

GENERAL AGREEMENT ON TARIFFS AND TRADE

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CEYLON TEMPORARY DUTY INCREASES

Decision of 10 April 1961¹

Request for Extension

Addendum

Background Material Submitted by Ceylon

The waiver on temporary duty increases granted to Ceylon expires on 31 December 1966. The circumstances which necessitated the seeking of the waiver have not changed and the Government of Ceylon is compelled to seek a further waiver for a further period of two years.

Annex I gives a statistical breakdown of Ceylon's balance of payments in the first half of 1966. According to provisional data, the value of merchandise exports at Rs.850 million in the first half of 1966 was approximately Rs.32 million less than the value of merchandise exports in the same period of last year. The value of imports in the first half of 1966 at Rs.968 million was Rs.30 million in excess of the value of merchandise imports in the same period of 1965. Hence the merchandise balance in the first half of 1966 showed a deficit of Rs.118 million, as compared with a deficit of only Rs.56 million in the same period of last year.

The poor export performance in 1966 as compared with 1965 has been primarily due to an all-round decline in the prices of Ceylon's major exports, notwithstanding the fact that there has been an increase in output as compared with the previous year, particularly of tea and rubber. In contrast to the general increase in productivity and output in the export sector - offset partly by adverse weather conditions which resulted in a fall in output of coconut products - there has been a noticeable weakening in export prices, as measured by a central bank index, in the first half of 1966, as compared with the same period of last year.

The factors behind the poor export performance in the first half of 1966 can be attributed in large measure to factors beyond Ceylon's control. Thus, the weakening in export prices of tea and rubber has been due to world market forces. In the case of tea the principal elements included a general increase in world supply of tea combined with a reduction in the volume of imports of tea into major consuming countries. In the case of rubber, increased releases from the United States stockpile combined with increased exports from traditional rubber producers have, in the absence of an increase in world demand for natural rubber

¹ BISD Tenth Supplement page 35.

in the first half of 1966, resulted in a weakening of prices. A substantial fall in export prices of coconut products has resulted from the sharp increase in the world output of soyabean oil and increased exports from traditional producers. Ceylon, has, however, not been able to compensate for the fall in the world prices of coconut products in the first half of 1966, by an increase in output for exports, due to the adverse effect of the drought.

Combined with the shortfall in export earnings, import payments have also remained high during the first half of 1966 as compared with the same period of last year. There has been a significant increase in the volume of food and drink imports and of investment good imports. There has been a decline in the volume of imports of textiles, other consumer goods and intermediate goods. However, an important contributory factor to the rise in import payments in the first half of 1966 has been a sharp increase in the average price of imports particularly of capital good imports. While there was a marginal increase in the average price of food and drink imports in the first half of 1966 as compared with the same period last year the average price of intermediate goods imports and investment goods imports rose significantly. The sharp rise in average import prices in the first half of 1966 combined with a decline in average export prices has resulted in a deterioration in Ceylon's terms of trade.

Ceylon's deficit on invisibles account in the first half of 1966 was approximately Rs.5 million, which is almost the same as the deficit in the same period of last year. The current account deficit therefore amounted to Rs.123 million in the first half of 1966, as compared to Rs.62 million in the first half of 1965. The capital account of the balance of payments in the first half of 1966 showed a surplus of Rs.26 million as compared with a surplus of Rs.29 million in the comparable period of 1965. Ceylon's basic balance in the first half of 1966 therefore showed a deficit of Rs.97 million (as compared with a deficit of Rs.33 million in the same period of last year). This deficit was financed primarily by drawing down external assets to the extent of Rs.77 million and by accumulating short-term liabilities totalling approximately Rs.20 million.

During the first half of 1966, Ceylon's gross external assets fell by Rs.77.4 million. The decline during this period was reflected mainly in the international reserve of the Central Bank, which fell by Rs.101.2 million. The reason for this decline was mainly, that a considerable proportion of the licences issued in the third quarter of 1965 and some liabilities in respect of licences issued in the first quarter of 1966 for merchandise imports fell due for payment during this period; in addition there were substantial releases of foreign exchange to the Government for the purchase of essential foodstuffs and stores. Further, the value of export earnings over the period was below the expected average, principally due to a decline in export volume and price, the latter mainly in respect of tea. In this period, the foreign assets of the Government also declined by Rs.10.2 million, as a result of a reduction in the net balance in Ceylon's favour in trade with China.

The decrease of Rs.101.2 million in the international reserve and of Rs.10.2 million in the foreign assets of the Government were partly offset by an increase of Rs.32.9 million in the foreign exchange balance of commercial banks, principally as a result of net purchases of foreign exchange from the Central Bank.

