

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## REPORT OF COMMITTEE II ON THE CONSULTATION WITH CEYLON

1. In accordance with the Decision adopted by the CONTRACTING PARTIES at their fourth session that consultations should be held with the individual contracting parties regarding their agricultural policies, the Committee carried out the consultation with Ceylon. The Committee had before it a synopsis, furnished by the Government of Ceylon, of non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers. The consultation was conducted on the basis of an opening statement by the representative of Ceylon, discussion on points arising from this opening statement and examination of background document COM.II/2(x)/Rev.1 furnished by the Government of Ceylon. The consultation was concluded on 7 November 1959. The present report summarizes the main points discussed during the consultation.

### A. General Agricultural Policy

2. In his opening statement, the representative of Ceylon drew the Committee's attention to the statement on the agricultural policy of Ceylon and the measures taken to implement it which had been furnished by his Government to the Committee and then outlined the salient features of Ceylon's agricultural economy. Ceylon was almost entirely dependent on agricultural production for her export earnings and for part of her domestic needs for agricultural products. More than 95 per cent of these export earnings were derived from the three items tea, rubber and coconut; in 1957 these items had accounted for 95.6 per cent of Ceylon's export earnings and for 96.2 per cent in 1958. It was therefore essential for Ceylon, if she was to continue importing to meet domestic demand at the levels already achieved, to maintain exports of these three items at a high level and the action taken by the Government to secure maintenance of a high level of export performance took the form of assistance to increase productivity of all three items.

3. The document furnished to the Committee by the Government of Ceylon indicated the production subsidy measures adopted by the Government in respect of these three items. So far as tea was concerned, the Government was confident that there was no danger of over-production in the long term since increasing incomes, particularly in the countries of Asia, would lead to an expansion of demand, more especially in the producing countries themselves. For rubber, the Government of Ceylon considered that the increasing production of synthetic rubber would tend to cause stabilization of the price of natural rubber at a level which was in keeping with the price of synthetic rubber and it was therefore in their view essential that the productivity of natural rubber should be improved; it was only in this way that production of rubber could be economical. So far as coconut was concerned,

there had been growing competition to the use of coconut oil in soap by the development of detergents, but coconut oil was being used in increasing quantities in the manufacture of margarine and there were also attempts to expand the use of coconut in desiccated form as an article of food. About 45 per cent of the coconut produced in Ceylon was used domestically, and the Government were confident that there was room for expansion of consumption not only in Ceylon but in other markets.

4. The Cocoa Replanting Subsidy Scheme was linked with the assistance given to rubber because it had been found that uneconomic rubber could best be replaced by cocoa in certain areas not well suited to rubber. Subsidies were granted to producers who retained rubber production in these areas and at the same time interplanted cocoa, while larger subsidies were granted to producers who replaced rubber by cocoa. Production subsidies also were in operation for products grown for domestic consumption. The staple food of the Ceylon people was paddy. For centuries the paddy lands of Ceylon had been neglected and productivity of the crop had fallen; despite the measures, some of them rather haphazard, which had been taken in the past, the average yield was only slightly above 30 bushels per acre. Experiments carried out at Government stations and with the assistance of farmers had shown that increases in yield up to 55-60 bushels per acre were possible, and it was in the expectation that such an increase could be achieved that the Government operated subsidies for the supply of seed paddy and the distribution of fertilizers to farmers. It had also recently become necessary to introduce a guaranteed price scheme to raise the income of paddy producers who, with a return of only 30 bushels per acre, were unable to meet the cost of a reasonable standard of living. Ceylon would have to double the current yield of paddy to make production of this crop economical and the Government was confident that this could be achieved in the not too distant future. Two-thirds of the population of Ceylon was engaged in this kind of agriculture, which was supplemented by production of crops other than paddy from time to time, and it was virtually impossible to find alternative employment for this population. The Government considered that for security reasons too the production of paddy must continue. As rice was the staple food of the population of Ceylon, the Government felt that it was incumbent upon them, while not aiming at complete self-sufficiency, to ensure that a fair proportion of Ceylon's requirements of rice was produced in Ceylon itself.

