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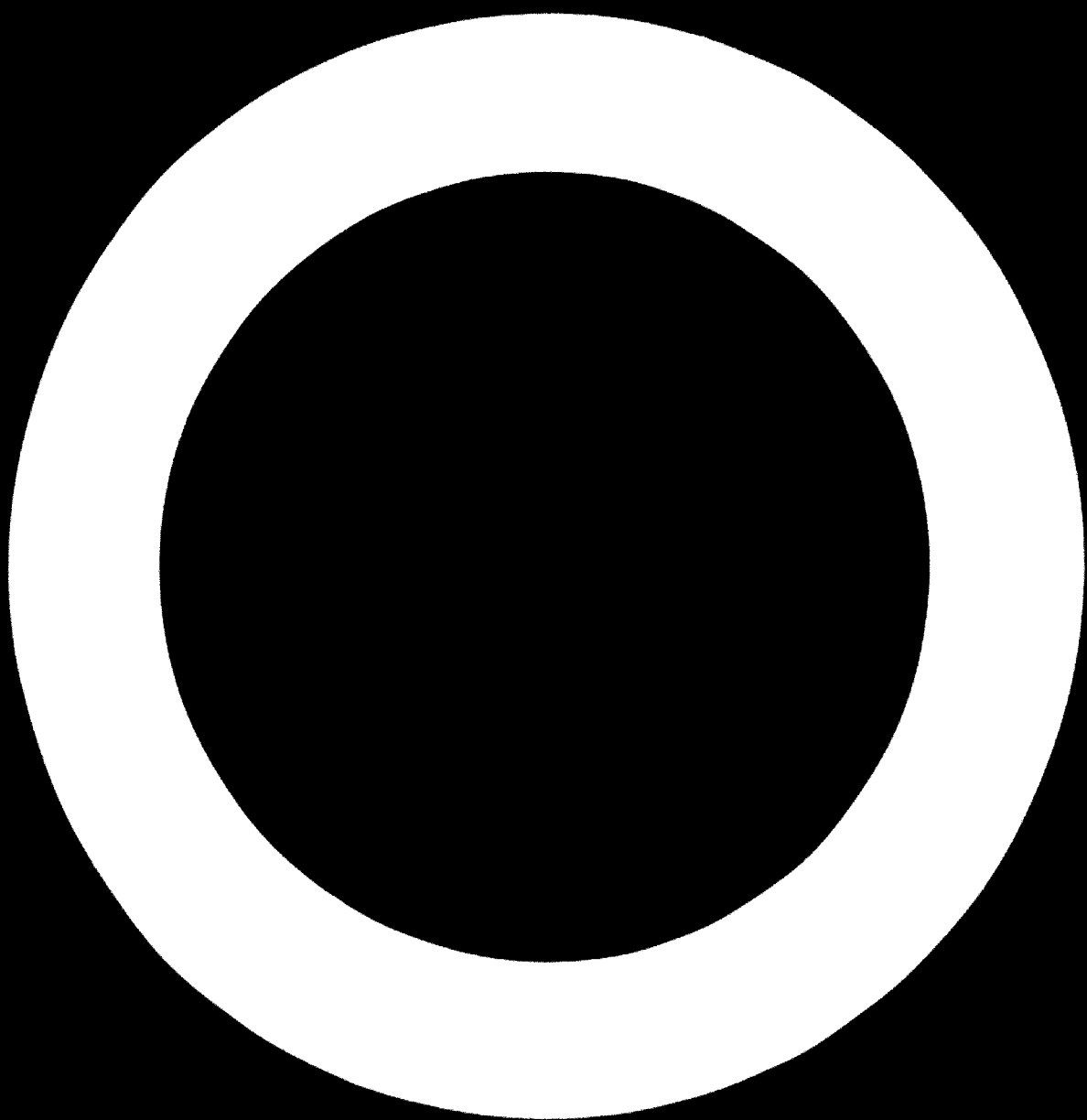
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THE LINK BETWEEN AFRICAN INDUSTRY AND TRADE
IN THE NEW INTERNATIONAL ECONOMIC ORDER

