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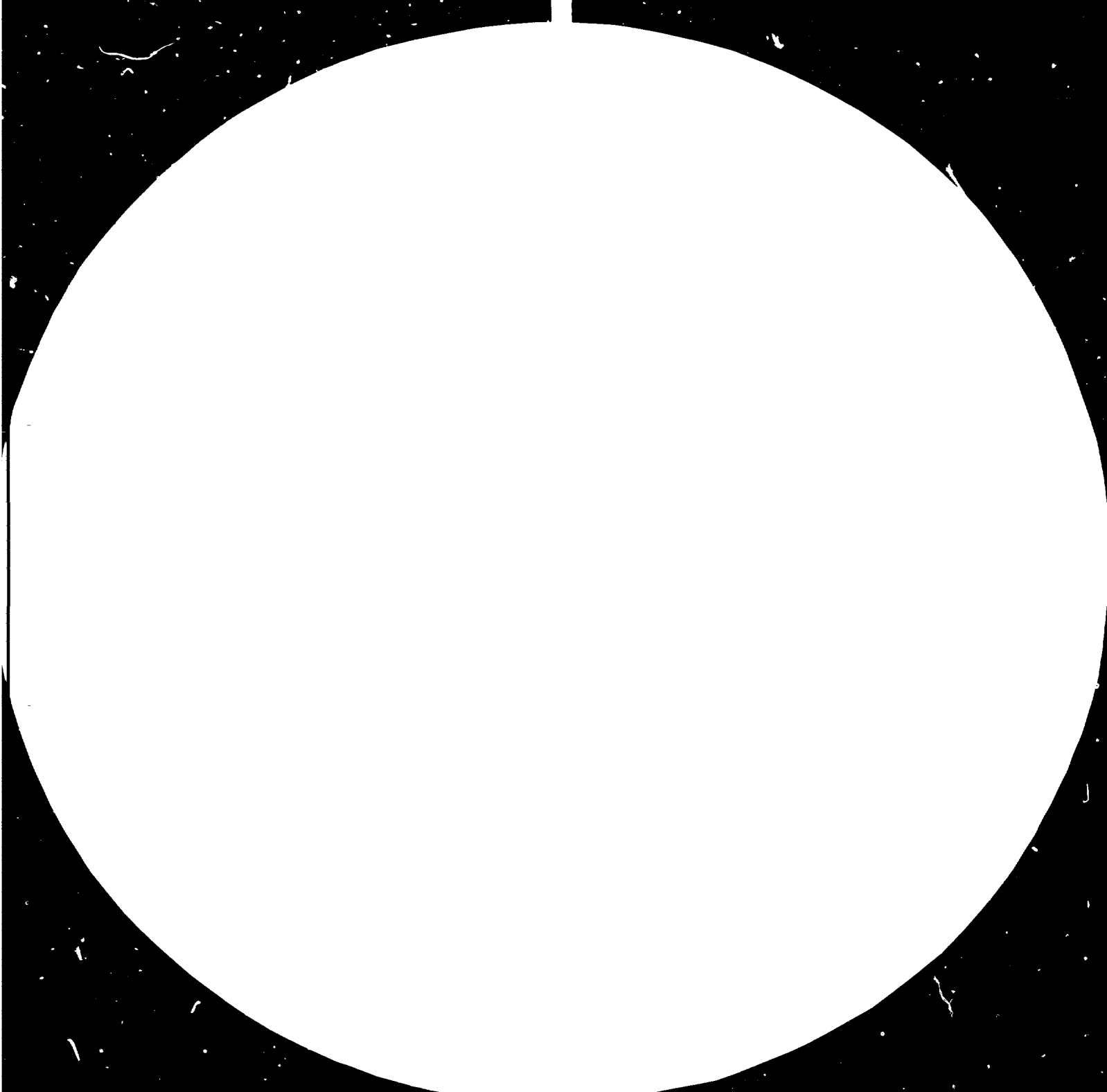
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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

**FIRST
CONSULTATION
ON THE
CAPITAL GOODS
INDUSTRY**

Brussels, Belgium, 21-25 September 1981

REPORT

Distr.
LIMITED
ID/276
(ID/WG.342/8/Rev.1)
ENGLISH

PREFACE

The Second General Conference of the United Nations Industrial Development Organization (UNIDO), held at Lima, Peru, in March 1975, recommended that UNIDO should include among its activities a system of continuing consultations between developed and developing countries with the object of raising the developing countries' share in world industrial output through increased international co-operation.^{1/}

The General Assembly, at its seventh special session in September 1975, in its resolution 3362 (S-VII), decided that the System of Consultations called for by the Lima Declaration and Plan of Action should be established at global, regional, interregional and sectoral levels,^{2/} and that UNIDO, at the request of the countries concerned, should provide a forum for the negotiation of agreements in the field of industry between developed and developing countries and among developing countries themselves.

