

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/1918

15 November 1962

Limited Distribution

CONTRACTING PARTIES

Twentieth Session

REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE TEMPORARY INCREASES IN DUTIES OF CEYLON

1. In a communication dated 4 August 1962, the Government of Ceylon informed the CONTRACTING PARTIES that, in order to arrest a continuing decline in the foreign exchange reserves, it had been compelled to intensify import restrictions and, on 3 August 1962, to impose a 20 per cent increase on a considerable number of duties bound in Schedule VI. The Government of Ceylon indicated that it was prepared to discuss and consult regarding this increase in duties with contracting parties affected by this measure. This communication was outlined in GATT/AIR/287, and details of the tariff measures are described in Ceylon Government Gazette No. 13246 of 3 August 1962, copies of which have been distributed to contracting parties with document L/1824. The Government of Ceylon later asked that a waiver be granted to cover the imposition of these duty increases.
2. In a further communication the Government of Ceylon requested an extension of the waiver on temporary duty increases for balance-of-payments reasons, granted to Ceylon on 10 April 1961 (BISD, 10th Supplement, page 35), which is due to expire on 31 December 1962 (L/1818/Add.3).
3. The CONTRACTING PARTIES, at their meeting on 29 October, accepting the suggestion made by the Executive Secretary in GATT/AIR/287, instructed the Committee on Balance-of-Payments Restrictions to consider and to advise them on the balance-of-payments aspects of Ceylon's temporary increases in customs duties and its waiver requests.
4. The Committee has carried out a thorough examination of Ceylon's balance-of-payments position and prospects in connexion with the recent consultations with Ceylon under Article XVIII:12(a). The material contained in the reports of the Committee regarding the recent measures of substantial intensification of restrictions is directly relevant to the matter now under reference and the present report should be read in conjunction with those documents (L/1847 and L/1847/Add.1).
5. As noted in these reports, the CONTRACTING PARTIES, in accordance with paragraph 2 of Article XV, had invited the International Monetary Fund to consult with them on the Ceylon import restrictions and on the temporary increases in customs duties imposed for balance-of-payments reasons. The documentation supplied by the Fund in connexion with that consultation is noted in paragraph 2 of document L/1847 and paragraph 2 of document L/1847/Add.1.

The Committee noted the statement by the Fund representative 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. 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 matter now under consideration by them, if the CONTRACTING PARTIES so desire".

6. The Committee noted that over the last two years, Ceylon had taken several steps to tighten its import restrictions and had put into effect a number of tariff adjustments. In the view of the Ceylon Government, the measures in these two fields were intended to reinforce and supplement each other. The tariff measures, in addition to exercising some direct restraint on imports, represented part of Ceylon's fiscal measures designed to redress the balance-of-payments position through reducing internal inflationary pressures. The representative of Ceylon confirmed that some items had been subjected to both tariff increases and individual licensing restrictions.

7. The Committee welcomed the recognition by the Government of Ceylon, as stated in document L/1847, that the country's balance-of-payments difficulties could not be solved exclusively through the intensification of restrictions or duty increases and that consequently the Government of Ceylon was continuing its efforts to check inflationary pressures through appropriate fiscal and monetary measures. It also took note of the statement of the representative of Ceylon that the conventional fiscal and monetary measures applied in industrialized countries to check inflationary pressures could not always be used with the same effectiveness in the context of the special problems of developing countries, and that the possibilities in this field were therefore limited in the case of developing countries such as Ceylon. The Committee recognized that the solution to the country'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. It also noted that the general question of access to markets was currently under consideration in Committee III.

8. As regards the recent temporary duty increases the representative of Ceylon stated that a first increase in import duties had taken place on 26 July 1962 but that no items bound in Schedule VI - Ceylon had been affected; details of this measure had been forwarded to contracting parties with document L/1824. (The representative of Ceylon informed the Working Party that three bound items had erroneously been included in the list of tariff increases effected on 26 July 1962. He explained that his Government was taking steps to have these items deleted from that list. A lengthy parliamentary procedure was involved but he hoped that he might be able to report the satisfactory outcome

to the CONTRACTING PARTIES before the end of the twentieth session.) The request by his Government for authorization of temporary duty increases was related to the uniform increase of duties by 20 per cent which was put into force on 3 August 1962. This 20 per cent increase was not applied to items on which duties had been raised on 26 July 1962, but a number of bound items were affected. The sequence of events thus demonstrated that, when compelled to resort to increases in duties the Government of Ceylon had first sought to avoid affecting bound items and it was only when increases on a broader scope were found necessary that it decided to include bound items. This second increase was conceived to be a purely temporary measure. Consequently the Ceylon Government had no intention of incorporating these rates in the normal customs tariff. The basis for the calculation of the 20 per cent increase was the normal rate of duty plus, where applicable, the 5 per cent temporary increase authorized by the Decision of 10 April 1961.

