

RESTRICTED

GENERAL AGREEMENT ON TARIFFS AND TRADE

BOP/91
16 May 1969

Limited Distribution

Committee on Balance-of-Payments Restrictions

Original: English

1969 CONSULTATION UNDER ARTICLE XVIII:12(b) WITH CEYLON

Basic Document for the Consultation¹

1. Legal and administrative basis of import restrictions

The present legal basis for the control of imports continues to be the Imports and Exports (Control Act No. 9 of 1955) which was effective on the last occasion when Ceylon entered into consultations in November 1966. Under this Act, the Government has the power to prohibit or restrict the importation of any goods and to prescribe any conditions relating to imports and exports. The import controls enforced under this Act are designed to permit the maximum value of imports consistent with the need to safeguard the country's overall foreign exchange reserves. The Defence (Miscellaneous) Regulations under which import control was administered earlier, though superseded by this Act, are yet kept in force by virtue of the Import and Export Control (Continuation) Act No. 27 of 1950. These regulations constitute a further legal basis for import control.

Import policy is formulated by the Ministry of State in consultation with the Ministry of Commerce and Trade and the Ministry of Planning and Economic Affairs, subject to the approval of the Cabinet. The Minister of State is empowered under the Act to issue regulations in conformity with the objects and purposes of the Act. The responsibility for administering the regulations rests with the Controller of Imports and Exports whose office constitutes a Department of the Ministry of State.

Details of import policies, licensing procedures and any changes thereof are published in the Ceylon Government Gazette.

2. Methods used in restricting imports

On 6 May 1968, the Government of Ceylon introduced a Foreign Exchange Entitlement Certificate Scheme (FEEC). Under this Scheme, the Central Bank issues through the Commercial Banks FEEC's to exporters of all goods and services including tourists receipts other than the major exports and for some invisible receipts. In addition, the Central Bank also issues on behalf of the Government FEEC's to the markets.

¹Material submitted by the Government of Ceylon.

The certificates are transferrable and have a market value, because the holders of the certificates are entitled, subject to import and exchange control requirements, to purchase foreign exchange from commercial banks at their selling rates, on surrender of certificates of equivalent face value, for the payment of certain items of imports and other remittances. The present value of the certificate is 44 per cent of the face value.

The introduction of this Scheme has brought about a considerable degree of liberalization in the import trade and has also imparted flexibility to the economy. This has been effected by placing under Open General Licence a large range of industrial raw materials, machinery and other items considered essential for the country's development which were hitherto under strict quota allocation. Full particulars of the Foreign Exchange Entitlement Certificate Scheme were published in the Ceylon Government Gazette No. 14,800/3 of 5 May 1968.

All imports involving the payment of foreign exchange are divided into two categories - Category "A" imports and Category "B" imports.

- (i) Category "A" imports: include imports for which foreign exchange is released against import licences which need not be supported by FEEC's.
- (ii) Category "B" imports: include imports for which foreign exchange is released against import licences (individual and Open General) which should be supported by FEEC's.

Category "A" imports

These include all such items affecting the cost of living, e.g. food and certain other essential imports, imports of certain government and semi-government agencies and corporations and items imported on special actual user licences in any group or class of industries approved by the Ministry of Industries and Fisheries, and all items listed in Schedule I of the Ceylon Government Gazette referred to.

Category "B" imports

These imports are permitted either:

- (a) against individual import licences; or
- (b) Open General Licences.

Goods which may be imported by the trade under individual import licences under this category are described in Schedule II of the Ceylon Government Gazette referred to earlier. Actual user import licences for imports under this category are issued by the Ministry of Industries and Fisheries or by the Ministry of Home Affairs.

¹The text of this notice is available at the secretariat for reference use.

The goods which may be imported under Open General Licence are specified in Schedule III of the Ceylon Government Gazette.... Importers registered with the Department of Import and Export Control and industrialists registered by the Ministry of Industries and Fisheries may import such items falling under Schedule III.