The System of Consultations has been established under the guidance of the Industrial Development Board. The Board, at its thirteenth session in 1979, decided that the First Consultation on the Capital Goods Industry should be held in 1981.^{3/}

The Board at its fourteenth session in 1980 decided to establish the System of Consultations on a permanent basis with the following main characteristics, including those described in its past decisions:

(a) The System of Consultations should be an instrument through which the United Nations Industrial Development Organization (UNIDO) would serve as a forum for developed and developing countries in their contacts and consultations directed towards the industrialization of developing countries; ^{4/}

1/ Report of the Second General Conference of the United Nations Industrial Development Organization (ID/CONF.3/31), chapter IV, "The Lima Declaration and Plan of Action on Industrial Development and Co-operation", para. 66.

2/ Official Records of the General Assembly, Seventh Special Session, Supplement No. 1, para. 3.

3/ Ibid., Thirty-fourth Session, Supplement No.16, para 84(c).

4/ Ibid., Thirty-fifth Session, Supplement No.16, para 151(e).

(b) Consultations would also permit negotiations among interested parties at their request, at the same time as or after Consultations; 5/

(c) Participants of each member country should include officials of Governments as well as representatives of industry, labour, consumer groups and others, as deemed appropriate by each Government; 6/

(d) Final reports of the Consultations should include such conclusions and recommendations as agreed upon by consensus by the participants as well as other significant views expressed during the discussion. 7/

As part of its preparatory activities on the capital goods industry, UNIDO convened the Seminar on Strategies and Instruments to Promote the Development of Capital Goods Industries in Developing Countries at Algiers, Algeria, from 7 to 11 December 1979. The Seminar recommended that UNIDO should make the necessary preparations on the following issues for submission to the First Consultation on the Capital Goods Industry:

- Issue 1. Potentialities and possible progress of the capital goods industry development in developing countries including the small and medium-sized developing countries.
- Issue 2. Technology in the service of development.
- Issue 3. The framework of international co-operation including the long-term contractual arrangements for the setting up of a capital goods industry in developing countries. 8/

The Global Preparatory Meeting for the First Consultation on the Capital Goods Industry, held at Warsaw, Poland, from 24 to 28 November 1980, agreed that those three issues were of basic interest. 9/

Following the final preparatory activities of UNIDO, it was decided to convene the First Consultation on the Capital Goods Industry at Brussels, Belgium, from 21 to 25 September 1981.

5/ Ibid., para. 151(b).

6/ Ibid., para. 152.

7/ Ibid., Thirty-second Session, Supplement No. 16, para. 163.

8/ See report of the Seminar (ID/WG.314/8).

9/ See report of the Meeting (ID/WG.324/14/Rev.1).

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INTRODUCTION

The First Consultation on the Capital Goods Industry was held at Brussels, Belgium, from 21 to 25 September 1981. The Consultation was attended by 168 participants (see annex I) representing Governments, industry and labour from 57 countries, 6 United Nations organizations and 6 other international organizations.

AGREED CONCLUSIONS AND RECOMMENDATIONS

Issues 1 and 2

1. The First Consultation on the Capital Goods Industry agreed on the necessity to increase the production of capital goods in developing countries, which will correct a fundamental disequilibrium between developed and developing countries.
2. Considering the scope, complexity and extreme variety of the problems and situations encountered in changing economic, social and cultural contexts, it is necessary to initiate a permanent dialogue between countries in order to increase, on the one hand, the awareness of the developed countries of the need to co-operate with the developing countries and, on the other hand, the responsibility of the developing countries in their decisions on establishing or developing the capital goods sector, which plays a major role in industrialization.
3. The First Consultation considers that the multiplication of direct exchanges between economic operators - the state, enterprises and workers - will make industrial co-operation more effective.
4. In order to increase the production of capital goods in the developing countries and to promote industrial co-operation, the First Consultation recommends that UNIDO should:
 - (a) Give priority to assisting those developing countries with no or only embryonic capital goods industries, which are in the majority, through technical assistance within the framework of the United Nations system;
 - (b) Assist developing countries to plan the long-term development of the industrial sector, and more particularly, of the capital goods sector, especially by utilizing, together with classical programming instruments, the method of analysis of technological complexity and other appropriate methods. A specific study should be made of the difficulties encountered by developing countries with a limited domestic market and of the ways and means of overcoming them;

(c) Make information available to developing countries on the technological alternatives, their availability, results, costs and commercial conditions for their acquisition. UNIDO should take into account work already done in other organizations of the United Nations system;

(d) Establish, in co-operation with the International Labour Organisation, training profiles for the various levels of technological complexity, and examine possible changes to be made to existing training programmes. It should also study how the financing of training could benefit from the same conditions applied to the financing of social infrastructure. This work should be linked with that undertaken for the forthcoming Consultation on the Training of Industrial Manpower;

(e) Assist in the strengthening of co-operation between developing countries through the organization of an exchange of information between these countries in capital goods, technologies and engineering services. UNIDO should bring to the attention of the competent financial institutions the need to design appropriate financial mechanisms to support the co-operation between developing countries.

