

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

COM.TD/H/4
18 February 1966

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Committee on Trade and Development

Expert Group on Adjustment Assistance Measures

REPORT OF THE EXPERT GROUP ON ADJUSTMENT ASSISTANCE MEASURES

1. The Group was appointed by the Committee on Trade and Development at its first meeting in March 1965 and was instructed:

- 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 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 met in June 1965 and February 1966. The membership of the Group is given in Annex. The Group wishes to take this opportunity of expressing its appreciation for the valuable assistance rendered it by the ILO, OECD and other organizations.

3. The documents COM.TD/W/6 and Addenda referred to above contain statements which had been supplied by governments in response to requests made by Committee III and the Action Committee and had been handed over to the Committee on Trade and Development upon its establishment. After an examination of this material at its first meeting in June 1965 the Group considered that an attempt should be made to elicit further information and requested replies to four specified questions from governments. In response to this request, the governments of a number of developed countries supplied new statements. The material thus made available enabled the Group, at its second meeting held in February 1966, to carry the study a step further and to draw up the present interim report.

4. All this material, which has been supplied by the governments of developed countries, and which has been the subject of the Group's study, is reproduced in document COM.TD/H/3, which the Group wishes to present to the Committee together with the present report as an integral part of its submission.

5. On the basis of this material the Group proceeded to a general examination of the types of adjustment assistance legislation in force, the measures applicable under the legislation and their value in relation to the purpose of increasing the access of the exports of less-developed countries to the markets of developed countries.

6. The material supplied by governments indicates that the following types of assistance are provided by governments through adjustment assistance measures, including measures designed to overcome regional imbalances:

(a) Financial assistance

(i) Grants, advanced and loans (often low interest and with generous repayment periods) to:

- A. private firms for machinery and building,
- B. local authorities for infrastructural expenditure.

(ii) Grants or loans to firms to facilitate the scrapping or "moth-balling" of machinery.

(iii) Acquisition of land and construction of factories for hire or sale to manufacturing concerns.

(iv) Subsidies towards costs of factory buildings.

(v) Guarantees of private loans to manufacturing concerns.

(vi) Payments to offset interest charged on private loans to manufacturing concerns.

(vii) Grant to enable feasibility studies by private firms.

(viii) Inauguration of public works programmes.

(b) Fiscal inducements

Tax exemptions and rebates, including accelerated depreciation allowances.

(c) 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.
- (v) Payment for workers during periods of unemployment or reduced employment.

(d) Movement of labour

- (i) Payments to enable travel for training and interviews.
- (ii) Payment for movement of family and effects.
- (iii) Publicity on employment opportunities in localities outside the depressed area.

7. The use of particular measures and the conditions under which they are made available tend to differ from country to country. While the material has not permitted an exhaustive analysis, the following general points and characteristics of the measures of certain countries would appear to be relevant for any description of the general pattern:

- (a) in most of the 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;
- (b) 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 growth, in particular in the economically depressed regions; 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;

- (c) 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;
- (d) The ECSC and EEC Treaties contain provisions for the granting of adjustment assistance by the respective executive authority on the requests by member States. Under the ECSC Treaty assistance could be provided to facilitate the re adaptation of workers whose employment is affected by the opening of the Common Market as well as to deal with the consequences of technological developments or structural changes. The EEC Treaty provides more generally for provision of employment opportunities and labour mobility through aid from the Social Fund. 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;
- (e) a number of governments have legislation on measures of assistance designed to overcome problems arising from regional imbalances. 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. With the possible exception of Lancashire, it is not clear, however, 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;
- (f) 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;
- (g) 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 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 to justify the provision of assistance.