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THE MANUFACTURING SECTOR FOR AFRICA AND THE
IMPLICATIONS FOR AFRICAN TRADE

Introduction

1. This paper provides a brief summary of present thinking on the New International Economic Order, concentrating on the link between industrialization and trade in the African development process. New approaches to Africa's industrial problems cannot be formulated without regard to their impact upon other economic fields, and in particular upon international trade. The first chapter of the paper reviews the past performance of Africa's industry and trade and considers their potential in the light of the African industrial target for the year 2000. The second chapter provides the broad outlines for a possible interpretation of the policy links between the two fields. Briefly, it is thought that the priorities accorded to industry and trade are interdependent and must be considered simultaneously. An equitable share of world trade cannot be achieved unless the industrial base is sufficient, and this fact will have to be reflected in any priorities determined.

2. The New International Economic Order provides a new pattern for the industrialization of Africa. In order to achieve the social and economic objectives proposed for the year 2000, immediate action is necessary. A passive approach that postpones active steps until industrial opportunities become self-evident will not be sufficient. If present social and economic objectives are to be reflected in future industrial patterns, immediate action - with regard to both industry and trade matters - is necessary. With this point in mind, broad policy options, emphasizing the link between industry and trade, are discussed in the third chapter. At the national level, a programme that integrates the roles of industry and trade, relying heavily on a sectoral approach, is thought to be essential. This form of action at the national level can provide a practical framework for regional industrial co-operation.

3. The final chapter of the paper is concerned with UNIDO's contribution to the New International Economic Order and with the developments expected with regard to the Follow-up Committee on African Industrialization. The

system of continuing consultations at the global, regional and sectoral levels is discussed in this connexion along with some of their implications for trade measures and policies.

African Industry and Trade: Performance and Potential

4. Industrial growth in Africa, although rapid in recent years, must be accelerated further in the coming decades. During the first half of the 1970s, manufacturing value added in Africa grew at an average annual rate of 7.5 per cent. In order to meet the target set in the Lima Declaration and Plan of Action of a 2 per cent share for Africa in world manufacturing production by the year 2000, this rate of growth will have to be increased substantially to about 10 - 13 per cent over the last quarter of the twentieth century.^{1/}

5. Accelerated growth in African manufacturing production requires a renewed and immediate industrialization effort. On the supply side, investment in the manufacturing sector must be increased considerably, priorities must be established favouring high-growth industries, and the development of more efficient resource-saving technologies must be encouraged. On the demand side, export potential must be realized and African markets for industrial goods must be strengthened.

6. The share of manufacturing value added in Africa's GDP, now about 11 per cent, will have to increase considerably during the next few decades. The validity of this observation is supported by historical experience as well as by a recent UNIDO analysis of the implications of the 2 per cent target for Africa. By the year 2000 the share of manufacturing in Africa's GDP will have to rise to 20 - 30 per cent, that is, to the present range of most Latin American countries.

^{1/} The 10 per cent figure applies if industrial growth in the rest of the world is low; 13 per cent applies if growth in the rest of the world is high.

7. The composition of the manufacturing sector in Africa is likely to shift during a period of accelerated industrial growth toward a greater share for heavy industries, particularly those producing capital and intermediate goods. Some African countries now have no significant heavy industries, and even in those concentrating on heavy industry, such as Algeria, Zaire, Kenya and Tunisia, light industries currently account for more than half of manufacturing value added.

8. At present most of Africa's industrial production is accounted for by a few countries. Egypt, Nigeria, Algeria, Morocco, Zaire and Kenya account for about 60 per cent of regional value added in manufacturing; in most other African countries, the manufacturing sector is of negligible size. From such a small base, industrial growth in many of those countries having considerable potential in terms of natural resources may be expected to be rapid during the next few decades.

