

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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STRUCTURAL ADJUSTMENT AND TRADE POLICY

The attached paper is distributed at the request of Ambassador K.G.A. Hill, alternate member from Jamaica, in connexion with items 1 and 2 of the Annotated Provisional Agenda (CG.18/W/36) for the eleventh meeting of the Consultative Group of Eighteen to be held on 3-4 March 1980.

STRUCTURAL ADJUSTMENT AND TRADE POLICY

The eleventh meeting of the Consultative Group of Eighteen, 3 March 1980, will take up as item 1 of its agenda Structural Adjustment and Trade Policy. Attached is a draft proposing a Committee on Structural Adjustment. It is proposed that this draft with the attached questionnaire should be circulated within the Group. It may be possible to have the Group decide to consider it and send it to the appropriate bodies in GATT including the Committee on Trade and Development.

As part of the consideration of this item we are likely to take up more specifically the question on whether Structural Adjustment includes the agricultural sector. I think a strong case can and should be made for coverage of that sector and the attached note on Agricultural Adjustment contains some suggestions. The consideration of this should be without prejudice to the consultations being organized by the Director-General at the request of the Contracting Parties.

Item 2 of the meeting deals with the trade policy aspects of the North/South dialogue. It is not immediately clear what major issues currently within GATT ought to be taken up in the Global Round. However, it is felt that GATT can and should play an important part in the negotiations on trade and development issues which will find a place in the Global Round. It is up to the Group of Eighteen to define these issues and GATT's responsibility as clearly as possible.

COMMITTEE ON STRUCTURAL ADJUSTMENT

The parties to this Agreement:

Recalling that the Tokyo Round is intended to achieve the expansion and ever-greater liberalization of world trade and improvement in the standard of living and welfare of the people of the world;

Recalling further that the results of the Tokyo Round should provide additional benefits for the international trade of developing countries so as to achieve a substantial increase in their foreign exchange earnings, the diversification of their exports, the acceleration of the rate of growth of their trade through a substantial improvement in the conditions of access for their products;

Recognizing further that technological developments and the progress made by countries in economic development can bring about changes in the comparative advantages which countries enjoy in international trade in particular products or product groups;

Recalling that the developed contracting parties have, under Article XXXVII:3 of the General Agreement, undertaken to give active consideration to the adoption of suitable measures, including measures to promote domestic structural changes with a view to providing greater scope for the development of imports from less-developed contracting parties, and to co-operate in international action taken to this end;

Noting that social and economic policies adopted by governments can influence the process of adjustment to technological changes and to changing patterns of international trade;

Recognizing the important rôle which measures taken by governments of the developed countries for providing adjustment assistance could play in facilitating further liberalization of world trade and in avoidance of resort to trade restrictive measures;

Convinced that policies adopted by developed countries for adjustment and restructuring of domestic production should be to encourage domestic factors of production to move progressively from lines of production which are less competitive internationally into other lines of production;

Desiring to adopt procedures for consultations and for review of the policies adopted by countries for adjustment and restructuring of domestic production for achieving the above objectives;

Hereby agree as follows:

1. Measures taken by governments of developed countries in support of any firm or sector shall in all cases wherever applied, have regard, inter alia, to continuing changes in the pattern of world trade and comparative advantage.
2. Developed countries shall avoid taking measures of support, or applying of support in ways which prevent such changes from leading to a more efficient distribution of resources.
3. Measures taken by governments of developed countries shall take special account of the needs and problems of developing countries, and changes in international comparative advantage in their favour with a view to affording greater access to their exports.

It is further agreed that:

4. The GATT secretariat shall establish a list of product groups by sectors which have become, or are likely to become sensitive to changes in the pattern of world trade, taking into account the following factors:
 - (a) The existence in the importing developed countries of tariffs and other non-tariff measures on trade which may inhibit the process of adjustment¹;
 - (b) Imposition or threat of imposition by importing developed countries of other measures permissible under the General Agreement such as safeguards, countervailing and anti-dumping actions;
 - (c) Trends in production and consumption of the relevant products or product groups both in developed and developing countries;
 - (d) Future trends in international trade in these products.
5. Any signatory may request the GATT secretariat to include product or product groups in the list referred to in paragraph 4 above.

¹The list may include, inter alia, the following measures: import surcharges, restrictive pricing requirements (including reference price and trigger price mechanisms); quantitative restrictions, voluntary export restraints and orderly marketing arrangements; certain governmental intervention measures; customs valuation methods, restrictive business practices; discriminatory transportation rates or requirements; stockpiling and disposal of strategic goods.

Committee on Structural Adjustment

6. There shall be established in GATT, a Committee on Structural Adjustment. It shall be composed of contracting parties to the General Agreement and developing countries participating in the work of the GATT.

7. In regard to the products included in the list of import sensitive products referred to in paragraph 4 above, the Committee shall, as appropriate collect information on the programmes and measures taken by governments to facilitate necessary structural adjustments on the basis of a suitable questionnaire.¹

8. The Committee shall be authorized to examine the situation regarding the products and measures notified to it and to make recommendations as appropriate to the relevant GATT bodies.

¹For information the questionnaire which was prepared by the secretariat in 1971 on the basis of the specific suggestions made in the meeting of the Expert Group on Adjustment Assistance Measures (COM.TD/81) is attached.

