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REPORT OF THE JOINT UNIDO/UNCTAD EXPERT GROUP ON INCENTIVES FOR INDUSTRIAL EXPORTS

Rome, November 1968

id.69-434

We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.

Contents

Introduction

1. An Expert Group Meeting on Incentives for Industrial Exports was held in Rome from 11 to 16 November 1968. The meeting was convened jointly by UNIDO and UNCTAD with the assistance of the Italian Institute for Foreign Trade. The participants are listed in Annex I.

2. The meeting was opened by the Vice-President of the Italian Institute for Foreign Trade. Introductory statements were made by the Chief of the Export Industries Section of UNIDO and the Acting Director of the Division of Manufactures of UNCTAD concerning the work being done by the two organizations and the importance of the question of incentives for industrial exports in this work.

3. Dr. G. Pruner of the Italian Institute for Foreign Trade chaired the meeting. The experts were asked to express their views on incentives for industrial development and exports, and in particular to formulate principles or guidelines which could be considered by the developing countries. The agenda as adopted by the Group is presented in Annex II.

4. The Group limited itself to the consideration of incentives for industrial development and exports. It pointed out that industry, however, was only one branch of economic activity and should be considered in its proper place with such other activities as the modernization of agriculture and the development of tourism, which might be of no less importance to many developing countries. For any industrial development policy to be successful it was necessary to create an infrastructure in the broadest meaning of the term - not only bridges, roads, ports etc., but also skilled labour and entrepreneurship.

5. Incentives for industrial exports - like all instruments of economic policy - should conform to the general system of management in any economy. It was recognized that there could be no single blueprint for the use of incentives to expand and diversify industrial production for export. Incentives must therefore be dealt with on a pragmatic basis and must be related to the actual needs of a country.

6. The report of the meeting deals mainly with the incentive schemes practised in market economies. It has not therefore taken into account the specific problems faced by centrally planned economies.

7. At the conclusion of the meeting, the participants thanked the Italian Institute for Foreign Trade for its hospitality and assistance in providing meeting facilities and expressed their gratitude to the Italian Minister for Foreign Trade for having given the experts the opportunity to meet him.

INCENTIVES FOR INDUSTRIAL EXPORTS

Variety of devices

8. The Group reviewed the numerous devices used by various countries to stimulate their industrial exports. The first step in analysis required a classification of these devices. To begin, one can distinguish essentially financial inducements from measures involving governmental initiative or "entrepreneurship". (The financial inducements are classified further below.) Under governmental and semi-governmental "entrepreneurship", the Group referred to the whole range of activities covering promotion and assistance in the development of exports. (This is discussed more fully in paras. 29 - 35 below.)

9. The financial inducements were classified as follows:

(a) Subsidies on raw material and intermediate goods, whether imported or domestically produced goods; these include subsidies on the use of power, transport facilities etc., as well as the foregoing of indirect taxes.

(b) Subsidies to the factors of production, labour and capital; the latter includes the provision of loans at interest rates below the market rates, investment allowances and accelerated depreciation arrangements which reduce the cost of fixed capital, depreciation allowances for research and development expenditure and running-in costs.

(c) Subsidies to sales which raise the effective prices received by domestic producers.

(d) Reduction of income tax normally chargeable on profits.

10. All these devices can be applied to the whole of the domestic production of a particular product, a product which may also be exported, or such devices can be specifically applied to exports only. Thus, in the latter case, only inputs used for producing exports would be subsidized or only profits derived from export production would be eligible for an income tax concession. Strictly, the term "export subsidies" should be used only for those subsidies which raise the effective prices received by domestic producers for that part of their domestic production which is exported.

11. Many devices which appear on the surface to be quite different have essential similarities. Thus a multiple-exchange-rate system has essentially the same effect as a system with a single exchange rate combined with a set of subsidies and taxes on imports and exports. An import

entitlement scheme, under which exporters obtain imported raw materials at prvileged prices instead of buying them on the market, has an effect similar to that of an import tariff, from which an appropriate part of the revenue is then passed on in the form of a subsidy to the exporters concerned.

