

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/1551

22 September 1961

Limited Distribution

COUNCIL

26 September - 6 October 1961

Original: English

CEYLON TEMPORARY DUTY INCREASES

First Annual Report by Ceylon under Decision of 10 April 1961

The Government of Ceylon is required under the Decision of 10 April 1961 adopted by the CONTRACTING PARTIES to submit before 15 September of each year a report on the action taken to reduce or eliminate the increases in duties maintained under the Decision and on the circumstances which in its view still justify the application of the increases in duties not yet eliminated.

Since the waiver was granted the 5 per cent surcharge of duty has, by an order made by the Minister of Finance under the Revenue Protection Ordinance published in the Government Gazette of 27 July 1961, been removed from the following items to which the waiver applied.

<u>1955 Tariff No.</u>	<u>Description of products</u>	<u>Bound Pref.</u>	<u>Duty M.F.N.</u>	<u>Ad valorem duty increase</u>
711-03.03	Agricultural, tractors, steam - complete and parts	5%	15%	5%
712-01.01	Agricultural machinery and appliances for preparing and cultivating the soil - complete Agricultural disc-tillers, monkey grabbers, tractor harrow, tractor manure machines and distributors, tractor ploughs, tractor seed drills and monkey jacks	5%	15%	5%
712-01.02	Agricultural machinery and appliances for preparing and cultivating the soil - parts	5%	15%	5%

1955 Tariff No.	Description of products	Bond Pref.	Duty M.F.N.	Ad valorem duty increase
712-02.01	Agricultural machinery and appliances for harvesting, threshing and sorting - complete			
	Agricultural hay balers, paddy winnows, threshers, reaper binders, tractor hay movers, maize shellers and self-propelled combined harvesters	5%	15%	5%
712-02.02	Agricultural machinery and appliances for harvesting, threshing and sorting - parts	5%	15%	5%
713-01.01	Tractors, other than steam (agricultural) - complete	5%	15%	5%
713-01.02	Tractors other than steam (agricultural) - parts	5%	15%	5%

The supplementary duty, however, continues to apply to all the other items affected by the waiver. There has been no basic change in the circumstances which necessitated the imposition of the surcharge at the time when the waiver was sought.

According to available customs data Ceylon's exports during the first half of this year have amounted to Rs. 880 million and imports to Rs. 807 million, resulting in a favourable balance of trade of Rs. 73 million as compared with an adverse balance of Rs. 13 million during the corresponding period of 1960. This surplus, however, has been achieved at a very much lower level of trade, exports having fallen by Rs. 68 million and imports by Rs. 154 million as compared with the first half of 1960. It has also been accompanied by a very considerable decline in the terms of trade, the Central Bank's index of which has fallen from 103 during the first half of 1960 to 95 during the first six months of this year - a deterioration of 8 per cent. The decline in export earnings is attributable largely to a decline in the prices of two of the principal export commodities, viz. rubber and coconut products. According to the Central Bank's trade indices, the price of rubber declined from 140 during the first half of last year to 104 during the first half of this year, a decline of 26 per cent. In the case of the three major coconut products the decline was even greater, viz. 29 per cent, the index having fallen from 118 to 84. The price of the principal export tea, however, showed a small improvement of 3 per cent, the index registering a rise from 97 to 100. The index of all export prices declined by 8 per cent. The Central Bank's index of the volume of all exports at 104 indicated a slight decline of one point from the level of the first half of last year. The sharp reduction in imports has been in large measure the result of the

tariff and import restrictions introduced during August last year and January this year.

According to provisional data available for the first quarter of this year, the balance of payments shows a surplus of Rs. 12.7 million on current account. This improvement has been reflected in a rise in the external assets by Rs. 16 million during that quarter. In April the external assets rose further, but of the increase of Rs. 70 million in these assets at the end of that month a sum of Rs. 54 million represents an acquisition of foreign exchange from the International Monetary Fund. There has, however, been a decline in these assets in the succeeding months, the decline being of the order of Rs. 5 million, Rs. 31 million and Rs. 31 million in May, June and July respectively. At the end of July these assets stood at Rs. 500 million, as compared with Rs. 481 million at the end of last year.

The budget for the forthcoming financial year 1961-62, introduced in Parliament on 27 July 1961, contains far-reaching fiscal measures which are expected to exercise a restraining influence on the demand for imports. The budget proposals envisage a total expenditure of Rs. 2,180.7 million as against an estimated revenue on the basis of existing taxation of Rs. 1,611.2 million. The deficit of Rs. 569.5 million is to be financed to the extent of Rs. 200 million from domestic savings, and a sum of Rs. 140 million will be available by way of foreign aid. Additional taxation will provide the balance of Rs. 229.5 million. Increases in import duties and in excise duties, including new excise duties, are expected to yield Rs. 51 million. The increases in import duties, which were made effective from 27 July 1961, include an increase of Rs. 8/- per pound on tobacco, of Rs. 30/- per gallon on spirits, and Rs. 3/- per gallon on beer. Amendments to the Income Tax Ordinance, designed to bring in additional revenue, include provision for ceilings on income left after deduction of existing taxation. Income in excess of the specified ceilings is recoverable in the form of a special super tax, 50 per cent of which is to be returned to the tax payer in the form of Development Bonds carrying a tax-free rate of interest of approximately 5 per cent. The benefit of subsidized rice granted to income tax payers is to be withdrawn. Further taxes include a national development tax of 4 per cent on persons in receipt of wages or salaries above a specified minimum, a registration tax on self-employed persons engaged in any profession, trade or business and a graduated land tax on holdings of 20 acres and above. The Government also proposes to introduce a sales tax on domestic as well as imported products. It is expected that the entire deficit will be financed by these means without recourse to inflationary finance.