8. In the course of analyzing the contents of the individual statements submitted by governments, some members of the Group commented on the measures reported and their relationship to the commercial policies and trade flows of the countries concerned. The experts representing these countries indicated that they would convey these comments, which are briefly summarized in this paragraph, to the attention of their respective governments. Commenting on the individual reports submitted by governments, some experts observed that Austria had been taking liberalization measures over a period of years. They felt that it would be useful if the Austrian Government had indicated whether it had considered the use of adjustment assistance in the course of its liberalization programme and whether it could also consider using such measures to secure the removal of the remaining restrictions. The Austrian representative replied that in the first place no such questions had been put to the Austrian Government in the request for material for this Group and secondly the appropriate forum for questions of this kind would appear to be the Group on Residual Restrictions to which Austria had supplied information. With regard to the information submitted by Belgium and the Netherlands, one expert felt that although owing to the liberal commercial policy followed by these countries it had not been necessary to employ adjustment assistance measures specifically to provide opportunities for increasing imports from developing countries, nevertheless legislation to that end existed. He further expressed the hope that Belgium and the Netherlands would endeavour to influence the policies of the EEC and suggest the use of adjustment assistance to facilitate liberalization in areas of particular difficulty. With regard to the information submitted by Czechoslovakia, one expert commented that the adjustment which had been taken in certain Eastern European countries appeared to have contributed substantially to an increase in exports of some developing countries. This should be borne in mind by other countries in the efforts to increase their trade with the developing countries. One expert, referring to the notification from the Federal Republic of Germany and its restrictions in force on particular products, said that his country imported three times the amount it exported to the Federal Republic. It was hoped that these restrictions would be removed at an early date through the use of adjustment assistance measures. He felt that the policy statement contained in paragraph ad (b) on page 31 of the notification of the Federal Republic should be carefully scrutinized. In this connexion, he pointed out that less-developed countries could only make their prices competitive if they were given a chance to export. With regard to the notification by Finland, he felt that adjustment assistance measures would perhaps also point the way to dealing with the problem faced in providing access to one particular product. In the case of Japan, he observed that Japan had experienced difficulty in removing restrictions from many items. He hoped that the Japanese Government would find adjustment assistance measures helpful in this regard. With regard to the notification submitted by the United Kingdom, he felt it would be useful if information could be submitted as to whether the schemes on incentives to promote mobility in

industry will also take into account the need to afford more access to exports of developing countries. The provisions in Title III, Chapter III of the United States Trade Expansion Act 1962 were welcomed as this, in his view, was a positive approach towards expanding foreign trade on the understanding that if injury was at all caused or threatened certain adjustment assistance measures would be taken. The proposals under consideration to make certain changes in the operative provisions of the United States/Canada automotive products agreement were noted.

9. The Group agreed that the secretariat should be requested to obtain information from governments on new developments or changes in the legislation and measures notified by them and should be made available to contracting parties on an annual basis. An attempt should be made particularly to obtain information on the four points specified in paragraph 3 of COM.TD/H/3, viz.:

- (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;
- (c) instances in which measures under (b) had been employed and the progress made in achieving the objective outlines 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.

10. On the measures reported in COM.TD/H/3 as a whole, the Group observed that the information provided revealed that measures in the nature of adjustment assistance had generally been prompted by a variety of circumstances including adjustments required for long-term structural reasons, to facilitate regional development, to face up to a situation of technological backwardness and low productivity, and so forth. The policy instruments, therefore, appear to have been conceived broadly with a view to improving the overall situation or to directing a re-allocation of resources without specific reference in every case to competition from imports as such. The Group noted that on the basis of the information available it was not possible to evaluate to what extent the adjustment assistance measures in force had effect on the trade opportunities of less-developed countries.

11. In those cases where adjustment assistance measures were related more directly to difficulties arising from imports, it appeared possible to distinguish between two types of measures: (a) those designed to improve productivity and the competitiveness of the industry through modernization and rationalization of equipment, introduction of a higher degree of automation and other technological improvements, etc., and (b) those designed more particularly to increase the mobility of labour and capital with a view to encouraging re-allocation of resources from one line or branch of production to another. The Group noted that the latter type of measures was more directly related to the adjustment of the economy to a larger volume of imports. It was emphasized by experts from developing countries that adjustment assistance measures should not be employed as a means of artificially stimulating productivity in the developed countries at the expense of imports from developing countries.