5. In addition to paddy, guaranteed price schemes extended to fifteen commodities of which seven (maize, sorghum, kurrakkan, gingerlly, chillies, greengram and mustard) were in general produced by paddy cultivators during the paddy off-season. In the dry zones, most paddy cultivators gathered only one paddy harvest a year. It was in order to ensure a steady return to the cultivators on the produce of dry land in that zone that the subsidies been extended. There was, however, no control or ban on imports of these items. Other items for which guaranteed price schemes had been extended were red onions, tamarind and black pepper. Red onions were produced in one part of the country only and the cultivators in this area were largely dependent on this one crop as their sole source of income. For tamarind and black pepper the price which was payable under the guaranteed price scheme was lower than the price at which imports had been possible for some years.

6. Statistics on the cost of Government programmes for support of agriculture had already been supplied in the documentation furnished to the Committee by the Government of Ceylon. So far as the total value of farm products was concerned, rubber accounted for 314.1 million rupees in 1956, 307.8 million in 1957 and 278.3 million in 1958; tea for 1,126.7 million rupees in 1956, 1,105.8 million in 1957 and 1,155.7 million in 1958; and coconut for 366.1 million rupees in 1956, 326.7 million in 1957 and 344.6 million in 1958.

7. The representative of Ceylon concluded his statement by emphasizing the view of his Government that, for a country like Ceylon with its present state of economic development and with a large agricultural population for which gainful employment had to be found, the conditions generally prevailing were such that subsidy measures were reasonable and in fact necessary for the maintenance and development of that economy.

8. The Committee expressed appreciation for the clear and moderate account of the difficulties facing Ceylon and the policies which had been adopted to overcome them. At the outset of the discussion on the statement made by the representative of Ceylon, one member of the Committee put forward his view that in the agricultural policy of a less-developed country the aim of raising productivity was, if anything, of even greater importance than it might be in the agricultural policy of an industrialized country since a less-developed country could ill-afford to cultivate uneconomic lines of production. The basic aim of raising productivity was also of paramount importance in a country where agriculture was the main source of national output and income, where the means for capital formation and hence for agricultural development itself and for general economic development, must mainly come out of the values created by agriculture. While an industrialized country whose national product consisted mainly of industrial goods and services might be able to afford to support agriculture, the less-developed country must call upon its agriculture itself to support or finance its development as well as general economic development and only an increase in agricultural productivity could make this possible on an increasing scale.

9. Members of the Committee noted the references made in the documentation furnished by the Government of Ceylon to policies aimed at reducing dependence on imports of rice and of increasing self-sufficiency by the encouragement of production of rice and other food crops, and the statement of the representative of Ceylon that his Government was not pursuing a policy of complete self-sufficiency and asked for an indication of the degree of self-sufficiency at which Ceylon was aiming. Members of the Committee also stressed their view that, although the adoption of a policy of increasing or complete self-sufficiency might arise from different motives, nevertheless such a policy should always aim at using resources in a way that yielded the best output and should be directed towards products which would prove most competitive. In this connexion, it appeared to them that the aims of self-sufficiency of the Government of Ceylon were not entirely directed towards such products. From the documentation supplied it seemed that the items which were being produced for home consumption could only be produced at a price higher than that at which imports could be made. They enquired whether there were any special reasons for the adoption of a policy which appeared to aim at production which

was far from competitive and stressed their view that the Government of Ceylon should concentrate their efforts on the production of commodities, e.g. tea, which were competitive. They also pointed out that in their view security considerations, to which reference had been made, should not be among the most important considerations in the adoption of a policy of self-sufficiency since Burma, Ceylon's main supplier of rice, was a neighbouring country. Members of the Committee urged that the Government of Ceylon should take account of the interests of her trading partners and should have in mind the effects that her policy of increasing the degree of self-sufficiency would have on the trade of traditional exporters to Ceylon.

