

GENERAL AGREEMENT ON
TARIFFS AND TRADE

RESTRICTED

L/1228

3 June-1960

Limited Distribution

CONTRACTING PARTIES
Sixteenth SessionSECOND ANNUAL REVIEW UNDER ARTICLE XVIII:6Report of the Panel on Article XVIII

1. In accordance with its terms of reference, the Panel on Article XVIII has completed the second annual review provided for in paragraph 6 of Article XVIII. The review is intended to cover the measures on which releases have been granted under the revised text of Article XVIII which came into force in October 1957. The Panel noted that releases under these revised provisions had been granted to Ceylon on the following products:

- (a) cotton sarongs, sarees and cotton textiles;
- (b) plywood chests for the packing of tea;
- (c) crown corks;
- (d) bicycle tyres;
- (e) tooth-brushes;
- (f) electric bulbs;
- (g) nails and screws;
- (h) aluminium hollowware.

2. The Panel noted that, with respect to the two commodity groups (g) and (h), the releases were granted as recently as October 1959, and that it was consequently not necessary for these products to be covered in the present review. The Ceylon delegation informed the Panel that the Ceylon Government had not yet taken advantage of the releases granted with respect to the commodity groups (c), (d), (e) and (f). Consequently the present report covers only the first two commodity groups, namely (a) cotton sarongs and cotton textiles, and (b) plywood chests. The review of the measures applied under the releases granted in respect of these two commodity groups was conducted on the basis of a written statement submitted by Ceylon and discussions between the Panel and the representatives of Ceylon and other interested contracting parties.

3. With respect to each of the cases the Panel considered:

- (a) the standard ratio applied in the course of the past year;
- (b) the level of production, imports and prices of the domestic and imported products; and
- (c) the prospects of relaxing or eliminating the restriction or of replacing the restriction by alternative measures available under the other provisions of the General Agreement.

Cotton sarongs, sarees and cotton piece-goods

4. The Panel noted that the releases in respect of these commodities were consolidated at the thirteenth session (BISD, 7th Supplement, pages 25-27). The Ceylon delegation considered that, under the terms of the release, the Ceylon authorities were entitled to protect the domestic industry by requiring importers of goods falling under any one of the nineteen tariff items covered by the release to purchase a quantity of locally produced cotton sarongs, sarees or cotton piece-goods, depending on the extent of the declared stocks at the time. The Ceylon delegation reported that the scheme had been put into effect on 19 January 1959. The Panel also noted the statements by Ceylon that full effect had been given to the negotiations conducted between Ceylon on the one hand, and Japan, India, France, Italy, the United States and the United Kingdom, on the other, by exempting a specified item of piece-goods which was then considered not to be in direct competition with the domestic sarongs, sarees or cotton piece-goods.
5. The Panel was informed by the Ceylon delegation that domestic production of the goods covered by the release totalled 27 million yards in 1959. During the year, 33 million yards, including current production and accumulated stocks, were marketed through IPA regulation. Imports of the twenty tariff items,¹ which had been 132 million yards in 1957, had risen to 139 million yards in 1959. The standard ratio used in the year, therefore, averaged one local to four imported.
6. AS regards the standard ratio that might be applied in 1960, the Ceylon delegation stated that this would depend on the quantity of local textiles destined for disposal through the measure and on whether the new request for release regarding two tariff items would be granted. It was expected that local production would reach 30 million yards.
7. The Ceylon delegation considered that the regulation of these products could not be rescinded in the near future. As a result of increased production and certain unethical practices that had been discovered in the trade, the regulation of the imports would have to be vigorously applied in the next year.
8. At the fifteenth session, when this review was initiated, the representatives of certain contracting parties took the opportunity of calling attention to certain aspects of Ceylon's regulation of textile imports and made certain suggestions. In particular, attention was called to the wide latitude with which Ceylon officials, for purposes of the IPA, interpreted the releases, particularly as regards what materials "could be made into sarongs and sarees". The Panel and the representatives of interested contracting parties discussed these points with the Ceylon delegation. The Ceylon delegation assured the Panel that certain discrepancies which had happened at the initial stage of the application of the measures already had been put right and that every effort would be made to narrow the scope of the measure in order to bring its application into full conformity with the intent of the release granted by the CONTRACTING PARTIES. Contracting parties were invited to notify the Ceylon authorities of any irregularities or discrepancies that might be discovered.

¹Including the item on which a release was granted after the fifteenth session.

Plywood chests

9. The Panel noted that the current release was granted at the twelfth session with a validity of five years expiring in March 1962 (BISD, 6th Supplement, page 16). A "maximum domestic availability" representing the maximum amount of domestic products that might be marketed through regulation under the IPA was fixed at 652,000 chests per year and the maximum standard ratio was fixed at one local to four imported.

10. The Panel noted that in 1959 local production of plywood chests increased substantially over the level prevailing in previous years (415,000 units in 1959 compared with 380,000 units in 1957 and 344,000 units in 1958). The price of domestically produced chests had been stabilized in the last three years (at rupees 5.90 per chest in 1957 to 1959) whereas the c.i.f. price of imported plywood chests had fallen substantially in the last two years (from rupees 5.77 per chest in 1957 to rupees 5.60 in 1958 and rupees 4.98 in 1959).

11. The Panel noted that in 1959 total consumption stood at 3.4 million units, while local production reached 450,000 units. A standard ratio of one local to six imported was used. The standard ratio in 1960 is 1:7; current production has been stepped up by some 18 per cent.

12. The Panel noted that the Ceylon Government considered it impracticable at present to revoke the application of the Industrial Products Act to this product. In its view the IPA provided the only satisfactory safeguard without which the establishment of the industry might be seriously impeded.