Transactions with the International Monetary Fund consisted of drawings of the equivalent of US\$19.0 million (Rs.90.4 million) in foreign exchange and repayments totalling US\$7.5 million (Rs.35.8 million) in respect of earlier drawings, in addition to gold subscriptions amounting to US\$4.0 million (Rs.19.1 million) on account of a further increase in Ceylon's quota in the IMF to US\$78.0 million (Rs.371.3 million). As a result of these transactions, Ceylon added Rs.35.5 million (net) to the total external assets. If the net drawing of Rs.35.5 million from the IMF during the first half of 1966 is excluded, the external assets position during this period would show a decline of Rs.112.9 million.

Duty increases on bound items

On 29 July 1966, the Government increased duties on imports, some of which included certain items in Ceylon's GATT Schedule. These items are shown in Annex II which gives the bound rate of duty, the waiver rate and the present duty where it differs from the waiver rate. It will be seen that on fourteen items, the present duties are above the waiver rate, while on fourteen other items the present duties have been reduced to below the waiver rate. Further the preferential margins in respect of nine items have been eliminated. (None of the items in Part II of Ceylon's GATT Schedule have been affected by the duty changes).¹ It is regretted that this information was not transmitted to the CONTRACTING PARTIES earlier.

In the face of the deterioration of the balance-of-payments position of Ceylon in the first half of 1966, and in view of the continuing adverse underlying trends it is anticipated that total export earnings for the year 1966 as a whole will not match up to expectations. In view of this, Ceylon may have to restrain its import programme, and there is every prospect that in the remaining months of 1966, the balance of payments will be subject to continuing pressure. Combined with measures designed to adjust the external payments situation the Government has taken major steps in 1966 in order to increase domestic production of import substitutes, particularly in respect to food, and with this end in view the monetary and fiscal policies of the Government have been appropriately geared to maximizing domestic output in order to limit the pressures on the payments situation.

¹A copy of the Gazette Notification announcing these duty changes is available in the secretariat for reference use.

The payments situation of Ceylon continues to give considerable room for anxiety and as experience in the recent past would seem to indicate the entire pattern of consumption and investment in the country continues to be dictated by the trends in the external balance. In view of the tight foreign exchange position now facing the country and in view of the need to limit the country's scarce resources it would be difficult to anticipate any relaxation of the present scale of import and exchange restrictions, in the absence of a substantial improvement in the terms of trade or in the size and content of foreign aid.

Annex I

CEYLON'S BALANCE OF PAYMENTS

(million rupees)

	First half, 1965	First half, 1966 (Prov.)
Exports	882	850
Imports	- 958	- 968
Trade balance	- 56	- 118
Services	3	6
Private transfers	- 15	- 14
Official transfers ²	4	3
Net current invisibles	- 6	- 5
Net current account	- <u>62</u>	- <u>122</u>
Net long-term loans ²	32	22
Net private capital	- 3	- 4
Basic balance	- <u>22</u>	- <u>97</u>
<u>Financing account</u>		
Short-term liabilities	<u>22</u>	<u>20</u>
IMF position	1	37
Central Bank	- 14	15
Commercial banks	4	4
Other ²	42	- 36
Change in external assets	-	<u>77</u>

² Exclude PL 480 transfers of Ceylon rupees in the form of grants and loans by the United States Government.

" - " = Increase

Annex II

CEYLON GAIT-SCHEDULE VI

Items Subject to Waiver as Further Affected
Part One - Most-Favoured-Nation Rate

Tariff item No.	Description of products	Bound rate	Waiver rate	Rate after the recent duty change
ex 111-01.01	Mineral waters	20%	33%	-
ex 111-01.01	Aerated waters	20%	33%	-
052-01.03	Currants	Rs.1/25 per cwt. plus 5% ad. val.	-	Rs.10/- per cwt.
121-01.01	Tobacco, flue cured	Margin of 2/25 per lb.	Margin of 2/45	-
121-01.09	Tobacco, unmanufactured	Margin of 2/25 per lb.	Margin of 2/45	-
ex 243-02.01	Ceiling boards, conifer	30%	45%	100%
243-02.01	Flooring boards, conifer	30%	45%	100%
ex 243-03	Wood and timber, non-conifer prepared n.e.s.	30%	42%	-
251-02	Mechanical and chemical wood pulp	17 $\frac{1}{2}$ %	30%	-
272-01	Natural asphalt, including natural bitumen	Rs.1/10 per cwt.	Rs.2/30 per cwt.	-
ex 313-03.99	Mineral oil - n.e.s.	22 $\frac{1}{2}$ %	30%	-
ex 313-04.01	Grease mineral	17 $\frac{1}{2}$ %	27%	-
313-04.02	Lubricating oil, petroleum refined	Rs.0.85 per gal.	Rs.1/65 per gal.	-
313-04.99	Lubricating oils, other	Rs.0.85 per gal.	Rs.1/52 per gal.	-
ex 313-05.99	Mineral jelly	20% + 10% surcharge	33%	-
292-02.04	Rosin	15%	20%	30%

