

(I) FOREIGN TRADE

Overall Trends

Export earnings, which had been improving steadily from the low levels reached in 1963, showed a marked decline in 1966. The value of Ceylon's exports in 1966 amounted to Rs. 1,700 million, a decline of Rs. 249 million or 13 per cent as compared with the preceding year.

The value of imports, increased sharply during 1966. This is to some extent explained by the increased imports received under the commodity and project aid programmes. The value of imports at Rs. 2,028 million exceeded the previous year's level by Rs. 554 million or 38 per cent.¹

The figure of total imports overstates considerably the value of imports actually received during 1966. While in 1965 the Customs records of imports of rice, flour and sugar, understated the Food Commissioner's actual imports of these commodities by Rs. 249 million, in 1966 they overstated the Food Commissioner's imports of these commodities by Rs. 121 million.

If aggregate imports for 1965 and 1966, as recorded in the Customs data are adjusted to reflect the actual imports received by the Food Commissioner, the value of total imports in 1965 would be increased to Rs. 1,723 million from Rs. 1,474 million and in 1966, it would be reduced to Rs. 1,907 million from Rs. 2,028 million. On this basis, the value of imports in 1966 exceeded the previous year's level by Rs. 184 million or 11 per cent.

The balance of trade, as reflected in the Customs data, thus recorded a substantial deficit of Rs. 328 million. This position contrasts sharply with that of the preceding year, when a sizeable surplus of Rs. 475 million was recorded. On the basis of adjusted data the surplus for 1965 would be about Rs. 226 million, while the deficit for 1966 will be reduced to Rs. 207 million.²

Table II (I) 1 gives data on Ceylon's foreign trade, as recorded in the Customs Returns.

(1) The figure of aggregate imports needs to be interpreted with caution. As pointed out in the Annual Reports for 1963, 1964 and 1965, there could be considerable differences between the value of imports actually received and cleared from the Customs in any time period and their value as reflected in the Customs entries, from which Customs data are derived, if there was a significant interval between the clearance of imports and the passing of the relative customs entries. This consideration has particular relevance to Government imports, and more particularly to imports of rice, flour and sugar, which account for a considerable proportion of aggregate imports. The extent of the difference between actual imports of these three commodities and their imports as reflected in the customs recorded data is discussed at some length in the paragraphs that follow. Since October, 1966 action has been taken by the Treasury to eliminate these shortcomings.

(2) Please refer to Table II (I) 10 at Page 155 and the subsequent paragraphs.

TABLE II (I) 1

Foreign Trade 1960 - 1966

Year	Rupees Million			Index Numbers (1958=100)				
	Exports* (f.o.b.)	Imports (c.i.f.)	Balance of Trade	Volume		Price		Terms of Trade
				All Exports	All Imports	All Exports	All Imports	
1960 ...	1,832	1,960	-128	103	113	104	102	102
1961 ...	1,733	1,703	+ 30	107	91	95	101	94
1962 ...	1,808	1,660	+148	115	92	93	95	98
1963 ...	1,731	1,490	+241	111	79	93	105	89
1964 ...	1,876	1,975	- 99	119	105	93	107	86
1965 ...	1,949	1,474	+475	125	77	95	109	88
1966 ...	1,700	2,028	-828	114	107	90	119	76

Sources : Ceylon Customs Returns,
Central Bank of Ceylon.

* Include re-exports.

The aggregate volume of exports which had continued to expand during the years 1964 and 1965, received a serious set back in 1966. The Central Bank's index of export volumes at 114 (base 1958 = 100) represented a fall of 9 per cent below the preceding year. The average price of exports, which had shown no variation during the years 1962 to 1964, rose slightly by 2 per cent in 1965. This tendency was, however, reversed in 1966, when the average price index declined by 5 per cent to 90. Thus, the sharp decline in the value of exports during 1966 is accounted for by a contraction in the aggregate volume of exports and a fall in their average price.

The years 1961 to 1965, with the exception of 1964, witnessed relatively low levels in the volume of imports. In 1964, however, the aggregate volume showed a marked increase, which tendency was reversed in 1965. The year 1966, witnessed a further increase, the aggregate volume index (as measured by the Central Bank Trade Indices, base 1958 = 100) at 107, indicating a rise of 39 per cent over 1965. The average price of imports, which had been rising steadily since 1962, continued its upward trend during 1966, the Bank's index of import prices at 119 rising by 9 per cent over the previous year. The sharp expansion in the value of imports during this year is thus, partly the result of an increase in the aggregate volume of imports and partly the result of a rise in their average price.

Ceylon's terms of trade (as measured by the Central Bank Trade Indices) which had been deteriorating since 1962, showed a slight improvement of the order of 1 per cent in 1965. The year 1966, however, witnessed a reversal of this relationship, when the terms of trade declined sharply by 13 per cent from 88 to 76.

Exports

The sharp decline in export earnings by Rs. 249 million was due mainly to a decline of Rs. 183 million in earnings from tea and Rs. 79 million from the three major coconut products. Earnings from rubber exports, however, increased by Rs. 33 million. Table II (I) 2 gives the composition of exports and their relative importance.

TABLE II (I) 2
Composition of Exports

Commodity	Value in Rupees Million						
	1960	1961	1962	1963	1964	1965	1966
Tea	1,096	1,115	1,149	1,140	1,142	1,210	1,027
Rubber	378	260	290	257	290	304	337
3 major coconut products ...	184	202	227	198	273	275	196
Other domestic exports ...	117	104	100	110	137	127	116
Total domestic exports ...	1,775	1,681	1,766	1,705	1,842	1,916	1,676
Re-exports	57	52	42	26	34	33	24
Total	1,832	1,733	1,808	1,731	1,876	1,949	1,700

Source : Ceylon Customs Returns.

The volume of exports declined by 9 per cent compared with 1965. The decline in the volume of exports was due mainly to a decline in exports of the principal foreign exchange earner, tea, which exports declined by 54 million pounds or by 11 per cent. The average f.o.b. price of tea registered a sharper decline than in the preceding year, and at Rs. 2.33 per pound was 12 cents per pound or 5 per cent lower than in 1965. Consequently, receipts from tea, declined sharply by Rs. 183 million or by 15 per cent. The share of tea export earnings in total exports fell from 62 per cent to 60 per cent.

Earnings from rubber, on the other hand, increased by Rs. 33 million or 11 per cent. This was due entirely to an increase of 12 per cent in the volume of exports. The average f.o.b. price of all grades of rubber was Rs. 1.13 per pound, a decline of one cent per pound compared with the preceding year. The share of rubber in aggregate earnings increased to 20 per cent, and was 4 per cent more than in 1965.

Receipts from the three major coconut products fell by Rs. 79 million or 29 per cent. This decline was partly the result of a fall of 20 per cent in their aggregate volume and partly the result of a fall of 10 per cent in their average price (as measured by the Central Bank Trade Indices). The share of these products to aggregate export earnings declined to 12 per cent from 14 per cent a year earlier.

Earnings from other domestic exports, which had declined by Rs. 10 million or 7 per cent in 1965, declined further by Rs. 11 million or 9 per cent in the year under review. Exports of coir fibre at Rs. 38 million, declined by Rs. 12 million or 24 per cent due to a fall of 12 per cent in the volume exported and a fall in prices. The average f.o.b. price of bristle fibre declined by 18 per cent, that of mattress fibre fell by 12 per cent. The value of exports of cinnamon at Rs. 30 million showed an increase of Rs. 1 million or 3 per cent, which is wholly the result of an increase of 7 per cent in their average f.o.b. price. Exports of cocoa at Rs. 6 million recorded an increase of Rs. 2 million or 50 per cent, due to an increase of 50 per cent in the volume of exports which more than off-set a decline in prices. Their average f.o.b. price at Rs. 139 per cwt. declined by 11 per cent. The value of re-exports at Rs. 24 million has shown a significant decrease of Rs. 9 million or 27 per cent below the preceding year. This decrease was due mainly to a reduction in re-exports of bunkers which declined by Rs. 6 million or 26 per cent.

