

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## FIRST ANNUAL REVIEW UNDER ARTICLE XVIII:6

### Report by the Government of Ceylon on the Operation of Releases Granted to it Under Section C of Article XVIII.

1. Paragraph 6 of Article XVIII (revised) provides that the CONTRACTING PARTIES shall review annually all measures applied pursuant to the provisions of Sections C and D of that Article. At the Twelfth Session it was agreed that the review should be made on the basis of reports submitted by the governments concerned and should contain detailed information on the developments in the production, prices and imports of the products in question. The Panel Report dealing with this matter also suggested that: ".. in the case of Ceylon, this information should include, *inter alia*, the actual figures applied in the course of the preceding year for the domestic availability and the standard ratio between local and imported products. Moreover, the Report should, as far as possible, give some indication of the standards which the Government intends to apply in the following year for the operation of the measure and on the prospects of relaxing or eliminating the restrictions or the replacements of those restrictions by alternative measures available under the Agreement". (See BISD, Sixth Supplement, page 130, paragraph 50.)

2. In the light of this, the Government of Ceylon submitted a Report on the operation of the releases granted to it under the revised provisions of Article XVIII. The present document contains a revision of the report incorporating certain changes and corrections.

Report by the Government of Ceylon for the Review of Past Releases under  
Article XVIII (revised)

The only releases granted to Ceylon under Article XVIII (revised) are those set out in BISD, Sixth Supplement, pages 14-17:

- A. Cotton sarongs, including sarong cloth;
- B. Tea and other chests, including fittings and shooks;
- C. Crown corks;
- D. Pneumatic rubber tyres and tubes for pedal cycles;
- E. Cotton piecegoods (thirteen items).

To facilitate this review, the Government of Ceylon submits the relevant information on each of the items listed above under the following heads:

- (a) the actual figures applied in the close of the preceding year for domestic availability;
- (b) the standard ratio between local and imported products;
- (c) an indication of the standards which Ceylon intends to apply in the following year for the operation of the measure;
- (d) the prospects of relaxing or eliminating the restrictions or the replacement of those restrictions by alternative measures available under the General Agreement.

The notes that follow deal with each item of release under the four heads specified above.

A. SARONGS

Cotton sarongs were first brought under regulation of the Industrial Products Act on 15 October 1952. The period of release then sanctioned was for five years with a maximum domestic availability of a million sarongs per year. The release granted applied exclusively to cotton sarongs (Tariff Item, Classification same for 1958).

At the Eleventh Session, the Government of Ceylon obtained an extension for the release of cotton sarongs for a further period of five years commencing from 13 October 1957 (BISD, Fifth Supplement, page 31).

At the Twelfth Session Ceylon obtained from contracting parties a modification of this release by a redefinition of the term "cotton sarongs" to include sarong cloth, whether imported as piecegoods or of mixed

materials consisting either of cotton or artificial silk, The new maximum domestic availability assigned under the extended release was 8.5 million sq. yds., equivalent to 2.66 million sarongs. (BISD, Sixth Supplement, page 116.) The redefinition of the term "cotton sarongs" to include substitutes and sarong cloth was granted on 28 November 1957.

In reviewing the effect of the new release already granted, the Government of Ceylon submits that the time that has elapsed is too short for a proper assessment of the benefits of this release.

#### Preparatory Steps to impose Control

There were practical difficulties in evolving a satisfactory definition of sarong cloth acceptable to both importers and local manufacturers. A preliminary definition was published in the Gazette of 1 November 1957 as an experiment in consultation with the Customs authorities but was eventually revoked in favour of an alternative definition. This new definition is given in a Government notification of 15 March 1958 which reads in part as follows:

" (1) Textiles, wholly or mainly of -

- (a) cotton, or
- (b) artificial silk or any admixture thereof, or
- (c) synthetic fibres or any admixture thereof, or
- (d) a combination of these

other than sarees, shawls, verties and camboys, whether manufactured as piecegoods or otherwise,

- (a) with one or more border designs running along the warp; and/or
- (b) with one or more ihas,

shall be industrial products for the purposes of the Industrial Products Act, No. 13 of 1949.