12. A further distinction may be made between export subsidies which are at a constant rate (for example, 20 per cent of the fob price of exports) and those which fluctuate as a result of market conditions. Thus, if a multiple-exchange-rate system involves a fixed official rate and a fluctuating free-market rate, favoured exports benefiting from the fluctuating rate, the premium for these exports is in effect a fluctuating one. Similarly, an import entitlement scheme may lead to a fluctuating bonus to exporters, rather than a fixed bonus.

13. In comparing one export subsidy with another, or in analysing the various devices for stimulating exports, the rates of subsidy should usually be calculated in terms of the value added by the domestic producer, rather than in terms of the gross value of his output. For example, the *ad valorem* export subsidies for two products may be 20 per cent in both cases, but if in one case there is a high import content, the imports being obtained free of tariff, while in the other case there is not, then the true rate of subsidy provided in the first case is higher than in the second. The concept of *effective protective rates* (tariff rates expressed in relation to value added) which has been developed for the study of tariffs can also be applied to the study of export subsidies.[1]

Incentives to exports and the exchange rate

14. In the view of the Expert Group there is a close relationship between export subsidies and exchange rate policy. It noted that in the experience of some countries quantitative import restrictions, import tariffs and export subsidies had been imposed in order to deal with balance-of-payments problems.

1/ If a country does not accept the value-added approach and wants to adhere to the use of an *ad valorem* export subsidy (or a subsidy per unit of foreign currency earned), imported raw materials used in export production could then be taxed at an equivalent rate. In the absence of such an offsetting tax on imported inputs, the rate of exchange applied to export earnings will exceed the rate applying to imported inputs, resulting in a tendency towards "import intensive" export production and even in "negative value added".

15. Bearing in mind that a devaluation of the exchange rate has a similar effect on the balance of trade and on resource allocation to a uniform tariff on imports combined with a uniform subsidy on exports at the same rate, the question then arises whether the complicated structure of import restrictions, tariffs and export subsidies could not be replaced by a simple devaluation. Some countries have moved in this direction. This matter raises large issues, going well beyond the question of export incentives, and the Group did not explore these issues in detail. When an over-valued exchange rate exists, export subsidies are justified simply on the grounds that they provide an incentive to improve the balance of payments by means of higher exports, just as tariffs provide the incentive to replace imports by domestic production. (Other justifications for export subsidies are dealt with in paras. 17 - 22 below.) Thus, export subsidies have the same type of effect as tariffs. In this respect tariffs or import restrictions unaccompanied by export subsidies would tend to bias the pattern of domestic output towards catering for the home market. Export subsidies reduce or eliminate this bias by providing also an incentive to cater for the export market.

16. There are many complicated issues here. The central issue is whether a devaluation would not be preferable to a set of equivalent and uniform import tariffs and export subsidies. This question cannot be answered briefly and raises other questions, such as the administrative costs of the alternative policies and the fact that an exchange rate adjustment affects invisibles and capital transactions as well. A devaluation, like a uniform export subsidy, does not discriminate between different types of exports. However, there may be a number of reasons for such discrimination. For example, subsidies on some exports might worsen the terms of trade significantly through lowering prices obtained in foreign markets. When this possibility of an adverse effect on the terms of trade is considered together with the problem of an over-valued exchange rate, it may be concluded that on balance either an export subsidy or an export tax is required.

Compensatory export subsidies

17. Export incentive schemes may be designed, in part at least, to offset the adverse effects on exports of domestic tariffs or other taxes in the producing country. Export draw-back schemes which are used by most countries may be regarded as removing a disincentive rather than as creating a net

positive incentive. Similarly, it is arguable that an exemption of exports from a value-added tax, or the exemption from an income tax of income derived from exporting, simply removes a disincentive that would exist if there were not such exemptions. Yet this would be an over-simplified approach. If production for the home market is taxed while production for export is not, the effect is similar to that of subsidizing exports while not taxing other production. This draws attention to the complex analyses required in order to assess whether particular subsidies, or exemptions from particular taxes, have the net effect only of preventing a diversion of resources away from export production (relative to a hypothetical situation with no taxes and subsidies) or whether they have the net effect of actually subsidizing exports.