Tea

In 1966 tea production amounted to 490 million pounds. This was, however, 13 million pounds or 3 per cent lower than the all-time record of 503 million pounds harvested in the preceding year. The major factor responsible for this decline was the adverse weather conditions particularly the drought during the Uva season in June and during the third quarter of the year. The decline in output affected medium and high grown teas whose output declined by 5.5 million and 11.5 million pounds respectively. Production of low grown teas increased by 4.0 million pounds. The Table II (I) 3 gives the production, exports and volumes sold in the Colombo and London Auctions.

TABLE II (I) 3

**Production, Exports and Quantities sold at the
Colombo Auctions and quantities shipped to London Auctions**

Million Pounds					
Year	Production	Exports		Quantity sold at the Colombo Auctions	Quantity shipped direct to U.K. on account of London Auctions
		Customs Data	Actual Shipments		
1965	503	495	472	368	125
1966	490	441	441	359	108

Tea exports in 1966, declined by 54 million pounds or 11 per cent below that of 1965. This decline reflected a reduction of 9 million pounds or 7 per cent in the quantities sold at the Colombo Auctions and of 17 million pounds or 14 per cent in

the quantity of tea shipped direct to the U.K. to the London Auctions. Stocks of manufactured tea in Ceylon rose during the year and at 31st December, 1966 stood at 82 million pounds, compared with stocks of 69 million pounds at the end of the previous year.

Colombo Auctions

Following the weakening in world tea markets the average annual price of all grades of tea sold at the Colombo auctions declined by as much as 18 cents per pound or 10 per cent below that of the preceding year to Rs. 1.57 per pound. Although tea prices of all three elevational groups declined there were marked differences in the degree of decline experienced by each of the individual grades. High-growns declined the least, *viz.* by 9 cents per pound or 5 per cent, while the medium-growns declined by 20 cents per pound or 12 per cent. The sharpest decline, however, was among the low-growns, whose average at Rs 1.37 per pound was 27 cents per pound or 16 per cent lower than in 1965. Table II (I) 4 gives data on production, exports and prices of tea.

TABLE II (I) 4
Tea-Production, Exports and Prices

Year	Production	Exports		Average Colombo Auction Nett Price Rupees per pound			
	Quantity	Quantity	F.o.b. Price	High grown	Medium grown	Low grown	All Teas
	Mn. lbs.	Mn. lbs.	Rs. per lb.				
1960	435	410	2.67	2.03	1.75	1.83	1.88
1961	455	426	2.62	1.99	1.72	1.74	1.83
1962	467	452	2.54	2.02	1.61	1.56	1.75
1963	485	456	2.50	1.90	1.54	1.53	1.68
1964	482	456	2.51	1.93	1.58	1.49	1.68
1965	503	495	2.45	1.93	1.66	1.64	1.75
1966	490	441	2.33	1.84	1.46	1.37	1.57
1965 1st Quarter	115	115	2.44	2.14	1.71	1.58	1.81
2nd Quarter	151	129	2.52	1.82	1.61	1.59	1.67
3rd Quarter...	105	141	2.39	1.96	1.66	1.66	1.76
4th Quarter...	132	110	2.44	1.82	1.63	1.73	1.73
1966 1st Quarter...	129	111	2.42	2.04	1.61	1.62	1.76
2nd Quarter	146	135	2.40	1.70	1.39	1.40	1.50
3rd Quarter...	97	119	2.24	1.79	1.43	1.27	1.50
4th Quarter...	118	76	2.20	1.82	1.46	1.15	1.48

Sources : Administration Reports of the Tea Controller,
Ceylon Customs Returns,
Colombo Tea Brokers' Association.

Reduced purchases by U.K., U.S.S.R., the People's Republic of China and other Eastern European countries and the absence during the same periods, of certain Middle Eastern buyers (*viz.* U.A.R., Syria, Libya, Sudan etc). from the Colombo

auctions were major factors contributing to this deterioration in price. The average price of high-growns showed a decline of 10 cents per pound during the first quarter of the year, as compared to the corresponding quarter of 1965. With the close of the Dimbulla/Dickoya season and withdrawal of U.S.S.R. from the market, the prices on an average fell by 12 cents per pound to Rs. 1.70 per pound during the second quarter. Although prices improved during the third quarter, yet they were 17 cents per pound lower than that of the corresponding quarter of the previous year. In the final quarter, however, prices improved further and at Rs. 1.82 per pound showed no change over the corresponding quarter of 1965.

The average prices of medium growns, while following the trend of prices of high-growns, registered sharper declines. These prices declined by 10 cents per pound during the first quarter and by 22 cents and 23 cents per pound respectively, during the second and third quarters, and by 17 cents per pound in the last quarter, compared with the averages in the corresponding periods of the previous year.

Low-growns, however, fared very well during the first quarter and their average price rose by 4 cents per pound over the same quarter of 1965. This was in the main due to improved demand from the Middle Eastern buyers. The decline in prices began during the second quarter with the Iraqi Government Purchasing Board placing lower limits on their purchases at the auctions. This was further aggravated by the absence of U.A.R., the withdrawal of Libya from the Auctions and the absence of Syria from the market due to payments difficulties. A further factor which accelerated the decline in prices was the increased availability of plain teas at the Colombo auctions. Thus, low-growns which showed an improvement during the first quarter, thereafter registered progressive and sharp declines during the last three quarters declining by as much as 58 cents per pound during the final quarter.

With a view to rendering immediate relief to tea small-holders, who were receiving low prices for their green leaf, the Government introduced a special relief scheme with effect from 25th September, 1966, under which, a part or the whole of the export duty levied on tea (35 cents per pound at present) is refunded in respect of teas that fetch low prices at the Colombo auctions. In practice, all teas sold at these auctions are paid this rebate irrespective of whether they are to be exported or not.

This scheme provided for tea which fetched a price under Rs. 1.50 per pound at the Colombo auctions, to be paid a rebate amounting to the difference between Rs. 1.50 and the price realised at the auctions, subject to a maximum of 35 cents per pound. With a view to discouraging the production of inferior and poor quality teas, the rebate was not to be paid in respect of teas which realised a price less than 90 cents per pound at the auctions. To allow time for the small-holders to improve the quality of their tea, the lower limit below which no rebate was to be paid, was fixed at 70 cents per pound for the first four weeks during which this scheme was in operation, for the next four weeks, however, the lower limit was fixed at 80 cents per pound. At the end of this period, it was raised to 90 cents per pound.

In order to qualify for this rebate, a factory should in 1965, have manufactured at least 25 per cent of its total production or 100,000 pounds of made tea from bought leaf.

The scheme is similar to the one which was in operation during the period March 1958 to June 1959. The only difference was that in the 1958/59 price-support scheme, the maximum rebate payable on tea realising less than Rs. 1.50 per pound was 50 cents, while the lower limit below which no rebate was payable remained 60 cents per pound during the first three months of operation of this scheme. The limit was raised to 90 cents per pound towards the end of this period.

With effect from the sale of 29th November, 1966 the relief scheme was extended to include all estates. For the estates the lower limit for the payment of rebate was fixed at 90 cents per pound during the first three months, at the end of which period the lower limit was to be raised to Re. 1 per pound.

The operation of this scheme required that constant checks be carried out on bought leaf factories by the Tea Control Department, which resulted in the prices paid by factories purchasing green leaf from small-holders increasing on an average to 18 cents per pound from the low levels of 8 to 10 cents per pound reached in September 1966. The Scheme also required that the factory should reject the entire lot of tea even if only a part of it was coarse. As a result of this measure, tea brokers have reported an improvement in the quality of teas coming for auctions.

During the first stage, when this scheme was operated for the benefit of the small-holders only, strict checks were maintained by the Department on the re-sale of teas sold earlier at the auctions (to benefit several times from the rebate offered). With the extension of the scheme to all factories, it became a difficult task to maintain a close check on all factories but the bought leaf factories are still under check. The problem of selling the same tea over and over again was not as serious as it was in 1958/59. Some dealers and factories found guilty of this practice have had their licences cancelled.

Table II (I) 5 shows the quantity of teas sold at the Colombo auctions together with those teas on which the rebate was paid and the total amounts paid up to the end of December, 1966.

The cost of implementing this scheme during 1966 was Rs. 5.9 million. The House of Representatives passed a supplementary estimate for Rs. 10 million on 20th January, 1967 to cover the expenditure involved.