9. The Committee drew attention to the fact that in some cases the 20 per cent tariff increase of 3 August 1962 had had the effect of widening margins of preference which would constitute an infringement of the provisions of Article I of the General Agreement. The representative of Ceylon repeated his assurances to the CONTRACTING PARTIES (SR.20/4, page 47) namely that action to correct this had already been initiated and that he hoped before the end of the session to be able to announce that the matter was settled. A lengthy parliamentary procedure was, however, involved.

10. With regard to the request for an extension of the Decision of 10 April 1961 the Committee examined the second annual report by the Government of Ceylon under that Decision (L/1834) which, inter alia, explained the circumstances which made it difficult to discontinue the 5 per cent increase and because of the worsening balance-of-payments position, as noted above, had led to further temporary increases in duties.

11. In the light of its discussion and taking account of the statement of the International Monetary Fund referred to in paragraph 5 above, the Committee is of the view that the balance-of-payments position of Ceylon justifies the granting of the Ceylonese requests referred to in paragraphs 1 and 2 above. A draft decision is accordingly submitted to the CONTRACTING PARTIES.

CEYLON - TEMPORARY DUTY INCREASES

Decision of November 1962

Considering that the CONTRACTING PARTIES by Decision of 10 April 1961¹ waived, subject to specified conditions, the provisions of paragraph 1 of Article II of the General Agreement to the extent necessary to allow the Government of Ceylon to apply a temporary increase in customs duties, as an emergency measure designed to overcome the existing threat to its monetary reserves while certain corrective fiscal and monetary measures were being pursued, to those items included in Schedule VI which were specified in the table annexed to the Decision, it being understood that the increased duties shall be levied in a manner consistent with the provisions of Article I of the General Agreement;

Considering that one of the conditions of that Decision was that the additional duty authorized under it should be eliminated not later than 31 December 1962;

Considering that the Government of Ceylon has stated that the balance-of-payments situation which prompted the imposition of the increase in duties sanctioned by the Decision of 10 April 1961 has further deteriorated;

Considering that in order to safeguard its monetary reserves the Government of Ceylon has deemed it necessary to maintain the temporary duty increases authorized under the Decision of 10 April 1961 - with the exception of the seven items notified in the first annual report by Ceylon under the Decision (L/1551) beyond 31 December 1962 and to introduce certain new measures including a temporary increase by 20 per cent ad valorem in the customs duties on a number of tariff items, including certain items on which Ceylon has assumed obligations under Article II and which are specified in Schedule VI to the General Agreement;

Considering that the increases in customs duties of Ceylon are inconsistent with the provisions of Article II of the General Agreement insofar as they apply to products specified in Schedule VI;

Having consulted fully with the International Monetary Fund in accordance with Article XV:2 of the General Agreement and considering that the Fund has confirmed that the general 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 CONTRACTING PARTIES, acting pursuant to the provisions of paragraph 5 of Article XXV of the General Agreement,

¹BISD, Tenth Supplement, page 35.

Decide that:

1. Ceylon is authorized to maintain until 31 December 1964 the increased duties specified in the Decision of 10 April 1961 except for the seven items mentioned above, subject to the conditions laid down in that Decision.
2. Subject to the terms and conditions laid down hereunder, the provisions of paragraph 1 of Article II of the General Agreement shall be waived to the extent necessary to allow the Government of Ceylon to apply, as an emergency measure designed to overcome the existing threat to its monetary reserves while certain corrective fiscal and monetary measures are being pursued, the newly-imposed temporary increase by 20 per cent in customs duties to those items included in Schedule VI which are specified in the table annexed hereto, it being understood that the additional duty shall be levied in a manner consistent with the provisions of Article I of the General Agreement.