"(2) In this Order,

- 'verty' means a verty or dhoti made of material other than poplin;
- 'iha' means bands which cross the warp at intervals to form patterns distinct from the background of the textile into which the bands are woven; and
- 'camboy' means a camboy not more than four yards in length with ihas at each end of the camboy and each iha not less than seven inches in width."

The operative machinery for introducing control under the Industrial Products Act was, however, deferred until full statistical information was collected from the trade of outstanding orders, so as to exempt these orders from eventual control when the scheme was finally put into operation.

Subsequently a further alternative was examined by the Ceylon Government in consultation with trade. This alternative has been expressed in document W,13/23.

In brief, the proposal by Ceylon is to place into one common import basket a total of nineteen tariff items covering thirteen items of cotton textiles, sarongs and sarong cloth, sarees and saree cloth, and to permit the regulation of the items in this basket against any one of the domestically produced articles in a merged release.

Until this issue is settled at the Thirteenth Session, the Ceylon Government finds itself in considerable difficulties in taking advantage of the piecemeal releases already granted on sarong cloth and certain textile items at previous sessions.

#### Effects of the Control

As a result of the temporary import control imposed with effect from 1 November 1957, an anticipated evasion of the earlier release on cotton sarongs has been avoided. The following table will show the trend in imports from 1953 to 1958.

#### Imports of Sarong and Sarong Cloth

(million yards)

	SARONGS		SARONG CLOTH	
	841-05,04 Silk mixed sarongs	841-05 (.14, .15, .22, .23) Cotton, and cotton mixed sarongs	652.02 (.01 to .05, .99) Cotton <sup>1</sup>	653.05 Silk mixed
1953	-	12.7	61.3	29.6
1954	-	9.56	66.5	29.5
1955	0.3	9.84	68.4	40.2
1956	0.9	8.07	83.8	45.3
1957	1.1	4.8	74.4	41.6
1958 <sup>2</sup>	2.1	4.73	79.8	42.8

<sup>1</sup> Statistics relating to individual items are given in Annex to L/878/Rev.1

<sup>2</sup> January - June at an annual rate.

Estimates of Consumption

As cotton sarongs came for the first time under control in 1952 when there was no evidence of evasion of the control by substitution of piecegoods, it is possible to make an estimate of consumption levels of sarongs which includes varieties of cotton, silk and mixtures thereof by aggregating the total of domestic production with imports of these items. The following table shows consumption levels over the period 1953-58:

Apparent Consumption of Sarongs (cotton and mixed materials)  
from 1953 to 1958

	<u>Imports</u>	<u>Production</u>	(million yards) <u>Consumption</u>
1953	12.7	1.3	14.0
1954	9.4	1.5	10.9
1955	10.1	2.7	12.8
1956	9.0	4.1	13.1
1957	5.9	8.2	14.1
1958	6.8	8.2	15.0

It is significant that the consumption of sarongs in 1953, which stood at 14 million yards, remained at virtually the same figure at the end of 1957, and in fact showed some decline in the intervening period. From known figures of population increases and projected consumption increases based on growth and incomes, one could discount the constancy of the consumption levels in 1953-1957 and look to another group of imports given in the table on page 4 above to account for possible evasion of substitutes made from cotton piecegoods in place of sarongs imported as such.

Administrative difficulties in extending the scope of control to cover competing items like piecegoods of cotton, silk and mixtures thereof, have compelled Ceylon to postpone the operation of control until the CONTRACTING PARTIES have concurred in the alternative proposal for a combined import basket set out in document W.13/23.