TABLE II (I) 5

The Tea Rebate Scheme Colombo Auctions

Date of Auction	Quantity of Tea sold (pounds)	Poundage on which rebate was paid	Tea Rebate paid (Rupees)
25. 9.1966	5,754,600	1,274,489	391,084.84
3.10.1966	5,080,200	1,049,189	336,698.15
10.10.1966	6,075,500	1,227,812	388,629.99
17.10.1966	5,781,200	1,126,587	358,807.16
24.10.1966	6,545,100	1,012,181	317,097.78
31.10.1966	6,219,600	1,045,088	381,686.06
14.11.1966	5,283,900	872,116	281,606.47
29.11.1966	5,912,100	2,571,637	728,220.24
12.12.1966	8,346,600	3,856,774	923,846.73
20.12.1966	7,895,600	3,513,921	984,261.05
28.12.1966	8,361,700	2,441,905	888,464.57
Total	71,206,100	19,491,049	5,930,397.99

Source : Tea Control Department.

London Auctions

The decline in the volume of tea exported to the London auctions was due to several causes, the major ones being the British Seamen's strike, the credit squeeze and the high level of stocks in the U.K. The British Seamen's strike and the strike by the Port workers in Colombo in support of the Ceylon Mercantile Union strike and the strike of the Trincomalee harbour workers all resulted in lower shipments of tea to the United Kingdom.

The downward drift in auction values at the London market was unarrested in 1966. The average price of all teas sold at this centre at 4 sh. 0.86d per pound showed a drop of 1.31d. This decline compares with a fall of 1.28d. per pound recorded in the previous year. Fluctuations in the price of tea during the first half of the year were limited and the market was sustained by the Seamen's strike. With the ending of the strike, however, values declined to the low level of 3sh. 4.75d in July 1966. The market, however, reaches its customary low level at this time of the year, with the last of the offerings of the previous North Indian Season coinciding with the seasonal falling off in the quality of Ceylon offerings. In August, with the arrival of the new season's crop the prices improved. This upward trend was continued in the three months following, when better quality Ceylon teas were on sale. The beginning of December brought an easier note to the London sales, however, the overall price of tea at the close of the year was above that of an year ago.

The average price of all grades of Ceylon tea sold at these auctions in 1966 amounted to 4 sh. 2.88d per pound, registering a small decline of 0.27d below the previous year despite the smaller quantity on offer. In 1965, however, this price had dropped by 2.70d per pound. The decline in the price of Ceylon tea of

0·27d. was accompanied by declines in the prices of North Indian and Shout Indian teas. The fall in the price of North Indian teas was only 0·16 d. per pound, while the price of South Indians teas declined by 8·77 d. per pound, as the fall in price affected plainer teas more than quality teas. The prices of tea from all the other producing territories with the exception of Kenya and Tanzania recorded substantial falls. Kenya and Tanzania, however, recorded some gains, probably due to some improvement in the quality of the teas marketed by them. Increased availability of plain teas from the other producing countries, viz. Malawi, Uganda, Portuguese East Africa, Mauritius, Malaya, Argentina and Vietnam accounted for the sharp declines in their prices. While the quantity of North Indian and South Indian teas sold at the London auctions during this year at 141 million pounds and 20 million pounds respectively, declined by 16 million pounds and 8 million pounds respectively, the quantity of Ceylon tea sold at these auctions at 107 million pounds fell by 13 million pounds.¹ The quantity of African teas sold at these Auctions, at 58 million pounds, however, increased by 21 million pounds.

Factors which resulted in lower prices at the London auctions during the year were, the larger crops being harvested in the major producing countries, and the higher level of supply in the U.K. (as measured by the level of stocks there). Persistently the level of stocks kept above the 1965 levels until the middle of October, when for the first time they fell below their corresponding level in the preceding year. At the end of the year, these stocks amounted to 143 million pounds² or 10 million pounds less than at the end of 1965 presumably due to the credit squeeze in U.K. The supply aspect of tea cannot be ignored. World production in 1966 was well ahead of the 1965 figure by about 44 million pounds. The greatest increase has been recorded in East Africa, where production increased by 27 million pounds, while Indian production increased by 20 million pounds. Past experience indicate that the annual increases in production are being absorbed more by the producing countries themselves — India having the biggest internal market — than by the traditional importing countries. If not for this development, the effect on international prices would have been more serious. The International Tea Committee's estimates indicate that in 1965 world supply of tea exceeded world absorption by 14 million pounds.³ The Committee did not make any estimates for 1966 due to tardy release of official figures. Indonesia too has joined the People's Republic of China in blacking out data relating to her production and exports, thus making it impossible to assess the difference between world supply and absorption.

Rubber

Production of rubber during 1966 amounted to 289 million pounds, representing an expansion of 28 million pounds or 11 per cent. The increase in output was

-
- (1) Tea Market Report No. 748 of December 23, 1966 of the Tea Brokers' Association of London.
 - (2) Tea Market Report No. 749 of January 6, 1967, of the Tea Brokers' Association of London.
 - (3) International Tea Committee's Supplement to Annual Bulletin of Statistics 1966.

due to favourable weather conditions and high yields obtained from the replanted areas now coming into bearing. The volume of exports which had risen by 14 million pounds or 6 per cent in 1965, rose steeply in 1966 by 31 million pounds or 12 per cent to 298 million pounds. In the Colombo Market the annual average price of R.S.S. No. 1 declined by 2 cents per pound or 2 per cent to 89 cents per pound when compared with the annual average for 1965.

The following Table gives data on production, exports and prices of rubber in recent years.

TABLE II (I) 6
Rubber — Production, Exports and Prices

Year	Production Mn. lbs.	Exports Mn. lbs.	F.o.b. Price Rs. per lb.	Colombo Market Price of R.S.S. No. 1 Sheet Rs. per lb.
1960	218	235	1.61	1.24
1961	215	197	1.32	1.01
1962	229	224	1.29	0.98
1963	231	209	1.23	0.93
1964	246	253	1.15	0.90
1965	261	267	1.14	0.91
1966	289	298	1.18	0.89

*Sources : Administration Reports of the Rubber
Controller,
Ceylon Customs Returns,
Colombo Rubber Traders' Association.*

In the international markets during 1966 natural rubber met with increasing demand which tended to exceed availabilities, yet prices were low and the market was characterised by uncertainty ; owing to the increased output of synthetics and the existence of excess capacity in the synthetics industry. Production of synthetic rubber in 1966 has been estimated at 3,270,000 tons, which represents an increase of 255,000¹ tons or 8 per cent over 1965, while consumption at 3,215,000 tons shows an increase of 240,000 tons or 8 per cent over 1965. Production of natural rubber on the other hand has been estimated by the International Rubber Study Group at 2,305,000 tons, a decline of 22,500 tons or 1 per cent below 1965 and demand at 2,515,000² tons shows an expansion of 160,000 tons or 7 per cent over last year.

Apart from the reasons outlined above, increased quantities released from the United States stock pile, for monthly sales since March 21, 1966³, together with slackening in purchases owing to financial and economic difficulties in some countries, particularly in the United Kingdom, contributed to the decline in prices of natural rubber in the international markets. In the London market the price of spot R.S.S. No. 1 sheet reached the low point of 1 sh. 6d. per pound in September 1966. There was a similar drop in the Singapore market, where the f.o.b. price

(1) Rubber Statistical Bulletin page 20. Table 21 and Public Ledger, 31st December, 1966.

(2) Public Ledger 31st December, 1966.

(3) Natural Rubber News, July, 1966, page 4.

of R.S.S. No. 1 sheet reached 59·69 straits cents ; lowest since 1954. The annual average price of spot R.S.S. No. 1 sheet rubber in the London market declined by 1 19/32*d.* to 1*sh.* 7 27/32*d.* The Singapore market f.o.b. price for R.S.S. No. 1 sheet at 65·41 straits cents per pound registered a drop of 4·61 straits cents below the previous year.

Coconut Products

In the World market, prices of all edible oils after reaching the peak levels in 1965, showed a downward trend in 1966 and reached very low levels ; under pressure of heavy supplies. Increased supplies of copra and coconut oil particularly from Philippines and Indonesia, led to a decline in prices.

