GENERAL AGREEMENT ON TARIFFS AND TRADE

Committee on Balance-of-Payments Restrictions

16 September 1960

1960 CONSULTATION UNDER ARTICLE XVIII:12(b)

with

CEYLON

Basic Document prepared for the Consultation by the Secretariat

1. Legal and Administrative Basis of the Restrictions

The legal basis for the import restrictions in force in Ceylon is the Import and Export Control (Continuation) Act, No.27 of 1950, which extends the validity of the Defence (Control of Imports) Regulations and certain sections of the Defence (Miscellaneous) Regulations. These Regulations were first given the force of law by virtue of the Supplies and Services (Transitional Powers) Act, 1945 of the Parliament of the United Kingdom. Under the Act No.27 of 1950 they will remain in force until rescinded by Order of the Government.

Under these Regulations, the Government has broad powers to prohibit or restrict the import of any goods, either from all sources, or of specified origin, and to prescribe any conditions or exemptions relating to imports. The Government may order that imports be not allowed except under the authority of a licence, and may issue Open General Licences authorizing free imports, either without limitation or up to a prescribed limit.

Under this law and the Defence Regulations, the import control policies have been directed towards the regulation of the country's imports in the light of its balance-of-payments position, the strengthening of the overall reserve position of the sterling area, and the diversion of the country's trade into the hands of the Ceylonese nationals (Ceylonisation).

Import policy is formulated by the Minister of Commerce and Trade, subject to the approval of the Cabinet. The responsibility for administering the regulations rests with the Controller of Imports and Exports whose office constitutes a Department of the Ministry of Commerce and Trade. The policy for any licensing period (the "import control year" begins on 1 July and ends on 30 June) is made known by the Controller by means of a Notification which is published in the Government Gazette. Any changes that may be introduced are also announced in the Gazette.

Import regulation measures for purposes not directly related to the balance of payments are in force for certain products pursuant to the provisions of the Industrial Products Act, No.18 of 1949 and the Agricultural Products (Regulation) Ordinance, No.29 of 1939.

MGT(60)70
Before an intending importer may import any goods which are subject to licence, he must receive from the Controller of Imports and Exports a validated licence which is obtained by submitting an application on the prescribed form. Commodities listed in an Open General Licence may be imported freely by any person or firm without an individual licence, subject to any conditions that may be prescribed in the Open General Licence.

In connexion with the policy of "Ceylonisation" importers wishing to qualify as "Registered Ceylonese Traders" for purposes of the licensing regulations must register themselves with the Controller of Imports and Exports. Under the relevant Notification (No.15/53 of 25 May 1953 and published in Gazette No.10,533 of 3 June 1953), individuals, firms and public companies are eligible for registration if they fulfil certain conditions. Individuals must be citizens of Ceylon; firms must have at least 51 per cent of their share capital held by citizens of Ceylon; and public companies must be incorporated in Ceylon with their shares quoted in the local stock market. The majority of the directors of a public company and partners of a firm must be citizens of Ceylon. The individuals or directors or partners must not hold office, nor have an interest in a non-national trading establishment which has the purpose of defeating the government policy of Ceylonisation. In all cases, not less than 50 per cent of the staff receiving emoluments of Rs.500.- per month or above, and not less than 75 per cent of all the other staff, must be citizens of Ceylon.

Further, the Controller may at his discretion refuse any application for registration, or cancel any existing registration. An annual fee of Rs.250.- is levied for each registration.

The following countries from which imports are partly or completely controlled for Ceylonisation purposes will be, for convenience, referred to in this document as the "Ceylonised trade countries":

Albania, Austria, Bulgaria, China (Mainland), Czechoslovakia, Formosa, Germany, Hungary, Japan, Poland, Rumania, Spain, USSR and Yugoslavia.

2. Methods used in Restricting Imports

Under the authority of the Defence (Control of Imports) Regulations, the Government has taken action whereby all imports are made subject to licence. Open General Licences and other measures permitting imports without individual licences, however, are also in force.

