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Cotton Textiles Committee

## ADJUSTMENT ASSISTANCE MEASURES RELATING TO THE COTTON TEXTILES INDUSTRY

### Note by the Secretariat

This document contains an outline of measures taken by governments or industry for facilitating industrial adjustment in, or affecting, the cotton textiles sector. It is based on notifications and reports sent by participating countries in response to requests by the CONTRACTING PARTIES and the Cotton Textiles Committee<sup>1</sup>, as well as material available from other sources. Apart from an introduction which reviews the general trend in importing countries, the paper is divided into three parts, concerning: (i) measures taken by governments to assist the cotton textiles sector in particular, or the textile industry in general; (ii) governmental measures to assist industrial adjustment generally, and (iii) adjustment measures taken by the cotton textile industry.

### INTRODUCTION

1. To meet the exigencies of changing technology and in the face of increased foreign competition, many countries participating in the Cotton Textiles Arrangement have given close attention to the question of industrial adjustment. Efforts have been made towards restructuring the industry through the elimination of excess capacity and obsolete equipment, modernization, concentration, redeployment of workers and promotion of technological research and innovation.
2. Over the past ten years various policies have been pursued to phase out excess productive capacity. The industry has become increasingly capital intensive and has increasingly assumed the rôle of a multi-fibre and multi-process industry. Large sums of money have been invested in new plants or in the modernization of existing equipment. Mergers and concentration of production have resulted in a reduction in the number of enterprises. Marginal units have been disappearing and the proportion of total manufacturing capacity accounted for by the largest undertakings has increased. There has also been a marked reduction in the number of machines, workers and firms, accompanied by a substantial increase in machine and labour productivity.
3. Technological research and promotional activities have been accelerated with a view to adjusting production to the constant changes in market requirements. The appearance of new fibres and fibre blends, new finishing processes and other technical innovations has enabled the industry in developed countries to diversify away from

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<sup>1</sup>See inter alia BISD, 15th Supplement, page 72 and L/3288.

lines of production which are faced with severe price competition from abroad. Pure cotton textile production has been reduced but this has been offset to a large extent by increases in the production of blends.

4. The process of adjustment has not come to an end. In many countries, there is a tendency towards further substantial restructuring of the industry and further amalgamation.

5. In general, it is the industry itself which takes on the burden of restructuring and decides on the steps to be taken to make itself viable and competitive. In most countries the cotton textile industry has shown itself to be extremely sensitive to pressures of foreign competition and is ever ready to streamline its processes of production, to take advantage of technological sophistication and to specialize in more profitable lines of production. In some developed countries, where greater reliance is placed on the play of market forces and a liberal foreign trade policy is pursued, governmental assistance to particular industries also tends to be minimal. In these countries, nevertheless, there usually exist governmental adjustment measures to assist industry generally. These measures, aimed at improving efficiency through re-organization, rationalization, relocation of plant, technical research and the retraining of workers, are available to the cotton textile industry and are often found to be of great value.

6. Some governments have taken measures aimed at stimulating investment in new industries or reorienting existing operations towards more profitable lines of production. These usually take the form of grants and loans, funds to finance rationalization, mergers and fusions, tax exemption, tax rebate and special depreciation allowances. In addition, technical assistance may be provided to help industry to improve its productive and technological position. Legislation may be available for improving employment opportunities and facilitating labour mobility. In some countries, notably in Canada and the United States, certain measures are related directly to problems caused by increasing imports from developed countries.

7. General measures providing for tax advantages, adjustment premiums and equipment credits have proved beneficial to cotton textile firms which have made use of them, as have economic development programmes aimed at increasing industrial activity in depressed areas. Some countries have taken steps to deal with the problems associated with the reallocation of manpower and resources released from the textile industry by the continuing process of restructuring and modernization. Training programmes have generally helped the cotton textile industry by upgrading the skills of labour needed to operate and maintain the modern sophisticated equipment. In some countries the industry has benefited from various governmental research programmes.

8. Among the general adjustment measures introduced since 1969, particularly noteworthy have been those taken by some countries, e.g. Austria, to remove obstacles to economic adjustment needed to meet changes in the market situation. In Canada, as a part of the recently introduced textile policy, the General Adjustment Assistance Programme has been made available to manufacturers of textiles and clothing generally.

9. As regards measures specifically aimed at assisting adjustment in the cotton textiles industry, certain countries, e.g. France, Japan and the United Kingdom, have for several years continued to pursue restructuring measures either by compensating firms for the scrapping of obsolete equipment, helping in modernization or encouraging mergers of firms. In the United Kingdom a scheme adopted in 1970 provided for financial assistance to small and medium-sized firms in the cotton and allied textile industries to carry out modernization and re-equipment projects. In other countries, e.g. the Netherlands, the existing assistance policy has been directed to raising the necessary finance for the required adjustments.

10. Since 1969, a number of countries have commissioned studies to ascertain the need for further adjustments in their cotton textile industry, as well as ways and means to be used. In some cases, measures have been adopted on the basis of such studies, or are being formulated. Most of these adjustment measures are geared to help the textile and clothing industries in general. In 1969, the Spanish Government approved a plan for restructuring the cotton textile industry, which was implemented as from the end of that year. In 1970, Canada adopted a policy of rationalization of the textile and clothing industry involving the restructuring and phasing out of certain lines of production so as to create a situation under which no protection other than by the customs tariff would be needed. A special Committee was appointed by the Government of Norway in 1968 to make recommendations on the restructuring of the textile industry and certain proposals were adopted to bring about mergers and reorganization. In 1970/71 the Swedish Government, on the basis of specific proposals of an ad hoc commission, adopted certain measures to assist conversion and development, to support training and research and to facilitate labour and regional policies. The EEC is in the process of evolving a new policy to help the textile industry to carry out the necessary adjustments in a harmonious way within the framework of the Community. The purpose of this policy is to encourage modernization, restructuring and rationalization in accordance with certain criteria and guidelines. The Finnish Government set up a special committee to look into the adjustment problems of the textile industry. This committee submitted its report in February 1971 and the recommendations are being studied by the Government.

## I. GOVERNMENTAL ADJUSTMENT MEASURES FOR THE TEXTILE INDUSTRY

Some countries have taken measures specifically to facilitate adjustments in the cotton textile industry or in the textiles industry in general. The absence of specific legislation in others may be due, at least in some cases, to the fact that the industrial policy of these countries is not sectorally oriented.

In 1970 the Canadian Government formulated a new policy aimed at rationalizing the textile and clothing industry. This involves the restructuring and phasing out of certain lines of production so as to create a situation where no protection other than tariffs will be required. While no advance commitment about special protection was provided, the Government will be prepared, in cases of serious injury or threat of injury from low-cost imports, to accord special protection - unilaterally when necessary - in order to facilitate adjustment to or strengthening of the more viable lines of production. Plans for such restructuring or strengthening will be a condition for such protection. The industry is expected to phase out progressively the least competitive lines and to move into those with the highest competitive potential for the future.

On 25 May 1971 the Export and Import Permit Act was amended so as to extend legislative authority to impose quantitative limitations on imports under certain conditions. A Textile and Clothing Board was set up to make recommendations as to whether textile and clothing goods were being imported at such prices, in such quantities and under such conditions as to cause or threaten to cause serious injury to domestic production; to assess whether restructuring plans submitted by the industry would significantly improve the competitiveness of industry; and to recommend special measures of protection.

The policy involves many areas such as fashion design, research, productivity and technology. A substantial amount of new Government funds will be allocated for the restructuring of production and assistance to workers who may be dislocated over the years as a direct result of such policies.

As regards financial assistance to textile firms, the General Adjustment Assistance Programme (GAAP) has now been extended to cover manufacturers of textiles and clothing generally. The forms of assistance available are: Government insurance of risks of loss or loans made by private lenders for financing viable adjustment programmes, direct Government loans for this purpose and grants up to 50 per cent of the costs of services provided by consultants. The Department of Labour has initiated a financial assistance programme which provides early retirement benefits for textile and clothing workers who are displaced as a result of import competition. In order to be eligible for assistance under this programme, a displaced worker must: (i) have used all of his unemployment insurance benefits; (ii) be between the ages of fifty-five and sixty-five on the date of his lay-off; (iii) have been employed for at least ten of the last fifteen years in the textile or clothing industry; and (iv) be certified by the Department of Manpower and Immigration as having no present prospect of employment with or without retraining and with or without relocation, or have had to take employment for lower earnings than he was making before the lay-off.

In the field of technology, the Government is to set up Development and Productivity Centres to assist the textile and clothing industry to derive full benefits from new technology and new products. In addition a Fashion Design Assistance Programme is initiated to encourage design creativity and upgrading the quality of the end-product. This programme aims at promoting the Canadian fashion both in the home market and abroad. Under this programme grants are being made to talented fashion designers to assist them in furthering their education.

