

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Limited Distribution

THIRD INTERIM REPORT OF WORKING PARTY 1 ON ARTICLE XVIII APPLICATIONS

Application of Ceylon concerning ready-made shirts

1. The Working Party considered that portion of Ceylon's application which relates to a release for ready-made shirts. This item had not previously been the subject of a release. The representative of Ceylon described the control measure, as applied to this item, as follows:

The Industrial Products Act No. 18 of 1949, is a measure designed to facilitate the sale of locally manufactured goods by regulating the imports of similar industrial products. Under this Act an importer is obliged to obtain a licence from the Controller to authorize the importation of a specified consignment of the imported product. Before the licence is issued the importer is required to pay for a proportion, specified from time to time, of the local product at the standard price prescribed for the purpose. The "standard price", the "standard ratio" of imported to local goods and the "standard grade" of the local product are published in the Government Gazette.¹ Ready-made shirts were brought under control of this Act on 24 September 1954 with an initial standard ratio of ten imported to one locally produced shirt. The local article is the product of the first pioneer shirt factory in Ceylon, set up early in 1954 with an initial output of 10,000 dozen per year. The plant was fully mechanized and is capable of an output of 20,000 dozen per year.

2. The representative of Ceylon further informed the Working Party of the conditions in the shirt-manufacturing industry in Ceylon (see Annex), of the special problems being faced by the industry and of the need for the measures covered by the application. In this connexion, he explained that:

- (a) The high tariff could not have met the immediate problem of the industry without resulting in excessive prices to the consumer of imported shirts. Ceylon's present problem is essentially one of marketing. Sales under the Industrial Products Act involving the use of quotas are considered by Ceylon to be the only appropriate way of breaking through consumer resistance, especially since it is reinforced by a systematic boycott of domestic shirts by the principal shirt distributors, who specialize in imported goods.
- (b) The domestic shirt industry will for some years be dependent on imported shirting. Increased prosperity for this industry, therefore, will increase the volume of business done by foreign suppliers of shirting.

¹ For further explanation of the working of the Act the Ceylon delegation referred to paragraphs 4-6 of the Seventh Session Working Party report on pages 35-36 of Basic Instruments and Selected Documents, First Supplement.

On the basis of the information supplied by the Ceylon delegation, the Working Party agreed that the proposed measure in respect of this item was eligible for consideration under the provisions of Article XVIII.

3. The Ceylon representative further explained that the control was introduced on 24 September 1954 in the belief that it was eligible for a release under paragraph 7 of Article XVIII and that justification for this control in anticipation of a release was covered by paragraph 9 of that Article.¹ The Ceylon Government had subsequently found that the item was one on which Ceylon had assumed an obligation under Article II, and therefore its application was being submitted under paragraph 5 of Article XVIII. The Ceylon Government had given serious consideration to the question of revoking the control already introduced pending a release from the CONTRACTING PARTIES, but found that the immediate consequences of such a revocation would be disastrous. The shirt industry was only in its infant stage of development and had not yet reached a substantial measure of stability. If control were revoked the market was bound to be flooded with stocks of shirts imported in anticipation of the re-introduction of the control, and control, when ultimately re-imposed, would be of no value for some time. The Ceylon Government, after considering various possibilities open to it, felt that its best course was to press forward with its application under paragraph 5.

4. The Ceylon delegation stated that the tariff item which covered ready-made cotton shirts was Ex 323-103 (garments - cotton) in the present Customs Tariff of Ceylon, and Ex III N.544(i) (garments, cotton) in the Ceylon Schedule as negotiated in Annecy. The application for a release was submitted pursuant to provisions of paragraph 5 of Article XVIII, and the procedures of sub-paragraph 3 (b) therefore should apply.

5. The Ceylon delegation informed the Working Party that to facilitate the negotiations under paragraph 3(b), it would confine the application to cover the marketing of 50,000 dozen of locally produced shirts per year. The standard ratio would be worked out in accordance with the formula hitherto adopted, as noted in paragraph 5 of the Seventh Session Working Party Report (BISD, First Supplement, p.35).