9. In the field of trade, Africa's future performance will also have to depart from present trends. At the global level, Africa's share in world manufacturing trade has remained stagnant or has declined slightly since 1960. In 1972 manufactured exports were only 6.8 per cent of the region's total exports.^{2/} Moreover, in comparison with the manufactured export performance of developing countries as a whole, Africa's relative position has also deteriorated, declining from a share of 11.5 per cent in the early 1960s to 6.3 per cent in 1973. Finally, a comparison of Africa's performance in manufactured exports relative to the region's total exports also presents a somewhat disappointing picture. Growth rates for manufactured exports during the 1970s have consistently lagged behind the region's comparable rates for total exports. Such a characteristic is not usually the case in other developing regions where manufactured exports are increasingly a dynamic component of total trade.

^{2/} ECA, "Survey of economic and social conditions in Africa, 1974" (E/CN.14/632/Part I) p. 151.

10. With regard to intra-African trade in manufactures, a comparison with other intraregional shares can serve as a useful benchmark. Again, the African performance is not particularly encouraging. In recent years, intra-African trade in manufactures has failed to match the growth performance of African manufactured exports to the world. Total intra-African trade has ranged between 5 and 6 per cent of the region's exports in recent years, while manufactures have accounted for only about one-third of this amount.^{3/} Moreover, the bulk of intra-African manufactured trade has been restricted to exchange with the same African sub-region and has not had a broad regional base.

11. An additional feature of paramount importance in explaining Africa's export trends concerns the region's exports of primary goods. The total value of primary exports has proved to be substantially greater than that for manufactured exports and denominates the over-all export pattern. Many of these commodities are exported to developed countries, where they are industrially processed. The opportunities for greater industrial processing in Africa - rather than exporting the primary commodities themselves - could be a key element in the region's future expansion of industry and trade.

12. These broad trends clearly point to the need for a new look at performance in the industry and trade fields at the regional, sub-regional and national levels. Attainment of the industrial target of 2 per cent holds important implications for trade. If Africa's share in world exports of manufactures (currently 0.9 per cent) increases in proportion to its successful attainment of the industrial target, the region's share of world manufactured exports is estimated to be 3 per cent in the year 2000.^{4/}

13. It is not difficult to find general explanations for Africa's rather low share of present world trade. The region's industrial sector is at the embryonic stage relative to other developing and developed regions, and the predominance of primary commodities in African exports is the result of industry's limited role. This last

^{3/} Ibid.

^{4/} UNIDO, "Africa two per cent: implications of the industrial development target for the year 2000" (CMI.3/INR/TP/3), para. 32.

characteristic is reflected in the fact that, in 1973, 20 selected agricultural and mineral commodities accounted for 80 per cent of total African trade.^{5/}

14. The task of setting new priorities and devising new development strategies is, of course, much more difficult than the identification of development shortcomings. An approach is, however, outlined in the following chapter. The starting point can be gleaned from the preceding discussion. Essentially, successful trade performance will be dependent - and must be co-ordinated with a successful industrialization programme. In turn, a major initiative for a regional industrialization programme might be based upon a substantial increase in the industrial processing of the primary commodities now being exported.

II. TOWARDS AN AFRICAN TRADE STRATEGY IN THE NEW INDUSTRIAL ORDER

15. In the past, policy-makers and planners have sometimes tended to treat industrialization and trade development as independent policy fields. They have been concerned with problems in their own particular field of responsibility without gaining a clear insight of or due regard for the interrelationships between industry and trade. The Lima Declaration and Plan of Action on Industrial Development and Co-operation stresses the need for a co-ordinated and co-operative approach on both fronts.

16. Obviously, achievement of the African industrial target set by the New International Economic Order will require an expansion of industrial trade. It is not enough, however, merely to speak of expanded trade. New trade patterns and long-run changes in the composition of trade flows - in particular increased industrial processing - will have to occur in accommodating the industrialisation process. In this context, trade liberalisation can only be regarded as a necessary but

^{5/} ICA, "Survey of economic and social conditions in Africa, 1974" (E/CN.14/632/Part I), p. xi.

insufficient step to ensure the realization of African development ambitions. The international community must take action that goes "beyond measures to liberalize trade if the goals of the new international economic order are to be realized".^{6/} This principle applies not only to programmes devised in agreement between developed and developing countries but, equally important, to programmes devised by developing countries themselves on a regional basis.