In the European Economic Community the process of adjustments in the cotton industry began prior to the Cotton Textiles Arrangement. Since its coming into force, however, this movement has gained impetus under the influence of four essential factors: (i) growing pressure of imports on an increasingly open market; (ii) conjunctural crises which periodically affected the industry; (iii) technological developments and (iv) the various measures applied in certain member States. Between 1961 and 1969, there was substantial contraction of overall employment both in the spinning and weaving industries. In the spinning industries, for example, employment declined from 188,061 in 1961 to 133,198 in 1970, while the number of spindles fell from 18,101,000 to 13,448,000 in the same period. The number of establishments came down to 509<sup>1</sup> from 578 during this period. In the weaving sector, employment fell from 286,315 to 197,353 between 1961 and 1970, when the number of looms was down from 367,730 to 217,986 and the number of establishments fell by 716, from 2,054 in 1961 to 1,338 in 1970. This shrinkage was attributable to the action taken by the governments of the member States, especially the specific adjustment measures taken by the Governments of the Netherlands, France and Italy.

In addition to these specific measures, cotton textile undertakings in all the member States could benefit from fiscal, financial or social aid under provisions that were either of a general character or were designed to promote the adjustment of less-favoured areas or the conversion of undertakings.

Important studies were taken in hand in the Community's institutions with a view to examining in detail the actual structure of the various textile industries in order to determine what measures could be contemplated at Community level. These measures were expected to speed up still further the rationalization and adjustment of the sector to new economic and technological conditions in a harmonious way and within the framework of the Common Market.

The problems of the EEC textile industry were thoroughly examined by the EEC Commission and certain policy measures were evolved to bring about structural adjustments in the industry. It was realized that, in the years to come, one of the conditions of maintaining or improving the competitive position of the Community would be technological progress as well as the exploitation of that progress. Technological progress was expected to maintain EEC's competitive position vis-à-vis industrialized countries and also to make up for the divergence currently existing in labour costs in relation to some less developed countries.

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<sup>1</sup>Provisional

The "Fonds Social Européen Renové" is expected to play an important rôle in facilitating the indispensable man-power conversions both within the textile sector and outside it. The Commission has tried to lay down certain criteria to be used by it in assessing national aid measures.

Apart from the developments outlined above which applied to the Community as a whole, measures have also been taken at the national level in the member countries of the Community. In 1967, the French Government set up a special renovation fund for the textile industry financed by a fiscal textile tax. The revenue from this tax is devoted to promoting research and structural reform in the textile industry. For the cotton sector, a Central Committee, with the approval of the Government, was set up in 1960 with a view to promoting the necessary adjustments by way of eliminating 1,200,000 spindles and 25,000 looms within ten years. It has assisted in the closing-down of several firms by providing compensation for obsolete machinery and assisting in the redeployment of redundant workers. In addition, it provides subsidies for the operating costs of a joint industrial centre for business studies on the textile and clothing industry. Its activities have been instrumental in encouraging and speeding up both research and the modernization of industrial and business structures in the textile industry. However, the production capacity of the textile industry is not sufficiently adapted to requirements and there is a need for further adjustments. With this end in view specific sectors of the textile industry are at present under study.

In Italy the Council of Ministers approved, at the end of March 1968, draft legislation providing facilities for the textile industry as a whole. The purpose of the draft legislation was to improve the competitive position and the profitability of textile mills while, at the same time, avoiding any increase in production capacity, which already produces a surplus.

The advantages expected of the legislation, once the Ministry of Industry and Commerce has approved the plan drawn up by the undertakings concerned, are briefly the following:

- medium-term credits at low rates of interest are granted for readjustments in the textile industry;
- in areas where the textile industry represents the main activity, tax and financial incentives are granted for mills changing over from textiles and turning to other activities and for non-textile undertakings setting up in the areas in question;
- programmes for the training and retraining of workers laid off by the textile industries.

Until 1967, the cotton industry in the Netherlands had been engaged in a very thorough-going rationalization scheme without any financial aid whatsoever from the Government. In that year, the difficulties in the cotton industry reached such proportions that the Government decided to grant the industry a State credit of f. 150 million to finance investment over the years 1968, 1969 and 1970.

The credits granted to the cotton industry have been designed to enable it to carry through an investment programme aimed at improving its competitive prospects. The main purpose of the credits is to finance investments in depth. Following an analysis of the viability of an undertaking applying for a credit, this may be granted by the National Investment Bank of the Netherlands, a banking institution in which the Netherlands Government has a major interest. The interest payable by the undertaking receiving the credit is no lower than the normal bank interest. The State guarantees the credits vis-à-vis the bank. This method of financing makes no provisions for compensation for scrapping obsolete equipment; and though the credits are granted by a bank in which the State has an interest, it cannot be said that this bank is an organization specially set up to assess and grant State-guaranteed credits, as this is a part of the functions of the bank in question.

A recent analysis of the structure of the cotton sector shows that it would not be possible for the industries themselves to put up the finance necessary to make the required adjustments. Thus, the Government has offered those viable industries the option of taking up loans up to 50 per cent of the capital invested under Government guarantee, maintaining, however, the normal bank rate of interest.

Training is carried out as a rule in textile schools, elementary or advanced, subsidized by the State. Apart from this, retraining is carried out by institutes (including the Netherlands Textile Institute) which may or may not work in collaboration with scientific research institutions in the technical, commercial and economic fields. The larger textile mills at times provide training and retraining courses which they organize themselves.

The main institution for scientific research in the Netherlands is the Netherlands Organization for Applied Scientific Research (TNO), a non-profit making body. As far as the textile industry is concerned, the "Fibre Institute" is the main branch of this organization. The TNO is subsidized by the State; it also receives voluntary contributions from industry and fees for the consultant services it carries out.

The Finnish Government did not consider it necessary to take any measures relating to adjustment in the cotton textile industry, despite increasing competition from imports. Recently, however, a Special Committee was set up by the Ministry of Trade and Industry to look into the adjustment problems of the textile industry. This Committee submitted a report in February 1971 in which certain recommendations were made to improve the competitiveness of the textile and clothing industries. These recommendations have not yet been translated into concrete measures.

In India the expansion of the spindleage and loomage capacity in the cotton textile industry is regulated by the Government and all proposals for installation of additional capacities require prior approval. In giving its approval, the Government is guided mainly by the estimated demand for cotton textiles in the country. In recent years, the expansion of the capacity has taken place almost entirely in the spinning sector.

The industry is being encouraged by the Government to adopt measures for rehabilitation and modernization in the following ways:

(a) For arriving at the net taxable income, the industry has been made eligible, from the financial year 1969-1970, for claiming investment allowance to the extent of 35 per cent of value of the new machinery, as against normal allowance of 20 per cent. This allowance was, however, to be reduced to 25 per cent from 1 April 1970.

(b) The Industrial Development Bank of India, has evolved a scheme for giving deferred payment facilities for the purpose of supply of indigenous textile machinery to the textile industry on deferred payment terms.

The Government has recently established the National Industrial Corporation to take over and run mills which are likely to close down due to losses or other reasons and which could be made economically viable. The stress here is on avoiding unemployment by closure of units in the textile industry, which is a highly labour-intensive industry in India.

In Japan, specific measures for facilitating adjustments in the cotton textile sector were adopted under two acts of 1964 and 1967. Under the Provisional Measures for adjustments of Textile Industry Equipment Act 1964, the installation of new spindles was prohibited for a five-year period beginning October 1964. The surplus capacity was to be mothballed in accordance with the procedures laid down and for every two mothballed spindles to be scrapped, permission was given to install one new spindle or to operate a mothballed one. The Act on Provisional Measures for Structural Reorganization of Specified Textile Industries 1967, provides for measures to carry out structural improvement of specified spinning industries (cotton, rayon filament and synthetic fibre spinning industry) and specified weaving industries (cotton, silk and rayon filament weaving industry). Since the end of May 1969, the knitting, dyeing and finishing industries have also been added to the list of industries subject to the structural improvement under the law.

The purpose of this law is to facilitate structural improvement through: (a) scrapping of excess capacity; (b) modernization of production equipment; and (c) attainment of the optimum scale of operation. In order to achieve these objectives, a Textile Industry Rationalization Agency has been set up with the capital contributed by the Government. This Agency, among other things, buys surplus spindles out of the fund collected from the industry and scraps them and gives assurances to financing organization for the repayment of debts on its own responsibility for the structural reform of the weaving industry.

Under this law, textile industries have carried out the following measures for their structural improvement.