Further arguments for export subsidies

18. The Group considered a variety of arguments for the net subsidization of exports beyond those discussed above. It noted that many of the arguments are similar to the familiar arguments for tariff protection and raise the same kinds of considerations.

19. An important argument for the subsidization of new exports, as distinct from subsidization of domestic production as such, is a variant of the infant industry argument. This might be called the "infant marketing argument". The Group considered that there is a strong case for assisting inexperienced firms to break into unfamiliar foreign markets to help them during their periods of "export infancy".

20. The Group noted further that this case for export subsidies should be distinguished from the familiar and well accepted argument for encouraging domestic manufacturing production on infant industry grounds. In the latter case, production should be subsidized irrespective of whether the production is for the home market or for export.

21. Thus the most straightforward approach will be to subsidize or otherwise assist production. If, however, tariffs are used to foster infant industries they should be combined with export subsidies so that the protected industry would obtain equal encouragement in selling for the home market and in selling for export.

22. Another argument for the net subsidization of particular exports derives from the need for diversification of the export pattern as an insurance against a possible decline in the price of traditional exports. For many developing countries specialized in the export of primary commodities there could be a case for subsidizing exports of manufactures.

Costs of and limitations to export subsidies

23. It is obvious that export subsidies, whether given directly or indirectly, involve costs as well as benefits. Essentially, export incentive devices require a "cost-benefit" analysis. Thus there are clear fiscal and social costs. The sums of money spent to subsidize exports might have been used for other purposes, and the potential gains which would have resulted from these alternative outlays must be balanced against the gains from the export subsidies. Extra revenue could of course be raised through additional taxation to finance the export subsidies, in which case it would not be necessary to forgo alternative governmental outlays. However, this might involve additional administrative and economic costs in collecting revenue and, furthermore, might not be feasible politically. If export subsidies lead to a diversion of domestic resources away from import-competing production towards production for export, the loss of one type of production must be set against the gain in the other. One must ask whether a given balance-of-payment improvement is obtained in the cheapest way. Exports are not an end in themselves. Export subsidies may even encourage inefficiency. It is indeed possible that an export subsidy leads to "negative value added", i.e. that the cost of the imported materials contained in the exports may be greater than the value of the exports calculated at world prices.

24. Most arguments for export subsidies are essentially arguments for temporary subsidies. Thus:

(a) If the argument is based on the overvaluation of the exchange rates, implying the existence of a chronic balance-of-payments problem, then in the long term the case is clearly in favour of an exchange rate adjustment.

(b) If the argument concerns an "infant industry" or an "infant marketing industry", then the subsidy should be gradually reduced as the "infant" grows up.

25. In any case, all export subsidies should be reviewed at regular intervals. It may even be desirable in particular cases to establish subsidies which will be reduced at clearly defined rates year by year until they eventually fall to zero.

26. There are many other qualifications to be taken into account when considering export subsidies. Such subsidies provide bonuses to particular producers, and thus have the effect of a redistribution of income. One must consider whether these particular redistribution effects are socially desirable. If the bonuses go primarily to foreign-owned companies, particular care must be taken to ensure that a net gain to the residents of the country remains as a result of the subsidies. Subsidies on exports of foreign-owned companies which lead to a substantial increase in the remitted profits of these companies may even have adverse effects on the balance of payments.

27. The international repercussions of export subsidies must also be taken into account. Thus:

(a) The extra exports may lead to reductions in the prices of the goods, this being the adverse effect on the terms of trade already referred to.

(b) The countries which are the potential markets for the exports may impose offsetting tariffs - described perhaps as anti-dumping or countervailing duties - which would completely negate the effects of the export subsidies. In fact, the net result could be that the export-subsidizing government would simply be paying for the tariff revenue obtained by the country which had imposed the offsetting tariffs. In the Group's view Governments of the developed countries should abstain from such retaliatory action against developing countries when subsidization is practised.