A statement of production and sales of local cotton sarongs is given below:

Production and Sale (under Industrial Products Act)  
of Cotton Sarongs 1953-1958 (Jan. to June)

YEAR	PRODUCTION				TOTAL PRODUCTION		QUANTITY
	Millmade		Power and Handloom		Millmade, Power and Handloom		SOLD UNDER I.P. ACT
	Quantity (yds)	Value (Rs)	Quantity (yds)	Value (Rs)	Quantity (yds)	Value (Rs)	(yds)
1953	918,676	519,813	384,959	795,030	1,303,675	1,314,843	845,495
1954	567,987	384,935	950,185	1,945,809	1,518,172	2,330,744	1,392,326
1955	1,265,735	847,406	1,445,561	3,055,425	2,711,296	3,902,831	2,025,210
1956	1,675,733	1,251,827	2,393,235	4,329,621	4,068,967	6,081,448	3,685,689
1957	2,545,665	1,926,895	5,601,419	4,612,894	8,189,584	6,539,609	2,522,571
1958 (Jan. to June)	1,491,733	1,148,259	2,630,087	5,466,839	4,121,820	6,615,098	1,696,604

Maximum Domestic Availability

The new maximum domestic availability sanctioned by the CONTRACTING PARTIES is 8.5 million sq. yds. or 2.66 million sarongs. It will be seen from the table of sales that Ceylon has not yet reached the maximum domestic availability prescribed.

The following information is now supplied to the CONTRACTING PARTIES for a review of the releases granted on the basis of the recommendations of the Panel at the Twelfth Session (BISD, Sixth Supplement, paragraph 50 on page 130):

(a) Actual Figures applied for Domestic Availability in 1957-58

At the beginning of 1957 there was an unsold stock of 1.03 million sarongs awaiting disposal under the Act. The anticipated increment of production in 1958 over the calendar year 1957 is estimated at 350,000 handloom, powerloom and mill sarongs.

At the end of the year 1957 the domestic availability was assessed at 1.95 million sarongs also from hand, powerloom and mill products.

Standard Ratio

The standard ratio in force at the beginning of 1957 was two local to five imported. This ratio was changed on 10 May 1957 to one local to two imported. The maximum standard ratio permissible under the release granted at the Twelfth Session is three local to one imported.

Estimates of Standard Ratio, Production and Consumption Levels in the Year 1958

The initial impact of the standard ratio of one local to two imported at the beginning of 1958 was to contract the volume of imports, though conceivably imports of cotton piecegoods for conversion into sarongs have increased. The immediate effect of raising the standard ratio to one local to two imported, which came into force in May 1957, was to cause a contraction in the volume of imports of cotton sarongs, though there is some reason to believe that this short fall was compensated in a marginal increase of import substitution by importing cotton sarongs as piece-goods for local conversion into sarongs. An estimate of the probable standard ratio, production and consumption levels in the year 1958 is, therefore, not easy unless concurrent measures are taken to counteract this import evasion.

If the release on cotton sarongs and sarong cloth is to operate independently of releases on other textile items, the Government of Ceylon submits that the following table would fairly well represent the estimates of standard ratio, production and consumption levels in 1958.

	<u>1958</u>
Standard ratio	1 : 1
Production - Nos.	1,953,960
Consumption = Nos.	3,963,000

The Government of Ceylon takes this opportunity of advising the CONTRACTING PARTIES that as Government policy on sarong manufacture is to intensify output through handlooms alone, leaving the output of power looms and mills for other cotton textiles, it may be necessary for the Ceylon Government to ask for a further revision of the maximum domestic availability in order to provide an adequate outlet for handloom production for the period of release (see W.13/24 for a special note on the general policy of the Ceylon Government on the cotton textile industry).

In these circumstances the Government of Ceylon finds itself in a difficulty in being unable to predict with confidence what the standard ratio would be on which the Act would apply to locally produced sarongs.

### Prospects of Relaxing or Eliminating Control

It is unlikely that the advantages of control under the Industrial Products Act would be diminished or relaxed during the period of the release. On the contrary, it is anticipated that as the peasant population are to be given a monopoly of sarongs manufactured through handlooms, the control may have to be intensified with possible revision of the maximum domestic availability. It is impracticable to take advantage of the other alternative measures under the Act as none of them is appropriate to this cottage industry which is now being mobilized on a national basis.

