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Group of Experts on Adjustment Assistance Measures

INFORMATION SUBMITTED BY GOVERNMENTS

In accordance with the request made by the Group of Experts in paragraph 21. of the report of their last meeting (COM.TD/H/2), developed countries were invited to supply information on the following points:

- (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.

The communications received are set out hereunder.

AUSTRALIA

I have been asked by the Australian authorities to advise you that there are no measures in existence in Australia which could be regarded as adjustment assistance.

AUSTRIA

I have the honour to draw your attention to the notification which this Mission has transmitted to the GATT secretariat on 28 June 1965 (COM.TD/W/6/Add.6) containing information asked for under paragraph 21(a) of document COM.TD/H/2. This information is still up to date.

With regard to the questions raised under paragraph 21(b) and (c) of the said document, no information is available at present, as Austria has not yet gained experiences in this field.

A programme of the kind mentioned under paragraph 21(d) does not exist in Austria at present. Nevertheless, the competent Austrian authorities follow attentively the questions involved.

BELGIUM

Reply to question (b)

Among measures of adjustment assistance, i.e. measures which assist the re-conversion of enterprises in particular, and of industrial or economic sectors in general, one should first mention legislation to assist investment: the Acts of 17 and 18 July 1959 (assistance for the creation of new industries, aid for regions faced with economic and social difficulties) and the Act of 24 May 1959 to facilitate access to professional and handicraft credit. This legislation provides for the following assistance measures:

- interest rebates
- government guarantees for credit
- capital subsidies
- exemption from land tax for five years
- interest-free advances for the completion of prototypes
- expropriation of land for industrial establishments.

All these assistance measures can be granted to productive industrial investments and in particular investments for reconversion, especially for undertakings which wish to abandon certain manufactures and switch to products which are more elaborate or more highly finished, or products for which demand is expanding. The motive for reconversion may be declining demand, manpower shortage, or increased international competition, due among other things to larger imports from developing countries.

One should also mention fiscal measures to encourage faster amortization particularly in regard to research, and fiscal facilities when undertakings are amalgamated. The latter case is often accompanied by reconversion.

In addition, the National Investment Company, established under the Act of 2 April 1962, is authorized to take participation in the capital of new or expanding industrial undertakings. Reconversion requirements can be among the considerations underlying its decisions.

The National Employment Office, for its part, gives assistance for vocational training and rehabilitation (Royal Decrees of 20 and 24 March 1961). Training assistance is available to personnel recruited for the reconversion of undertakings;

rehabilitation assistance consists of a contribution to the remuneration of workers affected by the reconversion of their undertakings. In certain cases the Office grants removal, transport and reinstallation allowances.

Another form of assistance to new undertakings is for the public authorities (State, provinces, communes, intercommunal authorities) to make available to industry land belonging to them or which has been expropriated. Mention should also be made of general measures taken for regions, for example infrastructure, collective equipment, and the creation of industrial zoning, because regional reconversion efforts are connected with the question of reconversion by sector; indeed, the difficulties of regions requiring development stem from the fact that they frequently depend on economic sectors which are in difficulty (agriculture, coal mining, textiles, rolling stock, etc.) and in order to revive the economy of these regions the public authorities must stimulate economic reconversion there; the above-mentioned measures can sometimes be used by the State in order to facilitate reconversion.

It should be noted, however, that none of the measures mentioned above is adopted specifically in order to increase outlets for imports from developing countries; rather, they have the effect of assisting structural adjustments in the event of intensified competition from whatever source, and also of guiding investment and manpower towards the highly technical sectors. One consequence is that Belgian consumption of bulk products or relatively simple manufacturers depends to a larger extent on imports, and the less-developed countries have a share in these.

Reply to points (c) and (d)

As indicated above, there are no instances of adjustment assistance measures for the specific purpose of providing larger opportunities for imports from developing countries. Nor is there, to our knowledge, any programme for new legislation.

It should be noted that BLEU imports from developing countries rose from \$608 million in 1958 to \$922 million in 1964 - an increase of 51 per cent - while BIEU sales to those countries declined from \$559 million to \$513 million. One may conclude that Belgium's effort continues to be substantial, without reciprocity from the countries concerned.