Since the introduction of the Scheme on 6 May 1968, modifications have been made to it. The effect of these modifications has been to include in Schedule I further essential imports, such as lubricating oils, fertilizers and petroleum products. The inclusion of these items in Schedule I means that foreign exchange is released for their imports without the payment of FEEC's. Schedule II has also been amended by excluding certain items as well as by including some new items, and the number of items which may be registered under Open General Licence under Schedule III has been increased. It is likely that with further experience of working the Scheme, additional items will be placed under Open General Licence. The relevant Ceylon Government Gazette Notifications effecting changes to the original Scheme set out in Ceylon Government Gazette No. 14,800/3 of 5 May 1968, are given in Ceylon Government Gazettes - Nos. 14,803/7 of 31 May 1968, 14,804/4 of 6 June 1968, 14,824/1 of 19 October 1968 and 14,836/5 of 16 January 1969.¹ Annexes A, B and C to this report list the items which may be imported by the trade and certain Government Corporations under Schedules I, II and III as on 16 January 1969.

3. Registration of importers and categories of imports for licensing purposes

All importers have been required under the new Scheme to register with the Controller of Imports and Exports under Import Control Notice 4/68 published in Gazette No. 14,800/3 of 5 May 1968. Under the licensing procedures introduced, imports are classified in the following categories:

- (i) items under Schedule I and imports of certain Government agencies or Corporations imported without FEEC's;
- (ii) items under Schedule II imported with FEEC's;
- (iii) items imported under Open General Licence and falling under Schedule III against the payment of FEEC's.

¹Copies of these notices available at the secretariat for reference use.

(iv) Items imported on actual user licences

Two types of actual user licences are issued:

- (a) Special actual user licences issued by the Ministry of Industries and Fisheries to cover the essential requirements of small-scale industries and handloom operators with an annual turnover of less than Cey Rs 100,000. The licences are issued on a quota basis and free from FEEC's. Similar special actual user licences, free from FEEC's, are also issued to manufacturers of pharmaceuticals. The latter are free from FEEC's, because Western drugs and pharmaceuticals could be imported under Schedule I and industrialists importing raw materials for manufacturing drugs are given a similar concession.
- (b) The second category of actual user licences are also issued on a quota basis by the Ministry of Industries and Fisheries and by the Ministry of Home Affairs to large-scale industrialists but imports against these licences are subject to the payment of FEEC's.

(v) Items imported on direct user licences

These licences are issued by the Controller of Imports and Exports to approved direct users who import goods for their own purposes and not for resale. Imports made under these licences are subject to the payment of FEEC's. The following are the broad categories of direct users:

- (a) organizations, associations and institutions other than manufacturing industries covered by the actual user scheme;
- (b) diplomatic and consular services and those permitted to import goods duty free;
- (c) repair workshops engaged in the maintenance of motor vehicles, radios and watches, requirements of photographic studios, furniture workshops, jewellery establishments, etc.
- (d) direct - user applicants (lorries, excluding vehicles with a gross weight of over 1,300 lb. which are under Open General Licence, commercial vans and trucks);
- (e) direct user applicants (imports for personal use).

4. Basis of issuing allocations to trade of items listed under Schedules I and II

Registered importers are issued quota allocations for items falling under Schedules I and II on the basis of past imports. The base period is 1959 to 1961 for the majority of the commodities, while for items like foodstuffs and drugs the base period is 1962, 1963 and 1964. Firms or individuals who have made imports of commodities for which they may apply to be registered as quota holders have to establish that they had imported the identical commodities during the base period. An importer is allowed a quota on the basis of his best year's imports. Importers are issued quota allocations twice a year.

The amount of the quota allowed during a particular half year is dependent on the decision made by the Foreign Exchange Budget Committee which allocates the quantum of foreign exchange that should be set apart for the import of particular commodities. Based on the quantum of exchange allowed for a particular group of commodities, an importer is issued a licence covering a particular range of commodities based on a generic description. The importer is generally free to make imports of a particular group of commodities up to the value for which the licence is issued. The quota issued is global except for licences issued for commodities procured under Foreign Aid and which are items falling under Schedules I and II. In the latter case, the import licence is valid for import from the country granting Foreign Aid. Import licences are not issued for any items to be imported from Rhodesia.

5. Goods for which no licences are granted to the trade

There are items for which import licences will not be released to the trade. These include items reserved for sole import by Government or State Corporations or the Co-operative Wholesale Establishment. Particulars of these restrictions are referred to later.