#### B. PLYWOOD CHESTS

##### (a) Introduction

Plywood chests were first brought under regulation of the Industrial Products Act on 13 March 1953 (Tariff Item: 631-02.01). The period of the release sanctioned was five years, with a maximum domestic availability of 492,000 chests. No ceiling was placed on the maximum standard ratio to be applied.

##### (b) Extension of Release

At the Twelfth Session the Ceylon Government obtained an extension of its release for a further term of five years expiring in March 1962 (BISD, Sixth Supplement, page 16). The new maximum domestic availability assigned, authorized a total sale of 652,000 chests each year. The maximum standard ratio was fixed at one local to four imported.

##### (c) Review of Release

The second extension granted has only just begun. Though this note is concerned with a review of the release granted, the period that has lapsed since that release was conceded, is much too small for useful comment to be made on the beneficial effects to the plywood industry on the new release. This note submitted by the Ceylon delegation does, however, attempt to present to the CONTRACTING PARTIES a picture of future trends of production and consumption, with estimates of probable changes in the standard ratio.

### Information on Production Increases, Prices and Import Trends

The year 1952 is taken as the base year for purposes of comparison in this review.

When the plywood industry first began in 1942 the installed capacity was 240,000 chests. As the following table will show, production has

significantly increased, aided particularly by schemes of re-organization and expansion, and particularly by increased efficiency and employment of better techniques.

Plywood Chests. Production and Production Index Numbers

Year	Production (Nos.)	(Chests)
		Index Number of Plywood Chests Production
1952	178,359	100
1953	182,192	102
1954	336,973	189
1955	325,327	182
1956	358,399	201
1957	379,588	213
1958	461,214	259

Quality of Local Chests

The manufacture of plywood chests is a mechanized operation. Ceylon is in a favourable position in having natural resources of softwood species, of which twenty-seven are known to be readily peelable into plywood. Systematic cultivation of timbers is not practicable as these softwood species, being deciduous, it is not possible, silviculturally, to propagate selected species as a pure-line crop. Consequently, the offtake of timber from forest reserves has to depend on natural regeneration.

Ceylon claims that the local chests she manufactures are in no way inferior to the imported chest. On the contrary, there are some slight advantages in purchasing the local chests: (a) timber is pre-treated for immunity against bore attack, and (b) the bonding medium used is a plastic glue, which makes the plywood water-repellant and exceedingly strong. Imported chests from the best sources have been known to be subject to borer attack, as they use a less superior glue, commonly casein.

Price and Import Trends

When local plywood chests were first put out on the market, selling prices were naturally high as labour had not yet reached peak efficiency. The price of the first set of plywood chests (complete with linings and fittings) was Rs.10/- per chest. The following table will show how consistently Ceylon has endeavoured to cheapen costs of production, not merely by the acquisition of better techniques, but by the addition of more efficient machinery. In the interests of comparison, the table also includes the corresponding price of imported tea chests.

Prices of Plywood Chests

Year	Date of Gazette Notification	Full size Chests of 3 ply		Half size Chests of 3 ply		C.i.f. price per Plywood Chest (full) with Linings and Fittings
		With Linings etc. Price per Chest	Without Linings etc. Price per Chest (panels only)	With Linings etc. Price per Chest	Without Linings etc. Price per Chest (panels only)	
		Rs.Cts.	Rs.Cts.	Rs.Cts.	Rs.Cts.	Rs.Cts.
1953	13.3.53	9.30	6.45	7.32	4.78	5.28
	24.7.53	8.70	6.25	7.00	4.67	
1954						5.80
1955	14.10.55	8.35	6.00	6.75	4.45	4.89
1956						5.29
1957	14.6.57		5.90		4.53	5.77

Note: The duty on imported chests is 5½ per cent general, ad valorem.

