

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Limited Distribution

APPLICATION BY CEYLON FOR RELEASE UNDER ARTICLE XVIII

Addendum to Information supplied by Ceylon

Precise Description and Extent of the Measure

The Industrial Products Act of Ceylon No. 18 of 1949 is designed to facilitate the sale of locally manufactured industrial products by regulating the importation of industrial commodities from abroad. Under the provisions of the Act, an importer, in order to obtain a licence to import a specified quantity of the products concerned, can be required to buy a certain proportion of the corresponding local product. The standard ratio for determining the quantity of the local product which an importer must purchase in order to obtain a licence to import a specified quantity of the regulated product will be determined and published in the Ceylon Government Gazette from time to time under the provisions of the Act.

The Act is designed primarily to ensure the distribution of locally manufactured products. As a large proportion of the import and export trade of the country is in the hands of non-nationals who have established foreign trade contacts, experience has shown that importers are reluctant to undertake the distribution and sale of locally-produced commodities. The machinery of the Act, in the practical operation of which the import trade fully co-operate, requires importers to assume responsibility for the distribution of regulated local products.

The Industrial Products Regulation Board, on which the trade is represented, advise the Minister as to what articles or commodities shall be declared industrial products, what ratio should be fixed under Section 9 of the Act, how standard prices should be determined and what the standard grades should be. In addition the particular branch of the import trade affected by any proposed measure is consulted and its advice acted upon in all the matters referred to in the preceding sentence. No quantitative restriction by way of an upper limit is fixed. Once the existing distributive system develops the habit of organising sales of comparable and competitive local products, the need for applying the Act in respect of such products will be eliminated.

The way in which the Act operates can well be illustrated by its application to rolled steel sections, which is one of the items for which a release was granted by the CONTRACTING PARTIES in 1949. Rolled steel sections were brought under control on 6 February 1951, and the standard ratio fixed was one local section to three imported. On 6 April 1951 - just two months later - the standard ratio was altered to one local section to five imported sections and the price of local sections fixed under the Act was reduced from Rs.46.50 cts. to Rs.42. On the same date (that is, two months after the item was brought under control) rounds of sizes other than $\frac{1}{2}$ " to 1" were revoked from control. On

15 September 1951 rounds and half rounds were removed from control altogether and on 25 April 1952 the order was completely revoked and rolled steel sections are no longer subject to the operation of the Act.

1. TOWELS AND TOWELLING

Information and forecast about the future development of the Industry

The hand loom industry in Ceylon is a very ancient one and hand loom weaving and spinning are traditional crafts practised by the peasants. One of the main problems exercising the Government is under-employment among the agricultural peasantry and difficulty of inducing them to remain in their villages pursuing traditional occupations in preference to seeking employment in urban areas. The Government has had expert advice regarding the hand-loom industry and experts have been engaged to advise on production methods, standardisation; quality control, etc. Looms used in the past have been primitive and improved patterns based mainly on the Japanese model are being copied. It is expected that with improved looms, production can be increased from 5 to 25 sq. yds. per loom per day. Once the improved hand-loom comes generally into use it is intended that the next stage of development should be the introduction of power looms. This will become possible only after cheap electrical power becomes available as a result of the extension of existing hydro-electric plants.

The Government has plans for undertaking cotton cultivation on an intensive scale. Reports of agricultural experts show that the Southern and the North Central Provinces of the Island are admirably suited for intensive cotton cultivation. At present on a very rough estimate there are not more than 20,000 acres under cotton cultivation of which more than half is chena cultivation. Given a guaranteed price for his cotton and expert agricultural advice, it is hoped to induce the peasant to undertake cotton cultivation not merely as a chena catch crop but as a regular rotational crop. In the first stage it is planned to bring about 200,000 acres of land under cotton and this will be doubled later. The Government is convinced that in a rural economy the peasantry must be given every inducement not only to grow crops for which their land is suited but also to process the bare necessities of life such as simple textile goods out of the raw material which they themselves produce.

Financial provision has been made for a modern spinning and weaving mill of a 25,000 spindle capacity. Of this at least one-fifth will be turned over to the hand-loom industry. With increased cotton production it is hoped that the rural population can be assisted to turn out their own basic textile requirements.

(This item is not affected by the recent surcharge).

2. COTTON BANIAN

This industry was established during the war and a release is sought under Article XVIII paragraph 7(a)(1). The position in regard to the availability of the raw material for this particular branch of the textile

industry is exactly the same as that outlined in respect of towels and towelling.

