1. In the following report, the Working Party submits its final recommendations to the CONTRACTING PARTIES with respect to the applications under Article XVIII which were referred to it by the CONTRACTING PARTIES. These applications include a number of measures submitted by Ceylon (L/230/Rev.1) and one by Cuba (L/221).

I. APPLICATIONS BY CEYLON

2. At the outset of the deliberations of the Working Party, the representative of Ceylon modified the original request by his Government. The modifications in Ceylon's requests are recorded in the first interim report of the Working Party (L/269).

3. The applications by Ceylon are dealt with in this report in two sections:

   (a) Those concerning which the Working Party has previously submitted interim reports to the CONTRACTING PARTIES, and

   (b) One application on which the Working Party has not previously reported.

A. Plywood chests, glassware, cotton banians, and ready-made shirts

4. In its first interim report, the Working Party requested and obtained the approval of the CONTRACTING PARTIES of a procedure for determining those contracting parties who considered themselves materially affected by the proposed measures with respect to plywood chests and glassware, so as to permit Ceylon to carry out the procedures specified in paragraph 5 of Article XVIII.

5. In its second interim report (L/281), the Working Party asked for and obtained the approval of the CONTRACTING PARTIES of a similar procedure with respect to cotton banians under paragraph 8(a) of Article XVIII.

6. In its third interim report (L/289), the Working Party asked for and received the approval of the CONTRACTING PARTIES of a procedure to permit negotiations concerning the proposed measure with respect to ready-made shirts, in accordance with procedures of paragraph 3(b) of Article XVIII.
7. In each of the above cases, the contracting parties who considered themselves materially affected notified the Working Party, and Ceylon agreed to recognize the interest of those contracting parties and to include them in the negotiations or consultations required under the appropriate procedure specified in the article.

8. After several weeks of negotiations, the representative of Ceylon has now notified the Working Party of the results as follows:

(i) **Cotton banians and ready-made shirts**

Ceylon has decided to withdraw the applications and cease to apply to them the provisions of the Industrial Products Act.

(ii) **Plywood chests and glassware**

Ceylon has reached agreement with the contracting parties who considered themselves materially affected, and this fact has been confirmed by the representatives of those contracting parties.

9. The Working Party therefore recommends that the CONTRACTING PARTIES, acting under the provisions of paragraph 5 of Article XVIII extend until the dates shown below in each case the release granted to Ceylon in their Decision of 13 August 1949:

<table>
<thead>
<tr>
<th>Item Description</th>
<th>Termination date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plywood chests and boxes for packing Ceylon produce, including shooks or fittings n.e.s. (Ex III U 783)</td>
<td>14 March 1958</td>
</tr>
<tr>
<td>Glass and glassware n.e.s. (Ex III B 279)¹</td>
<td></td>
</tr>
<tr>
<td>Tumblers</td>
<td>1 September 1956</td>
</tr>
<tr>
<td>Chimneys</td>
<td>15 October 1957</td>
</tr>
</tbody>
</table>

subject to any limitations that have been agreed between Ceylon and the United Kingdom in the case of plywood chests, and between Ceylon, on the one hand, and the United Kingdom and the United States of America, on the other hand, with respect to glassware, and with the understanding that Ceylon will promptly notify the CONTRACTING PARTIES of the results of the negotiations conducted with the other contracting parties mentioned above.

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¹ The tariff item number of these items when the releases were originally granted were Ex III B 235 for glassware and Ex III U 492 for plywood chests.
B. **Cotton sarongs**

10. The application of Ceylon with respect to cotton sarongs involved rather different considerations from those concerning the measures referred to above. After hearing the statement of the representative of Ceylon in justification of this request, the Working Party decided that the request clearly fell within the provisions of Article XVIII. The statement of the representative of Ceylon is reproduced in Annex A. The Working Party then took note of the following special circumstances in connexion with this request. Ceylon had obtained the original release from the CONTRACTING PARTIES on 13 August 1949 for a period of five years. It had not, however, adopted the measure permitted by that release (i.e. the application of the provisions of the Industrial Products Act) until 15 October 1952, that is, some three years and two months later than the date of the release. The reason for this was that at the date of the release Ceylon did not produce sufficient yarn derived from indigenous raw material to allow the industry concerned to rely upon local yarn, and it was not until later that this condition was satisfied. It was a condition of the earlier release that indigenous raw materials should be used.

11. Ceylon had, as stated in the first interim report of the Working Party (L/269) originally intended to ask for a renewal for a period of years from a current date, but during the proceedings of the Working Party, Ceylon amended its request and decided to ask only for the period of which it did not take advantage under the original release.

12. The release requested relates to an item which is not in the Ceylon schedule and which, therefore, falls under Part C of Article XVIII. In 1949, the CONTRACTING PARTIES dealing with the matter under paragraph 7 of Article XVIII, decided that the release should be given "for a period of five years".