There are no quantitative restrictions in Belgium aimed at developing countries. Unrestricted admission will be maintained to the extent that imports take place in an orderly manner and do not disrupt the Belgian domestic market.

FINLAND

Finland has no legislation of the kind mentioned in the four points set out in paragraph 21 of document COM.TD/H/2, and the authorities are not in a position to undertake any adjustment assistance measures. It should, however, be kept in mind that the industry itself seeks to direct the production into fields which correspond to the country's natural conditions and energy sources.

FEDERAL REPUBLIC OF GERMANY

Government adjustment assistance in cases of changes in the structure and pattern of production in the Federal Republic is designed to facilitate such adjustment in specific sectors of the economy which are in the process of particularly heavy and sudden structural changes. This applies especially to cases where structural changes are caused by international competition; it is thus not envisaged to maintain artificially in existence specific sectors or enterprises. This does, however, not preclude that in exceptional cases temporary protection is required in order to secure adjustment along proper lines. But ultimately, it is up to competition to determine which industries are to satisfy the needs of the German economy.

According to the terms of reference of the Committee and the Group of Experts these statements refer rather to manufacturing industries than to the basic sectors (mining, power production, agriculture and transport).

The overall favourable economic trend in the Federal Republic of Germany is the reason why adjustment assistance available for such sectors is drawn on to a relatively minor extent only. It may, however, be assumed that such assistance will grow in importance in the years to come.

Specifically, the following may be stated in reply to the questions under point 21 of the secretariat note:

ad (a) What measures of adjustment assistance were available under either general or specific legislation?

A. Fostering of the mobility of labour

First of all, it should be noted that in view of the full employment situation in the Federal Republic transfers of labour in general take place without any specific fostering; assistance measures for such purposes have been taken to a comparatively minor extent only.

In order to stimulate labour, who are actually out of work, to take a job, approximately a total of DM3.6 million was spent in 1963 of which DM2.9 million came from the Federal Institute for Labour Exchanges and Unemployment Insurance and 0.7 million from federal budgetary appropriation. Specifically, amounts were granted mainly in the form of temporary assistance (DM1.8 million); as assistance during learning time (DM0.6 million); travel and transfer cost (DM0.4 million); integration assistance (DM0.5 million). The annual budget estimates for such purposes have been somewhat increased since 1963.

For adult education of labour the Federal budget appropriated assistance to an amount of DM21.4 million for 1963. These funds have likewise been augmented in the subsequent years.

According to the law, dated 22 April 1965, on the formation and administration of a special fund for the stimulation of professional efficiency in the economic field, DM50 million are added every year to the above resources.

B. Adaptation and adjustment of enterprises

I. Information and consultation services

First and foremost there are the grants to stimulate production out of the European Recovery Programme Special Fund, amounting to yearly about DM10 million. Of this amount DM5.1 million are intended for the budget of the Board for Rationalization of the German Economy and DM4.9 million are spent on the following important items:

- (a) Encouragement of joint activity covering more than a single enterprise;
market research studies in the European Economic Community market; methods and requirements of inter-plant comparisons on an international basis; methods of joint activity in questions of procurement and distribution as well as in the field of variety reduction and standardization.
- (b) Systematic search for and testing, in close contact with practical realities, of possible new rationalization and adjustment measures;
elaboration of principles for rationalizing and reorganizing management.
- (c) Encouragement of industrial consulting.
- (d) Development of management personnel.

An important rôle is, however, also played by business advisers on trends on the world market, such activity being the task of the Federal Agency for Foreign Trade Information and of research institutes.

II. Financial assistance by the Federal Government

Apart from guarantees - financial assistance, as a rule, is granted solely for the switching of production programmes to new items. No financial assistance for subsidizing existing productions is contemplated (paragraph 17 of the secretariat note).

1. Guarantees

The instrument of Government guarantees, as employed in the Federal Republic, is also available for the economic policy of the various industrial sectors. In recent years it has, however, been used for the industries considered in this document in isolated cases only.

