

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

W.10/11
16 November 1955

Special Distribution

CONTRACTING PARTIES
Tenth Session

Original: English

CEYLON APPLICATION UNDER ARTICLE XVIII ON PETROLEUM PRODUCTS

Statement by Sir Claude Corea representative of Ceylon,
at the meeting of the CONTRACTING PARTIES
on 14 November 1955

This is an application under Article XVIII(6). The proposed measure does not relate to any items that have been bound or negotiated under Part II of the General Agreement. We have given notice and circulated a memorandum. In other words we have complied with the requirements of this Article.

The Government of Ceylon has the legal power to enforce the proposed measures under its Act 27 of 1950.

The measure we propose to take is the imposition of restrictions by means of quotas or total prohibition of imports named in the memorandum.

At present we import all of these commodities. The quantities and the countries of origin over a few years are set out in the memorandum.

The reason for taking this action is that we propose to establish an oil refinery in Ceylon with a total capacity of producing 1,050,000 tons of similar petroleum products.

The refinery will commence operations in 1956 with a production of about 900,000 which will be the total requirements of Ceylon except aviation spirit and lubricating oil which are required in small quantities and which will continue to be imported.

It is expected that the refinery will step up its production annually until it will reach its maximum production in 1966 when the total consumption is also expected to be about 1,050,000 tons.

My Government has examined this question with care and in detail over a period of nearly two years and has had considerable discussion with the oil companies, three in number, who are now operating in Ceylon. Their function is to import and distribute. Their discussions have resulted in an agreement with them according to which they will establish the refinery and distribute all the products named in the memorandum.

The capital cost of this establishment has been estimated at 30 million dollars of which 90 per cent will be provided by these oil companies together with another - the Anglo-Iranian Co. - The balance 10 per cent will be provided by the people of Ceylon on debentures issued.

Among the important points on which agreement has been reached are those relating to the safeguarding of the revenue of this country and assurances to be given to the oil companies to guarantee the security of their investment.

In regard to revenue the Government has agreed to the importation of crude oil free of duty. This does not involve any appreciable loss of revenue as there was very little importation previously of this commodity.

The loss of revenue which is substantial and which amounted to about Rs 98 million derived from a duty on petroleum products will be made good by the levy of an excise duty.

The oil companies have agreed that the petroleum products they produce will not be sold at a price exceeding the landed cost of comparable products, that is the C.I.F. price.

The result of this deal is that the Ceylon Government without losing any part of the revenue it has derived from imports of petroleum products and without increasing the cost of these products to the consumer and without any outlay of capital will be able to establish a major industry in pursuance of its plan of economic development.

Some of the important advantages which will be derived are

- (a) increased opportunity for employment not only of local labour but also of local technicians. In addition the refinery will help us to establish subsidiary industries notably the fertilizer industry.
- (b) Saving of foreign exchange. Making allowance for the cost of imported crude oil then will be a net saving of foreign exchange to the extent of Rs 28 million a not inconsiderable amount which can be utilized in the furtherance of economic development plans.
- (c) Perhaps, although it cannot be measured in terms of money, the biggest advantage will be the fact that foreign investors are willing to invest in Ceylon so large a sum of money. This is a time when the underdeveloped countries are in great need of overseas investments. It is also the time when investors indulge in a little hesitation. They often refer to the need of an investment climate in underdeveloped countries. Nothing can be done to demonstrate more clearly the existence of such a climate than the fact of an actual large scale investment from overseas. This demonstrates to the World clearly that important investors have confidence in investing in the country.

In order to encourage these companies to undertake this project the Ceylon Government has had to give some concessions which are in accordance with its

general policy regarding investments which have its approval. For instance, certain concessions have been made regarding income tax. We have also allowed them to import capital goods for the purpose of the refinery at a reduced rate of duty - a nominal rate of $2\frac{1}{2}$ per cent.

The major difficulty which has led to this application is the need to ensure to the new refinery that it will be protected for a period of ten years from competition of identical imported commodities. The Government considers it necessary to give this undertaking without which the oil companies are not prepared to sink so much capital and undertake so great a risk.

It may be argued that these oil companies which are major companies having world-wide interests need not fear any competition but it is the case that there is such a thing as "distress cargo" in the oil world today which may attempt and perhaps succeed in dumping cheap petroleum products and thus create serious difficulties for the oil companies.

It may however be that no such threat will be forthcoming in which case the imposition of restrictions will not become necessary. It is however, necessary to give the oil companies an assurance that such protection for a limited period will be available to them. This is an essential part of the agreement without which an agreement is not possible.

My Government is embarking on an intensified plan of economic development following generally the advice given to it by a body of experts of the World Bank and it is essential that their plans be executed without delay in order to raise standards of living, to give full employment and to increase purchasing power, so that apart from our own development we may contribute to the expansion of multilateral world trade.

Finally, we have always appreciated the sympathy which the CONTRACTING PARTIES always extended to the efforts of small underdeveloped countries to improve their economic condition. We have ourselves on previous occasions benefited by their sympathy. We appeal therefore with confidence to the contracting parties to view this application with the same sympathy and understanding of the special problem with which our underdeveloped countries are faced in the gigantic task of economic development.