In carrying out the above-mentioned recommendations, UNIDO should take into account the work done by other United Nations organizations.

5. In view of the importance of the capital goods sector for the industrialization of the developing countries, it is recommended that UNIDO undertake the activities listed below:

(a) Improve long-term forecasts of the demand for and supply of capital goods, and evaluate, within the framework of these forecasts, the growth potential of developing countries that have no capital goods industry;

(b) Study the conditions that are required to reach levels 1, 2 and 3 of technological complexity (ID/WG.342/3), which are pertinent to the great majority of the developing countries;

(c) Assist in preparing a comprehensive list of suppliers of technology for these levels of technological complexity and the potential partners, in particular, from among the small and medium-sized enterprises of developed and developing countries;

(d) Evaluate long-term technological trends in the capital goods industry and their socio-economic consequences.

6. In view of the fact that the Consultation did not find it possible to agree on the best means of following up its recommendations, the Consultation requests the Industrial Development Board to decide on this matter, including the suggestion for setting up a working group, or other means, to follow-up on the recommendations of the Consultation; in this regard, the secretariat of UNIDO is requested to prepare a document on the terms of reference, composition, frequency of meetings, and cost of this working group for submission to the Board.

Issue 3

7. There is substantial mutual interest between, on the one hand, enterprises having technology and their Governments and, on the other hand, the developing countries wishing to establish capital goods industries. Therefore it is recommended that UNIDO should carry out a study to illustrate this mutual interest and, in particular, the overall consequences with regard to the effect on employment in the capital goods industry.

8. In view of the importance of an effective transfer of technology and the need for transparency with regard to the elements of this transfer, it is recommended that UNIDO, utilizing existing documentation and in particular the work being undertaken by UNCTAD, should:

(a) Evaluate the extent of patent restrictions and know-how cost in the transfer of technology for the production of capital goods corresponding to various levels of technological complexity;

(b) Analyse whether there are other constraints to the effective transfer of technology that may exist in the developed and the developing countries;

(c) Collect and study information on performance guarantee systems involving insurance schemes, public authorities of the countries of the suppliers or the suppliers themselves, or any combination of these, paying particular attention to questions of performance of equipment and the failure to discharge contractual obligations or default by the parties concerned.

On this basis, UNIDO should draw attention to such restrictions and propose measures for improving the flow of technology in the developing countries.

9. Taking into account the specific needs of countries without a capital goods industry, it is recommended that:

(a) Taking into account the work on the general problem of transfer of technology, UNIDO should prepare a checklist of specific elements suggested for inclusion in arrangements for the transfer of technology for capital goods corresponding to levels 1 and 2 of technological complexity;

(b) Consideration should be given to the convening of a consultation in Africa that would deal with ways and means of enabling the developing countries and the least developed countries without a capital goods industry to enter that sector where appropriate; to the possible partners for the transfer of technologies, particularly small and medium-sized enterprises; and to the production of capital goods corresponding to levels 1 and 2 of technological complexity.

I. ORGANIZATION OF THE CONSULTATION

Opening of the Consultation

10. The First Consultation on the Capital Goods Industry was opened by Monsieur Daniel Coens, Minister for Co-operation in Development of Belgium.
11. A message from the Executive Director of UNIDO was read to the Consultation.

Election of officers

12. Fernand Herman (Belgium), Chef de délégation, ancien Ministre des Affaires Economiques, Député au Parlement Européen was elected Chairman.
13. The following were elected Vice-Chairmen:
 - Rezki Hocine (Algeria), Directeur Général, Société Nationale de Sidérurgie (SNS)
 - Josef Prochazka (Czechoslovakia), Director General, Federal Ministry for Engineering and Metallurgy
 - S. Kannan (India), Deputy Secretary, Ministry of Industry
 - Annisa Abu Bakr (Trinidad and Tobago), Acting Director, Economic Studies and Planning, Industrial Development Corporation

Adoption of the agenda

14. The following agenda was adopted:
 1. Opening of the Consultation
 2. Election of the Chairman and Vice-Chairmen
 3. Adoption of the agenda
 4. Discussion of the issues
 5. Other issues proposed for consideration by the next Consultation
 6. Adoption of the report of the Meeting

Establishment of working groups

15. The Consultation established two working groups to discuss the following issues and to propose conclusions and recommendations for consideration at the plenary session:
 1. (a) Potentialities and possible progress of the capital goods industry development in the developing countries.
 - (b) Technology in the service of development.