17. Beginning from the point that successful trade performance will depend upon a viable industrial sector, the interrelationship between industry and trade would require that a viable industrial development strategy be elaborated as the first priority. Trade policy would not be regarded as a pace setter in the regional development strategy but, rather, as an important and essential derivative. Trade policies would be geared to meeting the objectives of the over-all industrial development strategy.

18. Essentially, this approach represents a departure from the experience of the developed countries a century ago when expanding trade paced economic development and was regarded as the main engine of growth. It does not imply that the major trade policy alternatives (e.g. export promotion, import substitution, regional and subregional trade co-operation agreements) are no longer relevant. Such thinking does require, however, that trade policies embody industrial objectives that go beyond "trade for trade's sake", incorporating elements of regional and international co-operation at both intergovernmental and company levels.

19. Adoption of this approach would, of course, mean some change in the character of African manufactured trade. African trade is typified by the following characteristics:

^{6/} "Industrialization and trade in the process of development", paper prepared jointly by the secretariats of UNCTAD and UNIDO for the Second General Conference of UNIDO (ID/CONF.3/19), para. 24.

- (a) Exports are predominantly primary goods or semi-processed manufactures;
- (b) Imports are largely finished goods (manufactured consumer goods and capital goods);
- (c) Most trade (both imports and exports) takes place with developed countries while intra-African trade and trade with other developing regions is particularly light.

20. Logically, as African industrialization continues, the pattern and composition of manufactured trade should change. Such changes, however, cannot be expected to occur without conscious action on the part of the African Governments.^{1/} New trends compatible with the 2 per cent industrial target would include:

- (a) A larger proportion of finished goods, processed and semi-processed goods in the total exports of the region;
- (b) A larger volume of intraregional trade between African countries; and
- (c) An increase in the total value of exports to developed countries.

III. PREREQUISITES FOR A CO-ORDINATED APPROACH

21. The Plan of Action adopted at the Second General Conference of UNIDO singled out the necessity of expanding international co-operation in the field of industry. Simultaneously, the Plan stressed the important complementary role that industrial trade would have to play in meeting the quantitative target. The adoption of an integrated national approach incorporating facets of both trade and industry and emphasizing action at the level of specific industrial sectors would constitute the basis for this co-ordinated approach. Through consultation, a programme for regional co-operation on trade and industry could then be developed.

^{1/} This is particularly true in the case of the historical North-South trading links that have typified African trade.

23. One major consideration is the fact that industry in many African countries is currently constrained by the small size of national markets. This reduces the opportunities for expanding industrial production. Over time, achievement of a broader distribution of income should generate additional demand for existing domestic industries and contribute to a long-run change in the pattern of consumption of manufactures.^{8/} Structural changes in African industry (in response to policy action as well as to changes in the pattern of consumption) should give rise to new trade possibilities by fostering greater specialization.

23. Emphasizing mass-consumption products would place a higher priority on low prices and price levels, in contrast with an industrial branch emphasizing quality and geared to meet the demands of the upper-income groups. Such a change in the final product mix is likely to result in an important additional growth stimulus - through a broader range of economic backward linkages - for both intermediate and basic industries.

24. In view of the limited resources and complexity of such a programme, national policy action may begin by singling out those industrial sectors that offer the best possibilities of contributing to future economic and social objectives.^{9/} Each African country should emphasize this process in the context of its own objectives and priorities but, broadly speaking, the desire for greater self-reliance and for an overall improvement in the living standards of the masses are common objectives.