A. The spinning industry

(a) Scrapping of surplus spindles:

Excess capacity totalling about 850,000 spindles was scrapped by the end of February 1969. Those scrapped spindles had first been bought by the Agency to be scrapped later. All funds necessary for the Agency to buy the surplus equipment were advanced by the State through private financial agencies, but those funds appropriated for this purpose are to be repaid to the Agency by the spinners concerned in seven instalments together with interests by the end of March 1972. (This means that the Agency only finances the spinners concerned for scrapping their surplus equipment.)

(b) Modernization of equipment:

Modernization of equipment in the specified spinning industry is being carried out by each firm on its own responsibility. Spinners who introduce improved machinery are allowed to make a depreciation at a special rate in the first year after the machinery has been installed. The development of modernization in the specified spinning industry has taken place in such a way that, whereas in 1966 the number of workers required to produce one bale (400 lb.) of cotton yarn of 20's, 30's, 40's (in terms of 20's equivalent) was 4.8, it was reduced to an estimated 2.7 workers in 1971. The number of spindles operating three shifts increased in the same period from 70,000 to an estimated 3,800,000.

(c) Attainment of the optimum scale of operation:

Efforts to attain the optimum scale of operation are made by each firm on its own judgment. Concentration of production and/or attainment, of optimum size of operation among medium or small size enterprises are encouraged. By October 1969, five groupings of small spinners had been formed, of which three groups consisting of thirteen firms with 310,000 spindles were set up in 1967 and the other two groups consisting of six firms with 100,000 spindles were formed in 1968.

B. The weaving industry

The weaving industry is one of the typical industries composed mostly of small and medium sized firms, and each type of product has its own local characteristics. Accordingly, measures for structural adjustment for weavers are to be carried out in each production area according to a plan suitable for its respective regional characteristics. Weavers in each production area form a co-operative, which draws up its own detailed plan to carry out measures for structural improvement and submits it to the Minister of International Trade and Industry for approval. Approval is given when such a plan is considered appropriate to the structural improvement of the specified weavers, and the Government renders various aids to these co-operatives. Measures for carrying out structural reform of specified weavers include: (i) modernization of equipment; (ii) disposal of surplus equipment; (iii) encouragement of merger of firms; (iv) smoothing of changes in trade.

(a) Modernization of equipment:

The target in the specified weaving industries for introduction of modern looms has been set at about 174,000 (of which about 109,000 looms are for cotton weavers) in total, during the five-year period of structural adjustment from 1967 through 1971. As the individual firms lack financial reserves due to their small size, Government assistance through the Agency's assurance of debt plays an important rôle in encouraging modernization of equipment.

(b) Scrapping of surplus capacity:

During the five-year period, 174,000 looms are to be scrapped by the weavers at their own cost, who introduce as many rationalized looms as substitutes for the old equipment. It is estimated that another 156,000 looms ought to be disposed of by the end of 1971. Out of the 156,000 the Agency buys and scraps 36,000 looms from those firms which want to abandon their weaving businesses. The necessary funds are shared equally by the industry and the Government. The remaining 120,000 surplus looms are scrapped by each co-operative on its own responsibility, in a given proportion to the looms which are newly installed. Funds needed to scrap looms are shared equally by the Government and the industry.

C. The dyeing and knitting industries

As mentioned above, the knitting as well as the dyeing and finishing industries embarked on structural reforms in the autumn of 1969. Measures contemplated were mainly for modernization of equipment, mergers of firms and improvement of trade transactions, and the Government was to support the self-help efforts of the industries for these purposes.

In 1968, the Government of Norway appointed a special commission to study the situation in the Norwegian textile industry and to put forward proposals for measures to strengthen the competitiveness of the industry. In its report, which was submitted in October 1969, the commission proposed that the authorities should implement certain measures to benefit the textile industry as a whole. These proposals related to measures to encourage mergers; financial and educational measures; research and development contracts with the and measures to encourage export of textile articles. In addition, the report contains certain proposals for adjustments, especially in the cotton industry. In this connexion, the commission recommended that an analysis of the cotton industry should be carried out. This analysis should be based on technical and economic studies of the participating companies and consideration of the structure of individual companies in relation to the structure of the other companies in the group. The study should elaborate on the possibilities for co-operation or mergers in the cotton industry with a view to finding ways and means of improving the economic situation of the industry and its competitiveness in the future.

Such a study was carried out by a foreign consultancy firm. The report contains concrete proposals for mergers with the purpose of obtaining a suitable range of products. It is implied that some production machinery has to be transferred, technical and economic reorganization has to some degree to be carried out and new capital has to be supplied. The commission is of the opinion that several advantages can be obtained by implementing the recommendation on mergers in the report. It is therefore recommended that the Ministry should take part in the negotiations and should act as a co-ordinator. The commission also recommended that the State should cover the expenses necessary for the assistance of consultants engaged for these structural adjustments.

A survey of what has actually been implemented of the recommendations of the commission will shortly be prepared by the Ministry of Industry.

In pursuance of Pakistan's industrial policy formulated after independence giving priority to industries based on indigenous raw material, the cotton textile and jute industry assumed prime importance. As it was, after World War II, the supply position of industrial machinery from foreign countries like Japan, Germany and the United Kingdom was not satisfactory. All that was available was based on the technological pattern developed up to the thirties. Notwithstanding this handicap, as much as 1,900,000 spindles and 30,000 looms were imported and put into operation by the year 1960.

By the year 1960, great technical development had ushered in textile technology and latest machines incorporating the new development were made available. By this time, the Pakistani textile industry had entered into the export market which required quality and low production costs. This was not possible on the machines of old designs. Naturally, recourse had to be taken to install latest machines and also modernize the old ones.

The Government had been alive to this situation and fully approved the requirements of the cotton textile industry. It was with this end in view that, while preparing investment schedule for new industries, the Government reserved a certain percentage of the investment, both in foreign and local currency, to be used for balancing, modernization and replacement of the textile industry. There is no scheme to allow compensation for scrapping of the obsolete equipment.

Against these provisions, both foreign exchange and local currency loans are advanced by the Industrial Development Bank of Pakistan and the Pakistan Industrial Credit and Investment Corporation specially set up for the purpose. Apart from this, the National Investment Trust and Investment Corporation of Pakistan also established under Government legislation, help finance the local currency requirements by way of underwriting and investment in shares of joint stock companies. Simultaneous with this financing scheme, renovation and modernization is also permitted against bonus vouchers. There is no provision for concessional interest rate. Loans, of course, are provided on a long-term basis by various financing institutions.

There are institutions such as the Pakistan Industrial Technical Assistance Centre, polytechnics and the technical colleges and schools which impart training to the supervisory and managerial staff. The labour force is, however, trained by the industry within their mills during the course of their employment. There also exist institutions which carry out research activities for increasing productivity. Some of them are: (i) Pakistan Council of Scientific Industrial Research; (ii) Central Testing Laboratories; (iii) The Pakistan Industrial Technical Assistance Centre; and (iv) The Pakistan Central Cotton Committee.

In Portugal, with a view to facilitating fuller utilization of existing capacity, the Government grants certain tax benefits to undertakings which manufacture cotton textile goods and which result from a merger with other undertakings or which incorporate such other undertakings. These benefits are: (i) a reduction of 4 per cent on the tax on cash transfers resulting from a merger or incorporation; (ii) exemption from industrial tax for a five-year period; (iii) authorization to accelerate replacements and the writing-off of plant; (iv) exemption from tax on profits resulting from mergers or incorporations; (v) exemption from surtax and reduction by one half in the rate of capital tax, during a five-year period from the date of issue, on the interest on bonds issued during the two years following the date of a merger or incorporation.

In order to facilitate the acquisition of raw materials by cotton textile manufacturers, the Export Supplies and Development Fund has been authorized to endorse letters of exchange accepted by manufacturers. Authorization has also been given for the conversion, under certain circumstances, of short-term debts contracted by manufacturers with the Commercial Bank for the renewal of their machinery, into medium and long-term credits.

In view of the fact that the cotton textile industry is export oriented, it is essential to create conditions making it possible for it to compete in international markets. The Government is, therefore, following closely the development of the situation with a view to adopting any measures which may be required.

In the Republic of Korea, a substantial increase in productive capacity has taken place, mostly in the spinning sector which increased its spindles from 469,648 in 1960 to 759,512 in 1968. Production and exports of cotton textiles have accordingly increased during the period and both in spinning and weaving sectors production facilities have partly been modernized by discarding some of the obsolete equipment in the large-scale enterprises. All this has been due to the strenuous efforts made by the industry itself, backed by the Government, in response to the rising domestic and export requirements for cotton textiles since 1960.

The need to increase exports of cotton textiles is particularly strong in view of the industry's entire dependence on foreign sources for its raw materials and the foreign exchange necessary for imports of raw cotton is earned through exports of cotton textiles. Furthermore, due to the shortage of foreign exchange investment in new facilities, modernization and expansion of the existing plants to a rationally large scale hinge on the industry's export performance and future export prospects.