Tariff item No.	Description of products	Bound rate	Waiver rate	Rate after the recent duty change
313-09.01	Petroleum asphalt including petroleum bitumen	Rs.1/10 per cwt.	Rs.2/50 per cwt.	-
412-05	Olive oil	10%	17%	30%
ex 413-03	Stearine n.e.s.	20% + 10% duty	33%	30%
511-09.03	Ammonia and ammonium compounds	20% + 10% duty	33%	30%
511-09.02	Hydrogen peroxide	20% + 10% duty	33%	30%
511-09.06	Bicarbonate of soda	20% + 10% duty	33%	30%
511-09.21	Inorganic gases - oxygen	20% + 10% duty	33%	30%
ex 511-09.29	Inorganic gases - other including chlorine	20% + 10% duty	33%	30%
ex 511-09.99	Inorganic compounds and chemical elements other excluding calcium carbonate	20% + 10% duty	33%	30%
512-05.02	Fine oil	15%	20%	30%
512-09.01	Napthalene	20% + 10% surcharge	33%	30%
512-09.07	Chloroform	20% + 10% surcharge	33%	30%
512-09.99	Organic compounds - other	20% + 10% surcharge	33%	30%
521-02.01	Creosote	20% + 10% surcharge	33%	30%
531-01.01	Aniline dyes for dyeing etc.	17 $\frac{1}{2}$ %	21%	30%
541-03.01	Penicillin and penicillin products	17 $\frac{1}{2}$ %	25 $\frac{4}{5}$ %	-
541-09.01	Patent medicines except quinine preparations	17 $\frac{1}{2}$ %	25 $\frac{4}{5}$ %	-

Tariff item No.	Description of products	Bound rate	Waiver rate	Rate after the recent duty change
ex 551-01.99	Ylang-ylang oil, vetyver oil and geranium oil	15% + 10% duty	28%	-
ex 552-03.99	Glass powder	20% + 10% duty	32 2/5%	-
561-02.02	Superphosphates	10 1/2%	11 3/5%	-
561-03.02	Muriate of potash	10 1/2%	11 3/5%	-
599-02.04	Insecticides	15%	18%	-
599-02.05	Weed killers	15%	18%	-
ex 599-03	Dextrine, excluding glues and gums	20% + 10% duty	33%	30%
ex 599-04.99	Dextrine, glues and gums	20% + 10% duty	33%	30%
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 when it is shown to the satisfaction of the PCC that such articles have been imported for such purpose and are likely to be used mainly for such purposes	10 1/2%	12%	-
ex 632-01	Receptacles, boxes, chests and fittings other than metal and plywood	10 1/2%	12%	-
641-03.02	Paper, wrapping - tissue	32 1/2%	60%	-
641-03.99	Common packing and wrapping, other Kraft paper	32 1/2%	0.68 cts. per lb.	-
ex 661-03.99	Marble slabs and monuments	50%	70%	-
ex 699-16	Table and kitchen knives, forks and spoons etc. - cutlery	27 1/2%	39%	-

Tariff item No.	Description of products	Bound rate	Waiver rate	Rate after the recent duty change
ex 699-16	Gold and silver plated table and kitchen knives, forks - other	37½%	55%	-
699-17	Cutlery, n.e.s.	37½%	55%	-
ex 699-17.99	Cutlery - other	27½%	32½%	-
ex 699-17.99	Other cutlery	37½%	55%	-
ex 699-17.99	Gold and silver plated cutlery n.e.s.	37½%	55%	-
ex 699-18.01	Hinges, iron and steel	32½%	35%	-
711-05.03	Internal combustion engines oil complete	27½%	34%	-
711-05.03	Agricultural tractors, steam complete and parts	15% (Margin of 10%)	-	Free - margin affected
712-01.01	Agricultural machinery and appliances for preparing and cultivating - complete	15% (Margin of 10%)	-	Free - margin affected
712-01.02	Agricultural machinery and appliances and parts	15% (Margin of 10%)	-	Free - margin affected
ex 712-02.01	Agricultural machinery and appliances for harvesting, threshing and sorting - complete	15% (Margin of 10%)	-	Free - margin affected
712-02.02	Agricultural machinery and appliances for harvesting, threshing and sorting-parts	15% (Margin of 10%)	-	Free - margin affected
ex 712-09.01	Agricultural machinery and appliances n.e.s. complete. Other (agricultural machinery) complete	22% (Margin of 10%)	-	Free - margin affected

