

(K) INTERNATIONAL TRADE**I. Balance of Trade**

According to provisional Customs records, earnings from exports (inclusive of re-exports) rose from Rs. 2,617 million in 1973 to Rs. 3,472 million in 1974, an increase of Rs. 855 million or 33 per cent while the value of imports rose more sharply from Rs. 2,715 million in 1973 to a very high level of Rs. 4,554 million in 1974, an increase of Rs. 1,839 million or 68 per cent. As a result, Sri Lanka's balance of trade had an overall deficit of Rs. 1,082 million in 1974. This is the highest overall deficit ever recorded. The only other year that had a trade deficit close to this was 1969 when the recorded deficit was Rs. 627 million. In marked contrast, the deficit in the trade balance in 1973 was only Rs. 98 million. As a percentage of total export earnings the deficit increased from 2.7 per cent in 1972 to 3.7 per cent in 1973 and to 31.2 per cent in 1974.

TABLE II (K) I
Foreign Trade 1960—1974

Year	Rupees Million			Index Number (1967=100)				Terms of Trade
	Exports* (f.o.b.)	Imports (c.i.f.)	Balance of Trade	Volume		Prices		
				All Exports	All Imports	All Exports	All Imports	
1960	1,832	1,960	— 128	87	133	122	83	148
1961	1,733	1,703	+ 30	90	107	112	82	136
1962	1,808	1,660	+ 148	97	108	109	77	142
1963	1,731	1,490	+ 241	93	93	109	85	129
1964	1,876	1,975	— 99	102	114	111	105	105
1965	1,949	1,474	+ 475	105	86	113	100	112
1966	1,700	2,028	— 328	96	118	107	98	109
1967	1,690	1,738	— 48	100	100	100	100	100
1968	2,035	2,173	— 138	103	101	117	126	93
1969	1,916	2,543	— 627	98	108	117	134	88
1970	2,033	2,313	— 280	102	102	118	140	84
1971	1,947	1,986	— 39	99	90	117	150	78
1972	2,009	2,064	— 55	97	88	118	157	75
1973	2,617	2,715	— 98	98	79	137	209	65
1974	3,472	4,554	— 1,082	85	56	213	370	58

* Including re-exports

Sources: Customs, Sri Lanka;
Central Bank of Ceylon

In rupee terms, overall earnings from the three main traditional exports, viz. tea, rubber and coconut products, showed an increase of Rs. 497 million as compared with Rs. 305 million in 1973. In 1974, earnings from tea rose by Rs. 99 million and earnings from rubber and the three main coconut products by Rs. 146 million and Rs. 252 million respectively. There has been a substantial increase in the value of other domestic exports (exclusive of gems) from Rs. 346 million in 1973 to Rs. 843 million in 1974. Earnings from gems fell from Rs. 141 million in 1973 to Rs. 109 million in 1974, while receipts from selected industrial exports rose by Rs. 280.6 million. The increase in foreign exchange earnings from other selected agricultural and non-industrial exports was in the region of Rs. 44.6 million in 1974.

The unprecedented increase in the value of imports considerably offset the gains from higher export earnings and the outcome was a very adverse balance of payments position. For example, the value of imports of consumer goods rose from Rs. 1,424 million in 1973 to Rs. 2,138 million in 1974, of which rice, flour and sugar alone accounted for Rs. 1,767 million or 39 per cent of total imports by Sri Lanka in 1974, as compared with 38 per cent in 1973. A sharp increase of Rs. 1,105 million took place in the value of imported intermediate goods as well. Higher payments on petroleum and fertilizer imports figure very largely in the import bill for intermediate goods. The increase in the import payments on goods other than foodstuffs and intermediate goods as compared to 1973 has been somewhat moderate.

Although expenditure on imports rose to very high levels there was a marked fall in the overall volume of imports in 1974. The Central Bank's volume index (1967=100) which was at 108 in 1969 continued to decline every year thereafter and the fall in 1974 alone was 23 points or 29 per cent. On the contrary, the price index for all imports (1967=100) increased steadily from 1966 to reach an all time high of 370 in 1974, which represents an increase of 77 per cent as compared to the previous year when the index was at 209.

The volume index for all exports declined by 13 per cent mainly on account of substantial shortfalls in exports of tea and rubber while the price index for exports rose from 137 in 1974 to 213 in 1974 mainly due to the general improvement in international primary commodity prices. However, the rise in the export price index was inadequate to offset the rise in the price index for imports. As a result, the import capacity or rather the terms of trade declined further from 65 in 1973 to 58 in 1974. The sharp increase in prices of main food items such as rice, flour and sugar, other essential commodities like crude oil, fertilizer and some other intermediate and investment goods was largely instrumental in forcing the terms of trade down to such a low level.

Discrepancies in Customs Data

There has been some improvement in the manner in which trade data have been compiled by the Customs Department. A concerted effort has been made to make such data available as early as possible. However, the Customs data, particularly the import figures, still need to be interpreted with care. In the first place, the value of imports actually cleared through the Customs differs considerably from their value as reported by the Customs. This is mainly due to the fact that while data are compiled from entries passed in a given month, some exports and imports so recorded could be effected in a different month, either before or after the entries have been made. Further, the data are either over or under-recorded and the extent of such misreporting can be ascertained to some extent by reference to actual imports or exports effected by some trading agencies.

On the other hand, Customs data have to be adjusted for actual imports by the Food Commissioner, the Petroleum Corporation and for imports of other items for which more reliable data are available. For example, in 1974, imports of rice, flour and sugar by the Food Commissioner have been under-recorded by the Customs by as much as Rs. 199.8 million and those of the Petroleum Corporation over-recorded by Rs. 43.4 million. Imports of rice, flour and sugar for 1974, according

to the Customs, were Rs. 720.5 million, Rs. 856.6 million and Rs. 189.9 million respectively, but the actual imports made by the Food Commissioner of these three commodities were Rs. 797.8 million, Rs. 938.4 million and Rs. 230.4 million respectively. Imports of petroleum products as recorded by the Customs have amounted to Rs. 904.8 million but the Petroleum Corporation reported a value of Rs. 920.3 million of which crude oil alone amounted to Rs. 861.4 million.

On the other hand, the Customs export figure of Rs. 342.1 million is the total of domestic bunkers (Rs. 260.4 million) imported bunkers (Rs. 0.5 million) and other petroleum products (Rs. 81.2 million), while the Petroleum Corporation's figure of Rs. 350.0 million consists of exports (Rs. 88.1 million) and marine bunkers (Rs. 216.8 million) and aviation fuel (Rs. 45.1 million). Furthermore, the value of gem exports, according to Customs, was Rs. 109.5 million but the State Gem Corporation has reported a value of Rs. 132.6 million.

TABLE II (K) 2
Adjustment of Trade Data

		(Rs. Million)	
		1973	1974
1. Total imports (Customs data)		2,714.7	4,554.3
2. Difference between Customs and Food Commissioner's declarations of imports of rice, flour and sugar		+ 69.4	+ 199.8
3. Difference between Customs and Petroleum Corporation's data regarding imports of petroleum products		- 21.4	+ 15.4
4. Total imports (adjusted)		2,762.7	4,769.5
5. Total exports (Customs data)		2,617.1	3,471.9
6. Difference between Customs and Gem Corporation's data regarding exports of gems		+ 12.0	+ 23.1
7. Difference between Customs and Petroleum Corporation's data regarding exports of Petroleum products		+ 0.7	+ 7.9
8. Total exports (adjusted)		2,629.8	3,502.9
9. Balance of Trade (adjusted)		- 132.9	- 1,266.6

Sources: Customs, Sri Lanka.
Food Commissioner's Department,
Petroleum Corporation,
State Gem Corporation.

In view of the above discrepancies, it has been the practice for the Central Bank to adjust the values of imports and exports that are shown in the Customs records. As a result of these adjustments, the total value of imports and exports would

amount to Rs. 4,769.5 million and Rs. 3,503 million respectively and the adjusted trade balance for 1974 would now reflect a deficit of Rs. 1,267 million (as against Rs. 1,082 million shown in the Customs records).

2. Exports

Details of earnings from the major export products for the past five years on the basis of unadjusted Customs data are given in Table II (K) 3. Since earnings given in Sri Lanka rupees do not reflect the real import capacity of the exports or their foreign exchange value, the same data are also presented in terms of the Special Drawing Rights (SDRs). Export values in terms of SDRs have been relatively more stable and therefore, serve as a more stable yardstick of measurement.

in rupee terms, earnings from all the major categories of exports excluding gems increased in varying degrees while the value of total export earnings in 1974 increased by Rs. 855 million or 33 per cent. Foreign exchange earnings in terms of SDRs¹ increased by 88 million or 26 per cent only².

The volume of tea exported declined very sharply in 1974 from 354 million pounds in 1973 to 387 million pounds along with the fall in production³. However, as a result of a marked improvement in the international market price for tea, export earnings rose to Rs. 1,360 million (an increase of Rs. 99 million or 8 per cent). The volume of rubber exports also declined sharply from 354.4 million pounds in 1973 to 283.1 million pounds in 1974, a shortfall of 71.3 million pounds or 20.1 per cent. Despite this, export earnings from rubber increased from Rs. 592 million in 1973 to Rs. 738 million in 1974 (an increase of Rs. 146 million or 25 per cent). The latter was solely due to the increase in the f. o. b. price from Rs. 1.67 per pound in 1973 to Rs. 2.61 per pound in 1974. The export value of all three major coconut products and fresh nuts increased from Rs. 145 million in 1973 to Rs. 397 million in 1974 (an increase of Rs. 252 million or 174 per cent). However, in the case of the volume exported there was an increase of 46 million nuts. Apart from this, the increase in the f. o. b. price (in terms of nut equivalent) from Rs. 0.34 in 1973 to Rs. 0.85 in 1974 also accounted for the increased earnings from coconut products. (When all coconut products including bristle and matterss fibre, and coconut shell charcoal are taken together, earnings are in the region of Rs. 537 million in 1974 or 15 per cent in terms of total export earnings.)

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1. The Central Bank uses the SDR for purposes of comparing trade statistics. For 1974, a provisional weighted average rate of 1 SDR = SL. Rs. 8.05 has been used.
 2. In terms of SDR's the foreign exchange outlay on imports is estimated to be in the region of 556 million an increase of SDR 210 million or 59 per cent. Hence, Sri Lanka's balance of trade recorded a deficit of SDR 135 million in 1974 and 31 per cent of total export earnings.
 3. The Customs figure of 386.8 million pounds of tea exported in 1974 is contested by the Tea Controller who arrives at a figure of 407.7 million pounds on the basis of the cess received. According to Tea Controller, "discrepancies have arisen in the months of January and February 1974, where the customs entries figure read 15 and 32 million pounds respectively, whereas the figures computed on the cess received are 34 and 36 million pounds respectively." Since production of tea in 1974 is 449 million pounds, he is of the opinion that the export figure of 407.7 million pounds is consistent with this production figure.

in the composition of Sri Lanka's exports in terms of value, for some time there has been a gradual decline in the importance of traditional exports. This has further accelerated in 1974. For example, as a percentage of exports, the three main traditional exports, viz. tea, rubber and coconut products, which accounted for about 89 per cent and 88 per cent in 1971 and 1972 respectively, have declined to 77 per cent in 1973 and further to 71 per cent in 1974. Even within the traditional

TABLE II (K) 3
Composition of Exports 1970-74

Commodity	Value in Rupees Million					Value in Million SDRS*				
	1970	1971	1972	1973	1974	1970	1971	1972	1973	1974
1. Tea ..	1,120	1,144	1,162	1,261	1,360	188.16	192.19	171.39	165.27	168.94
2. Rubber ..	440	307	265	592	738	73.92	51.58	39.08	77.59	91.68
3. Coconut Products										
breakdown of which	240	280	266	145	397	40.32	47.04	39.23	19.00	49.32
3.1 Copra ..	23	24	52	4	1	3.86	4.03	7.69	0.52	0.12
3.2 Coconut oil ..	116	149	132	27	141	19.49	25.03	19.47	3.54	17.52
3.3 Desiccated Coconut	98	103	78	111	252	16.46	17.30	11.50	14.55	31.30
3.4 Fresh nuts ..	3	4	4	3	3	0.50	0.67	0.59	0.39	0.37
4. Precious and Semi-Precious Stones	4	3	12	141	109	0.67	0.50	1.77	18.48	13.54
5. Other domestic exports ..	191	196	218	346	843**	32.09	32.93	32.15	45.35	104.72
Total domestic exports	1,995	1,930	1,993**	2,596**	3,447**	335.16	324.24	293.95	340.24	428.20
Re-exports ..	38	17	16	21	25	6.38	2.86	2.21	2.88	3.11
Total ..	2,033	1,947	2,009	2,617	3,472	341.54	327.10	296.31	342.99	431.30

Source: Customs, Sri Lanka

* Conversion rates used are as follows:

1970, 1971—SDR 1=Rs. 5.95; 1972—SDR 1=Rs. 6.78; 1973—SDR 1=Rs. 7.63; 1974—SDR 1=Rs. 8.05 (Provisional)

** Including value of bunkers

export sector there has been a change. The most notable feature is that the share of tea in traditional exports in value terms had fallen from 58 per cent in 1972 to 48 per cent in 1973 and further to 39 per cent in 1974.

The fall in the share of tea in total traditional exports is not due to a fall in export earnings from tea. In fact, earnings increased from Rs. 1,261 million in 1973 to Rs. 1,360 million in 1974 but the rate of increase in the value of other exports such as coconut products and other domestic exports was higher which resulted in the fall in the share of earnings from tea. Earnings from rubber increased in absolute terms but the share fell from 23 per cent to 21 per cent. The share of export earnings from coconut oil, copra, desiccated coconut and fresh nuts increased from 6 per cent in 1973 to 11 per cent in 1974 while other domestic exports mainly industrial and agricultural goods excluding gems rose sharply from 13 per cent to 24 per cent.

(A) Tea

Production

Two contrasting trends were evident in the tea industry in 1974. One was the continued fall in the production for the third successive year and the other the improvement in tea prices both in the Colombo and London auctions.

Tea production in 1974 at 449.8 million pounds registered a fall of 15.9 million pounds or 3.4 per cent when compared with 465.7 million pounds in 1973. Production has continued to show a declining trend since 1965 from a level of 503 million pounds (with the exception of an increase of 9 million pounds in 1968). Production in 1974 was the lowest since 1960 when 450 million pounds were harvested. Factors that affected production last year were the reduction in fertilizer application, the fragmentation of estates, the uncertainty arising from the Land Reform and to some extent unfavourable weather conditions.

The classification of output by elevational category shows that the fall in production in 1974 was almost entirely due to a fall in the production of low grown tea. While total production fell by 15.9 million pounds, the fall in production of low grown teas was 15.5 million pounds. The share of the low grown in total output declined from 28.6 per cent in 1973 to 26.1 per cent in 1974. As a result, shares of high grown and mid grown teas increased from 38.1 per cent and 33.3 per cent to 39.3 per cent and 34.6 per cent respectively.

TABLE II (K) 4
Tea Production by Elevational Category

	1972		1973		1974		Change in 1973 over 1972	Change in 1974 over 1973
	Volume (Mn. lbs)	%	Volume (Mn. lbs)	%	Volume (Mn. lbs)	%		
High grown ..	179.4	38.1	177.6	38.1	177.0	39.3	-1.8	- 0.6
Medium grown ..	165.2	35.1	155.3	33.3	155.4	34.6	-9.9	+ 0.1
Low grown ..	126.0	26.8	132.9	28.6	117.4	26.1	+6.9	-15.5
Total ..	470.6	100.0	465.8	100.0	449.8	100.0	-4.8	-16.0

Source: Tea Control Department.