There is no surplus capacity at the present stage in view of the current situation of supply and demand of cotton textiles. Nearly a full utilization has been made of the presently installed facilities. As a matter of fact, it is felt necessary to further modernize and re-equip the existing machinery and to enlarge those small and medium sized enterprises to larger scales so as to raise their low productivity through rationalization of operations. Despite some progress made in modernization and growth in capacity, much of the installed facilities remain obsolete and worn out, resulting in considerably low efficiency in production and inferior international competitiveness.

In the process of expanding the cotton textile industry in a relatively short period since 1960, the Government has occasionally rendered some assistance, mainly in the form of foreign exchange loans, to the industry for its modernization and expansion in capacity. Owing to the limited foreign exchange resources and limited private capital however, the Government has enforced, particularly since 1963 "Criteria for approval of importation of textile facilities" whereby excessive installation of new equipment has been avoided and priority has been accorded to the facilities which are designed for producing goods for exports rather than for the domestic market. In general, new investment has been required to be made to the extent necessary for rationalization of mills and export promotion. Parallel with these developments, import substitution has taken place in the man-made fibre sector. A number of man-made fibre mills have been set up. These units, however, remain uneconomic due to their relatively small size and lack of raw materials from domestic sources. Under these circumstances, production of cotton textiles is expected to maintain its upward trend even though the industry is experiencing growing competition from the man-made fibre industry.

In 1967/68, the cotton textile industry in Spain had submitted a plan for its reorganization to the Government which the latter had approved by the Decree of July 1969. The objective of this plan was to secure an equilibrium between supply and demand, to reduce the number of units of production, improve productivity and stimulate concentration. The plan, which was optional for all firms, provided for the scrapping of 8,800 looms and 300,000 spindles and the elimination of 13,000 jobs. It prohibited the installation of new plants or the development of existing production facilities. The Government and the remaining firms would finance the loss of those firms which closed down. The plan was mainly concerned with the social aspects such as, among others, the re-location of workers. It was, however, the obligation of the remaining firms to employ as many as possible of the workers becoming redundant as a result of the restructuring of the industry.

By order of 29 October 1969, undertakings wishing to benefit under the plan were invited to submit applications by 31 January 1970. About eighty enterprises expressed an interest, 83 per cent of which were in the weaving sector. A second period has already been opened for further application.

In Sweden, the domestic cotton textile industry has been subject to adjustments, mergers and closures. International competition, as a result of Sweden's liberal trade policy, had encouraged the industry to make such structural adjustments. In the 1960's the number of units declined considerably; further closures were expected. Between 1960 and 1968, the number of spindles and looms decreased by about 55 per cent and likewise production of cotton yarn went down by about 45 per cent. The number of employees had followed the same course. The process of contraction continued in the following years. The cotton textile industry in Sweden has been mainly concentrated in one single area where almost all inhabitants are directly or indirectly dependent on textile production. The closing down of numerous textile firms and mills in the last few years has created severe problems in these areas. As a result, special measures such as the use of investment reserve funds and governmental location support have been adopted to diversify employment opportunities in these areas. In 1968, a national investment bank was established to facilitate the setting-up of all such investment projects which aimed at rationalization, structural adjustments and development.

In the same year, an ad hoc commission was set up to study the difficulties encountered by the textile and clothing industries. After a careful study of the problem, the Commission put forward certain proposals. In 1970 and 1971, the Government adopted, on the basis of these proposals, measures for conversion and company development, support for research and training and action in connexion with labour and regional policy. The measures for conversion and company development are intended to stimulate exports. The export support is given in the form of financial grants to cover certain threshold expenses or loan guarantees to facilitate financing of the capital requirements for export activities. With a view to accelerating the structural rationalization of the industry, priority has to be given in applying these measures to viable enterprises and to those projects which have the effect of promoting fusion. From the fiscal year 1971-1972, these measures have been supplemented by a special conversion support in accordance with which Government grants can be made available for the purpose of studying the problems concerning organizational matters, specialization and co-operation in the textile and clothing industries. Credit guarantees are given for investment in capital assets in the form of business acquisitions, for projects resulting from the Government supported investigations by consultants. The State Investment Bank has supplied credit to facilitate conversions within the textile and clothing industries. In certain situations, investment funds can also be used for support purposes which are, however, meant for equalizing market fluctuations. In pursuance of the regional policy of the Government, these funds can be used for support of companies affected by regional closure of firms.

The Board of Technical Development (STU), through the Chalmers Institute of Technology, conducts special research in the processes of technology and product development. It also provides special support for research to the textile and clothing industries, within the limits of the funds available.

Under the direction of the National Institute for Business Development (SIFU), a four-year educational programme, in collaboration with the Swedish Associations of Textile Industries and Clothing Manufacturers, has been initiated. This programme is an addition to the extensive training which was already being provided by the industry itself. The programme is geared to fields like company management and finance, marketing, production, personnel administration and questions of co-operation.

With a view to alleviating the difficulties of displaced labour and diversifying employment opportunities, the Government has followed a programme of retraining of man-power in certain areas. A special contact group for the textile and clothing industries has been attached to the Board for dealing with the employment problems of this industry. The labour market policy prescribes rules in connexion with advance notice of restrictions and cessation of operations, labour market training, allowances for moving expenses to facilitate geographical transference of labour and industrial emergency relief work.

In Taiwan there are no schemes for scrapping obsolete equipment. However, there are provisions that the cotton textile industry must be equipped with new and up-to-date machinery. It is planned to train 5,000 workers and retrain 1,500 workers per year over a period of five years. Working conditions of cotton textile mills are being improved and wages increased. There are no production and trade subsidies nor any institution to provide finance facilities to the cotton textile industry.

In Turkey the textile industry, encouraged by the Government, is expanding at a rapid pace. Certain specific measures to help modernization, re-equipment and rationalization of the textile and apparel industries have been taken which consist of granting investment allowances on a selective basis to mills which are set up with the prior approval of the Government; facility of payment of the customs duties over a period of five years at low interest rates; exemption from the payment of duties on imports of machinery for new plants with a minimum capacity of 25,000 spindles in the East and 50,000 in the West; and availability of adequate credit facilities.

Towards the close of 1958, the United Kingdom Government decided to introduce measures to rationalize the domestic cotton textile industry. The measures taken were embodied in the Cotton Industry Act 1959, and under the schemes for dealing with excess capacity, the United Kingdom Government agreed to pay two thirds of the compensation for scrapping obsolete equipment (the remaining third to be paid by firms which remained in the industry). The Government also paid grants of up to 25 per cent of the cost of re-equipment with new or modernized machinery. In all, the Government's contribution between 1959 and 1966 (when the provisions of the Act expired) was approximately £25 million. An innovation of the Act was the requirement that provision be made for the compensation of employees who lost their jobs as a result of scrapping or, indeed, as a result of re-equipment. These payments were financed entirely by levies on firms in the relevant section of the industry. In June 1970, a new scheme was announced under which financial assistance was to be provided to small and medium sized companies in the cotton and allied textile industries to carry out overall modernization and re-equipment projects. Finance was made available by the now defunct Industrial Reorganization Corporation only for those projects costing more than £100,000. The date for submission of such projects was fixed until June 1971.

The Cotton and Allied Textiles Industrial Training Board (ITB) (one of the six textile ITB's - the others are for wool, jute and flax; carpets; knitting and lace; man-made fibres production; and the Northern Ireland Textile ITB) was set up in 1966 and includes in its scope some 8,000 establishments employing about 250,000 workers. A levy is imposed on all employers and, from the funds thus

raised, grants are made available to those firms whose training measures are approved by the Board. The Textile Council's Productivity Centre also runs a wide range of training courses.

Research and other measures for increasing productivity are the province of the Cotton, Silk and Man-Made Fibre Research Association (still known as the Shirley Institute). The Association was set up in 1961 by the merger of the British Rayon Research Association and the British Cotton Industry Research Association. The Shirley Institute is not, of course, the only research association for the textile industry but it is one of the big three, the other two being the Hosiery and Allied Textile Research Association and the Wool Industry Research Association.