The Colombo Market prices for these products followed the trend in world markets. During January 1966 the market showed some improvement for all three products, with prices well above those of the previous month; thereafter prices tended to decline and reached the lowest levels for the year at Rs. 167·47 per candy of copra and Rs. 960·63 per ton of coconut oil in October, 1966. Desiccated coconut reached the lowest point for the year of Rs. 0·38 per pound in November, 1966. The annual average price at the Colombo market for Estate No. 1 copra at Rs. 196·16 per candy represented a decline of Rs. 7·86 or 4 per cent, coconut oil at Rs. 1,159·44 per ton reflected a fall of Rs. 108·53 or 9 per cent and desiccated coconut at Rs. 0·47 per pound registered a drop of Rs. 0·05 per pound or 11 per cent.

In 1966, the aggregate volume of exports of the three major coconut products declined sharply by 20 per cent below the level of the previous year. This short-fall in exports was due mainly to a fall in Coconut production which was adversely affected by drought in the previous year. Among the three major coconut products the volume of exports of copra reflected the sharpest drop of 402 thousand cwts or 49 per cent, while coconut oil and desiccated coconut declined by 281 thousand cwts or 16 per cent and 111 thousand cwts or 11 per cent respectively.

The prices of all three products registered declines during 1966. The average f.o.b. price of coconut oil and desiccated coconut declined steeply by 10 per cent and 16 per cent respectively. The f.o.b. price of copra, however, declined only slightly by 1 per cent.

Table II (I) 7 gives data on exports and prices of the three major coconut products.

TABLE II (I) 7

Major Coconut Products — Exports, Volume and Prices

Year	Volume				F.O.B. Prices		
	Coconut Oil	Copra	Desiccated Coconut	Total (in terms of nut equivalent) Mn. nuts	Coconut Oil	Copra	Desiccated Coconut
	Th. Cwt.	Th. Cwt.	Th. Cwt.		Rs. per ton	Rs. per Candy*	Rs. per lb.
1960 ...	1,110	583	1,099	976	1,436.60	276.15	0.58
1961 ...	1,837	1,100	967	1,355	1,163.20	217.35	0.44
1962 ...	2,043	1,448	981	1,530	1,101.60	203.70	0.51
1963 ...	1,621	862	967	1,208	1,220.80	227.75	0.55
1964 ...	2,351	1,162	1,030	1,618	1,308.40	237.20	0.53
1965 ...	1,738	819	1,041	1,270	1,661.80	296.30	0.71
1966 ...	1,457	417	930	1,017	1,489.00	294.60	0.60

* 1 Candy = 5 Cwts.

Source : Ceylon Customs Returns

Imports

As pointed out earlier, the sharp increase of Rs. 554 million in the total value of imports to Rs. 2,028 million, reflected in the Customs records, needs to be interpreted with reservation. The figure of total imports overstates the changes in the value of imports actually received during this year and understates the value of imports in the preceding year. For example, in the 'food and drink' sub-group of consumer goods imports, the Customs figure of imports of rice, flour, and sugar at Rs. 583 million, has exceeded the value of imports of these commodities actually received by the Food Commissioner by Rs. 121 million. In the preceding year the Customs data understated the value by Rs. 249 million.¹ Adjusting for these differences the estimated value of imports was Rs. 184 million higher due mainly to increased imports under the foreign aid programmes.

The Table II (I) 8 gives the value of imports during 1966 under the First and Second Foreign Aid Programmes.

Imports under these programmes which totalled Rs. 132.10 million was the major factor resulting in an increase in imports. Of the total imports under these programmes the major portion represented arrivals under the First Aid Programme introduced in 1965, and were valued at Rs. 116.50 million while arrivals under the

(1) Please refer to Table II (I) 10 at Page 155 and the subsequent Paragraphs.

TABLE II (I) 8
Commodity Aid Programmes — Arrivals in 1966

Rupees Million

Countries	Consumer Goods		Intermediate and Investment Goods		Total		Grand Total
	First Programme	Second Programme	First Programme	Second Programme	First Programme	Second Programme	
Australia ...	—	4.58	—	—	—	4.58	4.58
Germany, Federal Republic of ...	—	—	33.62	—	33.62	—	33.62
India ...	11.16	—	—	—	11.16	—	11.16
Japan ...	6.38	6.38	10.31	—	16.69	6.38	23.07
United Kingdom ...	—	—	25.81	2.04	25.81	2.04	27.85
U.S.A. ...	15.77	—	—	—	15.77	—	15.77
Canada ...	8.88	—	4.57	—	13.45	—	13.45
France ...	—	—	—	2.60	—	2.60	2.60
Total ...	42.19	10.96	74.31	4.64	116.50	15.60	132.10

Source : Ministry of Planning and Economic Affairs.

Second Aid Programme were only Rs. 15.60 million. Eight countries provided aid under these two programmes. As much as Rs. 74.31 million of the Rs. 116.50 million worth of aid under the First Aid programme consisted of Intermediate and Investment goods and Rs. 42.19 million consisted of consumer goods. Under the Second Aid Programme Rs. 4.64 million worth of Intermediate and Investment goods arrived in 1966 out of a total of Rs. 15.60 million imported under both Programmes. The balance of Rs. 10.96 million consisted of consumer goods.

Table II (I) 9 gives a breakdown of imports by major categories and commodities or groups of commodities, as reflected in the Customs Returns.

The expansion in imports is concentrated in the category of 'consumer goods', imports of which have increased by Rs. 382 million or 49 per cent over the preceding year. While Imports of 'intermediate goods' have shown an expansion of Rs. 56 million or 14 per cent, those of 'investment goods' have increased by Rs. 100 million or 38 per cent.

The sharp rise in imports of 'consumer goods' is accounted for very largely by increased imports of 'food and drink'. These imports have increased by Rs. 352 million or 58 per cent, due mainly to Customs entries relating to government imports of rice, flour and sugar increasing in the aggregate by Rs. 270 million or 86 per cent. The changes in actual imports of these commodities, however, differed from the Customs entries and showed a decline as set out in the subsequent sections. Imports of 'milk and milk products' have at Rs. 77 million, shown no change over the previous year, while meat and fish have increased by

TABLE II (I) 9

Imports by Major Categories and Commodities or Groups of Commodities, 1960-66.