According to the Tea Controller, 828 tea factories were in operation in 1974, and their classification in terms of elevational categories shows that there were 235 tea factories that manufactured high grown teas while 232 and 261 factories manufactured medium and low grown teas respectively. Of the total, 352 tea factories manufactured their own tea while 366 tea factories were engaged in the manufacture of their own teas as well as bought leaf. Another 74 factories manufactured only the bought leaf while 36 factories did not manufacture at all.

Local consumption of tea in 1974 is estimated at 45.2 million pounds or 10 per cent in terms of total production. A sum of Rs. 113.5 million has been spent by the government under the various subsidy schemes as follows: Tea Replanting Subsidy Scheme—Rs. 21.8 million; Rubber into Tea Replanting Subsidy Scheme—Rs. 0.4 million; Tea Factory Development Subsidy Scheme—Rs. 3.7 million; Tea Fertilizer Subsidy Scheme—Rs. 48.0 million; Tea Chest Subsidy Scheme—Rs. 38.6 million and Crop Diversification Subsidy Scheme—Rs. 1.0 million.

Exports

Table II (K) 5 contains data on production, export volume and the disposal of tea through the Colombo auctions, London auctions and 'private sales'. The volume of tea exported in 1974 at 387 million pounds reflected a sharp fall of 67 million pounds¹ This was in contrast with the preceding year when the volume increased by 35 million pounds despite a fall of 5 million pounds in production. The lower quantity offered at the Colombo tea auctions, and shipping difficulties on account of port congestion in Karachi and freight disputes in respect of some ports in the United States were the main reasons for the lower volume exported in 1974. Further, export data for 1973 included some shipments effected at the end of 1972. But data for 1974 do not include shipments carried forward from 1973.

The improvement in export prices of tea more than offset the fall in production; in rupee terms export earnings from tea rose from Rs. 1,260.7 million in 1973 to Rs. 1,359.7 million in 1974, an increase of 7.85 per cent. Even in terms of foreign exchange there has been an increase in earnings. For example, export earnings from tea in 1974 at SDRs 168.94 million represents an increase of SDRs 3.67 million when compared to the previous year, but foreign exchange earnings were still lower by SDRs 2.45 million when compared with SDRs 171.39 million in 1972.

1. Please see foot note on page 263

TABLE II (K) 5

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

(Million lbs.)

Year	Production	Exports (including instant tea)	Quantity offered for sale at the Colombo Auctions	Quantity shipped direct to London Auctions	Private Sales
1969	484	455	387	88	5
1970	468	460	373	91	5
1971	480	443	393	73	4
1972	471	419	391	54	5
1973	466	454	410	46	4
1974	450	387	392	51	3

Sources: Administration Reports of the Tea Controller;
Customs, Sri Lanka;
Colombo Tea Brokers' Association.

TABLE II (K) 6

Country Classification of Tea Exports and Percentage Shares

Country	Volume (Mn. lbs)		Percentage of total Volume		Value (Rs. Mn.)		Percentage of total Value	
	1973	1974	1973	1974	1973	1974	1973	1974
1. European Economic Community ..	100.0	81.7	22.0	21.1	289.2	273.7	22.9	20.1
1.1 United Kingdom ..	72.3	67.3	15.9	17.4	197.7	214.3	15.7	15.8
1.2 Irish Republic ..	2.5	1.9	0.6	0.5	6.2	6.7	0.5	0.5
1.3 Denmark ..	1.0	0.8	0.2	0.2	3.1	3.6	0.2	0.2
1.4 Others ..	24.2	11.7	5.3	3.0	82.2	49.1	6.5	3.6
2. Pakistan ..	66.8	60.5	14.7	15.6	165.3	202.2	13.1	14.9
3. United States of America ..	39.0	35.2	8.6	9.1	110.1	124.4	8.7	9.1
4. Iraq ..	44.4	34.4	9.8	8.9	103.8	107.6	8.2	7.9
5. Australia ..	24.4	21.7	5.4	5.6	65.2	85.2	5.2	6.3
6. Union of South Africa ..	23.6	21.6	5.2	5.6	74.3	89.8	5.9	6.6
7. Libya ..	19.5	12.5	4.3	3.2	54.6	35.4	4.3	2.6
8. United Arab Republic ..	20.6	4.3	4.5	1.1	7.0	12.1	0.6	0.9
9. U.S.S.R. ..	2.2	4.0	0.5	1.0	8.7	16.9	0.7	1.2
10. Other Countries ..	113.1	110.9	25.0	28.8	382.6	412.4	30.4	30.4
Total ..	453.6	386.8	100.0	100.0	1,260.8	1,359.7	100.0	100.0

Source: Customs, Sri Lanka.

Exports by Destination

When compared with the previous year, not only was there a marked change in the direction of tea exports in 1974, but there has been a drop in the purchase of tea by almost all the countries. The volume of tea exported to the United Kingdom fell further from 72.3 million pounds in 1973 to 67.3 million pounds in 1974 but U. K. still continued to be the largest buyer of Sri Lanka tea. The United Kingdom also increased her share of total exports from 15.9 per cent in 1973 to 17.4 per cent in 1974. Pakistan emerged as the second largest importing country in 1972 with the establishment of Bangladesh as a separate state, its main source of tea. Despite a fall in exports of 6.3 million pounds of tea, Pakistan, increased her share in total exports from 14.5 per cent in 1973 to 15.6 per cent in 1974.

The United States of America marginally surpassed Iraq and again became the next important buyer of tea, pushing Iraq from the third to the fourth place. Other countries in the order of importance were Australia, the Union of South Africa and Libya. There has been a substantial drop in the volume of tea exported to the United Arab Republic in 1974.

Colombo Auctions

Although there has been a fall of 18.1 million pounds in the quantity of tea offered at the Colombo auctions in 1974, the turnover and prices improved considerably. At a time when there was a sharp increase in the cost of production arising from increases in the cost of transport, oil, fertilizer and tea chests, improved market conditions, coupled with the benefits of the "Package Deal," provided adequate returns to the tea industry. The gross turnover of tea at the Colombo auctions increased from Rs. 807 million in 1973 to Rs. 1,180 million in 1974, an increase of Rs. 263 million. The net turnover was more important from the viewpoint of the local producer, and at Rs. 1,038 million in 1974 the net turnover showed an increase of Rs. 263 million over the previous year¹. The difference between the net and gross turnover was the sum received as ad valorem sales tax by government.

The average net price of tea realised at the Colombo tea auctions rose from Rs. 1.89 per pound in 1973 to Rs. 2.64 per pound in 1974 or by 40 per cent. The price increase in 1974 was substantial when compared to the virtually static price level that prevailed in 1973. The increase in price can be shown further by reference to the average price for December 1973 which was only Rs. 1.93 per pound, whereas the corresponding monthly price for 1974 was as high as Rs. 3.11 per pound.

The average net price of high grown teas increased from Rs. 2.09 per pound in 1973 to Rs. 2.76 per pound in 1974, medium grown from Rs. 1.76 per pound to Rs. 2.49 per pound and that of low grown from Rs. 1.80 per pound to Rs. 2.67 per pound. In the last few years there has been an increase in the price of low grown over the price of medium grown and this was mainly due to the strong demand from some Middle East countries.

1, Forbes & Walker Limited, Tea Market Report for 1974 p. 1.

TABLE II (K) 7
Tea Production, Exports and Prices 1970-1974

Year	Production (Mn. lbs.)	Exports		Average Colombo Auction Nett Price (Rupees per pound)			
		Quantity Mn. lbs.	F.O.B. Price Rs. per lb.	High grown	Medium grown	Low grown	All Teas
1970 ..	468	460	2.44	1.92	1.58	1.38	1.63
1971 ..	480	443	2.56	1.94	1.72	1.76	1.81
1972 ..	471	419	2.77	1.99	1.80	1.89	1.89
1973 ..	466	454	2.77	2.09	1.76	1.80	1.89
1974 ..	450	387	3.52	2.76	2.49	2.67	2.64
1974 1st Quarter ..	98	82	3.00	2.64	2.16	2.10	2.32
2nd Quarter ..	141	89	3.41	2.66	2.43	2.91	2.55
3rd Quarter ..	92	112	3.58	2.97	2.71	2.95	2.86
4th Quarter ..	119	104	3.99	3.04	2.82	3.12	3.00

Sources: Administration Reports of the Tea Controller; Customs Sri Lanka; Colombo Tea Brokers' Association.

The increase in prices to record levels in rupee terms is also seen in gross average prices as well. For example, while the gross average price of total offerings at the Colombo auctions was Rs. 3.01 per pound, individual gross averages in respect of high, medium and low grown teas increased to Rs. 3.20, Rs. 2.80 and Rs. 3.03 per pound respectively.

Offerings for sale at the Colombo auctions have fallen in 1974. The quantity fell from 410 million pounds in 1973 to 392 million pounds in 1974.* Fifty one sales have been held in 1974 as against fifty sales in 1973, averaging about 7.9 million pounds for each sale. The quantity channelled through private sales and forward contracts at 2.8 million pounds in 1974 showed a drop of 1.6 million pounds.

London Auctions

Despite a fall in production, exports and offerings at the Colombo auctions, the quantity of tea shipped direct to London auctions in 1974 at 51 million pounds, represented an increase of 5 million pounds. Further, it showed a reversal in the declining trend that has prevailed over the past seven years. Since there were no restrictions on shipments to the London auctions the attractive prices realised at the auctions was an inducement for local shippers to send those tea to the London auctions. As in the past the bulk of tea shipped to London auctions was high grown which increased from 27.9 million pounds in 1973 to 31.5 million pounds in 1974. In terms of the total consigned to the London auctions in 1974 the share of high grown was 61.8 per cent. While shipments of medium grown at 17.9 million pounds was 35.1 per cent, low grown tea constituted only 1.6 million pounds (or 3.1 per cent).

* The figure of 392 million pounds excludes reprints, withdrawals and sampling allowances. Otherwise, gross offering would be 403.4 million pounds i.e. 250.8 million pounds of Colombo offerings and 152.6 million pounds of ex-estate offerings. See, Forbes & Walker Ltd., Tea Market Report for 1974.

The importance of the London auctions as an international market for tea continued to diminish further when the total quantity sold at the auctions declined from 103.9 million kilograms (229.1 million pounds) to 91.0 million kilograms (200.6 million pounds) in 1974. Tea consigned from India, Sri Lanka and Africa all shared the drop in the quantity sold. However, Sri Lanka's share in terms of the total teas sold at the London auctions has increased from 18.9 per cent in 1973 to 21.4 per cent in 1974.

The global shortfall in supplies resulting mainly from the oil crisis and the drought in some countries, particularly in Kenya, boosted the average prices of teas offered by all important tea producing countries for sale at the London auctions. While the increase in the average price of all teas from 43.29 new pence per kilo in 1973 to 59.89 new pence per kilo in 1974 showed an increase of 38 per cent, Kenyan teas at 64.65 new pence per kilo reached the highest level in 1974. As regards Sri Lanka, the average price of tea increased from 45.42 new pence per kilo in 1973 to 60.30 new pence per kilo in 1974, an increase of 33 per cent.

TABLE II (K) 8
Quantities of Tea Sold at the London Auctions by Country
of Origin and Average Prices

Countries	Quantities sold at the London Auctions (Mn. Kgs.)				Average Prices (New pence per Kg.)			
	1971	1972	1973	1974	1971	1972	1973	1974
1. North India ..	54.5	40.6	35.0	33.8	42.14	42.87	45.65	60.48
2. South India ..	2.0	1.4	1.1	1.6	39.90	37.88	37.79	55.31
3. Sri Lanka ..	32.2	22.0	19.6	19.5	45.33	45.47	45.42	60.30
4. All Africa of which ..	35.2	46.1	44.7	32.8	43.01	40.49	41.19	59.77
Kenya ..	12.4	20.6	20.6	14.2	47.25	43.56	44.32	64.65
Uganda ..	3.8	5.2	2.3	2.2	43.64	40.97	41.92	60.87
Tanzania ..	5.0	5.8	6.5	3.4	45.39	41.71	42.55	60.19
5. Total ..	125.0	112.7	103.9	91.0	43.25	42.24	43.29	59.89

Source: The London Tea Brokers' Association.

Packeted Tea

Export earnings from packeted tea in 1974 were lower by Rs. 20.5 million when compared with 1973. Although the f. o. b. price of packeted tea showed an increase of 50 cents per pound, the volume exported declined from 30.4 million pounds in 1973 to 20.3 million pounds in 1974. The increase in the price of packeted tea in 1974 was only 16 per cent as against an increase of 27 per cent for all other teas.

Despite the convertible rupee account facility for packeted tea, the fall in exports may be due to the increase in pices of tea in bulk and the increase in the cost of packing materials. Table II (K) 9 gives the volume, value and f. o. b. price of packeted tea exports from 1967 to 1974.

TABLE II (K) 9
Exports of Packeted Tea

Year	Volume (Mn. lbs.)	Value (Rs. Mn.)	F.O.B. Price (Rs. per lb.)
1967	4.7	12.0	2.53
1968	9.4	29.4	3.13
1969	15.2	37.3	2.46
1970	17.0	41.6	2.44
1971	22.7	60.6	2.67
1972	32.4	102.4	3.16
1973	30.4	92.4	3.04
1974	20.3	71.9	3.54

Source: Customs, Sri Lanka.

Instant Tea

Production of instant tea continued to increase from 474.6 thousand pounds in 1973 to 640.7 thousand pounds in 1974. As a result, the volume of instant tea exported in 1974 at 614.2 thousand pounds was higher by 113.2 thousand pounds over the preceding year. As usual, the principal markets for instant tea were the United Kingdom (44.7 per cent) Australia (21.0 per cent) and the Federal Republic of Germany (12.7 per cent).

Tea Export Duty Rebate Scheme

With effect from the sale of 12 th November 1974, the minimum price at which the tea export duty rebate scheme came into operation was raised from Rs. 1.60 to Rs. 2.00 per pound and the maximum price at which the rebate ceased was raised from Rs. 2.00 to Rs. 2.30 per pound.

Due to the general increase in the price of tea in 1974, the volume of tea qualified for the rebate declined from 248 million pounds in 1973 to a low level of 36 million pounds in 1974. Therefore, the amount paid as rebates also decreased by Rs. 18.2 million. Table II (K) 10 gives details of the quantities of tea on which the export duty rebate has been paid and the amount of rebates paid for each elevational category of tea.

TABLE II (K) 10

**Quantities qualified for rebates paid under the Tea Export
Duty Rebate Scheme 1973 and 1974**

	Quantities on which rebate was paid (pounds)		The value of rebate paid (Rupees)	
	1973	1974	1973	1974
High-grown ..	68,435,218	5,460,762	5,434,259	418,479
Medium-grown ..	92,459,311	15,629,589	8,514,925	1,636,002
Low-grown ..	87,082,667	14,760,669	7,637,101	1,319,384
Total ..	247,977,196	35,851,020	21,586,285	3,373,865

Source: Tea Control Department.

