

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/1847/Add.1
14 November 1962

Limited Distribution

CONTRACTING PARTIES
Twentieth Session

REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION UNDER ARTICLE XVIII:12(a) HELD ON 6 NOVEMBER 1962 WITH

C E Y L O N

1. As instructed¹ by the CONTRACTING PARTIES the Committee reopened the consultation with Ceylon under Article XVIII:12(a) regarding the substantial intensification of restrictions on 10 October 1962. The present report summarizes the main points of discussion during the consultation on 6 November 1962 and should be deemed to constitute an addendum to the report of the Committee on the consultation with Ceylon under Article XVIII:12(a) held on 24 September 1962 (L/1847).² In addition to the material referred to in paragraph 1 of document L/1847, the Committee, in conducting the consultation, had before it (a) copies of Ceylon Government Gazettes Nos. 13.342 and 13.343, forwarded to contracting parties under cover of document L/1885, which give details of the intensification of restrictions put into effect on 10 October 1962; and (b) supplementary information supplied by the International Monetary Fund on the financial position and restrictive system of Ceylon (BOP/22).

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the International Monetary Fund had been invited to consult with the CONTRACTING PARTIES in connexion with this consultation with Ceylon. In accordance with the agreed procedure, the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Ceylon. The statement made was as follows:

"The members of the Committee will have received a paper supplementing the information contained in the Fund's background paper of September 10, 1962, which was supplied in connection with the consultation with Ceylon held by the Committee a month ago.

¹See SR.20/4 page 47

²A summary of the Committee's discussion and its findings relating to the temporary duty increases recently introduced by Ceylon for balance-of-payments reasons is contained in a separate document L/1918.

"On the basis of the information provided to the Fund by the Government of Ceylon, including the information I have just referred to, the level of the various restrictive and tariff measures currently applied by Ceylon does not appear to go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves. As the CONTRACTING PARTIES have previously been advised, the Fund expects soon to conduct its 1962 consultation with Ceylon and to transmit to the CONTRACTING PARTIES the Executive Board decision relating to that consultation when it becomes available. At that time, the Fund will be prepared to enter again into consultation with the CONTRACTING PARTIES on any relevant aspects of the matters now under consideration by them, if the CONTRACTING PARTIES so desire."

Recent developments in the financial position and restrictive system of Ceylon

3. The Committee noted that as a result of the intensification of restrictions on 10 October 1962, all imports into Ceylon except specified foodstuffs, petroleum, fuel, fertilizers and specified drugs are now subject to individual import licensing. The value of imports of the items newly placed under individual licensing amounted to Rs.630 million in 1961, or more than 35 per cent of total imports in that year. The representative of Ceylon explained that his Government had been compelled to impose these additional restrictions, since the country's balance-of-payments position had continued to deteriorate, despite the measures taken earlier during the year for curbing imports. As a result of the intensification of restrictions put into effect on three successive occasions since the beginning of August 1962, the Government expected to achieve total annual savings of foreign exchange of approximately Rs.75 million, comprising a saving of foreign exchange of Rs.53 million as a result of the restrictions on tyres and tubes introduced on 3 August 1962, Rs.10 million from the restrictions imposed on 15 September 1962 on forty-seven items (BOP/17/Add.1), and Rs.12 million as a result of the restrictions imposed on 10 October which were the subject of this consultation. In addition, the temporary increase in customs duties put into effect in July/August 1962 was expected to lead to a contraction in import demand which would permit annual foreign exchange savings of the order of Rs.25 million. The representative of Ceylon pointed out in this connexion that, although the measure taken on 10 October affected a large proportion of Ceylon's import trade, the restrictive effect of this measure would be small since the annual foreign exchange saving of Rs.12 million expected as a result of this measure amounted to only 1.9 per cent of the 1961 import expenditure of Rs.630 million on the goods in question.

4. In reply to questions concerning the administration of import controls on items newly subjected to import licensing, the representative of Ceylon explained that essential commodities would be licensed in accordance with actual import requirements. As regards imports of less essential commodities affected by the latest restrictions, his Government was in the process of establishing import quotas and it was hoped to announce these quotas by the

end of the year. In the meantime licence applications relating to outstanding orders would be treated liberally so as to avoid a disruption of the flow of trade. In reply to further questions, the representative of Ceylon explained that quotas and import licences were valid for imports from all sources. Imports from countries with which trade was conducted under bilateral agreements were in no way accorded more favourable licensing treatment.

5. Replying to questions concerning the use of fiscal and monetary measures for reducing import demand and thus the pressure on the balance of payments, the representative of Ceylon said that his Government would continue its efforts to counteract inflationary pressures through appropriate fiscal and monetary measures. At the same time, it had to be recognized that the scope for using fiscal and monetary measures for regulating economic activity and the level of demand was generally more limited in countries at an early stage of economic development than in industrialized countries. In reply to a question concerning the use of counterpart funds, arising from the sale for local currency of commodities received under commodity aid arrangements, the representative of Ceylon explained that counterpart funds so acquired had been used for financing projects, in a way which would add significantly to the country's productive capacity. While the judicious use of counterpart funds could make a significant contribution to development in a climate of relative price stability, imports under commodity aid arrangements had a direct salutary effect on price stability, though increasing the supply of goods on the market. Moreover, such imports provided important relief to the balance of payments, particularly where commodity aid was in the form of grants.

6. In reply to questions concerning prospects for an early improvement in Ceylon's balance-of-payments situation, the representative of Ceylon said that there had been no indication of any change in the near future in the rather unpromising outlook for Ceylon's major export commodities described in document L/1847. While considerable efforts were being made to reduce Ceylon's dependence on such essential imports as rice and fish products, which at present accounted for a large share of import expenditures, relief to the balance of payments should not be expected in the immediate future because of the time necessarily required for these efforts to be reflected in significantly increased production of the items concerned.

General

7. The Committee thanked the representatives of Ceylon for the readiness and the co-operative spirit with which they had engaged in the consultation. The Committee expressed regret that, as a result of the further deterioration in the foreign reserves position, it had been necessary for the Ceylonese authorities further to intensify restrictions. The Committee recognized that the solution to Ceylon's balance-of-payments problems during its period of development rested largely on the achievement of a stable and growing level of foreign exchange revenue from its principal traditional exports and from the exports of its developing industries. The Committee took note of the statement of the

representative of the International Monetary Fund that "on the basis of the information provided to the Fund by the Government of Ceylon the level of the various restrictive and tariff measures currently applied by Ceylon does not appear to go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves". The Committee urged that Ceylon should continue to explore possibilities for reducing import demand through appropriate fiscal and monetary measures as an alternative to direct restrictions and duty increases. Members of the Committee pointed out that, with the further enlargement of the restricted sector, the danger of inefficient industries being established under the cover of the protection afforded by the control of imports for balance-of-payments reasons had increased. They expressed the hope in this connexion that, in implementing their licensing policies, the authorities of Ceylon would keep this problem in mind; and that, pending the relaxation of restrictions as the balance-of-payments position improved, licensing restrictions would be administered in a way which would cause the least disruption to trade.

8. The representative of Ceylon thanked the Committee for the understanding and sympathy which had been shown to his country throughout the consultation. He assured the Committee that, as set out in the earlier consultation report, his Government would revert to its traditional liberal import policy as soon as practicable and to the extent permitted by an improvement in the reserve situation. Also, while it had to be recognized that some degree of incidental protection was probably unavoidable in the circumstances, his Government would continue to administer restrictions imposed for balance-of-payments reasons in a manner designed to avoid uneconomic development and undue damage to established import patterns.