Applications by the Government of Ceylon

1. The Working Party was instructed to examine the applications made by the Government of Ceylon under Article XVIII. It had before it the written statement (SECRET/71) transmitted by Ceylon in support of the applications, which provided relevant information on the points set out in the questionnaire drawn up at the Third Session. In addition, the Ceylon delegation supplied at the request of the Working Party further data in amplification of the information given in the written statement.

2. The applications were made under various provisions of Article XVIII for releases to enable the Ceylon Government to regulate the import of the following products under the Industrial Products Act No. 18 of 1949:

<table>
<thead>
<tr>
<th>Item No.</th>
<th>Description of the Imported Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>733-01</td>
<td>Bicycles and other cycles not motorized</td>
</tr>
<tr>
<td>721-02.02</td>
<td>Dry-cell batteries, other than wireless</td>
</tr>
<tr>
<td>721-19.01</td>
<td>Splash-proof accumulators and batteries for motor vehicles and parts thereof</td>
</tr>
<tr>
<td>841-05.12</td>
<td>Sarees, millmade</td>
</tr>
<tr>
<td>841-05.13</td>
<td>Sarees, handloom</td>
</tr>
<tr>
<td>841-05.14</td>
<td>Sarongs, millmade</td>
</tr>
<tr>
<td>841-05.15</td>
<td>Sarongs, handloom</td>
</tr>
<tr>
<td>699-17.01</td>
<td>Safety razor blades</td>
</tr>
</tbody>
</table>

The original applications also included various types of towels and towelling, which were subsequently withdrawn by the Ceylon delegation in the course of the discussion.
3. The Working Party noted that releases had been granted in the past by the CONTRACTING PARTIES for products regulated under the Industrial Products Act and that it was the intention of the Ceylon Government to apply the Industrial Products Act to the above-mentioned items on the same basis. The Ceylon representative recalled that the Industrial Products Act was particularly designed to facilitate the marketing of local products by regulating imports of similar products. Under the provisions of the Act an importer, in order to obtain a licence to import a specified quantity of the product concerned, could be required to buy, at a price fixed from time to time under the Act, a certain quantity of the corresponding local product. No restriction would be placed on the quantity of the product sought to be imported so long as the importer fulfilled the obligation of purchasing the prescribed proportion of the corresponding local product. The "standard ratio" for determining the quantity of the local product which an importer must purchase in order to obtain a licence to import a specified quantity of the regulated product and the "standard price" at which the local product would be sold to the importer, were determined and published in the Government Gazette from time to time under the provisions of the Act. The representative of Ceylon explained that in fixing the standard ratio, account was taken of current domestic production and estimated domestic consumption. As a general rule, the standard ratio represented the ratio between domestic production and the level of imports considered to be desirable, the latter being the difference between estimated domestic consumption and production. The representative of Ceylon further explained that the standard ratio for a product was reviewed from time to time so that whenever domestic availability should fall short of the expected level increased imports would be permitted in order fully to meet the demand.

4. As regards the products under consideration, the Working Party recalled the statement made by the Ceylon representative at the plenary meeting. It was noted that in 1955 the Ceylon Government had prepared a list of industries which could most appropriately be developed through the private sector. In order to stimulate interest in the establishment of some of these industries the Government had undertaken to contribute a token amount of capital, so that the firms would enjoy, under existing legislation, certain exemptions from income and profits taxes for the first six years of their existence. The present applications were in respect of four such new industries (bicycles, dry-cell batters, accumulators and razor blades). Though all of these industries would employ the best resources in machinery and technical skill and would guarantee to the consumer a standard equivalent to the imported product, it was not expected that any of them could get a foothold on the market without the aid of the marketing measures envisaged under the Industrial Products Act. The same consideration applied to the other two items, namely, cotton sarongs and sarees.

