

Working Party 6 on
Article XVIII Applications

25 November 1955

APPLICATION OF CEYLON WITH RESPECT TO
PETROLEUM PRODUCTS

Second Part of Draft Report of the Working Party

7. The Working Party next examined the application of Ceylon for a release under Article XVIII so as to permit Ceylon for a period of ten years to impose a quantitative restriction on the importation of specified petroleum products if at any time this should prove necessary in order to ensure the successful development and operation of the domestic petroleum refinery which Ceylon proposes to establish. In considering this request the Working Party had available to it Ceylon's application and supporting statement (SECRET/55, 7 November 1955), and the text of the relevant regulation under The Import and Export Control (Continuation) Act which would provide the government with the necessary authority to act if the release is granted (W.10/8). It also had the text of the additional supporting statement made in the plenary session of 14 November 1955 by the Leader of the Ceylon delegation (W.10/11).

8. The representative of Ceylon explained that the three petroleum companies which presently distribute petroleum products in Ceylon had agreed at the request of the Government to commence to build a refinery with a capacity in 1956 of 900,000 tons rising by 1966 to 1,050,000 tons. In order to induce these companies and a fourth company to invest the necessary capital in this large undertaking, the Government of Ceylon was required to guarantee that quantitative restrictions on imports would be applied if this should prove necessary to ensure the refinery a market for its output. The companies, on the other hand, had agreed that products would be sold in Ceylon at a price not exceeding the landed cost of similar products. This would ensure that consumers in Ceylon obtained these products at prices not exceeding prevailing world prices.

9. Ceylon applied for the release under paragraphs 6 and 7 of Article XVIII. With respect of paragraph 6 it was established that the products are not included in Ceylon's Schedule, that any measures that might be applied would be applied in a non-discriminatory manner and that the release requested was for ten years. The Ceylon Government is not committed to protect the companies against imports after that time.

10. With respect to paragraph 7(a) the representative of Ceylon explained that sub-paragraph (i) was not applicable because the industry is not yet in existence and that sub-paragraphs (ii) and (iii) would not apply since the refinery must import crude oil. The Working Party was, therefore, asked to examine the application in terms of sub-paragraph (iv).

11. The Working Party examined, with the representative of Ceylon, the possibility of using some other measure than a quantitative restriction in order to accomplish the purpose desired. The representative of Ceylon explained that the agreement reached with the companies was on the basis of the use of quantitative import restrictions. This had been considered necessary for a number of reasons. It was not at all certain that restrictions would ever need to be applied since it was expected that the refinery could compete successfully with normal imports, and the companies had in fact guaranteed to supply the products to consumers in Ceylon at prices not exceeding world prices. The right to impose a quantitative restriction, therefore, was necessary only in the event that abnormal competition might be encountered. The representative of Ceylon explained that unless and until the refinery was capable of meeting all of the domestic demand a tariff would have the effect of increasing prices to consumers and would lead to an increase in the general level of costs in the country. Furthermore, continuous limitations on imports might not prove necessary.

12. Finally, the representative of Ceylon assured the Working Party that Ceylon would, in applying the proposed measure, fully observe the provisions of sub-paragraph (b) of paragraph 7.

13. In the light of this discussion the Working Party recommends that the CONTRACTING PARTIES grant to Ceylon the requested release and submits the following decision for adoption by the CONTRACTING PARTIES:

RELEASE GRANTED TO CEYLON UNDER PARAGRAPH 7
OF ARTICLE XVIII REGARDING PETROLEUM PRODUCTS

The CONTRACTING PARTIES

DECIDE to grant a release to Ceylon under Article XVIII, paragraphs 6 and 7(a)(iv) from its obligations under Article XI in respect of the petroleum products mentioned in the following paragraph for a period of ten years so as to permit Ceylon to apply a quantitative restriction on the importation of such products whenever this is necessary to enable the domestic petroleum refinery, with a maximum capacity of 1,050,000 tons, to market its products, provided that Ceylon will not use this authority in such a way as to enable the domestic refinery to sell these petroleum products at above the landed cost in Ceylon of like products.

The products covered by this release are: motor gasoline, kerosene, aviation turbine fuel, gas oil, marine diesel fuel, furnace oil and heavy fuel oil.