

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## TARIFF AND QUANTITATIVE RESTRICTION MEASURES TAKEN BY CEYLON

### Statement by the representative of Ceylon at the meeting of the Council on 9 February 1961

First of all, I want to apologize on behalf of my country for being the cause of having to call a meeting of the Council of the GATT at such short notice. We are sorry for the inconvenience caused to contracting parties.

As already announced, the Government of Ceylon has been compelled, as from the 25 January of this year to intensify quantitative restrictions to stop a serious decline in monetary reserves. The Government has also raised import duties and this increase has affected a number of items in Ceylon's schedule. The relevant Ceylon Government Gazette notification which gave effect to these measures are, I believe, in the hands of the contracting parties.

The members of the Council will remember that Ceylon carried out consultations under Article XVIII:12(b) in September 1960. At these consultations, the Ceylon Government presented data to show how the foreign assets of Ceylon were declining and described what steps the Government was taking to arrest this decline. Reference may be made in this connexion to the opening statement made by the representative of Ceylon in document L/1352. I do not intend to give details of the foreign assets position and of the measures taken by the Government at this meeting of the Council. Ceylon will be prepared to present them at the Working Party, which I presume will be appointed to consult with the Government of Ceylon.

I might, however, present a few salient facts so that the members of the Council may appreciate our position. We said in the consultations carried out last September that in the first half of 1960, the foreign assets continued to decline, and that this period saw a current account deficit even higher than that in the corresponding period in 1959. At the end of August 1960 foreign assets stood at Rs.550 million.

We had hoped that certain action taken in August 1960 in the monetary field such as raising the Bank Rate from  $2\frac{1}{2}$  to 4 per cent other than for certain specified transactions, margin requirements being insisted upon letters of credit for non-essential imports, and overall limits being placed on the advances that commercial banks were to make to finance these imports, and tightening of the credit base for hire purchase transactions together with a steep increase in the duties on a wide range of luxury and non-essential products would rectify the deteriorating balance-of-payments situation.

Unfortunately our hopes have been belied. Foreign assets declined to Rs.530 million in September 1961, improved slightly to Rs.537 million in October and declined again to Rs.498 million in November. It is estimated that in December 1960 there was a further decline to Rs.480 million. When provision for sinking funds, trustee funds, swing credit assets under the various trade and payments agreements etc. are excluded, as not being readily available to settle transactions, foreign assets of Ceylon now are just sufficient for about a month's import requirements.

This worsening position in the balance-of-payments situation is principally due to circumstances beyond our control. While the Government in the 1960/61 financial year was taking various steps to reduce the budget deficit, prices of two of Ceylon's major export commodities went down drastically in the world markets. Rubber prices went down in the London market from 2s.11d. a pound in January 1960 to 2s.1d. in December 1960. Coconut oil went down from £141 per ton to £93 per ton in the same period.

There are no immediate prospects of these prices improving. The outlook for rubber is bad for 1961, in the depressed state of the world's car industry and increasing competition from stereo rubber. As regards coconut oil, we feel that the prices have come back to the normal levels following high prices in 1958, consequent on adverse weather conditions in the producing countries. Increased competition from soya bean oil also makes the prospects of better prices for coconut oil improbable.

On account of the serious decline in foreign assets so brought about, the Government has been compelled to impose quantitative restrictions rather severely. In the Ceylon Gazette notices, which are before you, the Government has brought a number of new items including a wide range of consumer goods under licence and have cancelled licences already issued on some. At present no licences are issued for the importation of these goods. This step has been taken till the Government is in a position to assess the stock position, consumers' requirements etc. A more definite policy will, no doubt, be announced as soon as this information is available.

In the meantime the Government is continuing with measures to reduce the money supply and the budget deficit. A very recent measure announced new regulations which require all commercial banks in Ceylon to maintain increased reserves with the Central Bank against any increases in the current demand deposits. These reserves have been put at 38 per cent as against 12 per cent. The Government has also asked for a 10 per cent cut in budgeted expenditure in the financial year 1960/61.

In addition to tightening quantitative restrictions, the Government has raised import duties on the entire range of imports other than food items. There are two sets of increases. Duties have been raised in varying degrees on a number of items, and there has been a general increase of 5 per cent on all goods except food items.

Members of the Council will remember that in the last four months of 1960, Ceylon was negotiating under Article XXVIII for modifications of its schedule. The Government had given notice of withdrawal of certain items from the Schedule as early as July 1960. Incidentally, this action was prompted by the Government's desire to solve Ceylon's balance-of-payments problem, as far as possible, through tariff means. The Government had hoped that negotiations

could be completed by the end of the year 1960, enabling it to raise duties on these items. Unfortunately on account of various difficulties, of which the most contributory was the delay in getting the instructions from the home governments of the countries with whom we were negotiating, the Ceylon delegation was unable to conclude negotiations with contracting parties as intended earlier

There are 240 items in the Ceylon Schedule. Of these, sixty-four items are not affected by the duty increase. Of the remaining 176 items, 105 items are withdrawal items, notice of withdrawal of which was given in July 1960. On some of these items duties have been raised by various amounts. On the balance seventy-one items, which will be in Ceylon's Schedule together with some of the others from sixty-four items on which the increase in duty has not resulted in a breach of the GATT, the duties have been raised by 5 per cent.

That is broadly the picture. Now in raising duties as we have done, even on items for which notice of withdrawal was given and regarding which we were negotiating, we admit that we have clearly gone against GATT rules. When we started negotiating in the last quarter of 1960, we intended fully to conform to the requirements of the GATT. Unfortunately unprecedented and unexpected foreign exchange and fiscal problems forced the hand of the Government to act in the manner it has done. We are extremely sorry for this violation. We would like to assure the members of the Council that it is dire need rather than any desire to flout the rules which is responsible for our action.

If you would permit me to make some suggestions to solve the problems that has arisen - when the Ceylon delegation withdrew from Geneva in September 1960, it had already concluded some negotiations and it had made arrangements to finalize the others. We are prepared to continue to negotiate so as to effect the earlier announced withdrawals and pay compensation for such withdrawals. Some of the completed negotiations may have to be re-opened and we are prepared to give additional compensation if the compensation already given has been vitiated by the duty rise.

As I said earlier, in addition to the specific increases in duty which are given in the first part of the Ceylon Government Gazette, there has been a general increase in duty of 5 per cent except on food items. This increase has affected seventy-one items, which we hope to retain among others in the Ceylon Schedule. In other words, in some of the items in the list that is going to be retained, the duty increase is of the order of 5 per cent.

I have been instructed to state that this increase is temporary. The Government is working out a system of sales tax to be introduced to recoup some of the revenue which will be lost in the recent reduction of the export duty on rubber which has had to be made on account of the drastic fall in rubber prices and the expected smaller income tax collections from reduced incomes from rubber and coconut products. The best way to solve this part of the problem seems to me to give Ceylon a waiver.

Finally, my delegation is prepared to give any information that delegations might require on the duty increases.