12. Experts from the developing countries pointed out that the existence of provisions for general adjustment assistance measures had not prevented developed countries from raising new barriers to the imports of developing countries: some of these inconsistent with the GATT. Even countries which enjoyed full employment had resorted to restrictions. These experts suggested that special legislation, or special measures under existing legislation, specifically aimed at bringing about structural adjustment to overcome this problem, was desirable.

13. The Group then discussed in a general way the type of legislation which appeared to be the most desirable in relation to the problem of providing greater access for the exports of less-developed countries. The Group did not take a firm position as to whether the legislation of a general character (i.e. legislation providing for measures applicable to structural problems of varying origins) or specific character, would be more appropriate. Since there were variations in the circumstances of industrial countries, both in economic structure and political conditions, it should be for the industrialized countries themselves to decide how best to proceed. The Group, however, felt that where such legislation was of a general character, the countries concerned should try to relate it as directly and as sympathetically as possible towards easing the very grave economic and human problems faced by the developing countries. In the course of discussing these questions, the Group heard statements from representatives of the ILO and the OECD about the parallel work with regard to manpower and industrial adaptation policies which these organizations were undertaking in this field. The Group was pleased to note that the views of the Group and these representatives appeared to be generally similar with respect to the legislative approach.

14. The Group observed that the data furnished by contracting parties had not indicated that, apart from the textile sector and except in a few other specific instances, adjustment assistance measures have been used specifically for the

purpose of dealing with any difficulties which might have been caused by increases in imports from developing countries. Nor were there indications that governments which had provided tariff or non-tariff protection for their industries had, in each case, examined how far this problem could have been dealt with through the use of measures of adjustment assistance. There was also little specific information as to whether in certain cases actual use of such measures, or assurance that such measures could be used, had enabled certain countries to reduce, eliminate or avoid additional measures of tariff or non-tariff protection. It was suggested that such information should be obtained from governments together with that mentioned in paragraph 9 above.

15. The Group felt that the rôle which adjustment assistance measures could play in facilitating greater trade liberalization to the advantage of all countries, could be illustrated by the adjustment assistance provisions of the United States Trade Expansion Act which created the pre-conditions for the removal of barriers in a manner which would enable imports, and their impact on the market, to bring about adjustments in the United States economy. The Group noted that enactment of these provisions indicated that the assurances that there was the possibility of adjustment assistance being provided could be helpful in reconciling domestic interests to a larger degree of trade liberalization. Of course, in each country and for each industry, there might be a number of political and social factors which would need to be taken into account.

16. The Group noted that in most instances it should be possible to take action to liberalize imports without having to consider adjustment assistance measures and that such measures would be needed only if serious damage to the domestic industry were to result from such action. In view of the growing demand for manufactures in developed countries and the relatively low rate of growth in most lines of exports of less-developed countries, it was to be expected that adjustment assistance would be the exception rather than the rule.

17. Experts, mainly from developed countries, pointed out that to place too much emphasis on the value of adjustment assistance might create the opposite effect of retarding trade liberalization; for example, it might provide grounds for local interests to demand the maintenance of protection in circumstances where adjustment assistance measures were not immediately available. Recognizing the force of this argument, experts, mainly from less-developed countries, however, stressed that, nevertheless, governments should make every effort to ensure that difficulties cited as constituting obstacles to the liberalization of imports were dealt with by the removal of those difficulties through internal adjustment, and if necessary, by means of measures of adjustment assistance rather than continue to maintain tariff and non-tariff barriers.

18. Several experts felt that there was need for developed countries to provide for anticipatory adjustment assistance which would serve not only to ease difficulties caused by actual imports but also to facilitate the transfer of factors of production away from sectors in which less-developed countries expected to be in a position to expand their exports in the future, particularly the labour intensive branches of manufacturing. Experts from developed countries, however, pointed out various difficulties, both political and practical, for governments in market economy countries, in bringing about structural adjustment in anticipation of future imports. Given liberal commercial policies, market forces could normally be relied upon to ensure the necessary adjustment and the rôle of adjustment assistance should not be over-emphasized. The Group agreed that in administering adjustment assistance, the developed countries should always give appropriate weight to the needs of less-developed countries to expand their trade. The expert from Sweden observed that in his country manpower legislation had been used to bring about the transfer of labour in anticipation of future changes in the economic structure of the country.