International Tea Consultations

The seventh session of the Sub-Group of Exporters of the Inter-Governmental Group on Tea was held in Rome from 10—14 June 1974 under the auspices of the F.A.O.* It was agreed at the session that the global export quotas for 1974/75 and for 1975/76 be fixed at 1,450.6 million pounds** (or 658,000 metric tons) and 1,503.5 million pounds (or 682,000 metric tons).***

The export quota for Sri Lanka was 472.2 million pounds for the period 1st April 1973 to 31st March 1974, but Sri Lanka's actual exports as shown in the Customs data, were only 433.4 million pounds, a shortfall of 38.8 million pounds.†

According to the sixth session of the Inter-Governmental Group on Tea, the export quota for Sri Lanka has been reduced from 472.2 million pounds for 1973/74 to 463.0 million pounds for 1974/75. However, in the case of India, the earlier quota of 480.2 million pounds remained unchanged for 1974/75. Sri Lanka and India alone accounted for 65 per cent of the total exports estimated for 1974/75 in contrast to 66 per cent for 1973/74. Other important tea exporting countries for which quotas were agreed for 1974/75 were Kenya (62,900 metric tons or 138.7 million pounds), Indonesia (44,000 metric tons or 97.0 million pounds) Argentina (29,000 metric tons or 63.9 million pounds), Bangladesh (27,000 metric tons or 59.5 million pounds),

* Apart from 13 tea producing countries which together accounted for 90 per cent of the world exports, representatives of IBRD, UNCTAD, ITC - UNCTAD/GATT and the Commonwealth Secretariat also attended the Session.

** This was 48.5 million pounds (or 22,000 metric tons) lower than the provisional global total fixed for the year at the last session held in July, 1973.

*** These figures have been arrived at after making allowances of estimated short falls, 7½ per cent for 1974/75 and 8 per cent for 1975/76. On a provisional basis, a global quota for the year 1976/77 was fixed at 1,527.8 million.

† The export quota assigned to India for this period was 480.2 million pounds but again her actual exports amounted to 416.6 million pounds, the shortfall being 63.6 million pounds.

Uganda (22,800 metric tons or 50.3 million pounds), Malawi (24,400 metric tons or 53.8 million pounds), Turkey (15,000 metric tons or 33.1 million pounds), Mozambique (20,000 metric tons or 44.1 million pounds) Republic of Zaire (15,300 metric tons or 33.7 million pounds) and Tanzania (13,000 metric tons or 28.7 million pounds).

Further, at the seventh session of the Sub-Group it was agreed in principle to examine the following as elements of a multidimensional international agreements for tea: (a) a minimum export price arrangement; (b) co-ordination and regulation of marketing to avoid building up of stocks in importing countries; (c) intensification of and cooperation in global promotion, including new markets; (d) rationalization of marketing for achievement of the most favourable prices; and (e) provision for an independent market intelligence service for tea exporting countries.

Measures Towards Development in the Tea Industry

Although the tea industry received setbacks especially in regard to the increase in costs and a fall in production, the government has taken a number of steps to provide relief to the industry. The 'Package Deal' came into full effect from the beginning of 1974. Thereafter, the price range within which a rebate is paid on the export duty on tea was raised with effect from the tea auction of 25th February 1974. That is, the lower limit was raised from Rs. 1.40 to Rs. 1.60 per pound and the upper limit from Rs. 1.95 to Rs. 2.15 per pound.¹ However, no change was made in the amount of relief given and therefore, the maximum relief remained at 20 cents per pound for low and medium grown teas and at 15 cents per pound for high grown teas.

Also with effect from the same auction of 25th February, lower and upper limits of the range of prices on which the ad-valorem tax on tea was levied were raised by 20 cents. In other words, the lower limit was raised from Rs. 2.00 to Rs. 2.20 per pound and the upper limit from Rs. 3.40 to Rs. 3.60 per pound. The rate of tax remained unchanged at 50 per cent of the difference between the auction price and the lower limit of Rs. 2.20 per pound, subject to a maximum sales tax of 70 cents per pound.²

In addition to the above measures which operated on prices, the subsidy payable on a set of panels for a full chest was increased from Rs. 6.88 to Rs. 11.19 and for a half chest from Rs. 5.00 to Rs. 9.24 with effect from 29th April 1974. The increase in the subsidy which took the form of an outright grant that exempted the producer from income tax was payable on both teas sold at the Colombo auctions as well as teas shipped to the London auctions. After an increase in the prices of chest panels by the Plywood Corporation on 20th March 1974, the government further raised this subsidy to continue to make tea chest panels available to the industry at Rs. 3.00 per set.

1. With effect from the sale of 12th November 1974, the minimum price was raised to Rs. 2.00 per pound and maximum price to Rs. 2.30 per pound.
2. With effect from 7.11.1974, taxable price was increased to Rs. 2.50 and the maximum tax to one Rupee per pound.

When the selling price of tea chest panels was again revised upwards, subsidies for full chest and half chest panels were raised to Rs. 12.00 and Rs. 10.00 respectively, leaving the cost of panels to the industry at Rs. 5.00 per set.

The third and final change in the rates of subsidies was made with effect from 8 th October, 1974 with the upward revision of selling of tea chest panels by the Plywood Corporation to Rs. 22.60 for a set of full chest panels and Rs. 20.50 for a set of half chest panels. This time, the new rates of subsidy were fixed at Rs. 12.60 for a full chest and Rs. 10.50 for a half chest. As a result the cost of a set of tea chest panels to the industry rose to Rs. 10.00 per set.

Another step taken toward relieving the liquidity problem facing the tea industry was the credit guarantee scheme of the Central Bank of Ceylon. Apart from the increase in the cost of production, estates and companies had to expend much of their working capital on the modernization of tea factories and replanting, which resulted in the continued exhaustion of their liquidity. Hence the Central Bank formulated a scheme in April to provide guarantees on behalf of the government of Sri Lanka to commercial banks in respect of loans granted by them for tea replanting and tea factory development. While the loans approved by the Loan Committee of the Central Bank came within the purview of this scheme, guarantees were applied only to 75 per cent of the principal found to be irrevocable. In order to accommodate expenditure incurred earlier in this regard, the scheme came into being retrospectively as from 1st January 1970.

(B) Rubber Production

Production of rubber in 1974 is estimated at 301 million pounds. Not only was this lower by 40 million pounds or 12 per cent compared with 1973 but it was also the lowest recorded since 1966. Despite an improvement in average annual prices, the setback to production in 1974 has been due to such factors as adverse weather conditions, increased costs of production and the reduced application of fertilizer. Adverse weather conditions reportedly hampered tapping operations and the latex intake was poor. High prices of fertilizer have led to a further reduction in the application of fertilizer from 14,470 tons in 1973 to 12,285 tons in 1974.

It is also likely that marginally profitable areas which were brought into tapping with the upward movement in prices during 1973 have been abandoned or neglected once more with the decline in prices in the latter part of the year.

These factors appear to have more than offset increases in output from replanted areas brought into tapping. By the end of 1967 a total of 250,995 acres comprising nearly half the total acreage under rubber had been replanted and these would have come into bearing by 1974. The acreage replanted in 1974 at 7076 acres fell below last year's level of 7276 acres despite an increase in the replanting subsidy to Rs. 2,000 per acre in 1974.

Exports

The value of exports reached the record level of Rs. 738 million registering an increase of 25 per cent in comparison with its level in 1973. This was wholly due to an increase in the average f.o.b. price by 56 per cent. The volume of exports fell substantially as a result of the decline in production. Details are given in the table below.

TABLE II (K) II

Rubber Production, Exports & Prices

Year	Production Mn. Lbs.			Exports Mn. Lbs.			F.O.B. Price Rs. per pound			Colombo Market Price Rs. per Pound	
	Sheet	Crepe	All	Sheet	Crepe	All	Sheet	Crepe	All	R.S.S. No. 1	Latex Crepe No. IX
1970	211.0	138.3	350.9	221.7	132.5	354.2	1.23	1.26	1.24	0.91	1.12
1971	175.8	134.7	311.2	156.0	129.1	285.2	0.98	1.19	1.08	0.79	1.13
1972	184.0	122.5	309.4	164.6	119.3	285.7	0.90	0.97	0.93	0.81	0.89
1973	202.4	135.3	341.0	224.4	128.2	354.4	1.51	1.95	1.67	1.18	1.81
1974	168.6	129.3	300.6	158.0	124.2	283.1	2.45	2.81	2.61	1.28	2.02
1974:											
1st Quarter	43.2	27.7	71.7	42.9	30.3	73.3	2.37	3.33	2.77	1.41	2.05
2nd Quarter	34.9	28.1	63.6	26.3	32.1	58.5	2.92	3.23	3.09	1.33	2.19
3rd Quarter	61.5	43.3	105.5	62.1	31.4	93.9	2.56	2.40	2.51	1.22	2.33
4th Quarter	29.1	30.3	59.8	26.3	28.9	55.6	1.91	2.36	2.07	1.17	1.53

Sources: Rubber Control Department,
Customs, Sri Lanka,
Colombo Rubber Brokers' Association.

Prices

The price of natural rubber soared with the onset of the energy crisis and the subsequent sharp increase in the price of crude oil. Having reached peak levels in the last few months of 1973 and the first quarter of 1974 prices fell continuously thereafter.

Consumption of natural rubber was lower than supply in the period January to August, 1974 and stocks were increased. Prices followed a downward trend. The price of RSS I in the London market fell from 52.27 pence per Kilo in January 1974 to 26.24 pence per kilo in December 1974. Similarly, the price of RSS I in the New York market fell from 54.46 cents per pound in January to 30.76 cents per pound in December. The major cause for the decline in rubber prices was the reduction in the demand for rubber due to the recession in industrial activity in major importing countries, especially the slowdown in the automobile industry.

TABLE II (K) 12

World Supply, Consumption and Stocks

(Million pounds)

	Natural Rubber				Synthetic Rubber			
	1972	1973	1974 Jan-Aug	1974 Jan-Aug	1972	1973	1973 Jan-Aug	1974 Jan-Aug
Production	6,861.8	7,699.6	4,943.8	5,109.2	14,408.2	16,110.1	10,615.1	10,945.8
Consumption	6,988.6	7,495.6	4,949.3	5,037.5	14,318.9	15,707.8	10,345.1	10,504.9
Total Stocks	3,439.2*	3,791.9*	3,538.4*	3,984.8*	3,268.3**	3,670.7**	3,543.9**	3,935.2**

Source: Rubber Statistical Bulletin. (November 1974)

- * Includes stocks in consuming and producing territories and estimated stocks afloat.
 ** Includes reported stocks, Estimated other stocks and stocks afloat.

As prices in the international market followed a downward trend, Malaysian rubber exporters and owners of large estates agreed to cut back their sales by 10 per cent, (below the level prevailing in June 30th 1974). Prices, however, continued to fall and the Malaysian government announced a comprehensive programme aimed at stabilizing the price of natural rubber in November, 1974.

Local market prices followed world market trends and declined continuously through the greater part of the year. The Colombo Market price of RSS I fell from Rs. 1.41 per pound in the first quarter to Rs. 1.17 per pound in the last quarter of 1974. During the course of the year the guaranteed minimum prices for RSS I and RSS II payable in Colombo have been fixed at 96 cents and 89 cents per pound respectively and the prices payable at outstation depots at 95 cents and 88 cents per pound respectively to provide relief to the marginal producer against rising costs.

Exports by Destination

As in the past the People's Republic of China continued to be the leading buyer of Sri Lanka rubber although exports of rubber to China fell from 152.8 million pounds in 1973 to 92.2 million pounds in 1974. However, at Rs. 242.9 million in 1974 there has been an increase of Rs. 10.2 million in relation to 1973.

The European Economic Community was the next largest buyer and the share of exports to the EEC increased from 16.8 per cent in 1973 to 20.7 per cent in 1974 despite a fall of 1 million pounds in 1974. (Exports of rubber to the United Kingdom continued to fall further from 10.3 million pounds in 1972 to 7.4 million pounds in 1973 and to 4.5 million pounds in 1974). The other countries bought only smaller quantities and in the order of importance they were USSR, Poland, USA., Rumania and Japan.

TABLE II (K) 13

Country Classification of Rubber Exports

Country	Volume (Mn. lbs.)		Percentage of Total		Value (Rs. Million)		Percentage of Total	
	1973	1974	1973	1974	1973	1974	1973	1974
People's Republic of China ..	152.8	92.2	43.1	32.6	232.7	242.9	39.3	32.9
U.S.S.R. ..	22.6	21.9	6.4	7.7	47.5	75.1	8.0	10.2
U.S.A. ..	14.7	13.8	4.1	4.9	34.8	43.1	5.9	5.8
Poland ..	19.2	16.6	5.4	5.9	35.5	39.9	6.0	5.4
Rumania ..	16.6	9.9	4.7	3.5	19.2	19.1	3.2	2.6
Japan ..	6.1	2.8	1.7	1.0	12.4	11.8	2.1	1.6
E.E.C. ..	59.7	58.7	16.8	20.7	102.0	145.8	17.2	19.7
Other Countries ..	62.7	67.2	17.7	23.7	107.9	160.7	18.3	21.8
Total ..	354.4	283.1	100.0	100.0	592.0	738.4	100.0	100.0

Source: Customs, Sri Lanka

(C) Coconut Products

Coconut production in 1974, according to the estimates of the Central Bank of Ceylon, showed a modest increase of 5.0 per cent when it rose from 1935 million nuts in 1973 to 2031 million nuts in 1974. However, this production figure still continued to be one of the lowest Sri Lanka has witnessed over many years. As mentioned in the previous Annual Report, the poor performance in coconut production in 1973 was attributed to factors, such as the prolonged drought, coupled with lower application of fertilizer, the coconut pest in certain areas and the dislocation of production resulting from Land Reform. These effects especially the latter continued to be felt significantly in 1974 as well. Weather conditions in the coconut growing areas have been satisfactory in 1974 and it is therefore likely that production would go up in 1975.

According to the estimates of the Coconut Marketing Board, coconut production in 1974 was 2044 million nuts as compared with 1935 million nuts in 1973 and it was an increase of 109 million nuts or 5.6 per cent. The Coconut Marketing Board reports that production of all individual coconut products has shown some improvement. That is, copra production increased from 98,205 tons in 1973 to 106,765 tons in 1974, oil production from 60,433 tons to 63,833 tons, desiccated coconut from 37,384 tons to 42,461 tons and poonac from 30,217 tons to 31,917 tons.

According to Customs records, the export value of all three major coconut products increased from Rs. 141.5 million in 1973 to Rs. 394.0 million in 1974, an increase of Rs. 252.5 million or more than 175 per cent. In the case of the volume exported, there has been an increase of 43.3 million nuts from 416.8 million nuts in 1973 to 465.7 million nuts in 1974. As a result, the average f.o.b. price in terms of nut equivalent rose from Rs. 0.34 in 1973 to Rs. 0.85 in 1974. Despite an increase in the average f.o.b. price from Rs. 324 per candy in 1973 to Rs. 567 per candy in 1974, there has been a fall of Rs. 2.6 million in the value of earnings from copra exports due to a fall in the volume exported during the year under review.

However, earnings from the export of coconut oil at Rs. 141.3 million in 1974 showed a substantial increase of Rs. 114.4 million or 425 per cent as against the previous year. This was almost entirely due to the increase in the f.o.b. price from Rs. 1489 per ton to Rs. 6573 per ton. Export earnings from desiccated coconut also increased significantly from Rs. 111.0 million in 1973 to Rs. 251.8 million in 1974 reflecting both an increase in the f.o.b. price from Rs. 1.34 per pound to Rs. 2.68 per pound and increase in the volume from 37.3 thousand tons to 41.9 thousand tons.

