The High Authority may also grant non-repayable assistance to enterprises obliged to cease their activities on account of the introduction of the Common Market, provided that the sole and direct cause of this situation is the limitation of the single market to the coal and steel industries, and provided that this situation leads to a relative increase of production in other enterprises of the Community. Such assistance shall be limited to the amount necessary to enable the enterprises to meet payments which are due immediately.

Any request for such assistance must be submitted by the enterprise concerned through the intermediary of its respective government. The High Authority shall have the right to refuse assistance to any enterprise which has failed to inform its government and the High Authority of the development of a situation which might lead it to cease or change its activities.

6. The High Authority shall make the grant of non-repayable assistance under the terms of paragraphs 4 and 5 above subject to the payment by the State concerned of a special contribution at least equal to the amount of such assistance, except where otherwise provided by a decision of the Council acting by a two-thirds majority.

7. The methods of financing laid down for the application of Article 56 apply to the present section.

8. Interested parties may benefit from the provisions of this section during the two years after the end of the transition period if the High Authority so decides and the Council agrees.

#### Treaty Establishing the European Coal and Steel Community

#### Article 56

If the introduction of technical processes or new equipment<sup>1</sup>, within the framework of the general objectives laid down by the High Authority, should lead to an exceptionally large reduction in labour requirements in the coal or steel industries, making it especially difficult in one or more areas to re-employ the workers discharged, the High Authority, on the request of the interested governments:

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<sup>1</sup>In March 1960 a new section was added to Article 56 to the effect that aid under the Article could be extended also if "profound changes in the marketing conditions of the coal mining or of the iron and steel industry, not directly connected with the introduction of the Common Market, make it necessary for certain enterprises permanently to discontinue, curtail, or change their activities."



- (a) shall consult the Consultative Committee;
- (b) may facilitate, in accordance with the methods provided for in Article 54, the financing of such programmes as it may approve for the creation, either in the industries subject to its jurisdiction or, with the agreement of the Council, in any other industry, of new and economically sound activities capable of assuring productive employment to the workers thus discharged;
- (c) shall grant non-repayable assistance as a contribution to:
  - the payment of compensation to tide the workers over until they can obtain new employment;
  - the granting of resettlement allowances to the workers;
  - the financing of technical retraining for workers who are led to change their employment.

The High Authority shall make the granting of non-repayable assistance conditional upon the payment by the interested State of a special contribution at least equal to the amount of such assistance, unless an exception is authorized by a two-thirds majority of the Council.

Treaty Establishing the European Economic Community

Article 125

1. At the request of a member State, the Fund shall, within the framework of the rules provided for in Article 127<sup>1</sup>, cover 50 per cent of expenses incurred after the entry into force of this Treaty by that State or by a body under public law for the purpose of:

- (a) ensuring productive re-employment of workers by means of:
  - occupational retraining;
  - resettlement allowances; and
- (b) granting aids for the benefit of workers whose employment is temporarily reduced or wholly or partly suspended as a result of the conversion of their enterprise to other productions, in order that they may maintain the same wage-level pending their full re-employment.

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<sup>1</sup>Covers the procedure for implementing Article 125.

2. The assistance granted by the Fund towards the cost of occupational retraining shall be conditional upon the impossibility of employing the unemployed workers otherwise than in a new occupation and upon their having been in productive employment for a period of at least six months in the occupation for which they have been retrained.

The assistance granted in respect of resettlement allowances shall be conditional upon the unemployed workers having been obliged to change their residence within the Community and upon their having been in productive employment for a period of at least six months in their new place of residence.

The assistance given for the benefit of workers in cases where an enterprise is converted shall be subject to the following conditions:

- (a) that the workers concerned have again been fully employed in that enterprise for a period of at least six months;
- (b) that the government concerned has previously submitted a plan, drawn up by such enterprise, for its conversion and for the financing thereof; and
- (c) that the Commission has given its prior approval to such conversion plan.

#### Article 130

The task of the European Investment Bank shall be to contribute, by calling on the capital markets and its own resources, to the balanced and smooth development of the Common Market in the interest of the Community. For this purpose, the Bank shall by granting loans and guarantees on a non-profit-making basis facilitate the financing of the following projects in all sectors of the economy:

- (a) projects for developing less-developed regions;
- (b) projects for modernizing or converting enterprises or for creating new activities which are called for by the progressive establishment of the Common Market where such projects by their size or nature cannot be entirely financed by the various means available in each of the member States; and
- (c) projects of common interest to several member States which by their size or nature cannot be entirely financed by the various means available in each of the member States.