(c) Export subsidies provided by a developing country may induce other developing countries competing with it to subsidize their exports as well, with the net result that there might be very little expansion of combined exports but a deterioration in the terms of trade of each of them. Where this situation is likely to occur consultation among the developing countries concerned is clearly called for.

Choice of devices

28. The Group considered the complex problem of the appropriate combination of incentive devices, given that there is some argument for providing export subsidies or encouragement. The special case of export credit and insurance arrangements sponsored by governments - which might be regarded as indirect

export subsidies - is discussed in paras. 36 - 42 below. With regard to the combination of other incentives, the Group drew attention to four general considerations:

(a) First, there is the question of choosing between straightforward financial inducements and activities involving governmental initiatives to stimulate production, improve efficiency, create awareness among domestic producers of market opportunities, encourage mergers of small firms, provide common services, provide representation abroad etc. These "governmental entrepreneurship" activities are discussed more fully in the next section. The less advanced the industrial sector and the less experienced it is in exporting, the more need there is for such activities. They are particularly needed to assist small firms and the less experienced domestically-owned firms. Large companies, notably the great multinational corporations, have relatively less need for these services; however, this is not to say that they cannot also derive some benefits from such activities. But a policy designed to stimulate exports by small or medium-sized firms would need to place greater emphasis on the "governmental initiative" types of policies than on simple financial inducements.

(b) The next point concerns financial inducements. The general principle emerged that subsidies should be given, as far as possible, in a direct way, the form of the subsidy depending on its purpose. If the aim is to foster exports, it should be an export subsidy, directly related to the value added in the exports. If the aim is to encourage particular types of domestic production, the subsidy should be related to total output (value added), whether for the home market or for export. If the reason for the subsidy was that the industry creates social benefits through the training of labour, then the subsidy could be associated with the extent of the industry's use of skilled labour. If the principal benefit from the establishment of the industry is believed to be that it creates employment (in a situation of unemployment, with the wage rate above the social cost of labour) then the subsidy would more appropriately be related to the use of labour in general. In a developing country it would seem generally to be inappropriate to subsidize the use of capital since this could lead to the excessive encouragement of capital-intensive industries or techniques. Subsidization of specific inputs, such as power, may have distorting effects. For example, if the price of electricity is artificially reduced below its social cost, there could be a tendency to waste electricity, or to choose methods of production which are excessively "electricity-intensive". This is cited as an example to show that subsidies associated with particular inputs may have undesirable distorting effects on methods of production.

(c) The best combination of incentives in any situation must also be influenced by the relative attractiveness of various incentives to potential exporters in the light of their differing requirements, an attractiveness which may depend in the case of foreign-owned companies on what they have come to expect in other countries, and in the case of domestic firms on the psychological impression the various incentives make on them. This approach, which would adjust the combination to each case or industry, is perhaps more appropriate when export incentives and production subsidies, direct and indirect, are limited to special cases or a few industries and hence involve only a few selective administrative decisions. A possible approach is to have a limited number of such combinations available, each appropriate to a particular category of potential producers.

(d) The Group felt strongly that a major consideration in devising export-incentive schemes was that there should be no undue complexity. It is desirable to have simple schemes, even if this means that some of the more sophisticated considerations discussed above must be ignored. Simplicity is considered desirable for four reasons: first, to economize administrative resources; second, to ensure that the economic purposes and implications of the schemes are understood by the business community, the political leadership and the general public; third, to facilitate the cost benefit analysis of the schemes which should be carried out at regular intervals; and fourth, to lessen opportunities for pressure groups to influence the system in a manner contrary to the national interest. The need for simplicity should be balanced against the need, in some circumstances, for selectivity. Thus, the simplest way of according an export subsidy (with a given exchange rate) would be to provide a uniform ad valorem subsidy for all exports. But this might have some undesirable effects on terms of trade and income distribution (perhaps increasing the profits of some exporters more than necessary in order to induce them to increase their exports) and, furthermore, would not lead to a uniform subsidy on the value added. In the administration of the schemes it would be desirable to minimize the need for administrative interventions and arbitrary decisions. Consequently, as far as possible, simple and direct rules are to be preferred to leaving a great deal of detailed decision-making to the discretion of officials.