5. In the past when a release was granted to Ceylon for the application of the Industrial Products Act, it invariably stipulated a "maximum domestic availability", so as to ensure that not more than a certain quantity of the
domestic product would be marketed under the Act in each year. On the other hand, while it was required that the regulation of imports would be by application of the standard ratio in accordance with the Industrial Products Act, no limit was set as regards the highest ratio that might be used. In some of the present applications by Ceylon it was found that the planned capacity of the factories in question closely approximated to estimated domestic consumption. In these circumstances the Working Party felt that a release following past precedent of only specifying a maximum domestic availability, which in some cases would have to be for the totality of the domestic consumption, might result in the total exclusion of foreign products. The representative of Ceylon thereupon agreed that in the proposed releases, in addition to the limitation regarding domestic availability a maximum standard ratio should be so prescribed as to ensure that a certain proportion of the domestic demand would be reserved for imported goods. In this way, some continuity of business would be maintained and the particular tastes of consumers who needed proprietary brands to which they were accustomed would be catered for. It was pointed out by the Ceylon representative that the Ceylon Government was not anxious that there should be a complete ban on an import following the establishment of a new factory; the availability on the domestic market of a competing product would act as a stimulant to the local factory constantly to improve its productive efficiency and quality up to the level of the imported article.

6. The considerations and recommendations of the Working Party are set out in the following paragraphs. It was decided, in agreement with the Ceylon representative that the recommended releases would be subject to the following conditions:

(a) that the import of these products will be subject to regulation only in cases where there is local production of similar goods of comparable quality; and

(b) that in the operation of the Industrial Products Act with respect to each product neither the domestic availability used in the calculation of the standard ratio nor the standard ratio shall exceed the maxima specified in the Decision granting the releases.

7. In addition, the Ceylon representative stated that as required by the provisions of Article XVIII, the operation of the Industrial Products Act would be entirely non-discriminatory as between the sources of supply of imports, and in such a way as to avoid unnecessary damage to the economic or commercial interests of any other contracting party.

8. The application for a release in respect of razor blades was made under paragraph 5 of Article XVIII, the item being one on which Ceylon had assumed an obligation under Article II of the Agreement. The applications in respect of all the other items were made under paragraph 7.
of Article XVIII. The Working Party noted, however, that the application in respect of cotton sarongs was for an extension of releases previously granted to and operated by Ceylon. In view of the provisions of condition clause (1) of paragraph 7(a) the Working Party considered that the application could not come under paragraph 7. Thereupon the Ceylon delegation agreed to proceed under paragraph 8(a). In the case of cotton sarees, the Working Party was informed that this was also the subject of a previous release, but as that release was never made use of by Ceylon the Working Party agreed that consideration of this item under paragraph 7(a) would not be in conflict with the provisions of the condition clause mentioned above.

A. Applications under paragraph 7

Cycles, mainly bicycles

9. In respect of this item, the Ceylon representative stated that there was no domestic production of these products at present, but the building for the factory had been erected and the machinery had already been ordered and production was expected to commence by the end of 1956. The initial output of the proposed industry would be about 10,000 per year, which could expand to 30,000 units by the fifth year if consumer support for the local product justified this scale of expansion. In the fifth year, domestic consumption would be in the region of 35,000 bicycles. Once the bicycle industry was well established it was possible that tricycles of the type used in delivery would also be produced. Manufacture of bicycles would proceed in two stages. The first stage would be confined to stamping operations, e.g., in building of mudguards, etc., but in the second stage of manufacture which was expected to be reached at the end of five years, the complete bicycles would be turned out by the proposed factory with the exception of such specialized parts as would be uneconomic to manufacture, e.g., ball bearings and hub axles. During the first years of the release, an important part of the operation would therefore consist of the assembling of imported bicycle components; to that extent any reduction in the imports of bicycles would be partly compensated by imports of unassembled parts.

Dry-cell batteries, other than wireless

10. The representative of Ceylon stated that the factory to be set up would manufacture dry-cell batteries of all sizes, principally of the torch type. Production was expected to commence in April 1957. The initial output would be in the region of 12 million units a year, and could be stepped up to 24 million within five years at which level, it was anticipated the full domestic demand would be met. The factory would be equipped with modern machinery. It was possible perhaps to use locally available graphite in the manufacture of batteries, but no suitable method had as yet been found to process the graphite for use in the industry. Materials would therefore be wholly imported.
Accumulators and batteries

11. The representative of Ceylon stated that there was at present no domestic production of these products although marginal domestic requirements were being met by locally assembled batteries. Production was expected to commence early in 1957. The initial output would be 15,000 units in the first year of production, rising to 35,000 units, which level would be adequate to meet the total domestic demand, including that of the railways. The importation of batteries installed in new cars would not be affected by the proposed release. As the output was comparatively small, it would be uneconomic to install plant to make the rubber containers. On the other hand, there was in Ceylon a normal accretion of surplus lead scrap which could be readily converted into lead by standard reclamation methods, although the supply from this source would not meet the full requirement of the industry. Consequently, a large proportion of the material used in the manufacture, namely, rubber, lead and sulphur, would be imported.