Tariff item No.	Description of products	Bound rate	Waiver rate	Rate after the recent duty change
ex 712-09.02	Agricultural machinery and appliances n.e.s. - parts. Parts of other agricultural machinery	22% (Margin of 10%)	-	Free - margin affected
713-01.01	Tractors other than steam (agricultural) - complete	15% (Margin of 10%)	-	Free - margin affected
713-01.02	Tractors other than steam (agricultural) - parts	15% (Margin of 10%)	-	Free - margin affected
714-01.01	Typewriters - complete	17 $\frac{1}{2}$ %	30%	-
714-01.02	Typewriters - parts	17 $\frac{1}{2}$ %	30%	-
716-03.01	Cranes, hoists and lifting machinery - complete	20%	32%	40%
716-03.02	Cranes, hoists, etc. - parts	20%	32%	40%
ex 716-03.03	Earth moving equipment tractors - complete and parts shown to the PCC to have been imported for use in irrigation and agricultural schemes	12 $\frac{1}{2}$ %	14%	-
ex 716-03.99	Conveying, hoisting, excavating, road construction and mining machinery, complete and parts - other	20%	25%	40%
ex 716-07.01	Printing and book-binding machinery - complete	27 1/4%	34%	-
716-07.02	Printing and book-binding machinery - parts	27 $\frac{1}{2}$ %	34%	-
716-11.02	Sewing machines, industrial	12 $\frac{1}{2}$ %	14%	30%

Tariff item No.	Description of products	Bound rate	Waiver rate	Rate after the recent duty change
ex 716.13.03	Rubber machinery for manufacture of finished rubber boots - complete	12 $\frac{1}{2}$ %	15%	-
716-13.04	Rubber machinery, etc. - parts	12 $\frac{1}{2}$ %	15%	-
716-13.20	Sugar making machinery - including parts	12 $\frac{1}{2}$ %	15%	-
716-13.40	Oil pressing and refining machinery - complete	17 $\frac{1}{2}$ %	30%	-
ex 716-13.99	Atomizers and sprayers and parts thereof, n.e.s.	20%	24%	-
ex 721-01.01	Transformers and converters n.e.s. of 20 amps. and over carrying capacity complete parts	15%	25%	-
721-01.02	Control and switchgear, comprising all gear of 20 amps. and over carrying capacities - complete and parts	20%	30%	-
721-01.03	Generators, alternators, dynamos etc. complete and parts	20%	30%	-
721-01.10	Motors below 1 h.p. complete and parts	15%	25%	-
721-01.11	Motors 1-5 h.p. complete and parts	15%	25%	-
721-01.12	Motors 5 h.p. and over - complete and parts	15%	25%	-
ex 721-04.03	Wireless goods and appliances and parts thereof for assembly of complete sets for receiving	17 $\frac{1}{2}$ %	62 $\frac{1}{2}$ %	-

Tariff item No.	Description of products	Bound rate	Waiver rate	Rate after the recent duty change.
ex 721-04.04	Wireless goods and appliances and parts thereof for assembly of complete sets for transmission	17½%	62½%	-
812-04.19	Lamps and lanterns except electric complete, other pressure type incandescent	45%	53%	-
ex 812-04.40	Chimneys, globes and shades for lamps - incandescent	35%	48%	-
ex 812-04.60	Parts of lamps, other than chimneys etc. incandescent	45%	53%	-
ex 812-04.99	Lighting fixtures of all materials, other incandescent lamp and lanterns - other than iron and steel	35%	53%	70%
ex 861-03.66	Surgical and dental instruments	15%	20%	40%
ex 861-09.99	Scientific instruments, other complete and parts	15%	20%	40%
891-03	Pianos and piano playing mechanisms and parts thereof	25%	38%	-
ex 891-09	Musical instruments n.e.s. parts thereof	25%	38%	-
ex 899-99.02	Painters' materials (excluding paints and brushes), n.e.s. Other painters' materials except gums, oils, fats and resins	20% + 10% duty	33%	30%