2. Forms and conditions of international co-operation including long-term arrangements between developed and developing countries and among developing countries for capital goods production.

16. Volker Thürnau (Federal Republic of Germany) was elected Chairman of Working Group I, and Rezki Hocine (Algeria) Chairman of Working Group II.

Adoption of the report

17. The report, including the reports of the Working Groups, was adopted by consensus on Friday, 25 September 1981, at the closing session of the Consultation.

Documentation

18. Documents issued for the First Consultation are listed in annex II.

II. REPORT OF THE PLENARY

Introduction by the UNIDO secretariat

19. In introducing issues 1 and 2, the UNIDO secretariat stressed the importance of the capital goods industry, which represents approximately one third of world manufacturing value added, and its role in capital accumulation. The establishment of such an industry would favour considerably the process of industrialization; it was the most effective way to fully master and adapt technology.

20. It was observed, first, that the current level of production was low in developing countries; second, that it was concentrated in only a few developing countries, and third, that the establishment of that industry was not impossible, but there were obstacles, which was the reason that more than 60 developing countries produced no capital goods.

21. In order to overcome those obstacles, many conditions were necessary, among which stress should be given to long-term strategy, planning and government involvement. Besides assisting developing countries in industrial programmes and projects, UNIDO had developed a new method of analysing technological complexity in order to improve the planning of the capital goods sector.

22. It was underlined that international co-operation was crucial when establishing the capital goods industry in developing countries particularly in some 60 countries without that industry as the initial steps of building the basic technical infrastructure were the most difficult. Considering the involvement of the small and medium-sized enterprises in the capital goods industry, it was stressed that the Governments of developed countries had a role to play in providing their small and medium-sized enterprises with financial and institutional support when co-operating with developing countries. In that way additional sources for the transfer of technology would be made available.

23. The development of the capital goods industry in developing countries was beneficial to both developing and developed countries. Long-term rather than ad hoc arrangements would increase those mutual benefits.

24. In introducing issue 3, the UNIDO secretariat stressed that competition in the capital goods industry was negligible between developed and developing countries, and was likely to remain so for some time. It added that the setting up of a capital goods industry in developing countries would provide markets for components imported from developed countries and secure preferential access to those markets for related capital goods products.

25. Regarding international co-operation, it was stated that there were two items to discuss. The first was training and management, which required that:

(a) Developing countries be ready to pay more attention to those factors and to pay their proper value;

(b) Suppliers of manufacturing units be ready to provide and guarantee proper training, and to hold the training, whenever possible, at the site of the project;

(c) Governments of developed countries be willing to extend export credit to the training component.

Secondly, with regard to the industrial environment within which the manufacturing unit was to be established:

(a) Developing countries should be ready to collect, and transmit to the suppliers of manufacturing units, detailed information on the industrial environment;

(b) Suppliers of manufacturing units should be ready to accept the responsibility of verifying, if possible, and completing, if necessary, the information provided by the purchaser in order to ensure the maximum local content in the production process.

26. In view of the lasting benefits gained by the capital goods manufacturers in exporting their products and related production units, thus

creating new job opportunities, it should be remembered that the setting up of a capital goods industry in developing countries could not be opposed by arguments in favour of protectionism or arguments that unemployment would increase. However, those elements should be taken into account in order to understand the attitude of Governments that were asked to facilitate the transfer of technology.

Summary of discussion

27. The participants commended the First Global Study on the Capital Goods Industry (ID/WG.342/3) as a useful framework for discussing the issues presented to the Consultation. Some participants felt, however, that the role of private enterprise might have been emphasized. Some participants expressed appreciation for the technical assistance provided to them by UNIDO in the capital goods industry.

28. Given the nature of the capital goods industry, it was stated that long-term co-operation would be beneficial to parties from both developed and developing countries, particularly in the supply of industrial training. Some participants suggested that industrial training should be given similar conditions to investment in infrastructure by financial institutions. It was also considered that regional co-operation in training might increase the availability of the labour required for the production of capital goods. One participant stated that transnational corporations were not always willing to provide the training required by the developing countries, and that it might be better to obtain training through intergovernmental arrangements.

29. On the role to be played by Governments, some participants pointed out that their private sectors operated independently; however, their Governments could influence or encourage the activities of private enterprises.

30. Some participants stated that intergovernmental framework agreements concluded by them with many market economy developed countries as well as with centrally planned economies had clearly demonstrated that substantial advantages were to be obtained, particularly with regard to training, financial resources, and technological know-how.