10. The representative of Ceylon stated that increasing self-sufficiency resulted from the efforts being made to increase productivity and was not being pursued as the prime aim of the Government of Ceylon. In regard to the aim of increasing productivity of rice, the representative of Ceylon said that over the years a certain acreage of land had been prepared for cultivation of paddy. The lands prepared in more recent times were among the highest yielding, and it was not the intention of the Government to bring more land under cultivation unless it was certain that the soil, climatic and irrigation conditions would favour a high level of productivity. Some of the lands brought under cultivation in earlier times were not among the highest yielding areas, but they provided almost the only source of income for the population dependent on them and therefore, unless these lands were not completely incapable of cultivation, they could not be abandoned. The intention of the Government was to raise the level of productivity of all lands under rice, whether old or new lands. In regard to the references which had been made to the advisability of concentration of efforts on goods which were competitive, e.g. tea, the representative of Ceylon said that special land contour, soil and climatic conditions were necessary for the production of tea, and Ceylon had almost reached the limit of conversion of lands to tea production. Furthermore, it was inadvisable to bring all land under tea production; certain reserves had to be left. It could not be suggested that the Government of Ceylon had neglected tea production, as was evidenced by the fact that 66 per cent of the country's export earnings was derived from tea. The possibilities of conversion from rice to rubber production were also limited by soil and climatic conditions and, as had been pointed out, some areas now under rubber cultivation should never have been planted with that crop and were being converted to cocoa production. Two-thirds of the population were traditionally dependent on paddy production and it was difficult to find alternative employment for these people. Therefore, quite apart from any reasons for attaining self-sufficiency, or needs to rectify the balance-of-payments position which had deteriorated considerably in 1957 and 1958, it was essential to provide employment in these areas in the only way that this could be done; and, although paddy production was not competitive, it was necessary to continue the subsidies. In the view of the Government of Ceylon, the prospect was not hopeless and there was every possibility of increasing yields to make cultivation economic. In regard to the other items for which production subsidies were given, these were ancillary to the production of rice in that they were cultivated by the paddy producers in the off-seasons and it was in order to supplement the incomes of the paddy producers that the guaranteed price scheme had been devised.

On as many as seven of the fifteen products other than rice to which the guaranteed price scheme applied, the scheme did not involve any loss to the Government either because there were no imports or because the guaranteed price was lower than the import price. Furthermore, the quantities involved were relatively small and importers did not find it worthwhile to engage in imports of small quantities.

11. In reply to questions about the financing of the direct subsidy payments made by the Government, the representative of Ceylon stated that the funds were derived largely from export duties on tea, rubber and coconut products. One member of the Committee noted that the major share of Governmental assistance went to the smaller producers, and expressed doubts whether the results achieved were commensurate with the cost; in his view, there was a danger that the Governmental support programme might perpetuate uneconomic production. He asked whether the rehabilitation programme was designed to enlarge farms and thus lead to more economic production. In reply, the representative of Ceylon said that it was necessary to study the different types of plantation separately. The Governmental subsidy on tea was in two parts, one for replanting and the other for rehabilitation. The subsidy for replanting, which was larger than that for rehabilitation, was intended for the larger holdings and estates who undertook the replacement of old and substandard plants. The rehabilitation subsidy was intended for smallholders who undertook the adoption of improved cultivation methods, use of fertilizers, etc., but did not involve replanting which would still be beyond the means of a smallholder even if he received the larger replanting subsidy. The representative of Ceylon agreed that the smallholdings were less economic tea producers, but expressed the view that, with the present subsidy of 650 rupees per acre, they would be able to reach a degree of efficiency which would make them economic and profit-yielding; the Government of Ceylon estimated that tea production on the small holdings would be raised by 6 million lbs. On rubber, the subsidy for which was paid in stages, the type of replanting expected from smallholders was identical with the work that would be done on the larger estates and, unlike tea, no difference in productivity between the large and small estates was expected. Larger grants were paid to the smaller farms because of the lower incomes of the small farmer. When the plan for replanting 200,000 acres was completed, Ceylon expected that the present production of only 90,000 tons of rubber would be increased by 60,000 tons. Coconut, for which a two-part subsidy scheme covering the use of fertilizers and measures for replanting was in operation, was largely produced on smallholdings (unlike tea and rubber) and, as for rubber, the Government did not expect any significant difference in productivity between large and small estates if the fertilizer and replanting measures were adopted. For cocoa, which was replacing production of rubber on those lands where economic production of rubber was not possible, the same subsidy was granted to large and small estates and no significant difference in yields was expected. The representative of Ceylon pointed out that in these circumstances the views expressed about support for uneconomic production on small farms had some relevance only in the case of tea.