25. The choice of sectors to be stressed is not only a major area for study; it will also have spillover effects for decision-making in a variety of fields. Decisions affecting industrial planning, infrastructure, pricing policies, fiscal incentives, labour policies,

^{8/} To some extent this implies that present market signals, which are weighted by the current distribution of income, cannot be reliable indicators of industrial growth patterns that are in line with the objectives of the New International Economic Order.

^{9/} The concept of priority industrial sectors plays a key role in elaborating a plan of action to achieve the quantitative targets. Identification of such sectors in Africa has been the subject of considerable study in UNIDO. See UNIDO, "Africa two per cent: implications of the industrial development target for the year 2000" (CMI.3/INR/TP/3).

training, etc. will all have to be considered in the light of their implications for development and trade in the priority industrial sectors. A crucial decision is likely to be the choice between specialization and diversification. This choice, which will largely be determined by the country's stage of development, market size, development goals and possibilities for co-operation with other countries, must be resolved in a dynamic framework. The necessity of progressively building up a country's industrial structure may require an early start for some industries that are not of immediate profitability. A sector's potential future contribution (in terms of both production and trade) may be a more important determining factor than its present competitive ability.

26. A number of potential African priority sectors have been the subject of study within UNIDO in connexion with the general analysis of the 2 per cent target.^{10/} Among the examples that can be cited is the steel industry. In this sector, although economies of scale are significant, individual markets in African countries are not generally sufficient to accommodate the installation of large-scale plants. Co-operative development of the sector on a regional basis is important so that plants of an economic size can be viable and can be based on the available raw materials. UNIDO estimates indicate that by the year 2000 the region's consumption of crude steel will be 130 million tons. The additional capacity to supply this demand will require an investment of US\$130 billion. Foreign exchange benefits would be US\$28 billion, of which US\$5.6 billion would be due to exports.^{11/}

27. Another striking example of African potential during the last quarter of this century is the food processing sector.^{12/} By the year 2000, gross production output could amount to approximately US\$43 billion, requiring an investment of US\$29 billion, including storage and marketing facilities. Value added in food processing is estimated at US\$16 billion while export earnings for the year 2000 would be about US\$23 billion.

^{10/} Ibid, paras. 16-26.

^{11/} Ibid, paras. 36-39.

^{12/} Defined to be grain milling, oils and fats, sugar, fruit and vegetable processing, milk and dairy products, meat, fish and beverages.

28. These examples serve to illustrate the magnitude and complexities of future African industrialization as well as the region's industrial and trade potential.^{13/} The selection of priority industries at the national level could then constitute the basis for development of a regional programme for the New International Economic Order for industry. Subsequent regional discussions and consultations on the national targets could then undertake the identification of such matters as: (a) future opportunities for greater intra-African trade; (b) opportunities for regional co-operation through inter-enterprise or intergovernmental action to implement certain industrial projects singled out at the national level; and (c) issues calling for an "African position" which would be pressed in discussions with individual developed countries or groups of developed countries.

29. Any programme for regional industrial co-operation must, of course, go beyond agreement on regional industrial priorities. It must touch upon matters of trade and commercial policy, the development of complementary infrastructure, foreign investment policy harmonization, etc. Although there has been no dearth of formal schemes for regional co-operation in Africa, national industrial policies have, to date, generally lacked the essential element of co-operation and co-ordination. Most formalized schemes have placed primary emphasis on expanded trade.^{14/} Almost all the efforts have dealt with the subject of industrialization, but this economic branch has proven to be "the most difficult area to tackle and progress has been minimal".^{15/}

30. In contrast to the situation in the 1960s, present conditions for achieving greater co-operation and co-ordination are more promising. This observation is based on the progress that the region has made in developing infrastructural and institutional facilities. As stated by the

^{13/} Other sectors analyzed in the same paper include the forest-based industries, engineering industries, textiles, phosphate fertilizers, nitrogenous fertilizers, petrochemicals and plastics, salt and its derivatives.

^{14/} The earlier observation that expanded trade should be regarded as a consequence of successful industrialization leads to the conclusion that regional co-operation efforts should accord industry a higher priority where this is practical.