Under the current import policy, imports are admitted under the following different procedures:

The products subject to the various licensing procedures are contained in the Ceylon Government Gazette No. 12,188 of 27 August 1960. This Gazette should be deemed to constitute Annex I to the present document. Arrangements are being made for copies to be made available to the contracting parties. In the meantime, a copy is on file at the secretariat where it may be consulted.
(i) Open General Licences

Three Open General Licences, as amended, are in force, applying with respect to the commodities specified therein, to different groups of countries. Open General Licence No. 1 permits the import of a wide range of goods of all classes and groups, other than textiles, from all countries, except those in the dollar area and the "Ceylonised trade countries". Open General Licence No. 2 permits the free importation of over 200 essential items from the dollar area. Open General Licence No. 4 covers additional goods (viz. liquors, watches and clocks, textiles and motor cars), which can be freely imported from the same countries as covered by Open General Licence No. 1, except continental EMA countries other than Austria and Germany. (Open General Licence No. 3 covering meat imports from certain countries, and Open General Licence No. 5 covering Maldivian fish imports from Maldives have been rescinded.)

(ii) General Import Licences

None of the Open General Licences apply to imports from the Ceylonised trade countries. Most of the goods covered by Open General Licences may be imported, however, from the Ceylonised trade countries, the dollar area and continental EMA countries, under General Import Licences which are issued only to registered Ceylonese who import from these sources the goods in question without limit as to value or quantity.

(iii) General Import (Textiles) Licences

Textiles of any type or description may be imported only by holders of General Import (Textiles) Licences. Such licences are, however, freely issued to individuals, firms or companies which have not been blacklisted for malpractices. The holder of such a licence may import without an individual licence textiles of any type or description, other than textiles falling within the description of eight excepted items (for which individual licences must be obtained), from all countries, except those in the dollar area, the Ceylonised trade countries and the continental EMA countries other than Austria and Germany. No limit is placed on value or quantity. Registered Ceylonese traders holding General Import (Textiles) Licences may import such textiles without limit as to value or quantity from all sources.

(iv) General Import (Foodstuffs) Licences

Certain types of grains and pulses, dried chillies, dried and salted fish and potatoes may be imported only by holders of General Import (Foodstuffs) Licences. Such licences are, however, freely issued to individuals, firms or companies which have not been blacklisted for malpractices. The holder of
such a licence may import without an individual licence such commodities without limit as to value or quantity from all countries, except those in the dollar area, the Ceylonised trade countries and the continental EMA countries, other than Austria and Germany. Registered Ceylonese traders holding General Import (Foodstuffs) Licences may import such commodities without limit as to value or quantity from all sources.

(v) Individual Licences

The importation of a certain number of commodities, which are produced locally in sufficient quantity, or are reserved for importation by the Government, or are prohibited in the interest of public health, is not permitted. An individual licence is required for the importation of any other commodity which an importer is not authorized to import under an Open General Licence or a General Import Licence, General Import (Textiles) Licence or General Import (Foodstuffs) Licence held by him. Individual licences are issued by the Controller for some commodities to registered Ceylonese traders only, and for other commodities to other importers as well. Licences to the latter group are issued on the basis of their past performance.

Goods covered by Open General Licences, General Import (Textiles) Licences or General Import (Foodstuffs) Licences can be imported freely without limitation by any person or firm from the sources specified therein. Goods covered by General Import Licences can be imported freely from the specified sources by registered Ceylonese traders. Only those imports which are not covered by such General Licences require an individual licence, and only on these imports can restriction be applied through the non-issue of licences, or by the issue of licences for a specified value or quantity. For most of the imports at present subject to individual licensing, licences are issued freely to registered Ceylonese traders; in many cases, licences may also be issued to other importers on the basis of previous performance. A limitation is placed on the overall quantity or value of such imports in respect of ten items, namely:

- Beebies
- Wire nails
- Electric lamp bulbs up to 100 watts
- Gent's footwear of value less than Rs.26.- per pair
- Tennis shoes of value exceeding Rs.7.- per pair
- Bicycle tyres and tubes
- Rubber erasers
- Woodscrews of iron, steel, brass and copper alloys
- Aluminium foil and linings
- Black cloth umbrellas

