WORKING PARTY 2 ON ARTICLE XVIII

Draft Report on Ceylon Application

The written statement of considerations (GATT/CP.3/20) submitted by the Ceylon delegation in support of the application for release under paragraph 7 of Article XVIII was referred to Working Party 2 for examination and recommendation to the CONTRACTING PARTIES at the fourteenth meeting of the CONTRACTING PARTIES on 19 May 1949. The Working Party was required to study the proposal and to report as soon as possible in the light of the points raised in the discussion at that meeting (GATT/CP.3/SR.14).

In view of the provisions of paragraph 10 of Article XVIII, the Working Party submitted on 1st June 1949, an interim report (GATT/CP.3/36) concerning the date on which the CONTRACTING PARTIES should make a decision on the application. A further report (GATT/CP.3/36) was submitted on 4 August 1949 recommending a modification of the decision regarding that date.

The Ceylon delegation subsequently submitted a detailed list of the products to which the application referred and at that time amended the original application by the withdrawal of certain items and the addition of others. A definitive list circulated in GATT/CP.3/54 formed the basis for consideration by the Working Party. However, this was subject to the results of the re-negotiations by Ceylon at this session of Schedule VI to the Agreement.

After the completion of the re-negotiations, five items remained in the Ceylon Schedule and the Ceylon delegation consequently amended further its original application and requested that the application for the measures relating to these items be considered under paragraph 5 of Article XVIII. (GATT/CP.3/20.Add.1).

A precise description of these products and the tariff item numbers and descriptions under which these products fall is contained in Annex 1 to this report.

The Working Party noted that the immediate purpose of the "Industrial Products Act" was to facilitate the sale of domestic products by regulating the importation of similar commodities. Releases were
accordingly sought by the Government of Ceylon from the provisions of Article XI in terms of paragraphs 6 and 7 of the Article. Under the terms of the Act the Government will control the import of regulated industrial products by requiring an importer, in order to obtain a license to import a quantity of the goods concerned, to buy a certain 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 will be determined from time to time under the provisions of the Act.

The Working Party took note of the statement by the Ceylon delegation regarding the circumstances in which the industries concerned were to be established and developed, and the reasons which necessitated the use of the measures. It also noted that the government of Ceylon would apply the Act so as to avoid unnecessary damage to the commercial or economic interests of any other contracting party.

The considerations of the Working Party on each of the products with particular reference to the nature of the industries concerned and their establishment or development are set out below, together with the recommendations by the Working Party.

A. Plywood Panels and Other Ornamental Plywood

The Working Party, in considering these products noted that the Government plywood factory was established in 1941 for the production of plywood tea chests and ornamental panels. It had been protected during the war and the postwar period by abnormal conditions. Plans for expansion had been adopted by the Government involving the installation of machinery in order to recover a higher percentage of timber veneers and the introduction of synthetic glues to raise the quality of the plywood. It was anticipated that the production of ornamental plywood would be raised to 250,000 square feet, for general decorative purposes.
The Working Party agreed that the proposed measure in respect of this item was eligible under paragraph 7 of Article XVIII. Some members felt that the measure fulfilled the requirements of sub-paragraph 7(a)(i), while others felt that sub-paragraph 7(a)(iii) was more appropriate.

The Working Party recommends that the CONTRACTING PARTIES concur in the measure and grant a release under paragraph 7 for a period of 5 years subject to the limitation that the figure of 250,000 square feet shall be used as the maximum quantity of the domestic product in calculating the standard ratio between such quantities of domestic production and imports for the purpose of issuing import licences under the provisions of the Industrial Products Act.

B. Leather Goods - Boots, shoes and sandals

The Ceylon representative stated that the Government leather factory and tannery were established in 1941. During the war the entire output of the factories was absorbed for military purposes. In the post-war period reorganization of the industry has been undertaken to expand output and to adapt existing plants for civilian production. The prospects for expansion were particularly favourable in Ceylon, because of the potential high demand for lower grade footwear. The Ceylon representative added that the reconversion and reorganization would not require any considerable additional investment or new plant.

The Working Party agreed that the measure in respect of this item was eligible under paragraph 7 of Article XVIII. Some members felt that the measure fulfilled the requirements of sub-paragraph 7(a)(i), whilst others felt that sub-paragraph 7(a)(iii) was more appropriate.

The Working Party recommends that a release be granted under paragraph 7 for a period of 5 years subject to the limitation that the figure of 45,000 pairs of boots and shoes shall be used as the
maximum quantity of the domestic product in calculating the standard ratio between such quantities of domestic production and imports for the purpose of issuing import licences under the provisions of the Industrial Products Act.

C. Leather Goods - Volley Balls

The Ceylon representative stated that volley balls were a byproduct of the Government leather factory and the expected production in five years was estimated at 200,000 balls per annum. The Working Party considering that the utilization of the waste leather was an industrial process of the type contemplated in sub-paragraph 7 (a) (iii) and that the measure was eligible under paragraph 7 of the Article.

Accordingly, the Working Party recommends that a release be granted under paragraph 7 for a period of 5 years, subject to the limitation that the figure of 200,000 balls shall be used as the maximum quantity of the domestic product in calculating the standard ratio between such quantities of domestic production and imports for the purpose of issuing import licences under the provisions of the Industrial Products Act.

D. Acetic Acid and Wood Preservative

The Working Party was informed that the Government acetic acid factory and other private factories were established in 1942 for the economic utilization of a by product from coccanuts which were an important indigenous primary commodity.

