Committee on Trade and Development
Expert Group on Adjustment Assistance Measures

DRAFT REPORT OF THE GROUP

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

- to study the material set out in document COM.TD/W/6 and Addenda and, as appropriate, to gather additional material; and
- to report on the measures being applied, or proposed to be applied, by industrialized countries for assisting adjustments in the changing structure and pattern of production, so as to permit an expansion of international trade in products of interest to less-developed countries and to provide larger opportunities for imports from these countries.

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

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

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

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

(a) **Financial assistance**

   (i) Grants, advanced and loans (often low interest and with generous repayment periods) to:
   
   A. private firms for machinery and building,
   B. local authorities for infrastructural expenditure.

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

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

   (iv) Subsidies towards costs of factory buildings.

   (v) Guarantees of private loans to manufacturing concerns.

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

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

   (viii) Inauguration of public works programmes.

(b) **Fiscal inducements**

   Tax exemptions and rebates, including accelerated depreciation allowances.
(c) **Retraining of labour**

(i) Establishment of training facilities.

(ii) Grants or loans to local authorities for the establishment of training facilities.

(iii) Grants or loans to firms for the establishment of their own training facilities.

(iv) Payment or part payment of salaries of instructors and trainees.

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

(d) **Movement of labour**

(i) Payments to enable travel for training and interviews.

(ii) Payment for movement of family and effects.

(iii) Publicity on employment opportunities in localities outside the depressed area.

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

(a) in most of the countries which have furnished information on the subject, there is no general legislation designed specifically to facilitate structural adjustments necessitated by changing conditions in world trade;

(b) in a number of countries the autonomous adjustment of factors of production to market forces is assisted by governmental policies aimed at promoting the mobility of labour and fostering employment opportunities or directed towards stimulating growth, in particular in the economically depressed regions; measures designed to encourage structural adaptation are not always distinguishable from general policy measures aimed at securing economic expansion and higher levels of employment, particularly in relation to problems of regional development;
(c) one country has ad hoc legislation specifically designed to assist a particular industry (cotton textiles) to adjust to changing conditions in world trade. Another country has introduced measures involving the "moth-balling" of excess capacity which serves the same purpose;

(d) The ECSC and EEC Treaties contain provisions for the granting of adjustment assistance by the respective executive authority on the requests by member States. Under the ECSC Treaty assistance could be provided to facilitate the re-adaptation of workers whose employment is affected by the opening of the Common Market as well as to deal with the consequences of technological developments or structural changes. The EEC Treaty provides more generally for provision of employment opportunities and labour mobility through aid from the Social Fund. In both cases the use of adjustment assistance to promote structural changes aimed at forestalling or mitigating injury is related to the framework of rights and obligations constituted by the Treaty instruments;

(e) a number of governments have legislation on measures of assistance designed to overcome problems arising from regional imbalances. To the extent that the situation of industries in a particular economic region is made worse by the working of the international trade mechanism, these measures could be used to mitigate injury arising from the impact of import competition. With the possible exception of Lancashire, it is not clear, however, how far adjustment assistance has been used to deal with the consequences of import competition in an industry whose production units were concentrated in a particular locality or region and the extent, therefore, to which regional legislation has served the purpose mentioned in the Group's terms of reference;

(f) in at least one country a system of public credits, shortly to be reinforced by a system of guarantees, is used to assist enterprises in effecting adaptations and adjustments made necessary by international competition;
in the Trade Expansion Act 1962, the United States has comprehensive legislation authorizing adjustment assistance where increased imports resulting from trade concessions become a major factor in causing or threatening serious injury, the assistance being given to enable the affected industries, firms or workers either to become more competitive or to move into other fields of activity. While, to date, the legislation has been invoked in several instances, there has been no finding of serious injury to justify the provision of assistance.

8. In the course of analyzing the contents of the individual statements submitted by governments some members of the Group commented on the measures reported and their apparent relationship to the commercial policies and trade flows of the countries concerned. The experts representing these countries indicated that they would convey these comments, which are briefly summarized in this paragraph, to the attention of their respective governments. Commenting on the individual reports submitted by governments, some experts observed that Austria had been taking liberalization measures over a period of years. They felt that it would be useful if the Austrian Government had indicated whether it had considered the use of adjustment assistance in the course of its liberalization programme. With regard to the information submitted by Belgium and the Netherlands, one expert felt that although it had not been necessary to employ adjustment assistance measures in these countries specifically to provide opportunities for increasing imports from developing countries, the establishment of the common external tariff of the EEC did have the result of subjecting certain products to higher duties than those which were in existence in some individual member countries. It was hoped that Belgium and the Netherlands would endeavour to influence the policies of the EEC towards a greater measure of liberalization and suggest the use of adjustment assistance to facilitate liberalization in areas of particular difficulty. With regard to the information submitted by Czechoslovakia, one expert commented that the adjustment which had been taken in certain Eastern European countries appeared
to have contributed substantially to an increase in exports of some developing countries. This should be borne in mind by other countries in the efforts to increase their trade with the developing countries. One expert, referring to a notification from the Federal Republic of Germany said that his country imported three times the amount it exported to the Federal Republic. It was hoped that an improvement in the situation would be facilitated by the use of adjustment assistance measures. He felt that the policy statement contained in paragraph ad (b) on page 31 of the notification of the Federal Republic should be carefully scrutinized. In this connexion, he pointed out that less-developed countries could only make their prices competitive if they were given a chance to export. With regard to the notification by Finland, he felt that adjustment assistance measures would perhaps also point the way to dealing with the problem faced in providing access to one particular product. In the case of Japan, he observed that Japan had experienced difficulty in removing restrictions from many items. He hoped that the Japanese Government would find adjustment assistance measures helpful in this regard. With regard to the notification submitted by the United Kingdom, he felt it would be useful if information could be submitted as to whether the schemes on incentives to promote mobility in industry will also take into account the need to afford more access to exports of developing countries.

