Committee on Balance-of-Payments Restrictions

DRAFT 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.

2. In a later 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 somewhat limited in the case of Ceylon. 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; the Committee noted that the question of access to markets was one of the primary concerns of 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 it 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 noted 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 what he had said before the CONTRACTING PARTIES (SR.20/4, page 47) to the effect 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 had been completed. 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 1961\(^1\) 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 levies 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 considered it necessary to maintain the temporary duty increases authorized under the Decision of 16 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 take certain 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,

\(^1\)BISD, Tenth Supplement, page 35.
Decide that:

1. Ceylon is authorized to maintain until 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 increased duties shall be levied in a manner consistent with the provisions of Article I of the General Agreement.

Terms and Conditions

1. The temporary increase of customs duties 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.

2. 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

3. 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.

4. The Government of Ceylon shall submit, before 15 September 1963, a report on the action taken to reduce or eliminate the increases in duties maintained under this Decision and on the circumstances which in its view still justify the application of the increases in duties 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 increase of customs duties on the economies of other contracting parties.

5. If any contracting party considers that the effect of the increases in duties 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.

6. 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 increases in duties 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.

7. 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.

8. 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 whichever date is the earlier.