A general budgetary authorization is contained in the yearly budget laws. In addition, it is considered to draw up a specific guarantee programme for adaptation and adjustment measures.

2. Credits and grants

(a) Adjustment credits

In cases where enterprises of industrial branches are undergoing structural changes as a result of international competition, they may obtain for the purpose of adjusting for changing their production pattern credits out of the European Recovery Programme Special Fund at reduced interest rates. The text of the relevant directives is annexed to this document.

During the period 1958-1964 a total of DM74 million was made available and the European Recovery Programme Budget of 1965 provides another DM25 million. These credit lines have not yet been fully utilized; up to 15 June 1965, credits to the amount of approximately DM67 million were committed. The recipients of such credits belonged to the following industrial branches:

	<u>in million DM</u>
textile industry	43
ship building	14
lead and zinc smelters	5
crude tar industry	2
other industries	3

III. Financial assistance given by Laender

1. Credits and grants

Financial assistance given by Laender is in general limited to measures which are important from the aspect of regional policy. The fact that this type of assistance produces also an effect on the structure of the various sectors has been mentioned earlier. With the express intention of influencing the structure of the industrial sectors the following programmes have been initiated:

- (a) The Land of Baden-Wuerttemberg grants within the framework of its so-called "Middle Class" programme loans at reduced interest rates as well as interest subsidies for credits extended by banking institutions to handicraft, commercial and small scale industrial enterprises, inter alia for adaptation and adjustment projects of plants which are undergoing structural changes as a result of technical and economic development. From the spring of 1961 till the end of 1964 loans totalling about DM1.1 million and interest subsidies to the amount of DM150,000 were granted. The interest rate for loans is 4 per cent, and maturity of the loans is twelve years. Interest subsidies may be granted up to a period of five years. The reduction of interest amounts in each individual case to a maximum of 3 per cent per year.

In addition, the Land of Baden-Wuerttemberg grants under its textile industries assistance programme interest subsidies to medium-sized enterprises of the textile industries, in particular to the cotton spinning mills, the cotton weaving mills and to the wool carded yarn sector in the wool weaving industry, in order to facilitate the implementation of the rationalization projects which become necessary for adjusting the industry to international standards. Subsidies to reduce interest for loans under the textile assistance programme are in general granted up to a period of five years, the reduction of interest amounting in each individual case to a maximum of 3 per cent annually. Since the starting of the programme in July 1964 interest subsidies to the amount of DM20,000 have been granted.

- (b) The Land of North-Rhine-Westphalia extends credits to industrial enterprises of economic branches which are in the process of major structural changes as a result of international competition; such credits are designed for investments involved either in the changing of the production programme or in the adjustment of the respective enterprise to the international competitive situation. DM5 to 6 million were spent to this end during each of the last two years.

Interest rate 4 per cent, period to maturity up to seventeen years.

2. Guarantees

The same as financial assistance the guarantees granted by the Laender primarily serve the overall and regional economic promotion. Even if there is no declared intention to influence the structure of the industrial sectors via the guarantee programmes some impact on the sectoral structure must be expected also in this field. The extent of the guarantees assumed by the Laender on grounds of a policy shaping the structure of industrial sectors might be insignificant.

IV. Tax concessions

In order to foster structural policy for the individual industrial sectors tax, privileges are granted to facilitate adaptation and adjustment measures. Thus, according to the Income Tax Amendment Law of 1964, tax payers who alienate real property, buildings, and mobile goods which are subject to wear and tear and have a useful life of at least five years, as well as ships and shares in joint stock companies may deduct, wholly or in part, the profits made thereby from the book values of specific newly procured or produced fixed assets. In this way the secret reserve disclosed at the moment of the alienation may be transferred to the newly procured or produced fixed assets and in special cases also to the newly acquired shares.

The tax regulation which provides for this possibility has taken effect as late as 1 January 1965. The extent of the assistance resulting from such regulation can therefore not yet be foreseen.