13. In the light of these considerations, the Working Party felt that it would be reasonable for the period of release to run for five years from the date that the Industrial Products Act was first applied to cotton sarongs. The Working Party considers that if a decision were taken in this sense it could not assume importance as a precedent. Cases of delayed use of releases were unknown for countries other than Ceylon and as regards Ceylon the representative of that country assured the Working Party that it did not intend to utilize any of the releases granted to that country in the past under which controls had not yet been imposed, nor to apply for any extensions of a kind similar to the extension proposed in the case of sarongs.

14. The Working Party accordingly recommends that the CONTRACTING PARTIES should decide that the release granted by them to Ceylon in their Decision of 13 August 1949, covering cotton sarongs, should be available until 13 October 1957.
II. APPLICATION BY CUBA

15. The Working Party considered the application (L/221) by Cuba for an extension of the release granted by the CONTRACTING PARTIES under paragraph 8(b)(1) of Article XVIII in their Decision of 10 August 1949 with respect to the application of an import quota on the fibres of henequen and sisal which had been in force since 1939\(^1\). In support of the present application the Cuban representative called attention to the fact that when applying for release in 1949 the Cuban delegation had maintained that in order to sustain the confidence of investors and planters and to ensure the continued development of that branch of agriculture, the production needed protection from external competition for a period of ten years until 1959. The maintenance of the protective measure for a further period from the present had been made particularly necessary by the sharp fall in prices in the world market and by the acute competition offered by other fibres of higher quality which enjoyed a better demand in the markets of the major importing countries. In order to meet increased competition various branches of the agricultural and industrial production had been studying the methods which could be introduced to increase yields and improve production methods and the quality of the products. The Cuban representative also recalled the discussion in 1949 regarding the possibility of adopting other measures which were permitted under the Agreement, to replace the quantitative restriction; the Cuban representative pointed out that under the Cuban constitution any change in tariff would require legislative action which was likely to involve prolonged proceedings and to give rise to other complications. In view of the fact that one of the objectives of the Cuban Government was to control the proportion of sisal and of henequen produced and used in domestic cordage manufacturing, a tariff would not appear to be a sufficiently flexible instrument for this purpose. This was the only item in the whole of Cuban imports from countries towards which Cuba had assumed obligations under the General Agreement which was subject to quantitative restriction, and it was difficult for the Government to consider the removal of that measure, especially as at this stage in the development of the industry the protection was necessary in order to provide adequate incentive for foreign investment which was still needed, and to maintain employment for the three thousand workers engaged in the industry. The employment problem was of particular importance at this time in view of the significant reduction in sugar production. The Cuban representative concluded that his Government, though generally not in favour of using quantitative restrictions, was not in a position to indicate an early date by which the restriction in question could be withdrawn.

\(^1\) See BISD, Volume II, page 50.
16. The Working Party noted that the release originally granted to Cuba for this measure was made conditional upon the removal as early as possible of a formal element of discrimination which existed in the application of the quantitative import restriction concerned. The Cuban representative informed the Working Party that the formal discrimination had been removed by Decree No. 245 of 10 February 1955, published in the Government Gazette of 12 February 1955.

17. The Working Party noted the fact that in L/221 of 2 September 1954, contracting parties were invited to indicate whether they had any objection to the extension of the release requested by Cuba. Since no contracting party had indicated such an objection, the Working Party considered, in the light of the provisions of paragraph 8(a) of Article XVIII and of the special circumstances mentioned in paragraph 15 above, that Cuba should be granted a release in accordance with the provisions of the final sentence of paragraph 8(a) of Article XVIII.

18. Accordingly, the Working Party recommends that Cuba be granted an extension until 10 August 1959 of the release granted by the CONTRACTING PARTIES to Cuba in their Decision of 10 August 1949.

III. RECOMMENDATIONS CONCERNING FUTURE PROCEDURES

19. The Working Party is of the opinion that in the event of any future applications under the existing Article XVIII, before the revised Agreement comes into force, the CONTRACTING PARTIES should consider an improvement and simplification in the procedures called for under the present Article. The terms of the present Article, particularly in paragraphs 3(b) and 8(b), require decisions by the CONTRACTING PARTIES at several points before the procedures have been fully complied with. This fact has necessitated a series of interim reports, on each of which the CONTRACTING PARTIES have had to act. In the future, these interim reports could presumably be rendered unnecessary if the CONTRACTING PARTIES were to decide at the time the Working Party is formed to delegate to it all preliminary decisions required under Article XVIII, reserving to the CONTRACTING PARTIES only the power to grant the final release after the procedures have been complied with and the Working Party has made its final recommendations.

20. As it is not known whether there will be any further applications under the existing Article, the Working Party does not suggest that the CONTRACTING PARTIES should take any decision in this matter at the current Session, but they do suggest that this problem be kept in mind in the event that it becomes necessary at any subsequent session to establish a Working Party to deal with applications under the existing Article XVIII.
STATEMENT OF CEYLON DELEGATION ON COTTON SARONGS

1. The sarong industry is a traditional one. It began as a part-time occupation of agricultural workers who found it convenient to supplement their agricultural income with handloom production during seasonal harvests.