The period of protection asked for is three years. As manufacture is concentrated in a few units, problems of quality control, standardisation, etc., that arise in the hand-loom industry do not exist to the same extent. The Government is hopeful that this industry will not require assistance after the period for which release is sought and that it will be able to co-exist competitively with the imported product. The annual average imports of cotton banians during the war years was about 162,000 doz. and the non-availability of adequate supplies during the war provided adequate protection to the local industry during this period. The figures of imports after the war threatened the local industry. Hence the need to bring it under control urgently and even before it was possible to consult the CONTRACTING PARTIES.

3. RUBBER FOOTWEAR

Already in terms of the 1949 release rubber soles and heels have been given a release. The present application seeks to bring rubber shoes other than boots under the operation of the Industrial Products Act. Incidentally, it may be mentioned in this connection that although release was obtained for rubber soles and heels this item has not been brought under the operation of the Act because it was found that the trade was able to distribute its products without the assistance of the distribution machinery which could be invoked under the Act.

The period for which the release is asked is five years. It is anticipated by the Government that the industry will not require assistance after this period. In fact, it is believed that if a health competition can be established between the product of the foreign firm which is now operating in Ceylon and the Ceylonese concerns, for whom this machinery of protection is required, and a price cutting war were avoided, it may be possible to shorten the period of control.

This item is one which is affected by the recent 10% surcharge. It should be mentioned, however, that the 10% surcharge is for the specific purpose of raising revenue for the food subsidy and is of an ad hoc kind. It is not intended by this surcharge to give protection to the domestic industry. It is not likely that the number of enterprises engaged in this industry will be increased as their present potential output well covers the Island's immediate requirements. Development will, therefore, be directed, insofar as it is within the power of the Government, to encouraging the improvement of manufacturing processes by the installation of up-to-date machinery, reduction in costs of production and improvement of technical skills. With the raising of standards of living in Ceylon as well as in South-East Asia generally, it is quite conceivable that this industry can expand into an expert one. At least as far as the Island itself is concerned, it may not be over-optimistic to suggest that the target, from a health point of view, should be that every peasant must be shod. The incidence of hookworm in Ceylon as well as in the East can be eliminated if the peasantry can have ample supplies of cheap shoes.

4. DRIED FISH

This industry is one to which the Ceylon Government attaches very great importance. There are nearly half a million people in Ceylon dependent on fishing as their primary occupation and the Government has expended quite a lot of time and energy in studying the problems of the fishing industry. Experts under the Colombo Plan and from other sources have made a special study of the problems of this industry and the Government has had the services of world famous people to advise on the re-organisation of this industry.

The preparation of dried fish is an essential part of the Government's plans for re-organising and modernising Ceylon's fishing industry. It is proposed that plans for improvement should include the fisherman as well as his catch. Modern craft and gear for fishing and modern methods of curing will be employed. A co-operative distribution scheme for sales and marketing is contemplated.

It is suggested that the present prices of imported dried fish are not a fair economic criterion for judging the price of the domestic variety. It is within our knowledge that methods of preparation of the imported variety are so simple that it is possible to export it at present prices. The Ceylon Government does not intend their own industry to dry fish according to the methods adopted in exporting countries. It is anticipated that in course of time, within the period for which protection is sought (three years), the domestic industry would be able to stand on its own feet. As the fishing industry involves an important element of the people's diet and as Ceylon is dependent to a dangerous extent on imports of food, it is a matter of considerable importance to us in our general effort to increase the Island's self-sufficiency in food supplies, that the fishing industry should be given special attention. Ceylon today has to spend over Rs.700 millions on imports of food (over 50% of imports) and the present policy of the Government aims at reducing within a measurable period of time our dependence on imported food supplies.

5. TORTOISESHELL WARE

This is an industry of considerable antiquity. It is a specialised trade which is practised in the southern tip of the Island and on which a number of important villages depend. The Government considers that its handicraft industry deserves special protection, not merely on economic grounds but also for cultural reasons. Some members of the Working Party have argued that Article XVIII emphasises the developmental aspect of industrialisation. This criterion, if applied over-strictly, fails to take into account several industries in under-developed countries which must be kept alive and assisted by Governments in order to cure the chronic problem of under-employment. Industries of this nature help the peasant to earn additional income and competition which makes the craftsman's product uneconomic can only drive him to abandon his craft. The CONTRACTING PARTIES must realise that purely economic considerations such as would guide a highly developed country in deciding whether or not to engage on a specialised commercial project cannot apply to under-developed countries, whose economies have to be re-adjusted gradually, taking fully into account existing difficulties.