12. Members of the Committee pointed out that, from the documentation supplied, there appeared to be a substantial difference between the c.i.f. price of imports and the guaranteed minimum price for paddy and certain of the other commodities (i.e. chillies, greengram and red onions) for which the guaranteed price scheme was in operation and enquired whether the guaranteed price was calculated on a cost of production basis or was calculated as the minimum price that the farmer had to obtain in order to maintain a reasonable standard of living. Members of the Committee also noted that the quantities of commodities, particularly paddy, bought by the Government under the guaranteed price scheme increased substantially in the period 1956-1958 and that there was a decline in imports over the same period. They enquired whether the decline in imports was the result of a deliberate policy of reducing imports followed by the State-trading agencies or whether it was brought about by the effects of the subsidy in increasing productivity. One member of the Committee referred to his own country's experience of double cropping and its effects on farm incomes, and stated that he would expect net farm incomes to increase as a result of the subsidy on paddy and the subsidy on the secondary crops grown on the paddy lands after the paddy harvest. He enquired whether the Government of Ceylon expected that the need for subsidies might progressively decrease as the increases in yield of paddy and secondary crops found a firm footing in the agricultural economy.

13. In reply, the representative of Ceylon stated that the guaranteed minimum price was largely calculated as the minimum price that the paddy farmer had to obtain to maintain a reasonable standard of living. The peasant farmer was not able to cultivate more than about 5 acres of paddy and his income had to be supplemented by other employment. As to the effects of double cropping on net farm incomes, none of the crops covered by the guaranteed price schemes were grown on actual paddy lands (though attempts had been made to grow greengram on these lands); they were, in fact, grown on high, unirrigated lands which were cultivated by paddy growers in the paddy off-season. The total amount of subsidy on crops other than rice was negligible, amounting to only 2 million rupees a year, and was merely intended to supplement the low incomes of the paddy growers in dry zones where there was normally only one paddy harvest a year. The subsidies were not primarily intended to discourage imports nor were they in pursuit of the aim of self-sufficiency at all costs. The Government was hoping to double the yield of paddy on almost all lands and when this target was reached the difference between the guaranteed minimum price and the c.i.f. price of imports would be bridged. As to the other commodities for which the guaranteed minimum price scheme was in operation, while it was true for some commodities that the guaranteed price was above the c.i.f. price for imports, it was not so for all and there was no ban on the import of any of the items concerned.

14. Members of the Committee noted that a large number of agricultural items could be imported only by the Government and also noted the statement in the documentation that in the main the Government was the sole importer of these goods in order to make them available as cheaply as possible to the consumer. They expressed the view that great reliance on State-trading and bilateral agreements might interfere with the goal of optimum achievement of

national productivity and asked whether ordinary commercial considerations played the most important role in State-trading operations and whether the Government of Ceylon considered that they would need to rely heavily in the future on bilateral trading arrangements. They also enquired whether the Government was satisfied that State-trading was the only method by which supplies could be made available as cheaply as possible to the consumer. Members of the Committee noted that some of the import arrangements in force appeared to be discriminatory. For dates, for example, the governmental purchase arrangements appeared to discriminate in favour of Iraq, while for other items, e.g. garlic from Hong Kong, Singapore and China, imports were controlled through Government monopolies while supplies from other sources could enter Ceylon freely through private traders.

15. The representative of Ceylon said that his Government was most anxious to reduce the country's reliance on State-trading and bilateral arrangements and had entered into such trading systems from necessity and not as a matter of choice. The import arrangements for dates had now been changed (as had those for other food items such as masoor dahl, lentils, masoor whole and split lentils) and these could now be imported from any source by private traders. The possibility of freeing trade in garlic to private traders was under consideration. The governmental purchase arrangements on dates had been entered into because, after the Suez crisis, while Egypt, which had earlier been Ceylon's best Middle East customer for tea, had drastically reduced her purchases on account of monetary difficulties, Iraq had insisted on large sales of dates to Ceylon as a condition of continued purchases from Ceylon. The tea involved was of a type which had traditionally been exported to the Middle East and for which there was no market elsewhere, as for example, in the United Kingdom or the United States. The Government monopoly of purchases of wheat, wheat flour, rice and sugar stemmed from the wartime arrangements under which the Government was the sole distributor of these foodstuffs under rationing schemes. The Government, having undertaken the responsibility of getting supplies to the consumers as cheaply as possible, considered it prudent, especially in view of the difficulties which sometimes arose in procuring supplies of rice, to continue its monopoly arrangements in order to discharge its obligations. All the commodities concerned were purchased by the Government at the most competitive prices available at the time of contracting.