With reference to point 16 of the secretariat note, it is referred to the tax law of 1963 concerning development aid. According to this law, capital investments in developing countries (establishment and extension of industrial plant) enjoy the following tax privileges:

German enterprises are allowed to value their investments made in developing countries and to be shown in their domestic balance sheet for taxation purposes on a basis representing a maximum of 15 per cent depreciation.

In addition, up to 50 per cent of the remaining value may be granted in the form of a profit-reducing reserve, whereby a sizeable tax relief can be achieved. Moreover, incomes from investments in developing countries with which no double taxation agreement exists are taxable at the comprehensive rate of no more than 25 per cent.

ad (b) None of the types of the aforementioned assistance is directly designed to foster the importation of goods from developing countries. It is a matter of the enterprises themselves in developing countries to keep their supply at such a price and quality level as to be competitive with the domestic products on the German market or those of other countries. It is, however, true that Government credits and guarantees are especially provided for the purpose of facilitating the adaptation and adjustment of domestic firms which are encountering difficulties as a result of international competition. This system is to enable those enterprises to start activity in other sectors of the economy where they believe they will be in a better competitive situation. This will imply a more favourable situation for foreign firms on the domestic market.

- ad (c) The extent of adaptation and adjustment credits and grants may be seen from paragraphs B II and III.
- ad (d) The Federal Government is steadily endeavouring to improve and develop in the best possible way existing adjustment measures. In this connexion, it is especially intended to increase the volume of assistance calculated to enhance the mobility of labour. Likewise, still existing obstacles, e.g. those of a fiscal nature, which represent a stumbling block on the way to adjusting the economy to changing conditions, are to be removed as far as possible. Still existing foreign trade barriers are kept under constant review in order to ascertain whether their maintenance is further required or not.

Directives Concerning the Granting to Industrial Enterprises
of European Recovery Programme Credits Designed to Finance
Adaptation and Adjustment of Measures Resulting
from International Competition

1. The credits are to finance investments required for adjusting or changing the production pattern of the manufacturing industries. Such enterprises should belong to a production branch which is in the process of substantial structural changes as a result of unequal international competitive conditions. Competitive disadvantages caused by technological progress do not warrant any eligibility under this programme. Adaptation or adjustment measures are deemed to be such measures as involve, in terms of value, a substantial change in the production pattern.
2. Credits may be granted solely in cases where essential parts of the existing production plant are replaced by new ones.
3. Such credits cannot be extended to finance adaptation and adjustment measures which have already been completed at the date of application.
4. The credits are designed primarily to assist small and medium-sized enterprises. Major enterprises may be eligible if their economic and financial situation with due regard to their difficult market position do justify the granting of such credits
5. The credits are not to exceed the amount of DM1 million in each individual case. In exceptional cases where there is adequate reason larger credits may be extended. The enterprises submitting applications will have to participate to a reasonable extent in the financing of the project allowance being made for their net asset position and their earning power.

6. The credits are disbursed in full. The interest rate to the borrower amounts to 5 per cent per annum, maturity periods being up to twelve years, including up to five years of grace.
7. Securities normal in banking are to be provided for these credits as far as it is possible. In cases where adequate securities cannot be provided, use may be made of guarantees extended by the Laender or credit guarantee associations.
8. Applications for such credits must be lodged with any credit institution acting as the applicant's bank, which will forward the application - with their comment - to the Kreditanstalt für Wiederaufbau in Frankfurt/Main.

JAPAN

I. (i) In the course of the rapid economic growth after the end of the World War II, the Japanese economy has gone through a remarkable structural change, namely from primary industry to secondary and tertiary industries, and, within the secondary industry, from light industry to heavy and chemical industries. For instance, while the number of workers in the primary, secondary, and tertiary industries was 17,208, 7,812, and 10,605 (thousands) respectively in 1950, it was 14,236, 12,764 and 16,691 (thousands) respectively in 1960.

Such structural change has progressed as the Japanese economy shifted to an open-door economy with liberalization of trade and tariff cuts. Such structural change will be pursued hereafter as well in the course of the growth of the Japanese economy under the prevailing circumstances of the world economy.