31. Other participants described their experience with developing countries and how intergovernmental agreements, linked with the industrial development plans of the developing countries, had contributed to their industrialization.

32. One participant pointed out that problems often arose with regard to the laws that govern the implementation of agreements, i.e. whether they fell within the national jurisdiction of developing countries or whether international law applied. He suggested that UNIDO might advise on the law applicable to co-operation agreements.

33. On the subject of technology, some participants stated that technology was not readily available, as was often assumed. In many cases there was a need for transparency with regard to the cost of technology obtained through licensing arrangements. It was suggested that UNIDO should examine that matter as well as the forms of payment for technology such as lump-sum and royalties. Where adapted technologies were already available in one of the developing countries, UNIDO might arrange such technologies to be provided in other developing countries.

34. Two participants stated that it would be useful for UNIDO to carry out case studies of the successes and failures of developing countries in their attempts to establish a capital goods industry. One participant suggested that further work on the capital goods industry should focus on fewer products or on selected groups of products.

35. The representative of the International Labour Organisation stated that it was necessary to strengthen existing regional training institutions such as those established under the auspices of that Organisation, and that governments, employers and trade unions should be involved in development.

36. The representatives of UNCTAD referred to that organization's activities on trade policy and structural adjustment and pointed out that it was desirable to reach an understanding with UNIDO of what the capital goods sector comprised so as to facilitate the future work of both organizations. They outlined the work of UNCTAD in the transfer and development of technology in the capital goods and industrial machinery sector and stated that in July 1982, UNCTAD would convene, in co-operation with UNIDO and the other United Nations organizations concerned, a governmental expert meeting on that question.

37. The participants recognized that the capital goods sector was vast, that the transfer of technology was complex, and that the development of capital goods in the developing countries required regional and international co-operation on a large scale.

38. In the closing session of the First Consultation when the report of Working Group I was being considered, participants differed as to the desirability of setting up a working group to follow up the recommendations of the Consultation.

39. Some participants were of the view that such a working group, composed of five or ten experts and with due regard being given to equitable geographical distribution, should guide and orient the activities of UNIDO on the implementation of the recommendations and provide UNIDO with information; they considered that such a working group would enable UNIDO to clearly identify different viewpoints regarding the establishment of a capital goods industry in the developing countries and on that basis reconcile those viewpoints. The financial implications of the establishment of the working group, which would meet two or three times a year, were considered not to be excessive.

40. Other participants felt that it was not necessary to create a working group for the above-mentioned purposes. It was also felt that the Industrial Development Board already carried out that function by considering the System of Consultations once a year, and that, in any case, the UNIDO secretariat could call on individual experts whenever necessary. They also considered that, given the wide range of products in the capital goods sector, a wide variety of expertise would be required that a small working group could not make available. Finally it was felt that the cost would be excessive in the light of the current budgetary constraints.

41. The participants therefore agreed that that matter should be referred to the Industrial Development Board for a decision on the basis of additional information to be provided by the secretariat on its terms of reference, composition, frequency of meetings and costs.

42. When the convening of the next Consultation on the Capital Goods Industry was being considered, some participants suggested that while it should be devoted to the ways and means of enabling the developing countries without a capital goods industry to enter that sector as agreed by the Consultation, it should also be devoted to the examination of the implementation of the recommendations of the First Consultation.

III. REPORT OF WORKING GROUP I
ON POTENTIALITIES AND POSSIBLE PROGRESS OF THE CAPITAL GOODS
INDUSTRY DEVELOPMENT IN THE DEVELOPING COUNTRIES, AND
ON TECHNOLOGY IN THE SERVICE OF DEVELOPMENT

43. The participants stated that developing countries needed to possess a capital goods industry, and that the establishment of such an industry would also be beneficial to developed countries. That mutual interest should lead to action for promoting the setting up of a capital goods industry in developing countries, priority being given to those countries without a production. The necessity was stressed by some participants for direct contacts between the various economic operators - state, enterprises, workers - to make them more conscious of their mutual interest and to foster efficient industrial co-operation. The importance of the choices made by the developing countries for their industrialization, particularly in the capital goods industry, was underlined.

44. It was stated that important factors to successfully establish that industry were a comprehensive long-term strategy based on socio-economic objectives and long-term planning. It was also stated that the Governments of developing countries should play a leading role not only in elaborating strategies and policies for the capital goods industry, but also in acting in specific areas such as manpower training and acquisition of technology.

45. With regard to industrial co-operation, some participants stressed the role of state-owned enterprises in that industry and their importance in the development process. Other participants emphasized the limited possibilities for their Governments to interfere with the private sector. They also stated that a favourable investment climate in developing countries would be a requisite to attract investors.