Terms and Conditions

- (a) The additional duty on the products specified in the annexed list shall not exceed 20 per cent of the normal rate of duty plus, where applicable, the 5 per cent temporary increase authorized by the Decision of 10 April 1961.
- (b) The additional duty authorized under this Decision shall be applied only to the extent that the circumstances giving rise to its introduction shall justify its application and shall be progressively reduced or eliminated whenever possible. It shall be totally eliminated not later than 31 December 1964.
- (c) In levying the additional duty authorized under this Decision, the Government of Ceylon shall take appropriate measures to avoid unnecessary damage to the commercial or economic interests of other contracting parties and the impairment of regular channels of trade.
- (d) The Government of Ceylon shall submit, before 15 September 1963, a report on the action taken to reduce or eliminate the additional duty maintained under this Decision and on the circumstances which in its view still justify the application of the additional duty not yet eliminated. It shall enter into consultation with the CONTRACTING PARTIES at the twenty-first session as to the nature of its balance-of-payments difficulties, alternative corrective measures which may be available, and the possible effect of the additional duty on the economies of other contracting parties.
- (e) If any contracting party considers that the effect of the additional duty maintained under this Decision is unduly restrictive, and that damage to its trade is caused or threatened thereby, it may make representations to the Government of Ceylon which shall accord sympathetic consideration to such representations and afford that contracting party adequate opportunity for consultation.

(f) If such consultation does not lead to satisfactory results, the contracting party concerned may request the CONTRACTING PARTIES to invite Ceylon to enter into consultation with them. If, as a result of these consultations with the CONTRACTING PARTIES, no agreement is reached and if they determine that the effect of the additional duty is unduly restrictive to the trade of the contracting party initiating the procedure and that serious damage is threatened or caused thereby, the contracting party initiating the procedure will be released from its obligation to apply to the trade of Ceylon concessions initially negotiated with Ceylon to the extent that the CONTRACTING PARTIES determine to be appropriate in the circumstances.

(g) When the CONTRACTING PARTIES are called upon to enter into consultation with the Government of Ceylon under this Decision, they shall consult fully with the International Monetary Fund to the extent provided in paragraph 2 of Article XV of the General Agreement.

3. This Decision shall cease to have effect on the date on which all increases in duties maintained under this Decision shall be eliminated, or on 31 December 1964 whichever date is the earlier.

ANNEX

PART I

Most-Favoured-Nation Tariff

Tariff item No.	Description of products	Rate of duty
Ex 111-01.01	Mineral waters	20%
Ex 111-01.01	Aerated water	20%
121-01.01	Tobacco, flue cured (see 121-01.99)	-
121-01.99	Tobacco unmanufactured. The product specified in items 121-01.01 and 121-01.99 shall be exempt from the ordinary most-favoured-nation customs duty which exceeds the preferential duty by more than Rs.2/25	-
Ex 243-02.01	Ceiling boards, conifer	30%
Ex 243-02.01	Flooring boards, conifer	30%
Ex 243-03	Wood and timber, non-conifer, prepared n.e.s. (ceiling and flooring boards)	30%
251-02	Mechanical and chemical wood pulp	17½%
272-01	Natural asphalt including natural bitumen	Rs.1/10 per cwt.
Ex 313-03.99	Mineral oil, n.e.s.	22½%
Ex 313-04.01	Grease, mineral	17½%
313-04.02	Lubricating oil, petroleum (refined)	Rs.0.85 per gal.
Ex 313-04.99	Lubricating oils, other	Rs.0.85 per gal.
Ex 313-05.99	Mineral jelly	20% plus surcharge of 10% of duty
313-09.01	Petroleum asphalt including petroleum bitumen	Rs.1.10 per cwt.
412-05	Olive oil	10%
Ex 413-03	Stearine, n.e.s.	20% plus surcharge of 10% duty
511-09.02	Hydrogen peroxide	20% plus surcharge of 10% of duty