Coconut Oil

According to Customs data, the volume of coconut oil exported in 1974 at 21.5 thousand tons was an improvement of 3.4 thousand tons or 14.3 per cent over the level in 1973. Apart from a modest increase in coconut oil production, the increase in the volume exported was a result of reduced local consumption due to high prices of oil and the substitution of imported tallow for coconut oil in the local soap industry. With the exception of 1973, the export volume in 1974 was still the lowest Sri Lanka has ever experienced.

However, export earnings, from oil at Rs. 141.3 million in 1974 not only more than compensated the shortfall in the volume exported but also reflected an all time high f.o.b. price. The average f.o.b. price of coconut oil in 1974 at Rs. 6573 per ton was higher by Rs. 5084 per ton or 341 per cent over 1973.

The gains accruing to local shippers were the result of higher prices in the international market resulting from the short supply situation. Towards the end of 1973 coconut oil again continued to enjoy a price premium over other oils and fats in the world market and this premium prevailed in the first three quarters of 1974 as well. For example, the average c.i.f. price of Philippine coconut oil for the U.K. market at £ 200 in 1973 which showed an improvement of 144 per cent over the average in 1972 continued to rise further in the first quarter of the following year and averaged £ 440 for the year, an increase of 120 per cent over 1973. The f.o.b. (Colombo) price of Sri Lanka coconut oil advanced from £ 370 per ton in December 1973 upto £ 600 per ton in March 1974. Thereafter, the price fluctuated with a downward trend and fell considerably to a low level of £ 294 per ton in December still registering an average of £ 444 per ton for 1974. The fall in price towards the end of the year was due partly to the increased supplies from the Philippines and partly to the reduced buying activity in major markets resulting from the recession.

Canada was the main buyer of coconut oil in terms of both volume and value. Its intake amounted to 218,236 cwts. in 1974 in comparison to 66,100 cwts. in 1973. The Netherlands became second largest buyer with a purchase of 53,118 cwts. in 1974 while Italy bought 49,636 cwts. of coconut oil.

Desiccated Coconut

Although the volume of desiccated coconut exported at 41.9 thousand tons in 1974 showed an increase of 4.6 thousand tons or 12.3 per cent over the previous year, it was still lower than the quantity exported in 1972. Export earnings from desiccated coconut increased from Rs. 111 million in 1973 to Rs. 252 million in 1974.

In rupee terms, the export value in 1974 was the highest Sri Lanka has so far earned from desiccated coconut. The average f.o.b. price of desiccated coconut at the record level of Rs. 2.68 per pound (or Rs. 300 per cwt.) in 1974 showed an improvement of Rs. 1.34 per pound (or Rs. 150 per cwt.) over the preceding year. The f.o.b. price in 1973 was Rs. 1.34 per pound (or Rs. 150 per cwt.).

The international prices of desiccated coconut continued to increase further in 1974. For example, the export prices of Sri Lanka desiccated coconut in the London market which increased from £ 140 per ton in 1972 to £ 253 per ton in 1973 rose to £ 512 per ton in 1974. (The price of desiccated coconut which was around £ 439 at the beginning of 1974 rose steadily in the first quarter and reached a high price of £ 564 per ton in April. However, prices began to slide thereafter but remained over £ 400 per ton).

As a result of the rise in prices in the international market, the local market prices of desiccated coconut increased from an average of Rs. 1.24 per pound in December 1973 to a high level of Rs. 1.68 in March 1974, but the price at Rs. 1.21 per pound in December 1974 was slightly lower than the corresponding monthly price of the last year. The average price of desiccated coconut in the local market for 1974 was Rs. 1.42 per pound as against Rs. 0.90 per pound in 1973.

With a view to ensuring that millers of desiccated coconut obtained fair prices for their produce in relation to export prices, the Coconut Marketing Board introduced an indicative fair price scheme with effect from 10th June 1974 for transactions in desiccated coconut in the local market. The main feature of this scheme was that the Board declared a daily suggested price that was based on the prevailing overseas selling price (f.o.b. value) less export duty and handling costs of exporters. The actual transacted price was not expected to depart from the suggested price by more than 05 cents per pound either way. The Coconut Marketing Board reports that in general the scheme worked well in 1974 and millers, shippers and brokers cooperated to make the scheme a success.

Desiccated coconut exports to the United Kingdom increased from 237,300 cwts. in 1973 to 268,815 cwts. in 1974. The Federal Republic of Germany, which bought 132,391 cwts. of desiccated coconut in 1974 became the second largest buyer of this item. The Netherlands and France became the next large buyers of Sri Lanka desiccated coconut.

Copra

According to Customs data, the volume of copra exported declined considerably from 2.7 thousand tons in 1973 to a very low level of 0.4 thousand tons, a fall of 2.3 thousand tons. As a result, export earnings from copra fell from Rs. 3.5 million in 1973 to Rs. 0.9 million in 1974. The export of copra continued to be restricted in 1974.

However, the Coconut Marketing Board initiated an export-import scheme in July 1974 to export one thousand tons of Estate No. 1 copra and import an equivalent quantity of milling quality copra. This scheme would enable Sri Lanka to export high quality copra which enjoyed a premium price in some foreign markets. This scheme was designed to ensure supplies of copra for milling coconut oil and the manufacture of animal feed (poonac).

The increase in world market prices of copra in 1974 had its effects on local market prices. The c.i.f. price (Europe) of Philippine copra increased from US. \$ 350 per ton in 1973 to U. S. \$ 675 in 1974, the average price for March being US. \$ 860. Following this price trend, the price of dealers' copra in the local market rose from Rs. 313 per candy in 1973 to Rs. 565 per candy in 1974. In other words, the local market price increased steadily from Rs. 373 per candy in December 1973 to a peak level of Rs. 700 per candy in April 1974 and declined thereafter almost to the previous level of Rs. 378 per candy in December 1974.

Poonac production, according to the Coconut Marketing Board, is estimated to have increased from 30,217 tons in 1973 to 31,917 tons in 1974, an increase of 5.6 per cent. The local market price of poonac at Rs. 933 per ton in 1974 showed an increase of Rs. 146 per ton over the figure of Rs. 787 per ton in 1973. The increase in price during the early part of 1974 was due to the short supply of poonac which resulted in the price rising to the very high level of Rs. 1313 per ton in April 1974. However, with the increase in supply poonac prices declined thereafter and at the end of the year the average price was Rs. 609 per ton.

Copra exports remained at a very low level due to the restriction that prevailed throughout the year. India and Pakistan bought a very negligible quantity of copra during this period.

TABLE II (K) 14
Major Coconut Products, Export Volumes & Prices
1970 — 1974

Year	Coconut Oil Th. cwts.	Volume			F.O.B. Price				
		Copra Th. cwts.	Desiccated coconut Th. cwts.	Fresh nuts Th. nuts	Total (in terms of nut equivalent) mn. nuts	Coconut Oil Rs. per ton	Copra Rs. Per candy	Desiccated Coconut Rs. per lb.	Fresh nuts Rs. per nut
	(1)	(2)	(3)	(4)					
1970	1,142	305	967	6,321	880	2,037.60	371.90	0.91	0.46
1971	1,388	344	1,043	8,567	1,019	2,142.40	349.72	0.88	0.45
1972	1,709	872	973	10,478	1,258	1,548.69	296.39	0.72	0.41
1973	361	55	742	5,118	422	1,488.80	324.25	1.34	0.68
1974	430	8	838	2,836	468	6,573.17	566.91	2.68	0.85

Source: Customs, Sri Lanka

(D) Selected Industrial Exports

Some items of industrial exports could not be identified for 1973 due to changes in the coding procedure adopted by the Customs in 1973 and 1974. Hence, the total value of these items in 1973 is an understatement.

Subject to these limitations, earnings from selected industrial exports, as shown in Table II (K) 15, more than doubled in 1974. This has been due mainly to the increase in the value of exports of naptha, fuel oil, marine bunkers and aviation fuel from Rs. 134 million in 1973 to Rs. 350 million in 1974, subsequent to the sharp escalation in the price of crude oil. As shown in Table II (K) 15, the value of other selected industrial exports has also risen significantly.

TABLE II (K) 15
Selected Industrial Exports

Rupees

	1973 Values	1974 Values
A. Manufacturing		
1. Food beverages & tobacco.		
(a) Bakery products		
Pastry biscuits and other bakers' wares. ..	885,703	970,270
(b) Cocoa preparations and instant tea		
(i) Cocoa paste. ..	n. a.	348,873
(ii) Cocoa powder, unsweetend. ..	n. a.	267,018
(iii) Instant tea. ..	5,617,481	6,502,493
(c) Fruits tinned or bottled fruit and vegetable juices.		
(i) Fruits otherwise prepared or preserved tinned or bottled. ..	2,500,095 ¹	1,205,290
(ii) Fruit juices and vegetable juices ..	n. a.	1,167,571
(d) Fish—fresh chilled frozen salted excluding crustaceans & molluscs.		
(i) Fish, fresh—live or dead—chilled or frozen. ..	17,684,008 ²	4,994,218
(ii) Fish salted, in brine, dried or smoked, shark fins & fish maws. ..	2,532,675 ³	1,848,860
(iii) Crustaceans and molluscs. ..	1,691,888 ⁴	19,919,525
(e) Animal fodder		
Oil cakes and other residues of vegetable oils. ..	3,214,501	1,524,671
(f) Manufactured tobacco.		
Manufactured tobacco extracts & essences. ..	126,285	570,497
2. Textiles and wearing apparel.		
(i) Woven fabrics of man made fibre. ..	3,994,210 ⁵	381,988
(ii) Other woven fabrics of cotton ..		1,687,328
(iii) Men's and boys' outer garments. ..	11,374,054	13,226,152
(iv) Women's, girl's & infants' outer garments. ..		10,951,275
3. Essential oils		
(i) Citronella oil ..	4,177,334	5,616,938
(ii) Cinnamon leaf oil ..	1,827,056	4,959,543
(iii) Cinnamon bark oil ..	768,062	674,493
(iv) Resinoids—other ..	2,280,691	6,401,254
4. Chemical products		
(i) Fatty acids, acid oils from refining ..	6,916,963	3,922,083
(ii) Glycerol and glycerol lyes—glycerine ..	2,741,771	5,577,380
(iii) Margarine, imitation lard & other prepared edible fats ..	n. a.	5,035,600
5. Petroleum products		
(i) Naptha ..	19,459,374	81,514,538
(ii) Fuel oil ..	4,141,554	6,657,278
(iii) Marine bunkers & aviation fuel ..	110,809,603	261,865,341

Continued...

Selected Industrial Exports continued from page 281

Rupees

	1973 Values	1974 Values
6. Leather, rubber, wood and ceramics		
(i) Travel goods ..	2,681,576	553,524
(ii) Other articles of leather or of composition leather ..	85,867	159,374
(iii) Footwear with outer soles of leather ..	901,009	3,669,647
(iv) Transmission, conveyer, elevator belts, of vulcanized rubber ..	n. a.	457,272
(v) Rubber tyres, tyre cases and tubes etc. ..	2,090,115	700,950
(vi) Other articles of unhardened vulcanized rubber. ..	581,433	928,187
(vii) Other articles of wood ..	1,859,863	2,921,034
(viii) Tableware and articles used for domestic or toilet purposes ..	80,925	6,453,246
7. Cement		
Portland cement, super sulphate cement, slag cement etc. ..	581,673	16,007,678
8. Machinery, mechanical appliances		
(i) Machinery n.e.s. ..	n. a.	3,586,875
(ii) Machinery & mechanical appliances, other ..	817,820	818,495
Total Manufacturing	210,010,170	484,046,759
B. Mining and quarrying		
(i) Natural graphite ..	11,641,421	15,555,550
(ii) Ilmenite ..	7,337,454	7,303,382
(iii) Metallic ores and iron pyrites—other ..	n. a.	2,688,433
Total Mining and Quarrying ..	18,978,875	25,547,365
Grand Total ..	228,989,045	509,594,124

Sources: Customs Sri Lanka, and Petroleum Corporation

- 1 fruits tinned or bottled in syrup.
- 2 fish, fresh.
- 3 fish, maws, shark fins.
- 4 salted, dried, smoked fish—beche—de—mer.
- 5 cotton batik cloth.
- 6 suitcases and travel bags.

Earnings from petroleum products which form the bulk of earnings from selected industrial exports have risen by 160.4 per cent. Of these, the value of naphtha has risen by 319 per cent, marine bunkers and aviation fuel by 136 per cent and fuel oil by 60 per cent.

Of the remaining items there were relatively high rates of increase in exports of manufactured tobacco (352 per cent), wearing apparel (113 per cent), glycerol & glycerol lyes (103 per cent), travel goods (106 per cent), footwear with leather soles (307 per cent), tableware and articles used for domestic and toilet purposes (7874 per cent), cement (2652 per cent) and machinery.

TABLE II (K) 16

Average Colombo Market Prices of Selected Minor Export Commodities

(Rs. per unit)

	Unit of Quantity	Annual Average						Quarterly Average of 1974				Percentage Change				
		1969	1970	1971	1972	1973	1974	1st	2nd	3rd	4th	1970 over 1969	1971 over 1970	1972 over 1971	1973 over 1972	1974 over 1973
Cocoa ¹	Cwt.	367.24	239.19	228.30	214.69	466.71	720.02	643.02	734.33	751.28	767.19	- 34.9	- 4.6	- 5.9	+106.0	+ 54.3
Cinnamon Quills ²	lb.	5.51	4.58	3.87	3.24	4.58	7.31	7.39	6.93	7.53	7.37	- 16.9	- 15.5	- 16.3	+ 41.4	+ 59.6
Cinnamon Chips ³	Candy	433.11	267.52	286.50	283.87	450.61	514.26	462.71	513.33	590.00	491.00	- 38.2	+ 7.1	- 0.9	+ 58.7	+ 14.1
Cardamoms ⁴	lb.	28.51	29.03	15.07	15.94	29.52	34.30	31.21	36.98	38.44	30.55	+ 1.8	- 48.1	+ 5.8	+ 85.2	+ 16.2
Papain White	lb.	15.56	14.53	15.47	22.22	38.73	36.15	42.44	41.00	36.03	25.13	- 6.6	+ 6.5	+ 43.6	+ 74.3	- 6.7
Papain Brown	lb.	8.58	9.40	13.05	19.66	31.37	23.53	32.40	29.33	19.92	12.48	+ 9.6	+ 38.8	+ 50.6	+ 59.6	- 25.0
Coir Mattress ⁵	Cwt.	18.34	16.88	19.85	17.86	22.77	36.95	31.10	36.16	40.81	39.74	- 8.0	+ 17.6	- 10.5	+ 27.5	+ 62.3
Coir Fibre Bristle ⁶	Cwt.	44.33	38.03	40.63	42.32	53.00	79.86	70.85	77.00	84.91	86.67	- 14.2	+ 6.8	+ 4.1	+ 25.2	+ 50.7
Coconut Shell Charcoal ⁷	Ton	135.85	320.21	443.07	238.76	450.54	1538.18	1032.50	1851.04	1954.17	1315.00	+135.7	+ 38.4	- 46.1	+ 88.7	+241.4

Sources: Weekly Sundry Producers Market Reports—Forbes & Walker Ltd.
Ceylon Chamber of Commerce Weekly Price List.

1. Estate No. 1
2. Fine /0000
3. Loose at buyers stores shifted free from sand and dust
4. Green Estate No. 1
5. Quality No. 1
6. 3 tie
7. In buyers' bags

(E) Other Agricultural and Non-Industrial Exports

Table II (K) 16 which contains details of the average Colombo market prices of selected minor exports, shows substantial price increases in almost all the commodities except papain white and brown. These increases were mainly due to boom conditions in the world market that continued to prevail in 1974.