Cotton sarees

12. In discussing this item, as well as cotton sarongs dealt with in paragraph 15 below, the representative of Ceylon gave a description of the handloom and power-loom cotton weaving industries in Ceylon which was along the lines given to the working Parties of the Third, Seventh and Ninth Sessions (see Basic Instruments and Selected Documents, Volume II, p. 72; Supplement I, p. 38 and Supplement III, p. 57). Attention was called to the importance of these industries to the rural economy of Ceylon in that they helped to mitigate the problems of unemployment among the peasantry. Profits were barely marginal at present in the hand-loom sector. In the weaving industry as a whole about 1,400 workers were employed on power looms and 20,000 on hand-looms. Domestic output of sarees, in which the mill-made product predominated, dropped from 211,000 yards in 1953 to 139,000 yards in 1954. It picked up in 1955 but was reduced again in 1956 owing to a shortage of the right type of yarn. Production at the end of five years was expected to be about 2 million yards. Imports of sarees were in the region of 2 million yards.

General

13. In respect of these four items, the Working Party was asked to examine the applications in terms of sub-paragraph 7(a)(iv) of Article XVIII. The Working Party examined, with the representative of Ceylon, the possibility of using some other measure than the application of the Industrial Products Act. The representative of Ceylon explained that in all these cases the problem was to overcome consumer preference for imported products and to secure adequate marketing for the locally manufactured goods of equivalent quality at competitive prices. It was expected that in each case the regulation of the product under the Act for a period of five years would be sufficient to enable it to gain a foothold in the domestic market. After that time it should be able to hold its own without governmental assistance.
Having regard to the present market conditions, neither an increase in the customs tariffs nor the provision of a subsidy (both of which were measures permitted under the General Agreement) would meet the purpose; to be effective very high or prohibitive rates of customs duty would have to be imposed.

14. In the light of this discussion the Working Party recommends that the requested releases be granted in terms of Part A of the proposed Decision annexed to this Report.

B. Application under paragraph 8

Cotton sarongs

15. As noted in paragraph 12 above the Ceylon representative gave a description of the cotton weaving industry, which was also relevant for this item. The Ceylon representative further stated that domestic production of sarongs rose from 293,000 units in 1953 to 374,000 in 1954 and 862,000 in 1955. The annual rate of production in 1956 on the basis of output in January to June, however, was about 364,000. Domestic consumption of sarongs was about 11.5 million square yards (approximately 3.2 square yards are necessary for a sarong). Domestic production was expected to be in the region of 8.5 million square yards over the next five years. Indigenous raw cotton was used in the industry to the extent that it was available, but the local production of cotton has declined in view of its replacement by food crops.

16. As the application in respect of this item was for an extension of a previous release the Ceylon delegation agreed to proceed under paragraph 8(a) of Article XVIII. After ascertaining, in accordance with the provisions of that paragraph, that no other contracting parties were materially affected, the delegation of Ceylon conducted consultations with India and Japan in respect of this item. These consultations have resulted in complete agreement between the contracting parties concerned, subject to the understanding that consequent on the release the Governments of India and Japan will be provided with opportunities for discussing with the Government of Ceylon any point arising in the trade of the products in question.

17. In accordance with paragraph 8(a) of Article XVIII, the Working Party recommends that the CONTRACTING PARTIES grant a release in terms of Part B of the proposed Decision annexed to this report.

C. Application under paragraph 5

Razor blades

18. The Ceylon representative stated that production of razor blades was expected to commence early in 1957 and the initial output could meet the

1 See Basic Instruments and Selected Documents, Supplement III, pp. 45 and 54.
current domestic demand of 18 million units. No losses were anticipated in the industry which would consist of one firm with an initial investment of Re 500,000. The industry was expected to be independent of the proposed measure in five years.