Government initiative in creating export consciousness and in marketing

29. The Group noted that export subsidies were of a diverse nature and included promotional measures taken by governmental, semi-governmental and private organizations.

30. It was agreed that Governments should take an active part in creating an export awareness. Potential exporters should be approached directly and personally by Governments, which should inform them of the incentives and range of services provided for export and of the need for active co-operation in the country's export efforts.

31. In particular it was necessary to direct this assistance towards the small and medium-sized firms possessing limited financial resources and expertise for export marketing operations. In this connexion, the role of consortia or special export trading corporations for small and medium-sized businesses was recognized as an important device for encouraging, co-ordinating and assisting exports.

32. Where possible, export assistance should be in the form of a "package" and should cover the full range of facilities from export education in techniques and procedures of selling and shipping to the marketing of products in foreign countries. Active control and efficient implementation of incentive programmes were recognized as essential if they were to achieve the desired results.

33. Furthermore, the Group noted and welcomed the assistance which the UNCTAD/GATT International Trade Centre is able to provide to the developing countries in respect of export opportunities. The Centre should be encouraged to pay particular attention to the export needs of the least advanced developing countries in respect of export information and expertise.

34. It was recognized that many marketing devices could be effectively employed without significant expense costs. It was considered that such devices, which include trade missions, fairs, export brochures and other promotional material, could be effectively used by the developing countries.

35. It was considered that there was a need for Governments to provide incentives for research and development to stimulate the growth of industrial technology at all stages of the manufacturing process including design and packaging. It was pointed out that dependence on foreign innovations in industry could lead to stunted industrial growth and inability to compete in export markets.

Export credits

4. As is well known, export credits, sometimes very generous, are widely used by the developed countries especially for the sale of capital goods. The sale of these goods tends to depend as much on the credit terms available as on other considerations, such as price, quality and delivery dates. In many of the developed countries export credit facilities are provided on subsidised terms by the Governments or by Government-sponsored organizations. This situation has three implications for the developing countries.

5. First, and most important, it means that if they are to compete effectively they must provide similar export credit facilities. The more sophisticated the industrial structures of the developing countries become, and hence the more they move into the field of exporting capital goods, the more important such facilities will become. It appears, therefore, that the developing countries really have no choice but to provide, where appropriate, the necessary export credit facilities.

6. The second and well-known implication of export credits provided by developed countries is that this is a way in which the developing countries can obtain much needed finance. The Group did not pursue this aspect at length since it had no direct bearing on the exporting of manufactures by the developing countries. But it was stressed that the credit may sometimes turn out to be very expensive by causing the developing countries to pay higher prices for their imports and leading to unwise commitments.

7. The third implication arises when a developed country gives aid to a developing country and requires the aid to be spent on the purchase of its own goods. This is a form of export subsidy and has the effect of excluding other exporters of the products, which the aid-receiving country may wish to buy.

8. The case for subsidization through export credits and export insurance and guarantee facilities is essentially the same as that for ordinary direct export subsidies, already discussed. In many developed countries it is the practice to subsidize exports in this way, and the effects are much the same as those of direct subsidies. In particular, this form of subsidization does not lead to any distortion in the use of inputs, as some of the other export incentives discussed earlier may do. The cost of the implicit subsidy

is measured essentially by the difference between the interest rate charged by the export credit organization and the interest rate which would have to be paid if the credit were obtained in the market or at the rate which measures the social cost of capital. The alternative uses to which this capital could be put must be taken into account in assessing the benefit of this form of subsidization. The argument is essentially the same as that developed earlier.

41. The view of the Expert Group was that the provision of export credit is a skilled banking activity, and that countries inexperienced in this field may well benefit from assistance from more experienced countries and from international organizations.