For example, prices of cocoa in the London market rose from £ 513 per ton in 1973 to £ 812 per ton in 1974 reflecting an increase of 58 per cent. The increase in the price of Cocoa Estate No. 1 in the Colombo market was 54 per cent as it rose from Rs. 467 per cwt. to Rs. 720 per cwt. While cinnamon quills and chips increased from 0.25 pence and 7.6 pence per pound in 1973 to 0.43 pence and 9.8 pence in 1974, average Colombo market prices increased from Rs. 4.58 to Rs. 7.31 per pound and from Rs. 451 to Rs. 514 per candy respectively. Before 1973 all these commodities generally showed a declining price trend.

Price of cardamoms which began to increase from a low level of Rs. 15.94 per pound in 1972 rose to Rs. 29.52 in 1973 or by 85 per cent and by 16 per cent in 1974 to Rs. 34.30. The average market price in London rose from £. 1.05 per pound to £. 1.62 per pound.

The average prices of papain white and brown had shown a rising trend in earlier years. However, prices of these two commodities at Rs. 36.15 and Rs. 23.53 per pound in 1974 showed decreases of 17 per cent and 38 per cent respectively. While the price of papain white was unquoted in the London market throughout 1973 and 1974, papain brown rose from £. 1.25 to £. 1.35 per pound.

Other coconut products such as mattress and bristle fibre and coconut shell charcoal also benefitted from better prices for coconut products in 1974. While the average price of coir mattress fibre in the London market rose from £. 65.72 per metric ton in 1973 to £. 117.15 per metric ton in 1974, bristle fibre increased from £. 108.27 per metric ton to £. 156.64 per metric ton. Following this international price trend, both mattress and bristle fibre in the local market increased from Rs. 22.77 to Rs. 36.95 per cwt. and from Rs. 53.00 to Rs. 79.86 per cwt. respectively. The increase in the local price of coconut shell charcoal in 1974 was as high as 241 per cent.

Exports

When compared with data given in the Annual Report for 1973, there has been a change in annual values of selected agricultural and non-industrial exports owing to the transfer of mineral graphite and ilmenite to the category of industrial exports. * However, in value terms, total export earnings from selected agricultural and non-traditional commodities increased from Rs. 303.2 million in 1973 to Rs. 347.8 million in 1974.

As shown in Table II (K) 17, export earnings from all individual commodities except cardamoms, pepper, unmanufactured tobacco and gems, increased in varying degrees. Irrespective of any change in the volume exported or value realised either way, f.o.b. prices of all such exports with the exception of gems, increased significantly. Therefore, the increase in total value of such selected exports was largely due to improvement in prices than in volume. In fact, the volume exported in the case of cardamoms, pepper, cloves, cocoa beans and unmanufactured tobacco declined in 1974 in relation to 1973.* *

Exports of bristle fibre have increased from 578.3 thousand cwts. in 1973 to 645.0 thousand cwts. in 1974 while the volume of mattress fibre exported has declined from 1441.1 thousand cwts. to 1429.0 thousand cwts. The increase in export earnings from bristle fibre was partly due to an increase in the export volume and partly due to a rise in the f.o.b. price from Rs. 61.78 per cwt. in 1973 to Rs. 73.02 per cwt. in 1974. Despite a slight fall in the volume exported, earnings from mattress fibre at Rs. 61.3 million in 1974 showed an increase of 69.3 per cent and this was solely due to an increase in the f.o.b. price from Rs. 25.12 per cwt. in 1973 to Rs. 42.89 per cwt. in 1974 or 70.7 per cent. Coconut shell charcoal was the major export item in coconut shell products which included shells, shell flour and activated carbon. Export earnings from coconut shell charcoal increased from Rs. 8.5 million in 1973 to Rs. 31.4 million. Both the quantity and the f.o.b. price have increased in 1974, the latter being more instrumental in raising the value of export earnings.

* See Table II (K) 15 on Selected Industrial Exports, Page. 281.

** Prices of cloves and pepper in the London market rose from £. 1668.75 to £. 2323.93 per long ton and from £. 749.07 to £. 946.22 per long ton.

TABLE II (K) 17

Non-Industrial Commodities

Value (Rupees Million)								F.O.B. Prices Rs. per unit									
1967	1968	1969	1970	1971	1972	1973	1974	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
22.0	25.6	24.6	22.3	27.2	28.6	35.7	47.1	52.74	43.49	40.94	43.35	48.63	47.13	51.01	53.78	61.78	73.02
19.4	25.5	25.4	24.8	27.2	28.4	36.2	61.3	20.69	18.21	18.24	20.23	21.67	21.16	20.83	21.99	25.12	42.89
4.9	5.2	3.4	6.7	10.7	6.5	8.5	31.4	9.76	12.20	18.02	16.34	8.90	11.53	17.06	12.07	15.01	54.12
29.8	32.9	33.8	28.4	25.1	26.9	31.1	51.0	582.57	620.11	564.71	531.79	513.33	405.79	353.16	349.63	356.24	513.64
1.2	2.3	4.1	1.7	2.2	3.4	6.7	8.5	130.32	161.79	153.27	141.30	191.11	134.02	146.23	160.28	164.22	165.00
3.3	4.1	7.3	11.3	5.8	5.7	8.4	6.5	1433.38	1978.56	1341.65	1639.22	2297.00	2838.61	1581.78	1356.17	2270.12	2229.31
0.4	2.4	3.1	4.7	0.7	0.9	12.9	3.4	197.93	199.76	215.21	146.53	173.12	279.42	749.21	391.82	319.31	513.12
0.1	0.1	2.8	4.1	0.1	0.8	10.1	12.5	164.65	138.29	104.24	130.22	617.35	756.41	354.28	395.97	834.74	1110.38
4.	7.3	7.0	7.2	6.2	5.1	6.1	10.8	157.15	139.26	178.36	211.16	273.43	240.82	205.57	165.92	269.91	534.69
2.8	5.1	2.9	2.2	6.9	6.9	6.7	6.0	—	—	3.00	3.81	4.04	4.21	4.47	4.57	4.41	5.15
3.4	2.0	0.5	4.3	3.4	12.3	140.8	109.5	37.26	63.56	—	—	—	—	—	—	216.71	160.42
2.3	1.2	1.0	1.0	0.3	0.2	0.1	0.6	—	—	—	—	—	—	—	—	—	254.48
93.	113.7	115.9	118.7	115.8	125.7	303.2	347.8	—	—	—	—	—	—	—	—	—	—

Source: Customs, Sri Lanka.

(F) Gems

According to Customs data, export earnings from precious and semi-precious stones declined from Rs. 140.8 million in 1973 to Rs. 109.5 million, a fall of Rs. 31.3 million or 22.2 per cent. This was in contrast with 1973 when earnings increased by Rs. 96.4 million or 784 per cent in relation to 1972. Earnings from gems as a share of Sri Lanka's total export earnings fell from 5 per cent in 1973 to 3 per cent in 1974.

According to the State Gem Corporation too whose data are based on invoice values pertaining to parcels exported there has been a fall in export earnings from gems. The value of exports of gems (exclusive of FEECs), according to the Corporation, declined from Rs. 152.8 million in 1973 to Rs. 132.6 million in 1974. The fall in value in relation to 1973 was Rs. 20.2 million or 13 per cent. While export earnings from the Corporation accounted for 12.1 per cent, the share of sales through the private sector amounted to 87.9 per cent. In value terms, there has been a fall of Rs. 10.1 million or 38.7 per cent in the case of export earnings from the Corporation in 1974. In contrast, sales through the private sector reflected, a fall of Rs. 10.1 million or 8.0 per cent.

As a non-traditional commodity, export earnings from gems continued to qualify for a premium payment of 65 per cent under the FEEC Scheme. In addition to tax incentives, exporters of gems were also allowed to credit 25 per cent of their net f.o.b. export earnings from gems to convertible rupee accounts. However, with effect from 7th November 1974, the share of earnings from gems that qualified for credit to the convertible rupee accounts was reduced to 20 per cent.

According to the State Gem Corporation, Hong Kong was the leading buyer of Sri Lanka gems in 1974, which accounted for Rs. 42.6 million or 32.1 per cent of total export earnings. Switzerland and Japan were second and third with Rs. 27.6 million (20.8 per cent) and Rs. 13.1 million (13.6 per cent) respectively. In the order of importance, other countries were U.S.A. (Rs. 7.9 million), France (Rs. 7.8 million), China (Rs. 7.4 million), West Germany (Rs. 5.0 million), United Kingdom (Rs. 4.0 million) and Singapore (Rs. 3.4 million).

As regards the domestic business of the State Gem Corporation, the value of the total purchases of gems by the Corporation was only Rs. 12.9 million as against Rs. 107.7 million in 1973. The number of licences issued for gemming which increased from 1,657 in 1972 to 2,547 in 1973, further increased to 3,027 in 1974. But licences issued for the gem trade and lapidary fell further from 2,335 to 1,737 and from 475 to 393 respectively. The State Gem Corporation earned Rs. 1.7 million from the auctioning of land in 1974 as against Rs. 1.8 million in 1973. The number of blocks auctioned fell from 667 in 1973 to 465 in 1974.

TABLE II (K) 18
Export of Gems

Rs. Million

	Customs			State Gem Corporation 1973			State Gem Corporation 1974		
	1972	1973	1974	Gem Corp-	Private Sector	Total	Gem Corp-	Private Sector	Total
January	0.2	3.9	1.9	2.2	3.1	5.4	0.1	3.9	4.0
February ..	0.1	2.7	5.5	1.1	3.8	4.9	0.2	6.8	7.0
March ..	0.1	6.2	9.5	1.2	7.7	8.9	2.1	18.1	20.2
April ..	0.1	16.7	15.0	1.9	15.1	17.1	7.6	13.7	21.3
May ..	0.6	14.5	15.7	6.4	10.2	16.7	0.3	9.5	9.8
June ..	1.6	18.1	7.7	1.9	15.4	17.3	1.4	8.2	9.6
July ..	0.3	14.3	5.6	3.5	13.8	17.3	1.6	16.9	18.6
August ..	1.6	16.6	7.9	0.6	16.5	17.1	1.1	10.4	11.4
September ..	2.0	13.6	14.9	2.1	15.6	17.7	0.3	9.2	9.5
October ..	1.3	17.8	14.5	2.2	14.0	16.2	0.9	6.4	7.3
November ..	1.8	12.9	6.8	2.5	8.3	10.8	0.1	8.5	8.6
December ..	2.8	3.5	3.7	0.2	3.2	3.5	0.3	5.0	5.3
Annual ..	12.3	140.8	109.5	26.1	126.7	152.8	16.0	116.6	132.6

Sources: Customs Sri Lanka,
State Gem Corporation.

3. Imports

Notwithstanding the fact that Sri Lanka operated on a very tight import programme, the value of imports in 1974, according to Customs data, was Rs. 4,554 million, representing an increase of Rs. 1,839 million or 67.7 per cent over the preceding year. Despite the sharp increase in the value of imports due to world wide inflation there has been a drop in the overall volume of imports by 29 per cent in 1974. The terms of trade which began to deteriorate steadily from 1965 onwards fell by 13 per cent in 1973 and by 11 per cent in 1974.

(a) Imports—Adjusted Customs Data

As explained earlier, Customs data are adjusted for imports by the Food Commissioner and the Petroleum Corporation. Adjusted Customs data, given in Table II (K) 19, show an increase in the value of imports by Rs. 2,007 million to Rs. 4,770 million in 1974.

According to adjusted data, the share of consumer goods in total imports has declined from 54 per cent in 1973 to 49 per cent in 1974. But in absolute terms, the value of consumer goods rose from Rs. 1,500 million to Rs. 2,339 million, an increase of 56 per cent. The increase in the value of intermediate imports from Rs. 786 million in 1973 to Rs. 1,935 million in 1974 resulted in an increase in its share from 28 per cent to 41 per cent. By contrast, the percentage of investment goods in total imports declined sharply from 16 per cent in 1973 to 10 per cent while the total value of investment goods remained virtually static at around Rs. 450 million.

According to the Food Commissioner, the total value of rice, flour and sugar, as shown in Table II (K) 20, rose from Rs. 1,114 million in 1973 to Rs. 1,966 million in 1974, an increase of Rs. 852 million or 76.5 per cent. Although imports of rice at 297 thousand tons in 1974 showed a fall of 41 thousand tons in relation to 1973, the import value for this quantity has increased by Rs. 476 million or 147.8 per cent from Rs. 322 million in 1973 to Rs. 798 million. This was solely due to a sharp increase in the c & f price by as much as 181.8 per cent per ton.

TABLE II (K) 19
Customs Data—Adjusted

Rupees Million

	1973 Value	Percentage Share of Total	1974 Value	Percentage Share of Total
1. Consumer goods ..	1,500.1	54.3	2,338.6	49.0
of which-				
A. Food and Drink ..	1,317.2	47.7	2,150.3	45.7
(i) Rice ..	321.9	11.7	797.8	17.0
(ii) Flour ..	458.2	16.6	938.4	19.9
(iii) Sugar ..	333.8	12.1	230.4	4.9
B. Textiles ..	55.3	2.0	59.2	1.3
C. Other Consumer goods ..	120.4	4.4	129.2	2.7
2. Intermediate goods ..	785.6	28.4	1934.6	40.6
3. Investment goods ..	452.0	16.4	457.1	9.6
4. Unclassified Imports ..	25.0	0.9	39.2	0.8
5. Total Imports ..	2,762.7	100.0	4769.5	100.0

Sources: Customs Sri Lanka; Petroleum Corporation; Food Commissioner.

Imports of flour, according to the Food Commissioner, increased from 365 thousand tons in 1973 to 442 thousand tons and the expenditure on flour rose from Rs. 458 million to Rs. 938 million. In other words, the quantity imported increased by 21.5 per cent while expenditure rose by 126.6 per cent. The increase in the value of flour imports was largely due to the increase in the c & f price by Rs. 870 per ton or by 69.4 per cent and only partly due to an increase in the quantity.

Both the quantity and the value of sugar imports have fallen significantly in 1974, the former by 148 thousand tons or 77.9 per cent and the latter by Rs. 104 million or 31.1 per cent. Hence imports of sugar by the Food Commissioner at 42 thousand tons in 1974 have cost only Rs. 230 million. Despite the phenomenal increase in world sugar prices the administration was actually able to effect a saving on the total outlay on sugar imports of the magnitude indicated above by drastically cutting down on imports.

(b) Imports by Major Category—Customs Data

While Table II (K) 21 presents a breakdown of imports by major categories and commodities or groups of commodities as reflected in the Customs Returns, Table II (K) 20 also contains Customs data on imports of rice, flour and sugar.

As a result of sharp price increases in international commodity markets there has been a change in the composition of imports. The higher outlay on oil imports and other intermediate goods contributed to an increase in the share of intermediate goods in total imports from 30 per cent in 1973 to 42 per cent in 1974. This has resulted in a reduction in the share of consumer goods from 53 per cent in 1973 to 47 per cent in 1974 and that of investment goods from 17 per cent to 10 per cent. The quantity of intermediate goods imported was maintained at a fairly steady level in comparison with 1973 while the quantities of consumer and investment goods imported in 1974 have fallen sharply.

TABLE II (K) 20
Customs Data and Actual Imports of Rice, Flour and Sugar.