Figures of Production, Estimated Consumption and Targets for the Next Few Years

Under the re-organization scheme the maximum potential output of the plywood factory is estimated at 500,000 chests per year, equivalent to 10 million sq.ft. Though production of plywood chests continues to dominate the policy of the factory, there is a certain amount of secondary activity in the manufacture of flush doors and decorative panelling.

The following table sets out the estimated production and consumption with an indication of the probable standard ratio for the year 1958, with projections for the next three years.

Production and Consumption Projections

Year	Production	Consumption	Standard Ratio	
			Probable	Authorized
1958	461,200	3,644,000	1 : 7	)
1959	500,000	3,712,000	1 : 6	)
1960	500,000	3,782,000	1 : 6	) 1 : 4
1961	570,000	3,852,000	1 : 6	)
1962	650,000	3,922,000	1 : 5	)

Standards Proposed to be Applied under the Industrial Products Act

The table given in the preceding paragraph is based upon certain assumptions: (a) that there will be a regular inflow of softwood timber; and (b) that production will not be interrupted by strike or other unforeseen contingencies.

If neither of these contingencies occur, the standard ratio is calculated on the proportion of local production to the difference between the estimated consumption and production. The probable standard ratio that would be applied in 1958 is 1 : 7.

The Ceylon Government takes this opportunity of drawing the attention of the CONTRACTING PARTIES to the seasonal nature of imported plywood chests.

If the standard ratio is calculated on the seasonal changes in imports, it would necessitate a temporary excess on the maximum standard ratio authorized (1 : 4). This excess would, however, be smoothed out by a drop in the standard ratio to meet the fall in imports for the rest of the year. To avoid such fluctuations in the standard ratio, Ceylon has endeavoured to maintain stability in the ratio by keeping it constant in spite of the seasonal changes in imports.

Possibility of Revoking or Relaxing Industrial Products Control, or its Replacement by Alternative Measures

The second extension asked for by the Ceylon Government has since begun. While the need for minimizing the effect on international trade will always be borne in mind, vide proviso to paragraph 10 of Article XVIII, the Ceylon Government finds itself unable in the context of this important State industry, to consider the probability of revoking industrial products control on chests. The important ingredient of marketing under the Industrial Products Act provides the only satisfactory method of establishing this industry in a continued climate of resistance from trade and consumer.

C. CROWN CORKS

Introduction

When the Government of Ceylon applied for a release at the Twelfth Session on crown corks it was anticipated that this factory would go into production before the commencement of the Thirteenth Session. There has been a slight delay in the establishment of that factory due to negotiations for the concurrent establishment of a tin printing industry. The present position is that: (a) the factory building is complete; (b) machinery ordered for both crown cork manufacture and tin printing is expected to be ready for production by the end of September; and (c) the necessary agreement for the recruitment of foreign skill in the initial operation of the plant and the training of labour, has been signed.

In these circumstances, the Ceylon delegation finds itself unable to contribute materially to the review of this release as production has not yet commenced.

As regards certain specific information required by paragraph 50 of the Panel Report, the following data is submitted:

1. Actual Figures Applied at the Close of the Preceding Year for Domestic Availability

The consumption at the end of 1957 was 6,100 cwts. According to consumption forecasts this figure is expected to reach 6,600 cwts. in 1958. The domestic availability from the proposed factory which is expected to go into production in November 1958 is 2,250 cwts. per year.

2. The Standard Ratio between Local and Imported Products

The theoretical standard ratio that should be applied on the basis that the factory will reach its output 2,250 cwt. in the first year of operation would be the ratio between production and the difference between consumption and production. On these figures the theoretical ratio becomes 1 : 3 in 1959. The probable standard ratio that would be applied in the initial stages of the release will be 1 : 5.

3. Indication of the Standards which Ceylon intends to apply in 1959 for the Operation of the Measure

Ceylon estimates that the probable consumption in 1959 based on normal population increases would be 8,200 cwts. Assuming that the local factory will still continue to maintain the standard output of 2,250 cwts., the standard ratio that could be applied for the marketing of the local product would be 1 : 3 in 1959 and 1 : 5 in 1962.