(ii) Despite the continuing economic growth and structural change of the national economy as a whole as stated above, the Japanese economy embraces such sectors which still suffer from low productivity, particularly in the fields of agriculture and among small businesses. Although the adjustment measures taken by the Japanese Government do not directly focus on increasing imports from developing countries, the structural change as stated above, together with corresponding measures will result in making such circumstances more favourable for importation of products from developing countries. The following are some examples of concrete measures for changing industrial structure which make it easier for products of developing countries to enter Japan.

II. (i) Textile industry

A new law, the Textile Industry Equipment and Other Temporary Measures Law, was put into effect in October 1964 with a view mainly to promote rationalization of the spinning industry. The law intends to mothball surplus equipment by joint action of the enterprises concerned, and to permit a spinning firm to install new machines or utilize mothballed machines if it scrapped its mothballed machines twice the number so installed. The law thus aims, with the "scrap and build" system, at reducing surplus equipment which for a long time hampered improvement of structure of spinning firms. At the same time, considering that developing countries produce less sophisticated lines of goods, it aims at promoting diversification of products and production of high-grade goods.

(ii) Small business

Modernization of small business is one of the major premises for maintaining balanced, stable economic growth keeping pace with the circumstances of world economy. Industrialization in developing countries is giving considerable effects

on Japan's small business. In this regard, Japan is promoting modernization and rationalization of small-scale enterprises with a series of such measures as modernization of equipment, joint operation of business, rationalization of management and improvement of industrial techniques. At the same time, by these means, the Japanese Government is trying to promote diversification and production of high-grade goods, considering the desirability of mitigating direct competition with products of developing countries. Under the cabinet order, monetary and tax assistance are given to those business sectors in which most business activities are done by small-scale enterprises, and which need to be modernized quickly from the viewpoint of improving industrial structure.

Furthermore, when small-scale enterprises wish to change their business, in order to help them do so, the Government gives necessary guidances, and uses its good offices to facilitate borrowing money from banks and finding new jobs for employees of small-scale enterprises, if considered necessary (Article 15, the Fundamental Law on Smaller Enterprise, and Article 10, the Smaller Enterprise Modernization Promotion Law).

With a view to help stabilize living of retired or redundant small-scale entrepreneurs, and to help them re-start business, the mutual aid system was established in 1965 with the contribution by small-scale enterprises. This system is operated by the Small-Scale Enterprise Mutual Aid Organization, which extends loans to help change their business, besides the ordinary mutual aid activities

NORWAY

The national assistance schemes for both industry and labour facing readjustment difficulties apply generally and are not specifically designed for difficulties arising from an intensification of competition as a result of increased imports.

A brief account is given below of these schemes:

A. Assistance to industry

There are two national facilities for providing assistance to industry:

1. Assistance to structural readjustments in the home industries

The fiscal budget provides for direct assistance to joint measures covering an entire branch or groups of firms in co-operation to ease the adjustment of the home industries to new market formations. Such actions shall normally be financed in part by the firms themselves, while national assistance is limited to whatever measures may be necessary to get desirable action started. The appropriations are based on the assumption that readjustment assistance will be spread over several years and it is intended to supplement this appropriation with further allotments as may be required.

These public funds may be used for all types of joint actions designed to aid the home industries to make necessary adjustments, including measures to expand sales abroad and such innovations as will promote a rational production and a suitable structural development in the branches concerned.

Assistance of this kind cannot be provided for individual firms. The availability of these funds is limited to projects which will benefit whole branches.

2. Industrial Development Fund

The purpose of this Fund is to provide guarantees, acting for the State, for loans granted by the Bank of Industry and other credit institutions to finance industrial projects.

Priority shall be given to guaranteeing loans to projects in sectors where it is of particular importance to expand Norwegian industry. The Fund shall also assist industry in overcoming the adjustment problems arising out of Norwegian membership in the European Free Trade Association. High priority shall also be given to rationalization measures, particularly actions covering several firms in co-operation and also measures designed to develop new products or production methods.