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

10. On the measures reported in COM.TD/H/3 as a whole, the Group observed that there had not been many specific instances of the actual use of assistance measures to deal with problems of adjustments arising in particular industries from import competition. The information provided revealed rather that measures in the nature of adjustment assistance had generally been prompted by a variety of circumstances
including adjustments required in long-term structural reasons to facilitate regional development to face up to a situation of technological backwardness and low productivity, and so forth. The policy instruments, therefore, appear to have been conceived broadly with a view to improving the overall situation or to directing a re-allocation of resources without specific reference in every case to competition from imports as such.

11. In those cases where adjustment assistance measures were related more directly to difficulties arising from imports, it appeared possible to distinguish between two types of measures: (a) those designed to improve productivity and the competitiveness of the industry through modernization and rationalization of equipment, introduction of a higher degree of automation and other technological improvements, etc., and (b) those designed more particularly to increase the mobility of labour and capital with a view to encouraging re-allocation of resources from one line or branch of production to another. The Group noted that the latter type of measures was more directly related to the adjustment of the economy to a larger volume of imports.

12. The Group also discussed in a general way the type of legislation which appeared to be the most desirable in relation to the problem of providing greater access for the exports to less-developed countries. The Group did not take a firm position as to whether the legislation of a general or specific character would be more appropriate since there were variations in the circumstances of industrial countries, both in economic structure and political conditions, it should be for the industrialized countries themselves to decide how best to proceed. The Group, however, felt that where such legislation was of a general character, the countries concerned should try to relate it as directly and as sympathetically as possible towards easing the very grave economic and human problems faced by the developing countries. (In the course of discussing these technical questions the Group heard statements by the representatives of the ILO and the OECD on the work which their organizations were conducting in fields related to those under consideration by the Group.)
13. The Group observed that the data furnished by contracting parties had not indicated that, apart from the textile sector and except in a few other specific instances, adjustment assistance measures have been used specifically for the purpose of dealing with any difficulties which might have been caused by increases in imports from developing countries. Nor are there indications that governments which have found themselves compelled to provide tariff or non-tariff protection for their industries had, in each case, been in a position to examine how far this problem could have been dealt with through the use of measures of adjustment assistance. There was also no specific information as to whether in certain cases actual use of such measures, or assurance that such measures could be used, had enabled certain countries to avoid additional measures of tariff or non-tariff protection.

14. The Group felt that the rôle which adjustment assistance measures could play in facilitating greater trade liberalization to the advantage of all countries, could be illustrated by the adjustment assistance provisions of the United States Trade Expansion Act. The Group noted that enactment of these provisions indicated that the assurances that there was the possibility of adjustment assistance being provided, could be helpful in reconciling domestic interests to a larger degree of trade liberalization. Of course, in each country and for each industry, there might be a number of political and social factors which would need to be taken into account.

15. Several experts felt that there was need for developed countries to provide for anticipatory adjustment assistance which would serve not only to ease difficulties caused by actual imports but also to facilitate the transfer of factors of production out of sectors in which less-developed countries expected to be in a position to expand their exports in the future. Experts from developed countries, however, pointed out various difficulties, both political and practical, for governments in market economy countries, in bringing about structural adjustment in anticipation of future imports. In their view market forces could normally be relied upon to ensure the necessary adjustment and the rôle of adjustment assistance should not be over-emphasized.
16. Some experts felt that in most instances it should be possible to take action to liberalize imports without having to consider adjustment assistance measures, which would be needed only if serious damage to the domestic industry were to result from such action. In view of the growing demand for manufactures in developed countries and the relatively low growth rate in most lines of developed countries, it was to be expected that this would be the exception rather than the rule.

17. It was the general view of the Group that adjustment assistance measures could contribute to the solution of difficulties which might otherwise create pressures for the erection of new barriers or impede the rapid removal of existing barriers affecting the trade of developing countries and that, therefore, the developed countries should, wherever such difficulties were faced, explore the possibility of resolving them through the use of such measures. It was felt that in administering adjustment assistance, the developed countries should always give appropriate weight to the needs of the developing countries to expand their trade.

18. The Group is of the opinion that the views stated in the preceding paragraph were worthy of the attention of the CONTRACTING PARTIES in view of the ministerial Conclusions of 1963 and of the commitments accepted by governments under Article XXXVII of the General Agreement. These considerations would be particularly relevant with regard to objectives and principles of GATT and in particular of Part IV thereof. Some members considered that the Group itself should investigate how adjustment assistance could deal with difficulties in liberalizing particular products. Other members considered that this would be going beyond the terms of reference of the Group.

19. The Group took note of a suggestion that the Group should invite the Committee on Trade and Development to consider the question of setting out appropriate mechanism for the exchange of information and for consultation between developed and developing countries on likely developments in exports from the latter and for the co-operative consideration of realistic policies to deal with any problems which might arise. Some members felt that such an exercise would be meaningful only if it
were possible to obtain very precise information from the developed countries on their export plans. Others felt that it would not be possible to submit precise information in all cases but that this would not mean that the exercise would not be useful.

20. At the first meeting of the Group, a proposal was made that the Group should consider the feasibility of initiating case studies on the use which could be made of adjustment assistance measures to deal with difficulties in particular industries. There was a difference of opinion in the Group as to whether such studies were necessary and need to be undertaken since it was possible for governments to take action in this field without the information which such studies would provide.