	Food Commissioner's Data						Customs Data (Food Commissioner's imports and Imports of others as recorded by Customs)				
	1972	1973	1974	Change 1974/73		1972	1973	1974	Change 1974/73		
				Absolute	%				Absolute	%	
Rice											
Quantity: Th. tons	262	338	297	— 41	— 12.1	294	335	293	— 42	— 12.5	
Value: Rs. Mn.	142	322	798	+ 476	+ 147.8	161	270	720	+ 450	+ 166.7	
C. & F. Price: Rs. per ton ..	544.25	953.18	2,685.82	+ 1,732.64	+ 181.8	547.27	807.47	2,407.40	+ 1,653.93	+ 204.8	
Flour											
Quantity: Th. tons	324	365	442	+ 77	+ 21.5	301	396	402	+ 6	+ 1.5	
Value: Rs. Mn.	216	458	938	+ 580	+ 126.6	193	453	857	+ 404	+ 89.2	
C. & F. Price: Rs. per ton ..	667.26	1,254.20	2,124.04	+ 869.84	+ 69.4	639.92	1,144.14	2,331.66	+ 987.52	+ 86.3	
Sugar											
Quantity: Th. tons	214	190	42	— 148	— 77.9	223	193	67	— 126	— 65.3	
Value: Rs. Mn.	250	334	230	— 104	— 31.1	248	321	190	— 131	— 40.8	
C. & F. Price: Rs. per ton ..	1,168.16	1,752.16	5,485.75	+ 3,733.59	+ 213.1	1,111.55	1,663.44	2,846.88	+ 1,183.44	+ 71.1	
Total value of rice, flour and sugar: Rs. Mn.	608	1,114	1,966	+ 852	+ 76.5	602	1,044	1,767	+ 723	+ 69.3	

Sources: Food Commissioner's Department,
Customs, Sri Lanka.

(i) Consumer goods

According to data furnished by the Customs, the value of consumer goods increased from Rs. 1,424 million in 1973 to Rs. 2,138 million in 1974, an increase of Rs. 653 million or 46 per cent. The share of consumer goods in terms of the value of total imports was 47.0 per cent in 1974, as compared with 52.5 per cent in 1973. Of the total import value of Rs. 2,138 million in consumer goods, rice, flour and sugar alone accounted for Rs. 1,767 million or 38.8 per cent in 1974. Imports of rice have been reduced by 12.5 per cent and of sugar by 65.3 per cent in 1974. Among other food imports which have been severely restricted were grains and pulses; there have been no imports of chillies. Dried fish imports have also declined.

Rice

The quantity of rice imported in 1974 at 293 thousand tons declined by 42 thousand tons or 12.5 per cent as compared with 1973. It was partly due to the reduced quantity of rice made available on the ration. The quantity of rice issued on the ration declined from 675,370 tons in 1973 to 550,268 tons in 1974.

The fall in imports of rice did not however effect a saving in expenditure because international rice prices rose to new heights. For example, the c & f price increased from Rs. 807 per ton in 1973 to Rs. 2,461 per ton in 1974, an increase of Rs. 1,654 per ton or 205 per cent. In 1972 the c & f price per ton was only Rs. 547. As a result, expenditure on rice imports which was at Rs. 161 million in 1972 increased to Rs. 270 million in 1973 and to Rs. 720 million in 1974.

TABLE II (K) 21

Imports by Major Categories and Commodities or Group of Commodities, 1970—74

	Value in Rupees Million					Percentage of Total Imports				
	1970	1971	1972	1973	1974	1970	1971	1972	1973	1974
1. Consumer Goods — of which:	1,282	1,113	1,069	1,424	2,138	55.4	56.0	51.8	52.5	47.0
A. Food and Drink	1,057	895	917	1,248	1,950	45.7	45.0	44.4	45.9	42.8
(i) Rice	318	195	161	270	720	13.7	9.8	7.8	9.9	15.8
(ii) Flour	260	206	193	453	857	11.2	10.4	9.4	16.7	18.8
(iii) (a) Sugar, refined	170	243	248	321	190	7.3	12.2	12.0	11.8	4.2
(b) Sugar, other (i.e. sakkara, jaggery and sugar candy)	1	1	1	...	...	...	0.1	...	...	...
(iv) Milk and milk products	55	47	57	70	70	2.4	2.4	2.8	2.6	1.5
(v) Meat, fish and eggs	68	72	83	52	50	2.9	3.6	4.0	1.9	1.1
of which: (a) Fish dried (excluding maldivian fish but including dried prawns)	53	52	62	39	30	2.3	2.6	3.0	1.4	0.7
(b) Fish other	15	19	20	13	20	0.6	1.0	1.0	0.5	0.4
(vi) Food, other	139	96	143	50	33	6.0	4.8	6.9	1.8	0.7
of which: (a) Grams and pulses	63	45	98	31	17	2.7	2.3	4.7	1.1	0.4
(b) Onions	33	10	3	3	2	1.4	0.5	0.1	0.1	..
(c) Chillies	26	30	24	3	—	1.1	1.5	1.2	0.1	—
(vii) Drinks and manufactured tobacco	3	2	1	1	2	0.1	0.1	..	..	..
B. Textiles (including clothing)	124	103	48	55	59	5.3	5.2	2.3	2.0	1.3
C. Other Consumer Goods —	101	115	104	120	129	4.3	5.8	5.0	4.4	2.8
of which: (i) Motor cars	10	7	11	8	13	0.4	0.4	0.5	0.3	0.3
(ii) Watches and clocks .. ..	..	..	..	..	..	..	..	..	..	..
(iii) Radio receivers	1	1	2	3	1	..	0.1	0.1	0.1	..
(iv) Rubber tyres and tubes	11	11	5	10	11	0.5	0.6	0.2	0.4	0.2
(v) Medicinal and pharmaceutical products	29	34	41	36	44	1.5	1.7	2.0	1.3	1.0
2. Intermediate Goods —	463	411	502	815	1,920	20.0	20.7	24.3	30.0	42.1
of which: (i) Fertilizer	81	59	63	111	221	3.5	3.0	3.1	4.1	4.9
(ii) Petroleum products	59	26	38	295	905	2.5	1.3	1.8	10.9	19.9
(iii) Coal	4	4	1	3	4	0.2	0.2	..	0.1	0.1
(iv) Chemical elements and compounds	56	66	73	107	232	2.4	3.3	3.5	3.9	5.1
(v) Dyeing, tanning and colouring materials	10	11	14	12	22	0.4	0.6	0.7	0.4	0.5
(vi) Tea and other chests	9	20	9	5	18	0.4	1.0	0.4	0.2	0.4
(vii) Paper and paperboard	45	48	42	40	65	1.9	2.4	2.0	1.5	1.4
(viii) Yarn and thread	41	40	61	21	65	1.8	2.0	3.0	0.8	1.4
(ix) Unmanufactured tobacco	3	4	1	3	10	0.1	0.2	..	0.1	0.2
(x) Wheat and meslin ¹	12	23	44	61	117	0.5	1.2	2.1	2.2	2.6
3. Investment Goods —	546	419	438	452	457	23.5	21.1	21.2	16.6	10.0
of which: (i) Building materials —	119	118	121	107	147	5.1	5.9	5.9	3.9	3.2
of which: (a) Cement	7	3	2	2	..	0.3	0.2	0.1	0.1	..
(ii) Transport equipment	126	76	107	95	91	5.4	3.8	5.2	3.5	2.0
(iii) Machinery and equipment	276	200	181	224	186	11.9	10.1	8.8	8.3	4.1
4. Total (Items 1, 2 and 3)	2,291	1,943	2,009	2,690	4,515	99.0	97.8	97.3	99.1	99.1
5. Unclassified imports	22	43	55	25	39	1.0	2.2	2.7	0.9	0.9
6. Total Imports	2,313	1,986	2,064	2,715	4,554	100.0	100.0	100.0	100.0	100.0

1. Not ground or otherwise worked

Source: Customs, Sri Lanka

Flour

Imports of flour in 1974 increased by 6 thousand tons (1.5 per cent) but owing to the sharp increase in the c & f price from Rs 1,144 per ton in 1973 to Rs. 2,132 per ton (86 per cent) in 1974 the expenditure on flour increased by nearly 90 per cent from Rs 453 million in 1973 to Rs 857 million.

In 1974, despite an increase in the quantity of flour imported, restrictions on the amount made available on the ration and further, increase in the price of flour from 70 cents per pound to Rs. 1.10 per pound in April 1974 resulted in a decline in consumption of flour by 33,912 tons to 416,289 tons. In 1973 flour was not a rationed food item and open market sales amounted to 450,201 tons. This increase in flour imports and fall in consumption can be explained by the increase in stocks with the Food Commissioner; the latter had a stock of 84,000 tons at the end of 1974 as against 16,000 tons at the end of 1973.

Sugar

Sugar imports declined substantially from 193 thousand tons in 1973 to 67 thousand tons in 1974, a fall of 126 thousand tons or 65 per cent in terms of the quantity imported the previous year. Expenditure on sugar imports thus fell very sharply from Rs 321 million in 1973 to Rs 190 million in 1974.

The marked fall in sugar consumption in 1974 was first due to the increase in the sale price of off-ration sugar in March, 1974 and then due to the drastic cut in the sale of off-ration and ration sugar in September 1974. Owing to these restrictive measures the issue of sugar under ration declined from 66,400 tons in 1973 to 57,077 tons in 1974. The quantity of off-ration sugar declined drastically from 128,785 tons in 1973 to 38,223 in 1974.

(ii) Intermediate Goods

Among the major categories of imports, intermediate goods recorded the highest increase value-wise. This has been largely due to the fact that imports of petroleum products, the largest single item in this category, have more than trebled in value in 1974. Other intermediate goods have also registered higher values in 1974 reflecting the high prices of these items. The values of large items such as chemicals and compounds, fertilizer, wheat and meslin have nearly doubled between 1973 and 1974.

(iii) Investment Goods

The value of investment goods has risen marginally in 1974 and its share has fallen substantially from 17 per cent of total imports in 1973 to 10 per cent in 1974. The value of building material imports which had been declining until 1973 rose appreciably in 1974 on account of high prices. In the building materials subgroup, imports of cement have been negligible in view of the increase in domestic production from 415,000 tons in 1973 to 466,000 tons in 1974. The volume of all investment goods imported has declined by 40 per cent (from 84 in 1973 to 50 in 1974) as measured by the import volume index (1967=100) of the Central Bank of Ceylon.

4. Petroleum Products

With the sharp escalation in oil prices towards the end of 1973, Sri Lanka had to expend a sizeable amount of foreign exchange for the import of crude oil and other petroleum products. For example, imports of crude oil, base oils, additives and other petroleum products rose from Rs. 296.8 million in 1973 to a very high level of Rs. 920.3 million in 1974, an increase of Rs. 623.5 million or 210 per cent. While crude oil and other petroleum products accounted for 10.9 per cent of Sri Lanka's total imports in 1973, it rose to 20 per cent in 1974.

The main import item was crude oil which accounted for Rs. 265.0 million in 1973 and Rs. 861.4 million in 1974. The sharp increase in the value of imports should be compared with the lower quantity of crude oil imported in 1974. While Sri Lanka's imports of crude oil in 1973 were 1,753,233 metric tons, it declined to 1,502,367 metric tons in 1974. Crude oil as a percentage of total imports of petroleum products amounted to 89.5 per cent in 1973 and 93.5 per cent in 1974.

Apart from crude oil, the next significant import item was base oil which accounted for Rs. 20.4 million in 1974 as against Rs. 13.9 million in 1973. Kerosene was almost entirely produced at the refinery but as in the previous year a small amount of 9,809 metric tons to the value of Rs. 8.5 million was imported in 1974. Imports of solvents, lubricating oils and greases amounted to Rs. 4.9 million, Rs. 3.4 million and Rs. 2.7 million respectively. Another significant item is agro-chemicals which recorded an import value of Rs. 3.7 million. While imports of gas oil cost Rs. 7.0 million, the outlay on imports of white oil, process oil, petroleum, asphalt, waxes and autilex was not much.

In 1974 Sri Lanka used 1.43 million metric tons of crude oil for the refinery while the quantity used in 1973 was 1.65 million metric tons. The ex-factory value of production at the refinery rose from Rs. 263.2 million in 1973 to Rs. 924.7 million in 1974, and production of lubricating oils at the blending plant from Rs. 22.0 million to Rs. 28.6 million. Production of candle cases declined from Rs. 1.8 million to Rs. 1.4 million.

Refining of crude oil is the most important production process carried out in Sri Lanka. Production of super and regular petrol fell from 68,000 metric tons and 51,000 metric tons respectively in 1973 to 57,924 metric tons and 39,563 metric tons in 1974 but their ex-factory values increased from Rs. 15.6 million to Rs. 48.9 million and from Rs. 10.4 million to Rs. 30.8 million respectively. Despite a fall in the quantity produced, the values of auto diesel and marine diesel increased from Rs. 53.8 million to Rs. 187.6 million and from Rs. 17.8 million to Rs. 59.0 million respectively. Production of kerosene declined from 251,000 metric tons in 1973 to 202,820 metric tons in 1974 but the value rose from Rs. 58.6 million to Rs. 151.7 million.

Naptha and bitumen production fell from 128,000 metric tons to 103,616 metric tons and from 31,000 metric tons to 23,892 metric tons but their ex-factory values rose from Rs. 12.3 million to Rs. 89.6 million and from Rs. 7.3 million to Rs. 17.4 million respectively. While production of furnace oil fell from 673,000 metric tons in 1973 to 595,200 metric tons in 1974, its value increased sharply from Rs. 58.6 million to Rs. 151.7 million. In 1974 both avtur and solvents increased in production as well as in value, while L. P. G. declined in production and value.

The sharp increase in the price of oil has resulted in (a) a substantial fall in consumption of almost all petroleum products, and (b) a substantial increase in the sales value of these products. The sales value of petroleum products except exports increased from Rs. 802,281 in 1973 to Rs. 1,195,012 in 1974.

Sales of super and regular petrol fell from 81,486 metric tons to 64,416 metric tons and from 48,741 metric tons in 1973 to 30,509 metric tons in 1974. In other words, use of super petrol fell by 20.9 per cent in 1974 and that of regular petrol by 37.4 per cent. But their sales values increased from Rs. 138,515 to Rs. 223,537 and from Rs. 80,618 to Rs. 106,580 respectively. Quantities sold in respect of auto, heavy and marine diesel declined from 279,716; 68,198 and 74,059 metric tons in 1973 to 243,667, 44,059 and 50,319 metric tons in 1974 respectively. Sales of kerosene fell from 269,571 metric tons in 1973 to 212,757 in 1974, a fall of 21.0 per cent, but its value increased from Rs. 109,482 to Rs. 205,622. Lubricating oils (l. G.) sold fell by 20.0 per cent in 1974, greases by 6.9 per cent, waxes by 10.8 per cent, furnace oil by 75.9 per cent, agro-chemicals by 29.0 per cent and other special products (l. G.) by 17.5 per cent.

The total value of petroleum exports, according to the Ceylon Petroleum Corporation, has increased from Rs. 134.4 million in 1973 to Rs. 350.0 million in 1974, increase of Rs. 215.6 million or 160.4 per cent. The value of marine bunkers was the most important category in petroleum exports which increased from Rs. 93.7 million in 1973 to Rs. 216.8 million in 1974. Earnings from aviation fuel rose from 17.1 million to Rs. 45.1 million.