	Value in Rupees Million							Percentage of Total Imports						
	1960	1961	1962	1963	1964	1965	1966	1960	1961	1962	1963	1964	1965	1966
1. Consumer Goods ...	1,195	972	906	781	1,263	779	1,161	61.0	57.1	54.6	52.4	63.9	52.8	57.2
of which— A. Food and drink ...	752	672	630	629	1,008	604	956	38.4	39.5	38.0	42.2	51.0	41.0	47.1
(i) Rice ...	242	217	195	192	326	144	367	12.3	12.7	11.7	12.9	16.5	9.8	18.1
(ii) Flour ...	65	69	71	60	137	98	113	3.3	4.1	4.3	4.0	6.9	6.6	5.6
(iii) (a) Sugar, refined ...	65	77	56	70	185	71	103	3.3	4.5	3.4	4.7	9.4	4.8	5.1
(b) Sugar, other (i.e. sakkarai, jaggery and sugar candy) ...	14	1	2	3	2	1	2	0.7	0.1	0.1	0.2	0.1	0.1	0.1
(iv) Milk and milk products ...	72	66	76	77	94	77	77	3.7	3.9	4.6	5.2	4.8	5.2	3.8
(v) Meat, fish and eggs ...	115	77	62	65	74	61	101	5.9	4.5	3.7	4.4	3.7	4.1	5.0
of which— (a) Fish dried (excluding Maldivian fish but including dried prawns) ...	85	46	26	49	52	43	75	4.3	2.7	1.6	3.3	2.6	2.9	3.7
(b) Fish, other ...	20	23	30	12	17	13	19	1.0	1.4	1.8	0.8	0.9	0.9	0.9
(c) Meat and meat preparations ...	6	5	5	4	5	5	4	0.3	0.3	0.3	0.3	0.3	0.3	0.2
(d) Eggs ...	4	3	1	...	...	...	...	0.2	0.2	0.1	...	...	...	...
(vi) Food, other ...	132	133	139	139	164	124	170	6.7	7.8	8.4	9.3	8.3	8.4	8.4
of which— (a) Potatoes ...	19	20	22	26	25	18	24	1.0	1.2	1.3	1.7	1.3	1.2	1.2
(b) Grams and Pulses ...	42	42	45	39	51	39	64	2.1	2.5	2.7	2.6	2.6	2.6	3.1
(c) Onions ...	19	21	20	22	26	21	20	1.0	1.2	1.2	1.5	1.3	1.4	1.0
(d) Chillies ...	37	33	36	38	46	30	43	1.9	1.9	2.2	2.6	2.3	2.0	2.1
(vii) Drink and manufactured tobacco ...	14	10	5	5	3	2	2	0.7	0.6	0.3	0.3	0.2	0.1	0.1
B. Textiles (including clothing) ...	196	172	149	83	165	107	119	10.0	10.1	9.0	5.6	8.4	7.3	5.9
C. Other Consumer Goods ...	247	128	127	69	90	68	86	12.6	7.5	7.7	4.6	4.6	4.6	4.2
of which— (i) Motor Cars ...	53	8	2	2	3	3	3	2.7	0.5	0.1	0.1	0.2	0.2	0.1
(ii) Watches and Clocks ...	31	3	2	...	...	...	...	1.6	0.2	0.1	...	...	...	...
(iii) Radio receivers ...	12	3	1	...	...	1	...	0.6	0.2	0.1	...	...	0.1	...
(iv) Rubber tyres and tubes ...	9	7	8	5	4	7	5	0.5	0.4	0.5	0.3	0.2	0.5	0.2
(v) Medicinal and pharmaceutical products ...	32	27	25	20	26	21	35	1.6	1.6	1.5	1.3	1.3	1.4	1.7
2. Intermediate Goods ...	397	383	409	372	397	414	470	20.3	22.5	24.6	25.0	20.1	28.1	23.2
of which— (i) Fertilizers ...	58	57	60	68	78	88	91	3.0	3.3	3.6	4.6	3.9	6.0	4.5
(ii) Petroleum products ...	124	127	126	119	93	109	130	6.3	7.5	7.6	8.0	4.7	7.4	6.4
(iii) Coal ...	17	9	9	9	12	10	3	0.9	0.5	0.5	0.6	0.6	0.7	0.1
(iv) Chemical elements and compounds ...	28	27	33	32	37	30	36	1.4	1.6	2.0	2.1	1.9	2.0	1.8
(v) Dyeing, tanning and colouring materials ...	12	11	15	10	12	9	13	0.6	0.6	0.9	0.7	0.6	0.6	0.6
(vi) Tea and other chests ...	13	14	16	15	15	12	18	0.7	0.8	1.0	1.0	0.8	0.8	0.9
(vii) Paper and Paperboard ...	35	32	32	27	35	28	50	1.8	1.9	1.9	1.8	1.8	1.9	2.5
(viii) Yarn and thread ...	25	23	22	13	22	41	42	1.3	1.4	1.3	0.9	1.1	2.8	2.1
(ix) Unmanufactured tobacco ...	11	12	10	9	7	9	8	0.6	0.7	0.6	0.6	0.4	0.6	0.4
3. Investment Goods ...	355	339	337	324	305	261	361	18.1	19.9	20.3	21.7	15.4	17.7	17.8
of which— (i) Building materials ...	100	89	100	77	93	54	70	5.1	5.2	6.0	5.2	4.7	3.3	3.4
of which— (a) Cement ...	18	22	20	18	15	17	20	0.9	1.3	1.2	1.2	0.8	1.2	1.0
(ii) Transport equipment ...	118	100	92	100	58	96	116	6.0	5.9	5.5	6.7	2.9	6.5	5.7
(iii) Machinery and equipment ...	119	138	133	138	145	100	162	6.1	8.1	8.0	9.3	7.3	6.8	8.0
4. Total (Items 1, 2 and 3) ...	1,947	1,694	1,652	1,477	1,965	1,454	1,992	99.3	99.5	99.5	99.1	99.5	98.6	98.2
5. Unclassified imports ...	13	9	8	13	10	20	36	0.7	0.5	0.5	0.9	0.5	1.4	1.8
6. Total Imports ...	1,960	1,703	1,660	1,490	1,975	1,474	2,028	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ceylon Customs Returns.

TABLE II (I) 10

Customs Data adjusted for Food Commissioner's Imports

	Value in Rupees Million	
	1965	1966
1. Consumer goods	1,028	1,040
of which—		
A. Food and Drink	853	835
(i) Rice	342	266
(ii) Flour	186	121
(iii) Sugar, refined	84	75
B. Textiles (including clothing)	107	119
C. Other consumer goods	68	86
2. Intermediate goods	414	470
3. Investment goods	261	361
4. Unclassified imports	20	36
5. Total	1,723	1,907

Rs. 40 million or 66 per cent. In this sub-group the entire increase is accounted for by increased imports of dried fish and other fish preparations. In respect of 'food other' (which includes potatoes, grams, pulses and curry stuffs) the value of imports increased by Rs. 46 million or 37 per cent.

Table II (I) 10 above gives the factual position after adjusting the Customs data for Food Commissioner's actual imports of rice, flour, and sugar.

On the basis of the adjusted data, total imports in 1966 expanded by Rs. 184 million or 11 per cent. This expansion in imports has been shared by the three major categories of imports. Although, imports of 'consumer goods' increased by Rs. 12 million or 1 per cent over the preceding year, their share in total imports at 55 per cent, declined by 5 per cent. Imports of 'intermediate goods' have shown an expansion of Rs. 56 million or 14 per cent, their share in total imports has increased by 1 per cent to 25 per cent, while those of 'investment goods' increased by Rs. 100 million or 38 per cent. The share of 'investment goods' in total imports has risen to 19 per cent, and was 4 per cent higher.

In the consumer goods category, imports of 'food and drink' declined while those of 'textiles' and 'other consumer goods' expanded.

The Table II (I) 11 illustrates the volumes, values and the average c and f prices of Food Commissioner's and Customs recorded imports of rice, flour and sugar in respect of the years 1965 and 1966.

It will be seen from these data that in 1966, the Food Commissioner's actual aggregate imports of rice, flour and sugar have at Rs. 462 million declined considerably by Rs. 100 million or 18 per cent below the preceding year. While the value of the Food Commissioner's imports of rice at Rs. 266 million in 1966 fell short of his

TABLE II (I) 11

Customs entries and actual imports of rice, flour and sugar.

	Food Commissioner's Data				Customs Data			
	1965	1966	Change		1965	1966	Change	
			Abso- lute	%			Abso- lute	%
Rice								
Quantity : Th. tons ...	642	494	-148	-23.1	276	682	+406	+147.1
Value : Rs. Mn. ...	342	266	-76	-22.2	144	367	+223	+154.9
c. & f. price : Rs. per ton ...	532.56	538.45	+ 5.89	+ 1.1	523.81	537.60	+ 13.79	+ 2.6
Flour								
Quantity : Th. tons ...	312	264	- 48	-15.4	211	237	+ 26	+ 12.3
Value : Rs. Mn. ...	136	121	- 15	-11.0	98	113	+ 15	+ 15.3
c. & f. price : Rs. per ton ...	436.02	458.79	+ 22.77	+ 5.2	464.51	479.00	+ 14.49	+ 3.1
Sugar								
Quantity : Th. tons ...	218	233	+ 15	+ 6.9	158	304	+146	+ 92.4
Value : Rs. Mn. ...	84	75	- 9	-10.7	71	103	+ 32	+ 45.1
c. & f. price : Rs. per ton ...	385.85	323.86	- 62.49	-16.2	450.33	338.00	-112.33	- 24.9
Total value of rice, flour and sugar : Rs. Mn. ...	562	462	- 100	-17.8	313	583	+270	+ 86.3

Sources : Food Commissioner's Department,
Ceylon Customs Returns.

previous year's imports by Rs. 76 million or 22 per cent, those of flour and sugar declined much less sharply and at Rs. 121 million and Rs. 75 million respectively, were Rs. 15 million or 11 per cent and Rs. 9 million or 11 per cent less than in 1965.

The sharp decline in the value of rice imports during the year was due to a fall of 148 thousand tons or 23 per cent in volume of imports of this commodity, the effect of which more than offset an increase of Rs. 6 per ton or 1 per cent in their average c and f prices. The volume of imports of rice was high in 1965 as local production had fallen due to the cyclone and adverse weather conditions. Imports of rice in 1966 was, however, less than the quantities contracted for, as supplies from Burma were 80 thousand tons less than the quantities contracted for due to difficulties which she faced in meeting commitments.