6. In order that negotiations can be sponsored between the applicant contracting party and the materially affected contracting parties, sub-paragraph 3(b) requires that the CONTRACTING PARTIES determine in the first instance the contracting party or parties materially affected by the proposed measure. For this purpose, the Working Party proposes that the CONTRACTING PARTIES request that the Working Party be notified as soon as possible, and in any case not later than ten days from the date on which the CONTRACTING PARTIES approve this report, by any contracting party which considers itself materially affected by the measure proposed by Ceylon in respect of ready-made shirts.

¹ See L/230/Rev.1, footnote 2.

7. If this proposal is accepted by the CONTRACTING PARTIES, the Working Party will submit later to the CONTRACTING PARTIES its recommendation as to which contracting parties should be determined to be materially affected by the proposed measure, and as to the time schedule for the negotiations between Ceylon and these contracting parties.

8. The Working Party will of course report subsequently to the CONTRACTING PARTIES its final recommendation as to the action they should take in accordance with the provisions of Article XVIII.

ANNEX

Statement by the Ceylon delegation on the shirt industry

1. The manufacture of ready-made shirts by automatic processes was a new industry begun by a pioneer group of Ceylonese early in 1954. The initial output of the factory then established was planned at 10,000 dozen per year, with an ultimate potential of 20,000 dozen per year.
2. Mechanized production of shirts cheapens costs, and offers the market a standardized garment using sanforized material and adopting a trubenized collar at attractive prices.
3. Though this factory began early in 1954, it was unable to establish itself owing to traditional prejudice from consumers and the reluctance of the trade to market the local shirt. By June 1954 the position of sales was so precarious that an appeal was made to the Government to apply the Industrial Products Act to help to market the locally-made shirts. Control was introduced on 24 September 1954 with an initial ratio of ten imported to one local shirt.
4. Imports

Country	1953		1954 (to June)	
	Quantity (doz.)	Value Rs.	Quantity (doz.)	Value Rs.
United Kingdom	1,223	62,798	266	26,343
United States	2,651	358,699	1,627	229,533
Japan	12,255	504,621	7,796	590,197
Hong Kong	66,278	2,558,537	40,518	1,324,155
India	10,492	139,449	1,292	29,303
China	455	29,109	-	-
Czechoslovakia	2,284	95,689	775	51,875
Others	-	-	-	-
Total	95,630	3,748,902	52,276	2,251,406

5. Prices of imported shirts

A recent market survey indicates that the better-known brands of imported shirts are sold at the following retail prices:

United States	Rs. 14.00 to Rs. 17.50
United Kingdom	Rs. 8.50 to Rs. 32.00
Czechoslovakia	Rs. 8.00 to Rs. 10.00
Hong Kong	Rs. 4.50 to Rs. 13.00

The most popular group for the average buyer is the shirts with prices ranging from Rs. 8 to Rs. 10, made of poplin.

6. Prices of local shirts

Under the Act, local shirts are price-controlled at Rs. 6.20 to Rs. 8.70 less $2\frac{1}{2}$ per cent discount for standard sanforized poplin.

7. Products

Owing to pressure from idle stocks, production of the first mechanized factory could not reach normal. During the first seven months of production, 2,428 dozen were produced or 40 per cent of planned output. Sales were slow, and only approximately 830 dozen were sold.

8. Other factories

There are three other factories and organizations also making shirts which have applied for marketing facilities under the Act. These factories are on the eve of mechanizing their plant and it is estimated that they will be able to produce 80,000 dozen shirts per year.

9. Potential of industry

The potential production of this shirt industry from factories operating on the mass-production principle is estimated at 100,000 dozen per year; it is expected that this production will be reached by June 1955.

10. Consumption of shirts

The local consumption of cotton shirts is estimated at 350,000 dozen per year.

11. Capital investment

The investment in the first shirt factory, which was a pilot plant, was Rs. 225,000. It employs 65 persons. By June 1955, when the three to four other units are completely reorganized, the capital invested in this industry is expected to be over Rs. 1,000,000, with a labour force of about 300.

12. Tariff

Imported shirts come under tariff item:

Present tariff: Ex. 323-103, garments - cotton
Ceylon Schedule VI: Ex. III.N.544(i), garments, cotton

The present tariff is 15 per cent ad valorem general.