42. In addition to governmental facilities to exporters, enabling them to grant long or medium-term credit to certain buyers, attention must also be given to the need to provide the would-be exporter with working capital at rates of interest comparable to those available to exporters in the developed countries. In particular, it must be realized that successful exporting requires the maintenance of stocks both in quantity and diversity, this requirement being one which the new or small exporter would not be able to meet from his own resources. The provision of such credit by a Government on competitive terms is similar to the other form of subsidies for exports discussed, and could be justified on the same ground.

Role of the developed countries

43. The Group further noted that the policies of the Governments and industrialists of the developed countries could play a significant role in promoting the exports of manufactures from the developing countries.

44. The report has already dealt with the situation where export subsidies, legitimately granted by the developing countries, may be counteracted by "anti-dumping" or countervailing duties by the developed countries. (See para. 27(b).)

45. The Group noted that the practice of aid-tying by source could be relaxed so as to permit the developing countries to tender for aid-financed purchases of commodities.

46. Furthermore, the reduction of quantitative restrictions and other non-tariff barriers on exports of the developing countries would be invaluable.

In this connexion, the restrictions on cotton textiles were mentioned. The Group noted that the mere prospect of having quantitative restrictions imposed as a reaction to a successful entry into a foreign market could deter potential exporters from incurring the costs of developing these export markets. Hence an effective moratorium on the use of new restrictions, with limited safeguards relating to "market disruption", could go a long way to encourage exports of manufactures from the developing countries. It was regretted that the important and clear decisions on this matter taken in UNCTAD and GATT had not been fully complied with.

47. The Group also noted that early implementation of the principle of preferential entry for manufactures from the developing countries would be useful.

48. The incentives given by developing countries to investors in the field of direct taxation are nullified if the country of residence of the foreign investor does not in its own income tax computations give the investor credit for the tax which he was "spared" by the developing country. The Group felt that acceptance of this "tax sparing" principle by all developed countries in treaties for the prevention of double taxation with developing countries would ensure the efficacy of incentives in the field of direct taxations given by developing countries to foreign investors.

International obligations

49. The Group noted that the rules of the General Agreement on Tariffs and Trade (GATT) favour one type of scheme in comparison to others. For example, the General Agreement permits exports to be exempted from indirect taxes, such as taxes levied at the frontier, "customs" and internal taxes such as purchase tax. The trend in recent years towards greater use in a number of countries of indirect forms of taxation, such as added-value taxes, gives to these countries one more fiscal charge on local production which can be forgone without contravening the GATT rules. On the other hand, countries which continue to rely on a direct tax system are unable to give the exporters equivalent fiscal assistance without breaching the rules of the General Agreement. Since the effect of subsidies of either kind is the same from the point of view of international competition, it seemed to the Group that there was need for some reconsideration of the GATT rules. At present the position is that a country

must adjust its fiscal system to the GATT provisions rather than that the GATT provisions reflect the requirements of the country in question.

50. Since explicit subsidies are discouraged under the GATT rules, countries desirous of granting export subsidies tend to give them in indirect and disguised forms which may give rise to inefficient forms of export subsidization. If it is accepted, as it seemed to the Group, that there are several legitimate reasons for direct export subsidies, at least with respect to developing countries, special attention should be given to the possibility of revising these rules.

Summary

51. The Group summarized its discussions as follows:

(1) The report is concerned only with incentives for industrial development and exports and does not deal with other branches of economic activity, though these may be of no less importance to developing countries. Nor does it take into account the specific problems faced by centrally planned economies.

(2) There is a great variety of export incentives, some involving government "entrepreneurship" and some being purely financial. The report classifies the financial devices for stimulating exports, some of them similar in effect though appearing different on the surface.

(3) Subsidies should preferably be related to the value added in the export production and not to the value of gross exports.

(4) There is a close relationship between export subsidies and exchange rate policies. Export subsidies may be justified because the exchange rate is overvalued.

(5) Some export subsidies may be justified as compensation for the disincentives which are imposed by tariffs and indirect taxes in the producing country.