Similarly the decline in the value of imports of flour is explained by a fall of 48 thousand tons or 15 per cent in the quantity imported. While the average c and f price at Rs. 459 per ton registered an increase of Rs. 23.00 per ton over 1965. This increase in price reflected the higher prices paid for Australian flour.

The drop in the value of imports of sugar, on the other hand, was wholly the result of a fall of Rs. 62 per ton or 16 per cent in average c and f price (Rs. 323 per ton), the effect of which more than off-set an expansion of 15 thousand tons or 7 per cent in the volume of imports,

As regards the other two sub-groups of 'consumer goods', imports of 'textiles' have increased by Rs. 12 million or 11 per cent, their share in total imports at 6 per cent showed no variation over the previous year. Imports of 'other consumer goods', on the other hand, increased by Rs. 18 million or 26 per cent, while their share in total imports increased to 5 per cent from 4 per cent a year earlier. Imports of 'medicinal and pharmaceutical products' increased by Rs. 14 million or 67 per cent, while those of 'rubber tyres and tubes' have fallen by Rs. 2 million or 29 per cent.

In the 'Intermediate goods' category imports of 'petroleum products' amounted to Rs. 130 million, representing an increase of Rs. 21 million or 19 per cent over the previous year. While the total quantity of these imports at 308 million gallons has expanded by 19 per cent, their average c.i.f. price at 41 cents per gallon has shown no variation from 1965. Imports of 'fertilizers' have increased by Rs. 3 million or 3 per cent. The volume of these imports has increased slightly by 3 per cent, while their average c.i.f. price at Rs. 285 per ton has risen by 2 per cent. Imports of 'paper and paperboard' expanded sharply by Rs. 22 million or 86 per cent over 1965. Other significant changes in this category include increases in imports of 'chemical elements and compounds', 'dyeing, tanning and colouring materials' and 'tea and other chests' by Rs. 6 million or 20 per cent, Rs. 4 million or 44 per cent and Rs. 6 million or 50 per cent respectively.

In the 'investment goods' category, imports of all the three constituent sub-groups have shown marked expansion. While imports of 'building materials' and 'transport equipment' increased by Rs. 16 million or 30 per cent and Rs. 20 million or 21 per cent respectively, imports of 'machinery and equipment' expanded more sharply by Rs. 62 million or 62 per cent.

The Central Bank's index of aggregate import volume based on customs entries rose sharply during the year and at 107 (base 1958 = 100) indicated a rise of 39 per cent over the previous year. The separate indices for the major categories of imports show that this expansion in volume was shared by all the three major categories of imports, *viz.*, consumer goods, intermediate goods and investment goods. While the index of consumer goods rose by 55 per cent to 99, the indices of intermediate and investment goods rose by 10 per cent and 36 per cent to 149 and 102 respectively. Within the consumer goods category, the expansion took place only in the 'food and drink' and 'textiles' sub-groups, whose indices rose by 68 per cent to 131 and by 19 per cent to 68 respectively. The index of 'other consumer goods' however, declined by 10 per cent to 26.

The average price of imports, which rose during the three years preceding, rose further during 1966. The Bank's index of import prices averaged 119 during 1966 and was 9 per cent higher than in the previous year. The price indices for the major categories of imports show that, while the index of consumer goods rose by one per cent to 111 the indices of intermediate goods and investment goods rose by 11 per cent and 40 per cent respectively to 91 and 185 respectively. Within the consumer goods category, though the price index for the cereal group rose by 3 per cent and those of grams and pulses and currysuffs by 16 per cent and 4 per

cent respectively, the effect of these increases were off-set by declines of 6 per cent and 15 per cent respectively in the price indices of milk and milk products and other food, so that the index of ' food and drink ' as a whole at 108 showed no change over 1965. The price index of ' other consumer goods ' at 132 increased by 10 per cent, while that of ' textiles ' declined by 8 per cent to 96.

Developments in the Port of Colombo

External trade has been favourably affected by the appreciable improvement in the movement of cargo that took place in the Port of Colombo during the year.

In spite of an increase of 25 per cent in the number of vessels entering the Port during the year, there was a very appreciable acceleration, in the turn-round of these vessels, the average duration of their period of stay in the Port declining from 10.1 days in 1965 to 7.5 days in 1966, an improvement of 26 per cent.¹ There was also an expansion of 6 per cent in the total volume of cargo handled by the Port. While the volume of export cargo increased by 9,459 shipping tons or one per cent, that of import cargo increased more markedly by 169,963 shipping tons or 6 per cent over the previous year.²

Pattern of Trade

During 1966 Ceylon's export values to all the principal monetary areas and regions showed declines of varying magnitude. Imports from all these areas and regions, on the other hand, increased in value.

Table 86 in Appendix II gives the Pattern of Trade by principal monetary areas and regions.

1. The following are particulars of the turn-round of vessels in the Port of Colombo in 1966, as compared with 1965—

Turn-round of General Cargo Vessels 1965 and 1966				
Year	No. of vessels (over 50 tons)	Average waiting period for berth per vessel from arrival to commencement of operations (days)	Average working period per ship (days)	Average period of stay per vessel (days)
1965	504	2.04	8.03	10.07
1966	632	0.47	7.02	7.5

Source : Port (Cargo) Corporation

2. The following are particulars of the tonnage handled by the Port of Colombo during each quarter of the year, as compared with the corresponding quarter of 1965—

Import and Export Cargoes				Shipping Tons	
	1965	1966	Absolute	Change	%
1st Quarter	653,191	746,429	+ 93,238		+ 14.3
2nd Quarter	788,349	774,607	— 13,742		— 1.7
3rd Quarter	724,864	758,044	+ 33,180		+ 4.6
4th Quarter	709,387	776,133	+ 66,746		+ 9.4
Year	2,875,791	3,055,213	+ 179,422		+ 6.2

Source : Port (Cargo) Corporation.

Exports to the Sterling area during the year amounted to Rs. 846 million, a decrease of Rs. 156 million or 16 per cent below the preceding year. This area's share of Ceylon's total exports at 50 per cent also declined slightly by one percent. Imports from the area at Rs. 904 million increased sharply, *viz.*, by Rs. 219 million or 32 per cent. However, the area's share of Ceylon's total imports at 45 per cent showed a slight decline of 2 per cent. The balance of trade with the area recorded a deficit of Rs. 58 million in contrast to a surplus of Rs. 317 million in 1965. Exports to the Dollar Area at Rs. 196 million, declined by Rs. 31 million or 14 per cent, while imports from the area at Rs. 113 million also increased by Rs. 49 million or 77 per cent. The Area's share of total exports at 12 per cent showed no variation from 1965, while its share of total imports at 6 per cent increased by 2 per cent. The trade surplus with the area amounted to Rs. 83 million which was Rs. 79 million lower than in 1965.

Exports to the Commonwealth at Rs. 686 million, declined by Rs. 152 million or 18 per cent, while imports from the Commonwealth at Rs. 740 million rose sharply, *viz.*, by Rs. 142 million or 24 per cent. The shares of the Commonwealth in Ceylon's total exports and imports amounted to 40 per cent and 38 per cent respectively, the former declining by 3 per cent and the latter by 5 per cent, as compared with the previous year. The balance of trade with the Commonwealth recorded a deficit of Rs. 54 million, as against a surplus of Rs. 239 million a year earlier.

Exports to the European Economic Community amounted to Rs. 120 million, declining by Rs. 35 million or 21 per cent over the preceding year. Imports from the Community, on the other hand, at Rs. 220 million expanded by Rs. 40 million or 22 per cent. The Community's shares of total exports and imports at 8 per cent and 11 per cent respectively, declined by one per cent and 2 per cent respectively. The balance of trade with the Community which had shown a deficit of Rs. 16 million in 1965, deteriorated further during the year, the deficit for the year amounting to Rs. 91 million. Exports to countries of the European Free Trade Association at Rs. 426 million declined by Rs. 92 million or 18 per cent, while imports at Rs. 382 million increased sharply by Rs. 88 million or 30 per cent. However, the Association's shares of total exports and imports, at 25 per cent and 19 per cent respectively, fell by 2 per cent and one per cent respectively. The surplus of trade with these countries, which in 1965 had amounted to Rs. 224 million, declined to Rs. 44 million in the year under review.