In the case of other petroleum exports, the total value increased sharply from Rs. 23.6 million in 1973 to Rs. 88.1 million in 1974. Export earnings from naphtha increased from Rs. 17.3 million to Rs. 81.5 million and earnings from exports of fuel oil from Rs. 4.1 million to Rs. 6.7 million respectively. Super petrol, kerosene and auto diesel have been exported in small quantities.

Saudi Arabia was the main supplier of crude oil to Sri Lanka in 1974 which accounted for 770,663 metric tons or (5,668,430 barrels) to the value of Rs. 431.7 million or 50.1 per cent of total imports. Sri Lanka has imported from Iraq, the second largest supplier, a quantity of 371,417 metric tons (or 2,754,789 barrels) to the value of Rs. 225.1 million. Imports of crude oil from other countries amounted to 381,389 metric tons (or 2,806,006 barrels) and their total value was Rs. 204.6 million in 1974.

5. Pattern of Trade

Table II (K) 22 gives the pattern of Sri Lanka's trade with trading blocs and other groups. Generally speaking exports to and imports from all the countries increased in value terms due to the severe price inflation that prevailed in the commodity markets.

Imports from non-Commonwealth countries increased by Rs. 1,500.2 million while exports to these countries showed an increase of Rs. 510.9 million. On the other hand, imports from Commonwealth countries increased by Rs. 350 million and exports to these countries rose by Rs. 174.3 million. Sri Lanka's balance of trade was favourable only in the trade with the European Free Trade Association.

Country-wise trade data indicated a continuation of the contraction of trade with U. K. Imports from U. K. fell by Rs. 14.2 million while exports to the U. K. improved by Rs. 66.9 million resulting in a trade surplus of Rs. 196.8 of million. Imports to and exports from U.S.S.R., China and Pakistan increased considerably but the balance of trade with these countries showed a deficit. There was a surplus in the trade with U.S.A.

TABLE II (K) 22
Sri Lanka's International Trade in Merchandise by Trading Blocs
and Other Groups and Selected Major Trading Partners

Rupees Million

	Total Exports F.O.B. (a)		Total Imports C.I.F. (b)		Balance of Trade	
	1973	1974	1973	1974	1973	1974
Commonwealth Countries..	671.1	845.4	578.1	928.1	+ 93.0	— 82.6
Non-Commonwealth Countries ..	1,831.1	2,342.0	2,115.4	3,615.6	— 284.3	— 1,273.6
European Economic Community ..	591.5	856.8	622.0	896.2	— 30.5	— 39.4
European Free Trade Association ..	336.1	406.0	238.3	253.6	+ 97.8	+ 152.4
Eastern Europe ..	194.9	276.2	101.9	342.3	+ 93.0	— 66.2
ECAFE Region						
(a) Developing ..	392.9	450.1	543.1	876.6	— 150.2	— 426.5
(b) Developed ..	234.7	277.6	364.7	629.1	— 130.0	— 351.5
U.K. ..	300.2	367.1	184.5	170.3	+ 115.7	+ 196.8
U.S.S.R. ..	63.0	99.3	47.0	145.5	+ 16.0	— 46.2
China ..	240.6	267.2	211.3	358.7	+ 29.3	— 91.5
Pakistan ..	213.9	267.1	108.9	278.9	+ 105.0	— 11.8
India ..	10.6	8.8	80.6	218.9	— 70.0	— 210.2
U.S.A. ..	180.1	242.7	245.7	145.3	— 65.6	+ 97.4

Source: Customs, Sri Lanka

Trade with the People's Republic of China

In 1974 the total turn over of trade with the Peoples Republic of China increased by Rs. 174 million to Rs. 626 million, an increase of 39 per cent over the previous year. The value of exports increased by Rs. 26 million or 11 per cent while the value of imports from China showed a larger increase by Rs. 148 million or 70 per cent in 1974 over 1973. The trade surplus of Rs. 30 million in the previous year turned to a deficit of Rs. 92 million in 1974.

Out of the exports to China rubber which was the largest item increased by Rs. 10.2 million while exports of coconut oil increased by Rs. 14.6 million. Imports of rice increased by Rs. 143.8 million.

TABLE II (K) 23

Trade with People's Republic of China 1970—1974

Year —	Exports		Imports		Balance of Trade Rs. Mn.	Trade Turnover	
	Value Rs. Mn.	Percentage of total Exports	Value Rs. Mn.	Percentage of total Imports		Value Rs. Mn.	Percentage of total Trade Turnover
1970	252	12.4	289	12.5	— 37	541	12.4
1971	181	9.4	161	8.1	+ 20	342	8.7
1972	160	8.0	96	4.6	+ 64	256	6.3
1973	241	9.2	211	7.8	+ 30	452	8.5
1974	267	7.7	359	7.9	— 92	626	7.8

Source: Customs, Sri Lanka

TABLE II (K) 24

Trade (Commodity-wise) with the People's Republic of China—1973—1974

Rupees Million

	1973	1974	Absolute Change
Exports			
Rubber	232.7	242.9	+ 10.2
Coconut Oil	2.5	17.1	+ 14.6
Other	5.4	7.2	+ 1.8
Total	240.6	267.2	+ 26.6
Imports			
Rice	156.0	299.8	+ 143.8
Textiles	29.6	21.6	— 8.0
Dried Chillies	2.9	—	— 2.9
Textile Yarn and Thread	0.5	0.9	+ 0.4
Pulses and Spices	2.7	6.0	+ 3.3
Tea Chests	1.6	—	— 1.6
Others	18.0	30.4	+ 12.4
Total	211.3	358.7	+ 147.4
Balance of Trade	+29.3	—91.5	—

Source: Customs, Sri Lanka

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

The total trade turnover with the U.S.S.R. and Eastern Europe during 1974 increased by 108 per cent to Rs. 618 million as compared to 1973. Whilst the value of exports to the region expanded by Rs. 81 million or 42 per cent, the value of imports from the region increased by Rs. 240 million or 235 per cent as compared to 1973

The U.S.S.R. accounted for Rs. 99 million or 36 per cent of the total value of export to the region during 1974. Poland, Yugoslavia, the German Democratic Republic Hungary and Bulgaria were the other important buyers of Sri Lanka goods in the region.

Imports to Sri Lanka from the region increased from Rs. 102 million to Rs. 342 million, an increase of 235 per cent. Imports from the U.S.S.R. increased from Rs. 47 million to 145.5 million which is an increase of 211 per cent. Imports from Bulgaria and Yugoslavia also increased considerably. Expansion in total import value is mainly due to price increases in all import items.

TABLE II (K) 25
Trade with the U.S.S.R. and Eastern Europe* 1970—1974

Year	Exports		Imports		Balance of Trade Rs. Mn.	Trade Turnover	
	Value Rs. Mn.	% of Total Exports	Value Rs. Mn.	% of Total Imports		Value Rs. Mn.	% of Total Trade turnover
1970	174	8.6	185	8.0	— 11	359	8.2
1971	180	9.3	151	7.6	+ 29	331	8.4
1972	145	7.2	82	4.0	+ 63	227	5.6
1973	195	7.5	102	3.8	+ 93	297	5.6
1974	276	7.9	342	7.5	—66	618	7.7

Source: Customs, Sri Lanka

* Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Rumania and Yugoslavia.

TABLE II (K) 26

The value of Trade (Commodity-wise) with the U.S.S.R. & Eastern Europe

	Rupees Million																	
	Bulgaria		Czechoslovakia		G.D.R.		Hungary		Poland		Rumania		Yugoslavia		U.S.S.R.		Total	
	1973	1974	1973	1974	1973	1974	1973	1974	1973	1974	1973	1974	1973	1974	1973	1974	1973	1974
(I) Total Exports	8.03	22.41	14.23	13.72	13.09	20.00	20.66	20.90	43.10	52.70	19.49	19.79	13.31	27.36	62.95	99.27	194.86	276.15
of which-Tea	—	—	—	—	—	—	0.39	—	—	1.39	—	—	0.82	0.13	8.66	16.83	9.87	18.35
Rubber	8.03	22.41	7.34	4.41	9.05	16.94	18.74	14.10	35.49	39.89	19.24	19.11	4.95	3.77	47.53	75.09	150.37	195.72
Coconut Products	—	—	1.15	6.77	3.14	2.46	1.51	5.93	6.23	7.43	0.02	—	0.19	11.84	—	—	12.24	34.43
(II) Total Imports	0.49	56.97	6.22	29.61	3.53	34.18	3.99	2.04	29.76	23.11	8.75	3.75	2.10	47.18	47.00	145.51	101.84	342.34
of Which	—	—	—	—	—	—	—	—	21.47	—	—	—	—	—	—	—	21.47	—
Sugar	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Machinery and parts there of	—	0.02	0.42	0.13	0.46	1.12	—	...	0.09	0.22	0.07	0.03	0.56	2.72	4.33	9.47	5.93	13.71
Textiles	—	—	3.47	—	—	—	—	...	6.69	—	—	...	—	—	—	—	10.16	...
Tea chests	—	—	—	—	—	—	—	—	—	—	—	—	—	—	3.31	12.55	3.31	12.55
Iron and steel and articles thereof	—	—	...	0.04	0.11	0.32	—	—	0.02	...	0.01	...	0.07	1.20	17.49	40.94	17.70	42.50
Petroleum Products	—	—	—	—	...	—	—	—	—	—	—	—	0.12	...	...	0.12	0.12	0.12
Fertilizer	—	—	—	—	—	5.15	—	—	—	...	—	—	—	41.10	—	—	—	46.25
Balance of Trade	+7.54	-34.56	+8.01	-15.89	+9.56	-14.18	+16.67	+18.86	+13.34	+29.59	+10.74	+16.03	+11.21	-19.82	+15.95	-46.24	+93.02	-66.19

Source: Customs, Sri Lanka.

TABLE II (K) 26 (a)
Trade with Pakistan—1973 and 1974

Commodity	Value in Rupees Million		
	1973	1974	Absolute Change
Exports:			
Tea	165.3	202.2	+ 36.9
Rubber—Sheet & Crepe	27.6	39.0	+ 11.4
Copra	3.3	0.6	— 2.7
Coconut oil	2.7	1.2	— 1.5
Arecanuts	2.5	2.7	+ 0.2
Betel leaves	1.1	7.2	+ 6.1
Beedi leaves	1.8	1.3	— 0.5
Pepper, round	2.7	0.4	— 2.3
Others	6.9	12.5	+ 5.6
Total	213.9	267.1	+ 53.2
Imports:			
Rice	76.7	198.8	+ 122.1
Fish dried, tinned and maldive fish	23.5	22.5	— 1.0
Cotton, not corded or combed	2.1	7.6	+ 5.5
Cotton yarn	1.5	43.3	+ 41.8
Sewing machines	1.2	1.8	+ 0.6
Others	3.9	4.9	+ 1.0
Total	108.9	278.9	+ 170.0

Source: Customs, Sri Lanka.

Trade with Pakistan

In 1974, the total value of exports to and imports from Pakistan amounted to Rs. 267.1 million and Rs. 278.9 million respectively showing an increase of Rs. 53.2 million and Rs. 170 million respectively. As a result of an increase in imports, the surplus in the balance of trade of Rs. 105 million in 1973 turned to a deficit of Rs. 11.8 million in 1974.

The value of tea exports to Pakistan which accounted for 76 per cent of the total increased from Rs. 165.3 million in 1973 to Rs. 202.2 million in 1974. Out of total imports, the value of rice imports amounted to Rs. 198.8 million which accounted for 71 per cent, showing an increase of Rs. 122.1 million over 1973. The table II (K) 26 (a) gives details of trade with Pakistan in 1973 and 1974.

6. Trade and Payments Agreements

(A) Agreements

In accordance with the provisions of the fifth five year Trade and Payments Agreement between Sri Lanka and the People's Republic of China which came into effect from 1st January 1973, the two countries signed a protocol valid for a period of one year as from 1st January 1974. As a result, China agreed to buy 46,800 metric tons of rubber to the approximate value of Rs. 300 million, consisting of 23,400 tons of ribbed smoked sheet (RSS) No. 1, 14,040 tons of RSS 2 and 9,360 tons of RSS. 3. Sri Lanka agreed to buy 130,000 metric tons of rice to the approximate value of Rs. 300 million. When compared with the last year, the quantity of rubber agreed upon in 1974 was lower by 10,200 metric tons and the quantity of rice by 70,000 tons. But the approximate value earmarked by each country in 1974 was Rs. 150 million higher than the last year.

Further, it was agreed that China would buy from Sri Lanka commodities to the value of Rs 150 million among which the more important items were rubber, coconut products, tea, cocoa, precious and semi-precious stones and some industrial and non-traditional products. Sri Lanka would buy from China commodities to the same value. They are, among others, rice, oils and oilseeds, some food items, textiles, rubber manufacturers, chemicals, pharmaceuticals, steel, cement, paper and machinery.

Sri Lanka and Poland signed a trade agreement in July 1974 for a period of five years and it replaced the earlier trade and payments agreement signed in Colombo on 29th November 1959. This agreement may automatically be extended each time for a further period of one year if either party does not give notice of its intention to terminate or modify the agreement three months before its expiry. Under the new trade agreement all payments between the two countries are to be expressed and effected in any free convertible currency.

Although the earlier agreement was terminated, receipts to and payments from each clearing account were allowed to be effected for a period of six months from the date of the signing of the present trade agreement. Thereafter, any balance in the accounts would be settled by the debtor party in convertible pounds sterling. The new agreement did not contain a list of commodities to be exchanged between the two countries.

Sri Lanka and North Korea, in accordance with the provisions of Article 10 of the Trade Agreement signed on 21st September 1970, concluded a protocol in July 1974 for the exchange of commodities between the two countries during the period 1st August 1974 to 31st December 1975. As in the agreement mentioned above, the use of convertible currency for effecting payments on commodities traded is an important feature. While the commodities to be traded were specified, the protocol did not exclude trade in other commodities. The commodities listed for export from Sri Lanka were rubber, coconut oil and other coconut products, glycerine and fatty acids, leather, soap, tyres and tubes and other rubber products. Among those listed for export from North Korea were machine tools, electric motors steel billets, fertilizer, cotton and synthetic yarn and chemicals. Both countries agreed to export goods to each other to the value of £4.5 million.

In addition to signing the protocol, the North Korean government also agreed to take immediate steps to settle in convertible currency the outstanding balance in the clearing accounts in favour of Sri Lanka amounting to £ 366,073.19. However, provision was made in the protocol that if shipments of steel billets were to be made in accordance with the contract between the Ceylon Steel Corporation and the Korea Metals Export and Import Corporation, only the balance amount, being the difference between the outstanding balance in Sri Lanka's favour and payment due on the shipment, would be settled in convertible currency.

The trade agreement signed on 24th July 1974 between Sri Lanka and Hungary was also on the same lines as that of the agreement between Sri Lanka and Poland. Even here the trade agreement would remain in force for a period of five years from the date of signing; the previous trade agreement signed on the 4th June 1956 and the protocol and the payments agreement signed on the 12th September 1961 ceased to be operative simultaneously. While payments under the new agreement are to be effected in convertible currency, the debtor party at the close of business on 24th July 1974 was required to settle the net balance (registered under the earlier agreement) by delivery of goods within a period of six months. Any balance still outstanding was required to be settled in convertible pound sterling.