(6) There are various acceptable arguments for the net subsidization of exports of manufactures by developing countries apart from those mentioned in paras. 18 - 27 above. An important one is the "infant marketing" argument, and another the need for export diversification.

(7) Export subsidies involve costs and require a cost-benefit analysis. It must be remembered that exports are not an end in themselves and that subsidies may encourage inefficiency.

(8) Export subsidies should be reviewed at regular intervals and should generally be temporary.

(9) When subsidies are paid in respect of exports of foreign-owned companies, care must be taken to ensure that there remains a net gain to the country granting the subsidy.

(10) Developing countries should consult with each other to avoid competitive export subsidization.

(11) Financial subsidies should, as far as possible, be given in a direct way, the form of the subsidy depending on its purpose. If the aim is to foster exports, it will be preferable to establish an export subsidy directly related to the value-added element in the exports.

(12) The best combination of incentives must be influenced by the attractiveness of various incentives to the potential exporters in the light of their differing requirements.

(13) The Group felt strongly that export incentive schemes should avoid undue complexity. In the administration of the schemes the need for administrative interventions and arbitrary decisions should be minimized.

(14) Governments should take an active part in creating export awareness and in providing assistance in marketing, especially to help small and medium-sized firms. Many marketing devices could be employed to assist exporters at relatively low total cost.

(15) Subsidised export credit and insurance facilities should when required be provided to exporters in developing countries in order that they might compete with exporters in developed countries already receiving such subsidies. The costs of providing such facilities are similar to the costs involved in providing direct export subsidies.

(16) Governments of developed countries should, in principle, avoid imposing retaliatory tariffs when "legitimate" export subsidisation is practised by developing countries.

(17) Donor countries should relax the practice of "aid-tying" by source so as to enable developing countries to tender for aid-financed orders.

(18) The effectiveness of export incentives in developing countries can be nullified by quantitative import restrictions, or the threat of them, in the developed countries; the latter should reduce existing restrictions and not impose new ones. It is regrettable that the decisions taken in UNCTAD and GATT have not been fully complied with.

(19) The "tax-sparing" principle in the field of taxation of overseas income should be applied by all developed countries so that tax incentives given by developing countries can be effective.

(20) The rules in the General Agreement on Tariffs and Trade discouraging explicit subsidies lead countries desirous of granting export subsidies to give them in indirect and disguised forms which may give rise to inefficient forms of subsidisation; further, they give advantages to countries making greater use of indirect forms of taxation. Special attention should be given to revising these rules.

ANNEX I

List of participants

CHAIRMAN

G. Pruner	Chief Technical Secretariat, Italian Institute for Foreign Trade (Assisted by officers of the Ministry for Foreign Trade, I.C.E. and the Confederation of the Italian Industry.)

