The following note, setting out the views of the Ceylon Government on the work of the Sub-Group, is distributed at the request of the delegation of Ceylon:

The Government of Ceylon has studied the terms of reference of the Sub-Group contained in paragraph 45 of document Spec(62)181 of 2 July 1962, and also the secretariat's note Spec(62)337 of 28 November 1962.

The Government of Ceylon considers that the work of the Sub-Group should be re-orientated in the light of the Decision of the CONTRACTING PARTIES at their last session to hold a Ministerial Meeting in the spring of 1963. This is a factor that was not known to the Special Group when it decided to establish a Sub-Group with the terms of reference as in Spec(62)181. The Government of Ceylon is strongly of opinion that Ministers should be in a position to take a decision on the question of duty-free entry for tropical products at the forthcoming Ministerial Meeting. If progress in this field were not made at the Ministerial Meeting, it would seriously undermine the authority of the GATT in many less-developed countries. The work of the Special Group and the Sub-Group on tropical products should, therefore, be directed in a manner so as to facilitate decisions at the forthcoming Ministerial Meeting.

The six sub-headings set out in the terms of reference of the Sub-Group relate mainly to one general issue, viz. the effect of the dismantling of preferences on exporting countries, who at present enjoy the protection of such preferences, and the means of mitigating any hardships that may be caused to such countries during the period of adjustment following the abolition of preferences. The Government of Ceylon has noted with interest the secretariat's pilot studies in Spec(62)337 and the connected statistical tables. These preliminary studies indicate both the magnitude of the task involved and also the limited usefulness of the exercise for the purpose of arriving at decisions on the objective of duty-free treatment of tropical products. The studies envisaged are essentially prognostications into the future based on numerous economic assumptions. It is generally known that the most competent economic prognostications often do not correspond with actual developments.

The Government of Ceylon is therefore of the view that the studies undertaken by the Sub-Group should be limited to specific problems which any less-developed country exporting tropical products expects to encounter in the
immediate future as a result of dismantling of preferences. For example, in the case of tea, Commonwealth countries who have enjoyed a preference in respect of this commodity in Commonwealth markets, have made it clear that, if duty-free treatment for tea was accorded, the abolition of existing preferences would not cause hardships to them. Similarly, in the case of the other five commodities selected in the first instance for study by the Sub-Group, there would be a number of countries who would be prepared to state that the dismantling of existing preferences would not cause any hardships to them. The studies of the Sub-Group should, therefore, be limited to the residual problems of those countries who indicate specific difficulties in respect of the six groups of commodities now taken up for study. Even with regard to these residual problems, the studies should have a sense of realism and purpose and should not be taken further into the uncertain realm of long-term economic prognostications.

If these suggestions were adopted, the work of the Sub-Group could be completed by the end of January 1963 and the Special Group would be able to address itself to the findings of the Sub-Group sometime in February.

In this connexion, it should be pointed out that the Sub-Group should bear in mind that the hardships caused to any country as a result of the dismantling of preferences could be mitigated by an increase of aid or through a system of compensatory financing, which now appears to be generally acceptable in principle to many industrialized countries. Compensatory financing, it will be recalled, is based on actual performance and not on prognostications into the uncertain future. The Government of Ceylon feels that compensatory financing would be a practical way of assisting less-developed countries to overcome any hardships caused by a loss of foreign exchange earnings consequent on the dismantling of preferences.

The Government of Ceylon is of the view that, having regard to the date set for the Ministerial Meeting, the Sub-Group should meet, if necessary, throughout January 1963 in order to finalize the present exercise with respect to the six groups of commodities that have been selected.