46. In respect to strategies and policies for the establishment and development of the capital goods industry, some participants expressed the necessity to define priorities and promote core sectors. Reservations were expressed on strategies based only on assembly activities. It was stated that the analysis of comparative advantages should not be the only criteria for establishing and expanding a capital goods industry. The importance of social aspects, such as industrial apprenticeship and its benefits, should also be taken into account.

47. One participant reported on the successful testing of the method of analysis of technological complexity as a tool for planning and elaborating strategy for increasing local production capacities. It was suggested that UNIDO should improve that method by analysing the conditions for going from one level of complexity to another.

48. Many participants stressed the need for engineering services for the development of the capital goods industry. It was stated that software activities, such as design capabilities, management of production, standardization and quality control, were essential for such an industry.

49. The representative of the World Bank reported on the activities of his organization in the capital goods industry in developing countries, particularly the "package" programmes. He underlined the necessity for developing countries to ensure the long-term competitiveness of their capital goods industry.

50. The representative of UNCTAD reported on the activities of that organization concerning tariff and non-tariff barriers and analysis of trade policies. He indicated that an analysis of barriers to markets was being done.

51. With regard to training and technology, those elements were recognized as crucial to developing the capital goods industry. It was stated that training should be an important component of industrial arrangements. The creation or strengthening of training institutions in developing countries, at the national or sub-regional levels, to provide the appropriate engineering skills was felt to be important. It was felt that all means during the training of labour should be increased. The representative of ILO recalled the Memorandum of Understanding between ILO and UNIDO regarding their co-operation in the field of training.

52. One participant suggested that training should be considered as improving social infrastructure and, as such, should be eligible for financing by those institutions providing loans under the same conditions as other social and economic infrastructures.

53. Some participants stressed the importance of in-plant training in developing countries and also suggested that UNIDO should prepare standard training programmes for newcomers in that industry who would be producing products according to levels 1, 2 and 3 of technological complexity.

54. With regard to technology, a participant stated that technology was not readily available to developing countries because of a lack of a system of information on the sources and cost of acquisition of technology. Some participants reported on their negative experience when negotiating acquisition of technology. A participant stated that technology was to a great extent available provided that the labour was adequately trained. Some participants outlined the importance of setting up research and development to master and adapt technology.

55. Some obstacles to the establishment of the capital goods industry were noted. First, the smallness of domestic markets in a great number of developing countries; second, lack of industrial infrastructure; third, the rapid obsolescence of equipment; and fourth, the difficulty for developing countries to keep pace with technological developments, to adapt technologies to their specific requirements, and to adapt their training programmes.

56. A participant stated that technologies adapted to the needs of developing countries were available in the more advanced developing countries. He proposed an intensification of co-operation, in particular information sharing, between the developing countries.

57. Many participants outlined the importance of strengthening relations between developing countries, and the benefits that could be derived from such interaction, particularly among those at different levels of development of the capital goods industry.

58. The representative of the Economic Commission for Western Asia reported on its regional programme relating to the activities of the Commission on the identification and promotion of capital goods projects. He emphasized the regional approach for industrial development and the need for continuing co-operation with UNIDO and the regional organizations in that field as well as in the field of technology transfer. Some participants indicated similar efforts in other regions of the world.

59. The lack of financing, including local credit facilities, was stated by many participants to be an additional and serious difficulty for enterprises in developing countries when they were promoting sales in their domestic markets. Those enterprises could not compete in their own markets with exporting enterprises of developed countries that benefited from larger credit facilities.

60. A participant stated that the correct use of imported equipment and the assimilation of its technology were the first steps towards establishing a capital goods industry. Many participants observed that the setting up of repair and maintenance units for capital goods, thus creating a nucleus of skilled labour, was of great importance in developing countries.

61. Some participants stated that disarmament and détente policy could help to mobilize additional resources and to accelerate the industrialization of the developing countries.

62. Many participants stated that the successful work of the First Consultation was to a great extent made possible by the excellent quality of the background documents prepared by UNIDO.

63. Some participants appreciated the work done so far by UNIDO in technical assistance.

IV. REPORT OF WORKING GROUP II
ON FORMS AND CONDITIONS OF INTERNATIONAL CO-OPERATION
INCLUDING LONG-TERM ARRANGEMENTS BETWEEN DEVELOPED
AND DEVELOPING COUNTRIES AND AMONG DEVELOPING
COUNTRIES FOR CAPITAL GOODS PRODUCTION

64. The Working Group initiated its deliberations on the basis of the introduction made by the secretariat in the plenary and of the documents (ID/WG.342/4 and 6) before it. The discussions centred, inter alia, on the following: mutuality of interests, long-term arrangements, the role of Governments, guidelines for contractual relations, guarantees, and training.