4. Prospects of Relaxing or Eliminating the Restriction or its Replacement by Alternative Measures under the Agreement

The release asked for will probably take effect in November 1958. While the need for minimizing the effect on international trade will always be borne in mind - vide the proviso to paragraph 10 of Article XVIII, Ceylon finds herself unable at this stage of the establishment of this infant industry to consider the possibility of revoking industrial products control on crown corks. The purpose of the control is to secure that the products of this infant industry are marketed in a climate of trade boycott. The effect of this release will be watched to see how far barriers of consumer resistance could be broken down, leaving room for this industry to support itself only on conventional protective devices like a normal tariff.

D. PNEUMATIC RUBBER TYRES AND TUBES FOR PEDAL CYCLES

Introduction

The release obtained by the Government of Ceylon to protect pneumatic rubber tyres and tubes in the cycle industry assumed that earlier arrangements for the commencement of production would materialize in 1958. Negotiations with a well-known firm of manufacturers for the supply of machinery and technical know-how eventually broke down, compelling a fresh approach with another group.

The Government of Ceylon is now in a position to announce that the final agreement with the new group has been signed and that arrangements are well in hand to commence production by March 1959. The new company established for the purpose has already purchased the necessary land, with the nucleus of factory buildings, which have since been re-designed to take on the manufacture of cycle tyres and tubes. As control under the Industrial Products Act is not yet in operation, the Ceylon delegation is unable at this stage of the review to offer useful comment on the effect of the release.

The following information, however, is based on the probability of the factory going into early production, and gives specific information required by paragraph 50 of the Panel Report.

1. Actual Figures Applied at the Close of the Preceding Year for Domestic Availability

The new factory is expected to go into production by the middle of 1959 with a productive capacity of 200,000 tyres and 200,000 tubes per year which is likely to be reached after a few months trial run.

2. Estimates of Standard Ratio between Local and Imported Products

The consumption of cycle tyres and tubes in 1959 is estimated to be 476,900 tyres and 297,100 tubes. On this estimate the standard ratio for tyres would be 5 : 7 and for tubes 2 : 1. The maximum standard ratio permitted under the release is 3 : 1.

3. An Estimate of the Standards Ceylon intends to apply in the Following Year for the Operation of the Measure

As this industry will only go into operation early in 1959 the standards which Ceylon intends to apply would be the same as those described in replies to the preceding two questions, i.e. -

- |                             |   |               |
|-----------------------------|---|---------------|
| (a) Output                  | - | 200,000 tyres |
|                             |   | 200,000 tubes |
| (b) Imports                 | - | 276,900 tyres |
|                             |   | 97,140 tubes  |
| (c) Probable standard ratio | - | 5 : 7 tyres   |
|                             |   | 2 : 1 tubes   |

4. Prospects of Relaxing or Eliminating the Restriction or its Replacement by Alternative Measures under the Agreement

The Government of Ceylon will not be in a position to take advantage of the release until at least half the year of 1959 has begun. While the need for minimizing the effect on international trade will always be borne in mind, vide the proviso to paragraph 10 of Article XVIII, Ceylon finds herself unable in the context of this important industry (which would be a part consumer of indigenous rubber) to consider the possibility of revoking industrial products control on tyres and tubes. The main purpose sought to be achieved is to break through established barriers of consumer resistance of the local product. Once it is apprehended that the local product on quality and price could secure the market, it should be possible to consider substituting industrial products control with a normal protective tariff.

## E. COTTON TEXTILES

### Introduction

At the Twelfth Session, the Government of Ceylon obtained a release to apply the Industrial Products Act on a group of thirteen items of cotton textiles for a period of five years with a maximum standard ratio of 1 : 2, and a maximum domestic availability of 60 million yards. Included in this release was an item "Cotton Piecegoods (bleached)", Tariff Item Ex 652-02.01. A limited release was granted to this item for a period of one year subject to a review at the Thirteenth Session.