6. Items for which no licences are issued

No licences are issued for the import of goods which are produced in sufficient quantity in Ceylon or which are considered luxury items and not essential. But, in regard to this category, exceptions may be made if an applicant qualifies under a direct user licence. For example, no licences are issued for air-conditioning plant and equipment but a direct user licence may be issued for a particular purpose considered essential.

7. Other restrictions

The import licence fee of 1 per cent of the value of goods has been abolished with the introduction of the new licensing arrangements.

However, in regard to commodity imports under foreign aid which are treated as category "A" imports and free from FEEC's, a licence fee of 15 per cent is prescribed. The relevant Import Control is No. 3/68 published in Gazette No. 14,800/3 of 5 May 1968. A licence granted to an importer for an item procured under foreign aid is set off against his normal trade allocation in the case of items falling under Schedules I and II.

8. Ceylonization of trade

A new scheme for Ceylonization of trade was prepared during the latter part of 1967 with a view to helping Ceylonese importers, firstly those displaced importers who had lost business as a result of banning of certain imports and suspension of other imports on account of lack of foreign exchange, and were therefore finding it difficult to maintain their establishments, and secondly newcomer importers. All importers were required to furnish statistical information about their firms and this information was catalogued by the Department of the Controller of Imports and Exports.

An Advisory Committee was also appointed by the Minister of State to suggest ways and means of helping Ceylonese importers and one of the recommendations of the Sub-Committee was that certain minimum limits should be adhered to for import quota items.

Based on the information collected from importers and also on the recommendation of the Sub-Committee a new policy for the Ceylonization of trade came into force at the commencement of 1968. Under this policy, certain percentage cuts are made on the import allocations of non-Ceylonese importers issued every half year. The "savings" affected by the first cuts are used to step up to minimum economic limits the quota of Ceylonese importers who receive very small allocations. Savings affected on subsequent cuts are used to help displaced Ceylonese importers, and finally the newcomer Ceylonese are helped after verification of their bona fides and ability to carry on import business.

The distinction in licensing procedures from different sources in order to promote Ceylonization of trade and which had been referred to in the basic document submitted by Ceylon in the last balance-of-payments consultation in 1966 has now been discontinued. Trade with particular areas is no longer limited to Ceylonese traders. The discontinuance of the advantage Ceylonese traders earlier enjoyed by way of reservation of trade with particular countries is compensated by the increased share of quota allocations which is now earmarked for Ceylonese traders.

9. Bilateral agreements

Ceylon has trade and payments agreements with the following countries: Bulgaria, Mainland China, Czechoslovakia, Eastern Germany, Hungary, Iran, North Korea, Poland, Romania, Syria, United Arab Republic and the USSR. These trade agreements, excluding the one with Mainland China, contain indicative lists of products available for export from the respective partners to the agreement. The payments agreements provide for bilateral clearing accounts through which payments will be effected. The agreement with Mainland China is of a special character. It is a barter agreement with definite commitments to buy and sell rubber from Ceylon against the import of rice.

10. Use of State trading or Government monopoly in restricting imports

The Government (Food Department) is the sole importer of paddy, rice, flour, sugar, maldive fish, red onions and masoor dhal.

The following State corporations have also the sole monopoly of the import of items mentioned against them:

- (i) Eastern Paper Mills Corporation - The following items are under Open General Licence: newsprint in reels, cheque paper, teleprinter paper, crepe paper, cloth lined paper for maps and charts, filter paper, tracing paper, cellophane paper, ferroprussiate paper, marble paper, gun paper, blotting paper, greaseproof paper, leatherette paper, oil paper, tissue paper, flint paper, kraft paper including sack draft in reels and sheets. The Corporation has the monopoly of import of other paper items.
- (ii) National Textile Corporation - Cotton yarn.
- (iii) The Oils and Fats Corporation - Foodstuffs for animals and maize.
- (iv) Ceylon Petroleum Corporation - Petrol super 90 octane, petrol regular 79 octane, illuminating kerosene, gas oil, industrial diesel oil, furnace oil, crude oil and lubricating oils and greases for domestic use. Oil companies are permitted to import lubricating oils and greases for issue to ships and aircraft.
- (v) Parathan Chemicals Corporation - Caustic soda.
- (vi) The Co-operative Wholesale Establishment - Dried chillies, coriander, cumin seed, canned fish, dried fish and cement.
- (vii) Lanka Salu Sala - Textiles.
- (viii) Ceylon Fertilizer Corporation - Rock phosphates.
- (ix) Ceylon Fisheries Corporation - Fishing nets, lines and fishing gear.