Exports to countries of the ECAFE amounted to Rs. 433 million, a drop of Rs. 19 million or 4 per cent over the preceding year. Imports, on the other hand, at Rs. 986 million increased sharply by Rs. 335 million or 51 per cent. While the region's share of total exports at 25 per cent increased by 2 per cent, its share of total imports at 49 per cent rose by 5 per cent over the previous year.

Trade with the People's Republic of China

During 1966 there was an appreciable increase in the turnover of Ceylon's trade with the People's Republic of China, exports during the year increasing by

Rs. 5 million or 3 per cent and imports much faster, *viz.*, by Rs. 103 million or 90 per cent. The balance of trade showed a deficit of Rs. 40 million as against a surplus of Rs. 58 million in 1965.

Rubber continued to be the principal export to China, the value of which exports during the year at Rs. 163.6 million increased by Rs. 36.3 million or 29 per cent over 1965. The quantity of rubber exported amounted to 132.9 million pounds (60,267 metric tons). Exports of tea, which in 1965 had amounted to Rs. 23.3 million declined sharply by Rs. 19.7 million or 85 per cent to Rs. 3.6 million in 1966. Exports of coconut oil at Rs. 9.8 million, showed a marked decline of Rs. 11.4 million or 54 per cent.

Ceylon's principal import from China continued to be rice, imports of which (according to customs data) during 1966 amounting to Rs. 117.5 million, a fall of Rs. 12.9 million or 10 per cent below the previous year. The protocol for 1966 under the Trade and Payments Agreement with China provided for the importation during that year of 200,000 metric tons of rice against exports from Ceylon of 41,000 metric tons of rubber. Imports of textiles, another major item of imports in recent years, expanded by Rs. 19.6 million or 77 per cent to Rs. 44.9 million during this year. Imports of sugar accounted for Rs. 27.7 million or 27 per cent of imports of this commodity from all sources. Other imports included dried chillies (Rs. 5.7 million) and Textile machinery (Rs. 2.3 million).

Trade with the U.S.S.R. and Eastern Europe

The year 1966 witnessed a further expansion in Ceylon's turnover of trade with the U.S.S.R. and Eastern Europe. As compared with the preceding year, exports to the region declined by Rs. 20.0 million or 11 per cent while imports from the region rose by Rs. 30.1 million or 17 per cent. The balance of trade with the region showed a deficit of Rs. 48.5 million as against a small surplus of Rs. 1.6 million recorded in 1965. The value of Ceylon's trade with this region accounted for 10 per cent of her total foreign trade.

As in the preceding years, the U.S.S.R. continued to be Ceylon's principal Customer of the region, accounting for Rs. 82.1 million or 53 per cent of total exports to the region. The decline of Rs. 15.1 million or 16 per cent in the value of exports to the U.S.S.R. was in large measure due to declines in exports of Tea and Rubber. While exports of rubber, which constituted the principal export for the year, declined by Rs. 4.7 million or 13 per cent those of tea fell much more sharply, *viz.*, by Rs. 13.7 million or 39 per cent. Exports of coconut oil, however, expanded sharply and at Rs. 22.5 million were Rs. 6.8 million or 43 per cent higher than in 1965. Exports to Poland, which amounted to Rs. 24.8 million or 16 per cent of total exports to the region, increased slightly by Rs. 0.2 million or 1 per cent. As in the previous years, rubber was the principal export, accounting for Rs. 19.7 million and increasing by Rs. 3.9 million or 25 per cent over 1965. Exports of tea which amounted to Rs. 4.1 million in 1965 declined to Rs. 1.0 million in the year under review. Exports to the German Democratic Republic, declined slightly by Rs. 0.5 million to Rs. 19.1 million and accounted for 12 per cent of total exports to the region. Exports of the three major coconut products accounted

for nearly 92 per cent of these exports. While exports of coconut oil at Rs. 12·0 million showed no change over the previous year, those of desiccated coconut declined by Rs. 4·1 million or 58 per cent. A new item of export during the year was copra, a quantity of 2,000 tons valued at Rs. 2·6 million being shipped during this period. Exports to Rumania, which had amounted to Rs. 21·3 million in 1965, declined by Rs. 3·3 million or 15 per cent to Rs. 18·0 million or 12 per cent of total exports to the region. This decline was due to reduced exports of rubber, coconut oil and cocoa beans. While exports of rubber at Rs. 14·7 million declined by Rs. 0·5 million or 3 per cent, those of coconut oil and desiccated coconut declined by Rs. 1·3 million or 45 per cent and Rs. 0·8 million or 44 per cent respectively. Exports to Czechoslovakia totalled Rs. 4·9 million in 1966, an increase of Rs. 1·5 million or 44 per cent.

U.S.S.R. continued to be by far the largest supplier of imports from the region. Imports from the U.S.S.R. which totalled Rs. 116·0 million, recorded an increase of Rs. 16·1 million or 16 per cent over the preceding year. These imports accounted for 57 per cent of total imports from the region. As in the previous years, petroleum products constituted the principal import from the U.S.S.R. Imports of these products amounted to Rs. 72·8 million, increasing by Rs. 14·6 million or 25 per cent over 1965. Imports of petroleum products from the region as a whole amounted to Rs. 80·1 million or 62 per cent of total imports of these products from all sources. Other important items of import from the U.S.S.R. were tea chests (Rs. 12·3 million), sugar (Rs. 9·3 million) and cement (Rs. 8·6 million). Imports from Poland, which amounted to Rs. 32·0 million or 16 per cent of total imports from the region declined by Rs. 2·3 million or 7 per cent over the previous year. Sugar was the major import representing more than 80 per cent of these imports. Sugar was also the principal import from the German Democratic Republic. Total imports from the German Democratic Republic totalled Rs. 5·2 million and was Rs. 8·6 million lower than in the previous year. Sugar imports from the region represented 42 per cent of total sugar imports from all sources. Imports from Czechoslovakia amounted to Rs. 15·6 million, an increase of Rs. 5·1 million. Imports of paper and paper board and machinery and appliances which were negligible in 1965 increased to Rs. 1·9 million and Rs. 5·2 million respectively during 1966. Imports of cement from the region as a whole amounted to Rs. 15·0 million or 75 per cent of imports of this commodity from all sources. Imports from Rumania, which had increased by Rs. 4·4 million in 1965, rose further by Rs. 15·6 million to Rs. 28·3 million in 1966. This expansion was in the main due to a three-fold increase in imports of cement from Rs. 1·8 million to Rs. 6·4 million. Imports of sugar from Rumania during the year accounted for Rs. 7·0 million.

Bilateral Clearing Accounts

Table II (I) 12 gives the net aggregate quarterly position of bilateral clearing accounts maintained in terms of the Payment Agreements concluded by Ceylon with the People's Republic of China, the U.S.S.R. and certain countries in Eastern Europe and the Middle East.

TABLE II (I) 12

Bilateral Clearing Accounts

Net Aggregate Quarterly Position of Accounts 1960-66

Rupees Million

Net Position at end	China, U.S.S.R. and other Eastern European Countries*		Middle East Countries**		Total	
	Credit	Debit	Credit	Debit	Credit	Debit
1960 March ...	—	18.9	—	—	—	18.9
June ...	—	2.6	—	—	—	2.6
September ...	—	13.3	—	—	—	13.3
December ...	—	26.5	—	—	—	26.5
1961 March ...	—	39.4	—	—	—	39.4
June ...	—	25.5	—	1.7	—	27.2
September ...	11.8	—	—	1.9	9.9	—
December ...	10.6	—	—	5.4	5.2	—
1962 March ...	—	6.9	—	7.0	—	13.9
June ...	—	42.8	—	10.7	—	53.5
September ...	—	22.8	—	10.8	—	33.1
December ...	—	7.3	—	5.4	—	12.7
1963 March ...	—	0.2	—	2.7	—	2.9
June ...	12.2	—	0.6	—	12.8	—
September ...	—	6.5	2.1	—	—	4.4
December ...	31.1	—	3.1	—	34.2	—
1964 March ...	52.3	—	—	0.3	52.0	—
June ...	58.4	—	2.4	—	60.8	—
September ...	59.1	—	—	1.9	57.2	—
December ...	57.0	—	—	5.5	51.5	—
1965 March ...	57.9	—	—	5.0	52.9	—
June ...	12.1	—	—	8.7	3.4	—
September ...	—	46.6	—	6.6	—	53.2
December ...	—	25.3	—	5.8	—	31.1
1966 March ...	—	49.3	—	13.2	—	62.5
June ...	—	6.8	—	3.3	—	9.6
September ...	—	27.7	—	1.8	—	29.5
December ...	8.1	—	—	3.7	4.4	—

Source : Central Bank of Ceylon.