65. The Working Group noted that there were several areas in which a mutual interest was manifest. Competition with developed countries due to production of capital goods in the developing countries was negligible, and was likely to remain so for some time. Several participants pointed out that the concern of developed countries to maintain employment levels should not give rise to restrictive policies on the part of their Government.

66. In view of the mutuality of interests involved and the need for long-term perspectives in the establishment of capital goods industries, some participants felt that long-term arrangements between countries would be desirable. Those arrangements would be of particular benefit to those developing countries including the least developed countries, that were still to initiate production of capital goods. However, there were several opinions as to the form and content of such long-term arrangements.

67. Some participants reiterated their statements made in the plenary that their private sectors operated independently and that their Governments could only influence or encourage the activities of private enterprises. Other participants described how intergovernmental agreements already provided a good framework for the acquisition of technology, training, financial resources, etc. by the developing countries. In addition, some participants pointed out that the Governments of some developed countries had taken measures in regard to investment insurance, export credits etc., and that there were other instances of government intervention.

68. On the subject of contractual relations, several participants regretted the lack of transparency and the excessive cost of patents and know-how. Some participants expressed the need for guidelines of model contracts to be made available by UNIDO. In their view, those would be particularly useful to developing countries in their negotiations with the suppliers of capital goods and of the related know-how. Other participants felt, however, that such models would not be useful since commercial transactions should be dealt with on a case-by-case basis. Furthermore, they considered that UNIDO should not duplicate the work already undertaken on that subject. Some participants suggested that UNIDO should study the obstacles encountered by developing countries in the transfer of technology prior to initiating any work on the preparation of guidelines for the transfer of technology in the capital goods industry. There was broad agreement among many participants that UNIDO might advise developing countries at their request during the negotiation phase of a project. It should not, however, participate directly in such negotiations. It was suggested by other participants that other United Nations organizations, such as UNCTC and WIPO, had already some mandate in that field. UNIDO was asked to utilize to the maximum possible extent existing documentation and work performed elsewhere.

69. The Working Group discussed extensively the problems related to guarantees. It was pointed out by some participants that guarantees would involve extra costs and could not in any case cover circumstances beyond the control of the technology suppliers: arbitration could be resorted to in the event of default. A clear definition of the term "guarantee" and its coverage and mechanics was called for. Some participants felt that the involvement of Governments of developed countries in a guarantee system was necessary, while others stated that their Governments could not become involved in such a system. Some participants pointed out that a supplier from a developed country could expect a guarantee from the buyer from the developing country of his due performance of the contract. One participant referred to a study of a system of guarantees involving the Government of the exporting enterprise that ensured the execution of a contract by replacing the enterprise concerned by another one. That study was based on 75 cases of construction work; it would, however, be necessary to determine whether such a guarantee system would be feasible in the case of the capital goods sector. It was pointed out to the Working Group, in connection with the question of guarantees, that an international code of