19. In accordance with the provisions of paragraph 5, the Working Party followed the procedures of paragraph 3(b) of Article XVIII. After ascertaining that no contracting parties other than the Federal Republic of Germany and the United Kingdom claimed a substantial interest in the product, the Working Party sponsored negotiations between those two contracting parties and Ceylon. The representatives of these contracting parties informed the Working Party on 12 November 1956 that complete agreement had been reached in the negotiations, and that they had agreed to the granting of a release with certain limitations, as set out in the proposed Decision annexed to this Report. The Working Party recommends that the requested release be granted in terms of Part C of that Decision.

Points for decision: Paragraphs 14, 17 and 19 recommending the adoption of the Annexed Decision.

ANNEX

DRAFT DECISION GRANTING RELEASES TO CEYLON UNDER ARTICLE XVIII

The CONTRACTING PARTIES,

HAVING CONSIDERED applications made by the Government of Ceylon under the provisions of Article XVIII for releases of its obligations under the General Agreement to the extent necessary to enable it to regulate the import of certain products under the Industrial Products Act No. 18 of 1949.

DECIDE, under paragraph 7(a) of Article XVIII, to grant a release in respect of each of the products specified below for a period of five years from 30 June 1957 or from the day on which the product is brought under regulation under the said Act, whichever is the earlier, subject to the limitation that for the purpose of issuing import licences under that Act neither the domestic availability used in calculating the standard ratio nor the standard ratio between the local products and the corresponding imported products shall exceed the appropriate maximum specified below:

1See L/558
<table>
<thead>
<tr>
<th>Tariff Item No.</th>
<th>Description of the Imported Product</th>
<th>Maximum Domestic Availability</th>
<th>Maximum standard ratio (local to imported)</th>
</tr>
</thead>
<tbody>
<tr>
<td>733-01</td>
<td>Bicycles and other cycles not motorized</td>
<td>30,000 units</td>
<td>9:1</td>
</tr>
<tr>
<td>721-02.02</td>
<td>Dry-cell batteries, other than wireless</td>
<td>24 million units</td>
<td>9:1</td>
</tr>
<tr>
<td>721-19.01</td>
<td>Splash-proof accumulators and batteries, other than those installed in motor vehicles</td>
<td>35,000 units</td>
<td>9:1</td>
</tr>
<tr>
<td>841-05.12</td>
<td>Cotton sarees, millmade</td>
<td>2 million yards</td>
<td>2:1</td>
</tr>
<tr>
<td>841-05.13</td>
<td>Cotton sarees, handloom</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**B**

CONSIDERING that the Government of Ceylon has held consultations, in accordance with the provisions of paragraph 8(a) of Article XVIII, with contracting parties materially affected by the proposed measures in respect of the products specified below and that complete agreement has been reached in the consultations,

DECIDE, under paragraph 8(a) of Article XVIII, to grant a release to the Government of Ceylon in respect of the products specified below for a period of five years from 13 October 1957, subject to the limitations that for the purpose of issuing import licences under the Industrial Products Act the domestic availability used in calculating the standard ratio shall not exceed the 8.5 million square yards and that the standard ratio between the local product and the corresponding imported product shall not exceed three to one:

- 841-05.14 Cotton sarongs millmade
- 841-05.15 Cotton sarongs handloom

**C**

CONSIDERING that the Government of Ceylon, in accordance with the provisions of paragraph 5 and the procedures set out in paragraph 3(b) of Article XVIII, has entered into negotiations with contracting parties materially affected by the proposed measure in respect of the product named below and that complete agreement has been reached between the parties concerned,

DECIDE, under paragraph 5 of Article XVIII, to grant a release to the Government of Ceylon in respect of the specific product, for a period of five years from 30 June 1957 or from the day on which the product is brought under regulation under the Industrial Products Act, whichever is the earlier, subject to the limitations that for the purpose of issuing import licences under that Act the domestic availability used in calculating the standard ratio shall not exceed 18 million units and that the standard ratio between the local product and the corresponding imported product shall not exceed nine to one:

- 699-17.01 Safety razor blades