Sri Lanka and Bulgaria, in accordance with the provisions of Article 4 of the Trade Agreement signed on the 27th November 1970 also concluded a protocol on the 12th July 1974 for the exchange of goods between the two countries during the years 1974 and 1975. Schedule A to the agreement listed goods to be exported from Bulgaria to Sri Lanka to the value of £3 million for this period and it included machinery and spare parts, steel products and metals, fertilizers, chemicals, pharmaceuticals, yarn, wheat, glass and alcoholic beverages and tobacco not produced in Sri Lanka. Exports from Sri Lanka to Bulgaria again to the same value were given in Schedule B which included tea, coconut products, rubber, cocoa, some consumer goods, precious and semi-precious stones and spices.

Apart from the above agreements, a special trade agreement between the Director of Commerce of the Government of Sri Lanka and Ab Sukab of Stockholm, Sweden was signed on the 28th October 1974. The validity of this agreement is for two years from the date of ratification and it was agreed that both parties would jointly ensure that exports from and imports into Sri Lanka to an annual value equivalent to U.S.\$ 1.2 million in each direction would be effected. The object of this self-balancing agreement is to promote exports from Sri Lanka to Scandinavia and the foreign exchange generated from these would be used for imports into Sri Lanka from Sweden and in specific cases from other Scandinavian countries. The list of exports from Sri Lanka covers many industrial and some other non-traditional goods, while exports into Sri Lanka include ticket machines, steel, tea chest panels, construction equipments and machinery, newsprint, wood pulp and any other items to be mutually agreed upon.

(B) Mode of Payment

The Central Bank showed its concern on several occasions as to the management of the country's bilateral trading accounts. It was stressed that the existence of balances in Sri Lanka's favour was incongruous from the viewpoint of the country's greatly impaired import capacity. On the one hand, diversion of exports from the traditional markets to other countries with which Sri Lanka had payment agreements resulted in a loss of hard currency that could have been otherwise used for the import of essential commodities. On the other hand, the freedom to buy and sell at the best prices is restricted under bilateralism. Therefore, while suggesting that Sri Lanka should not commit herself to bilateral agreements without due consideration of all the factors involved, the Central Bank called for the better management of these bilateral accounts so that the country could get the most from them.

It is gratifying to note that some steps have been taken in 1974 towards achieving these ends. With a view to imposing some sort of flexibility in the management of bilateral agreements, the Treasury by a circular letter issued on the 24th May 1974 suggested that it was desirable for importing agencies to resort to negotiations, if necessary, without calling for tenders to obtain semi-essential items such as fertilizer, caustic soda, formic acid, newsprint, steel billets etc. It was also indicated that up-to-date market reports also covering the foreign exchange aspect would be prepared by the Director of Commerce from data available such as specialized market surveys and current price reports.

A satisfactory change in the management of bilateral agreements in 1974 has been the substitution of such agreements with trade agreements payable in convertible currency. It is no doubt a dynamic step towards the multilateralization of the country's trade pattern. Trade agreements that have been signed with some socialist countries such as Poland, Hungary, Bulgaria and North Korea bear witness to this fact. Reviewing the existing bilateral agreements and negotiating similar trade agreements with other socialist countries as well is recommended.

(C) Bilateral Clearing Accounts

The perusal of clearing accounts of the countries with which Sri Lanka has had bilateral agreements revealed that Sri Lanka's favourable balance of Rs. 54.8 million in 1973 has turned into an unfavourable balance of Rs. 182.8 million in 1974.

This shows that steps have been taken to increase the quantity of imports from these countries thus reducing the level of favourable balances. This is in contrast to the position that had prevailed for quite a long time in the case of Sri Lanka, where bilateral trading had resulted in favourable balances at a time when foreign exchange was actually in short supply.

TABLE II (K) 27

Bilateral Clearing Accounts*
Net Aggregate Quarterly Position 1973—1974

				Rs. Million	
Net position as at end of				Credit	Debit
1973	March	..	..	—	47.6
	June	..	..	—	64.0
	September	..	..	—	77.0
	December	..	..	—	54.8
1974	March	..	..	69.1	—
	June	..	..	78.7	—
	September	..	..	154.6	—
	December	..	..	182.8	—

Source: Central Bank of Ceylon.

* China, D.P.R. Korea, Syria, U.A.R., U.S.S.R., Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Rumania & Yugoslavia.

Credit — Due from Sri Lanka.

Debit — Due to Sri Lanka.

The value of exports from Sri Lanka to the countries with which she has had bilateral clearing accounts was Rs. 641.2 million in 1974 as against Rs. 528.6 million in 1973. Sri Lanka's imports from these countries amounted to Rs. 878.8 million in 1974, an increase of Rs. 290.0 million over the preceding year. As a result, the deficit in Sri Lanka's balance of trade with these countries increased from Rs. 58.6 million in 1973 to Rs. 237.6 million in 1974. In 1974 while exports to these countries accounted for 18.5 per cent of Sri Lanka's total exports, the share of imports was 19.3 per cent.

Table II (K) 29 gives a breakdown of receipts and payments in the clearing accounts in 1974, while the share of Sri Lanka's traditional exports as a percentage of exports is shown in Table II (K) 28.

When all these countries are taken together, traditional exports through bilateral accounts consisting of tea (8.2 per cent), rubber (71.7 per cent), coconut oil (1.9 per cent) and desiccated coconut (2.6 per cent) amounted to 84.4 per cent of total exports under bilateral arrangements from Sri Lanka. The other coconut products amounted to 1.3 per cent and other exports to 14.3 per cent. In the case of imports, imports of rice at Rs. 366.0 million under bilateral agreements accounted for 41.6 per cent. The share of flour imports amounted to 8.1 per cent. Among other imports the more important items were cotton textiles (raw and yarn), iron and steel, machinery, transport equipment, paper and cardboard and fertilizer.

TABLE II (K) 28
Sri Lanka's Bilateral Agreements: Traditional Exports as a percentage of
Total exports in 1974

Value in Rs. Million

	Traditional Exports (a)		Total Exports		Traditional exports as a percentage of total exports	
	1973	1974	1973	1974	1973	1974
1. Bulgaria ..	1.5	20.3	2.0	20.9	74.0	97.1
2. China ..	180.3	285.2	302.0	340.5	59.7	83.8
3. Czechoslovakia ..	20.2	26.4	21.0	29.8	96.0	88.6
4. G. D. R. ..	15.6	21.4	16.8	23.0	93.2	93.0
5. Hungary ..	14.3	19.5	15.2	20.6	93.8	94.7
6. Poland ..	36.4	43.5	41.5	52.4	87.9	83.0
7. Rumania ..	9.2	—	10.9	0.7	84.7	—
8. Syria ..	0.03	—	0.5	0.1	6.5	—
9. Korea ..	—	—	—	—	—	—
10. U. A. R. ..	42.3	24.8	42.3	25.5	100.0	97.3
11. U. S. S. R. ..	58.8	99.8	76.3	127.7	77.1	78.2
12. Yugoslavia ..	—	—	—	—	—	—
Total ..	378.6	540.9	528.5	641.2	71.6	84.4

Source: Central Bank of Ceylon

(a) Tea, Rubber, and Coconut products.

TABLE II (K) 29
Analysis of Receipts and Payments through Clearing Accounts—1974

(Value Rs. Million)

1. Exports				
Tea	..	..	..	52.5
Rubber	..	..	..	459.8
Coconut Oil	..	..	..	12.2
Desiccated coconut	..	..	..	16.4
Other coconut products	..	..	..	8.4
Other exports and Receipts	..	..	..	91.9
Total	..	..	..	641.2
2. Imports				
Rice	..	..	..	366.0
Flour	..	..	..	71.5
Currystuff	..	..	..	13.3
Raw cotton	..	..	..	87.4
Cotton yarn	..	..	..	0.8
Medical & Pharmaceutical products	..	..	..	7.2
Other chemicals	..	..	..	17.0
Iron & Steel	..	..	..	47.3
Machinery	..	..	..	13.1
Transport Equipment	..	..	..	1.1
Paper & Cardboard	..	..	..	18.0
Fertilizers	..	..	..	11.5
Textiles	..	..	..	20.9
Other imports & payments	..	..	..	203.7
Total	..	..	..	878.8
3. Excess of payments over receipts:				237.6
4. Net Balance as at end of 1973—Dr.				54.8
5. Net Balance as at end of 1974—Cr.				182.8

Source: Central Bank of Ceylon

Credit: Due from Sri Lanka.

Debit: Due to Sri Lanka

7. Freight and Surcharges**(a) General Freight-Increases**

The escalation of general freight rates, bunker and port congestion surcharges and charges relating to the currency adjustment factor were major problems which Sri Lanka had to face in 1974. The escalation of freight rates on the one hand, eroded any gains in foreign exchange that would have accrued to Sri Lanka from the improvements in world commodity prices in 1974 and on the other hand, imposed a further burden on the steadily deteriorating balance of payments. For example, the Central Bank's Freight Rate Index for Sri Lanka's exports (1961=100) which showed only marginal increases in the major part of the sixties rose remarkably from 1970 onwards reflecting substantial increases in the individual indices for all major export commodities. The overall freight index for these exports increased from 217.3 in 1973 to 234.9 per cent in 1974.*

* See Central Bank of Ceylon Bulletin, October 1974, for recent developments in Sri Lanka shipping and freight rates, pp 811-822

Eleven shipping conferences or shipping lines increased general freight rates in 1974, ranging from 10 per cent to 37 per cent. In 1973, only two shipping conferences and four shipping lines increased freight rates and these increases were in the region of 10 to 20 per cent. The Central Freight Bureau of Sri Lanka, after studying the data provided by the shipping conferences and principals in support of the freight increases, was able to negotiate for lesser increases in respect of these conferences. The Bureau has requested the shipping conferences to give a minimum of 90 days notice of an increase in freight rates. The reasons given by the conference for increasing freight rates have been the escalation or continuing increase in operating costs and their inability to absorb losses.

(b) Bunker Surcharges

One of the effects of the oil price hike was the abnormal costs that conferences have had to incur for bunkers. This has not only necessitated the introduction of a bunker surcharge factor to recoup the losses sustained by the conferences, but many conferences have also introduced bunker clauses in their bills of lading. In 1974, nine shipping conferences or lines introduced new bunker surcharges while six others increased bunker surcharges. Many conferences effected large increases which generally ranged between 3.54 per cent and as high as 56 per cent. There have been reductions of some bunker surcharges consequent to the reduction in bunker prices and the requests made by the Central Freight Bureau of Sri Lanka for such reductions.

(c) Port Congestion Surcharges

When conferences are unable to absorb additional operational costs owing to delays due to congestion at ports and poor port conditions, appropriate port congestion charges are introduced. There has been a marked increase in the imposition of such surcharges in 1974. For example, in 1974 ten shipping conferences or lines introduced congestion surcharges ranging from 7.5 per cent to 50 per cent affecting 28 different ports in the world whereas in 1973 two conferences imposed such charges in respect of five ports only. Depending upon the conditions in these ports subsequently these surcharges were either revised upwards or downwards or removed.

(d) Currency Adjustment Factor (or Devaluation Surcharge)

This surcharge is related to the value of the tariff currency that is, the currency in which freight rates are expressed. With a view to compensating for devaluations of the tariff currencies, a surcharge is imposed. This device of a devaluation surcharge or a currency adjustment factor (C. A. F.) has been widely used in the recent past.

In 1974, however, only one conference increased the C. A. F. progressively and the level of this increase in the C. A. F. was higher in 1973. Three other conferences changed the C. A. F. several times either due to the devaluation of disbursement currencies (i.e. the Australian Dollar and the New Zealand Dollar) or due to the

fluctuations of the U. S. dollar, the principal tariff currency. At the request of the Central Freight Bureau these latter conferences withdrew the C. A. F. altogether while another conference suspended the increase. One difficulty with the C. A. F. has been the problems associated with its identification as a separate item, because some surcharges on the C. A. F. have been integrated with the increase in general freight rates.

It is useful also to briefly review the successful work of the Central Freight Bureau of Sri Lanka in regard to allocating freight space on vessels, ensuring the aggregation of goods, negotiating with the shipping conferences and obtaining promotional rates for non-traditional exports.

In 1974, its scope was widened, and as a result, all exports from Sri Lanka to all destinations were channelled through the Bureau. Hence exporters were requested to ensure that their requirements of freight space to all destinations were notified to the Bureau in respect of all vessels that commenced to load at all individual ports in Sri Lanka on or after 1st February 1974. In order to reduce the turn round time of vessels as far as possible, several measures have been taken with co-operation on the Port Cargo Corporation, the Port Tally and Protective Services Corporation and the Sri Lanka Customs. The coordination of the cargo movement has helped to increase the productivity of the port of Colombo.

The Bureau has had more bargaining strength than individual shippers or other bodies on matters concerning the terms and conditions for the carriage of Sri Lanka's export cargo. This bargaining power has been further strengthened because the Ceylon Shipping Corporation is operating cargo services to most of the important countries. The active and continuous cooperation rendered by the Sri Lanka's Shippers Council towards achieving many of the above objectives needs to be placed on record.

Cargo handled at the Ports

The volume of cargo handled by the ports of Sri Lanka indicates a gradual contraction of merchandise trade with the outside world for the past few years. The total volume of cargo handled by the ports of Colombo, Galle and Trincomalee which was 2,543,283 shipping tons in 1973 declined to 2,448,947 shipping tons in 1974. By contrast, in 1968 the total shipping tonnage handled by the port of Colombo alone amounted to 3,074,747 tons. In 1974 the volume of cargo handled by the ports of Trincomalee and Galle declined by 29 per cent and 25 per cent respectively while the volume of cargo handled by the port of Colombo declined only by 1.27 per cent, in comparison with 1973.

The quarterly movement of cargo handled by the port of Colombo in 1974 compared to the respective quarterly movement of cargo for 1973 are given in table II (K) 30.

TABLE II (K) 30

Import and Export Cargoes handled by the Port of Colombo

(Shipping Tons)

Quarter	Cargo handled		Change	
	1973	1974	Absolute	Percentage
First ..	636,478	567,218	— 69,260	— 10.9
Second ..	560,802	659,595	+ 98,793	+ 17.6
Third ..	569,161	576,088	+ 6,927	+ 1.2
Fourth ..	585,796	519,409	— 66,387	— 11.3
Year ..	2,352,237	2,322,310	— 29,927	— 1.3

Source: Port (Cargo) Corporation

8. Commodity Aid

The total value of commodity aid provided by foreign countries in 1974 amounted to Rs. 586.2 million, which showed a substantial increase of Rs. 304.7 million over that of 1973.

Of the total value of commodity aid, Rs. 347.5 million or 59 per cent accounted for consumer goods and Rs. 238.7 million or the balance 41 per cent consisted of other goods.

Details of aid received from the donor countries classified into food and other aid are given in Table II (K) 31.

TABLE II (K) 31

Commodity Aid— 1974

Value—Rs. million

Country	1 Food Aid	2 Other Aid	3 Total 1+2
Australia	27.5	—	27.5
Canada	25.9	8.1	34.0
China, People's Republic of ..	175.6	—	175.6
Denmark	—	4.6	4.6
France	—	21.0	21.0
Germany, Democratic Republic ..	—	1.0	1.0
Germany, Federal Republic ..	37.4	92.7	130.1
Hungary	—	0.7	0.7
India	—	25.7	25.7
Italy	—	2.2	2.2
Japan	—	54.6	54.6
United Kingdom	—	14.0	14.0
Sweden	10.4	8.1	18.5
United States of America ..	34.4	3.5	37.9
U.S.S.R.	—	2.5	2.5
CARE	21.4	—	21.4
EEC	14.9	—	14.9
Total	347.5	238.7	586.2

Source: Ministry of Planning & Economic Affairs.