The Government and State corporations have a monopoly of the import of these items in order to secure adequate supplies and fair distribution.

11. Effects of restrictions on trade

According to the provisional estimates for the balance of payments for 1968, imports have been estimated at Cey Rs 2,343 million. In 1968, licences for "A" category items were issued for Cey Rs 1,073 million while the value of licences issued for "B" category items, which include other foodstuffs, textiles, cement, items under direct user licences, other trade quota licences, licences for non-industrial State corporations, licences for industrial State corporations, private sector industries and petroleum products (during 1968 petroleum products were included in Schedule II), amounted to Cey Rs 635 million. The total value of licences issued in 1968 for the above category items is therefore Cey Rs 1,708 million. The residual imports, which cover mainly imports under Open General Licence, are likely to have amounted to Cey Rs 635 million. The total number of items under Open General Licence which cover 356 BTN items and the volume of this trade under Open General Licence illustrates the degree of liberalization that has been effected under the new licensing procedures introduced in May 1968.

12. Barriers to Ceylon's export trade

Although Part IV of the GATT is directed to seeking ways and means of expanding the export earnings of the less-developed countries, Ceylon considers that much remains to be achieved in this direction. Although the Kennedy Round achieved some favourable results, the advantages resulting from tariff liberalization were weighted towards the developed countries while the advantages accruing to the less-developed countries were limited. Further action should be concentrated on the reduction of high tariffs which still exist on the products of interest to less-developed countries, the elimination of low tariffs and the problem of differential duties between raw materials and semi-manufactured and manufactured products.

There is also the problem of quantitative restrictions which remains more or less intact. Although the removal of the internal fiscal charges on tropical products was considered as a matter falling within the purview of the Kennedy Round, the developed countries were unwilling to enter into negotiations on the removal of these internal fiscal charges. These internal taxes were, in a number of cases, so high that combined with the various charges for distribution, these have inhibited consumption and affected the trade of less-developed countries which are exporters of these products. One product of particular interest to Ceylon is tea.

At the meeting of the twenty-fifth session of GATT, the New Zealand delegation came forward with a proposal for the need for setting up target dates for the removal of residual restrictions applied illegally and contrary to the rules of GATT by certain contracting parties. Ceylon strongly supported this proposal because it appears quite anomalous that certain countries applying the Articles of the GATT are required to justify certain restrictions by submitting to examination and consultation while other contracting parties applying restrictions inconsistently with GATT are treated more tolerantly.

ANNEX A

SCHEDULE I ITEMS: Imports for which Foreign Exchange will be released against Import Licences which need not be supported by Foreign Exchange Entitlement Certificates

Quota item

- F.4 Full cream milk powder
F.10 Infants' milk foods
F.11 Yeast, baking powder and bread improver
F.17 Bombay onions
F.18 Beans, peas, gram, gramdhali, moong, moongdhali, coriander, coriddhal, ragi, thenai and vatana
F.19 Garlic
F.22 Fennel seed, mathé seed and turmeric
F.22A Coriander seed
F.22B Cumin seed
F.26 Dates
F.27 Dried fish
F.28 Tinned fish
F.29 Dried chillies
D.1 Western drugs
D.2 Ayurveda, Siddha and Unani drugs
D.3 Proprietary veterinary drugs (including feed additives)
37 Alavangoes, forks, knives or saws for budding or tapping, sickles, hand-tools (other than axes, pickaxes, pruning knives and mamboties) and implements for agricultural use
94A School mathematical instrument sets
101 Slates, slate pencils and school chalks
128 Scientific glassware
146 Surgical belts and safety belts
148 Hearing aids and parts thereof
150 Artificial dentures, limbs and eyes
170 Lubricating oils and greases (including mixtures with animal and vegetable lubricants)
172 Fertilizers (crude and manufactured)
173 Petroleum products, the following:
motor gasoline (regular)
motor gasoline (special)
illuminating kerosene
diesel oil (industrial)
diesel oil (gas)
furnace (fuel) oil
fuels for international bunkers
aviation gasoline
aviation turbine fuel
aviation and marine lubricants