In 1966, the Government asked the Textile Council to suggest ways and means of improving the productivity and efficiency of the industry. In their report, submitted in 1969, the Textile Council made certain recommendations both to the industry and the Government. The recommendation made to industry was that a new investment in plant and machinery, to the extent of £100 million-£150 million, would be necessary by 1975 to make the industry more competitive. It would also have to operate on a 168-hour multi-shift basis. The Government was asked to help in the restructuring of the industry by extending financial assistance and by adopting a protective régime. In regard to the first recommendation, the Government refused to provide financial help for investment purposes but was willing to help in the restructuring of the industry. In this connexion, the Government has appointed two consultants to advise on the best methods of effecting amalgamations that could lead to greater efficiency. The Government has taken certain steps to ensure that there will be no amalgamation between the large firms in the Lancashire industry for a period of time during which smaller firms will have the opportunity to form themselves into the nuclei of more efficient productive units than hitherto. In regard to the second recommendation, the Government agreed to introduce a tariff on imports from the Commonwealth countries, instead of quotas, as from 1 January 1972, on the grounds that it was the normal means of protection for industries under the GATT. The United Kingdom Government has satisfied itself that investment will be more readily forthcoming if a tariff is introduced when the quotas will disappear at the end of 1971. Despite the new investment, the industry will continue to decline in size. It is expected that employment in the industry will have gone down by a further 40 per cent by 1975. The number of firms in the industry will have diminished by two thirds by that date, and the number of mills by a half.

The only adjustment measure effected by the United States Government in the cotton textile industry was the one-price cotton policy. For several years prior to 1964, United States Government programmes to support the price of domestically grown cotton resulted in domestic producers having to pay substantially higher prices for raw cotton than those paid by foreign purchasers. In April 1964, Congress adopted legislation whereby domestic mills could obtain United States cotton at the same prices as those paid by foreign purchasers. The price equalization policy that began with the two-year programme enacted in 1964 was extended by subsequent legislation in 1965 and again in 1968.

In 1961, the United States Government adopted a programme of assistance to the domestic textile and apparel industries. The programme's objective was to strengthen the domestic textile industry (which had been depressed for a decade) by restoring confidence in the industry and by encouraging firms to improve the efficiency of their operations. This programme, plus other more general measures to encourage economic growth and improve man-power utilization, has helped the cotton textile industry in its efforts to adjust to changing conditions.

In 1961, the schedules used in calculating depreciation on textile machinery for income tax purposes were revised. Before this revision, depreciation on textile finishing equipment was based on a useful life of fifteen to forty years. These were reduced to twelve years on finishing equipment and fifteen years on other types of textile machinery. In addition to allowing a faster write-off on textile machinery, the Government adopted a system of tax credits that allows a firm a credit of up to 7 per cent of its Federal income tax for money invested in production machinery or buildings to house such machinery. This credit was suspended temporarily in October 1966, but was reinstated as of 10 March 1967. On 21 April 1969, the President recommended the repeal of the investment tax credit.

The cotton textile industry has also benefited from some Government research programmes. One is the Department of Agriculture's plant breeding programme to improve the quality of cotton fibres. The Department also conducts research to identify and promote improved cotton ginning practices. In addition, the Department of Agriculture is conducting research aimed at developing cotton fabrics with improved durable press characteristics.

The United States Government contributed \$1.6 million over a five-year period to a co-operative research programme with the textile and apparel industries. This programme had the dual goal of identifying areas in which research was most needed and of encouraging textile and apparel firms to increase their own research and development efforts. The Government is not contributing any financial assistance to this project at the present time.

Under the Trade Expansion Act 1962, the Government also adopted a programme of financial assistance to both companies and workers injured by imports engendered by tariff concessions. This assistance is applicable to all industries and workers. However, due to the stringent criteria set forth in the law, no firms or workers have so far qualified for assistance.

In view of the fact that the textile and apparel industries in the United States had experienced a growing trend of horizontal, vertical and conglomerate mergers prior to 1968, the Federal Trade Commission evolved guide lines for future mergers. These guide lines preclude certain forms of industry merger activity by the largest 5-10 firms in the textile mill industry and large acquisitions by large "outside" conglomerate firms.

## II. GENERAL ADJUSTMENT ASSISTANCE MEASURES

In Australia, taxation laws provide for an investment allowance in the form of a deduction from taxable income of a sum equal to 20 per cent of the cost of new plant and equipment. This allowance, which is additional to normal depreciation allowance, applies to all Australian manufacturing industries only in the first year of use of new plant and equipment. The Australian cotton textile industry supplies only about 20 per cent of Australia's requirements. Production is concentrated principally on the heavier types of fabric, and household textiles. Further, Australia maintains no import restrictions inconsistent with the GATT; even those which are imposed under Article XIX apply only to a small range of knitted goods. In these circumstances there is little scope for any adjustment measures in the industry and there are no special measures to facilitate adjustment.

In Austria, the Government has not taken any special measures to facilitate adjustments in the domestic cotton textiles industry, despite the fact that since 1969 the number of spindles and looms has dropped from 443,980 and 7,102 to 426,136 and 6,592 respectively. The measures so far taken are applicable to industry in general. To facilitate investment and structural adjustments, and to promote economic development, the Federal Acts listed below contain inter alia the following provisions: accelerated depreciation allowances, creation of investment reserves, tax advantages for non-distributed profits, corporation tax relief, conversion of resources into share capital, improvement of the economic structure, promotion of development and modernization investments and promotion of research.

(a) The Federal Income Tax Act 1967 provides for accelerated depreciation allowances and tax-free reserves.

(b) Under the Corporation Tax Act 1966, the corporation tax is reduced by 50 per cent of the amount due provided the stock corporations which are wholly subject to taxation distribute their profits as prescribed by Law.

(c) Under the Conversion of Resources into Share Capital Act of 6 July 1966, the purchase of new shares (for increasing the nominal capital) by a partner is not subject to income or revenue taxation.

(d) Under the Promotion of the Financing of Development and Modernization Investments Act of 23 January 1969, guarantees are provided in co-operation with the Development and Modernization Fund Limited Liability Company for credit means for adjustments, conversions and relocations of industrial or research enterprises. In addition to the above-mentioned credit guarantee, an Austrian Investment-Credit Joint Stock Company has been established for meeting the credit requirements of large scale industry. Priority is given to credits for conversions of production, for reinvestments and for the mergers of enterprises.

- (e) The Federal Structural Improvement Act of 23 January 1969, provides temporary tax relief in order to facilitate the adjustment of the Austrian economy and the establishment of efficient enterprises and plants.
- (f) Under the Federal Research Promotion Act 1967, a "Research Promotion Fund for Trade and Industry" has been established for the promotion of research in the field of trade and industry. Besides, the Austrian budget provides for a certain amount of technical research.
- (g) The Fifth Amendment of the Trust Act 1959, provides inter alia for procedures to facilitate the co-operation of enterprises.
- (h) The Labour Market Development Act, which came into force on 1 January 1969, provides inter alia for subsidies aimed at improving labour mobility.
- (i) The Federal Act on Improvement of Economic Structure and Trade 1969, has been enacted to provide for financial means of promotion at the rate of 3 per cent of the income of the Federal Trade tax ("Bundsgeweresteuer"). These means should give to small and medium-sized industries and handicraft enterprises the incentive and the possibility to improve the structure of enterprises, especially in the case of changeover, of rationalizations or of fusion of enterprises by taking up credits, for which the "Burgsgesellschaft m.b.H." can grant interest allowances. This Act has been amended in 1970, so as to extend the scope to other enterprises and the duration of the Act until 31 December 1973.
- (j) According to the Federal Act for promotion of measures to improve the property-structure of farms, a Property Structure Fund with its own legal personality has been established in 1969 in the Federal Ministry of Agriculture and Forestry. This Federal Act provides for granting of functional subventions to settlers as well as for giving a letter of indemnity for loans and credits. In 1970, for the first time the Fund received Federal assistance.

Within the framework of the policy of the Austrian Government to promote the growth of the national economy and to improve the economic structure, various additional measures are contemplated to remove barriers which hamper adjustment of the economy to the changed market situation. In pursuance of this, the Federal Act on Improvement of Economic Structure and Trade which was enacted in 1969 was amended in 1970 to continue until December 1973. A holding company is also contemplated to be set up to facilitate investments. This company will acquire holdings of promising enterprises with an unfavourable structure of capital. After reorganization of such enterprises, the holdings will be disposed off. A consortium of banks is expected to meet the credit requirements of bigger projects. The Government is likely to remove transfer taxes and fees on contracts relating to joint credits.

Additional measures to provide incentives for large-scale enterprises are contemplated in co-operation with the provincial governments.

The measures taken so far are applicable to industry in general. Specific measures for the textile industry could not be undertaken mainly for budgetary reasons and for reasons of internal policy which is not sectorally oriented. In view of the fact that textile firms are mostly family owned having their own characteristics, the process of mergers which is the precondition for tax advantages under the Federal Act concerning the improvement of economic structure is hampered.

The Belgian Government has not taken any special measures since 1960 to facilitate adjustments in the cotton textiles industry.

Legislative measures relating to adjustments are applicable to the industry in general, but are likely to benefit the textile industry also.

It should be pointed out that Belgian industrial policy has hardly ever been sectorially slanted. Most measures taken were intended to pursue general objectives (expansion of the economy and employment) and the methods used were limited to economic incentives without any direct intervention in business management.