Guarantees can be given to industrial enterprises and to other projects closely associated with industry.

The Fund is required to base its decisions on considerations of industrial policy. It is the task of the Fund to promote the development of a rational and competitively strong industry throughout the country.

The assistance schemes mentioned in the foregoing may be said to be "active" in nature, i.e. they are designed to facilitate a structural adjustment in Norwegian industry.

B. Assistance to labour-measures to alleviate unemployment and under-employment

When manpower becomes unemployed, whatever the immediate cause may be, efforts are made by the State to assist the unemployed to find work in those trades and activities where there is a labour shortage. If employment cannot be provided at the residence of the unemployed, work will be sought for them elsewhere.

Various forms of economic assistance are available in the carrying out of this task:

Travel allowances

Assistance in meeting travel costs can be provided from the unemployment fund to workers already unemployed or about to become unemployed, provided they are willing to take work found for them through the services of the labour exchanges and at the place where it is considered that there is need for the labour. There is no limitation, either geographic or industrial, on qualification for such assistance. There is, however, normally a minimum amount of travel costs for each change. Workers with family responsibilities who get an apartment at the new job will also be eligible for removal assistance to pay for transport of family and necessary belongings.

Family support

Payments to support their families can be made from the unemployment fund to workers with such responsibilities. To qualify for such assistance the worker must show that he has to maintain two households, and that this imposes on him a heavy financial burden. At present this form of assistance is only available to persons given work through the labour exchanges in the sectors of manufacturing, handicrafts and transport and who come from specified areas.

On 1 April 1963, a scheme was introduced for the provision of installation allowances from public funds. This assistance is designed to help meet the costs involved in getting started in a new place and thus ease the difficulties faced by the individual worker in the early period before his ordinary wages enable him to get along on his own. The job seeker must be given work in the manufacturing sector and come from the same areas as those stipulated in connexion with the family support scheme.

To qualify for the family support and for this new installation allowance, the job seeker must have been granted travel assistance.

Effective from the winter of 1958/59 has been a scheme for extraordinary vocational training for adults. This scheme is planned to increase the supply of better qualified manpower so that adjustments within industry involving the transfer of labour from one branch to another can be facilitated.

The courses are given for the unemployed and the under-employed in a number of trades, as in manufacturing, building and construction, commerce and office work, as well as in hotel and restaurant service, farming, fishing, transport etc. The courses last from one to five months depending on the subject.

These courses are free and participants receive financial assistance while attending them.

In addition to the above-mentioned measures which aim at increasing mobility and easing adjustment to new permanent work, a brief account is given below of certain other aid schemes which can be used in a transitional period while the prospects for reassignment to new work are being investigated.

Special appropriations on the fiscal budget makes possible extension of current public works on main and country roads and also permits the starting of new projects on public building and construction.

Under the act concerning unemployment insurance, assistance may be given from the unemployment funds by way of wages to unemployed persons with the right to daily payments from this fund, and who are working in extraordinary local authority aid projects.

Allowances have also been made from the special employment appropriations way of "aid orders" with factories in temporary difficulties due to market conditions. This is in the nature of an acceleration of orders from the Central Government which would have been placed in any event at a later date.

In certain cases where firms of document importance for the local labour market have run into acute difficulties, short-term loans have also been granted from the special employment appropriations.

It should be added that if the various assistance provisions mentioned in the foregoing cannot be applied at once, workers who become unemployed because of production cuts, for example in firms which have hit difficulties due to increased competition resulting from imports, will normally have worked up the right to a certain amount of payments from the unemployment insurance fund, which will ensure them a reasonable income in a transitional period.

SWITZERLAND

We are not in a position to add anything new to our communication of 13 January 1964 reproduced in document COM.TD/W/6. In view of the high level of economic activity for some years past and the large number of foreign workers employed in Switzerland, the problem has not at present arisen in our country. The Government has consequently not felt the need to take legislative measures, the more so since free access for foreign products to our market has not caused any disturbance for our specialized industry which, moreover, being exposed to free competition, can itself take any measures required on account of competitive conditions.