19. Some experts from developing countries referred to point (viii) of the Ministerial Conclusions on the Action Programme, the provisions included in the Cotton Textiles Long-Term Arrangement, the general provisions of the General Agreement, and the commitments accepted by governments under Article XXXVII of the Agreement. They pointed out that these provisions implied a commitment to use adjustments where these may be necessary in the context of the need to enlarge access for exports of less-developed countries. Experts from member States of the EEC recalled in this connexion the position taken by the Ministers of the EEC and associated countries with regard to the Action Programme as noted in paragraph 6 of the Ministerial Conclusions. The representatives of Japan and the United States also drew attention to the qualifications regarding the position of their Governments as noted in paragraph 4 of the Conclusions. Experts from less-developed countries commented that the use of adjustment assistance measures had to be seen in relation to commercial policy problems generally. They also felt that the United States, in providing for adjustment assistance measures in the Trade Expansion Act had been able to lead the way towards major trade liberalization. The inclusion in Article XXXVIII of provisions for joint action relating to adjustment of national policies would also facilitate the task of individual countries.

20. In view of these obligations, the minimum that a developed country maintaining obstacles to imports from less-developed countries should do was to explore every possibility of making use of adjustment assistance with a view to removing those obstacles. It was generally agreed that it would be desirable within the context of the General Agreement to examine the relationship between adjustment assistance legislation and measures of developed countries and their commercial policies and restrictions. Such discussions would cover the nature of the difficulties in question and the extent to which adjustment assistance would contribute to solving those difficulties.

21. It was also suggested by experts from developing countries that appropriate mechanism should be set up within the framework of the Group for the exchange of information and for consultations between developed and developing countries on likely developments on this subject from the latter and for the co-operative consideration of realistic policies to deal with any problems which might arise. The point was made by some experts from developed countries that without more precise information it was difficult to visualize what sort of mechanism and what sort of information beyond that which was already available from other sources would be involved.

22. Experts of less-developed countries also felt that the Group should undertake case studies on the use which could be made of adjustment assistance measures in dealing with difficulties in particular industries. Some experts from developed countries felt that to embark on case studies in the specific context of adjustment assistance, which was expected to be the exception rather than the rule, seemed of questionable value. Other experts felt that it would be sufficient for the purposes of this Group, if appropriate arrangements were made for reviewing and examining new information supplied by governments. In this connexion governments of the developed countries should be invited to review their positions in the light of the information, analysis and conclusions of this report, and to report periodically to the Committee on any new steps taken and progress made in this field. The Group stressed that whatever arrangements were made for the dissemination and analysis of information, governments should not await the results of any such studies, but should take whatever action might be open to them in providing adjustment assistance.

23. 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 agreed that greater public awareness of the desirability of accepting structural adjustments with a view to permitting a higher level of imports from less-developed countries would be helpful.

ANNEX

Group of Experts on Adjustment Assistance Measures

Chairman: MR. N.A. PINCH (United Kingdom)

Membership:

M. S.F. de Liedekerke	(Belgium)
Mr. B.B. Babosa	(Brazil)
Mr. M. Sakellariopoulo	(Canada)
Mr. Obermüller	(F.R. Germany)
Mr. S. Narasimhan	(India)
M. Ugo Vitale	(Italy)
Mr. P.V. Marsh	(Jamaica)
Mr. K. Akiyama	(Japan)
Mr. Akhtar Mahmood	(Pakistan)
Mr. C.S.T. Canarp	(Sweden)
Dr. S. Harb	(United Arab Republic)
Mr. Edgar Eaton	(United States)
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