Since 1953, a number of laws have been passed to foster productive industrial investments. In 1959, special legislation was passed to produce a better geographical distribution of such investments so that the special problems of certain regions undergoing industrial conversion or less favoured otherwise, could be more effectively tackled.

Thus, there is no specific assistance in favour of the cotton sector or the textile industry as a whole.

Among assistance measures for the conversion of individual undertakings, industrial sectors or the economy as a whole, mention should first be made of the laws on aid to investments; those of 17 and 18 July 1959 (assistance for the establishment of new industries, aid to regions undergoing economic and social difficulties) and the temporary law of 14 July 1966 for the benefit of certain regions in difficulties. These provide reduced interest rates; State guarantees for certain credits; capital subsidies; ten years' exemption from anticipatory levy on immovable property; interest-free advances for the perfecting of prototypes, and expropriation of land for industrial plants.

All these forms of aid may be granted on productive industrial investment, in particular on conversion investments, for example, to firms wishing to drop certain production lines in order to manufacture articles with greater or better quality finish or products for which demand is rapidly expanding. The reason for conversion may be a shrinking market, a labour shortage, or increased international competition, due among other things, to growing import volumes from developing countries.

All sectors of the textile industry can, on request, be granted subject to certain conditions, State aid in the form of subsidies for the payment of interest on credits obtained from private financing institutions or in the form of guarantees for credits obtained, but only within the general framework of the legislation for the development of industry as a whole, as mentioned above.

Mention should also be made of fiscal incentives to speed up depreciation schedules, especially in the research field or where mergers are envisaged, since these often imply conversion. These accelerated depreciation allowances or tax advantages can also be obtained on request, subject to certain conditions, by all sectors of the textile industry. There are no production and trade subsidies paid to Belgian manufacturers.

The National Investment Corporation, created under the Law of 2 April 1962, is authorized to take up for the State shares in the capital of new or expanding industrial undertakings. Conversion needs may be taken into account in the Corporation's decisions. Hence, it is not regarded as an institution set up to aid specific industries.

The National Employment Board offers aid for vocational training and rehabilitation (Royal Decrees of 20 and 24 March 1961). Training assistance is available for staff recruited with a view to industrial conversion, and rehabilitation aid comprises contributions to the remuneration of workers affected by the reconversion of their place of employment. In certain cases, the Board grants removal allowances, travel allowances and re-installation allowances.

Aid to new undertakings is also granted by the public authorities (State, provincial, communal, intercommunal organizations) which make available industrial sites either belonging to or expropriated by them. General measures to aid individual regions, such as infrastructure projects, collective equipment, creation of industrial zones, are also worthwhile mentioning, because conversion at the regional level is intimately connected with conversion at the sector level. Indeed, regional development difficulties stem from the fact that the regions are all too often dependent on economic sectors that are in difficulty (agriculture, coal-mining, textiles, rolling stock, etc.) and in order to boost the economy in these regions, the public authorities are obliged to promote their economic conversion. . In this way, the measures mentioned above can be used by the State to promote such conversion.

There is no Government research institution for the textile industry. A private body - "The Scientific and Technical Centre for the Textile Industry" (Centexbel) - may occasionally receive subsidies from the State.

In Canada the following measures are applicable to industry generally, in addition to the specific measures adopted by the Government in 1970 to help the textile and clothing industry.

Areas of slow economic growth: the Federal Government makes available cash grants or credits against income tax liabilities to new or expanded manufacturing or processing enterprises located in designated areas of slow economic growth or chronic unemployment. The Province of Quebec has established two schemes under which grants and/or tax credits are available to new or established industries meeting certain criteria. The Province of Ontario has recently inaugurated a programme of interest-free loans with non-repayable clauses to foster industrial expansion or upgrading in designated areas of the province.

All areas: the Federal Government operates a General Adjustment Assistance Programme (GAAP) providing insured loans to assist manufacturers to restructure their operations to meet increased import competition or to take advantage of export opportunities resulting from Kennedy Round tariff changes. To be eligible for insured loans, firms must, as a first step, establish that they have been either seriously injured or threatened with serious injury as a result of the Kennedy Round tariff reductions. The assistance provided must also take the form of technical and professional advice; the Government sharing up to 50 per cent of the total cost.

There are no provincial or Federal production and trade subsidies paid to Canadian secondary manufacturers.

There have been no measures specifically related to the cotton industry for diversifying employment opportunities. In areas where the existence of a cotton mill coincides with the Federal "designated" area programmes there has been some diversification because of the entry of new industry.

Training and retraining programmes in industry have been in effect since 1965. The implementation of these programmes was governed by Federal-Provincial technical and vocational training assistance agreements until 1 April 1967, and after that date was governed by the Canada Adult Occupational Training Act. The programmes assist manufacturers in the retraining and upgrading of their employees, with the Federal Government paying all direct costs and reimbursing a certain part of the wages of the trainees. Technical assistance related to training and curriculum development is usually provided by Provincial Departments of Labour and/or Education. The Federal Government again reimburses Provincial Governments for the cost of such support.

The Federal Government administers several programmes designed to assist industry to maintain its productive and technological position:

(i) Programme for the Advancement of Industrial Technology (PAIT)

This is a shared risk programme in which the Government loans qualifying companies up to one half of the cost of a successful research and development project. The Government waives the share it has invested in any such project should it fail or be found not to be commercially feasible.

(ii) Industrial Research and Development Incentives Programme (IRDIA)

In addition to normal deductions from income tax allowed by the Government for specified research and development work, the IRDIA Programme provides for additional allowances in the form of cash grants, up to 25 per cent of all capital expenditures for research and development plus 25 per cent of the increase in current expenditures for this purpose over the preceding five years.

(iii) Industrial Research Assistance Programme (IRAP)

This programme which is administered by the National Research Council is aimed at promoting the establishment of new industrial research activities and the expansion for existing ones by sharing through grants the cost of qualifying projects.

(iv) The National Research Council, the Ontario Research Foundation and some universities are equipped to assist on an ad hoc basis certain Canadian textile companies with certain research and development projects. In addition the Federal Government administers a shared cost Defence Industrial Research Programme (DIRP) for the purpose of stimulating and strengthening research capabilities of Canadian industry in the critical areas of defence technology.

The Manpower Adjustment Programme is an integral part of a Government programme for the development and utilization of manpower. Its purpose is to facilitate joint labour and management research and planning to accommodate internal manpower adjustment required by technological and other change. The Manpower Consultative Service administers the programmes and its financial incentives to encourage the establishment of joint private adjustment programmes, co-ordinates public adjustment manpower programmes to supplement the private plans, and provides technical advice concerning internal manpower and adjustment processes.

In Denmark, no special measures have been taken for adjustment in the cotton textile industry. The industry is, however, eligible for assistance otherwise available to all industries. The Government provides loans for the purposes of modernization and rationalization of handicraft and smaller industrial enterprises. In addition, finance facilities are given as part of regional development measures. Financial assistance in the form of State guarantees for loans is given for the purpose of assisting enterprises which need reconditioning due to changed market conditions, or to make possible the establishment of desirable production which is of a particularly risky character. Guarantees are also given as part of regional development measures.

Denmark has a special retraining system for unskilled workers. In pursuance of an Act of 17 May 1960, on Vocational Training of Unskilled Workers, sector committees have been set up in most sectors of industry, including the textile industry, consisting of representatives of employers' and workers' organizations. These committees examine the individual sector's needs for training and prepare sector plans for courses. These courses are approved by the Central Training Council in the Ministry of Labour.

In the Federal Republic of Germany no special governmental subsidies have been granted to the cotton industry until recently. Since 1958 the firms in this branch of industry could, however, avail themselves - just as any other undertakings - of specific credit facilities within the framework of the Programme for Reorganizational Purposes (ERP) in order to adjust themselves to international competition, and in connexion with specific measures for regional promotion in Federal areas of development, and in areas adjoining the zonal border. In addition, some Laender have made available loans at lower interest rates and loan guarantees for rationalization of projects; these credit facilities, however, were not limited to cotton textile firms.

A Board for Rationalization of the German Economy (RKW) has been formed by trade unions, science and technology, interested enterprises and public authorities to promote schemes of rationalization. With the Federal Government and the Laender participation, about DM 20 million is being spent every year through RKW on schemes of rationalization and technical progress.

The Federal Government has also provided tax privileges in the form of depreciation allowances and grants to the industry. Tax relief is given on profits in cases of conversions of enterprises into bigger units, and this relief also applies in respect of land and buildings.

Special measures have been adopted to secure and improve the mobility of labour and to mitigate the effects of unemployment resulting from technological development on structural changes.

A bill has been submitted to Parliament under which tax privileges will be given in cases of a change in the legal form of an enterprise. This bill, which is not specifically for the textile industry, would permit cotton textile firms also to change their legal form into that of a registered corporation which, in turn, would facilitate their access to the capital market.