ANNEX B

SCHEDULE II ITEMS: Imports for which Foreign Exchange will be released against Import Licences which should be supported by Foreign Exchange Entitlement Certificates

Quota item

- F.7 Malted milk
- F.8 Butter
- F.9 Dairy products (including milk products), other
- F.23 Food flavours and gelatine
- 1 Alcoholic beverages
- 7 Household insecticides, disinfectants and similar preparations
- 7A Agro-chemicals
- 8 Brake fluid and miscellaneous chemical products
- 11 Printers' ink
- 13 Tea and other plywood chests excluding metal fittings
- 13A Battens for tea chests and other plywood chests
- 14)
- 14A Paper and paperboard
- 15)
- 20-21 Fabrics (cotton and other)
- 26A Footwear, exclusively for sports
- 30 Insulated cables and wires for electricity
- 31 Radio spares (excluding cabinets)
- 35 Corrugated roofing sheets of aluminium, zinc, iron or steel
- 60 Explosives (other than cartridges and fireworks)
- 60A Cartridges
- 61AB Leather (other than reconstituted and artificial leather)
- 63 Hose pipes and piping wholly or mainly of rubber
- 63C Other rubber fabricated materials
- 67 Cork manufactures (including cork stoppers)
- 72C Cotton thread, bleached, dyed or mercerized
- 74 Rubberized and other impregnated fabrics
- 75 Elastic fabrics and webbing
- 77 Fishing nets (including fishing lines)
- 80C Cotton wadding, non-sterile
- 80D Cotton wicks for lamps, lighter, stove or candle
- 97 Musical instruments and parts thereof (excluding pianos, gramophones, record-players and tape recorders)
- 98 Buttons, studs and buckles including hooks and eyes (excluding those of precious metals and precious stones)
- 99 Brushes for painting, including decorators' brushes
- 99D Parts for fountain pens (excluding caps) and refills for ball point pens
- 100 Office supplies (other than paper, pens, pencils, pins and clips and office machines)

ANNEX B (cont'd)

- 102A Dry cell batteries, wireless
102B Dry cell batteries, other than wireless
102C Batteries, other than dry cell
103 Splash proof accumulators and batteries for motor vehicles (other than for cars, lorries, vans and wagons)
105B Parts of electric appliances and apparatus (domestic)
107A Parts of electric fans (other than blades)
111A Public address system, complete and parts thereof
112 Chimneys and globes for lamps and lanterns
114 Sinks, bidets, baths and other sanitary and plumbing fixtures and fittings including plumbing metal taps (excluding enamel chamber pots, wash basins and squatting pans)
116 Hume pipes, drainage pipes and earthenware pipes
118 Abrasive cloths and papers and similar materials
126 Bottles and other containers (including stoppers and closures) of common glass
127 Glass tableware and other articles of glass for household use
133 Nails (excluding wire nails), bolts, nuts, washers, rivets, screws (excluding wood screws) and similar articles of base metals
133C Wire nails and wood screws
141 Spare parts of stoves and cookers (non-electric)
142A Slotted angles and panels - iron and steel
142F Guns, breech-loading, single barrel
144 Printers' materials
145 Laminated plastic sheet
149 Vacuum flasks
151 Engineering stores
151C Water pumps, excluding hydraulic pumps and hand-operated pumps
157 Parts for printing and book-binding machinery
158 Handloom textile weaving accessories
162 Parts of refrigerators (excluding cabinets)
163 Outboard motors and marine engines and parts thereof
165 Atomisers, sprayers and equipment (and parts thereof) for insect and pest control
166 Parts of sewing machines (excluding needles)
167A Rice huller spares

ANNEX C

SCHEDULE III ITEMS: Imports under Open General Licence
for which Foreign Exchange will be
released against Foreign Exchange
Entitlement Certificates

(Note by the secretariat: This schedule, contained in Ceylon Import Control
Notice No. 22/68, was printed in the Board of Trade Journal for 8 November 1968,
pages 1264-76, Column 3. It is available for reference use at the secretariat,
but has not been reproduced.)