### Preparatory Steps taken to Control

Although the release of thirteen items of cotton textiles was granted at the Twelfth Session, the Ceylon Government found difficulties in taking immediate advantages of this release until the strength of local production from the only private mill had been properly assessed. By re-organizing the output the Government found it possible to start off the control not with a full-scale of thirteen items released but with an initial list of six items.

On 27 August 1958 the six items of cotton textiles brought under control were:

- (a) dhoties
- (b) shawls
- (c) sarong cloth
- (d) poplin
- (e) mill (fine grade poplin)
- (f) sheeting

Under the promise of this protection the mill has been encouraged to proceed on to a second shift and will, by the end of 1958, be producing 14.3 million yards, covering a smaller range of consumer goods until the market reaction has been fully studied.

In 1960 a second mill, financed entirely by the Government, with a capacity of 550 looms, will contribute 10 million yards on two shifts producing all the thirteen items of cotton textiles released at the Twelfth Session (see page 3, document W.13/24).

### Initial Standard Ratio

The standard ratio for this initial measure of protection was 1 : 10.

In accordance with the suggestion of the Panel (BISD, Sixth Supplement, page 130, paragraph 50) the following specific information is submitted:

1. The Actual Figures Applied at the Close of the Preceding Year for Domestic Availability

As the release granted was not applied in the preceding year, the actual figure of domestic availability taken for the purpose of this review is that prevailing in 1958. On the basis of the above information this domestic availability was 11.46 million yards.

2. The Standard Ratio between Local and Imported Products

In determining what should be the initial standard ratio, some difficulty was found in determining what proportion covered by the group of six textile items in the control that came into effect in August 1958 are covered by imports. In the absence of more precise information, Ceylon considered that in the interests of avoiding undue hardship on importers, the initial standard ratio should be kept low. The actual figure applied in August 1958 was 1 : 10, although the theoretical ratio would be 1 : 4. The operation of this ratio will be watched during the first few months of control to see how far a change is necessary.

If the CONTRACTING PARTIES would concur in Ceylon's proposal expressed in document W.13/23 for a combined import basket of cotton textiles, the standard ratio would be considerably lower than if the release operated independently from the releases on sarongs and sarong cloth, sarees and saree cloth. A combined release would greatly facilitate the administration by giving greater freedom to importers to work on the principle of selectivity in determining what items of local produce could appropriately be marketed with items imported.

3. Indication of the Standards Ceylon intends to apply in 1959 for the Operation of the Measure

The standards which Ceylon would apply in 1959 would depend on:

- (a) the concurrence by the CONTRACTING PARTIES of the proposal for a combined basket release (see document W.13/23);
- (b) the fulfilment of the production programme outlined in W.13/24.

If concurrence is given to the basket proposal, Ceylon may find it possible to relax considerably the standard ratio in consideration of this merger of all cotton textiles in a single release.

On the other hand, if the CONTRACTING PARTIES do not concur in the basket proposal, probable standard ratio in 1959 would be 1 : 6 being applicable to the whole of the estimated local output of 17 million yards (the thirteen cotton textile items).

4. Prospects of Relaxing or Eliminating the Restriction, or its Replacement by Alternative Measures under the General Agreement

The release granted to Ceylon on thirteen items of cotton textiles has only just come into operation. It is the first step in a bold plan of development for the expansion of the textile industry in the handloom, semi-automatic loom and power-loom sectors. Plans for investment for the expansion of this industry have already been touched on in other working papers submitted by the Ceylon delegation (see W.13/23 and 24). As the investment involved is of a fairly substantial order, covering a phased programme for a period of years, it is obviously impossible for Ceylon to consider the question of relaxing or eliminating control under the Industrial Products Act. The special problems of this industry compel the use of this measure in preference to other alternatives; and the application of the Industrial Products Act on the textile sectors is necessary to establish a domestic product on the market in the face of established barriers of consumer resistance.