16. The representative of Ceylon assured the Committee that the agricultural policies adopted by his Government were not intended to cause difficulties to Ceylon's trading partners and the interests of these trading partners were kept under consideration by his Government.

17. One member of the Committee asked whether Ceylon's trade in agricultural products was hampered by non-tariff barriers imposed by other countries. The representative of Ceylon explained that his Government was very much concerned about some non-tariff barriers imposed on Ceylon's exports, and in particular about the internal revenue duties and other fiscal charges levied in certain countries on tea, on the exports of which Ceylon was so heavily dependent for her foreign exchange earnings.

B. Commodities

18. This section of the report summarizes the main points which arose during the consultation on those commodities entering importantly into world trade, on which the Committee had agreed the consultations should in the main be concentrated.

Sugar

19. Members of the Committee noted the statement in the background documentation supplied by the Government of Ceylon that imports of sugar could be made only by the Government and that this requirement had no restrictive effect on consumption of sugar or protective effect on the local industry which had not yet come into being. In the light of this statement, members of the Committee asked for information on the plans for the encouragement of sugar production in Ceylon.

20. In reply, the representative of Ceylon stated that the Government's ten-year plan envisaged that production of sugar would be taken up in five stages. It was hoped that in 1959 output of sugar would be in the region of 19,000 tons, 40,000 tons in 1959/60, 91,500 tons in 1962 and 182,200 tons in 1965. Current requirements of sugar were estimated at 187,500 tons which were all at present imported. It was estimated that requirements of sugar in 1965 would be in the region of 262,000 tons which would leave a gap of 77,800 tons to be met by imports, if the production plan of 182,200 tons in 1965 had been met.

Fish

21. One member of the Committee noted that no reference had been made in the background documentation to Ceylon's fishing industry. He understood that the Government of Ceylon was working out a long-term development plan under which it was proposed to double the industry in a period of three years and enquired whether the Government proposed to implement any special subsidy measures in this sector and whether there were at the present time any guaranteed price schemes in force to increase local consumption of fish.

22. In reply, the representative of Ceylon said that Ceylon's production of fish in 1957 was 761,301 cwt., which was very low in terms of the requirements of the country. In the Government's view, the speedy development of the industry merited the highest priority, on a par with the export industries, and development plans were being made with a view to achieving a production of 4 million cwt. in 1968. There were no protective measures at present applied, and there were none contained in the plan itself but it would be necessary to see how this plan developed.

Meat and Dairy Products

23. In reply to questions about production, import and consumption of animal products in Ceylon, the representative of Ceylon undertook to supply statistics at a later stage for the records of the Committee. He stated that there was no restriction or protection of any kind on meat or dairy products and low rates of import duty were applied to these products. There had been religious prejudice in Ceylon against the breeding of animals for slaughter and, although this prejudice was not now as pronounced as in former years, nevertheless there was still little production or consumption of meat products. Furthermore, even among those parts of the population which had no religious prejudice against consumption of animal products, low incomes prevented high consumption of meat and dairy products.

Wheat and Wheat Flour

24. One member of the Committee noted that under the guaranteed price system purchases of rice by the Government had increased by 60 per cent in the period 1956-1958 which indicated a stimulus in production. This had had less effect than might have been expected on the volume of imports in the same period. He expressed interest in the implications for wheat exporters of the Government's policy of increasing self-sufficiency in rice and asked for information on the volume of imports of wheat and wheat flour in the same period 1956, 1957 and 1958.

25. The representative of Ceylon stated that imports of wheat and wheat flour in 1956 were 71 million lbs., 86 million in 1957 and 67 million in 1958. The imports in 1957 had been more than the average requirements of Ceylon and there had, therefore, been no appreciable change in the amounts imported during the period. Before the war, imports of wheat and wheat flour had been negligible but as a result of difficulties in procuring rice there had been a phenomenal change in imports and consumption habits and these had continued after the war.