^{15/} ECA, "Specialization, complementary and multinational industrialization in Africa: progress report" (E/CN.14/638), para. 13.

Executive Secretary of ECA during the second meeting of the Follow-up Committee, Africa is now in an improved position relative to that of a decade ago "to pursue outward-looking policies and in particular to integrate national industrial development policies with the objectives of multinational and regional industrialization".^{16/}

31. The statement indicates that trade cannot be viewed in isolation from such considerations as investment patterns, infrastructure requirements, regional planning and policy objectives. Consequently, effective forums are required that will allow for a range of discussions covering all these interrelationships, whether restricted to the sectoral level or at a broader level covering industry as a whole.

32. The emphasis that has been placed on the need for increasing the degree of industrial processing^{17/} clearly falls within the realm of regional measures and deserves special mention here. Africa, perhaps to a greater extent than other developing regions, suffers from a variety of problems closely related to its dependence on primary, unprocessed exports as a major source of foreign exchange. Cyclical price fluctuations, cycles of overproduction and shortages, competition from synthetics and a long-run deterioration in the region's terms of trade are all consequences of this dependence.^{18/} A portion of the additional semi-manufactured and processed goods to be produced in Africa could perhaps be absorbed domestically, but the bulk of these products would have to find their way to foreign markets.

^{16/} ECA, "Report of the Chairman of the Follow-up Committee on Industrialization in Africa" (CMI.3/INR/TP/2), para. 18.

^{17/} See, for example, The Lima Declaration and Plan of Action, para. 58 iii.

^{18/} For an intensive study illustrating these points, see ECA, "Relative prices of commodity exports and manufactured imports of developing Africa" (CMI.3/INR/TP/6).

30. While the possibility of increased domestic processing of primary African exports is promising, the difficulties to be overcome - from both the demand and the supply side - are equally great. Investment requirements will be quite large as will capital imports. New multinational approaches to regional co-operation may be needed which incorporate a comprehensive element of trade, investment and production technology.

31. Alternatively, the multinational corporations have played a prominent part in the field of extraction and processing. In the past, this has often inhibited the further local processing of natural resources. During the drive towards greater national sovereignty, however, host governments have exercised a larger degree of control and this has opened up possibilities for new ownership schemes. African industrial progress, coupled with the recent prospects of aid and investment programmes financed by the developing countries themselves, could provide the means to supplant multinational operations to some extent. This would be dependent on the substitution of co-operative efforts within the region, however. This new alternative has been described as "a triangular relationship": briefly, the capital might be provided by one developing country, the natural resources by a second developing country, and the technology by a developed country or a semi-industrialized developing country.

IV. INTERNATIONAL CO-OPERATION AND INDUSTRIAL CONSULTATIONS: THE ROLE OF UNIDO AND ECA

35. Recent statements regarding the interrelationship between industry and trade have stressed the fact that trade liberalization measures such as the General System of Preferences (GSP) cannot obviate obstacles to development that are "not just technical but economic and may preclude most countries of Africa from benefiting as fully as other developing countries from the introduction of a preferential tariff system".^{19/} This line of thought has been carried further by the Secretary General of UNCTAD when he stated that:

"...the problem of trade in manufactures cannot, however, be seen only as a problem of access, a problem of removing barriers. This is

^{19/} UNCTAD, Generalized System of Preferences: Report of the Third Regional Seminar on the GSP (UNCTAD/RS/43), para. 12.

perhaps a necessary condition, but not a sufficient one. We can hardly remain content with opening doors and relying on the forces of the market to do the rest. I believe myself that there is a need for a more active policy, for an interrelated and mutually supporting package of measures to stimulate the trade of developing countries in industrial products - covering not only their traditional concerns with conditions of access to markets but also the constraints on their ability to supply such products. Such a package should aim, at the international level as well as the national, at eliminating barriers and providing facilities of a financial, institutional and technological nature. It would comprise measures in the field of the transfer of technology and policies relating to the role of transnational corporations in this sector. It should also embrace the marketing and promotion of industrial goods, the availability of export credits, and so on. Similarly, it would be related to issues in the area of adjustment measures undertaken by the developed countries. Problems relating to the processing of primary products and international trade in them will provide a link with policies in the commodity sector. This is an area of great potential that is integral to industrialization itself".^{20/}

36. Following this line of thought, African trade and industrialization must be viewed as inseparable fields of endeavour. In this context the proposed consultation system must be regarded as directly relevant to successful trade development as well as to African industrialization.