* Bulgaria, Czechoslovakia, German Democratic Republic (Eastern Germany), Hungary, Poland, Rumania, Yugoslavia (From March, 1965) and Democratic People's Republic of Korea (from March, 1965).

** United Arab Republic, Iran (upto October, 1964) and Syria.

Note : Credit=Due from Ceylon.

Debit=Due to Ceylon.

Developments in Commercial Policy

Import Control

During 1966 certain Ayurveda, Siddha, Unani and proprietary drugs, were brought under individual import licences. This meant that with the exception of—

- (a) *bona fide* gifts in favour of individuals or institution, where the c.i.f. value does not exceed Rs. 250/- per individual or institution per year, provided that the gifts are for personal use and not for commercial purposes,

and (b) books, pamphlets, newspapers and periodicals for personal use, where the c.i.f. value does not exceed Rs. 50/- per person or institution per consignment,

all other imports have been brought under the frame work of individual import licensing arrangements.

Foreign Exchange Budget

As in 1965, in 1966, a Foreign Exchange Budget was formulated to provide for import allocations amounting to an aggregate value of Rs. 2,389 million on the basis of export forecasts and foreign commodity aid to the value of \$ 100 million.

This programme includes Rs. 30 million for 'no exchange' licences issued for marine and aviation fuel and lubricants, and the following amounts of project aid :—

Government Departments Rs. 74 million.

Industrial Corporations Rs 38 million.

Non-Industrial Corporations Rs. 12 million.

Excluding project aid and 'no exchange' licences, the following table gives the import programmes for 1966.

TABLE II (I) 13
Import Programme 1966 (provisional)

		Rupees Million			
		1965 Final	1966*		
			Original allocation	Revised allocation	Licences Issued
		(1)	(2)	(3)	(4)
Food Commissioner's Import	...	602	504	504	504
Government Departments and non-industrial corporations	...	214	247	268	252
Petroleum	...	114	90	96	96
Cement	...	18	26	20	18
Fertilizer	...	91	95	102	97
Drugs	...	25	25	25	25
Textiles	...	101	125	125	124
Manufacturing Industries	...	231	390	390	336
Subsidiary foodstuffs	...	306	317	319	325
General Trade quotas	...	218	255	260	241
Direct user imports	...	46	85	78	68
Tied Imports	...	100	—	—	—
Contingencies and freight increases	...	—	75	—	—
Total	...	2,067	2,234	2,186	2,086

Source : Ministry of Planning & Economic Affairs, based on Import Control Statistics.

* Excludes project aid and 'no exchange' licences issued.

The allocations were revised from time to time in the light of continuing assessments of import requirements and the Balance of Payments situation. Several allocations were released subject to the negotiation of aid. Licences issued were smaller compared to allocations released due to the non-availability of aid for financing certain categories of imports. This problem arose mainly in respect of the Industrial sector imports and General Trade Quota imports. The same arose in regard to fertilizers, as nearly Rs. 16 million of fertilizer imports put up for aid financing during the second half of 1966, did not materialise. However, due to urgent need for fertilizers, short-term financing was arranged for Rs. 12 million and licences issued. Licences issued in respect of subsidiary foodstuffs, however, exceeded the allocations released due to revalidation of licences issued earlier.

Export Incentive Scheme

On 1-12-1966 an Export Incentive Scheme administered by the Commissioner of Commodity Purchase came into operation. The purpose of this scheme is to increase exports from Ceylon by providing incentive to exporters of certain specified goods in the form of import entitlements to the value of 20 per cent of the f.o.b. value, provided such exports yield 25 per cent f.o.b. value, as nett foreign exchange. The import quota is in the form of a voucher, is transferable and can be utilised for the import of trade quota commodities approved by the Government. The Scheme applies to minor export commodities grouped under industrial exports and non-industrial exports. All industries approved by or registered with the Development Division of the Ministry of Industries are eligible to qualify for import entitlement voucher under the export incentive scheme. The non-industrial export goods, under the scheme are tobacco and mica. The other possible exports which are under consideration are flowers, spices, medical herbs, sauces, pickle, fruit juices, fish products, gems, tourist earnings and citronella oil.

Tariffs

Export duties :— On May 29, 1966 the duty on cocoa was reduced from Rs. 25·00 per 100 pounds to Rs. 5·00 per 100 pounds.

Import duties

With the introduction of the budget for the financial year 1966/67, import duties on a wide range of items like hydrochloric acid, gases, hydrogen peroxide, other chemicals, electrical appliances, electrical lighting accessories, food and drink, newsprint, and small and medium motor cars were reduced ; while import duties were increased on items like sulphuric acid, artificial leather, asbestos, chemicals, processed films (reduced later), dyes and dyestuffs, cable wire, electrical lamp bulbs, glasses, hides and skins, instruments and appliances, metals, wire, oils and fats, rubber manufactures and suitcases. Further the duties on certain items like butter, camphor, yeast, turpentine and industrial talc, were converted from ad valorem, to specific duties.

The net effect of these changes in import duties was estimated to be an additional revenue of Rs. 15 million.

Another important measure introduced with the budget was a levy of an import licensing fee of ten per cent on the value of all textile imports, this includes

the quantities imported under direct user licences too. This measure was estimated to yield an additional revenue of Rs. 10 million.

Trade Agreements.

Syrian Arab Republic.— A new Trade Agreement with the Syrian Arab Republic was entered into on October 9, 1966, replacing the earlier agreement concluded on December 23, 1960. The new agreement, which was of the permissive type, was to be initially valid for one year, but would be automatically extended for an additional period of one year. It provided for revised schedules of goods to be exchanged between the two countries. The agreement also provided for the appointment, when necessary, of a mixed committee of representatives of both countries to consider problems arising from the implementation of this arrangement. It was followed by an exchange of letters, which dealt specifically with the payments provisions and was to facilitate the implementation of the provisions of the trade agreement. In terms of these letters, all transactions between the two countries were to be routed through clearing accounts, denominated in pound sterling, to be established with the Central Banks of the two countries.

United Arab Republic.— On November 8, 1966 a new Trade Agreement was entered into with the United Arab Republic, which replaced the Trade and Payments Agreement of December 23, 1960. It was to be initially valid for one year from November 23, 1966, with provision for automatic extensions for further periods of one year each. The agreement listed in separate schedules the exports of the two countries, trade in which was to be promoted in accordance with the import and export regulations in force from time to time in each country. There is provision for the appointment of a joint committee to consider problems arising from this agreement. It was also accompanied by an exchange of letters in terms, of which Ceylon agreed to purchase from U.A.R. during 1966/67 goods to the value of £ 2.5 million. The U.A.R. agreed to purchase from Ceylon goods of a similar value.

People's Republic of China.— A protocol relating to the exchange of commodities for the year 1967, in terms of the Trade and Payments Agreement signed with the People's Republic of China on October 8, 1962, was signed on November 29, 1966. In terms of this protocol the two countries agreed to expand trade to an approximate value of Rs. 140 million either way. This agreement included specific undertakings for the purchase, on the part of China, of 48,000 metric tons of sheet rubber of an approximate value of Rs. 116 million, and, on the part of Ceylon, of 200,000 metric tons of rice of like value.

Poland.— By an exchange of letters, which took place on December 28, 1966 the Governments of Ceylon and Poland agreed to allow the bartering of 1,000 tons of tea valued at approximately £ 300,000 for textiles of like value, within the framework of the Trade and Payments Agreement of November 27, 1959. This Agreement was to be initially valid for one year commencing from December 1, 1966 but may be extended for a further period by mutual agreement. Payments resulting from the above transactions, were to be settled entirely in the form of exchange of commodities stated earlier. In terms of this agreement the specified transaction between the two countries were to be routed through special clearing accounts, denominated in pounds sterling to be established with their respective Central Banks. It also provided for a reciprocal swing credit of £ 300,000.