In respect of the following items only has it been declared that no licences will be issued:

*Paddy
*Rice
*Wheat
**Grain pulses: Kesali dhall and long dhall
<table>
<thead>
<tr>
<th>Licensing Category</th>
<th>1957 Value</th>
<th>1957 %</th>
<th>1958 Value</th>
<th>1958 %</th>
<th>1959 Value</th>
<th>1959 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Open General Licences</td>
<td>337.03</td>
<td>46.4</td>
<td>741.54</td>
<td>43.2</td>
<td>950.75</td>
<td>47.4</td>
</tr>
<tr>
<td>2. General Import Licences</td>
<td>195.89</td>
<td>10.8</td>
<td>242.01</td>
<td>14.1</td>
<td>268.06</td>
<td>13.4</td>
</tr>
<tr>
<td>3. General Import (Textiles Licences 12.2.1959)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>106.34</td>
<td>5.3</td>
</tr>
<tr>
<td>4. General Import (Foodstuffs) Licences (3.11.1959)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>22.63</td>
<td>1.1</td>
</tr>
<tr>
<td>5. Individual Licences</td>
<td>344.56</td>
<td>19.3</td>
<td>344.46</td>
<td>20.1</td>
<td>196.21</td>
<td>9.8</td>
</tr>
<tr>
<td>6. State Trading</td>
<td>423.62</td>
<td>23.5</td>
<td>388.59</td>
<td>22.6</td>
<td>460.91</td>
<td>23.0</td>
</tr>
<tr>
<td>TOTAL IMPORTS</td>
<td>1,804.1</td>
<td>100.0</td>
<td>1,716.6</td>
<td>100.0</td>
<td>2,004.9</td>
<td>100.0</td>
</tr>
</tbody>
</table>
3. **Treatment of Imports from Different Sources**

Import restrictions currently in force are applied non-discriminatorily. Geographical distinctions made in the licensing arrangements are for the purpose of implementing the Ceylonisation policy, which aims at diverting "new trade" to national traders.

Apart from the products whose import from any source is banned or licensed in a non-discriminatory manner, the effect of these licensing arrangements, as they apply to various countries or areas, may be summarized as follows:

1. From the sterling area and certain other countries; most goods may be imported freely without limitation (under OGL Nos. 1 and 4);

2. From continental EMA countries (except Germany and Austria): the same goods, except four groups of items (OGL No. 4 goods which, when imported from these sources, are subject to licence and may be imported by registered Ceylonese traders only - except in the case of liquors, licences for which are issued to any importer) may be freely imported (under OGL No. 1);

3. From Albania, Austria, Bulgaria, China, Czechoslovakia, Formosa, Germany, Hungary, Japan, Poland, Rumania, Spain, USSR and Yugoslavia: most goods may be imported by registered Ceylonese traders under General Import Licences. Licences for import of liquors from Spain are issued to any importer.

4. From countries in the dollar area; machinery, chemicals and other essential goods may be freely imported (under OGL No. 2). The remaining items may be imported freely on General Import Licences by registered Ceylonese traders. Other importers are allowed individual licences on the basis of past trade.

4. **Commodities or Groups of Commodities Affected by the Various Forms of Restrictions**

This information is contained in the copy annexed, of the Ceylon Government Gazette of 27 August 1960. Commodities to which effective restrictions apply have been extracted in section 2 above.

5. **Use of State-Trading or Government Monopoly in Restricting Imports**

The Government continues to be the sole importer of the following commodities: paddy, rice, wheat, flour, maldive fish from the Maldives Islands, sugar, sugar candy, palm sugar (except from India and Pakistan), red onions, and glass bottles marked "Ceylon Excise". These commodities are subject to the restriction of Government's being the sole importer, in order to secure adequate supplies and fair distribution.
The Government has agreements to buy specified quantities of rice from Burma and mainland China at agreed prices. Surplus requirements in excess of the quantities contracted for with Burma and China are purchased in the open market abroad at competitive prices.