Tariff item No.	Description of products	Rate of duty
511-09.03	Ammonia and ammonium compounds	20% plus surcharge of 10% of duty
511-09.06	Bicarbonate of soda	20% plus surcharge of 10% of duty
511-09.21	Inorganic gases - oxygen	20% plus surcharge of 10% of duty
Ex 511-09.29	Inorganic gases - other excluding chlorine	20% plus surcharge of 10% of duty
Ex 511-09.99	Inorganic compounds and chemical elements, other - excluding calcium carbonate: Alum; borax; calcium cyanide; Epsom salts; mercury; hartal-solid; hartal-powder; saltpetre; munsal; Glauber salts; other	20% plus surcharge of 10% of duty
512-05.02	Pine oil	15%
512-09.01	Napthalene	20% plus surcharge of 10% of duty
512-09.07	Chloroform	20% plus surcharge of 10% of duty
Ex 512-09.99	Organic compounds - other: Cream of tartar; dextrose; ether; food preservatives; other	20% plus surcharge of 10% of duty
521-02.01	Creosote	20% plus surcharge of 10% of duty
531-01.01	Aniline dyes for dyeing textiles wearing apparel and soap	17 $\frac{1}{2}$ %
Ex 533-01.99	Paint-making materials - dry colours	30%
541-03.01	Penicillin and penicillin products	17 $\frac{1}{2}$ %
541-09.01	Patent medicines except quinine preparations	17 $\frac{1}{2}$ %
Ex 551-01.99	Ylang-ylang oil, betyver oil and garanium oil	15% plus surcharge of 10% of duty
Ex 552-03.99	Glass powder	20% plus surcharge of 10% of duty
561-02.02	Superphosphates	10 $\frac{1}{2}$ %
561-03.02	Muriate of potash (potassium chloride)	10 $\frac{1}{2}$ %

Tariff item No.	Description of products	Rate of duty
599-02.04	Insecticides	15%
599-02.05	Weed killers	15%
Ex 599-03	Dextrine, excluding glues and gums	20% plus surcharge of 10% of duty
Ex 599-04.99	Dextrine, glues and gums	20% plus surcharge of 10% of duty
Ex 631-02.01	Receptacles, boxes and chests and shooks and fittings - plywood of a kind suited for the purpose of packing Ceylon produce for export where it is shown to the satisfaction of the Principal Collector of Customs that such articles have been imported for such purpose and are likely to be used mainly for such purpose	10 $\frac{1}{2}$ %
Ex 632-01	Receptacles, boxes, and chests and shooks and fittings - other than metal and plywood of a kind suited for the purpose of packing Ceylon produce for export where it is shown to the satisfaction of the Principal Collector of Customs that such articles have been imported for such purpose and are likely to be used mainly for such purpose	10 $\frac{1}{2}$ %
641-03.99	Common packing and wrapping paper - other - kraft paper	32 $\frac{1}{2}$ %
Ex 661-03.99	Marble slabs and monuments	50%
Ex 681-07.01	Plates and sheets including circles coated, for manufacturing drums for export of Ceylon produce	17 $\frac{1}{2}$ %
Ex 699-16	Table and kitchen knives, forks and spoons of base metals including plated (this excludes cutlery of precious metals) Cutlery shown to the satisfaction of the Principal Collector of Customs to have been imported by and for use in hotels and resthouses approved by the Director of the Tourist Bureau provided that such articles bear indelible marks identifying them as the property of such hotels and resthouses	27 $\frac{1}{2}$ %

Tariff item No.	Description of products	Rate of duty
Ex 699-16	Gold and silver plated table and kitchen knives, forks and spoons	
	Other, excluding gold and silverware	37½%
699-17	Cutlery, n.e.s.	37½%
Ex 699-17.99	Other cutlery excluding gold and silverware	37½%
Ex 699-17.99	Gold and silverplated cutlery n.e.s.	37½%
Ex 699-18.01	Hinges, iron and steel	32½%
711-05.03	Internal combustion engines, oil-complete	27½%
714-01.01	Typewriters, complete	17½%
714-01.02	Typewriters, parts	17½%
716-03.01	Cranes, hoists and lifting machinery - complete	20%
716-03.02	Cranes, hoists and lifting machinery, parts	20%
Ex 716-03.03	Earth moving equipment tractors complete and parts shown to the Principal Collector of Customs to have been imported for use in irrigation and agricultural schemes	12½%
716-03.99	Conveying, hoisting, excavating road construction and mining machinery, complete and parts - other	20%
Ex 716-07.01	Printing and book binding machinery, complete	27½%
Ex 716-07.02	Printing and book binding machinery, parts	27½%
716-11.02	Sewing machines, industrial	12½%
Ex 716-13.03	Rubber machinery for the manufacture of finished rubber goods, complete	12½%
Ex 716-13.04	Rubber machinery for the manufacture of finished rubber goods, parts	12½%
716-13.20	Sugar making machinery - including component parts thereof	12½%
716-13.40	Oil pressing and refining machinery - complete	17½%
Ex 716-13.99	Atomizers and sprayers (other than scent sprayers) and parts thereof, n.e.s. (not electrical)	20%
Ex 721-01.01	Transformers and converters, n.e.s. of 20 amperes and over carrying capacity - complete and parts	15%