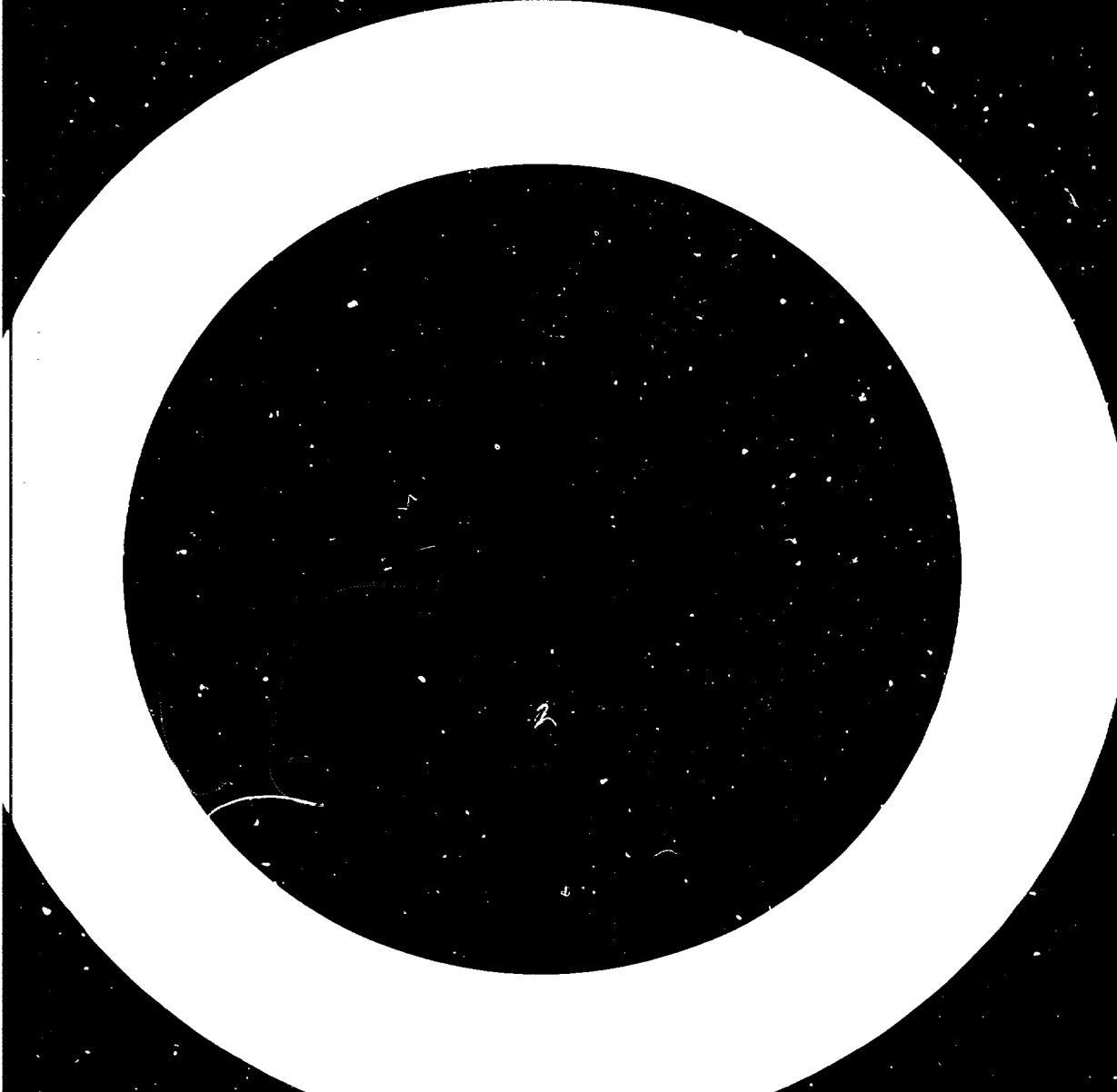
conduct on the transfer of technology was being negotiated at a United Nations conference convened for that purpose under the auspices of UNCTAD.

70. Participants felt that training was a key factor in enabling developing countries to absorb, master, innovate and develop technology. They stressed the need for adequate manpower planning and the development of indigenous design, consultancy and other technological services, the importance of training in operation, repair and maintenance, and assistance by UNIDO to member countries in those fields. Participants felt that contractual arrangements should, where appropriate, pay specific attention to the training aspects to ensure the assimilation of technology. Some participants considered that Governments had a special role to play in facilitating the provision of training to the developing countries. Several participants noted that training should be carried out to the maximum possible extent in the developing countries themselves. Since the subject was being covered by Working Group I, the Working Group asked the UNIDO secretariat to make a common recommendation on the subject to the plenary.

71. Participants stressed the importance of international co-operation in helping the developing countries, particularly the least developed ones, without a capital goods industry in initiating appropriate programmes of capital goods manufacture. They called for greater attention to that aspect in future consultations.

72. Some participants emphasized the need for involvement of labour in the restructuring of capital goods industries in developed countries and in the initiation of capital goods production in developing countries. In that connection, reference was made to the proposed International Reconversion Fund, in respect of which it was suggested that UNIDO could have a co-ordinating role.

73. Some participants pointed out that they had had positive experiences in developing capital goods industry in their countries based on multilateral co-operation between centrally planned economies, and felt that that might be one of the ways of creating and developing a capital goods industry in the developing countries.



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Annex II
LIST OF DOCUMENTS

Issue papers

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| I | Potentialities and possible progress of the capital goods industry development in the developing countries including the small and medium-size developing countries | ID/WG.342/1 |
| II | Technology in the service of development | ID/WG.342/2 |
| III | Forms and conditions of international co-operation including long-term arrangements between developed and developing countries and among developing countries themselves for capital goods production | ID/WG.342/4 |

Background papers

- | | |
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| First global study on the capital goods industry: Strategies for development | ID/WG.342/3 |
| Technology in the service of development | ID/WG.342/5 |
| Forms and conditions of international co-operation including long-term arrangements between developed and developing countries and among developing countries themselves | ID/WG.342/6 |
| Report of the Seminar on Strategies and Instruments to Promote the Development of Capital Goods Industries in Developing Countries, Algiers, 7-11 December 1979 | ID/WG.314/8 |
| Report of the Global Preparatory Meeting for the First Consultation on the Capital Goods Industry, Warsaw, 24-28 November 1980 | ID/WG.324/14/Rev.1 |