37. The need for a system of industrial consultations has been stressed recently in a variety of forums. In resolution 3362 (S-VII) the seventh special session of the General Assembly singled out four levels of industrial consultations: global, interregional, regional and sectoral.^{21/}

^{20/} UNCTAD, "Opening statement of the Secretary General of UNCTAD at the Trade and Development Board, Sixth Special Session, Geneva, 10 March 1975" (TD/B(S-VI)/Misc. 4), para. 16.

^{21/} General Assembly resolution 3362 (S-VII), chapter IV, para. 3.

UNIDO, acting in co-operation with the other appropriate international organizations, would serve as the co-ordinating body in the field of industrial consultations. The second General Conference of UNIDO has accepted these consultations as urgent. They should take into account appropriate information with respect to the development of demand and supply, the availability of production factors and their costs, the possibilities and conditions of investment, and the availability of appropriate equipment and technical know-how. The consultations are intended to facilitate, within a specific context, the redeployment to the developing countries of certain productive capacities existing in developed countries, and the creation of new industrial facilities in the developing countries. In particular, they should relate to industries producing raw materials exported by developing countries or to industries that consume vast quantities of energy. The consultations should result in concrete proposals for inclusion in the development programs of participating developing countries.

27. The new approach will require that industrial objectives in Africa be linked at the regional and subregional levels. If a common position is to be presented to the international community, it will be necessary that African industrial policies be developed within a regional framework. Africa's industrial status, trade matters and targets all differ from those found in the developed countries or even in other developing regions. Collective action, as described in this chapter, offers a means by which the region's needs and priorities can be equitably reflected in the New International Economic Order.

28. Concerning the global, interregional, regional and sectoral consultations that UNIDO will co-ordinate, prior consultation among the African countries will be necessary to consolidate the region's position and to ensure that the direction of efforts undertaken in broader geographical forums are compatible with African objectives. One of the subjects to be discussed would be the region's identification of priority industrial sectors. Africa's stake in these sectoral consultations would be a very substantial one.

22/ UNCTAD, "Opening statement of the Secretary General of UNCTAD at the Trade and Development Board, Sixth Special Session, Geneva, 10 March 1975" (TD/B(S-VI)/Wisc. 4), para. 16.