In France, the essential elements of adjustment assistance consist of financial and tax incentives and the adaptation of workers' skills to structural change. Under an Act of 21 May 1964, a premium is given to encourage the creation of new activities in areas which are faced or threatened with employment problems. The rate of the premium is determined according to the merits of the project, subject to a ceiling of 25 per cent of the untaxed investment expenditure. Special regional corporations have been set up to provide equity capital in underdeveloped regions. Certain specialized agencies have been created to facilitate the reconversion of the industry and training of workers. Apart from these general measures, certain specific measures of adjustment assistance have been adopted for the textile industry, which are discussed separately in detail.

In Italy there is no general legislation for the express purpose of assisting adjustment programmes, except for restoring regional imbalance. Special measures have been taken to initiate economic activity in less developed areas as well as training of workers. Within the framework of adjustment assistance, the textile sector has received special attention from the Government. Certain specific measures have been reported as having been adopted for meeting the adjustment needs of this sector. These are discussed under specific measures.

The Government of Norway did not specifically take any measures to facilitate adjustments in the cotton textile industry between 1960 and 1968. The national assistance schemes applied generally to both industry and labour facing readjustment difficulties. At the national level the following two measures were designed to provide assistance to industries.

1. Assistance to structural readjustments in the home industries

The fiscal budget provides for direct assistance to joint measures covering an entire industry or groups of firms in co-operation to assist the adjustment of the domestic industries to new market patterns.

2. Industrial Development Fund

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

In order to secure equilibrium and facilitate adjustment on the labour market, the State Labour Agency applies a number of economic measures to further the mobility of manpower. Assistance may be granted to workers who are without suitable employment (or expected to be so in the near future) and who take work found for them through the services of the labour agencies at a place where it is considered that there is need for the manpower. Various forms of such economic assistance are available, among which is a scheme for extraordinary vocational training for adults, which 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.

A special commission was appointed by the Government to look into the adjustment requirements of the textiles sector. This has been discussed under specific measures.

In Portugal no specific measures exist in connexion with the use of modernization of equipment except that, under certain circumstances, short-term debts incurred by manufacturers for new machinery are authorized to be converted into medium and long-term debts with the commercial banks. Under a decree of 20 December 1967, industrial enterprises, including the textile sector, have been allowed an accelerated replacement and writing off of plant up to the limit of the percentages laid down in the notes annexed to Decree of 12 February 1966, plus 50 per cent. In order to further encourage fuller utilization of capacity, certain tax concessions are given. A reduction of 4 per cent in the tax on cash transfers resulting from mergers; exemption from industrial tax for a period of five years; exemption from profits tax on profits resulting from mergers and exemption from surtax and reduction by one half in the rate of capital tax, during a five-year period from the date of issue, on the interest on bonds issued during the two years following the date of a merger or incorporation.

In Sweden, the adjustment measures have mainly taken the form of conversion and company development, support for research and training, labour market and regional policies. The scope of these measures has recently been extended to the textile sector also, and is discussed under specific measures.

In the United Kingdom, specific measures have been adopted by the Government to modernize and to rationalize the domestic textile industry. These measures are discussed under specific measures. There are a number of general programmes also, which are aimed at stimulating industrial development and diversifying the economies of certain development areas. The regional policy is designed to even out the pressure of demand for labour throughout the country and to diversify economic activity in areas which are heavily dependent on the country's older and declining industries. The Government provides building grants, grants and loans towards initial expenditure incurred in setting up in a development area; funds for the erection of factory buildings for sale or rent; a higher rate of investment grant towards expenditure on new plant or machinery; payment of a regional employment premium at a weekly rate in respect of each employee engaged in manufacturing industry and grants to local authorities for the clearance of derelict land.

The United States provides a number of facilities to assist in the structural adjustment of industries. These facilities include fiscal concessions, special manpower programmes and subsistence allowances for unemployed workers. Under the Trade Expansion Act 1962, the United States adopted a programme of financial assistance for both workers and companies injured by imports engendered by tariff concessions. The specific measures adopted to help the textile industry are discussed in more detail separately. Some of the general adjustment measures available for all industrial sectors are discussed in the following paragraphs.

The Small Business Administration and the Economic Development Administration are Government Agencies established to provide financial assistance to eligible firms that are unable to obtain funds from regular financial institutions. The Small Business Administration limits its assistance to small firms (a manufacturing firm is generally not eligible for a loan if it employs more than 250), that cannot obtain funds from a regular financial institution at a reasonable rate. Assistance may be in the form of a direct loan or of a guarantee that a loan made by a commercial lending agency will be repaid.

The Economic Development Administration (EDA) was established to assist in promoting economic health in areas with high unemployment and low family incomes. The Agency's loans to business firms are restricted to companies that plan to build new plants or enlarge existing ones in EDA-designated areas, but who are unable to secure needed financing from commercial lending agencies..

Interest rates charged by the Small Business Administration and the Economic Development Administration vary according to circumstances but are usually somewhat lower than rates charged by commercial lending agencies.

The Government's manpower programme is designed to train people who lack the skills needed to find employment and to retrain workers whose present skills are not matched by employment opportunities. The Government supplies funds both for the training programmes and as subsistence allowances for the trainees. Although the primary goal of this programme is to assist workers to attain the skills needed to obtain employment, the programme has proved beneficial to industry by upgrading the skills of the work force. The apparel industry is largely excluded from the benefits of this programme since manpower funds are not available for training sewing machine operators.

There are no Government programmes designed specifically to diversify employment opportunities in areas in which cotton textile mills provide a large proportion of total employment. However, some mills that are located in areas in which the Economic Development Administration is working to increase economic growth are affected by EDA's programmes to increase industrial activity in these areas.

### III. ADJUSTMENT MEASURES TAKEN BY INDUSTRY

The Austrian cotton textile industry itself has always made and is still making special efforts to remove obsolete equipment. For the largest part this removal has been effected by the shutting down of enterprises. In this way the number of enterprises of the cotton textile industry had been reduced from 123 in 1960 to eighty-seven in 1968 or by 29 per cent. In the same period the number of spindles declined from 592,462 to 443,980 or by 25 per cent, the number of looms from 11,926 to 7,102 or by 41 per cent, and the number of employees from 23,919 to 16,864 or by 29 per cent. This reduction was also evidenced by the production index relating to the Austrian cotton textile industry. Taking all processed textile fibres into account the production index declined from 105.1 in 1960 to 89.4 in 1968 (1956 = 100). Since 1968 there has been a further reduction in the number of looms and spindles. The number of looms fell from 7,102 in 1968 to 6,274 in 1971, while the number of spindles receded from 443,980 to 412,028 during the same period. The number of firms fell by three to sixty-seven in 1971, while the number of mills decreased by 17 per cent, i.e. from eighty-seven in 1968 to seventy-two in 1971. This contraction of the Austrian cotton textile industry, which has not yet come to an end, relates mainly to enterprises producing grey fabrics and simple fabrics of the kind produced in the developing countries.

In Belgium the spinning sector of the cotton textile industry has taken certain adjustment measures. Between 1935 and 1967 (with an interruption during the war years), Belgian spinners representing more or less 90 per cent of the industry voluntarily signed a convention under which the installation of new spindles was to be effected simultaneously with the destruction (duly controlled by the spinners) of an equal number of obsolete spindles, without compensation.

The purpose of the convention was twofold: (a) to reduce the average age of Belgian equipment; (b) to prevent obsolete equipment from being brought back cheaply and put into operation again at the risk of disrupting the market and thus hampering the modernization of the healthy part of the industry. Thus it is a voluntary measure designed to encourage the scrapping of obsolete equipment. It has been distinctly effective, making it possible to scrap a large number of obsolete machinery.

Another convention, financed exclusively by spinning mills on a voluntary basis involved a guarantee to undertakings contemplating the cessation of the spinning activity of a minimum return on their equipment. The spindles would be destroyed, under control, or turned over to other spinners, on condition that the latter would destroy the machinery they possessed.

The amount of the guarantee was fixed in the course of confidential discussions between the interested undertaking and an independent person designated by the spinners. This method made it possible for an undertaking to make decisions on its future on the basis of the facts. The secret nature of the conversations protected the undertaking in question against the danger of having its standing jeopardized in the event of the conversations not being successful.

These adjustment measures taken by the cotton spinning industry had to be abandoned in 1967 owing to the closing down of a large number of cotton spinning mills between 1962 and 1967, and the burden which the financing of these measures placed on the remaining spinning mills. The reason for the large number of spinning mills which closed down was the very unsatisfactory economic, financial and social situation throughout the period and particularly during the years 1966 and 1967. This unsatisfactory economic situation was aggravated by the growing competition of imports from countries practising a systematic policy of abnormally low prices. Poor business conditions and abnormal competition had the effect of wiping out the margin of profit almost completely, so that the remaining undertakings were unable to support the financial burden of the measures taken. At all events, by the end of 1967 the combination of the measures taken by the industry itself and the economic and competitive circumstances referred to above had already brought about the reorganization of most of this sector of the cotton industry.