The domestic demand for acetic acid by the rubber industry amounts to 600 tons per annum.

The Ceylon representative stated that it was planned to expand the production of acetic acid to 400 tons per year in the course of the next five years.

The potential demand for the by product wood preservative was high but there was difficulty in finding a ready market for it owing to established consumer preference for imported products.

The Working Party agreed that the measure in respect of both acetic acid and wood preservative was eligible under paragraph 7 of Article XVIII. Some members agreed to this in regard to the acetic acid, because they felt that it fulfilled the requirements of sub-paragraph 7 (a) (i), while others felt that it was justified more appropriately
under sub-paragraph 7 (a) (iii). The measure relating to wood preservative was regarded as fulfilling the provisions of sub-paragraph 7 (a) (iii). The Working Party recommends that a release be granted under paragraph 7 for a period of five years, subject to the limitation that the figure of 400 tons shall be used as the maximum quantity of the domestic product in calculating the standard ratio between such quantities of domestic production and imports for the purpose of issuing import licences under the provisions of the Industrial Products Act.

E. Shark liver oil

The Ceylon representative stated that this was a product of the Government drugs factory which had been established in 1943 and its development had been stimulated by the abnormal conditions resulting from the war. Production had increased from 1944 until 1947 but after 1947 a sharp fall occurred as a result of foreign competition. The problem facing the industry was essentially one of marketing, rather than of price differential. When the local product gained the confidence of local consumers, it was believed that the industry would be firmly established and there would be an assured market for the expected output of 3,000 gallons per annum. The Working Party agreed that the measure in respect of this item was eligible under paragraph 7 fulfilling the conditions of sub-paragraph 7 (a) (i). The representative of Ceylon amended the original application with regard to the period for which a release was sought from 5 years to 4 years.

The Working Party recommends that a release be granted under paragraph 7 for a period of four years, subject to the limitation that the figure of 3,000 imperial gallons shall be used as the maximum quantity of the domestic product in calculating the standard ratio between such quantities of domestic production and imports for the purpose of issuing import licences under the provisions of the Industrial Products Act.

G. Miscellaneous Rubber Products

The representative of Ceylon stated that the six private companies established before the last war produced an aggregate of 175 tons of miscellaneous rubber products and it had been planned to expand production to 250 tons per year.
Since rubber is an indigenous raw material readily available in Ceylon, the Working Party agreed that the measure in respect of this item fulfilled the conditions of paragraph 7 (a) (iii) and was therefore eligible under paragraph 7. The Working Party recommends that a release be granted under paragraph 7 for the application of the measure for a period of 5 years subject to the limitation that the figure of 250 tons shall be used as the maximum quantity of the domestic product in calculating the standard ratio between such quantities of domestic production and imports for the purpose of issuing import licences under the provisions of the Industrial Products Act.

H. Paper

The representative of Ceylon stated that production is being developed and that a new factory equipped with modern machinery was being set up and would be ready for production late in 1951. The production would be 4,500 tons of printing and writing paper and 530 tons of brown paper.

The existing plants and the new factory would use straw and fibres of the native weed called " " for raw material which would otherwise be wasted. In view of the hydraulic power and salt available locally, it was hoped that even the necessary chemicals used by the industry would be locally produced in the near future.

The measure was necessary to ensure the industry that protection would be available when the expansion in output began to take effect in 1951.

The Working Party agreed that the measure was eligible under paragraph 7 by virtue of the provisions of sub-paragraph 7 (a) (iii). The Ceylon representative requested that since protection from the measure would not take effect until two years from the date of division the period for which the measure should be permitted should be six years.

The Working Party recommends that a release be granted under paragraph 7 for the period of six years, subject to the limitation that the figure of 4,500 tons of writing and printing paper and 530 tons of brown paper shall be used as the maximum quantity of the domestic product in calculating the standard ratio between such quantities of domestic production and imports for the purpose of issuing import licences under the provisions of the Industrial Products Act.
I. Brassware

The representative of Ceylon stated that the traditional cottage industry manufacturing brassware had been under governmental support in recent years. Expansion of the industry had been contemplated to raise output to ____ tons per year. The Working Party was requested to consider the application in respect of this item under sub-paragraph 7 (a) (iii) on the ground that scrap brass was used as raw material. The Working Party, however, agreed that brass scrap is not an indigenous raw material and therefore the provisions of sub-paragraph 7 (a) (iii) were inapplicable. The representative of Ceylon amended the original application and requested that the item be considered under the provisions of paragraph 8 of the Article.

As a preliminary step contracting parties were requested in GATT/CP.3/65 to inform the Chairman of the CONTRACTING PARTIES whether they were materially affected and if so intended to lodge an objection.

J. Ink.

The representative of Ceylon stated that the Ceylon Government is encouraging production of ink to meet increasing demand. It was envisaged that annual production of ink would reach 25,000 gallons if adequate protection was afforded to the industry for the next few years. He pointed out that the industry used domestic gall nuts and vegetable barks which were available in abundant quantities and were suitable for the manufacture of ink and for no other purpose. The Working Party agreed that the measure was eligible under the provisions of sub-paragraph 7 (a) (iii). The Ceylon representative amended the application requesting release for a period of 4 years instead of 5 years.

It is recommended that a release be granted for the application of the measure for a period of four years subject to the limitation that the figure of 25,000 gallons shall be used as the maximum quantity of the domestic product in calculating the standard ratio between such quantities of domestic production and imports for the purpose of issuing import licences under the provisions of the Industrial Products Act.