Tariff item No.	Description of products	Rate of duty
721-01.02	Control and switch gear comprising all gear of 20 amperes and over-carrying capacity - complete and parts	20%
721-01.03	Generators, alternators, dynamos and exciters, complete and parts	15%
721-01.10	Motors below 1 h.p. - complete and parts	15%
721-01.11	Motors 1-5 h.p. - complete and parts	15%
721-01.12	Motors 5 h.p. and over - complete and parts	15%
812-04.19	Lamps and lanterns, except electric, complete, other - pressure type - incandescent	45%
Ex 812-04.40	Chimneys, globes and shades for lamps - incandescent	35%
Ex 812-04.60	Parts of lamps other than chimneys, globes and shades - incandescent	45%
Ex 812-04.99	Lighting fixtures of all materials Other: incandescent lamps (except pressure type) and incandescent lanterns other than iron and steel	35%
Ex 861-03.99	Surgical and dental instruments	15%
Ex 861-09.99	Scientific instruments, other, complete and parts	15%
891-03	Pianos and piano-playing mechanisms and parts thereof	25%
Ex 891-09	Musical instruments n.e.s. and parts thereof (except band instruments imported for the use of H.M. land and sea forces, including the Ceylon Defence Forces and the Ceylon Police Force)	25%
Ex 899-99.02	Painters' materials (excluding paints and brushes) n.e.s. Other painters' materials except gums, oils, fats and resins	20% plus surcharge of 10% of duty

PART II
Preferential Tariff

<u>Tariff item No.</u>	<u>Description of products</u>	<u>Rate of duty</u>
Ex 313-05.99	Mineral jelly	15% plus surcharge of 10% of duty
Ex 413-03	Stearine n.e.s.	15% plus surcharge of 10% of duty
511-02	Copper sulphate	15% plus surcharge of 10% of duty
511-09.02	Hydrogen peroxide	15% plus surcharge of 10% of duty
511-09.03	Ammonia and ammonium compounds	15% plus surcharge of 10% of duty
511-09.05	Calcium carbide	15%
511-09.06	Bicarbonate of soda	15% plus surcharge of 10% of duty
511-09.21	Inorganic gases - oxygen	15% plus surcharge of 10% of duty
Ex 511-09.29	Inorganic gases - other excluding chlorine	15% plus surcharge of 10% of duty
Ex 511-09.99	Inorganic compounds and chemical elements, other - excluding calcium carbonate: Alum; borax; calcium cyanide; Epsom salts; mercury; hartal-solid; hartal-powder; saltpetre; munsal; Clauber salts; other	15% plus surcharge of 10% of duty
512-03	Glycerine	15% plus surcharge of 10% of duty
512-09.01	Napthalene	15% plus surcharge of 10% of duty
512-09.07	Chloroform	15% plus surcharge of 10% of duty
Ex 512-09.99	Organic compounds - other: Cream of tartar; dextrose; ether; food preservatives; other	15% plus surcharge of 10% of duty
512-02.01	Creosote	15% plus surcharge of 10% of duty
521-02.99	Tar oils and other crude chemicals from coal, petroleum and natural gas - other	15% plus surcharge of 10% of duty
Ex 532-02	Wattle bark extract	Free

Tariff item No.	Description of products	Rate of duty
Ex 552-03.99	Glass powder	15% plus surcharge of 10% of duty
Ex 599-03	Dextrine, excluding glues and gums	15% plus surcharge of 10% of duty
Ex 599-04.99	Dextrine, glue and gums	15% plus surcharge of 10% of duty
721-01.10	Motors below 1 h.p. complete and parts	10%
721-01.11	Motors 1-5 h.p., complete and parts	10%
721-01.12	Motors 5 h.p. and over, complete and parts	10%