2. The industry languished for want of official recognition which was only possible in 1932 when a change in the constitution assigned the subject of industries and industrial development to a separate ministerial portfolio.

3. One of the first tasks of this ministry was to concentrate on the development of prevailing cottage industries. The hand-loom industry was singled out for that purpose. Official support for the industry took the form of supply of hand looms on hire purchase at low rates of interest and the provision of itinerant parties to instill into the hand-loom weaver the new technique of production. These training centres were later encouraged to organize themselves into pocket editions of workshops where the trained weaver could capitalize his knowledge and retain the benefits of profits on a modest commercial scale.

4. Prior to World War II, estimates of the number of hand looms were 12,000. Allowing three persons per loom in each village family, this alone would account for a population of 36,000 persons actively engaged in textile manufacture of which sarongs constituted the main article.

5. The preference for sarongs is mainly due to its choice as the garment by the lower income groups. Subsidiary articles of production include the usual groups of domestic linen.

6. During World War II this industry was in a position to thrive, but suffered a setback later due to shortages in the finer counts of yarn which compelled Ceylon to bargain with other producing countries for her yarn needs. Among the suppliers, were expensive dollar sources. Following the liberalization of imports, the local hand-loom production found itself in unequal competition with the cheaper imported mill product, which was partly due to the high initial cost in the purchase of yarn. A good part of the looms fell to disuse and at the moment, the industry can only count 3,750 hand looms in active production, concentrating on sarong manufacture. The potential of the sarong industry does not take its measure from the existing hand looms. Encouraged by the Government part of the former hand loom population have been persuaded to introduce modest mechanization by installing semi-automatic power looms. Moreover, there are four major power-loom factories in the conventional sense employing 1,456 workers and with the capital investment of 4,550,000, which alone are capable of producing 7,000,000 sq. yds. of textile. Together with the hand loom and other units the total production of textiles may be taken as 21,000,000 sq. yds. of which 5,000,000 sq. yds. would represent the potential in sarongs alone.

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7. The average yardage of a sarong is three and a half and the production figures since control was first introduced is: - For mills, 453,616 sarongs per annum, and for hand looms, 677,485 sarongs per annum.

8. The maximum domestic availability in sarongs fixed by the Contracting Parties when a release was obtained for the control on sarongs was 3.2 million sq. yds., or 1 million sarongs.

9. Against this potential of production, there is a substantial volume of trade in imported sarongs. In 1952, 345,650 sarongs, and in 1953, 419,774 and in 1954 up to the end of August, 404,658 sarongs were imported. Converted into sq. yds. so as to afford a ready comparison with the domestic availability fixed by the Contracting Parties the corresponding imports were, 1952 - 1,143,362 sarongs; for 1953 - 1,363,262 sarongs; for 1954 - 1,315,145 sarongs.

10. The bulk of these imports originate from India and Japan. The average c.i.f. price of the imported Indian sarong is approximately Rs.6, but in spite of this low price, these sarongs are retailed at prices ranging from Rs.10.25 for the grade of sarong known as 80 by 30 and Rs.7.25 for the coarser counts. Superior grades are priced at Rs.13 to 15. By comparison, the local sarongs are Rs.11 for the superior grade falling to Rs.8.75 for a grade 3 sarong. Mill sarongs, made locally are priced at Rs.3.25 for the best grade and Rs.2.25 for the cheapest grade.

11. I should explain that the reason for the disparity in prices between the hand loom and the mill sarong is largely due to the use by the hand looms of double counts, thereby guaranteeing for the consumer more durable and better sarongs than the mill competitor.

12. The sarong industry is based on the availability of local cotton of which at present there is an acreage of nearly 20,000 acres. Proposals are under consideration to expand this production with the help of foreign capital. It is useful to mention here that private capitalists (including foreign capital) are planning to establish a large-scale spinning mill with a capacity of 10,400 spindles and an output of 760,000 lbs. per year to feed the hand-loom industry.

13. The momentum gained by the sarong industry since the release was granted by the Contracting Parties is still a long way from reaching its full potential. It would be fatal to this industry, if the initial benefits of control now given, were to be called to an abrupt halt before the industry has had a chance of establishing itself.

14. A question may arise why this industry cannot survive on its own merits in the face of competition from imported sarongs. I have here to repeat what I have stated earlier - that, in Ceylon, there is firmly established a strong vein of consumer resistance which is extremely hesitant to shift its ground from past support to imported goods in preference for local production in spite of advantages of quality. This movement is openly encouraged by a group of importers who operate on the well-known principle of house-to-house transactions.
In such a commercial setup, an exporter from abroad has a dual personality, operating in more than one territory. At the receiving end, his personality may take the form of an immediate family connection or a trusted agent. In this way, the importer in Ceylon would obtain his goods at house prices, and he could re-sell them at close approximations to current market prices. The price margin is so favourable that he can afford to undercut the local product to the detriment of the industry.