EXPERTS

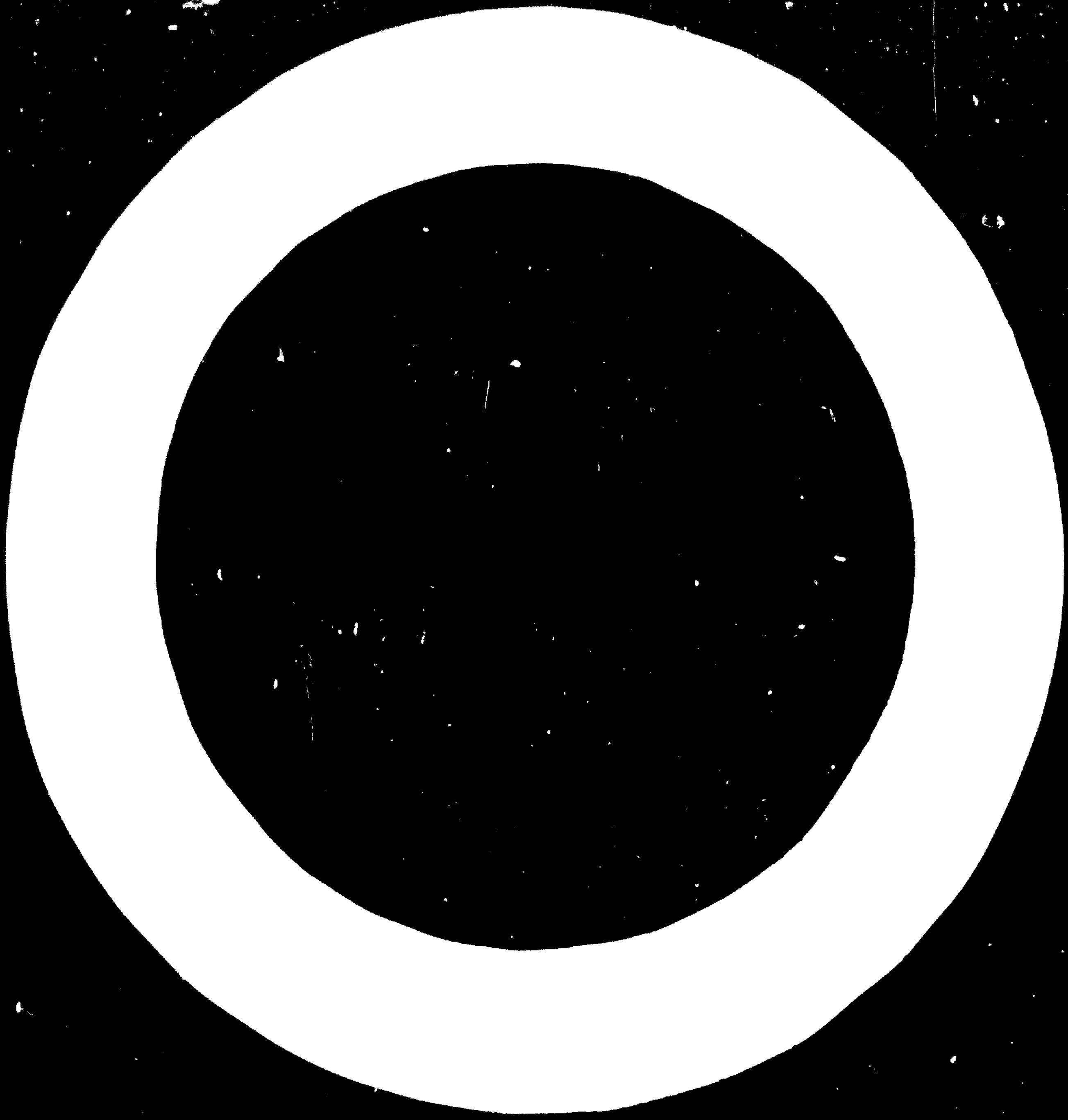
J. M. Bengoechea	Director, Fomento de las Exportaciones, Ministerio de Comercio, Spain
J. N. Bhagwati	Professor of Economics, Massachusetts Institute of Technology, United States
P. L. Chen-Young	Deputy Manager, Development Finance Corporation, Jamaica, West Indies
W. M. Corden	Reader in International Economics, Oxford University, Great Britain
I. Gal-Edd	Director General, Ministry of Development, Israel
J. E. Mindlin	Director, Departamento de Comércio Exterior de la Federação das Indústrias do Estado de São Paulo, Brazil
W. Trzeciakowski	Deputy Director, Institute of Foreign Trade, Poland
W. M. Vardy	Manager, Commercial Intelligence Department, Canadian Manufacturers Association, Toronto, Canada

UNIDO STAFF MEMBERS

M. Pranek	Chief, Export Industries Section
H. Spetter	Industrial Development Officer, Export Industries Section
R. Norris	Associate Industrial Development Officer, Export Industries Section
W. Stevens	Associate Industrial Development Officer, Export Industries Section

UNCTAD STAFF MEMBERS

R. Krishnamurti	Acting Director, Manufactures Division
C. Greenhill	Special Assistant to the Acting Director, Manufactures Division



ANNEX II

Agenda

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Item 2: Incentives relating to productive efficiency.

Item 3: Direct and indirect financial incentives for export transactions.

Item 4: Visit to the Olivetti Factory in Pozzuoli.

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