QUESTIONNAIRE ON ADJUSTMENT ASSISTANCE MEASURES

A. Measures available

- (i) Information on specific or general legislation concerned with adjustment assistance.
- (ii) Main provisions of legislation and criteria for qualifying for adjustment assistance.
- (iii) How are measures aimed at granting adjustment assistance initiated? Is there machinery available, either formal or informal, to anticipate the need for adjustment assistance or to make information available to industry which would enable it to consider the need for action?
- (iv) To what extent is action initiated at the national level supported at the regional or municipal level?
- (v) What agency or other authority decides on the need for adjustment assistance and what are the arrangements for administering the implementation of adjustment assistance programmes?
- (vi) What methods of adjustment assistance are available?
 - (a) In what form is financial assistance provided to business enterprises (e.g. by way of grants, advances, guarantees, reduced interest rates, tax concessions, accelerated depreciation allowances)?
 - (b) What adjustment assistance is extended to labour, e.g. social assistance, redeployment, retraining of labour?
- (vii) What are the sources of funds for adjustment assistance?
- (viii) Is consideration being given to the strengthening of available measures for adjustment assistance or the introduction of new measures having regard to such factors as continuing changes in the pattern of world trade including those which might result from actions to facilitate trading opportunities for developing countries?
- (ix) Have any reviews been carried out of measures taken to facilitate adjustment and has it been found necessary following any such reviews to introduce changes in order to secure more effective results?

B. Measures applied

- (i) Where measures of adjustment assistance have been applied, is it possible to distinguish between their use for dealing with changes in import patterns including those resulting from trade negotiations etc., and their use for assistance to adjust to changes resulting from technological developments and other economic factors bearing on the industry's competitive position?
- (ii) The extent to which adjustment assistance measures have been taken or are being applied in specific geographical regions to encourage diversification away from the production of goods subject to import competition.
- (iii) Identify products or sectors of industry in respect of which adjustment assistance measures have been applied. To what extent are these sectors of interest to developing countries?
- (iv) To what extent, if any, is adjustment assistance used.
 - (a) to facilitate trade liberalization in respect of items under restriction?
 - (b) to provide for larger market opportunities for products exported by developing countries?
- (v) Level of funds spent, showing separately amounts used for
 - (a) assistance to industry (e.g. by way of grants, advances, guarantees, reduced interest rates, tax concessions, accelerated depreciation allowances) for
 - (i) conversion of industries
 - (ii) modernization of industries.
 - (b) social assistance, redeployment and retraining of labour.

C. Effects of measures applied

- (i) Are there any instances where prior use of adjustment assistance has been followed by measures to reduce or eliminate import restrictions?
- (ii) Is any indication available of the impact of the adjustment assistance extended on the level of domestic production and composition of imports from developing countries?

AGRICULTURAL ADJUSTMENT

In considering the kinds of measures that should be considered within GATT as regards Agricultural Adjustment, particular attention should be given to the eleven policy guidelines for international Agricultural Adjustment endorsed by the 1975 FAO Conference. Attention should also be given to Resolution 124(V) adopted at the UNCTAD Ministerial Conference covering such aspects as processing and product development, marketing and distribution of commodities.

The following are some of the more important issues which should be considered:

1. National policies of developing countries should provide appropriate incentives for farmers to expand production and to promote the adaptation of structures within farming both to permit optimum use of available and suitable technology, and to promote social equity and fuller integration of the rural population into the national economy; national policies of developed countries should aim at the most rational use of their resources, having regard to the special needs and interests of developing countries and taking into account the need to ensure world food security.
2. Developing countries with a structural dependence on food imports (i.e. food deficit countries) should favour wherever possible and appropriate, the consumption of food which can be feasibly produced locally or regionally.
3. Access to markets and assurance of supplies must both be progressively improved in order to underpin the dynamic upward trend in the volume of trade in agricultural commodities and agro-based products required for rational international adjustment in agriculture.
4. In order to ensure world food security, stability of markets and prices remunerative to producers and fair to consumers, adequate measures should be taken in the field of agricultural commodities, agro-based products and agricultural production requisites.
5. Specific trade-oriented policy measures are needed on the part of both importing and exporting countries to ensure a substantial and steady increase in the export earnings of developing countries and the growth and diversification of their agricultural production.

6. Facilitation of the process of redeployment of productive capacities for commodity processing industries to developing countries, including adjustment assistance, and implementation of other measures relating to trade and industrial co-operation, in accordance with the relevant provisions of Conference Resolution 96(IV).
7. Improvement of the competitiveness of natural products competing with synthetics and the consideration of measures to harmonize, where appropriate, the production of synthetics and substitutes in developed countries with the supply of natural products produced in developing countries.
8. Increasing market outlets for processed and semi-processed commodities exported by developing countries inter alia by commitments within trade negotiations or wherever appropriate within the framework of individual commodity negotiations.
9. Adequate financial resources for expanding primary commodity processing in developing countries, taking account of needs for increased allocation of financial resources, both loan and equity capital, through international financial institutions, especially to the least developed among developing countries.
10. Liberalization of market access, particularly in developed countries, for primary and processed products from developing countries.

The above are drawn from the FAO policy guidelines and UNCTAD Resolution 124(V).