The adjustments made on the initiative of the spinning industry and financially supported by it can be regarded as on the whole successful. Whereas there were forty-seven firms and sixty-two mills in 1960, by 1968 these were twenty-nine firms and forty-five mills, equipped with modern machinery and operating on a sound technical and economic basis.

Since most of the cotton weaving undertakings, apart from integrated undertakings, are in a less strong position than spinning mills, and since many of these undertakings are relatively small in size, the weaving industry has not been financially in a position to undertake adjustments similar to those undertaken by the spinning industry. However, note should be taken of the real reorganization carried out by the sector during the period 1960-1968, when the number of firms fell from 204, with 241 mills, at the beginning of the period, to 159 firms with 175 mills by the end of 1967. This was affected through economies of scale and competition and also by the legislation for the economic development of industry generally, which made it possible to reorganize certain firms or reconvert them for other purposes.

In Canada, the measures taken by the cotton textile industry consist solely of individual company decisions to phase out a number of plants, and retire from manufacture of several types of products. Until 1969 the forces of international competition and change in market conditions had been quite adequate to induce adjustments in the textile industry. In 1970, the Government found it necessary to introduce a policy to assist in the required adjustments.

The Finnish cotton textile industry has tried to adapt itself to the changing market situation by rationalization and modernization. The adjustment has however, been hampered by the difficulty of raising capital for this purpose in sufficient quantities and at acceptable interest rates. The stringency of the Finnish capital market during these years has thus made it impossible to carry the adjustment plans of the industry into effect to such an extent as would have been necessary.

In France, the cotton textile industry, with the consent of the Government, has for over ten years been concerned with structural adjustments. In 1960 it set up a professional group whose essential purpose was to take action for the settlement of problems raised by the inevitable reduction of its means of production. Financed by a fund set up by the professional bodies themselves, this group has taken action for the closing down of production units and the supervision of liquidation of the equipment. The group was particularly effective up to the 1965 crisis; during that short period it arranged for the closing down of thirty weaving mills representing 6,000 looms and fifty spinning mills representing 900,000 spindles.

The cotton industry itself of the Federal Republic of Germany has made great efforts to adjust itself to the changed market situation through rationalization measures and operational reorganizations, and/or closures of mills. The drop in the total number of cotton textile mills from 664 to 454 between 1960 and 1968 and its labour force from 167,000 workers to 110,000 workers as well as its advance in productivity can be regarded as impressive evidence of the cotton industry's efforts.

In India efforts for rehabilitation and modernization of the existing equipment are being continuously made by the individual units, either by ploughing back their own resources, or by raising loans on a commercial basis.

In Italy some undertakings have embarked on reorganization schemes on their own initiatives in relation to the needs of the domestic market.

Between 1967 and 1969 the profit margins of Japanese cotton spinners declined on account of increasing wage levels and decreasing price levels of cotton yarn. To remedy the situation the industry made great efforts for rationalization as detailed below:

- (1) In 1966, three shift operations, which are based on highly modernized spinning equipment such as continuous automated spinning system, large package system and so forth, covered only 70,000 spindles or 0.7 per cent of the total installed spindles. Since then however, the number of spindles under three-shift operation has increased from 340,000 or 3 per cent of the total spindles at the end of March 1968 to an estimated 2,200,000 spindles or 19 per cent of the total at the end of March 1972.
- (2) As a result, labour productivity in terms of the number of persons needed to produce a bale of 100 per cent cotton yarn (400 lb.) of common kinds (mostly 20's, 30's and 40's) (in 20's equivalent) had been markedly improved from 4.8 persons (calculation based on eight working hours per day per person) in 1966 to 4.2 persons in 1967, and 4.0 persons in 1969.
- (3) The rapid introduction of open-end spinning frame is also a clear indication of strong determination on the part of the industry for rationalization of its production equipment.

The open-end spinning frame was first introduced in Japan in the fall of 1968 as an experimental machine. At present, about 100 frames (200 drums each) of open-end spinning machines are installed. Installed frames of this sort are expected to increase in number to 500 by the end of March 1972.

(4) As a measure of structural improvement of the specified spinning industry with relation to the change of demand structure, it can be pointed out that the industry itself has shifted its production priority from cotton yarn to spun synthetic yarn, the demand for which is expected to grow at a comparatively higher pace than that for cotton yarn and spun rayon yarn. It is expected that the industry will be using about 46 per cent of the total spindles for the production of cotton yarn in 1971 as against 54 per cent in 1966. The share used for spun rayon will decline from 19 per cent in 1966 to 11 per cent in 1971, while the share of spindles used for spun synthetics will increase from 27 per cent to 43 per cent during this period.

In the Republic of Korea, the cotton textile industry has an important rôle in the national economy and its development programme. The share of the cotton textile industry in the total production of the manufacturing industries was some 6.5 per cent in 1966 in value terms and its contribution in the total employment in the manufacturing was around 7 per cent in 1968. Also nearly one half of cotton fabrics produced in the seventeen large-scale mills was exported in 1968. Between 1968 and 1971 the number of mills decreased by 17 per cent, the number of spindles by 7 per cent and the number of looms by 12 per cent. The total number of mills which have closed down since 1960 adds up to forty-one.

There has been a rapid increase in the demand for man-made fibres since 1960, as reflected in the increase in the import of man-made fibres from 16,112 tons in 1960 to 57,945 tons in 1968. In the face of such a heavy reliance on imports for man-made fibres demand, a total of thirteen man-made fibres mills have newly been established to produce 1,484 tons of man-made fibres in 1964 and 23,140 tons in 1968. However, the domestic man-made fibres mills still remain under-developed because of relatively small, insufficient size of each production unit and lack of raw materials from domestic industrial sources. Under such circumstances, even though there is an increasing competition from man-made fibres, consumption of raw cotton is predicted to maintain its upward trend for some time in the foreseeable future in view of the growing population, steadily rising standard of living as well as the need to increase exports of cotton textiles.

In the Netherlands the cotton industry has set up a foundation for promoting exports of cotton fabrics. The foundation carries out overall analyses of markets within the country and abroad. It also works with fashion organizations which are members of international institutes, so what when designs etc. are selected it can follow the trends of fashion closely and thus preserve and maintain its competitive position.

As regards the Norwegian textile industry, far-reaching adjustments, rationalization and reduction in capacity have taken place both prior to and during the period covered by the Cotton Textiles Arrangement. The cotton textile industry is now covering only about one third of the home market consumption and there is very little room for further contraction without serious repercussions on the national economy as a whole. In spite of this the industry continues

systematically to adjust its production programmes away from those products where competition from developing countries is most severe. Instead, design products, branded products and specialities are being developed. The number of factories in the clothing industry, largely small sized, has been reduced by about 20 per cent.

The cotton textile industry in Pakistan helps in the establishment and running of some of the technical institutions in the country through financial contributions.

In Poland, imports of finished and semi-finished articles from the developing countries have necessitated certain adjustments in the textile industry. The number of units, for example, had been reduced from 227 in 1960 to 212 in 1968, while at the same time there was a fall in employment in the industry. The number of spindles has continued to decline, but looms remained static during this period.

As a result of Sweden's liberal trade policy, the Swedish cotton textile industry has in general had to meet a hard competition from abroad and not least from the less-developed countries. As a result of this competition and the changing situation on world markets there have been adjustments, mergers, fusions and closures within the Swedish industry. This development can be regarded as a continuous process of structural or sectoral rationalization. The number of firms or combines in the Swedish cotton textile industry is now seven and the number of mills is ten. During the period 1960-1968 three new mills were built while six firms and mills were closed down. Between 1960 and 1968 the number of spindles and looms decreased by about 55 per cent and production of cotton yarn likewise went down by 45 per cent. Employment followed almost the same course. These trends continued unabated in the following years.

In Turkey, apart from Government measures, there are no adjustment measures taken by the industry itself. However, industrialists concerned with cotton textiles are interested in forming unions among themselves in the export field.

While the adjustment steps taken by individual cotton textile firms in the United States vary widely, adjustment activities are concentrated in three broad areas: (1) increased investment in new plant and equipment, (2) increased research and development activities; and (3) a trend to fewer but larger firms.

In the United Kingdom there has been a certain amount of rationalization within the industry resulting in the weeding out of smaller unproductive units since 1960. Investment within the industry in modern equipment has also been taking place - apart from that facilitated by the Cotton Industry Act 1959 - but, considering the findings of the Textile Council's report, not at a sufficient rate.