The Government retains the monopoly for imports of sugar, as it uses the profits from the sale of sugar to subsidize the price of rice, which is supplied to the consumer at a price lower than the cost to the Government. Purchases of sugar are made from the cheapest sources. Sugar candy and palm sugar have been added to the list of Government imports in order to prevent private traders from importing these commodities in forms which can be substituted for sugar.

Red onions have been added to the list of Government imports in order to ensure a market for locally grown red onions, and at the same time to safeguard the interests of the consumer, as red onions are an essential food item in the Ceylon diet.

Glass bottles marked "Ceylon Excise" are solely for use by the Government Department of Excise.

The proportion of the imports by the Government to total imports is shown in the following table:

<table>
<thead>
<tr>
<th>Commodity</th>
<th>1957</th>
<th>1958</th>
<th>1959</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice</td>
<td>255.4</td>
<td>237.8</td>
<td>283</td>
</tr>
<tr>
<td>Paddy</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Wheat</td>
<td>86</td>
<td>67</td>
<td>106.1</td>
</tr>
<tr>
<td>Wheat (unmilled)</td>
<td>-</td>
<td>.1</td>
<td>-</td>
</tr>
<tr>
<td>Sugar</td>
<td>72.8</td>
<td>72.6</td>
<td>59.</td>
</tr>
<tr>
<td>Onions, red</td>
<td>-</td>
<td>-</td>
<td>.1</td>
</tr>
<tr>
<td>Maldive fish (from the Maldive Islands only)</td>
<td>9.4</td>
<td>10.8</td>
<td>12.2</td>
</tr>
</tbody>
</table>

1. Total value of imports by Government 423.6 388.6 460.9
2. Total value of imports of all commodities 1,804.1 1,716.6 2,004.9
3. (1) expressed as a % of (2) 23.5 22.6 23
6. Measures taken in Recent Years in Relaxing or Otherwise Modifying Restrictions

On 7 November 1950, the only remaining restrictions on the importation of goods from the dollar area, to which imports from the sterling area and certain other countries not included in the Ceylonised area or the EMA countries were not subject, were removed. The items in question were:

- Beer, ale, porter and other malt liquors
- Whisky
- Confectionery
- Toys and parlour games

In December 1958, and February 1959, imports of certain items of textiles were made subject to individual import licensing. This restriction applied to imports from all sources. Similar action was taken on imports of electrical batteries and accumulators.

In March 1959, licensing restrictions were placed on glass bottles marked "Ceylon Excise".

In June 1959, licensing restrictions were placed on alcoholic essences and certain types of footwear.

In July 1959, imports of tyres and tubes for bicycles were made subject to individual licensing.

In November 1959, imports of wire nails, certain cotton products, and certain foodstuffs were made subject to individual licensing.

In February 1960, imports of black cloth umbrellas were made subject to individual licensing.

In April and June 1960, imports of aluminium foil and lining, towels and towelling, certain grains and woodscrews were made subject to individual licensing control, and the licensing procedure relating to textiles, other than towels and towelling, was simplified.

In August 1960, imports of all textiles have been brought under license, but only the items set out under eight heads are subject to individual licensing, whereas all other types of textiles may be imported under General Import (Textiles) Licences.
7. Effects on Trade and General Policy in the Use of Restrictions for Balance-of-Payments Reasons
   (Statement by the Government of Ceylon)

The restrictions noted earlier in this paper have not had a restrictive effect on the overall import of goods into Ceylon, as the following figures reveal, except for a slight decrease in the total value of imports in the years 1954 and 1955 below the value of imports in 1953:

<table>
<thead>
<tr>
<th>Year</th>
<th>Total value of imports (in million rupees)</th>
<th>Import volume index (1948 = 100)</th>
<th>Import price index (for all imports) (1948 = 100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>1,167</td>
<td>121</td>
<td>198</td>
</tr>
<tr>
<td>1951</td>
<td>1,559</td>
<td>135</td>
<td>116</td>
</tr>
<tr>
<td>1952</td>
<td>1,702</td>
<td>138</td>
<td>125</td>
</tr>
<tr>
<td>1953</td>
<td>1,608</td>
<td>144</td>
<td>114</td>
</tr>
<tr>
<td>1954</td>
<td>1,397</td>
<td>143</td>
<td>100</td>
</tr>
<tr>
<td>1955</td>
<td>1,460</td>
<td>140</td>
<td>101</td>
</tr>
<tr>
<td>1956</td>
<td>1,630*</td>
<td>153</td>
<td>113</td>
</tr>
<tr>
<td>1957</td>
<td>1,804</td>
<td>161</td>
<td>109</td>
</tr>
<tr>
<td>1958</td>
<td>1,717</td>
<td>163</td>
<td>95</td>
</tr>
<tr>
<td>1959</td>
<td>2,005*</td>
<td>180</td>
<td>105</td>
</tr>
</tbody>
</table>

*excluding bullion

It will be observed that the total value of imports in 1959 was as high as Rs.2,005 million, as compared with Rs.1,167 million in 1950.

The Government of Ceylon has been concerned to see that imports of commodities required for the maintenance and improvement of agricultural production, both for domestic consumption and for export, were progressively increased, and that imports of capital equipment and raw materials required for the maintenance and improvement of existing industries, and for the establishment and development of suitable new industries were likewise progressively increased. The following figures of values of imports of selected commodities in 1951 and 1959 indicate that this desire on the part of the Government of Ceylon has, to some extent, been achieved, although the quantum of increase could, with advantage, have been considerably higher.
The total external assets of Ceylon, which stood at Rs.1,185.3 million at the end of 1951, have dwindled to Rs.591.6 million at the end of June 1960. It is clear that imports of commodities required to maintain, improve and expand local agriculture and industry, can continue to be secured only be a limitation on import of commodities which can either be produced or manufactured in Ceylon to meet requirements fully or in part, and of commodities which, while not being produced in Ceylon at all, or in any appreciable quantity, are non-essential or luxury items.

It has been sought to effect such restriction both through the tariff and by way of quantitative import control for balance-of-payments reasons. (Action under the Agricultural Products Regulation Ordinance and Industrial Products Act, while being designed to protect local agriculture and industry, have also had, incidentally, an effect on the balance-of-payments situation.)

As examples of restriction through increased import duties on commodities capable of manufacture locally, may be quoted biscuits, the duty on which was increased from 25 per cent preferential and 35 per cent general in 1954, to 75 per cent and 85 per cent respectively in 1958, and to 100 per cent and 110 per cent respectively in 1960; cigarettes, the duty on which has been increased in 1954 and again in 1958 and 1960; confectionery, on which the duty was increased from 50 per cent preferential and 60 per cent general in 1954 to 60 per cent and 70 per cent respectively in 1958; and banians, on which the duty has been increased in 1959 and 1960.

Restriction by way of increased import duties on non-essential and luxury items has been more extensive. Examples are motor vehicles, on which duties have been increased in every year, except 1955, from 1954 onwards up to 1960; natural silk piece goods and apparel, air conditioning apparatus, liquor,
perfumery and cosmetics, woollen carpets and rugs. (Contrariwise, import duties have been reduced from time to time on a variety of capital goods and raw materials required for agriculture and industries.)

As regards quantitative import restrictions, the items which have been noted in paragraph 2 above as being items for which licences are not issued, are produced locally in sufficient quantity to meet local demand fully. Garments, the c.i.f. value of which is over Rs. 40. each, piece-goods, the c.i.f. value of which is above Rs. 7. per yard, and watches are non-essential and luxury items which are subject to quantitative restriction. All other items which are subject to quantitative restriction, except electric lamp bulbs, are items the local demand for which is partly met by domestic production. Electric lamp bulbs are allowed to be imported on quotas assigned to established importers in the light of their past trade, and by newcomers in small quantities. In some of these items, for example, bicycles, manufactures of rubber, banians, shirts and envelopes, almost the entire demand is met by domestic production.

Annex: Gazette No. 12881 of 27 August 1960

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1 One copy of this is supplied to each contracting party.