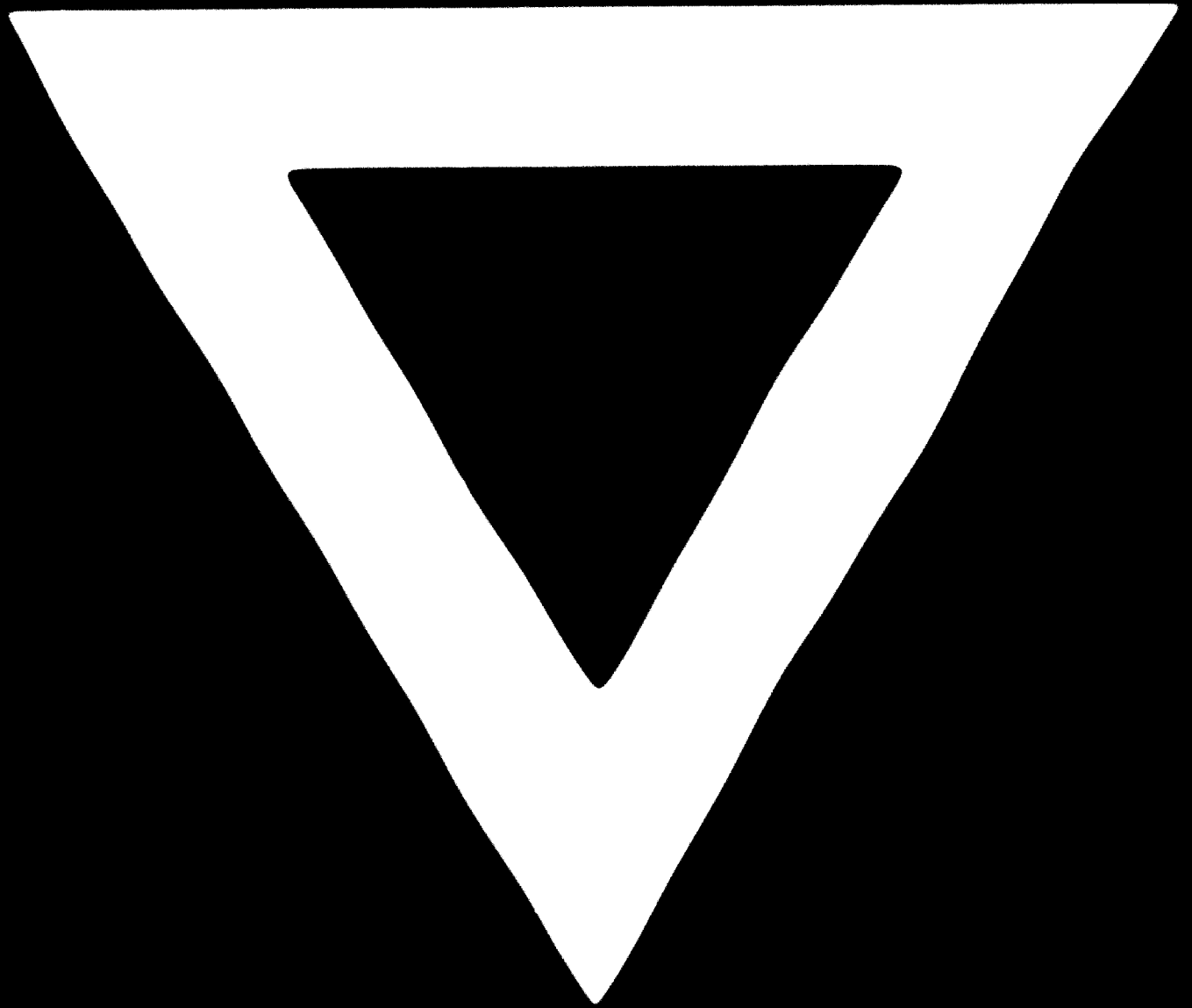
40. In effect, all levels of the consultation approach would be linked, though the key to their success would depend on action at the regional level. For a continuing system of regional consultations to be effective, however, they must be supported by an appropriate institutional structure - at the African level - to provide guidance and initiate action in the key areas. The Lima Declaration and Plan of Action along with the relevant resolutions from the sixth and seventh special sessions have laid the general guidelines for regional action. On the basis of these guidelines the Second Meeting of the Follow-up Committee on Industrialization in Africa made certain recommendations to be considered by the Third Conference of African Ministers of Industry. In particular,

"...the Conference could determine the policy framework by which priorities were set; and OAU should provide the psychological and political support for Africa's priorities so as to enable ECA and UNIDO to carry out the measures needed to implement the Lima Declaration particularly in regard to the redeployment in Africa of productive facilities".^{23/}

41. The Third Conference of African Ministers of Industry will consider the conversion of the Follow-up Committee into a permanent committee serving as the African forum for regional consultations. This step demonstrates the African intention to pursue additional opportunities for regional co-operation. UNIDO is fully prepared to assist these efforts at regional co-operation through industrial consultation.

^{23/} ECA, "Report of the Second Meeting of the Follow-up Committee on Industrialization in Africa" (E/CA.14/IND/2), para. 17.





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